



**Office for People With  
Developmental Disabilities**

# **OPWDD Financial Sustainability Metrics**

September 18, 2017

# Fiscal Reporting and Data Analysis

## Fiscal Reviews

We primarily review:

- Audited financial statements (stand-alone, combined and consolidated) and the accompanying disclosure notes and when warranted:
- Rate transformation impacts
- 990s-informational Federal tax returns



# Fiscal Reporting and Data Analysis

## Fiscal Reviews (cont'd)

- Other sources of information, including but not limited to, the CFR, internet, OPWDD Audit team findings and A-133 audits pertaining to Federal grants



# Fiscal Reporting and Data Analysis

## Fiscal Reviews (cont'd)

### **Soundness** (Statement of Activities)

- *Operational Performance*-Changes in Net Assets (surplus/deficit) from mission related activities
- *Bottom Line Performance*-operational performance combined with impact of changes in pension liability, changes in equity interest in other enterprises and other non-routine items such as gains and losses on disposition of property/fixed assets
- *Variances*-utilizing comparative financial statement, material variances from one year to the next are noted



# Fiscal Reporting and Data Analysis

## Fiscal Reviews (cont'd)

### Cash Flow and Liquidity

- *Cash Balance*-test of reasonableness based on size of operations and comparison to prior year, fluctuations measured against change in Accounts Receivable
- *Current Ratio*-should be one or higher
- *Line of Credit Borrowing*-in comparison to maximum borrowing potential and in comparison to prior years, incidence of conversion of short term debt into long term debt



# Fiscal Reporting and Data Analysis

## Fiscal Reviews (cont'd)

- *Compliance with debt obligations and covenants*
- *Investments-size of portfolio*
- *Permanent Endowment-absence or presence of deficiencies*
- *Revolving Debt*
- *Debt that is financed at higher than market rates of interest*



# Fiscal Reporting and Data Analysis

## Fiscal Reviews (cont'd)

### Stability/Risk Assessment

- *Negative Net Assets*-a major red flag
- *Net Assets*-in relation to size of operations (should be at least = or > 10% for small entities but can be less for large entities) and compared to prior years, (erosion from successive deficit years of particular note)
- *Change in Net Assets*-consistency from year to year

# Fiscal Reporting and Data Analysis

## Fiscal Reviews (cont'd)

- *Debt Level-*

- ✓ in relationship to size of operations, net assets and net book value of fixed assets and prior years' levels
- ✓ restructuring to extend terms of debt
- ✓ specific debt that exceeds the net book value of the underlying asset and
- ✓ debt that increases substantially from one year to the next





# Fiscal Reporting and Data Analysis

## Fiscal Reviews (cont'd)

- *Related Parties/Affiliates*-impact on provider in terms of interdependence, size and volume of transactions, advances to affiliates, risk in terms of provider guaranteeing debt or use of provider assets as debt collateral, performance and stability of affiliates and, therefore, drain or contribution to provider well-being
- *Investments*-levels and direction of changes in levels



# Fiscal Reporting and Data Analysis

## Fiscal Reviews (cont'd)

- *Self-insurance Plans*-particularly risky for small providers (costs and trending patterns reviewed).
- *Defined Benefit Pension Plan*-funded status
- *Mergers*-may be programmatically sound but fiscally risky
- *Disallowances*-that are material and compromise or jeopardize fiscal viability
- *Unpaid Payroll Taxes and Other Defaults on Obligations*
- *Contingent Liabilities-Materiality*



# Fiscal Reporting and Data Analysis

## Fiscal Reviews (cont'd)

### Governance and Integrity

- *Board*-composition (presence of employees and relatives) number of independent members and business transactions with board members-tests of reasonableness applied
- *Excessive Executive Compensation*-in relation to the size of the organization
- *Other Exclusive Benefits for Highly Compensated Staff*

# Fiscal Reporting and Data Analysis

## Fiscal Reviews (cont'd)

- *Related Party Transactions*-preponderance and reasonableness-arm's length
- *Employer Contributions to Pension Benefits*-all employees vs. highly compensated
- *Redirection of State Funds*
- *Audit Opinions Other Than Unmodified*
- *Appropriateness of Investments and Holdings*

# Fiscal Reporting and Data Analysis Fiscal Reviews (cont'd)

## Compliance-timeliness in CFR reporting



# Fiscal Reporting and Data Analysis

## Fiscal Reviews (cont'd)

**Metrics**-sourced from CFR 2A to identify fiscal trouble triggers:

- *Negative Net Assets*
- *Current Ratio Below One*
- *Net Assets < 10% Revenue*
- *Long Term Debt > 200% Net Assets*
- *Long Term Debt > Net Book Value of Fixed Assets*



# Fiscal Reporting and Data Analysis

## Fiscal Reviews (cont'd)

- *Line of Credit Draw > 90% Borrowing Potential*
- *Debt Refinancing to Extend Repayment Terms*
- *Conversion of Short Term Debt Into Long Term Debt (Operational)*
- *Bottom Line Deficit*
- *Operating Deficit*

