

Economics & the Human Service Organization

22A

Exercise One: Exploring Financial Statements

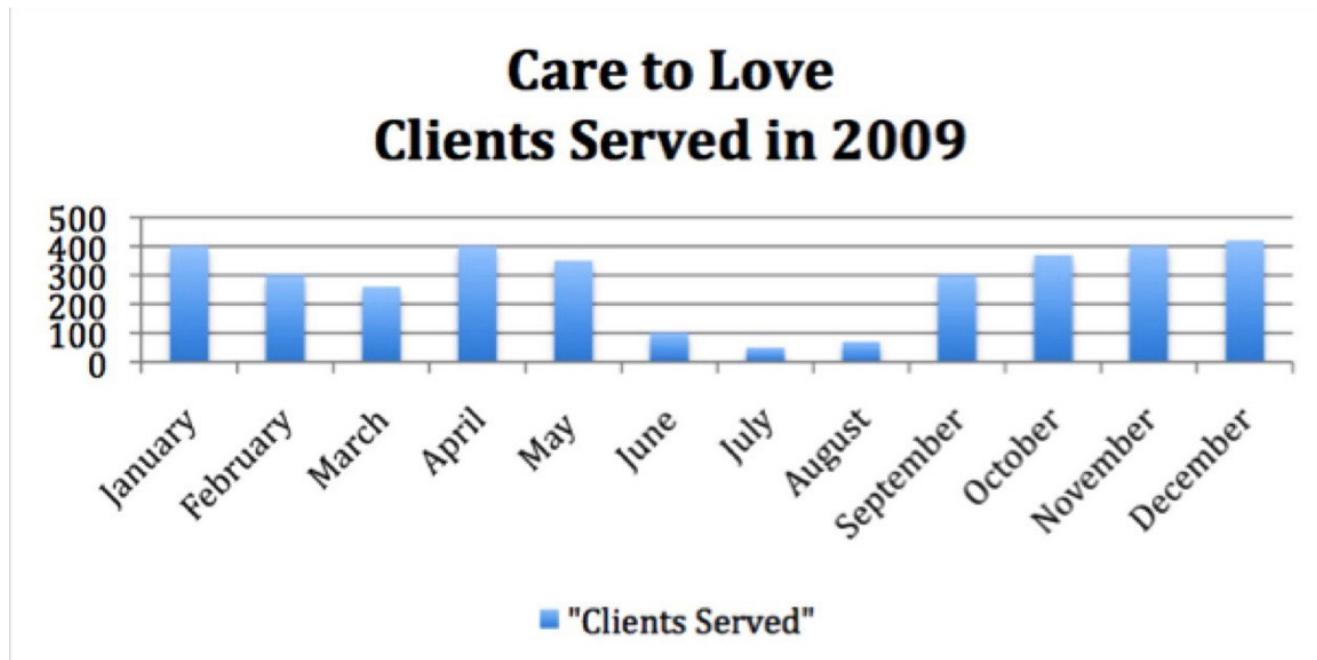
American Jewish World Service (AJWS) is a non-governmental agency, “dedicated to alleviating poverty, hunger and disease among the people of the developing world regardless of race, religion or nationality.” Go to ajws.org to the tab, “Who We Are.” Under this heading you will find “Financial Information” where several years of independent auditor’s reports as well as 990 forms are posted. These reports will illustrate the financial concepts discussed and interestingly give you a comparative view of AJWS from one year to the next. To increase your ability to understand financial statements look at the reports and 990 for 2010 and make a list of questions these reports raise for you as you explore them and see the comparison to 2009.

***Note:** This is an example; you can repeat this with other non-profit agencies.*

Exercise Two: Reading Charts

As we think critically about our clients, community and social welfare policies it is helpful to think critically about the financial operations of agency programs, and service. The following basic charts and graphs are useful tools for analysis. In this section, each chart and graph builds on the next to unfold an analytical portrait of an agency. The questions following each graph will contribute to understanding the information presented and as such, increase familiarity and comfort level with this type of material.

Bar Charts use bars to represent quantities. The chart below shows the absolute number of cases served by Care to Love Agency over a twelve-month period on a month-to-month basis.



