

FINANCIAL INDICATORS FOR ACADEMIES

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School principals and business managers, board members and chairpersons, are all called upon to make important decisions about the school, based on their understanding of organizational finances. Good decisions require reliable financial data. The challenge is sorting through copious details to find key information that reveals organizational health and financial trends.

If vital information could be reduced to a few, simple percentages, more individuals would be able to quickly understand the overall situation and participate in decision-making. Financial ratios are designed to be the indicators that fulfill this need. A financial ratio is “the relationship between two numbers drawn from the organization’s balance sheet, operating statement, and related records.” By combining two numbers, a third, more useful data point is created.

In a school setting, ratios are designed to show, in simple terms, the financial strength of the school, its reliance on specific sources of funding, and the percentage of that funding needed for major categories of expense. The great strength of financial ratios is that it adjusts for the effects of time and across organizations. This allows comparisons across schools and over time. Regular school reports should consistently report a few key indicators with graphs that highlight the change in indicators with previous fiscal periods.

The ratios most in academy financial reports are the Current Ratio, the Liquidity Ratio and the Percentage of Required Working Capital Ratio. Although useful, these don’t reveal the whole financial picture. Other areas of academy operations overlooked are the demand and contribution ratios, such as personnel resource allocations; dependence on student financial aid; plant operation and maintenance costs; and conference subsidies.

A word of caution; financial ratios enhance our stewardship by improving decisions, but they are only one of many methods of financial analysis. Ratios can be misleading especially when used to compare a school with “national norms.”

Sample Financial Ratio Indicators for Adventist Academies

Conference, Union Conference and North American Division financial leaders have been urging the use of good financial ratio indicators for more than two decades. Recently, an NAD Education Taskforce recommended that a consistent set of such indicators be created into a “financial dashboard.” The idea being that better information will lead to better informed decisions in challenging times. For now, we’ll share several types of ratios that should be used consistently in Adventist academies. These ratios are a sampling of what could be helpful to bring understanding to school leaders entrusted with the responsibility for sound financial management and strategic planning.

Balance Sheet Ratios

- Liquidity Ratio
- Current Ratio
- Percentage of Required Working Capital
- Percentage of Receivables to Operating Fund Balance
- Debt Percentage
- Percentage of Operating Fund Balances to Earned Operating Income

Operating Ratios

- Expenses per day
- Days of Cash
- Percentage of Net Income to Total Earned Income
- Percentage of Operating Expense to Total Earned Income
- Accounts Receivable Turnover

Contribution Ratios

- Tuition to Operation Expense Ratio
- Conference Subsidy to Operating Expense Ratio
- Endowment and Investment Income to Operating Expense Ratio

Demand Ratios

- Personnel Costs to Total Income Ratio
- Plant Operation/Maintenance to Total Income Ratio
- Scholarship to Tuition Income Ratio
- Instructional Personnel Costs to Tuition Income Ratio
- Student Labor (On-Campus) to Total Student Income Ratio
- Employee Allowances/Benefits to Total Personnel Costs Ratio

**Seventh-Day Adventist Academy
Financial Indicators
June**

| | <u>June 20X0</u> | <u>June 19X9</u> | |
|---|------------------|------------------|--|
| Balance Sheet Ratios | | | |
| Liquidity Ratio (Cash + Investments + A/R Higher Organizations) / (Current Liabilities + Unallocated & Allocated Operating Fund Balances) | 0.486 | 0.128 | Measures ability to repay debts that are due within one year using its available cash resources |
| Current Ratio (Total Current Assets / Total Current Liabilities) | 7.218 | 7.879 | Measures ability to repay debts that are due within one year, using its available cash and other assets easily converted into cash |
| Working Capital (Current Assets - Current Liabilities) / Recommended Working Capital NAD Policy) | 100% | 108% | Determine if adequate resources will be available for effective operation of the academy |
| Percentage of Receivables to Operating Fund Balance ((A/R + Notes and Loans Receivable) / Unallocated and Allocated Operating Fund Balances) | 58.49% | 45.63% | Amount of credit extended by the academy to students and other debtors |
| Debt Percentage (Total Operating Liabilities / Unallocated & Allocated Operating Fund Balances) | 50.39% | 29.77% | Shows the degree of relative freedom from creditors demanding repayment of debts |
| Operating Fund Balances to Earned Operating Income (Unallocated & Allocated Operating Fund Balances / Earned Operating Income Generated) | 16.10% | 20.86% | Shows operating viability of the academy with its ability to generate income |
| Operating Ratios | | | |
| Expenses per Day (Total Operating Expense / Number of Days in Period) | \$ 5,900 | \$ 5,601 | Shows average expenses per day, within a given year |
| Days of Cash & Investments Available for Expenses (Cash & Investments / Expenses per Day) | 35 | 11 | |
| →Accounts Receivable Turnover (365 Days / ((Net Student Income / Average A/R from Students)) | 116 | 110 | Determines average number of days it takes to collect accounts due from students and other debtors |
| Percentage of Operating Expense to Total Earned Income (Total Operating Expense / Earned Operating Income) | 98.77% | 92.28% | Percentage of expenses that is covered by the income the academy generates |
| Percent of Income to Budget ((Total Income - Budgeted Income) / Budgeted Income) | 4.28% | 2.45% | |

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|---|--------|--------|---|
| Percent of Expenses to Budget ((Total Expenses - Budgeted Expenses) / Budgeted Expenses) | 7.62% | 0.58% | |
| Percent of Fund Balance Change from Year-end: ((Current Net Assets - Prior Net Assets at Year-end) / Prior Net Assets at Year-end) | 9.88% | 9.35% | Compares fund balance changes from prior year-end |
| Demand Ratios | | | |
| Percentage of Salary & Benefits Expenses to Income Ratio (Employee Salary & Benefits (exclude Student Labor) / Total Operating Income) | 49.25% | 48.88% | Shows percentage of income is spent on Employee Salary & Benefits |
| Operation and Maintenance of Plant to Income Ratio (Total Plant Operation and Maintenance Costs / Total Income) | 15.39% | 15.79% | Show percentage of Total Income spent on Plant Operation and Maintenance |
| Campus Student Labor to Total Student Income Ratio (Campus Student Labor / Total Tuition & Fees) | 30.39% | 28.98% | Shows the extent to which Total Student Income returns to students in the form of campus student labor. |
| Scholarship to Tuition Income Ratio (Scholarships & Financial Aid / Total Tuition and Fees) | 6.07% | 5.92% | Gives an indication of the level of Financial Aid |

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|--|---------------------|---------------------|---------------------------|--|
| BOTTOM LINE INCR (DECR) IN NET ASSETS | \$20,478 | \$28,975 | OPERATING FUND | |
|--|---------------------|---------------------|---------------------------|--|