



Reading & Understanding Financial Statements

March 15, 2023

Disclaimer

The presenter recognizes the very large audience present today has a wide variety of financial and accounting expertise – or a lack thereof. In addition, although many countries are coalescing toward the use of a common standard referred to as International Financial Reporting Standards (IFRS), it is known that accounting regulations of each country do vary.

Terms and definitions provided should be understood to represent a best effort to explain certain financial concepts in simple terms for people without formal accounting training. If a perceived conflict is present, please refer to IFRS and the SDA Accounting Manual for clarification.

Goal

To equip you, as a newly elected leader, with basic knowledge of how to read and understand financial statements.

Why?

- To enable you to fulfil your administrative responsibilities and fiduciary duties which you accepted when the mantel of leadership was placed on your shoulders.

Fiduciary Duties

- *Duty of Care*
 - Good faith
 - Care of a reasonable person in similar position
 - Reasonable belief decisions are in the best interest of the organization
- *Duty of Loyalty*
 - Examples of breach include
 - Self-dealing
 - Improper use of organization's assets
 - Transferring organization's assets to third-party or relative
- *Duty of Obedience*
 - Legal compliance
 - Church financial policies

<https://www.stimmel-law.com/en/articles/corporate-officers-duties-and-fiduciary-responsibilities>

Galasso, Melisa

Management and Oversight

*While sitting on other
Boards and Committees,
don't meddle in day-to-
day operations!*

- Transparency
 - Nonprofit organizations generally have less governmental oversight
 - Responsibility conferred by constituents/members
- Accountability
 - Maintain a strong mission-focus
 - Ensure financial alignment with agreed strategy
 - Monitor key financial indicators

Reading Financial Statements

Preliminaries

- Seventh-day Adventist Accounting Framework
 - Based on International Financial Reporting Standards (IFRS),
 - Standard format for comparability and transparency
- Specific examples used are from the Seventh-day Adventist Accounting Manual released in 2011
 - A new manual is being prepared

Types of Financial Statements

Interim

- Prepared by Management
- Monthly
 - For Management -- At least 9 times per year*
 - For Executive Committee – At least 4 times per year*

Audited

- Prepared by Management
- Annually
- Auditor's Opinion

* see GC WP S 90

How did we get here?

History

Statement of Financial Activity

Statement of Changes in Net Assets

Statement of Cash Flows

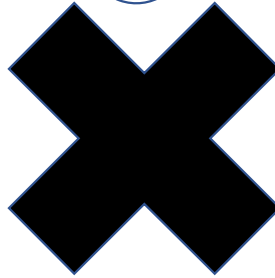
Where we are now?

Statement of Financial Position

Where are we going?

Budget comparison

Statement of Financial Activity



SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS

Illustrative Operating Fund Financial Report (International Model)

31 December 20X1 and 20X0

The reporting currency is the *[name of local currency]*

Financial Statements

- Statement of Financial Position
- Statement of Financial Activity
- Statement of Changes in Net Assets
- Statement of Cash Flows

Financial Statements

- ➔ • Statement of Financial Position
- Statement of Financial Activity
- Statement of Changes in Net Assets
- Statement of Cash Flows

