

Welcome

Fundamentals in Practical Leadership for New & Emerging Leaders

Session 8: Financial Accountability

“Show me your finance and I’ll tell you what your mission is”


“Money is one of your resources, and just like the resources of time and skills, if you don’t understand what you have and pay attention to how you are using it, you cannot maximize how it supports you in meeting your organizational mission.”

We’ll begin at Noon

As a new leader/manager, you may not have been previously exposed to organizational budgets. This session provides highlights of what you need to know to create and manage a budget. How do you set solid practices to ensure you are fiscally accountable? Even if you aren't currently responsible for budgeting, how can you become more fiscally literate?

Agenda:

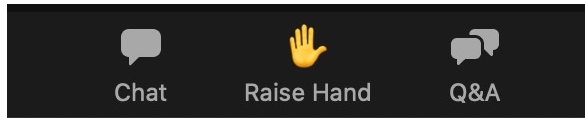
- Financial Terms and Language
- Organizational Financial Statements
- Project Budgets
- Operating Budgets
- Tips and Tricks

A close-up photograph of a hand holding a small, green, needle-like plant in dark soil. The hand is positioned at the bottom left, with fingers wrapped around the base of the plant. The plant has a dense, rounded top. The background is blurred, showing more of the hand and the soil. A semi-transparent circular overlay is on the right side of the image, containing the text 'Why money?' in a black, sans-serif font. Below the text is a short horizontal line.

Why money?

Ways to Participate in Webinar

- Audio & Video off for all – Raise Your Hand



- Use Chat
- Interactive polls Chat Box
<http://pollev.com/cfoe>
- Session will be recorded for reference
- Come back





Financial Lingo

Income Statement = A listing of all revenue and all expenses from a time period (usually monthly, quarterly or annually) that can be compared to budget and also previous years in the same time period.

Balance Sheet = A listing of all Assets (what you own) and Liabilities (what you owe). These two items must equal each other.

Debit = something subtracted from an account (either decreasing revenue, or increasing expenses)

Credit = something added to an account (either increasing revenue, or decreasing expenses)

Depreciation = reducing the value of an intangible asset over its useful life (e.g., website development)

Amortization = reducing the value of a tangible asset over its useful life (e.g., equipment)

ROI (Return on Investment) = how profitable is an investment (sometimes a way to compare alternatives)

Quick Ratio = how much of your short-term debt could be covered with cash you can get your hands on quickly

UNDERSTANDING FINANCIAL STATEMENTS

The Basics



Basic Organizational Financial Statements

Income Statement

Revenues	\$50,000	What you received
-Expenses	\$45,000	What you spent
Net Income	\$5,000	

Balance Sheet

Cash	\$10,000	What you own
Investments	\$30,000	
Accounts Receivable	\$5,000	
Capital Assets	\$100,000	
ASSETS	\$145,000	

Accounts Payable	\$20,000	What you owe (even what you owe to yourself)
Retained Earnings (Owed to MoH)	\$5,000	
Invested in Capital Assets	\$100,000	
Unrestricted Funds	\$20,000	
LIABILITIES	\$145,000	

Retained Earnings

- May be yours to keep and invest
- May be required to be returned to funder





INCOME STATEMENTS



Revenue minus
Expenses = Net
Profit or Net Loss



Comparison of
periods of time



Comparison against
budget



Activity based



Financial vs.
Management
statements



Balance Sheets

Quick Ratio (or Acid Test Ratio)

- Ability to pay current debts with easily accessed cash = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
(1.0 is ideal less than 1 is not)

$\text{Cash} + \text{Short Term Investments} = \$40,000$

$\text{Accounts Payable} + \text{Owed to Ministry} = \$25,000$

Quick Ratio is 1.6

For every dollar you owe to someone else, you have \$1.60 in available cash to pay it off

Balance Sheet	
Cash	\$20,000
Short Term Investments	\$20,000
Accounts Receivable	\$5,000
Capital Assets	\$100,000
ASSETS	\$145,000
Accounts Payable	\$20,000
Retained Earnings (Owed to MoH)	\$5,000
Invested in Capital Assets	\$100,000
Unrestricted Funds	\$20,000
LIABILITIES	\$145,000

What you own

What you owe (even what you owe to yourself)



Audited Financial Statements

Area	What you are looking for...
Audit Opinion	<ul style="list-style-type: none">• Evidence is sufficient and appropriate• Financial statements present fairly, in all material respects the financial position of the organization
Exceptions (Qualified Opinion)	<ul style="list-style-type: none">• Organizations with fund-raising activity will always have one exception related to that activity
Responsibility of Management and Responsibility of Auditors	<ul style="list-style-type: none">• Common language in all financial statements
Financial Statements and Notes	<ul style="list-style-type: none">• Notes provide further explanation to the line they are associated with

