

Communicating Financial Matters:

Expectations of the School Business Officer

BY DAVE C. LAWRENCE

When people are asked what a K-12 business officer does, they probably think of accounting, budgeting, cash flow, facilities, risk management, and payroll. However, at the heart of his or her work is the responsibility of balancing the core business of instruction with the fiscal operation of the school. Because he or

she serves many publics (students, teachers, parents, administrators, boards, local businesses, colleagues, and regulatory agencies), it is not surprising that the school business officer often shoulders a heavy load of expectations. To be an effective team member, the school business officer must be acutely aware of the expectations of the office and skillfully craft his or her responses to the different audiences served.



The business officer is responsible for every aspect of the school's fiscal operations: developing the budget, monitoring cash flow, and reporting about the school's financial situation to administrators and the school board. These responsibilities must be effectively accomplished while adhering to high ethical standards. Accountability to the governing board and strict scrutiny by external financial auditors help ensure professional and ethical standards.

The expectation of all, even those who are not quite clear about the role of the school business officer, is that he or she will consistently behave in a principled way.

Financial Reporting

The most important responsibility of the school business officer is to effectively communicate financial information to the school's constituency. He or she must interpret complex financial information for school administrators and constituents. This is a challenging task in the best of times. In bad times, effective communication is both more difficult and more vital. A bad financial year, for example, often has little to do with poor planning and a lot to do with the lack of effective communication. Those charged with making strategic decisions for the school must be armed with clear, concise, and relevant information about the school's finances.

It is best for the role of school business officer to be performed by trained individuals whose primary focus is the financial administration of the school. In smaller schools, particularly at the K-8 level, the school business officer may be a volunteer from the local church or someone who also serves as principal. Though dedicated, these workers often possess more will than skill. The governing board must be proactive in making sure that the business officer takes advantage of professional development opportunities. The training should extend beyond accounting techniques to effective communication of financial matters.

Financial reporting does not have to be boring or laden with jargon. Simply communicating accurate financial information is not enough. Imagine sitting at a school board meeting and hearing the fol-



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lowing: "The excess of actual over budgeted expenditure on HVAC consumption for P02 of FY07-08 compared to FY06-07 is consistent with the projected budget deficit due to cyclical variations in consumption

which is known to inflate related costs." This is quite likely an accurate statement. However, it is not effective communication because it is loaded with jargon and gibberish. The average board member simply will



not understand what the financial officer is talking about.

This kind of talk causes listeners to lose concentration, day-dream, and drift off on “mental vacations” during the presentation of financial reports. It may even keep them from listening carefully to subsequent presentations. And it may cause board members to make significant decisions without adequate information. In the end, the core mission of the school is compromised, and everyone loses.

Effective Communication Is Good Business

Increased scrutiny of non-profit financial reporting by regulatory agencies and external financial auditors has added many layers of complexity to financial reports. Schools have not escaped the consequences of highly publicized U.S. scandals that have scarred the public accounting profession in recent years. School business officers are being held to new and increasingly stringent standards for reporting their work to constituencies.

Even for small institutions, simple and effective communication is good business. Private and parochial schools must be sensitive to the need for effective communication: Their livelihood comes from precisely articulating a mission that persuades patrons to enroll their students and pay significant amounts of tuition. Donors and volunteers are motivated to get involved and give when the financial story of the school is accessible and clear.

Constituents of private non-profit educational institutions are increasingly demanding to know how their contributions and tuition dollars are being spent. School financial reports can provide insight into the answers to questions they are asking. Here are some questions that a top-rate financial report should seek to answer:

- Is the organization carrying out its mission in a fiscally effective and efficient manner?
- What portion of tuition and contribution dollars is being used directly in mission-focused programs?
- Does the organization have enough assets in reserve to maintain its program if a financial crisis arises?

Supporters of private non-profit schools are perhaps the most important users of the organizations' financial reports. They expect concise, accurate, yet clear financial reports on the fiscal efficiency and effectiveness of the school. The data reported to the school administration and board should be reliable and comparable. A clearly communicated financial report will produce many positive dividends for the organization, including a boost to its bottom line.

What Should Be Communicated in Financial Reports?

There is no ironclad rule about what should be communicated in financial reports, especially for private schools. The expectations of administrators and boards will often dictate their content. The school business officer's awareness of these needs will enhance the effectiveness of his or her communication with the administrators and the school board and will drive the design of the financial report.

