

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 = Liabilities + Owners' Equity
- Assets - Liabilities = Owners' Equity
 - Assets - What the company owns
 - Liabilities - What the company owes
 - Owners' Equity - Value
- Assets
 - Current
 - Cash and other assets that are expected to be converted to cash within a year
 - Fixed
 - Long-term assets that are not likely to be converted back into cash, such as land, building, and equipment
 - Intangible
 - Not physical in nature, includes patents, trademarks, business methodologies, goodwill, brand recognition
- Liability
 - Current - amounts due within 12 months
 - Long-Term - amounts due beyond 12 months

ASSETS	
Current assets	
Cash and cash equivalents	\$ 28,000
Accounts receivable	4,000
Inventory	10,000
Prepaid expenses	1,000
Other current assets	1,000
Total current assets	44,000
Property and equipment, net	10,000
Intangible assets	5,000
Other non-current assets	1,000
Total non-current assets	16,000
Total Assets	60,000
LIABILITIES AND OWNERS' EQUITY	
Liabilities	
Accounts payable	1,000
Notes payable	1,000
Other liabilities	1,000
Total liabilities	3,000
Owners' Equity	
Common stock	10,000
Retained earnings	47,000
Total Owners' Equity	57,000
Total Liabilities and Owners' Equity	60,000

Statement of Financial Position

- Used by **Nonprofit Organizations**
- Assets = Liabilities + Net Assets
- Assets - Liabilities = Net Assets
 - Assets - What the company owns
 - Liabilities - What the company owes
 - Net Assets - Value or Worth
- Assets
 - Current
 - Cash and other assets that are expected to be converted to cash within a year
 - Fixed
 - Long-term assets that are not likely to be converted back into cash, such as land, building, and equipment
 - Intangible (Other)
 - Not physical in nature, includes patents, trademarks, business methodologies, goodwill, brand recognition
- Liability
 - Current - amounts due within 12 months
 - Long-Term - amounts due beyond 12 months

STATEMENT OF FINANCIAL POSITION	
DECEMBER 31, 2014	
ASSETS	
Current assets	
Cash and cash equivalents	\$ 75,000
Accounts receivable, net of allowance for doubtful accounts of \$1,000	5,000
Inventory	10,000
Prepaid expenses	1,000
Other current assets	1,000
Total current assets	92,000
Property and equipment	
Land	10,000
Buildings	10,000
Equipment	10,000
Accumulated depreciation and amortization	(10,000)
Net Property and Equipment	20,000
Other assets	
Patents	10,000
Trademarks, net of amortization	10,000
Goodwill, net of amortization	10,000
Other intangible assets	10,000
Total Other Assets	40,000
Total Assets	152,000
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	1,000
Notes payable	1,000
Other liabilities	1,000
Total Liabilities	3,000
Net Assets	
Contributed capital	10,000
Retained earnings	139,000
Total Net Assets	149,000
Total Liabilities and Net Assets	152,000

Income Statement

Also known as the Statement of Earnings or Profit and Loss Statement

- Used by **For-Profit Organizations**
- Income = Expenses + Net Income
- Income - Sales, Tuition, Revenue
 - Net Sales - Sales less Returns/Allowances
- Revenue: Tuition and Sales
 - Income - Money received
 - Reported net of any returns, allowances or discounts
- Expenses
 - Cost of goods sold - direct costs related to the product/services sold or provided
 - Instructional materials, books, etc.
 - Operating Expenses - costs related to the operation of the company
 - Salaries/wages, legal & license fees, etc.
- Other income (expenses)
 - Other income - non-operating income
 - Interest earned
 - Other Expenses - non-operating expense
 - Interest paid

Revenue	
Tuition	\$ 1,113,050
Rental services	329,142
Rental product	28,234
Total Net Revenue	1,470,426
Cost of Goods	
Instructional	309,650
Books and supplies	313,779
Total Cost of Goods	623,429
Operating Expenses	
Advertising	25,279
Audit expense	3,809
Bank charges	6,852
Depreciation expense	11,652
Deans and administrators	10,187
General and administrative	87,287
Insurance	91,741
Legal and professional	47,308
Licenses and permits	24,742
Rent	289,801
Supplies	25,561
Taxes	30,276
Utilities	41,810
Wages	217,654
Total Operating Expenses	917,061
Other Income (Expense)	
Interest income	314
Interest expense	(664)
Total Other Income (Expense)	250
Net Income	553,615

