

An Introduction to Financial Analysis

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Ann Gibson, PhD, CPA
Andrews University

Financial Statements

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Statement of Financial Position:

Reports resources, obligations, and residual ownership claims

Statement of Financial Activity:

Reports revenues, expenses, gains, losses for a specific period of time

Financial Statements

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Statement of Changes in Net Assets:

Summarizes activity for each function and shows net increase or decrease for the period

Statement of Cash Flows

Reports cash “inflows” and “outflows” during the period

Reading the Financial Statements

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On the *Statement of Financial Position*,
Assets are divided into two sections:

Current Assets – which are expected to be
converted into cash or consumed within
one year

Non-current Assets – which are expected to be
held for one year or longer

Reading the Financial Statements

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Liabilities are also divided into two sections:

Current Liabilities – Obligations of the organization which are expected to be paid within one year

Other Liabilities – Obligations which are due sometime beyond one year

Reading the Financial Statements

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Net Assets: The difference between assets and liabilities

Unallocated net assets

Allocated assets

These distinctions are set by the governing committee

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS
 Combined Statement of Financial Position (International Model)
 31 December 20X1 and 20X0

Appendix 17A.01

ASSETS	Operating	Plant	Total	Total
<u>Current Assets</u>	Fund	Fund	20X1	20X0
Cash & Cash Equivalents (Note 3)	1,702,642		1,702,642	1,599,670
Investments (Note 4)	8,571,777		8,571,777	5,840,869
Accounts Receivable, net (Note 5)	9,069,178		9,069,178	8,042,572
Cash Held for Agency (Note 3)	546,956		546,956	672,581
Loans Rec. - Current Portion (Note 6)	886,033		886,033	750,000
Supplies & Prepaid Expense (Note 7)	241,995		241,995	337,914
Total Current Assets	<u>21,018,581</u>		<u>21,018,581</u>	<u>17,243,606</u>
<u>Land, Buildings, and Equipment</u> (Note 8)		4,975,856	4,975,856	2,505,436
<u>Other Assets</u>				
Due From Other Funds	2,000		0	0
Restricted Currency Receivable (Note 16)	180,000		180,000	86,000
Loans Rec. - Noncurrent (Note 6)	4,276,542		4,276,542	5,803,827
Cash & Invest., Non-operating (Note 9)		1,245,890	1,245,890	41,235
Total Other Assets	<u>4,458,542</u>	<u>1,245,890</u>	<u>5,702,432</u>	<u>5,931,062</u>
Total Assets	<u>25,477,123</u>	<u>6,221,746</u>	<u>31,696,869</u>	<u>25,680,104</u>
LIABILITIES				
<u>Current Liabilities</u>				
Accounts Payable (Note 10)	955,057		955,057	820,057
Offering & Agency Accounts (Note 11)	7,200,452		7,200,452	4,526,233
Loans Pay. - Current Portion (Note 12)	697,450		697,450	435,456
Total Current Liabilities	<u>8,852,959</u>		<u>8,852,959</u>	<u>5,781,746</u>
<u>Other Liabilities</u>				
Due to Other Funds		2,000	0	0
Restricted Currency Payable (Note 16)	180,000		180,000	86,000
Loans Pay. - Noncurrent (Note 12)	2,140,744	1,000,000	3,140,744	2,375,000
Total Other Liabilities	<u>2,320,744</u>	<u>1,002,000</u>	<u>3,320,744</u>	<u>2,461,000</u>
Total Liabilities	<u>11,173,703</u>	<u>1,002,000</u>	<u>12,173,703</u>	<u>8,242,746</u>
NET ASSETS				
Unallocated Tithe Function	3,041,556		3,041,556	3,280,762
Unallocated Non-tithe Function	3,462,935		3,462,935	3,067,025
Allocated Functions	7,798,929		7,798,929	8,522,900
Unexpended Plant Function		1,243,890	1,243,890	61,235
Invested in Plant Function		3,975,856	3,975,856	2,505,436
Total Net Assets	<u>14,303,420</u>	<u>5,219,746</u>	<u>19,523,166</u>	<u>17,437,358</u>
Total Liabilities & Net Assets	<u>25,477,123</u>	<u>6,221,746</u>	<u>31,696,869</u>	<u>25,680,104</u>

Inter-fund borrowing is eliminated in the total columns.
 The accompanying notes are an integral part of these financial statements.

Analyzing the Financial Statements

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Step one:

Run your thumb down the current asset side of the operating fund and find the largest number(s).

In this case it is “Accounts Receivable ” and “Investments ”

Analyzing the Financial Statements

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Step two:

Review the numbers in the comparative format, as presented.

In this case, cash is up; investments are up; accounts receivable is up; accounts payable is up; offering and agency accounts are up.

