

The background is a dark teal color with various financial symbols and numbers scattered across it. Symbols include the dollar sign (\$), yen sign (¥), euro sign (€), and pound sign (£). Numbers are in various sizes and colors (teal and light green). Some numbers are accompanied by upward or downward arrows. The overall theme is finance and accounting.

**USC Board of Directors
Conference**
Understanding Financial Reporting
Toronto, June 17, 2017

Hello!

I'm David Small

Pension & Benefits Consultant – Coughlin & Associates Ltd.
1998/99 USC VP Finance & Member, Board of Directors
1998-2000 Senator at Large
1998-2000 Trustee, The Campus Trust



1. Profit and non-profit organizations

Understanding the difference between the two...



So what's the difference?

FOR-PROFIT

→ organization exists for the sole purpose of making money for its owner or shareholders

NOT-FOR-PROFIT

→ organization exists to fulfill a societal mission or to contribute to the community
→ no one is legally permitted to make money or profit from the success of a non-profit



Does that mean the USC can't make money?

A non-profit is allowed to make money on a yearly basis and save that money to:

- enhance programs in future years,
- to build a nest-egg for rainy days,
- to pay their employees reasonable wages that are comparable with the local marketplace.



How do the financials tell me how well the USC is achieving its goals?

THEY DON'T:

- the goals are about impacting student life and serving the student population.
- These things must be measured but they are not measured by monetary indicators.
- The mission statement and programming are indicators of its goals and these need to be operationalized, measured, and reported on to the Board, Council and the students on a regular basis.



“To enhance the educational experience and quality of life for all undergraduates at Western University.”



So what's the point of your presentation?

- Every Board member has the responsibility to assure the USC's financial health.
- The ability to read and interpret financial statements is essential to this responsibility.
- Financial statements tell you how well-positioned the USC is to meet its goals:
 - whether programs are operating according to plan;
 - where financial adjustments need to be made; and
 - they provide indicators of the level of efficiency with which they are operating.



2. Being a Board member

What are my responsibilities?



Fiduciary duty and Duty of care

→Overseeing the financial affairs of the USC is a key responsibility of the Board, and of every member of the Board.

→Directors have a “fiduciary duty” to the USC to act honestly and in good faith in the best interests of the organization. Confidentiality and avoiding conflicts of interest are key to this duty.

→You also have a “duty of care” that requires you to act with the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.



Stewardship

- One of the fundamental roles of the Board of Directors is stewardship of the USC's resources.
- This duty includes the responsibility to protect the USC's assets and to oversee its financial affairs.
- Financial statements are the primary means of communicating information about the USC's financial position (at a point in time) and financial results of its operations (over a period of time).



I'm an Arts major, why can't the kid from Ivey just do it?

- Business and economics students bring a valuable skill set to the Board.
- They are in a strong position to help their Board peers deepen their understanding of financial matters.
- However, each and every Board member must fulfill his/her obligations for the oversight of financial matters to the best of his/her ability.
- You don't need be a financial expert, but you should have a basic level of financial literacy.



3. The Financial Statements

Understanding the financial reporting



Types of Financial Statements



Balance sheet

- aka a statement of financial condition or statement of financial position
- tells the reader the total assets and liabilities (or debts/obligations) of the organization on a specific date, and lets the reader know how much is “left over” and available to the organization.
- Aptly named because all of these numbers must balance.



Assets

- Cash
- Bank account balances
- Investments
- Accounts receivable
- Inventory
- Equipment
- Vehicles
- Property



Asset Categories

CURRENT ASSETS

→liquid assets, like cash, short-term investments, chequing and savings account balances and accounts receivable.

PROPERTY & EQUIPMENT

→owned property, equipment, and all other fixed assets.

OTHER ASSETS

→long-term investments or other assets not included in the first two categories.



Ratio analysis

- Using financial ratios allows for comparison against some standards as well as other organizations, irrespective of size of the organization, since it shows the mathematical relationship between important variables.
- Usually, Boards are not presented these ratios as part of the financial presentation, but they can shed considerable light on the health of the organization.
- Both the value of the ratio and the trend of some of these ratios over time must be analyzed.



Current ratio

$$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSETS}}{\text{PROJECTED LIABILITIES}}$$

- Helps to determine if the organization has enough liquid assets to meet its short term obligations.
- A current ratio < 1 means there aren't enough liquid assets to cover liabilities.
- The target current ratio should be > 1.5
- Other assets like property and equipment cannot be made liquid easily to pay the bills.



