There are 3 basic financial statements, 2 of which of are most important to most leagues.

**STATEMENT OF FINANCIAL POSITION (a/k/a BALANCE SHEET)**
This is a snapshot with 3 elements:

**Assets, Liabilities and Net Assets**
The fundamental elements of all bookkeeping systems deal with keeping records for changes that occur in assets, liabilities and net assets.

- **Definition of Assets**
  Assets are all things of value owned by an organization. Examples of assets for a not-for-profit organization might include the following:
  - Cash & Investments (like CDs)
  - Account with the Ed Fund
  - Accounts Receivable
  - Promises to give (if they are written commitments)
  - Prepaid Expenses

- **Definition of Liabilities**
  Liabilities are the debts owed by the organization. Examples of liabilities might include the following:
  - Payables (like State or National PMP which you know will be due)
  - Loans
  - Other bills which have been incurred but not yet paid

- **Definition of Net assets**
  Net assets represent the equity earned by the organization. This is calculated by subtracting total expenses from total revenue each year. It is tracked on a cumulative basis from the organization’s first fiscal year. In a for-profit corporation, this amount would be known as profit or retained earnings.

Example of a net asset:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>$200,000</td>
</tr>
<tr>
<td>Less all expenses</td>
<td>$180,000</td>
</tr>
<tr>
<td><strong>Net Asset</strong> for current fiscal year</td>
<td>$ 20,000</td>
</tr>
</tbody>
</table>

NET ASSETS appear on the Statement of Financial Position, but the Income and Expenses do not because Income and Expenses record transactions which are activities of the organization. They belong on the STATEMENT OF ACTIVITIES or INCOME STATEMENT which tells what happened during a specific period of time.
STATEMENT OF ACTIVITIES (a/k/a Income Statement)
This is the record of financial activities that happened during the period. It is the connector between one Statement of Financial Position and the next.

Revenues and Expenses

Note: there are two ways of recording Revenues and Expenses: Cash Versus Accrual. Cash accounting is when you record transactions as they occur – like when you write a check. Accrual is when you record things for the period when they occur even if you actually pay for them at another time. So, for example, Marlo might not make the payment for the Holiday Inn Champaign until July, but she will put the expense (and the liability) into the current fiscal year when our Convention occurs. This way it will be matched against the incoming registration revenue. Under Accrual Accounting, the third key statement, a STATEMENT OF CASHFLOWS helps track actual cash which will probably differ from expenses during the period.

Revenue
Non-profit organizations can earn income through services. Other sources of revenue may include PMP, interest earned on investments, and donations. Note that ticket sales for fundraisers are a combination of earned income and donation. This is something that is not clearly understood by many people (only the portion of the ticket price above and beyond the actual cost of the event is a contribution).

Expenses
Any costs incurred in connection with the earnings of revenue and the execution of program are called expenses. Examples of expenses are salaries and benefits, rent or venue rental, audits, travel and supplies.

The Net Income (or Loss) on any Statement of Activities tells you the financial outcome during the period. Did you make money (a positive change in Net Assets) or lose money (a negative change)? Your results will end up as the difference between the SOFP at the beginning of the period and the SOFP at the end.

OVER THE LONG HAUL

If you have recurring losses over many periods your Net Assets may diminish so that you do not have the reserves you need for future plans and growth. If you have gains over many years you may develop a large Net Asset balance. Then you have to ask: are we completing our mission? Are we doing enough?

It is the role of the board to have a policy on Long Term Reserves and use budgets and spending to steer toward the goals articulated in that policy. It is fine to have Net Losses if you have a plan for sustainable funding over the long haul.