



## Use of Financial Statements ICA Directors' Training Conference

Cheryl Clauson, August 15, 2024



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## Financial Responsibilities of a Board

1. Hiring and overseeing senior management
2. Financial oversight
3. Review and approve operating budgets
4. Establishing financial goals and objectives

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## Financial Oversight

- Protect the organization's financial status to meet its obligations
- Review financial documents, budgets and policies
- Establish and review financial controls
  - Adequate segregation of duties (or other controls to mitigate risks)
- Conduct annual audits or reviews
- Monitor financial transactions to safeguard assets

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## Financial Oversight

- Don't necessarily need a strong financial background
- Have an understanding of basic terminology
- Be able to review and understand financial statements to be comfortable asking questions about them

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## Monitor Financial Performance

- Financial statements measure financial health based on assets, liabilities, revenue, expenses and profitability
  - Balance Sheet
  - Income Statement
  - Cash Flow Statement
- Financial indicators are also used to assess financial health and growth potential
  - Numerous financial ratios showing liquidity, profitability and leverage
  - Current ratio, quick ratio, working capital, return on assets, return on equity, etc.

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## Financial Statements Tell a Story

- Statements frequently show at least two years of data (comparative)
- Read the story
  - Identify trends
  - See impact of recent decisions
  - Make strategic changes, if necessary

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## Balance Sheet

- Summary of financial condition at a specific point in time
  - Assets
  - Liabilities
  - Equity (Net Worth)

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## Balance Sheet *(at a specific point in time)*

Assets

*What the company owns*



=

Liabilities and Equity

*What the company owes and the remainder  
(net worth)*

*Assets are purchased with either liabilities  
(debt) or equity (internally generated funds)*


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### Working Capital

	2023		2023
<b>Current Assets</b>		<b>Current Liabilities</b>	
Cash and cash equivalents	\$ 5,200,000	Current maturities of long-term debt	\$ 950,000
Certificates of deposit	2,100,000	Accounts payable:	
Debt securities held-to-maturity	1,225,000	Network access	7,000
Accounts receivable:		Other	700,000
Due from customers	20,000	Customer deposits	10,000
Network access	250,000	Deferred grant revenue	25,000
Other	125,000	Accrued taxes	75,000
Prepaid income taxes	250,000	Other	125,000
Interest receivable	95,000		
Materials and supplies	550,000		
Inventory	100,000		
Prepayments	175,000		
	10,090,000		1,892,000




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### Working Capital

	2023		2023
<b>Current Assets</b>		<b>Current Liabilities</b>	
Cash and cash equivalents	\$ 1,200,000	Current maturities of long-term debt	\$ 2,500,000
Certificates of deposit	1,000,000	Accounts payable:	
Debt securities held-to-maturity	500,000	Network access	6,000
Accounts receivable:		Other	2,700,000
Due from customers	20,000	Customer deposits	50,000
Network access	250,000	Deferred grant revenue	25,000
Other	125,000	Accrued taxes	75,000
Prepaid income taxes	250,000	Other	125,000
Interest receivable	95,000		
Materials and supplies	550,000		
Inventory	100,000		
Prepayments	175,000		
	4,265,000		5,481,000




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## Leverage

<b>Liabilities and Members' Equity</b>		<b>2023</b>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$	950,000
Accounts payable:		
Network access		7,000
Other		700,000
Customer deposits		10,000
Deferred grant revenue		25,000
Accrued taxes		75,000
Other		<u>125,000</u>
		<u>1,892,000</u>
<b>Long-term Debt</b>		<u>13,500,000</u>
<b>Other Noncurrent Liabilities</b>		
Deferred income taxes		2,500,000
Deferred grant revenue		<u>465,000</u>
		<u>2,965,000</u>
<b>Members' Equity</b>		
Patronage capital assigned		18,000,000
Educational fund		230,000
Contingencies		575,000
Patronage capital assignable		5,365,000
Unassigned margins		<u>23,728,000</u>
		<u>47,898,000</u>
<b>Total liabilities and members' equity</b>	<b>\$</b>	<b><u>66,255,000</u></b>