Debt ratio

$$\text{DEBT RATIO} = \frac{\text{DEBT LIABILITIES}}{\text{TOTAL ASSETS}}$$

- Helps to determine if the organization can afford to take out a loan for expansion.
- The lower the debt ratio, the less risk of financial difficulties .
- The target current ratio should be < 0.5



Balance sheet questions to ask...

- What items are included under accounts receivable? Who owes and when are these accounts to be received? Are they overdue?
- Is there any possibility of not receiving the money that is overdue?
- What items are included under accounts payable? When are they due/are we paying them on time? Is there enough cash to cover them?



...more questions to ask

- Are the investments earning a reasonable rate of return? Are they invested in accordance with the policy? What are the risks?
- Are there too many assets in cash available, and does this suggest that investment of some resources may be in order?
- Compare the current balance sheet with previous years' statements. Identify any trends that might be an indication of changes to the financial health of the organization.



Income Statement

- aka statement of activities or P&L (profit and loss) statement.
- Identifies different types of revenue and shows the amount spent on programming, administration and operations.
- This statement can be presented in a number of manners, comparing the report at a point in time compared with the budget, compared with the same time period last year, and variances in either dollars, percentages, or both.



Revenue-to-date ratio

$$\text{REVENUE-TO-DATE RATIO} = \frac{\text{CURRENT REVENUE}}{\text{PRIOR YEAR REVENUE}}$$

- Gives the reader a clearer picture as to whether the organization is doing better than last year.
- The target ratio should be > 1.0



Income Statement questions to ask...

- Who provides each category of revenue to the organization and why? Are there restrictions on how these revenues are used?
- Are there revenues devoted for a specific program, business unit, or activity? Do these revenues include funding to sustain the organization's overhead?
- How secure is each source of revenue for future periods?



...more questions to ask

- What is the source of investment income? What's our target return on investments? Is this achievable in the current economic climate?
- What is included in Miscellaneous General Revenue? Should any of these components be reported separately?
- Are revenues and expenses in line with the budget? How do they compare to the same period last year?



USC Income Statement

	As At February 28, 2017				
	YTD Actual	YTD Budget	YTD Actual vs YTD Budget	YTD Last Year	Annual Budget
Student Fees	19,195,331	19,000,000	195,331	20,670,250	19,863,399
Transfers Out	(10,998,762)	(11,865,496)	866,733	(10,712,397)	(13,966,243)
Net Student Fees	8,196,569	7,134,504	1,062,064	9,957,853	5,897,156
Miscellaneous General Revenue	334,071	67,500	266,571	159,139	90,000
Total Corporate Revenue	334,071	67,500	266,571	159,139	90,000
General Corporate Expense	(387,449)	(395,050)	7,601	(421,978)	(627,754)
Corporate General Building Exp	(20,072)	(26,415)	6,343	(24,658)	(475,950)
Corporate Office Expense	(53,464)	(91,493)	38,028	(80,005)	(184,460)
Corporate Salaries/Benefits	(1,246,976)	(1,364,180)	117,204	(1,299,905)	(1,738,185)
Day Care	(12,833)	(19,382)	6,549	(17,276)	(60,000)
Capital	(537,384)	(729,674)	192,290	(357,541)	(972,898)
Volunteer Resources	(69,264)	(73,190)	3,926	(72,259)	(100,251)
Government Services	(130,017)	(117,173)	(12,843)	(88,583)	(151,898)
Promotional and Commercial Partnerships Admin	(27,055)	3,298	(30,354)	(11,234)	(25,779)
Total Corporate Expenses	(2,484,514)	(2,813,258)	328,743	(2,373,439)	(4,337,175)
Net Corporate	(2,150,443)	(2,745,758)	595,314	(2,214,300)	(4,247,175)

USC Income Statement

	As At February 28, 2017				
	YTD Actual	YTD Budget	YTD Actual vs YTD Budget	YTD Last Year	Annual Budget
PVPs					
President	(68,644)	(79,757)			
Council	(9,279)	(13,725)			
Communications Officer	(47,451)	(59,864)			
Elections	(7,277)	(17,000)			
Secretary Treasurer	(48,800)	(59,477)			
SPO	(176,246)	(170,064)			
Orientation	(475)	-			
Vice President	(54,054)	(75,197)			
Total PVP's	(412,224)	(475,085)	62,860	(475,085)	(735,865)
Media					
Gazette Advertising and Production	(211,224)	(216,891)	5,667	(102,235)	(195,877)
Editorial	(280,449)	(322,411)	41,962	(285,703)	(445,292)
Total Gazette	(491,673)	(539,302)	47,628	(387,938)	(641,169)
Publications	-	-		-	0
Total Media	(491,673)	(539,302)	47,628	(387,938)	(641,169)