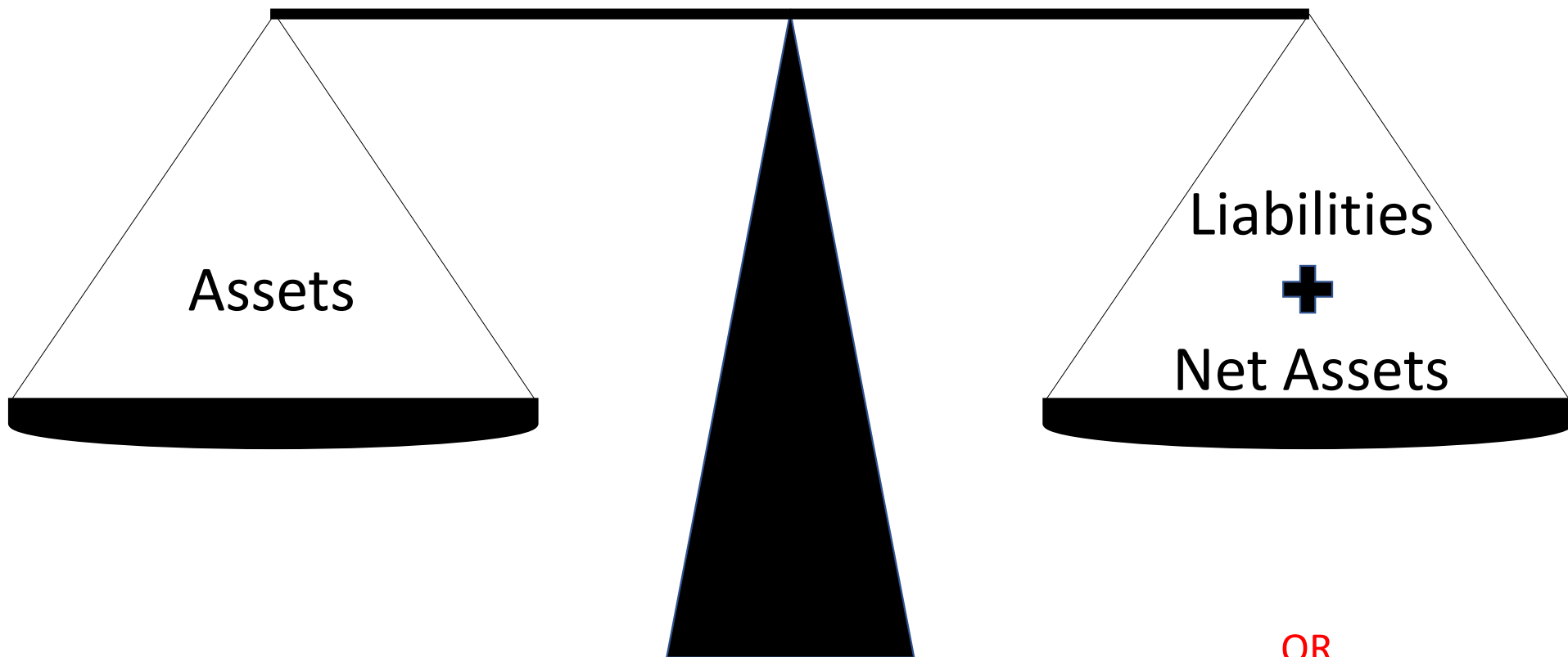
Statement of Financial Position

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS			
<u>Statement of Financial Position</u>			
<u>31 December 20X1 and 20X0</u>			
	Supporting Schedule	Operating Fund	
		20X1	20X0
ASSETS			
<u>Current Assets</u>			
Cash and Cash Equivalents	S-1	1,702,642	1,599,670
Investments	S-2	8,571,777	5,840,869
Accounts Receivable, net	S-3	9,069,178	8,042,572
Cash Held for Agency	S-1	546,956	672,581
Loans Receivable - Current Portion	S-4	886,033	750,000
Supplies and Prepaid Expense	S-5	241,995	337,914
Total Current Assets		<u>21,018,581</u>	<u>17,243,606</u>
<u>Other Assets</u>			
Due From Plant Fund		2,000	0
Restricted Currency Receivable	S-10	180,000	86,000
Loans Receivable - Noncurrent	S-4	4,276,542	5,803,827
Miscellaneous Other Assets	S-6	0	0
Total Other Assets		<u>4,458,542</u>	<u>5,889,827</u>
Total Assets		<u>25,477,123</u>	<u>23,133,433</u>
LIABILITIES			
<u>Current Liabilities</u>			
Accounts Payable	S-7	955,057	820,057
Offering and Agency Accounts	S-8	7,200,452	4,526,233
Loans Payable - Current Portion	S-9	697,450	435,456
Total Current Liabilities		<u>8,852,959</u>	<u>5,781,746</u>
<u>Other Liabilities</u>			
Due to Plant Fund		0	20,000
Restricted Currency Payable	S-10	180,000	86,000
Loans Payable - Noncurrent	S-9	2,140,744	2,375,000
Miscellaneous Other Liabilities	S-12	0	0
Total Other Liabilities		<u>2,320,744</u>	<u>2,481,000</u>
Total Liabilities		<u>11,173,703</u>	<u>8,262,746</u>
NET ASSETS			
Unallocated Tithes Fund		3,041,556	3,280,762
Unallocated Non-tithe Fund		3,462,935	3,067,025
Allocated Funds		7,798,929	8,522,900
Total Net Assets		<u>14,303,420</u>	<u>14,870,687</u>
Total Liabilities & Net Assets		<u>25,477,123</u>	<u>23,133,433</u>



Sub-totals:
Indicates amounts that are referred to frequently and are often used in common ratios and analyses.

Accounting Equation

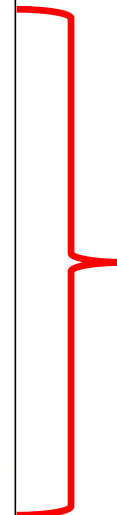
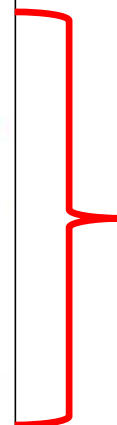


OR
 $Assets - Liabilities = Net Assets$

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Assets are an item of value that is owned by the organization.

Assets are:

- Listed in order of liquidity
- Most liquid to least liquid

Current Assets are assumed to be used or convertible to cash within 12 months

Other Assets are convertible to cash over a longer period

Statement of Financial Position

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Cash & Cash Equivalents:

Are held for operating purposes and include currency, coins, checking/savings accounts, certificates of deposit and investments convertible to cash in less than 90 days.

Investments: Include financial securities such as time deposits convertible to cash in more than 90 days, stocks, bonds, etc.

The types of investments which may be held are subject to provisions of GC Working Policy S 85.

Statement of Financial Position

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Accounts Receivable, net:
Amounts due from people or organizations, such as employees, local churches, academies, institutions, etc.

Loans Receivable – Current Portion: This represents the principal portion of long-term loans given to others that is scheduled to be received within twelve months.

Loans Receivable – Noncurrent Portion: This represents the principal portion of long-term loans given to others that is scheduled to be received beyond twelve months.

Statement of Financial Position

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Liabilities are forms of debt that are owed to individuals or another entity.

Liabilities are:

- Listed in order of how soon they must be paid
- Those higher in the list must be paid earlier

Statement of Financial Position

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Offering and Agency

Accounts: This represents Tithe percentages and offerings due to the higher organization. Also includes money held for others as a short-term arrangement.

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Net Assets: Represents the net residual of gains and losses over the years from the time the organization was established.

Unallocated Tithe Fund: The portion of net assets originating from Tithe income.

Unallocated Non-tithe Fund: The portion of net assets originating from Non-tithe income.

Allocated Funds: The portion of net assets allocated by the controlling committee for specific purposes.

