Financial Statements & Stability

A Regulators Review

NASASPS 2017 Annual Conference

Financial Reporting

• Provides financial information
• Focuses on external users
• Snapshot of a company’s performance and profitability

Types of Financial Statements

• For-Profit Financial Statements
  • Balance Sheet
  • Profit/Loss Statement
  • Statement of Cash Flows
  • Statement of Owners’ Equity
• Nonprofit Financial Statements
  • Statement of Financial Position
  • Statement of Activities
  • Statement of Cash Flows
  • Change in Net Assets
### Balance Sheet
- **Used by:** For-Profit Organizations
- **Assets:** Current, Fixed, Intangible
- **Liabilities:** Current, Long-Term
- **Owners' Equity:** Value

**Assets**
- Current: Cash and other assets expected to be converted to cash within a year
- Fixed: Long-term assets not likely to be converted quickly into cash
- Intangible: Not physical in nature, includes patents, trademarks, goodwill

**Liabilities**
- Current: Amounts due within 12 months
- Long-Term: Amounts due beyond 12 months

### Statement of Financial Position
- **Used by:** Nonprofit Organizations
- **Assets:** Current, Fixed, Intangible
- **Liabilities:** Current, Long-Term
- **Net Assets:** Value or Worth

**Assets**
- Current: Cash and other assets expected to be converted to cash within a year
- Fixed: Long-term assets not likely to be converted quickly into cash
- Intangible: Not physical in nature, includes patents, trademarks, goodwill

**Liabilities**
- Current: Amounts due within 12 months
- Long-Term: Amounts due beyond 12 months

### Income Statement
- **Also known as:** Statement of Earnings or Profit and Loss Statement
- **Income:** Money received reported net of any returns, allowances or discounts
- **Expenses:** Cost of Goods Sold, Operating Expenses, Other Expenses

**Revenue**
- Sales, Tuition, Revenue

**Expenses**
- Cost of Goods Sold, Instructional materials, etc.
- Operating Expenses, Salaries, etc.
- Other Expenses, Interest

**Other Income (Expenses)**
- Interest earned

**Net Income**
Statement of Activities
Profit and Loss Statement
• Used by Nonprofit Organizations
• Revenues – Expenses = Change in Net Assets
  • Unrestricted, Temporarily Restricted & Permanently Restricted
Revenue: Tuition and Support
• Could include Contributions from Donors, Fundraising, Grants, in addition to Tuition received from students
• Reported net of any returns, allowances or discounts
Expenses:
• Program Expenses
  • Amounts directly incurred in carrying out the program such as instructional cost and salaries
• Supporting Services Expenses
  • Management and general expenses and cost of fundraising such as advertising, management salaries and building rent
Change in Net Assets:
• The Surplus or Deficit that is carried forward
  • Similar to the Net Income(Loss) for a For-Profit
• Is added to the Beginning of the Year Net Assets to calculate the End of the Year Net Assets resulting in the Organizations “worth.”

Statement of Cash Flows
• Used by both For-Profit & Nonprofit Organizations
• Beginning Cash + Changes in Cash = Ending Cash
• Changes in Cash:
  • Operating Activities:
    • Cash flows from operations, such as sales of goods or services, payments to suppliers and employees
  • Investing Activities:
    • Cash flows from acquisition and disposal of long-term assets, such as property and equipment
  • Financing Activities:
    • Cash flows from obtaining or repaying capital to be used in the business
Cash flow is vital to a company’s long-term success
• How the company obtains & spends cash
• If the company generates enough cash to sustain the business, pay off debts, and make additional investments

Red Flags & What to Look For
• Debt to Equity Ratio
  • Total Liabilities ÷ Shareholders’ Equity
• Revenue Trending Down
  • Decreasing revenue over the past few years
• Negative Net Assets or Net Loss
  • Schools with negative Net Assets or Net Loss are usually in trouble
• Compare the schools Cash from Operating Activities to Net Income
  • If Cash from Operating Activities > Net Income ➔ Net Income/Earnings are high quality
  • If Cash from Operating Activities < Net Income ➔ Red Flag as to why net income is not turning into cash
Kansas Review

• Kansas Regulation Requirements – K.A.R. 88-28-2 (a)(7)

(7) The owner of the institutions or the owner's designee shall submit to the state board the most recent financial statements for the institution, operating in Kansas, and for any parent or holding company related to that institution. The financial statements provided to the state board shall meet at least one of the following requirements for the most recent fiscal calendar year or for the two most recent fiscal or calendar years combined:

(a) Determine a minimum ratio of current assets to current liabilities of at least 1.3. This asset ratio shall be calculated by adding the cash and cash equivalents to the current accounts receivable and dividing the sum by the total current liabilities;

(b) Exhibit a positive net worth in which the total assets exceed the total liabilities; or

(8) Demonstrated stability.

Current Liquidity Ratio

• Current Assets + Current Liabilities
  • Current Assets = Cash, Cash Equivalents, Accounts Receivable and others as reported on the balance sheet
  • Current Liabilities = Accounts Payable, Deferred Revenue, Current Portion of Long-Term Debt and others as reported on the

• Measures the school's ability to pay back short-term debt
• High current ratio – capable of paying obligations
• Ratio under 1 – unable to pay off obligations if they came due at that point

Positive Net Worth

• Total Assets > Total Liabilities
  • Reported on the Balance Sheet or Statement of Financial Position
  • Measures the organization's ability to pay back debt and obligations with assets
• Negative Net Worth – Owes more than owns
• Positive Net Worth – Own more than owe
Profit Earned

- Revenue – Expenses
- Net Income
- Positive Change in Net Assets

Also review End of the Year Net Assets and Cash at End of Year

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