4C. Financial: Tools for Effective Benchmarking: How to Properly Measure and Understand Your Organization's Success

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Handouts:

- PowerPoint Slides
- Sample Financial Scan Report

Tools for Effective Benchmarking: How to Properly Measure and Understand Your Organization's Success

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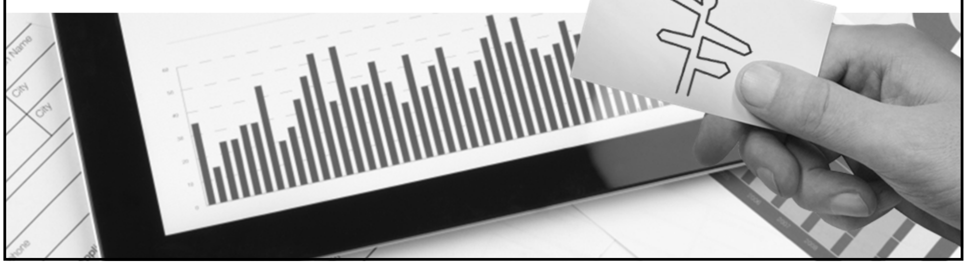
CLAconnect.com



Objectives

At the end of this session you will…

- Understand why nonprofit organizations use accounting measurements and metrics
- Review several measurements and metrics that can be useful to nonprofit organizations
- Understand why benchmarking is important
- Learn what benchmarking tools are available

The Importance of Nonprofits

- Increasingly important economically
  - More than 1.6 million nonprofits registered with the IRS
  - 26.5% of the Population do volunteer work for NFP's
- Funded by government – billions of $$$$ annually
- Increasing role in provision of valuable services (being provided by nonprofits in partnership with government)
- Many have argued that nonprofits perform important social functions better than either government or for-profit organizations

Challenges of the Nonprofit Sector

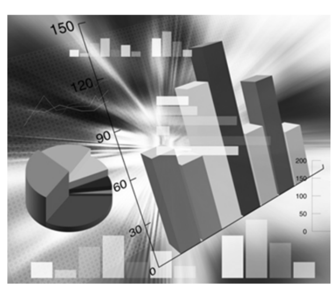
- Has suffered from notable scandals and negative publicity
- Increased IRS and legislative scrutiny
- The new normal economy

So what does this mean?

- Financial management is more important due to increased scrutiny, economic challenges and increased competition
- Executives and Board members need financial information to make key decisions

Why use Accounting Measurements and Metrics?

- To help summarize organizational performance
- Provides a snapshot approach that is easy to understand
- Can be used to improve financial decision making
- Used in benchmarking
- Helpful in identifying trends



Why use Accounting Measurements and Metrics? (Continued)

Accounting measurements and metrics are most useful if they are:

- Calculated using reliable and accurate information
- Calculated consistently from period to period
- Used in comparison to similar organizations
- Viewed at a point in time and also as a trend over a period of time
- Interpreted using internal and external factors

What are Some Typical Accounting Measurements and Metrics?

Financial analysis applicable to the for-profit world may not be useful for nonprofits

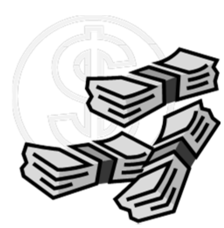
- Profit margins apply in some but not all cases
- Financial statements do not look alike
- Revenue streams are different
- Equity is much different
- *Nonprofits focus on serving their mission*

So What are Some Good Metrics for Nonprofits and What Do They Measure?

Measurements and Metrics – Days Cash on Hand

$$\frac{\textbf{Operating Cash}}{\textbf{Cash Expenses per Day}}$$

- How many days can the organization operate if no additional funds were received before investments would need to be liquidated?



$$\frac{\textbf{Cash + Investments}}{\textbf{Cash Expenses per Day}}$$

- How many days can the organization operate if no additional funds were received before requiring borrowed funds?

Measurements and Metrics – Days Cash on Hand (Continued)

Cash Expenses per Day

Operating Expenses
(-) depreciation and amortization
(-) in-kind expenses
(-) unusual one-time expenses

Cash Expenses

Divide by 365 to arrive at Cash expenses per day.

Measurements and Metrics – Current Ratio

$$\frac{\textbf{Current Assets}}{\textbf{Current Liabilities}}$$

- Measures the financial health of the organization
- Ratio > 1 represents the ability to meet short-term obligations including maturing short-term debt and upcoming operational expenses

Measurements and Metrics – Aged AR and AP Ratios

$$\frac{\textbf{Accounts Receivable over 90 Days}}{\textbf{Total Accounts Receivable}}$$

- As AR becomes older and more delinquent, may indicate potential collection problems and cash flow issues

$$\frac{\textbf{Accounts Payable over 90 Days}}{\textbf{Total Accounts Payable}}$$

- If this ratio is increasing over time, may indicate the organization has cash flow problems

Measurements and Metrics – Investments

Portfolio's Rate of Return - ((S&P 500 Rate of Return x (Equity Portfolio Inv. %)) + (Bond Rate of Return x (Bond Portfolio Inv. %)))

- Measures portfolio return for the Organization against overall market
- Are we underperforming?
- Use of alternative investments

Measurements and Metrics – Debt Ratio

$$\frac{\textbf{Total Debt}}{\textbf{Total Assets}}$$

- Measures the proportion of assets to debt
- High values may indicate potential for future liquidity issues
- High Values = Highly Leveraged
  - Could reduce capacity for future borrowings