Financial Statements

- Statement of Financial Position
-  • **Statement of Financial Activity**
- Statement of Changes in Net Assets
- Statement of Cash Flows

Statement of Financial Activity

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS				
Statement of Financial Activity				
Years Ended 31 December 20X1 and 20X0				
		Unallocated		
		Tithe	Non-tithe	
OPERATING ACTIVITY				
<u>Earned Income</u>				
Tithe	S-15	5,874,785	0	
Specific Donations	S-16	0	0	
Investment Income	S-2	0	845,186	
Exchange Gain (Loss)		0	0	
Other Oper. Income	S-17	0	191,472	
Tithe/Non-tithe Exchange		202,491	(202,491)	
Total Earned Income		6,077,276	834,167	
<u>Operating Expenses</u>				
Employee-related Exp.	S-18	6,381,558	0	6,381,558
Admin. & General Exp.	S-19	1,535,913	649,518	2,185,431
Departmental Expense	S-20	846,228	350,482	1,196,710
Other Oper. Expense	S-21	479,281	107,703	586,984
Total Operating Expense		9,242,980	1,107,703	10,350,683
Incr. (Decr.) before Approp.		(3,165,704)	(273,536)	(3,439,240)
<u>Operating Appropriations</u>				
Tithe App. Received	S-22	8,636,721	0	8,636,721
Tithe App. Disbursed	S-23	(5,510,223)	0	(5,510,223)
Non-tithe App. Received	S-24	0	1,524,127	1,524,127
Non-tithe App. Disb.	S-25	0	(978,667)	(978,667)
Exchange Gain (Loss)		0	0	0
Net Appropriations Retained		3,126,498	545,460	3,671,958
Incr. (Decr.) after Approp.		(39,206)	271,924	232,718
CAPITAL ACTIVITY				
Capital App. Received	S-26	0	19,991	19,991
Capital App. Disbursed	S-27	0	(200,000)	(200,000)
Capital Increase (Decrease)		0	(180,009)	(180,009)
Incr. (Decr.) before Transfers		(39,206)	91,915	(43,991)
TRANSFERS				
Unallocated to Allocated		(200,000)	(173,288)	(373,288)
Allocated to Unallocated		0	657,292	657,292
Non-tithe to Unexpended Plant		0	(180,009)	(180,009)
Net Transfers In (Out)		(200,000)	303,995	(284,004)
Increase (Decrease) for Year		(239,206)	395,910	156,704
Net Assets, 1 January		3,280,762	3,067,025	6,347,787
Net Assets, 31 December		3,041,556	3,462,935	6,504,491

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS
Statement of Financial Position
31 December 20X1 and 20X0

ASSETS

<u>Current Assets</u>	
Cash and Cash Equivalents	
Investments	
Accounts Receivable, net	
Cash Held for Agency	
Loans Receivable - Current Portion	
Supplies and Prepaid Expense	
Total Current Assets	
<u>Other Assets</u>	
Due From Plant Fund	
Restricted Currency Receivable	
Loans Receivable - Noncurrent	
Miscellaneous Other Assets	
Total Other Assets	
Total Assets	
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	
Offering and Agency Accounts	
Loans Payable - Current Portion	
Total Current Liabilities	
<u>Other Liabilities</u>	
Due to Plant Fund	
Restricted Currency Payable	
Loans Payable - Noncurrent	
Miscellaneous Other Liabilities	
Total Other Liabilities	
Total Liabilities	
NET ASSETS	
Unallocated Tithe Fund	
Unallocated Non-tithe Fund	
Total Net Assets	
Total Liabilities & Net Assets	

Supporting Schedule	20X1	20X0
S-1	1,702,642	1,598,670
S-2	8,571,777	5,840,869
S-3	9,069,178	8,042,572
S-4	546,956	672,581
S-5	886,033	750,000
	241,995	337,914
	21,018,581	17,243,608
S-10	2,000	0
S-4	180,000	86,000
S-6	4,276,542	5,803,827
	0	0
	4,458,542	5,889,827
	25,477,123	23,133,433
S-7	955,057	820,057
S-8	7,200,452	4,526,233
S-9	697,450	435,456
	8,852,959	5,781,746
	0	20,000
	180,000	86,000
	2,140,744	2,375,000
	0	0
	2,320,744	2,481,000
	11,173,703	8,262,746
	3,041,556	3,280,762
	3,462,935	3,067,025
	7,798,929	6,322,900
	14,303,420	14,870,627
	25,477,123	23,133,433

