

## **Financial Oversight**

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#### **Financial Oversight Responsibilities**

- Review financial reports and budgets to monitor the financial health of the organization.
- Make budget and policy recommendations.
- Safeguard the assets for the organization through internal controls.
- Provide financial oversight of the strategic plan.

#### **Why should we care about the finances of our organization?**

- Finance impacts every aspect of the organization.
- Finance is the foundation for success.
- We need financial information in order to make important decisions.
- Our money and our mission are inextricably linked.

We need to determine the financial feasibility as well as viability and effectiveness of all organizational activities and programs. Do they support the vision of the organization and thereby qualify for resources?

#### **What should we know about our organization's finances?**

- Does our organization have sufficient resources to effectively execute the activities, events and programs we have committed to? Monitor financials.
- Do we have competent teams in place to carry out these functions?
- What will our future resources look like? Create revenue and expense projections.
- What are our major liabilities and future obligations?
- Are adequate business and financial processes in place and being managed effectively?

**There should be no surprises for management that paralyze decision making.**

#### **The following is necessary for Effective Financial Reporting:**

- Decision making should be driven by strategic plan.
- Strategic plan should be linked to the budget.
- Measures required: KPI's should be identified/monitored and should include all stated strategic plan goals and objectives.
- Managerial financial reports should be easy to understand.

- All information should be analyzed to insure it is relevant and meaningful to the organization’s activities and programs. All must line up with and support the vision.

### **Financial Reporting**

<b>Questions</b>	<b>Reports</b>
Where do we want to go?	Strategic plan
How are we going to get there?	Strategic plan/budget
Do we have the resources to get there?	Balance sheet/P&L/cash flow
Are we on track?	Strategic plan monitoring Income statement vs. budget

#### **The Importance of Financial Ratios**

Monitoring financial ratios on a regular basis will give us insight into how effectively we are managing the organization. Clients, lenders, and suppliers use ratios in making decisions about extending credit or doing business with any organization. Charity Navigator also uses ratios to evaluate ministries. Ratios are a snapshot look at our financial health.

**Liquidity Ratios:** Financial ratios in this area measure the organization’s capacity to pay its debts as they come due.

**Quick Ratio** (also known as “acid test”): Measures your immediate liquidity or the cash you have to cover your immediate liabilities. Indicates the extent to which you could pay current liabilities without relying on the sale of inventory.

**Definition:** Same as working capital ratio except that it eliminates inventory so that only cash and accounts receivable assets are counted. The ratio between all assets quickly convertible into cash and all current liabilities.

Formula:  $\text{Cash} + \text{Accounts Receivable} = \text{Current Liabilities}$

**Generally accepted standard:** 1x or 100 percent of current liabilities.

**Average Quick Ratio for para-church ministries:** 2.65x

**Low Ratio:** could indicate slow moving inventory.

**High Ratio:** may indicate adequate levels of inventory are not being maintained or that inventory is being turned into cash very quickly.

**Debt to Equity Ratio:** Measures the ratio between capital invested by the organization and the funds provided by lenders, creditors, suppliers, and banks.

Formula: Total Liabilities ÷ Total Net Assets

**Generally Accepted Standard:** Debt to equity ratio should be in the range of 1:1 to 4:1. Most lenders have changed their credit guidelines since the last recession that limits debt to equity at 1.2:1 for loans; the benchmark was 2:1. In other words, with a ratio higher than 1.2:1, you will have difficulty borrowing funds.

**Analysis:** The higher the ratio the greater the risk to a present or future lender. This tells us how much of our ministries activities and facilities are financed through debt and how much are financed through equity (our own money).

### **Debt to Equity Ratio**

Andrew Wommack Ministries Fiscal Year Ratios:

Sep. 30, 2009 – .41:1

Sep. 30, 2010 – .57:1

Sep. 30, 2011 – .39:1

Sep. 30, 2012 – .21:1

Sep. 30, 2013 – .22:1

**Average debt to equity ratio for para-church ministries: 2.65x.**

Our debt to equity ratio is outstanding and is a solid indicator of overall financial health.

**Inventory Turnover Ratio:** Measures inventory turnover. This measures how fast your product is moving. That is, how many times your initial inventory is replaced in a year.

**Generally Accepted Standard:** Five times per year is considered very good for para-church organizations.

**Formula:**

Cost of Materials Given ÷ Average Inventory (Total Beginning Inventory + Total Ending Inventory divided by 2)

**Analysis:** Generally, a high inventory turnover is an indicator of good inventory management. A high ratio can also mean there is a shortage of inventory. A low ratio may indicate overstocking or obsolete inventory. Overstocking can include raw materials or any materials used to produce the final product.

Average inventory turnover ratio for para-church ministries: 3.2x.  
Giving days of inventory of 130 days.

Days in 1 year = 365 Days = 115 (DOH) Inventory Turnover = 3.2X

**Administration & Fundraising expenses to Total Support (Revenue):** This measures how well we are managing our overhead expenses.

