

THE FINANCIAL REPORT: KEEP IT SIMPLE AND UNDERSTANDABLE

And now for the fifth item on the agenda tonight, the financial report.” The board chair, sounding upbeat and informed, says, “It’s the BIG document in your information packet.”

Board members pull out the financial report and stare at it, uncertain about its contents. As pages are turned, worried looks appear on several faces, while other members look dazed. The principal of the school and the chair of the finance committee discuss “the effects of aging on accounts receivable.” Some members scratch their heads or cough quietly; one leaves the room to make an “important” phone call.

“Are there any questions?” the chair asks. The room is silent; no one makes eye contact. A representative from the local medical center asks about an item on page 17. Always uncomfortable dealing with finances, the board chair defers to the treasurer. Everyone else, not sure of the question, is glad just to be looking for page 17. Since no one can clearly answer the question (or the next three questions, all relating to accounting procedures), it becomes clear to most members that they have so little information about the school that they do not know what questions to ask. They watch the expressionless faces of the medical center representative and the treasurer, hoping for some visual clue—a smile or frown, perhaps—to help them sort out the financial condition of the school.

All of the board members do understand that the school needs more books, a new computer for the secre-

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tary, and a resurfacing of the parking lot. When they see these items, the uncertainty of a few moments ago translates into uncertainty about whether they have sufficient funds for these items. Some decide to vote the way the treasurer votes, thinking that he should know if the school is in financial trouble. However,

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BY DAVID S. PENNER

most feel more comfortable voting to “table the action for further details.”

This fictitious account illustrates the difficulties that many boards face when they try to make informed decisions without vital information about the school. Unfortunately, financial information is often presented in a format not readily understood by the board members. Consequently, board members waste valuable time thumbing through reams of paper in the financial report, trying to locate the figures under discussion—rather than focusing on the decisions to be made.

The average board member, who doesn't understand accounting and is overwhelmed by details, thus has to rely on the few who appear to understand the financial statements. These “finan-

cial thought leaders” not only dominate the discussion, but often control the decision-making as well. Those who are baffled by the financial statement must rely on other clues for an indication of how to vote. A frown, sigh, or sarcastic remark by a “financial thought leader” may influence a “lost” member's vote. When board members don't understand the financial report, they often make poorly informed choices or may delay decisions indefinitely.

Broadening the Base for Understanding

In order to effectively participate in the discussion, every board member must understand enough to at least ask questions. One way to achieve this goal is to follow a simple three-point plan:

1. Include with every financial report a summary page that everyone, including those without an accounting background, can understand;

2. Reduce the amount of financial detail to only what is needed by the board; and

3. Take time to teach board members how to read and understand the financial report. Most board members serve as the representative for a particular church constituency and viewpoint. For any member to be locked out from the vital information in a financial report is a loss to the board as a whole and to the welfare of the school.

Make It SUPA (Simple, Understandable, Professional, and Accurate)

To facilitate communication, the report itself must be kept *simple*—in other words, focused and appropriate to the discussion and time limitations; *understandable*—written in terms as free of accounting jargon as possible; *professional*—that is, neatly formatted

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and printed in a manner that is easy to read and that indicates quality time was spent in its preparation; and *accurate*—showing current numbers that reflect the school's true financial situation and are as error-free as possible. This SUPA test not only makes for good communication, but also helps improve the board's confidence in the leadership of the school.

With the goal of keeping things simple, the financial report might include the following sections: an introductory page, Financial Report Highlights (see section below); a balance sheet; a one-page summary of financial activity (comparing budget and actual expenses); and possibly a page or two of selected details from financial activity schedules that the board ought to monitor. The board will need to review only three to five pages at most if the report is prepared properly. Schools that have used the Financial Report Highlights page find that after using this format for a few months, many

board members are satisfied with the information provided on the Highlights page alone. The supporting documents—the balance sheet and the summary of financial activity—illustrate the Financial Report Highlights page and validate its information. Individual schools may choose to include other pages as necessary (such as an industry report), but should remember to keep the report brief and comprehensible.

