

# Presenting Financial Statements to Executive Committees, Boards and Constituencies

Treasurer Orientation

March 28, 2016

# "Transparency & Accountability in Financial Reporting"

- ◇ Once financial statements are prepared, studied, and audited, they represent reliable information to be used in making appropriate business decisions and holding leaders accountable for their stewardship.
- ◇ The controlling board or executive committee of an organization needs to make appropriate risk analysis and business decisions.

- ◇ Set a personal example
- ◇ Listen to comments and observations from employees and constituents
- ◇ Follow up with action on concerns expressed by others
- ◇ Be willing to answer questions raised by stakeholders (constituents)
- ◇ Ensure openness. Diminish the risk of people being afraid to talk just because of organizational structure or lack of communication channels.
- ◇ Be mindful of the audience when disseminating information. Offer detailed data when appropriate, but offer concise and compressed data when appropriate.
- ◇ Create and foster an atmosphere of learning and growth for leaders and members together

- ◆ Look for innovative ways to train committee members. Encourage competent individuals to serve. Train members to comprehend financial information and to respond to it with appropriate decisions.

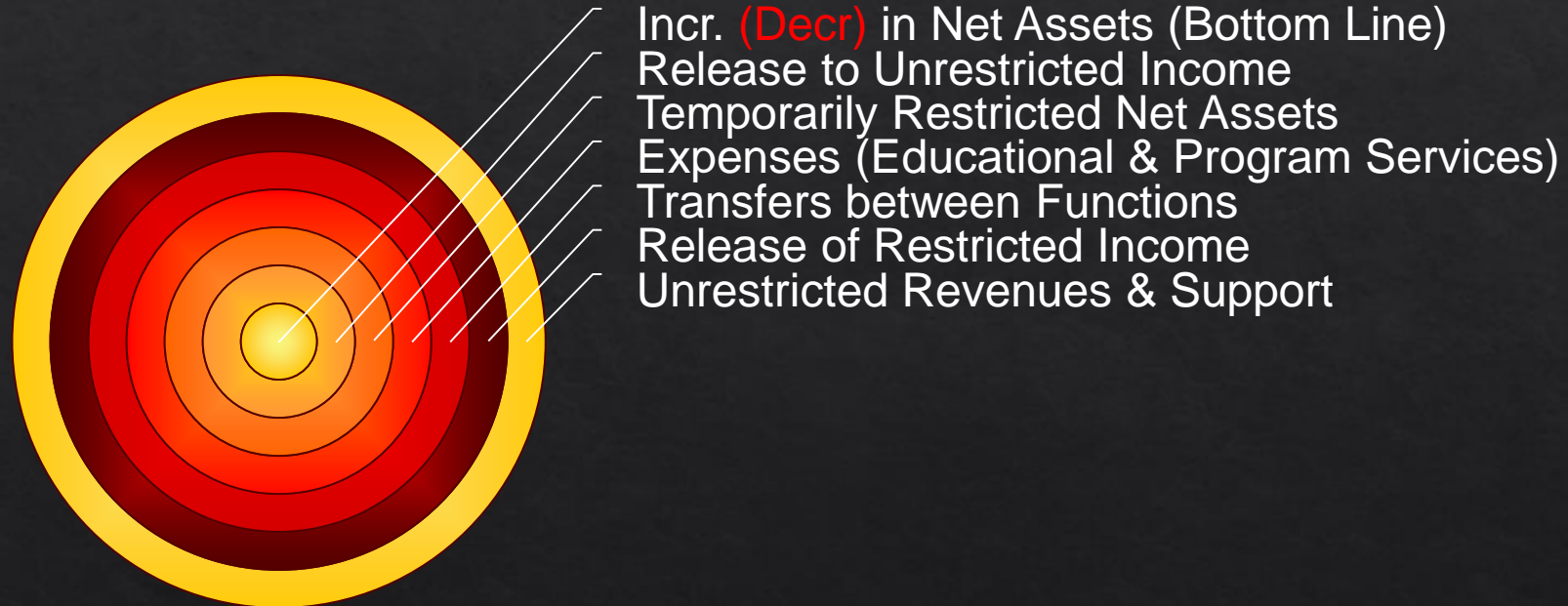
# Problems in the Past

- ◇ Not being prepared for the Committee Meeting
- ◇ Quickly project the statements on the screen
- ◇ Mention a problem that is incorrect
- ◇ Leave out important information
- ◇ Time at a premium, not completing the complete presentation

# Accounting Practice in Use

- ◆ Keep track of you finances using the standard **accounting** tools,
- ◆ Present to the Board the monthly and yearly statements, Do Board Members understand the statements? Are decisions being made without good knowledge of the financial records?