Formula: Total Administration Expense ÷ Total Support

**Analysis:** Look for a steady or decreasing percentage indicating that the ministry is controlling its overhead expenses.

The average administrations expense to total revenue for para-church ministries is now 24.2 percent.

**Andrew Wommack Ministries Fiscal Year Ratio:**

Sep. 30, 2011 – 16 percent

Sep. 30, 2012 – 11 percent

Sep. 30, 2013 – 9 percent

As of September 30, 2013, Andrew Wommack Ministries is at 9 percent. This indicates very efficient management of overhead. Andrew Wommack Ministries is 15.2 percent more efficient than the average para-church ministry. This means that we are able to use 15.2 percent of \$40,032,816 or \$6,084,988 more to preach the Gospel.

**Fund Raising Efficiency:** How efficient are we at raising funds to support our vision.

This is our fundraising efficiency. We calculate this by dividing our fundraising

expenses by our total contributions.

Fiscal Year	Total Fundraising Expenses	Total Support	Fundraising Efficiency
2011	\$1,583,743	\$22,278,936	.08
2012	\$2,064,194	\$29,328,463	.07
2013	\$2,307,549	\$40,032,816	.06

This means that in 2013 we spent .06 cents to produce one dollar of support. This is amazing in light of the fact that we are a public broadcasting ministry. In other words, we spend money on expensive airtime to help produce support. The average fundraising efficiency for all charitable organizations that use broadcasting media to gain support is .14 cents to produce one dollar. The average fundraising efficiency for all other ministries is 7.5 cents to produce one dollar. These are ministries that do not use airtime.

### Working Capital Ratio

Formula: Current Assets ÷ Current Liabilities

The working capital ratio tells us how long we can sustain our current level of spending using our net liquid assets. This ratio assumes all support has ceased.

### Religious Media and Broadcasting

Religious activities organizations and religious media and broadcasting organizations maintain relatively small amounts of working capital. The median working capital ratio for religious activities charities and religious media and broadcasting charities is **0.36 years (4.32 months) and 0.45 years (5.4 months)**, respectively, as compared to a median of **0.84 years (10 months)** for all charities.

#### Andrew Wommack Ministries Working Capital Ratio

Fiscal Year	Ratio	Months of Expenses in Reserve
2010	.44	5.3
2011	.54	6.5
2012	1.0	12
2013	2.0	24

We have experienced significant improvement in this category. We have exceeded the average working capital ratio for religious broadcasting organizations, which is eight months in reserve. Five-twelve months of expenses in reserve is considered good. This gets you a ten rating by Charity Navigator on your financial rating score. This is the highest rating possible.

### **Program and Activities Expenses**

This ratio reflects what percent of our total expenses we are spending on our mission, our vision, and our purpose.

**Public Broadcasting and Media:** These charities use expensive air time to raise money, requiring a higher investment in their fundraising efforts and thus raising fundraising costs. Among these charities, the median fundraising expenses percentage is **15.3 percent**, as compared to a median of **7.3 percent** among all other charities.

For fiscal year ending **September 30, 2013**, our program expense percentage was **88 percent**. This is exceptional and means that we spend **88 percent** of our revenue on preaching the Gospel and not on other expenses. Keep in mind that this is a percentage of our total expenses, not of our total support.

Program expense is calculated by dividing our total program expenses by our total functional expenses.

Seven out of ten charities evaluated by Charity Navigator spend at least **75 percent** on program expenses, and nine out of ten spend at least **65 percent**. Below are our ratios in these categories:

Fiscal Year	Program Expenses	Administrative Expenses	Fundraising Expenses	Fundraising Efficiency
2010	86.6 percent	4.5 percent	8.2 percent	0.08
2011	87.7 percent	4.3 percent	7.9 percent	0.08
2012	87.5 percent	4.1 percent	8.3 percent	0.07
2013	88 percent	4.1 percent	8.0 percent	0.06

### **Primary Revenue Growth**

The average revenue growth for religious organizations in 2013 was **4.5 percent**, and expense growth was **2.8 percent**. For fundraising organizations like Andrew Wommack Ministries, the average revenue growth was **3.2 percent**. Expense growth

was **2.1 percent**.

Revenue growth for AWMI was an impressive **27 percent**. Expense growth was **15.2 percent**. Amazing!

**Charity Navigators Rating**

Score is out of a possible 70 points.

Our score = 69.13

Financial = 68.78

Accountability & Transparency = 70.00

**Revenue Data Fiscal 2012**

Total Revenue Unrestricted.....	\$29,328,463
Total Temporarily Restricted.....	\$5,113,958
Net Assets Released from Restrictions.....	\$32,123
Total.....	\$34,442,421

**Revenue Data Fiscal 2013**

Total Revenue Unrestricted.....	\$47,496,596
Total Temporarily Restricted.....	\$7,463,780
Net Assets Released from Restrictions.....	\$7,773,415
Total .....	\$40,032,816