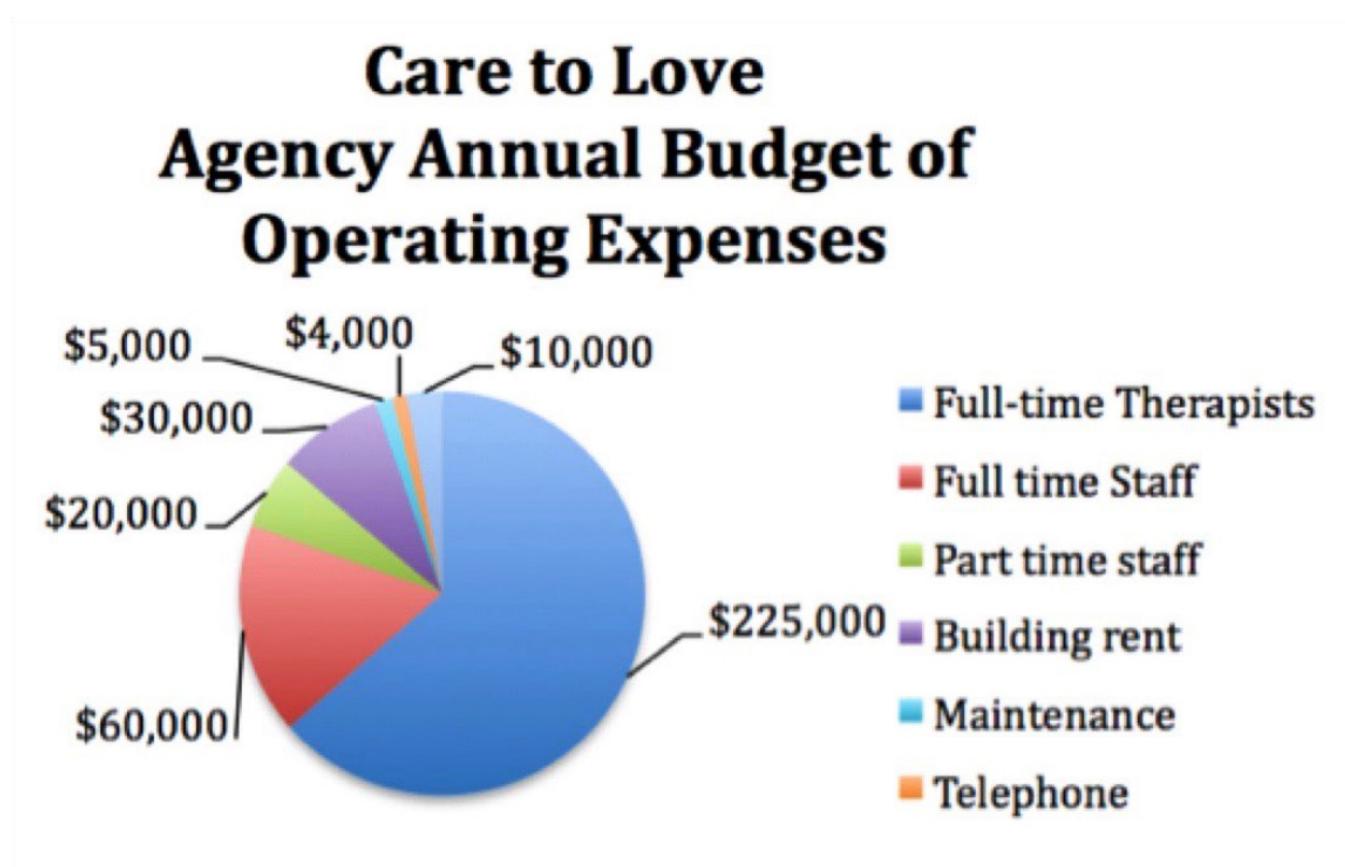
1. What month had the lowest number of clients served?
 - a. November
 - b. July
 - c. June
 - d. January
2. What do you suppose is most useful in a chart such as this?
 - a. Being able to decide which months are less likely to require the agency's limited resources
 - b. Knowing when to increase/decrease staffing to meet client's needs when they are most likely to need services
 - c. Examining the seasonality in the number of clients served throughout the year
 - d. All of the above
3. How many people were served between June and August 2009?
 - a. 70
 - b. 220
 - c. 300
 - d. 700

What months should the agency consider having a full staff on board to meet client demand?

Provide a few sentences to describe the information that this chart provides and its implications for analysis and potential solutions. *Example answer: Demand for services vary by seasons during the year with low months occurring in the summer time.*

Provide potential solutions. *Example answer: Decrease in the supply of staff by hiring of a small staff of yearly employees that would serve 50 - 100 clients throughout the year and additional part time and contract labor for the peak months where more staff is needed.*

Pie Charts or circular illustrations are divided to show visual representations of percentages or proportions. They can be useful for illustrating or explaining how the different parts of a whole are divided.



1. What budget item accounts for the largest amount of operating expenses in a year at Care to Love agency?
 - a. Rent
 - b. Telephone
 - c. Full-time therapists
 - d. Full time staff

2. Which type of expense is most likely to represent a *fixed cost*?
- a. Building rent
 - b. Telephone
 - c. Maintenance
 - d. Part time staff

*A *fixed cost* is an expense that remains constant, do not change from month to month during a budget year such as wages, insurance premiums, rent, mortgage. These costs cannot be decreased during the budget year.