3,041,556 3,462,935 6,504,491 7,798,929

Statement of Financial Activity

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

		Unallocated Funds			Allocated Funds	Total 20X1	Budget 20X1	Total 20X0
		Tithe	Non-tithe	Total				
OPERATING ACTIVITY								
<u>Earned Income</u>								
Tithe	S-15	5,874,785	0	5,874,785	0	5,874,785	5,556,000	5,560,152
Specific Donations	S-16	0	0	0	97,961	97,961	0	702,521
Investment Income	S-2	0	845,186	845,186	0	845,186	840,000	557,384
Exchange Gain (Loss)		0	0	0	3,297	3,297	0	(18,741)
Other Oper. Income	S-17	0	191,472	191,472	0	191,472	200,000	21,507
Tithe/Non-tithe Exchange		202,491	(202,491)	0	0	0	0	0
Total Earned Income		6,077,276	834,167	6,911,443	101,258	7,012,701	6,596,000	6,822,823
<u>Operating Expenses</u>								
Employee-related Exp.	S-18	6,381,558	0	6,381,558	28,000	6,409,558	6,492,000	6,867,214
Admin. & General Exp.	S-19	1,535,913	649,518	2,185,431	25,000	2,210,431	2,200,500	2,544,040
Departmental Expense	S-20	846,228	350,482	1,196,710	0	1,196,710	1,151,500	1,136,418
Other Oper. Expense	S-21	479,281	107,703	586,984	515,000	1,101,984	968,000	1,167,324
Total Operating Expense		9,242,980	1,107,703	10,350,683	568,000	10,918,683	10,812,000	11,714,996
Incr. (Decr.) before Approp.		(3,165,704)	(273,536)	(3,439,240)	(466,742)	(3,905,982)	(4,216,000)	(4,892,173)
<u>Operating Appropriations</u>								
Tithe App. Received	S-22	8,636,721	0	8,636,721	0	8,636,721	8,625,000	8,204,885
Tithe App. Disbursed	S-23	(5,510,223)	0	(5,510,223)	0	(5,510,223)	(4,850,000)	(3,572,250)
Non-tithe App. Received	S-24	0	1,524,127	1,524,127	0	1,524,127	1,500,000	1,447,925
Non-tithe App. Disb.	S-25	0	(978,667)	(978,667)	0	(978,667)	(875,000)	(629,391)
Exchange Gain (Loss)		0	0	0	26,775	26,775	0	(1,009)
Net Appropriations Retained		3,126,498	545,460	3,671,958	26,775	3,698,733	4,400,000	5,450,160
Incr. (Decr.) after Approp.		(39,206)	271,924	232,718	(439,967)	(207,249)	(490,900)	557,987
CAPITAL ACTIVITY								
Capital App. Received	S-26	0	19,991	19,991	0	19,991	19,991	265,000
Capital App. Disbursed	S-27	0	(200,000)	(200,000)	0	(200,000)	260,000	0
Capital Increase (Decrease)		0	(180,009)	(180,009)	0	(180,009)	(240,009)	265,000
Incr. (Decr.) before Transfers		(39,206)	91,915	52,709	(439,967)	(387,258)	250,891	822,987
TRANSFERS								
Unallocated to Allocated		(200,000)	(173,288)	(373,288)	373,288	0	0	0
Allocated to Unallocated		0	657,292	657,292	(657,292)	0	0	0
Non-tithe to Unexpended Plant		0	(180,009)	(180,009)	0	(180,009)	168,000	(200,000)
Net Transfers In (Out)		(200,000)	303,995	103,995	(284,004)	(180,009)	(168,000)	(200,000)
Increase (Decrease) for Year		(239,206)	395,910	156,704	(723,971)	(567,267)	82,891	622,987
Net Assets, 1 January		3,280,762	3,067,025	6,347,787	8,522,900	14,870,687	14,870,687	14,247,700
Net Assets, 31 December		3,041,556	3,462,935	6,504,491	7,798,929	14,303,420	14,953,578	14,870,687

The **Statement of Financial Activity** summarizes transactions by the natural classification – meaning the **type** of income or expense without regard to department or purpose. For example, all payroll expenses are grouped together in one line rather than separating them by department.

The following statement will categorize expenses by department or purpose.

The **Statement of Financial Activity** also separates Tithe vs Non-tithe activity into separate columns.

Statement of Financial Activity

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

	Unallocated Funds			Allocated Funds	Total 20X1	Budget 20X1	Total 20X0
	Tithe	Non-tithe	Total				
OPERATING ACTIVITY							
<u>Earned Income</u>							
Tithe	S-15	5,874,785	0	5,874,785	0	5,874,785	5,556,000
Specific Donations	S-16	0	0	0	97,961	97,961	0
Investment Income	S-2	0	845,186	845,186	0	845,186	840,000
Exchange Gain (Loss)		0	0	0	3,297	3,297	(18,741)
Other Oper. Income	S-17	0	191,472	191,472	0	191,472	200,000
Tithe/Non-tithe Exchange		202,491	(202,491)	0	0	0	0
Total Earned Income		6,077,276	834,167	6,911,443	101,258	7,012,701	6,596,000
<u>Operating Expenses</u>							
Employee-related Exp.	S-18	6,381,558	0	6,381,558	28,000	6,409,558	6,492,000
Admin. & General Exp.	S-19	1,535,913	649,518	2,185,431	25,000	2,210,431	2,544,040
Departmental Expense	S-20	846,228	350,482	1,196,710	0	1,196,710	1,151,500
Other Oper. Expense	S-21	479,281	107,703	586,984	515,000	1,101,984	968,000
Total Operating Expense		9,242,980	1,107,703	10,350,683	598,000	10,918,683	11,714,996
Incr. (Decr.) before Approp.		(3,165,704)	(273,536)	(3,439,240)	(466,742)	(3,905,982)	(4,892,173)
<u>Operating Appropriations</u>							
Tithe App. Received	S-22	8,636,721	0	8,636,721	0	8,636,721	8,250,000
Tithe App. Disbursed	S-23	(5,510,223)	0	(5,510,223)	0	(5,510,223)	(3,572,250)
Non-tithe App. Received	S-24	0	1,524,127	1,524,127	0	1,524,127	1,500,000
Non-tithe App. Disb.	S-25	0	(978,667)	(978,667)	0	(978,667)	(829,391)
Exchange Gain (Loss)		0	0	0	26,775	26,775	(1,009)
Net Appropriations Retained		3,126,498	545,460	3,671,958	26,775	3,698,733	5,450,160
Incr. (Decr.) after Approp.		(39,206)	271,924	232,718	(439,967)	(207,249)	557,987
CAPITAL ACTIVITY							
Capital App. Received	S-26	0	19,991	19,991	0	19,991	19,991
Capital App. Disbursed	S-27	0	(200,000)	(200,000)	0	(200,000)	0
Capital Increase (Decrease)		0	(180,009)	(180,009)	0	(180,009)	265,000
Incr. (Decr.) before Transfers		(39,206)	91,915	52,709	(439,967)	(387,258)	822,987
TRANSFERS							
Unallocated to Allocated		(200,000)	(173,288)	(373,288)	373,288	0	0
Allocated to Unallocated		0	657,292	657,292	(657,292)	0	0
Non-tithe to Unexpended Plant		0	(180,009)	(180,009)	0	(180,009)	(200,000)
Net Transfers In (Out)		(200,000)	303,995	103,995	(284,004)	(168,000)	(200,000)
Increase (Decrease) for Year		(239,206)	395,910	156,704	(723,971)	(567,267)	822,987
Net Assets, 31 December		3,280,762	3,067,025	6,347,787	8,522,900	14,870,687	14,247,700
Net Assets, 31 December		3,041,556	3,462,935	6,504,491	7,798,929	14,303,420	14,953,578


Operating Activity is defined as the day-to-day activity of the entity. It is further divided into three sections:

Earned Income will vary depending on the type of entity producing the statement.