A financial statement must clearly communicate the fiscal health of the organization. The school business officer

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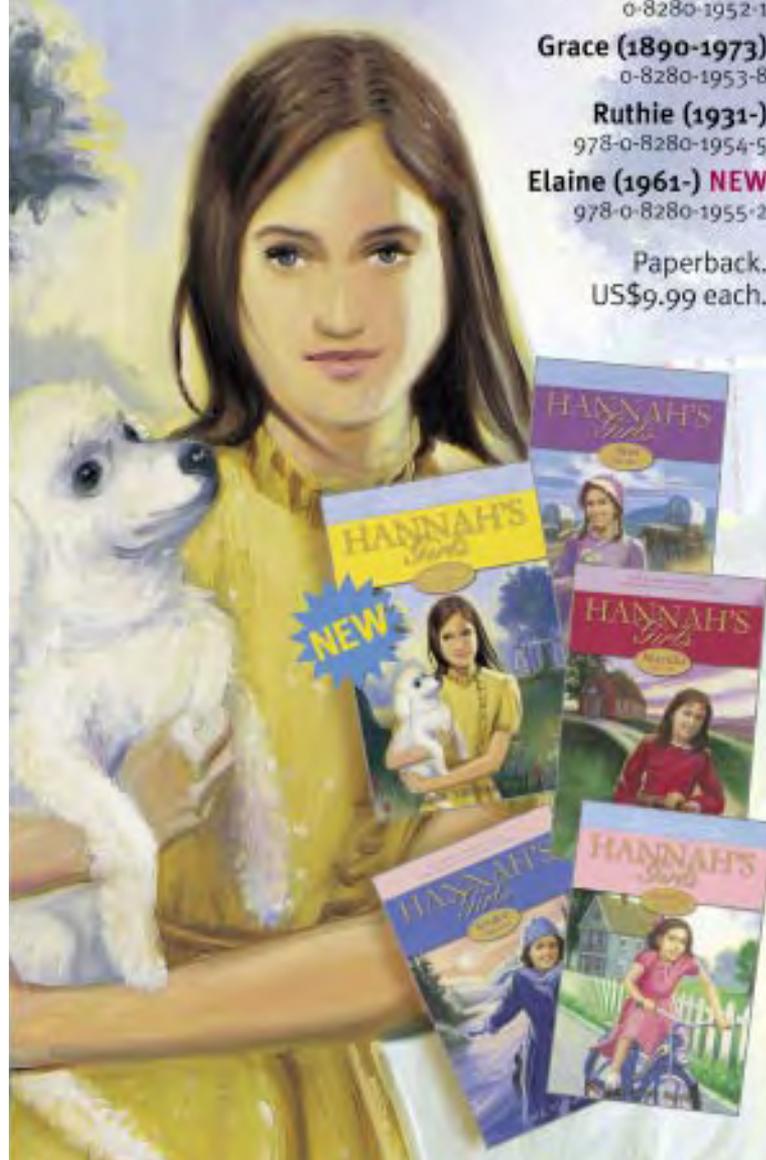
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needs to translate the statement into everyday language, keeping in mind the need of the users. The raw data, no matter how well constructed, will need interpretation to make it accessible to administrators, boards, and donors. The objective is to make the statement user-friendly.

While there is no catechism or edict of financial reporting practices or standards, there are inventories of best practices that have been developed through observation, practice, and consensus. In a vast majority of cases, the question to be answered in deciding on the “how” and “what” of financial reporting is this: What is the condition of the organization’s financial health? This can be sub-

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fective, these elements must be reported and discussed in very clear language. Financial statements already have enough numbers for users to contend with. To make them more user-friendly, the business manager can develop a narrative report form to present along with the financial statement.

Financial Statement Narratives

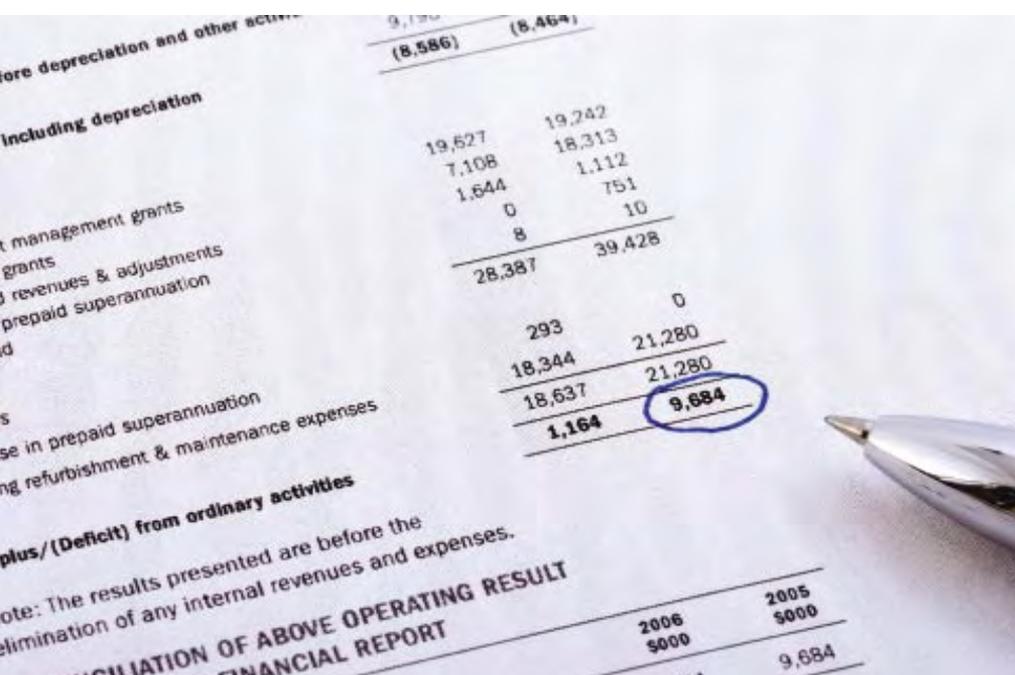
The fundamental reason for assessing a school’s financial performance is to determine how well it is fulfilling its core mission. Simply reporting cash flow is not suf-