3. Which type of expense is most likely to be a *variable cost*?
- a. Full-time therapists
 - b. Full time staff
 - c. Telephone
 - d. Building rent

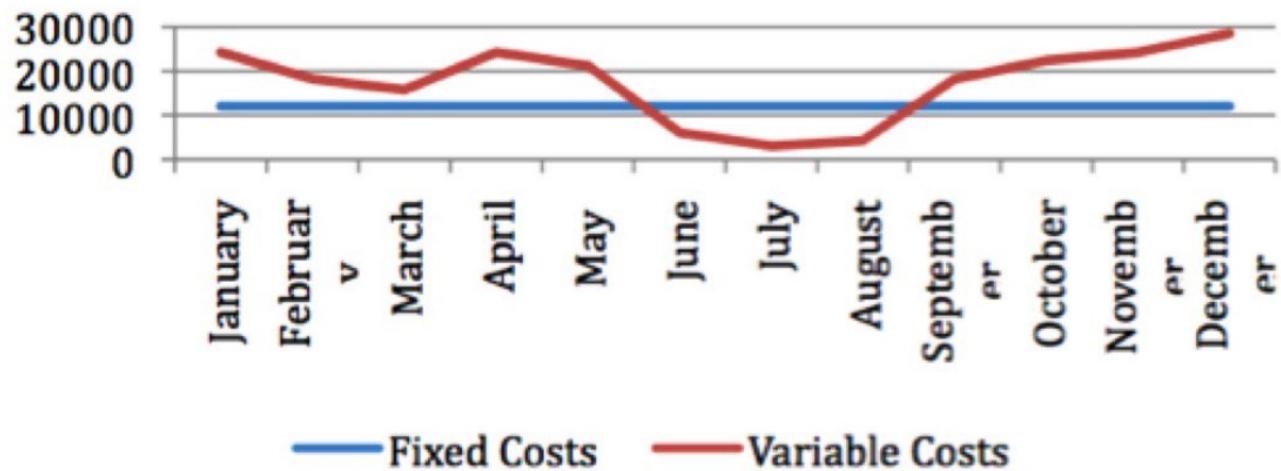
*A *variable cost* is an expense that can change from month to month during a budget year based upon the activity of the organization such as electricity, telephone, office supplies, gasoline costs, heating costs, publicity, and marketing. This is the area that is examined first when budget cuts must be made as it is possible to economize in these areas.

4. After examining this chart in conjunction with the prior bar chart you plan to let your boss know that the expense category _____ is most likely to decline in the summer months, assuming no other changes:
- a. Building rent
 - b. Full-time staff
 - c. Telephone
 - d. Full-time therapists

5. Provide a few sentences to describe the information that this chart in conjunction with the prior bar chart provides and its implications for analysis and potential solutions. **Example answer:** *This chart shows that more than half of the agency's expenses are accounted for by the cost of full-time therapists.*

Trend charts show changes in data over time. The following trend chart use in trend line to illustrate a company's operating expenses by month for the year 2009 and shows both fixed versus variable costs

Care to Love Monthly Operating Costs 2009



1. What does the horizontal axis show?
 - a. The months
 - b. The costs
 - c. The fixed costs
 - d. The variable costs

2. What does the vertical axis show?
 - a. The months
 - b. The costs
 - c. The fixed costs
 - d. The variable costs

3. In which months is the agency most likely to experience a net profit?
 - a. December
 - b. July
 - c. August
 - d. September

4. The summer months are not likely to generate much profit for the agency.
 - a. True
 - b. False

5. Provide a few sentences to describe the information that this chart in conjunction with the prior charts provides and its implications for analysis and potential solutions. *Example Answer: This chart provides a clear look at the months when the agency's profitability is lowest.*

Exercise Three: Implications for Practice

In 2012, the U.S. will be launching a pilot program (Pay for Success) offering financial incentives to private parties to address social problems. It is modeled after an initiative in the United Kingdom. If successful, this program could have a dramatic impact on the funding of our human service organizations.

RESOURCE:

Fact Sheet for the Pay for Success Program

www.whitehouse.gov/omb/fact-sheet/paying-for-success

1. Keeping an open mind and considering our primary commitment that is to provide effective services to our clients, what implications do you see for the human service agency practice?
2. Inquire about the primary source of funding for your agency. This will assist in your understanding of how funding influences agency priorities. If possible, interview a senior manager as to how programs or service delivery may have changed due to the economic downturn of the past few years.