Operating Expense may vary depending on the type of entity, but will generally be quite generic.

Operating Appropriations will not appear if the entity doesn't receive this form of support.

Financial Statements

- Statement of Financial Position
- Statement of Financial Activity
-  • **Statement of Changes in Net Assets**
- Statement of Cash Flows

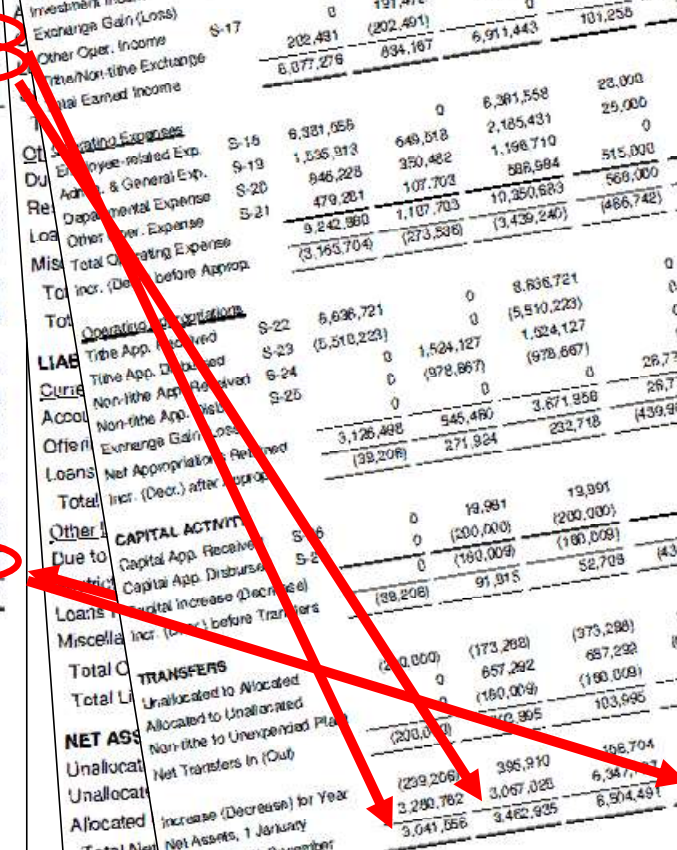
Statement of Changes in Net Assets

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS
 Statement of Changes in Net Assets
 Year Ended 31 December 20X1

	Balance		Transfers From (To)		Balance
	31-12-20X0	Income	Expense	Unalloc. & Alloc.	
OPERATING FUND:					
Unallocated					
Tithe	3,280,762	9,203,774	9,242,980	(200,000)	3,041,556
Non-tithe	3,067,025	1,399,618	1,307,703	484,004	(180,009)
Total Unallocated	6,347,787	10,603,392	10,550,683	284,004	6,504,491
Allocated					
(Tithe-allowable Functions)					
Constituency Session	1,004,342	0	20,000	0	984,342
Evangelism - Big Cities	772,895	9,260	105,000	5,000	682,155
Evangelism - Rural Areas	632,368	8,701	140,000	5,000	506,069
Extended Inter-union Service	285,517	0	10,000	0	275,517
Health Outreach	808,299	25,000	60,000	25,000	798,299
Leadership Training	706,944	20,000	18,000	0	708,944
(Non-tithe-related Functions)					
Contingency	2,214,795	0	0	(297,120)	1,917,675
Exchange Fluctuation	927,602	30,072	0	(100,000)	857,674
Global Mission	553,699	0	195,000	0	358,699
Ingathering Reversion	0	35,000	0	(35,000)	0
Insurance	191,237	0	15,000	0	176,237
Religious Liberty	425,202	0	5,000	0	420,202
Securities Fluctuation	0	0	0	113,116	113,116
Total Allocated	8,522,900	128,033	568,000	(284,004)	7,798,929
Total Operating Fund	14,870,687	10,731,425	11,118,683	0	14,303,420