Analyzing the Financial Statements

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Step Three: Ratio analysis

Ratio analysis is the process of comparing the level of different performance results to industry averages and to the organization's own past performance

It involves the comparison of two numbers on the financial statements and has the advantage of putting large numbers into an easily-understandable perspective

Analyzing the Financial Statements

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Liquidity Ratios: Used to estimate the ability to pay current obligations

Acid Test (or Quick Asset) Ratio

Cash + Investments + Receivables

Current Liabilities

Current Ratio

Current Assets

Current Liabilities

Analyzing the Financial Statements

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Acid Test Ratio for 20X1:

$$\frac{1,702,641 + 8,571,777 + 9,069,178}{8,852,959} = 2.18$$

Acid Test Ratio for 20X0:

$$\frac{1,599,670 + 5,840,869 + 8,042,572}{5,781,746} = 2.68$$

Analyzing the Financial Statements

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Current Ratio for 20X1:

$$\frac{21,018,581}{8,852,959} = 2.37$$

Current Ratio for 20X0:

$$\frac{17,243,606}{5,781,746} = 2.98$$

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS
Combined Statement of Financial Activity (International Model)
Years Ended 31 December 20X1 and 20X0

Appendix 17A.02

OPERATING ACTIVITY	Operating Fund *	Plant Fund	Total 20X1	Budget 20X1	Total 20X0
Earned Income					
Tithe (net) (Note 14)	5,874,785		5,874,785	5,556,000	5,560,152
Specific Donations	97,961		97,961	0	702,521
Total Investment Income (Note 4)	845,186		845,186	840,000	557,384
Net Exchange Gain (Loss) - General	3,297		3,297	0	(18,741)
Other Operating Income	191,472		191,472	200,000	21,507
Total Earned Operating Income	7,012,701		7,012,701	6,596,000	6,822,823
Operating Expense					
Employee-related Expense (Note 19)	6,409,558		6,409,558	6,492,000	6,867,214
Administrative & General Expense	2,210,431	180,009	2,390,440	2,368,500	2,717,004
Departmental Expense	1,196,710		1,196,710	1,151,500	1,136,418
Other Operating Expense	1,101,984		1,101,984	968,000	1,167,324
Total Operating Expense	10,918,683	180,009	11,098,692	10,980,000	11,887,960
Increase (Decrease) before Approp.	(3,905,982)	(180,009)	(4,085,991)	(4,384,000)	(5,065,137)
Operating Appropriations					
Tithe Appropriations Received	8,636,721		8,636,721	8,625,000	8,204,885
Tithe Appropriations Disbursed	(5,510,223)		(5,510,223)	(4,850,000)	(3,572,250)
Non-tithe Appropriations Received	1,524,127		1,524,127	1,500,000	1,447,925
Non-tithe Appropriations Disbursed	(978,667)		(978,667)	(875,000)	(629,391)
Net Exchange Gain (Loss) Op. App.	26,775		26,775	0	(1,009)
Net Appropriations Retained	3,698,733		3,698,733	4,400,000	5,450,160
Increase (Decrease) after Approp.	(207,249)	(180,009)	(387,258)	16,000	385,023
CAPITAL ACTIVITY					
Capital Appropriations Received	19,991	560,929	580,920	580,920	2,060,640
Other Capital Income (Note 17)		2,080,657	2,080,657	1,095,000	71,920
Capital Appropriations Disbursed	(200,000)		(200,000)	(360,000)	0
Gain (Loss) on Sale of Assets		0	0	0	(54,562)
Net Exchange Gain (Loss) Cap. App.		11,489	11,489	0	0
Net Capital Increase (Decrease)	(180,009)	2,653,075	2,473,066	1,315,920	2,077,998
Increase (Decrease) before Transfers	(387,258)	2,473,066	2,085,808	1,331,920	2,463,021
TRANSFERS					
From Non-tithe to Unexpended Plant	(180,009)	180,009	0	0	0
Net Increase (Decrease) for the Year	(567,267)	2,653,075	2,085,808	1,331,920	2,463,021
Net Assets, Beginning of Year	14,870,687	2,566,671	17,437,358	17,437,358	14,974,337
Net Assets, End of Year	14,303,420	5,219,746	19,523,166	18,769,278	17,437,358

* See Note 18 for expanded detail of the operating fund.
The accompanying notes are an integral part of these financial statements.