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## Leverage

<b>Liabilities and Members' Equity</b>		<b>2023</b>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$	2,950,000
Accounts payable:		
Network access		7,000
Other		700,000
Customer deposits		10,000
Deferred grant revenue		25,000
Accrued taxes		75,000
Other		<u>125,000</u>
		<u>3,892,000</u>
<b>Long-term Debt</b>		<u>38,500,000</u>
<b>Other Noncurrent Liabilities</b>		
Deferred income taxes		2,500,000
Deferred grant revenue		<u>465,000</u>
		<u>2,965,000</u>
<b>Members' Equity</b>		
Patronage capital assigned		14,000,000
Educational fund		230,000
Contingencies		575,000
Patronage capital assignable		4,365,000
Unassigned margins		<u>1,728,000</u>
		<u>20,898,000</u>
<b>Total liabilities and members' equity</b>	<b>\$</b>	<b><u>66,255,000</u></b>

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## Income Statement

- Financial document showing revenues and expenses over a given period (monthly, quarterly, annually)
- The 'bottom line' of the statement is the net income/margins for the given period

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## Income Statement

- Operating Revenues
  - Presentation of revenues into major categories
  - Revenues are a direct result of what you are in the business to do
- Operating Expenses
  - Presentation of expenses into major categories
  - Expenses incurred to generate the operating revenues
- Operating Income/Margins

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## Income Statement

- Other Income (Expense)
  - Record of the results of transactions, events and other circumstances affecting the company which are 'nonoperational' in nature
- Income Taxes
  - Cooperative – tax associated with non-member business and nonoperating income
  - C-corp – tax associated with current period's operations
- Net Income/Margins

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## OIBDA (Operating Income Before Depreciation and Amortization)

	2023	2022
<b>Operating Revenues</b>		
Local network services	\$ 400,000	\$ 445,000
Network access services	4,200,000	4,100,000
Long distance services	100,000	105,000
Internet services	1,900,000	1,650,000
Video services	1,400,000	1,575,000
Miscellaneous revenue	95,000	110,000
	<u>8,095,000</u>	<u>7,985,000</u>
<b>Operating Expenses</b>		
Plant specific operations	1,250,000	1,200,000
Plant nonspecific operations	250,000	275,000
Cost of long distance services	45,000	60,000
Cost of internet services	515,000	505,000
Cost of video services	1,450,000	1,560,000
Depreciation	2,800,000	2,600,000
Customer operations	625,000	580,000
Corporate operations	975,000	925,000
General taxes	60,000	45,000
	<u>7,970,000</u>	<u>7,750,000</u>
<b>Operating Margins</b>	<u>125,000</u>	<u>235,000</u>
<b>OIBDA</b>	<u>2,925,000</u>	<u>2,835,000</u>

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## OIBDA

	2023
<b>Operating Revenues</b>	
Local network services	\$ 400,000
Network access services	4,200,000
Long distance services	100,000
Internet services	1,900,000
Video services	1,400,000
Miscellaneous revenue	95,000
	<u>8,095,000</u>
<b>Operating Expenses</b>	
Plant specific operations	1,350,000
Plant nonspecific operations	275,000
Cost of long distance services	50,000
Cost of internet services	525,000
Cost of video services	1,500,000
Depreciation	2,800,000
Customer operations	650,000
Corporate operations	1,000,000
General taxes	60,000
	<u>8,210,000</u>
<b>Operating Margins</b>	<u>(115,000)</u>
<b>OIBDA</b>	<u>2,685,000</u>

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## OIBDA

	2023
<b>Operating Revenues</b>	
Local network services	\$ 300,000
Network access services	3,400,000
Long distance services	100,000
Internet services	1,400,000
Video services	1,150,000
Miscellaneous revenue	75,000
	<u>6,425,000</u>
<b>Operating Expenses</b>	
Plant specific operations	1,600,000
Plant nonspecific operations	350,000
Cost of long distance services	100,000
Cost of internet services	600,000
Cost of video services	1,400,000
Depreciation	2,800,000
Customer operations	800,000
Corporate operations	1,500,000
General taxes	100,000
	<u>9,250,000</u>
<b>Operating Margins</b>	<u>(2,825,000)</u>
<b>OIBDA</b>	<u>(25,000)</u>