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

	Unallocated Funds			Allocated Funds	Total 20X1	Budget 20X1
	Tithe	Non-tithe	Total			
OPERATING ACTIVITY						
Earned Income						
Tithe	5,874,785	0	5,874,785	0	5,874,785	5,868,000
Specific Donations	0	845,186	845,186	97,961	97,961	840,000
Investment Income	0	0	0	0	0	0
Exchange Gain (Loss)	0	191,472	191,472	0	191,472	200,000
Other Oper. Income	202,491	(202,491)	0	0	0	0
Tithe/Non-tithe Exchange	6,077,276	834,167	6,911,443	101,256	7,012,701	6,586,000
Total Earned Income						
Operating Expenses						
Employee-related Exp.	6,331,056	649,018	6,980,074	22,000	6,408,558	6,492,000
Admin. & General Exp.	1,536,913	350,482	1,887,395	25,000	2,210,431	2,200,000
Depreciation Expense	946,228	107,703	1,053,931	0	1,196,710	1,151,000
Other Oper. Expense	479,281	1,107,703	1,586,984	568,000	10,918,683	10,812,000
Total Operating Expense	9,242,980	1,107,703	10,350,683	(466,742)	(3,905,982)	(4,216,000)
Total Incr. (Decrease) before Approp.	(3,165,704)	(273,536)	(3,439,240)		9,836,721	3,800,000
LIABILITIES						
Tithe App. Received	5,636,721	0	5,636,721	0	(5,510,223)	(4,900,000)
Non-tithe App. Received	(5,510,223)	1,524,127	1,524,127	0	1,524,127	1,515,000
Other Liab.	0	(978,867)	(978,867)	0	0	(978,867)
Total Liab.				28,775	28,775	26,775
CAPITAL ACTIVITY						
Capital App. Received	0	0	0	19,991	0	19,991
Capital App. Disbursements	0	(200,000)	(200,000)	(200,000)	0	(200,000)
Capital Increase (Decrease)				19,991	(200,000)	(180,009)
Total Capital Activity				19,991	(200,000)	(180,009)
TRANSFERS						
Unallocated to Allocated	0	(180,009)	(180,009)	0	(180,009)	(180,009)
Allocated to Unallocated	0	180,009	180,009	0	180,009	180,009
Net Transfers In (Out)				0	0	0
NET ASSETS						
Unallocated	(200,000)	395,910	195,910	0	(23,971)	(58,260)
Allocated	(239,206)	3,067,025	6,347,787	6,347,787	5,822,900	14,870,687
Total Net Assets, 1 January	3,041,556	3,462,935	6,504,491		7,798,929	14,303,420
Total Net Assets, 31 December						



Statement of Changes in Net Assets



SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS
Statement of Changes in Net Assets
Year Ended 31 December 20X1

	Balance 31-12-20X0	Income		Transfers From (To)		Balance 31-12-20X1
				Unalloc. & Alloc.	Operating & Plant	
OPERATING FUND:						
Unallocated						
Tithe	3,280,762	9,203,774	9,242,980	(200,000)	0	3,041,556
Non-tithe	3,067,025	1,399,618	1,307,703	484,004	(180,009)	3,462,935
Total Unallocated	6,347,787	10,603,392	10,550,683	284,004	(180,009)	6,504,491
Allocated						
(Tithe-allowable Functions)						
Constituency Session	1,004,342	0	20,000	0	0	984,342
Evangelism - Big Cities	772,895	9,260	105,000	5,000	0	682,155
Evangelism - Rural Areas	632,368	8,701	140,000	5,000	0	506,069
Extended Inter-union Service	285,517	0	10,000	0	0	275,517
Health Outreach	808,299	25,000	60,000	25,000	0	798,299
Leadership Training	706,944	20,000	18,000	0	0	708,944
(Non-tithe-related Functions)						
Contingency	2,214,795	0	0	(297,120)	0	1,917,675
Exchange Fluctuation	927,602	30,072	0	(100,000)	0	857,674
Global Mission	553,699	0	195,000	0	0	358,699
Ingathering Reversion	0	35,000	0	(35,000)	0	0
Insurance	191,237	0	15,000	0	0	176,237
Religious Liberty	425,202	0	5,000	0	0	420,202
Securities Fluctuation	0	0	0	113,116	0	113,116
Total Allocated	8,522,900	128,033	568,000	(284,004)	0	7,798,929
Total Operating Fund	14,870,687	10,731,425	11,118,683	0	(180,009)	14,303,420

The **Statement of Changes in Net Assets** summarizes the transactions by the functional classification – meaning the **purpose** of income or expense.

For example, all leadership training income, expense, and beginning and ending balances are displayed together in one line rather than separating them by type of expense.

Statement of Changes in Net Assets

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS
Statement of Changes in Net Assets
Year Ended 31 December 20X1

	Balance 31-12-20X0	Income	Expense	Transfers From (To)		Balance 31-12-20X1
				Unalloc. & Alloc.	Operating & Plant	
OPERATING FUND:						
Unallocated						
Tithe	3,280,762	9,203,774	9,242,980	(200,000)	0	3,041,556
Non-tithe	3,067,025	1,399,618	1,307,703	484,004	(180,009)	3,462,935
Total Unallocated	6,347,787	10,603,392	10,550,683	284,004	(180,009)	6,504,491
Allocated						
(Tithe-allowable Functions)						
Constituency Session	1,004,342	0	20,000	0	0	984,342
Evangelism - Big Cities	772,895	9,260	105,000	5,000	0	682,155
Evangelism - Rural Areas	632,368	8,701	140,000	5,000	0	506,069
Extended Inter-union Service	285,517	0	10,000	0	0	275,517
Health Outreach	808,200	25,000	60,000	25,000	0	798,200
Leadership Training	706,944	20,000	18,000	0	0	708,944
(Non-tithe-related Functions)						
Contingency	2,214,795	0	0	(297,120)	0	1,917,675
Exchange Fluctuation	927,602	30,072	0	(100,000)	0	857,674
Global Mission	553,699	0	195,000	0	0	358,699
Ingathering Reversion	0	35,000	0	(35,000)	0	0
Insurance	191,237	0	15,000	0	0	176,237
Religious Liberty	425,202	0	5,000	0	0	420,202
Securities Fluctuation	0	0	0	113,116	0	113,116
Total Allocated	8,522,900	128,033	568,000	(284,004)	0	7,798,929
Total Operating Fund	14,870,687	10,731,425	11,118,683	0	(180,009)	14,303,420

The **Statement of Changes in Net Assets** summarizes the transactions by the functional classification – meaning the **purpose** of income or expense.


For example, all leadership training income, expense, and beginning and ending balances are displayed together in one line rather than separating them by type of expense.