- Discloses events or uncertainties that might have had an impact on the reported financial information.
- Helps administrators and the board understand the school’s financial condition, changes in financial condition, and the results of operations.
- Enables users of the financial statements to see the organization through the eyes of those responsible for day-to-day operations and provides a context for the financial statements.
- Clearly and concisely communicates relevant information from the school business officer to the school’s administration and school board.
- Should rarely ever be more than one page in length.

Sample Narrative – Ragged Mountain Academy

Narratives come in different forms and can be transmitted in various ways. The heterogeneity of schools, including classification, access to financial resources, and size, means that different kinds of financial statement narratives will be beneficial for different types of institutions. For example, consider the case of Ragged Mountain Academy (RMA), a fictitious K-12 academy that has risen from near bankruptcy to relative solvency in just a few years. The school business officer at RMA has chosen to do a one-page narrative that combines text and numeric highlights (Figure 1). This format is designed to serve the needs of the board as expressed in interviews with the school’s administration and board members. From their perspective, three things are important: bottom-line performance compared to budget, adequacy of financial resources, and the indebtedness of students and constituent churches. An array of historical events at the school has influenced these concerns. The board believes that insight about these three areas will equip them to make wise decisions.

By combining a verbal description and numeric highlights, the report meets the needs of those who are mathematically oriented as well as those who prefer to read



divided into two categories: efficiency and adequacy.

- *Efficiency* – getting the most output from the least amount of financial resources. For example, how much is it costing to educate each student? How much does it cost to generate one donated dollar?
- *Adequacy* – The financial resources of a school directly influence the quality of its educational program. The school must possess or be able to obtain adequate financial resources to support its core programs and further its mission.

In order for the communication to be ef-

ficient. The raw financial numbers cannot answer this important question. Through his or her presentation of the financial report, the school business officer can provide additional insight into the sources of funding, the cost of educating students, and the school’s ability to continue its operations.

A short narrative should highlight what a financial statement does and does not show. A well-written narrative:

- Shows important trends and risks that have shaped the school in the past or are likely to do so in the future.

Figure 1

Ragged Mountain Academy

Summary of Financial Report

June 30, 2007

SUMMARY OF INCOME AND EXPENSE

The school year 2006-2007 ended on a positive note. The previous year's net loss has been erased, and we have added \$55,000 to the bottom line. This was possible despite the fact that we were significantly over budget in all expense areas. Financial assistance from both church and conference is to be credited for the positive conclusion to the fiscal year. Each year, the conference pays more than \$600,000 in expenses on behalf of the academy. To make our financial statement accurate, we recorded this activity both as income and expense; hence the increase in subsidy income as well as payroll expense. The non-payroll expense increase of \$133,000 is due to summer maintenance projects that were incurred before the end of the fiscal year.

SUMMARY OF LIABILITY AND CASH POSITIONS

The school's cash position is 78.5 percent higher, compared to the same period last year. This is a reflection of a calendar anomaly that caused July 1 to be a payday. Much of the restricted cash is for unfunded payroll salaries, taxes, and other expenses. The calendar anomaly also accounts for the unusually high liabilities when compared to the same period last year. The June 30

cash includes advance payments made on students' accounts for registration fees, comprehensive fees, and summer school. In all, the organization's operating expenses for the year were covered by funds generated during the same year. This translates to the main-

tenance of a debt-free position and a positive cash flow. Funds reserved for summer payroll and other expenses stand at \$380,625, which is adequate. Comparing what we owe to our cash position, we have enough funds to cover all our outstanding bills as of the statement date.

ACCOUNTS RECEIVABLE AGING REPORT

Amounts owed by current students represent less than 1 percent of total tuition billed for the fiscal year. It is also 32 percent lower than the same period last year. Amounts owed by past students increased somewhat and have already been placed into Phase II collection mode. We continue to be impressed by the participation of our constituent churches, which have kept up with their account balances and in some cases have increased their subsidies. The new church subsidy plan is obviously working, and we are grateful for our partnership in preparing young people for the kingdom of heaven.

