
Reading financial statements

An overview for theological schools and seminaries

Chris Meinzer, the senior director of administration and COO of the Association of Theological Schools, authored this for In Trust. An expert on the financial and administrative aspects of seminaries and theological schools, Meinzer has created a sample of financials for a theological school. His notes on the financial samples provide some insight into the financials and some questions to consider and ask. The sheets can be used to help anyone interested in the finances of theological schools gain a better understanding. He is doing a webinar on May 12, 2021, for the In Trust Center. You can find information about it at bit.ly/ITmag21. An archived webinar will also be available at www.intrust.org.

The Statement of Financial Position

The Statement of Financial Position shows what a school owns, what it owes, and the characteristics of its net assets (assets - liabilities). This statement is the equivalent of the balance sheet in the for-profit world. The statement in the example represents the financial position of the school on the last day of the fiscal year.

SAMPLE THEOLOGICAL SEMINARY	
Statements of Financial Position	
June 30, 2020	
ASSETS	
Cash and cash equivalents	\$ 359,872
Promises to give	99,647
Accounts receivable and other assets	92,287
Investments	20,122,258
Assets held in outside trusts	1,644,880
Property and equipment	12,483,089
Total Assets	\$ 34,802,033
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	\$ 232,325
Annuities payable	251,876
Notes payable, current portion	110,000
Total current liabilities	594,201
Notes payable, long-term portion	1,713,422
Total Liabilities	2,307,623
Net Assets	
Without donor restriction:	
Undesignated	426,090
Designated by Board for endowment	3,000,000
Property and equipment	12,483,089
Total Net Assets Without Donor Restriction	15,909,179
Time or purpose restriction	6,545,321
Perpetual in nature	10,039,910
Total Net Assets With Donor Restriction	16,585,231
Total Net Assets	32,494,410
Total Liabilities and Net Assets	\$ 34,802,033

Assets

Assets are listed from current to non-current to show liquidity. Investments can be turned into cash, but there are often restrictions on how those invested funds can be used. Investments may also take some time to turn into cash.

What to watch: Current assets are more immediately available to pay liabilities that are due in the short-term. If current liabilities exceed current assets, a school may have trouble paying its bills in the short-term. It may also create longer-term issues as the school begins to use assets intended for other or restricted purposes.

A question to consider: How do current assets compare to current liabilities? If current liabilities are significantly higher, it may indicate an impending cash-flow challenge.

Three things to ask the CFO: How does cash compare to current liabilities? In what ways are the investments restricted or unrestricted? How much of the total assets are tied up in illiquid assets such as property and equipment or assets held in trust?

Liabilities

Liabilities are listed from current to non-current (and sometimes are segregated like in this statement). Current, particularly for debt, is what is payable in the upcoming fiscal year. This helps the reader identify what is owed in the near-term.

What to watch: Long-term portions of notes payable or long-term debt are separated to show what is due beyond one year. The reader can get a fuller understanding of debt by reading the footnotes to the audit, which would describe the debt in detail.

Note: With new accounting pronouncements in the U.S., schools now must designate their net assets in terms of whether donor restrictions exist- with restrictions or without restrictions. Although not required, this statement breaks those categories down a little more, showing those that are restricted by time or purpose (temporarily restricted) and those that have perpetual donor restrictions (permanently restricted). In this case, the footnotes to the audit would provide further detail to the restrictions.

Questions to ask: What are the repayment terms of the debt? Why was the debt incurred- was it to build a building or to cover operating shortfalls? Are the payables growing and, if so, why? Do we have sufficient cash and ways to generate cash to pay our current liabilities?

Other questions to consider

What proportion of net assets are with donor restrictions and without donor restrictions?

What proportion of the net assets without donor restrictions are represented by very illiquid assets such as property and equipment? Designations of net assets are established by the board of directors and can be changed or rescinded by action of the board. Noting what proportion of net assets without donor restriction that is not represented by property and equipment may give some indication of flexibility the school has for future financial hiccups or institutional creativity.

The Statement of Activities

The Statement of Activities shows what a school earned and spent during the fiscal year. This statement is the equivalent of the income statement in the for-profit world.