Statement of Activities

Profit and Loss Statement

- Used by **Nonprofit Organizations**
- Revenues - Expenses = Change in Net Assets
- Unrestricted, Temporarily Restricted & Permanently Restricted

Revenues: Tuition and Support

- Could include Contributions from Donors, Fundraising, Grants, in addition to Tuition received from students

Expenses:

- Reported net of any returns, allowances or discounts
- Program Expenses**
 - Amounts directly incurred in carrying out the program with instructional cost and salaries
- Supporting Services Expenses**
 - Management and general expenses and cost of facilities such as collecting, 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' "wealth"

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Unrestricted Net Assets	
Revenues	\$ 33,808,239
Tuition and fees, net of refunds of \$1,883,810	364,789
Investment returns	108,147
Other revenues	(284,318)
Loans on sale of assets	(5,797,737)
Total Revenues	31,118,888
Operating Expenses	
Program Expenses	
Instructional costs, books, and supplies	11,747,826
Salaries and related costs	14,608,564
Rental	2,413,439
Total Program Expenses	28,769,829
Supporting Expenses	
Salaries and related costs	6,465,610
Advertising	2,637,223
Depreciation and amortization	2,288,652
Rental	844,561
Utilities	365,079
Bad debts	1,000,391
General and administrative	7,411,559
Total Supporting Expenses	22,709,765
Total Expenses	51,479,594
Change in Net Assets	(13,942,267)
Net Assets, Beginning of Year	14,085,531
Net Assets, End of Year	\$ 10,143,264

Statement of Cash Flows

- Used by both For-Profit & Nonprofit Organizations
- Beginning Cash + Changes in Cash = Ending Cash
- Changes in Cash from
 - Operating Activities**
 - Cash flow from operations, such as sales of goods or services, payments to suppliers and employees
 - Investing Activities**
 - Cash flow from acquisition and disposal of long-term assets, such as property and equipment
 - Financing Activities**
 - Cash flow 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

Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2014

	2013	2014
Operating Activities		
Net flow	\$ (17,044,000)	\$ (18,151,000)
Items not requiring generating cash		
Depreciation and amortization of fixed assets	1,175,000	8,343,000
Amortization of intangible assets	34,280,000	38,861,000
Goodwill impairment loss	(715,000)	(665,000)
Gain on sale of property and equipment	3,341,000	3,800
Loss on disposal of property and equipment	(1,879,000)	(6,200,000)
Provision for doubtful accounts	(1,879,000)	(987,000)
Change in receivables	(221,000)	(412,000)
Change in payables	39,000	307,000
Change in		
Accounts and notes receivable	(81,240,000)	(65,862,000)
Prepaid expenses	(6,112,000)	1,732,000
Accounts payable	(2,890,000)	71,000
Accounts receivable, current expenses and other	1,907,000	1,717,000
Net cash provided by (used in) operating activities	(14,871,000)	(16,813,000)
Investing Activities		
Proceeds on sale of property and equipment	1,000	4,000
Capital expenditures	(17,076,000)	(17,409,000)
Net cash used in investing activities	(17,075,000)	(17,405,000)
Financing Activities		
Change in revolving government loan program	(191,000)	(78,000)
Principal payments on capital lease obligations	(171,000)	(1,022,000)
Net cash used in financing activities	(362,000)	(1,100,000)
Change in Cash	(17,298,000)	(17,945,000)
Cash, Beginning of Year	29,783,000	12,788,000
Cash, End of Year	\$ 12,485,000	\$ 4,843,000

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 Actives > Net Income → Net Income/Earnings are "high quality"
 - If Cash from Operating Actives < 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 institution 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 companies 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 or calendar year or for the two most recent fiscal or calendar years combined:

- (A) Demonstrate a minimum ratio of current assets to current liabilities of at least 1:1. 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
- (C) demonstrate a profit earned.

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 schools 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 organizations 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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