Income	Budget	Actual
Tuition & other income	\$2,791,905	\$2,979,261
Church subsidy	292,686	310,532
Conference subsidy	628,558	1,265,885

Expense	Budget	Actual
Tuition & other income	\$2,791,905	\$2,979,261
Church subsidy	292,686	310,532

Liabilities	2006/07	2005/06
Student credits	\$34,101	\$14,647
Due to conference office	16,483	8,196
Unpaid payroll exp.	109,457	96,925
Due to clubs/orgs	58,194	40,913
Due to vendors	71,416	76,492
Other misc. bills	52,601	28,069
	\$342,252	\$265,242

Cash	2006/07	2005/06
Operating cash	\$174,075	\$56,495
Agency funds	58,194	40,913
Summer reserves	380,625	161,717
Restricted cash	432,155	326,251
	\$1,045,049	\$585,376

	Current	30-60	60-90	90+	2005/06	2004/05
Current students	13,181	2,564	2,259	8,391	26,395	38,740
Past students	0	930	571	35,940	37,441	20,669
Churches, other	5,821	1,960	0	26,780	34,561	61,304

text. This narrative is the cover sheet of a four- to five-page financial report that is handed out to the board. The additional pages are the basic financial statements: balance sheet, income statement, cash flow, and any other statements that might be relevant to the school, e.g., an investment earnings report.

There are three parts to this narrative; each is equally important but reveals a different aspect of the financial health of the school.

Summary of Income and Expense

The income statement (or Statement of Activities and Changes in Net Assets) is



to show whether the school was profitable during the period of time covered by the report. The income statement may be for a month, a quarter, year-to-date, or for the entire year. It summarizes this very important report in plain English, free of accounting jargon. Everyone can understand what is meant by “a positive note,” for example. The narrative does more than comment on the numbers; it provides context by explaining material variances and by anticipating questions board members may ask. For example, why would the school budget for conference subsidy be only half of the actual subsidy received? The narrative anticipates this question and provides the answers. Or, why are the budget payroll expenses \$600,000 over projections? Any irregularities or material variances in the income statement line items should be anticipated and explained in this section.

Summary of Liability and Cash Position

This section reports on the balance sheet

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(or Statement of Financial Position). A balance sheet is a “snapshot” of the school’s financial condition on a given date, typically the end of a semester or fiscal year. Users of the financial report look at this section of the narrative to find out if the school is financially able to meet its obligations. For example, a positive statement would show cash balances that exceed current debts. Where shortfalls are noted, the school business officer should disclose the contributing factors. In much the same way that shortfalls will cause concerns, windfalls should raise questions. For RMA, the cash position at year end was twice as good as the previous year end. The accumulation of cash is generally good but could also mean that vital services were not provided

as planned; hence, an explanation of the excess cash is warranted in this narrative section.

Accounts Receivable Aging Report

While the previous two sections of the narrative are really requirements, this section on receivables is optional. Replacement reports might include an enrollment report, fund-raising reports, investment report, or building projects report. The receivables aging report is very important to the RMA board. High levels of receivables mean that amounts billed for tuition and subsidies have not been received by the school. Two primary sources of income are highlighted: students and churches. The school operates on an accrual accounting system. This means that when students and churches are billed for tuition and subsidy respectively, the billed amounts are immediately recognized as income. However, it may take time for payments to come in. The receivables aging report tracks the outstand-

ing balances and indicates how many days it has been since the bills were sent out to students and churches. This information is generally not readily accessible from even the best-prepared financial statements.

In order to enhance comprehension, it may be helpful to show how statements are linked. An income statement alone, for example, is grossly inadequate to reveal the availability of current resources. A school that conducts financial recordkeeping on an accrual basis will report tuition revenue as billed (without regard for collected portions of the billed amounts). In this case, it would be necessary to look at the income statement in conjunction with the balance sheet or a receivables aging report. Alternately, a school might choose to report as income only cash that is received by the treasury. Users of the statements need to know the accounting basis used in order to get a complete picture. It is the duty of the school business officer to help users understand the nuances of statement interpretation and reporting.

Conclusion

Now, more than ever, financial reporting is vital to the existence of organizations, especially private non-profit schools. The business officers in these schools are held to very high expectations in this regard. The school business officer must clearly and concisely communicate school financial information. This can be achieved by combining a narrative with financial statements, and making sure it is written in plain language, free of accounting jargon. The narrative highlights and explains important information in the financial statements that would be inaccessible to the untrained eye. Everyone will benefit from effective communication of financial information, and the school’s fiscal position will be enhanced. ✍



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