SAMPLE THEOLOGICAL SEMINARY Statement of Activities

For the Year Ended June 30, 2020

	Without Donor Restriction	With Donor Restriction	Total
Operating revenues			
Tuition and fees	\$2,733,120	\$-	\$2,733,120
Less student financial aid	<u>(865,414)</u>	<u>-</u>	<u>(865,414)</u>
Net tuition and fees	1,867,706	-	1,867,706
Gifts and grants	1,037,623	678,356	1,715,979
Net investment income	501,227	195,463	696,690
Conferences and meetings	119,554	-	119,554
Other income	15,378	-	15,378
Net assets released from restriction	<u>1,311,463</u>	<u>(1,311,463)</u>	<u>-</u>
Total operating revenue	<u>4,852,951</u>	<u>(437,644)</u>	<u>4,415,307</u>
Operating expenses			
Instruction	1,844,580	-	1,844,580
Library	138,350	-	138,350
Student services	503,311	-	503,311
Academic support	665,428	-	665,428
Institutional support	1,206,317	-	1,206,317
Fundraising and development	614,221	-	614,221
Total operating expenses	<u>4,972,207</u>	<u>-</u>	<u>4,972,207</u>
Change in net assets from operations	<u>(119,256)</u>	<u>(437,644)</u>	<u>(556,900)</u>
Non-operating activities			
Contributions	-	2,592,448	2,592,448
Net investment income	48,418	1,433,618	1,482,036
Other	234,748	74,012	308,760
Change in net assets from non-operating activities	<u>283,166</u>	<u>4,100,078</u>	<u>4,383,244</u>
Change in net assets	163,910	3,662,434	3,826,344
Net Assets - Beginning of year	<u>15,745,269</u>	<u>12,922,797</u>	<u>28,668,066</u>
Net Assets - End of year	<u>\$15,909,179</u>	<u>\$16,585,231</u>	<u>\$32,494,410</u>

The accompanying notes are an integral part of these financial statements.

Questions and comments on the Statement of Activities

Note that the statement has two columns to distribute activities into those that impact net assets without and with donor restriction. With new accounting pronouncements in the United States, schools now show operating revenues, operating expenses, and the change in net assets from operations. This gives a result of operating surplus or (deficit). There is then a section for non-operating activities that, for the most part, impact longer-term net assets that are perpetual in nature or restricted by time or purpose.

About revenues: What are the proportions of revenue categories? What are the discount levels on tuition (amount of tuition covered by scholarship & aid)? How much does the school generate in gifts and grants annually? Are these levels sustainable? What are other revenue categories? How are the revenues proportions different from peers? The school may consider using the *ATS Strategic Information Report (SIR)* or *ATS Institutional Peer Profile Report (IPPR)*. These help schools see how they stack up to similar institutions. Historically, ATS schools have spent about 35%-45% of their budgets on instruction, library, and academic support, about 45%-55% on institutional support, student services, and operations of maintenance of plant, and about 10% on scholarship. A school's SIR will provide its spending levels for comparison.

Questions to ask your CFO about revenue: Which revenue source do you feel most confident about annually and which one gives you concern? The net assets released from restriction show resources that have met their time or purpose restriction and are thus available to cover operating expenses. In many cases, this would be when a donor restricts their gift for a particular purpose (i.e. financial aid or an event) and the actual intended purpose or time event is met, so the restriction on the gift or the earnings on the gift are released.

Questions to ask your CFO about scholarships: What is our scholarship policy? How do we determine who gets a scholarship? How are the scholarships funded- are we using gifts or endowment to fund the scholarships or are we giving discounts to students?

About expenses: The expenses reported often follow broad categories used in higher education. The reader sees these broad categories divided into more natural categories in the *Statement of Functional Expenses*, which is a separate statement included in the audit. So, other questions to consider about expenses: What are the proportions of expenditure categories? How much is going to instruction, library, and academic support versus institutional support and other expense categories? The school should consider using benchmarking to other schools to see if their expenditure categories are similar or different to their peers. The school may consider using benchmarking found the ATS Strategic Information Report (SIR) or ATS Institutional Peer Profile Report (IPPR).

Questions to ask your CFO about expenses: Which expenditures are most difficult to control? Where do you see us spending the least effectively?

About non-operating activities: They are shown separately from operating activities. Non-operating activities generally impact longer-term net assets with donor restrictions. These items are segregated from operations so the reader can get a sense of how well the school is doing in terms of its operations and what other activities help the school fulfill its mission in the long-term. Non-operating revenues might be sale of property or transactions that occur infrequently and are not part of normal operations. Likewise, non-operating expenses might be costs associated with one-time and abnormal activities, such as an uninsured loss.

About net assets: The school shows the net assets at the beginning of the year, the total change in those net assets, and the net assets at the end of the year. The reader can get a quick snapshot of whether net assets are growing or declining and, perhaps more importantly, the depth of that growth or decline. Declines in net assets over a period of time would indicate an erosion of financial strength of the school. In the short-term, these declines might not be concerning. In either case, reviewing net assets over a period of time (3-5 years) can give the reader some indication of change in financial strength.