Analyzing the Financial Statements

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Ratio of Self-Support:

Earned Income (without subsidies)

Total Income (including subsidies)

Analyzing the Financial Statements

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Ratio of Self-Support for 20X1:

$$\frac{\underline{7,012,701}}{7,012,701 + 3,698,733} = 65.5\%$$

Ratio of Self-Support for 20X0:

$$\frac{\underline{6,822,823}}{6,822,823 + 5,450,160} = 55.6\%$$

Analyzing the Financial Statements

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Ratio of Payroll-Related Expense to Tithe:

Total Payroll-Related Expense

Gross Tithe Income

Analyzing the Financial Statements

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Ratio of Payroll-Related Expense to Tithe: (see note 14)

$$20X1: \quad \frac{6,409,558}{8,812,178} = 72.7\%$$

$$20X0: \quad \frac{6,867,214}{8,340,228} = 82.3\%$$

Analyzing the Financial Statements

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Debt Percentage:

Total Operating Liabilities

Total Operating Net Assets

Analyzing the Financial Statements

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Debt Percentage:

$$20X1: \quad \frac{12,173,703}{14,303,420} = 85.1\%$$

$$20X0: \quad \frac{8,242,746}{14,870,687^*} = 55.4\%$$

* 3,280,762 + 3,067,025 + 8,522,900

Analyzing the Financial Statements

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Summary:

	20X1	20X0
Acid Test Ratio	2.18	2.68
Current Ratio	2.37	2.98
Ratio of Self-Support	65.5%	55.6%
Ratio of Payroll Expense to Tithe	72.7%	82.3%
Debt Percentage	85.1%	55.4%

Analyzing the Financial Statements

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Rules for data selection for financial analysis:

Measure accounts, balances, or activities for which:

- a. The results of analysis would trigger the need for a management decision.

Analyzing the Financial Statements

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- b. The decision is not obvious but would be of consequence to the organization.

- c. The results can have significant repercussions for constituents, affiliated entities, or financial performance.

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d. Key management or committee members have expressed a desire to know.

Analyzing the Financial Statements

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Each not-for-profit sector uses its own unique ratios

For example, hospitals analyze their activities on a patient-day or per-bed basis

Educational institutions use a per-student or a per-course basis

Analyzing the Financial Statements

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Statement of Cash Flows provides information on:

The organization's ability to generate positive future net cash flows

The organization's ability to meet its obligations

The organization's need for external financing

Analyzing the Financial Statements

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The Statement of Cash Flows is divided into:

Cash Flows from Operating Activities

Cash Flows from Investing Activities

Cash Flows from Financing Activities

When the three sections are totaled the Statement of Cash Flows explains how the beginning cash balance was converted to the end-of-the-period cash balance

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS
 Combined Statement of Cash Flows (International Model)
 Years Ended 31 December 20X1 and 20X0

Appendix 17A.04

	Operating Fund	Plant Fund	20X1 Total	20X0 Total
Cash Flows from Operating Activities:				
Net Increase from Financial Activity	(567,267)	2,653,075	2,085,808	2,463,021
Adjustments to remove non-cash items:				
Depreciation Expense		180,009	180,009	172,964
(Gain) Loss on Sale of Plant Assets		0	0	54,562
Unrealized (Gain) Loss on Investments	(133,971)	(45,890)	(179,861)	24,620
Adjustments to reclassify non-operating items:				
Total Exchange (Gain) Loss	(30,072)	(11,489)	(41,561)	19,750
Non-operating Donations & Appropriations		(2,535,441)	(2,535,441)	(169,858)
(Increase) Decrease - Accounts Receivable	(1,139,722)		(1,139,722)	569,861
(Increase) Decrease - Supplies & Prepaid	95,919		95,919	(55,903)
Increase (Decrease) - Accounts Payable	135,000		135,000	74,323
Increase (Decrease) - Agency Funds, net	2,799,844		2,799,844	(1,437,109)
Net Cash Provided (Used) from Operating	1,159,731	240,264	1,399,995	1,716,231
Cash Flows from Investing Activities:				
Proceeds from Maturity of Investments	316,179		316,179	0
Purchase of Investments	(2,800,000)	(1,158,765)	(3,958,765)	(2,000,000)
Payments Received on Notes Receivable	1,641,252		1,641,252	750,000
New Notes Receivable Issued	(250,000)		(250,000)	(3,000,000)
Proceeds from Sale of Assets		50,000	50,000	35,000
Purchase of Land, Buildings, & Equipment		(1,700,429)	(1,700,429)	(303,586)
Net Cash Provided (Used) from Investing	(1,092,569)	(2,809,194)	(3,901,763)	(4,518,586)
Cash Flows from Financing Activities:				
Donations for Future Plant Fund Acquisitions		2,535,441	2,535,441	169,858
Proceeds from Borrowing New Debt	500,000		500,000	3,500,000
Payments Made on Long-term Debt	(472,262)		(472,262)	(435,456)
Proceeds (Payments) on Inter-fund Borrowing	(22,000)	22,000	0	0
Net Cash Provided (Used) from Financing	5,738	2,557,441	2,563,179	3,234,402
Exchange Gain (Loss) on Cash Held in Other Currency	30,072	11,489	41,561	(19,750)
Net Increase (Decrease) for the Year	102,972	0	102,972	412,297
Cash, Beginning of Year	1,599,670	0	1,599,670	1,187,373
Cash, End of Year	1,702,642	0	1,702,642	1,599,670

Supplemental information: cash paid for interest on long-term debt: 305,595.
 The accompanying notes are an integral part of these financial statements.

Any Questions?

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Thank you! Are there any questions?