# Information – Statement of Changes in Net Assets



See handout of SFA

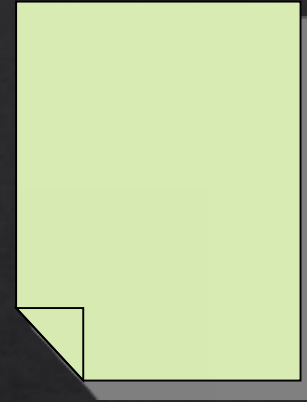
# Problems?

- ◆ Two or three page statement
- ◆ Where does one find the bottom line?
- ◆ Release of what?
- ◆ Why two income sections?



# Information – Statement of Changes in Net Assets

- ◆ One page Statement
- ◆ Simplified - readable
- ◆  $\text{Income} - \text{Expenses} + \text{Transfers} = \text{Bottom Line}$
- ◆ Understanding = Greater Decision Making



# Presentation – Statement of Changes in Net Assets

- ◆ Use a presentation program, such as Powerpoint
- ◆ Keep it simple in design
- ◆ Keep the flow going between slides
- ◆ Be able to present the “wrap up” which is the bottom line

# Key Performance Indicators

## KPIs

# What are KPIs?

- ◆ Quick measures of the entity's overall health and well-being.
- ◆ Focus on performance that are vital to ongoing and future success
- ◆ KPIs work like a report card
  - ◆ Get a clear picture of what's happening with the entity
  - ◆ Get an early read on trends and future changes of net assets, while there's still time to take action that will influence the outcome

# Financial Ratio

- ◇ A financial ratio is “designed to reveal the relative strengths and weaknesses of a company as compared to other companies in the same industry, and to show whether the firm’s position has been improving or deteriorating over time.”

(Brigham, Eugene. Fundamentals of Financial Management, 1989)

# Financial Ratio

- ◇ While other organizations stress profitability, the “emphasis of ratio analysis in nonprofits is on stewardship and accountability.”

(Chabotar, Kent John. Financial Ratio Analysis Comes to Nonprofits, Journal of Higher Education, 1989)

# Trend Analysis

- ◇ Examines the schools financial ratios over time – used to determine the improvement or deterioration of its financial situation, a shift in funding, or an area of increasing expense.
- ◇ Abnormalities – “not a quick fix.” The usual time span needed to take care of abnormalities is 3 to 5 years

# Comparative Ratio's

- ◇ Useful in the areas of demand (expenses) and contributions (income).
- ◇ These ratios are often overlooked by management.
- ◇ Future Goal: Compares one schools ratios with those of other schools, with similar characteristics.



The challenge facing academy administrators' and board members is to understand, interpret, and if necessary, take the steps to ensure that academy resources are optimized and that its mission is achieved.



# Five Steps for Developing KPIs

1. Communicate the purpose of KPIs within the organization
2. Identify the “critical success factors”
3. Select and develop KPIs
4. Implement the KPIs
5. Monitor results and make improvements

# Balance Sheet Ratios

- ◇ Liquidity Ratio
- ◇ Current Ratio
- ◇ Percentage of Required Working Capital
- ◇ Percentage of Receivables to Operating Fund Balance
- ◇ Debt Percentage
- ◇ Percentage of Operating Fund Balances to Earned Operating Income

# Liquidity Ratio

- ◆ To measure the academy's ability to repay debts that are due within one year using its available cash resources
- ◆ The higher the ratio the better. A ratio of 1:1 (100%) indicates that the organization is capable of paying all its current financial commitments as listed on the balance sheet.

# Liquidity Ratio

◇ Formula:

Cash + Investments + Receivables from Higher  
Organizations

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Current Liabilities + Unallocated and Allocated  
Operating Fund Balance

# Current Ratio

- ◆ Measures the schools ability to repay debts that are due within one year, using its available cash and other assets easily converted into cash.
- ◆ The greater the ratio – the better
- ◆ Formula:

Total Current Assets

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Total Current Liabilities

# Working Capital

- ◆ To determine if adequate financial resources will be available for the sound and effective operation of the school.
- ◆ Recommended working capital for academies shall be 15% of the operating expense of the latest complete fiscal year plus Long-Term Payables and Temporarily Restricted Net Assets.

# Working Capital

- ◆ A favorable ratio does not necessarily mean that the academy has sufficient cash, because the current assets available may not be in the form of cash or easily converted into cash.





# Percentage of Receivables to Operating Fund Balance

- ◆ Purpose is to show the amount of credit extended by the academy to students and other debtors.
- ◆ The lower the percentage the better. A high percentage may indicate a sizable number of delinquent debtors or that credit facilities are too generous.
- ◆ Formula:

$$\frac{\text{A/R + Notes and Loans Receivable}}{\text{Unallocated and Allocated Operating Fund Balance}}$$

# Debt Percentage

- ◆ This ratio is to show the degree of relative freedom from creditors demanding repayment of debts.
- ◆ The lower the percentage, the better the position. A low percentage indicates that the academy is largely free from pressure to pay accounts, due to creditors, that fall due within the current year. If debt percentages are high or increasing, it is a signal for caution to administration and to the Board.