Despite the obvious benefits of using a simplified financial report, it should be kept in mind that the complete financial statement is an important document that should be available to any board member who wishes to review it. A common mistake is to believe that everyone will benefit equally from receiving a complete copy. But it would also be a mistake not to have the document available for those who can and

Adventist Academy			
Financial Report Highlights			
<i>(Format A)</i>			
30 April 1999			
			Difference
1. <u>Current Student Enrollment</u>	195		
Enrollment last month	196		-1.00
Enrollment last year at this time	192		3.00
2. <u>Cash Received by the Academy</u>	\$142,676.38		
Projected amount	125,309.75		\$17,366.63
3. <u>Amount Paid by Parents</u>	51,673.52		
Projected amount	31,600.00		20,073.52
4. <u>Amount Earned by Students</u>			
Off-campus (cash)	22,237.95		
Last month	22,798.90		-560.95
On-campus	18,282.03		
Last month	15,794.34		2,487.69
5. <u>Amount Spent by the Academy</u>	138,825.46		
Budgeted amount	124,586.29		14,239.17
6. <u>Amount Owed by the Academy to Others</u>	166,572.30		
Last month at this time	158,552.39		8,019.91
7. <u>Amount Owed to the Academy</u>	260,372.54		
Last month at this time	245,232.68		15,139.86
8. <u>Money in the Checking Account</u>	38,111.59		
Last month at this time	34,260.67		3,850.92
9. <u>Age of Academy Debts to Vendors (in days)</u>	42		
Last month at this time	33		9.00
10. <u>Operating Margin for the Year (to date)</u>	\$129,454.00		
Budgeted margin (for the same period)	28,321.00		\$101,133.00

would like to review it.

The Financial Report Highlights Page

Many members don't ask financial questions in board meetings because they are afraid of revealing their ignorance or inability to understand accounting. As a result, the Financial Report Highlights page was developed with the following goal in mind: "Ten questions about the school's finances you want to know but are afraid to ask."

The answers to these questions come

from a variety of sources. Some are available in the details of the budget and monthly financial statements, while others are compiled from other records. In fact, these questions can give a much broader picture of the school operations than the financial statement alone.

The first cluster of information, which rarely appears on traditional financial statements, but certainly is essential to any school that depends on tuition income for survival, addresses these questions: "How many students

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are currently enrolled? How does this compare to last month and last year?" By comparing the numbers, board members get an immediate reference point. The second set of questions should be: "How much cash did we receive? How much were we expecting?"

The next few questions should address the issue of how the money is coming in and going out, while the ninth question deals with the reputation of the school with its vendors. Although there is no "bottom line" in non-profit organizations, many board members and some administrators also want a single figure they can remember and report to their constituents that briefly summarizes the financial position of the school. This figure, referred to as an "operating margin" in question 10, gives the feeling of a "bottom line."

A variety of information can be reported on this page. Each school should develop a customized version of this page, choosing items that are most appropriate for its situ-

Adventist Academy			
Financial Report Highlights			
<i>(Format B)</i>			
30 April 1999			
			Difference
1. <u>How many students are currently enrolled?</u>	195		
Enrollment last month	196		-1.00
Enrollment last year at this time	192		3.00
2. <u>How much cash did we receive?</u>	\$142,676.38		
How much were we expecting?	125,309.75		17,366.63
3. <u>How much did parents pay?</u>	51,673.52		
How much were we expecting?	31,600.00		20,073.52
4. <u>How much did students earn?</u>			
Off-campus (cash)	22,237.95		
Last month	22,798.90		-560.95
On-campus	18,282.03		
Last month	15,794.34		2,487.69
5. <u>How much did we spend?</u>	138,825.46		
How much were we planning to spend?	124,586.29		14,239.17
6. <u>How much do we owe to others?</u>	166,572.30		
How much did we owe last month?	158,552.39		8,019.91
7. <u>How much do others owe us?</u>	260,372.54		
How much did they owe last month?	245,232.68		15,139.86
8. <u>How much is in the checking account?</u>	38,111.59		
How much did we have last month?	34,260.67		3,850.92
9. <u>How old are our debts to vendors (in days)?</u>	42		
How old were they last month?	33		9.00
10. <u>How are we doing?</u> (Operating Margin, to date)	\$129,454.00		
What were we expecting?	28,321.00		\$101,133.00

Schools that have used the Financial Report Highlights page find that after using this format for a few months, many board members are satisfied with the information provided.

ation. The style of the questions can be varied to meet the specific needs or circumstances. Two examples are included in this document. Format B uses full questions, while Format A uses brief phrases. In a survey of school board members, those responding all favored the concept but were evenly divided about which format they preferred. Union directors of education and treasurers surveyed also overwhelmingly supported the idea but favored Format A.

Conclusion

The goal of the financial report is to facilitate understanding. Therefore, whatever format is chosen, it is important that the Financial Reports Highlights page be simple and focused, since this page forms the basis of the board's discussion. Only items that are central to the decision-making role of the board should be included. Additional material, while interesting, may only confuse the issues.

The school administrator also benefits by keeping in mind the SUPA questions: Is it simple? Is it understandable? Does it reflect the professional standards of this organization? Are the figures accurate?

The benefits of using this format include increased communication with the board, an improved image of school management, better recommendations to guide administrative action, and, as a result, an increased potential for the success of the school. ✍

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