USC Income Statement

	As at February 28, 2017				
	YTD Actual	YTD Budget	YTD Actual vs YTD Budget	YTD Last Year	Annual Budget
Rentals					
Rental Properties	421,291	465,071	(43,780)	371,212	380,000
Total Rentals	421,291	465,071	(43,780)	371,212	380,000
Events and Building Services					
Events and Building Services	(222,022)	(226,822)	4,800	(153,598)	(609,833)
Total Events and Building Services	(222,022)	(226,822)	4,800	(153,598)	-609,833
Western Film					
Western Film	19,093	(4,428)	23,521	(5,312)	(29,058)
Total Western Film	19,093	(4,428)	23,521	(5,312)	-29,058
Food & Beverage					
Wave	133,805	105,101	28,704	18,381	(16,703)
Spoke	360,283	215,030	145,254	167,861	180,691
Total Food and Beverage	494,089	320,131	173,957	186,243	163,988
Retail Service Operations					
Creative Services	(89,871)	(54,096)	(35,775)	(19,419)	(53,622)
The Purple Store	(5,750)	10,862	(16,611)	36,324	(9,647)
Promotions	(78,059)	(14,650)	(63,409)	(107,209)	(94,254)
Total Retail Service Operations	(173,680)	(57,884)	(115,796)	(90,304)	(157,523)



USC Income Statement

	As at February 28, 2017				
	YTD Actual	YTD Budget	YTD Actual vs YTD Budget	YTD Last Year	Annual Budget
<i>Total Operations</i>	538,771	496,068	42,703	308,240	(252,426)
Total USC	5,680,999	3,870,429	1,810,570	7,188,770	20,521



Cash Flow Statement

- Provides a look at the changes in assets due to operations, investments, financing, and cash.
- Prospective (forecast) cash flow model is very important for any organization to project the availability of cash to cover expenses.



Cash Flow Statement questions to ask...

- What is the explanation for any significant differences, year to year, in the entries?
- Will we have cash available to increase our investments? Do we need to sell any investments?
- Will we need to borrow to finance our activities? Or will we have sufficient cash to pay down our existing borrowings?
- Are we anticipating any significant capital purchases in the coming year? How will these be paid for/financed?



USC Cash Flow Forecast

Cash Flow Forecast - 12 Months

Projection as of March 1 2017

Cash In

Cash on Hand March 1 2017	5,186,541.00	Treasury	
Cash on Hand March 1 2017	392,341.00	Operating Account	
Anticipated S/Fees	613,400.00		based on budgeted amt of \$19,863,400. less \$19,250,000. already received
Cash Deposits	2,683,247.00		based on last year's actual
Tenant Revenue	156,801.00		\$52,267x3.
	<u>9,032,330.00</u>		

(March 1 to May 31 2017)

LTC	780,080.00	\$780,080. x Feb,Mar
Health/Dental Plan	1,290,000.00	doesn't include Jun-Aug obligation of \$430,000/mos
Corp Health/GRSPension	100,000.00	\$40,000 x 3
Payroll	935,000.00	based on net pay from Mar-May 2016
Taxes & Govt Remittances	550,000.00	source deductions, HST, WSIB, EHT,
Insurance	-	paid in January
Mortgage & Interest	105,000.00	(\$25000/mos + interest)
Bank Fees	7,500.00	based on last year's actual
Occupancy	442,500.00	\$146000 x 3 months (includes 3% increase in May)
Visa Credit Card	135,000.00	based on F2016 March-May Expense
Cash Purchases	1,949,807.00	based on last year's actual
Capital	340,000.00	based on budget vs actual at March 1 2017
	<u>6,634,887.00</u>	

USC Cash Flow Forecast

Projected Cash Position
Actual

2,397,443.00 as at May 31 2017

Closing Cash Position

May 31 2015
May 31 2016
May 31 2017

Balance	Difference
733,404.00	
1,544,524.00	811,120.00
2,397,443.00	852,919.00



4. Final Thoughts

Five words of advice from someone who has been through this already...



Consider the USC Mission Statement when making any decisions.



*Trust the USC's Managers
& Staff to do their jobs to the
best of their abilities, but
don't be afraid to challenge
them.*



Don't get caught up "in the weeds". Your job isn't to micro-manage the operations.



Avoid conflicts of interest at all costs. Act in what you believe is in the best interest of the USC, its employees and the undergraduate students, as a whole.



*Take the job seriously, but
don't take yourself too
seriously.*



Thanks!

Any questions?

You can email me at davidrsmall@gmail.com