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<h2 style="color: #0070C0;">TIER (Times Interest Earned)</h2> <p style="text-align: center;"> <u>Net Margins + Interest Expense</u>                      Interest Expense                 </p>  $  \frac{5,365,000 + 445,000}{445,000} = 13.056  $	<table border="0" style="width: 100%;"> <tr> <td colspan="2"><b>Operating Revenues</b></td> <td style="text-align: right;"><b>2023</b></td> </tr> <tr> <td>Local network services</td> <td style="text-align: right;">\$ 400,000</td> <td></td> </tr> <tr> <td>Network access services</td> <td style="text-align: right;">4,200,000</td> <td></td> </tr> <tr> <td>Long distance services</td> <td style="text-align: right;">100,000</td> <td></td> </tr> <tr> <td>Internet services</td> <td style="text-align: right;">1,900,000</td> <td></td> </tr> <tr> <td>Video services</td> <td style="text-align: right;">1,400,000</td> <td></td> </tr> <tr> <td>Miscellaneous revenue</td> <td style="text-align: right;">95,000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>8,095,000</u></td> <td></td> </tr> <tr> <td colspan="2"><b>Operating Expenses</b></td> <td></td> </tr> <tr> <td>Plant specific operations</td> <td style="text-align: right;">1,250,000</td> <td></td> </tr> <tr> <td>Plant nonspecific operations</td> <td style="text-align: right;">250,000</td> <td></td> </tr> <tr> <td>Cost of long distance services</td> <td style="text-align: right;">45,000</td> <td></td> </tr> <tr> <td>Cost of internet services</td> <td style="text-align: right;">515,000</td> <td></td> </tr> <tr> <td>Cost of video services</td> <td style="text-align: right;">1,450,000</td> <td></td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">2,800,000</td> <td></td> </tr> <tr> <td>Customer operations</td> <td style="text-align: right;">625,000</td> <td></td> </tr> <tr> <td>Corporate operations</td> <td style="text-align: right;">1,000,000</td> <td></td> </tr> <tr> <td>General taxes</td> <td style="text-align: right;">60,000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>7,995,000</u></td> <td></td> </tr> <tr> <td colspan="2"><b>Operating Margins</b></td> <td style="text-align: right;"><u>100,000</u></td> </tr> <tr> <td colspan="2"><b>Other Income (Expense)</b></td> <td></td> </tr> <tr> <td>Interest and dividend income</td> <td style="text-align: right;">1,500,000</td> <td></td> </tr> <tr> <td>Allowance for funds used during</td> <td style="text-align: right;">35,000</td> <td></td> </tr> <tr> <td>Interest expense</td> <td style="text-align: right;">(445,000)</td> <td></td> </tr> <tr> <td>Equity earnings</td> <td style="text-align: right;">6,200,000</td> <td></td> </tr> <tr> <td>Gain (loss) on investments</td> <td style="text-align: right;">785,000</td> <td></td> </tr> <tr> <td>Other, net</td> <td style="text-align: right;">(10,000)</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>8,065,000</u></td> <td></td> </tr> <tr> <td colspan="2"><b>Margins Before Income Taxes</b></td> <td style="text-align: right;">8,165,000</td> </tr> <tr> <td colspan="2"><b>Income Tax Expense</b></td> <td style="text-align: right;"><u>2,800,000</u></td> </tr> <tr> <td colspan="2"><b>Net Margins</b></td> <td style="text-align: right;"><u>\$ 5,365,000</u></td> </tr> </table>	<b>Operating Revenues</b>		<b>2023</b>	Local network services	\$ 400,000		Network access services	4,200,000		Long distance services	100,000		Internet services	1,900,000		Video services	1,400,000		Miscellaneous revenue	95,000			<u>8,095,000</u>		<b>Operating Expenses</b>			Plant specific operations	1,250,000		Plant nonspecific operations	250,000		Cost of long distance services	45,000		Cost of internet services	515,000		Cost of video services	1,450,000		Depreciation	2,800,000		Customer operations	625,000		Corporate operations	1,000,000		General taxes	60,000			<u>7,995,000</u>		<b>Operating Margins</b>		<u>100,000</u>	<b>Other Income (Expense)</b>			Interest and dividend income	1,500,000		Allowance for funds used during	35,000		Interest expense	(445,000)		Equity earnings	6,200,000		Gain (loss) on investments	785,000		Other, net	(10,000)			<u>8,065,000</u>		<b>Margins Before Income Taxes</b>		8,165,000	<b>Income Tax Expense</b>		<u>2,800,000</u>	<b>Net Margins</b>		<u>\$ 5,365,000</u>
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<h2 style="color: #0070C0;">Use of Budgets</h2> <ul style="list-style-type: none"> <li>• Creating financial stability by tracking expenses and following a plan</li> <li>• Managing spending habits to save money</li> <li>• Make better financial decisions and achieve long-term goals</li> <li>• Enhance the success of any financial undertaking</li> <li>• Balance expenses with income</li> </ul>	
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## Establishing Financial Goals and Objectives

- Setting goals and objectives creates a roadmap to help identify and manage risk, gain employee buy-in, boost performance and execute strategy
- Typically include targets for revenue, profitability, cash flow and financial stability

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QUESTIONS????

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