South West Local Health Integration Network

Statement of operations

Year ended March 31, 2020

	Notes	2020 Actual \$	2019 Actual \$
Revenue			
MOH funding – transfer payments	13	2,268,768,270	2,216,982,370
MOH funding – operations and initiatives		231,048,594	239,670,725
Cancer Care Ontario	5	251,351	579,243
Amortization of deferred capital contributions	8	1,085,001	1,447,172
Other revenue		916,956	648,182
		233,301,902	242,345,322
Total revenue		2,502,070,172	2,459,327,692
Expenses			
HSP transfer payments	13	2,268,768,270	2,216,982,370
Operations and initiatives			
Contracted out			
In-home/clinic services		124,798,330	131,445,865
School services		7,180,164	8,305,925
Hospice services		4,375,000	4,130,000
Salaries and benefits		72,215,477	72,280,937
Medical supplies		10,928,374	10,337,505
Medical equipment rental		1,409,242	1,267,332
Supplies and sundry		9,124,967	10,574,499
Building and ground		2,275,306	2,750,479
Amortization		1,085,001	1,375,457
		233,391,861	242,467,999
Total expenses		2,502,160,131	2,459,450,369
Excess of expenses over revenue		(89,959)	(122,677)

The accompanying notes are an integral part of the financial statements.

Poll



THE BASICS

Project Budgeting



Project Budgeting

- What financial assumptions are you making?
 - All budgets contain a set of assumptions on which the financial picture is created
 - Helpful to be able to articulate and confirm/test the assumptions ahead of presenting the budget
- For Project budgeting this can include
 - Overall Financial Expectations
 - Revenue
 - Fixed Expenses
 - Variable Expenses
 - In-Kind Contributions

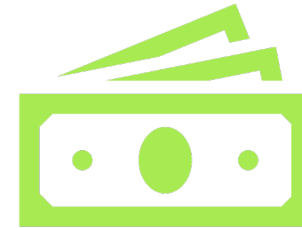
Two Helpful Ratios for Project Budgeting



Cost Per Participant

Helpful to know in terms of what to set cost of event

How to calculate: $\text{Total Expense} / \# \text{ of participants}$



ROI: Return on Investment

Use to evaluate the efficiency of the investment.

Helpful to determine which programs are more efficient (from a financial perspective)

How to calculate: $(\text{current investment} - \text{current expenses}) / \text{current expenses}$

FINANCE AND OPERATIONS



BUDGETING, PLANNING & FORECASTING



Planning – annual activity plan to move toward 3-5 year strategic goals



Budgeting – detailed expectation of revenues and expenses based on activity plan



Forecasting – using historical data to predict outcomes looking forward

MANAGING A DEPARTMENT BUDGET

- What is the plan behind the budget?
- How was it created
 - Carry over from previous year? % addition or reduction? From scratch?
- What are the “rules” and your authority and limitations?
 - E.g., are you allowed to go over in one expense line as long as your total expenses are on or under budget?
- Pay attention to monthly financial reports:
 - Comparison of actual to budget
 - Comparison of this year to last year
 - Comparison of plan to actual
 - Does time of year make a difference?
 - E.g., your budget is spread across a year evenly, but you have “seasonal” changes to activity.

TRADE-OFFS AND CONSEQUENCES

- **Unintended Consequences**

- Will people behave the way we expect them to when we make this change?
- Are we just passing costs on to another department or organization by making this change?

- **If we do “X” how does it impact “Y”**

- E.g., If we open a mental health walk-in clinic that supports people “in the moment” do we have capacity to take on people who are identified that need our longer-term services?

- **Short-Term vs. Long-Term**

- Are we spending money now that will save money in the future (think ROI)
- Are we saving money now that will cost money in the future?

<https://www.econlib.org/library/Columns/y2007/Whitmanincentives.html>

Article on Unintended Consequences



Heuristics for Budgeting (Rules of Thumb)

Check with your accounting department if there are more accurate rules of thumb specific to your organization.



- Adding a person/shift
 - Full-time 9-5 = 1.0FTE
 - 24/7 = 4.2FTE
 - Replacement = +10%
 - Benefits = 15-25%
- Ancillary Operating Costs
 - Things that will go up relative to people/volume
 - Direct Supplies
 - Indirect Supplies
 - Mileage
 - You can use a percentage for this (if you have 10 people and are adding a person – these costs will go up by 10%)
- Fixed Costs
 - What additional equipment/furniture is needed per person?
 - Furniture?
 - Computer? Printer? Software Licenses?
 - Position specific equipment?
 - Does your organization have an “average cost” you can use for each of these?
- Other Departments
 - Will adding a person/activity add any costs to other departments?
 - Unintended Consequences such as a 10% increase in staff may result in a 10% increase in activity in the scheduling department – do they have capacity?



Reflection Questions – Post Webinar – for Certificate Participants

Due by the next webinar – February 28, 2022 (12pm)

Maximum 3 pages

Email to webinars@cfoe.ca

More detailed instruction will be available tomorrow following the webinar

1. Review the annual financial statements from your organization (or an organization in your sector that publicly posts their financial statements). What do you see in those financial statements that helps you understand the organization better?
2. What is a project or change that you would like to see your organization take on? Using the project financial tool, complete a financial analysis of the project. (use estimates and “rules of thumb” for numbers if you need to, it is more about practicing with the tool than coming up with the perfect “bottom line”, unless you are actually planning on proposing the project – in which case, the more accurate the better!)

How are you leaving today?

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Thank you!