# Debt Percentage

◇ Formula:

Total Operating Liabilities

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Unallocated & Allocated Operating Fund Balances

# Operating Fund Balances to Earned Operating Income

- ◆ Show operating viability of the academy with its ability to generate income
- ◆ The higher the ratio the better the position
- ◆ Formula:

Unallocated & Allocated Operating Fund Balances

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Earned Operating Income Generated (excludes  
Subsidies, Donations, etc.)

# Operating Ratios

- ◆ Expenses per Day
- ◆ Days of Cash & Investments Available for Expenses
- ◆ Accounts Receivable Turnover
- ◆ Percentage of Operating Expense to Total Earned Income
- ◆ Percent of Income to Budget
- ◆ Percent of Expense to Budget
- ◆ Percent of Fund Balance Change from Year-end

# Expenses per Day

- ◇ Average expenses per day, within a given year. Total expenses should not include depreciation expense for those schools that use a single fund presentation.
- ◇ The lower average expense per day – the better
- ◇ Formula:

Total Operating Expense

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Number of Days in Period

# Days of Cash & Investments Available for Expenses

- ◇ This ratio should not include any “investments” that are classified as “other” or “non-current” assets. (Temporary restricted net assets)
- ◇ The higher the days - the better. This is a good indicator for management review. Is there significant cash available?
- ◇ Formula:

Cash & Investments

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Expenses per Day

# Accounts Receivable Turnover

- ◆ Used to determine the average number of days it takes to collect accounts due from students and other debtors.
- ◆ The lower the number the better. A low number indicates that students and other debtors pay their accounts promptly.
- ◆ Formula:

Net Student Income

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Average Accounts Receivable from Students



# Accounts Receivable Turnover

- ◆ To determine the average number of days to collect receivables:

365 Days

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Accounts Receivable Turnover

# Percentage of Operating Expense to Total Earned Income

- ◆ Show the percentage of expenses that is covered by the income the academy generates
- ◆ The lower the percentage the better
- ◆ Formula:

Total Operating Expense (exclude Capital Expenditures & Improvements)

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Earned Operating Income (exclude Subsidies, Donations)

# Percent of Income to Budget

- ◇ Compares actual Income to Budgeted Income
- ◇ Quick glance at percentage is useful tool for management and board. A positive percentage is favorable
- ◇ Formula:

Total Operating Income – Budgeted Operating Income

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Budgeted Operating Income

# Percent of Expenses to Budget

- ◇ Compares actual Expenses to Budgeted Expenses
- ◇ A negative percentage is favorable
- ◇ Formula:

Total Operating Expenses – Budgeted Operating Expenses

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Budgeted Operating Expenses

# Percent of Fund Balance Change from Year-end

- ◇ Compares current fund balance to prior year-end fund balance
- ◇ Positive percentage is favorable, representing an increase in fund balance from year-end
- ◇ Formula:

Current Net Assts – Prior Net Assets at Year-end

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Prior Net Assets at Year-end

# Demand Ratios

- ◇ Percentage of Employee Related Expenses to Income Ratio
- ◇ Operation and Maintenance of Plant to Income Ratio
- ◇ Student Labor to Total Student Income Ratio
- ◇ Scholarship to Tuition Income Ratio

# Percentage of Salary & Benefits Expenses to Income Ratio

- ◆ Shows what percentage of Income is spent on Employee Salary & Benefits.
- ◆ The lower the percentage – the better. Spiraling costs can be traced in a trend analysis of this ratio.
- ◆ Formula:

Employee Salary & Benefits (exclude Student  
Labor costs)

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Total Operating Income (including unrestricted  
Conference Operating Subsidy)

# Operation and Maintenance of Plant to Income Ratio

- ◆ Show percentage of Total Income spent on Plant Operation and Maintenance
- ◆ The lower the ratio the better. This ratio may indicate that plant is aging and is requiring major repairs and improvements. It might also identify that there is wastage or inefficiency.
- ◆ Formula:

Total Plant Operation and Maintenance Costs

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Total Income



# Campus Student Labor to Total Student Income Ratio

- ◇ This ratio shows the extent to which Total Student Income returns to students in the form of campus student labor.
- ◇ Indicates the extent to which the academy uses student labor as a tuition discount.
- ◇ Formula:

Campus Student Labor

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Total Tuition and Fees

# Scholarship to Tuition Income Ratio

- ◆ Gives an indication of the level of Financial Aid
- ◆ The higher the ratio, the greater the level of support that students are receiving in the form of financial assistance
- ◆ Formula:

Scholarships (Financial Aid Given)

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Total Tuition and Fees