Statement of Changes in Net Assets

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS		
Statement of Changes in Net Assets		
Year Ended 31 December 20X1		
	Balance	
	31-12-20X0	
OPERATING FUND:		
Unallocated		
Tithe	3,280,762	9
Non-tithe	3,067,025	1
Total Unallocated	6,347,787	10
Allocated		
(Tithe-allowable Functions)		
Constituency Session	1,004,342	
Evangelism - Big Cities	772,895	
Evangelism - Rural Areas	632,368	
Extended Inter-union Service	285,517	
Health Outreach	808,299	
Leadership Training	706,944	
(Non-tithe-related Functions)		
Contingency	2,214,795	
Exchange Fluctuation	927,602	
Global Mission	553,699	
Ingathering Reversion	0	
Insurance	191,237	
Religious Liberty	425,202	
Securities Fluctuation	0	
Total Allocated	8,522,900	
Total Operating Fund	14,870,687	10

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS						
Statement of Changes in Net Assets						
Year Ended 31 December 20X0						
	Balance			Transfers From (To)		Balance
	31-12-19X9	Income	Expense	Unalloc. & Alloc.	Operating & Plant	31-12-20X0
OPERATING FUND:						
Unallocated						
Tithe	2,926,671	10,192,787	9,738,696	(100,000)		3,280,762
Non-tithe	2,982,437	1,662,425	1,377,837		(200,000)	3,067,025
Total Unallocated	5,909,108	11,855,212	11,116,533	(100,000)	(200,000)	6,347,787
Allocated						
(Tithe-allowable Functions)						
Constituency Session	1,112,947		108,605			1,004,342
Evangelism - Big Cities	668,187	200,000	95,292			772,895
Evangelism - Rural Areas	510,334	200,000	77,966			632,368
Extended Inter-union Service	285,517					285,517
Health Outreach	768,299			40,000		808,299
Leadership Training	728,638		121,694	100,000		706,944
(Non-tithe-related Functions)						
Contingency	2,289,795			(75,000)		2,214,795
Exchange Fluctuation	946,343	(18,741)				927,602
Global Mission	478,699	250,000	175,000			553,699
Ingathering Reversion	0	40,000		(40,000)		0
Insurance	131,143		14,906	75,000		191,237
Religious Liberty	418,690	11,512	5,000			425,202
Securities Fluctuation						0
Total Allocated	8,338,592	682,771	598,463	100,000	0	8,522,900
Total Operating Fund	14,247,700	12,537,983	11,714,996	0	(200,000)	14,870,687

Financial Statements

- Statement of Financial Position
- Statement of Financial Activity
- Statement of Changes in Net Assets
-  • Statement of Cash Flows

Statement of Cash Flows

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

Cash Flows from Operating Activities:

Net Increase from Financial Activity
Adjustments to reconcile change in net assets to net cash provided:
 Unrealized (Gain) Loss on Investments
 Total Exchange (Gain) Loss
(Increase) Decrease - Accounts Receivable
(Increase) Decrease - Supplies & Prepaid
Increase (Decrease) - Accounts Payable
Increase (Decrease) - Agency Funds (net)
 Net Cash Provided (Used) from Operating

Cash Flows from Investing Activities:

Proceeds from Maturity of Investments
Purchase of Investments
Payments Received on Notes Receivable
New Notes Receivable Issued
 Net Cash Provided (Used) from Investing

Cash Flows from Financing Activities:

Proceeds from Borrowing New Debt
Payments Made on Long-term Debt
Proceeds (Payments) on Inter-fund Borrowing
 Net Cash Provided (Used) from Financing

Exchange Gain (Loss) on
Cash Held in Other Currency

Net Increase (Decrease) for the Year
Cash, Beginning of Year

Cash, End of Year

SAMPLE UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS		Supporting	Operating
Statement of Financial Position		Schedule	20X1
31 December 20X1 and 20X0			
(5)	ASSETS	S-1	1,702,642
	<u>Current Assets</u>		8,571,777
(13)	Cash and Cash Equivalents	S-2	9,069,178
(3)	Investments	S-3	546,956
(1,135)	Accounts Receivable, net	S-1	986,033
9	Cash Held for Agency	S-4	241,996
135	Loans Receivable - Current Portion	S-5	21,018,581
2,799	Supplies and Prepaid Expense		2,000
1,159	Total Current Assets		180,000
	<u>Other Assets</u>		4,276,542
316	Due From Plant Fund	S-10	0
(2,800,000)	Restricted Currency Receivable	S-4	4,458,540
1,641,210	Loans Receivable - Noncurrent	S-6	25,477,120
(250,000)	Miscellaneous Other Assets		
(1,092,569)	Total Other Assets		
	Total Assets		
	LIABILITIES		
500,000	<u>Current Liabilities</u>	S-7	955,000
(472,262)	Accounts Payable	S-8	7,200,000
(22,000)	Offering and Agency Accounts	S-9	697,000
5,738	Loans Payable - Current Portion		8,852,000
	Total Current Liabilities		
	<u>Other Liabilities</u>		
30,072	Due to Plant Fund	S-10	18,000
	Restricted Currency Payable	S-9	2,140,000
102,972	Loans Payable - Noncurrent	S-12	2,300,000
1,599,670	Miscellaneous Other Liabilities		11,000,000
1,702,642	Total Other Liabilities		
	Total Liabilities		
	NET ASSETS		
	Unallocated Title Fund		
	Unallocated Non-title Fund		
	Unallocated Funds		