Questions to ask your CFO about net assets: Have our net assets been growing or declining? Are there differences in net assets categories - unrestricted, restricted for purpose, or restricted in perpetuity? Are there areas where we are using restricted assets for purposes that they were not intended? Did net assets - both without and with donor restriction - grow or decline? What has been the trend over the last 3-5 years? Are changes in net assets without donor restriction being supported/propped up by unusual or infrequent items (such as large bequests or sales of property)?

Online resources: You can find more information about ATS resources here:

SIR- <https://www.ats.edu/resources/institutional-data/strategic-information-report>

IPPR- <https://www.ats.edu/resources/institutional-data/institutional-peer-profile-report>

The Statement of Functional Expenses

The Statement of Functional Expenses shows how the schools expended its resources by both **functional** and **natural** categories. For example, the reader can see how much was expended for salaries in Instruction. **The functional categories are distributed broadly between program and support services** as well as within specific business activity.

The school needs to establish criteria for allocating expenses within functional categories, and this methodology will be reviewed by the school's auditors. Some schools allocate costs that benefit the entirety of the school enterprise. Below, the school is showing the total costs associated with operations of the facilities and then allocating these costs among other functions. The reader should note how significantly these allocated costs impact the totals within the functional categories.

How much is the school spending within each functional category? In reviewing the **natural categories**, is there some indication as to why some functional areas are higher than others? The school might consider benchmarking themselves against other peer institutions and could consider using the **ATS Strategic Information Report** or **ATS Institutional Peer Profile Report**. **This statement is important to users because it more readily shows how a school is spending its resources in categories that are more commonly recognizable.** Here you can see how much a school is spending on salary and benefits across the variance functions. **In general, ATS schools spend about 65-75% of their budgets on staff costs.** How does your school compare?

Questions to ask your CFO: How much of our budget goes to salaries and benefits? How much of our budget goes to maintaining a campus? What portions of the budget seem to be the most difficult to effectively control? In what portions of the budget are we spending and getting much more in return in advancing the mission?

Online resources: You can find more information about ATS resources here:

SIR- <https://www.ats.edu/resources/institutional-data/strategic-information-report>

IPPR- <https://www.ats.edu/resources/institutional-data/institutional-peer-profile-report>

SAMPLE SEMINARY Statement of Functional Expenses For the Year Ended June 30, 2020 <-- These are the functional categories -->									
	Program Services					Support Services			
	Instruction	Library	Student Services	Academic Support	Total	Facilities Operation	Institutional Support	Fundraising and Development	Total
Below are the natural categories									
Salaries	\$930,467	\$77,539	\$206,770	\$232,617	\$1,447,393	\$284,309	\$620,311	\$232,617	\$2,584,630
Benefits	160,971	13,414	35,771	40,243	250,399	49,185	107,314	40,243	447,141
Conferences	40,909	-	26,680	48,023	115,612	-	24,901	37,351	177,864
Consultants	35,601	-	23,218	41,793	100,612	-	21,670	32,505	154,787
Depreciation	-	-	-	-	-	828,409	-	-	828,409
Information technology	43,523	-	28,385	51,093	123,001	-	26,492	39,739	189,232
Insurance	-	-	-	-	-	85,801	-	4,516	90,317
Interest	-	-	-	-	-	118,992	-	-	118,992
Office supplies	41,469	-	27,045	48,680	117,194	-	25,242	37,863	180,299
Professional development	10,237	-	-	-	10,237	-	-	539	10,776
Repairs and maintenance	-	1,982	-	-	1,982	59,967	-	-	61,949
Security	-	1,224	-	-	1,224	37,038	-	-	38,262
Travel	5,512	-	3,595	6,471	15,578	-	3,355	5,033	23,966
Utilities	-	-	-	-	-	65,583	-	-	65,583
Allocation of facilities operation	575,891	44,191	151,847	196,508	968,437	(1,529,284)	377,032	183,815	-
Totals	<u>\$1,844,580</u>	<u>\$138,350</u>	<u>\$503,311</u>	<u>\$665,428</u>	<u>\$3,151,669</u>	<u>\$0</u>	<u>\$1,206,317</u>	<u>\$614,221</u>	<u>\$4,972,207</u>

The accompanying notes are an integral part of these financial statements.

NOTES

Add your personal notes and questions here. Be sure to watch Chris Meinzer's webinar at bit.ly/ITmag21.

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



In Trust Center members and affiliates have permission to print and share this resource.
To learn more, contact resources@intrust.org.