



CITY OF GLENDALE, CALIFORNIA
Management Services Department
INTERNAL AUDIT

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February 26, 2014

REPORT#: 2014-11

Jess Duran, Director
Community Services and Parks Department

Re: Community Development Block Grant (CDBG) Financial Ratio Analysis

Dear Jess,

In accordance with Internal Audit's FY 2013-14 audit work plan, Internal Audit has completed a financial statement review for all CDBG funding applicants. Six financial ratios that would be relevant and useful to the CDBG Advisory committee during their application evaluation process were calculated from the financial statements submitted by each of the organizations.

It is important to note that Internal Audit is not expressing an opinion on the financial health of any of the organizations requesting funding. The financial ratio analysis provided to the CDBG Advisory Committee is another tool by which the committee can utilize to assist in their decision making.

Based upon research and discussion with CSP staff, the following ratios were selected to be calculated for each of the CDBG funding applicants:

1. Functional Cost Allocation

This ratio reflects the percentage of funds being spent on non-program related expenses such as general and administrative expenses relative to total expenses.

2. Current Ratio

This ratio reflects the organization's ability to pay obligations in a timely manner (within 12 months). A ratio of less than one suggests that the company would be unable to pay off its obligations if they became due as of the balance sheet date. The calculation of the current ratio is "current assets" divided by "current liabilities".

3. Debt Ratio

This ratio reflects the proportion of debt a company has relative to its assets. The measure gives an idea as to the leverage of the company along with the potential risks the company faces in terms of its debt-load. A debt ratio of greater than one indicates that an organization has more debt than assets, while a debt ratio of less than one indicates that an organization has more assets than debt. The calculation of the debt ratio is "total liabilities" divided by "unrestricted net assets".

4. Defensive Interval

This ratio reflects the number of months that the organization could operate if no additional funds were received. The calculation of the defensive interval ratio is liquid assets such as cash, marketable securities, and certain receivables divided by the average monthly expenses.

5. Reliance on Source Income

This ratio provides an awareness of the risk of a major reduction in income if this source of contributed income is reduced or stopped. The calculation of this ratio is the largest type of income divided by total income.

6. Fundraising Efficiency

This ratio reflects the average dollar amount of contributions raised from each dollar spent on fundraising. Contributed income includes individual donors, corporate donors, foundation grants, fundraising events, government funds, in-kind donations, and planned giving.

It should be noted that the Request for Proposal (RFP) required each applicant to submit an annual financial statement or audit for the past two years. Of the 13 applications received, 11 agencies submitted audited financial statements for both years, one agency submitted compiled financial statements for the most current year and audited financial statements for the prior year, and one agency is currently in the process of completing the audit of the most current fiscal year and submitted audited financial statements of the two prior years.

Regardless of the type of financial statements provided or the fiscal years provided, Internal Audit performed the same financial statement ratio calculations for each applicant. Internal Audit utilized the numbers present within the financial statements submitted without performing any verification procedures. See Exhibit A for the ratios that were calculated for the most current fiscal year ended.

A summary ratio analysis was prepared and provided to the Community Services and Parks Department staff for each organization that applied for CDBG funding and was included within the background summary information provided to the CDBG Advisory Committee for consideration during their evaluation process. In three instances, a financial ratio could not be calculated because the financial statements did not provide sufficient detail for the calculation (i.e. did not specify fundraising expense).

Based upon the financial ratios that could be calculated, Internal Audit noted the following:

- PATH Ventures has a negative Debt Ratio for FY 2012 due to an investment in partnership as part of Unrestricted Net Assets (\$116,085). Unrestricted Net Assets prior to the partnership investment is \$228,808, which if used in the calculation would result in the Debt Ratio being 3.04.

Internal Audit would like to thank you and your staff for the support and assistance provided to us during this project. Should you have any questions, please feel free to contact Naira Akopyan, Eileen Donahue or myself.

Thank you,



Michele Flynn,
City Auditor

cc: Yasmin Beers, Assistant City Manager
Moises Carrillo, Senior Community Development Supervisor
Robert Elliot, Director of Finance
Scott Ochoa, City Manager
Audit Committee
City Council

Exhibit A

	Functional Cost Allocation Ratio	Current Ratio	Debt Ratio	Defensive Interval (in months)	Reliance on Source of Income	Fundraising Efficiency
Armenian Relief Society of Western USA, Inc.	15%	6.39	0.19	3.20	94%	N/A*
Housing Rights Center, Inc.	1%	4.02	0.33	7.90	88%	N/A*
Catholic Charities of Los Angeles, Inc.	12%	2.14	0.43	2.56	39%	\$112.15
Glendale Youth Alliance, Inc.	47%	2.54	0.65	1.36	47%	\$52.29
Ascencia	15%	3.00	0.89	5.25	68%	\$15.62
Homenetmen Glendale Ararat Chapter	14%	1.52	1.36	0.54	41%	\$13.25
The Salvation Army Southern California Division Los Angeles County	8%	3.76	0.60	1.25	34%	\$6.10
Door of Hope	12%	9.57	0.04	3.47	30%	\$14.31
Committee for Armenian Students in Public Schools	22%	54.64	0.02	11.06	84%	\$31.16
PATH Ventures	13%	4.58	2.22	3.32	53%	\$23.49
Glendale Healthy Kids	23%	5.82	0.73	3.82	33%	\$6.73
Young Men's Christian Association of Glendale, California	18%	9.76	0.80	3.89	36%	\$5.81
Adventist Health	N/A*	2.32	1.19	3.28	98%	N/A*

* The financial statements did not indicate any fundraising expenses for the year.