

Curriculum Guide for Presentations on:
***Analyzing Financial Statements for the Officers and the Members of the
Executive Committee/Board***

Goal: To understand the purpose of each financial statement and be familiar with key financial ratios for the purpose of enhancing financial decision-making.

Points to cover when presenting on analyzing financial statements for the officers and the members of the executive committee/boards:

1. Define the components and purpose of each financial statement:
 - a. Statement of Financial Position
 - b. Statement of Financial Activity
 - c. Statement of Changes in Net Assets
 - d. Statement of Cash Flows
2. Identify the asset and liability sections of the Statement of Financial Position and explain the purpose of each section (i.e., classified for determining financial liquidity):
 - a. Current Assets
 - b. Non-Current Assets
 - c. Current Liabilities
 - d. Non-Current Liabilities
3. Identify the Net Asset section (the difference between the assets and the liabilities). Define and explain each section: Unrestricted, Temporarily Restricted, Permanently Restricted. Clarify the distinction between unallocated and allocated.
4. While initially focusing on the Operating Fund, briefly explain the purpose of the Plant Fund and Other Funds. Unless the audience has advanced accounting knowledge, it may be best to defer discussion of the funds other than Operating for either later in the lecture or in a second lecture.
5. Focusing on the Operating Fund, identify steps to be taken analyzing operating results:
 - a. Identify the largest item(s) in the current asset section of the Statement of Financial Position. Once identified, note that whoever controls the largest asset, controls the organization (e.g., in an educational institution, if the largest current asset is accounts receivable, the institution risks giving away its services (revenue) for little return). Also identify the largest item(s) in the current liability section of the Statement of Financial Position.
 - b. Review the numbers in the comparative format of the Statement of Financial Position, looking for large changes between the two years presented in the comparative statements. The point is to identify the areas where major changes have occurred. Focus should be on the changes in the largest items identified in (a). Include in the discussion the importance of presenting financial information in a comparative format.
 - c. Calculate financial ratios. For presentation, select no more than 5 ratios which are particularly meaningful to the organization under discussion. For example, for a

conference or union, consider the following ratios for calculation and explanation: acid test (or quick) ratio; current ratio; ratio of self-support; ratio of payroll-related expenses to tithe; debt percentage. Other ratios, such as accounts receivable turnover, may be particularly important for educational institutions. Inventory turnover is an important ratio to consider for publishing houses and food factories. Do not fail to consider the audience when selecting the ratios for discussion and presentation, but be sure to select at least one ratio that deals with each of the primary financial areas (liquidity, profitability, and solvency) for the organizational unit under study.

6. Note that ratios can be created for any relationship. Suggestions for deciding which ratios to use include measurements for accounts, balances, or activities for which:
 - a. The results of analysis would trigger the need for a management decision.
 - b. The decision is not obvious but would be of consequence to the organization.
 - c. The results can have significant repercussions for constituents, affiliated entities, or financial performance.
 - d. Key management or committee members have expressed a desire to know.
7. Note that some organizations may need to create non-financial ratios in order to adequately measure profitability. For example:
 - a. Hospitals may analyze their activities on a patient-day or per-bed basis.
 - b. Educational institutions may analyze their activities on a per-student or a per-course (or per credit hour) basis.
8. Create questions for the audience to ask the CFO/treasurer regarding the operating performance identified through the above analysis. Some examples follow:
 - a. What factors made the cash (or investments) increase/decrease in the current year?
 - b. What proportion of the investment increase/decrease was due to market changes?
 - c. What proportion of Accounts Receivable is considered to be of questionable collectability?
 - d. What was the primary driver for the increase/decrease in accounts payable at year end?
 - e. Are there any contingent liabilities?
 - f. There is a new note payable in the Plant Fund. What property was purchased? What are the terms of the note?
9. Discuss the working capital percentage of the organization and how this number is computed. Include in the discussion the relationship of this percentage to the Statement of Financial Position and the role of policy with respect to Working Capital.

