

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."

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



Why money?

A whiteboard filled with hand-drawn business diagrams, charts, and text. The drawings include various graphs like line graphs, bar charts, and pie charts, along with organizational charts, flowcharts, and circular diagrams. Key words like 'IDEA', 'PLAN', 'PROGRESS', 'MANAGEMENT', 'OPTIONS', 'SUCCESS', 'NEXT', 'START', 'MAX', 'UP', and 'DOWN' are scattered throughout. The overall theme is business strategy and financial analysis.

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 |
| -Expenses | \$45,000 |
| Net Income | \$5,000 |

What you received

What you spent

| Balance Sheet | |
|---------------------|------------------|
| Cash | \$10,000 |
| Investments | \$30,000 |
| Accounts Receivable | \$5,000 |
| Capital Assets | \$100,000 |
| ASSETS | \$145,000 |

What you own

| | |
|---------------------------------|------------------|
| 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 owe (even what you owe to yourself)

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 |
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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

A black and white photograph of a desk setup. In the top left, a smartphone lies on its back. Next to it is a pencil. To the right is an open notebook with a pair of glasses resting on its pages. Below the notebook is a white keyboard. In the bottom right corner, a white coffee cup filled with dark liquid sits on a matching saucer. The background is a dark, textured surface.

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

Project Budgeting Template

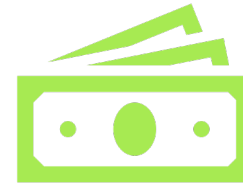
Two Helpful Ratios for Project Budgeting



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

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!)

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Thank you!



CENTRE FOR ORGANIZATIONAL
EFFECTIVENESS.