Statement of Cash Flows

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

	Operating Fund	
	20X1	20X0
Cash Flows from Operating Activities:		
Net Increase from Financial Activity	(567,267)	622,987
Adjustments to reconcile change in net assets to net cash provided:		
Unrealized (Gain) Loss on Investments	(133,971)	20,855
Total Exchange (Gain) Loss	(30,072)	19,750
(Increase) Decrease - Accounts Receivable	(1,139,722)	569,861
(Increase) Decrease - Supplies & Prepaid	95,919	(55,903)
Increase (Decrease) - Accounts Payable	135,000	74,323
Increase (Decrease) - Agency Funds (net)	2,799,844	(1,437,109)
Net Cash Provided (Used) from Operating	1,159,731	(167,236)
Cash Flows from Investing Activities:		
Proceeds from Maturity of Investments	316,179	52,739
Purchase of Investments	(2,800,000)	(250,000)
Payments Received on Notes Receivable	1,641,252	750,000
New Notes Receivable Issued	(250,000)	(3,000,000)
Net Cash Provided (Used) from Investing	(1,092,569)	(2,447,261)
Cash Flows from Financing Activities:		
Proceeds from Borrowing New Debt	500,000	3,500,000
Payments Made on Long-term Debt	(472,262)	(435,456)
Proceeds (Payments) on Inter-fund Borrowing	(22,000)	0
Net Cash Provided (Used) from Financing	5,738	3,064,544
Exchange Gain (Loss) on Cash Held in Other Currency	30,072	(19,750)
Net Increase (Decrease) for the Year	102,972	412,297
Cash, Beginning of Year	1,599,670	1,187,373
Cash, End of Year	1,702,642	1,599,670

Statement of Changes in Cash Flow exists because of the critical nature of cash for every organization. It summarizes the major cash flows during the year that impacted the change in the total cash.

In this example, it can be seen that Accounts Receivable increased by 1.1 million thereby decreasing cash by the same amount.

In the next year, management can increase cash by improving collection efforts and reducing Accounts Receivable.

Understanding Financial Statements

What are you seeking to Understand?

- Financial Health and Sustainability
- Operational Efficiency and Effectiveness
- Missional alignment

Context

- It is important to understand:
 - Where are we?
 - Macro-economic situation?
 - Point in business cycle?
 - What are we?
 - Type of entity?

Trends

- Are there any recognizable patterns?
 - Time
 - Between various points in time, or
 - Relative to a goal or deadline
 - Direction
 - Where are we heading?
 - Velocity
 - How fast are we moving?
 - Momentum or Inertia
 - Relative ability to change direction

Comparisons

Internal

- Strength or weakness of specific components
- Consistency between specific components

External

- What is the current situation and experience of similar entities?
- How does my organization compare to the typical entity (or ideally the “best in class”)?

Financial Analysis

- Common-size analysis
 - Converts the various amounts into a % of a major item
 - Such as Tithe or Sales or Assets, etc.
- Ratio analysis
 - Relationships between two or more numbers
 - Relationship between multiple ratios

Financial Position Ratios

- To analyze the relative health of the entity at a point in time
- These include:
 - Liquid Assets to Commitments
 - Recommended Working Capital
 - Current Ratio
 - Debt Percentage
 - Equity (Net Asset) Percentage

Operating Activity Ratios

- To analyze the relative efficiency/effectiveness of the entity's operations over a period of time
- These include:
 - Self-Support
 - Net Income to Sales
 - Gross Profit to Sales
 - Operating Expense to Sales
 - Payroll Expense to Tithe
 - Collection Ratio
 - Accounts Receivable Turnover
 - Inventory Turnover

Find the “Pulse” of the Organization

- Sources
 - Ask your treasurer
 - Ask your higher organization
 - Ask your lender / loan covenants
- Experience over time
- May change
 - Over time
 - At various points in business cycles or economic conditions

GCWP S 24 25 -- Reporting on Working Capital and Liquidity

Sample Reporting—Working Capital and Liquid Assets Report for 31 December 20XX	
Core Expenses:	
Operating Expenses	80,000
Net Outgoing Appropriations	<u>50,000</u>
<i>Total Core Expenses</i>	<u>130,000</u>
Available Working Capital:	
Current Assets	140,000
Minus: Current Liabilities	<u>(60,000)</u>
<i>Working Capital</i>	80,000
Minus: Current Assets Held for Donor Restrictions	<u>(10,000)</u>
<i>Available Working Capital</i>	<u>70,000</u>
Recommended Minimum Available Working Capital:	
Six months of Core Expenses (50% of 130,000)	65,000
Surplus/(Shortfall) in <i>Recommended Minimum Available Working Capital</i>	5,000
<i>Available Working Capital in Months</i> (a minimum of six months recommended) (70,000 divided by 130,000 x 12)	6.5 Months
<i>(Include if Applicable:)</i> <i>The Governing Board Requires the Organization to Have Working Capital of at Least:</i>	XX Months

Available Liquid Assets:	
Cash and Cash Equivalents	40,000
Cash Held for Agency	1,000
Local Church Remittances, as Applicable	14,000
Investments	40,000
Receivable from Higher Organizations	<u>15,000</u>
Total Liquid Current Assets	110,000
Minus: Current Liabilities	(60,000)
Minus: Current Assets Held for Donor Restrictions	(10,000)
<i>Available Liquid Assets</i>	<u>40,000</u>
Recommended Minimum Available Liquid Assets:	
Three Months of Core Expenses (25% of 130,000)	32,500
Surplus/(Shortfall) in <i>Recommended Minimum Available Liquid Assets</i>	7,500
<i>Available Liquid Assets in Months</i> (a minimum of three months recommended) (40,000 divided by 130,000 x 12)	3.7 Months
<i>(Include if Applicable:)</i> <i>The Governing Board Requires the Organization to Have Available Liquid Assets of at Least:</i>	XX Months

Thank you!

Bibliography

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- *General Conference Working Policy*, 2022-2023 Edition