Measurements and Metrics – Debt Ratio (Continued)

$$\frac{\textbf{Total Debt}}{\textbf{Unrestricted Net Assets}}$$

- Should only consider unrestricted net assets in this calculation
- Can also use total liabilities rather than total debt
- Measures how much the organization is relying on funding from others
- High Values = Highly Leveraged
  - Could reduce capacity for future borrowings

Measurements and Metrics – Net Assets

$$\frac{\text{Temporarily Restricted Net Assets}}{\text{(Cash + Investments + Pledges Receivable)}}$$

- Useful in determining if an organization may be spending restricted cash for purposes other than the intended purpose
- This ratio should be < 1 (lower is better)

Measurements and Metrics – Income Reliance Ratio

$$\frac{\text{Income Source}}{\text{Total Income}}$$

- Analyze proportion of income streams to total income
  - Individual /Corporate contributions
  - Grants
  - Program service revenues
  - Dividends and interest
  - In-Kind
  - Net assets released from restrictions
  - Membership dues
  - Special events
- What does the trend look like?

Measurements and Metrics – Earned Income Ratios

$$\frac{\textbf{Earned Income}}{\textbf{Total Income}}$$

- Measures relationship of earned income to all income
- Organizations with a higher percentage of earned income tend to have more autonomy and flexibility

$$\frac{\textbf{Earned Income}}{\textbf{Total Expenses}}$$

- Measures proportion of operating expenses which are covered by earned income
- Self-sufficiency

Measurements and Metrics – Program Service Expenses

$$\frac{\textbf{Program Service Expenses}}{\textbf{Total Expenses}}$$

- Measures relationship of program expenses to all expenses
- Can vary widely from industry to industry and by the size of the organization
- BBB Wise Giving Alliance → standard of 65%
- Charity Navigator → standard of 66.7%

- Conversely, one can also look at the support services as a percent of total expenses

Measurements and Metrics – Fundraising Efficiency

$$\frac{\textbf{Fundraising Expenses}}{\textbf{Contributions}}$$

- Calculates how much the organization spends to generate $1 in charitable contributions
- Charity Navigator gives highest rating to those with less than $0.10
- Charity watch indicates $0.35 is reasonable for most charities

Measurements and Metrics – Savings Indicator

$$\frac{\textbf{Income - Expense}}{\textbf{Total Expenses}}$$

- Measures the rate of savings
- Simple way to determine if organization is adding to or using up its net assets base
- Should be considered in combination with adequacy of resources indicators

Measurements and Metrics – Other Financial Ratios

- CEO wages as a percent of total expenses
- Personal costs as a percent of total expenses
- Benefit costs as a percent of total expenses
- Benefit costs as a percent of total compensation
- Cost per Unit of Service
- Revenues per FTE
- Expenses per FTE
- Total Compensation per FTE
- Investments as a percent of total assets

True or False?

1. The organization's excellent reputation will be included as an asset on the balance sheet

2. The organization's large donor base is specifically included in the calculation of fundraising efficiency.

3. An unqualified or disengaged Board of Directors is the denominator to the days cash on hand ratio.

Measurements and Metrics – Non-Financial

- Don't forget about non-financial measurements as well!
  - Donors
  - Board members
  - Employees
  - Volunteers
  - Service area / market share
  - Other mission related measurements
- Very important to factor in non-financial aspects of the organization when analyzing financial measurements

Case Study

Two nonprofits teach the same skills, are the same size and age, and are located in similar areas. The only real differences are:

- Organization B provides more intensive training on how to be a valuable employee (office etiquette, problem solving, effective communication) than Organization A

- Organization B sponsors support groups for clients who have made the transition from welfare to the working world

Case Study (Continued)

	Organization A	Organization B
Total Expenses	$ 100,000	$ 100,000
Program Expenses	$ 90,000	$ 70,000
Program Expense Ratio	90.0%	70.0%
# of Clients Trained	85	65
# of Clients Placed in Job	76	55
Starting Salary	$10 / hr	$10 / hr
# of Clients Employed After 2 Yrs	30	50
Avg. Salary of Clients Employed After 2 Yrs	$12 / hr	$15 / hr

So how do we use this information to help our organization?

Why Benchmark?

- Because numbers are meant to be compared!
- Because the most effective measures of financial health represent relationships!
- As a way to share and collaborate, stimulate conversation and reflection, and take pulse of environmental trends.
- To get what you want!!!

Why Benchmark? (Continued)

- Benchmark when you want to…
  - Compare like attributes from similar organizations
  - Make better-informed decisions
  - Answer the question "how do I compare?"
  - Take pulse of your financial health
  - Obtain a single version of the truth

5 Key Questions to Consider when Benchmarking

#1 Are available financial resources sufficient to support our mission?

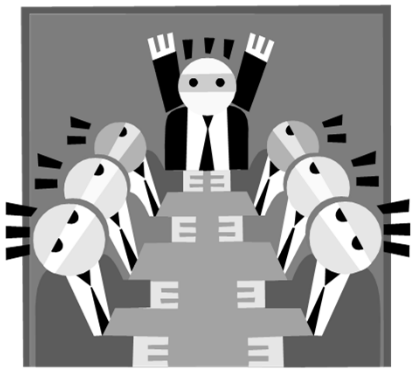
#2 How are our resources used, and are they being used efficiently and effectively?

#3 How are we performing on a relative basis?

#4 What are problem areas we can try to solve?

#5 What areas of superior performance or accountability can we discover?

In the Boardroom



Board Meeting Presentations

- Provide a quick snapshot of the current financial status
  - ◊ Discuss detailed statements and comparisons to budget through the finance committee
- Provide a summary report of key issues related to the finances of the organization
  - ◊ Use a “Financial Dashboard”
  - ◊ Communicate measurements and metrics in an efficient and effective manner
  - ◊ Color coded

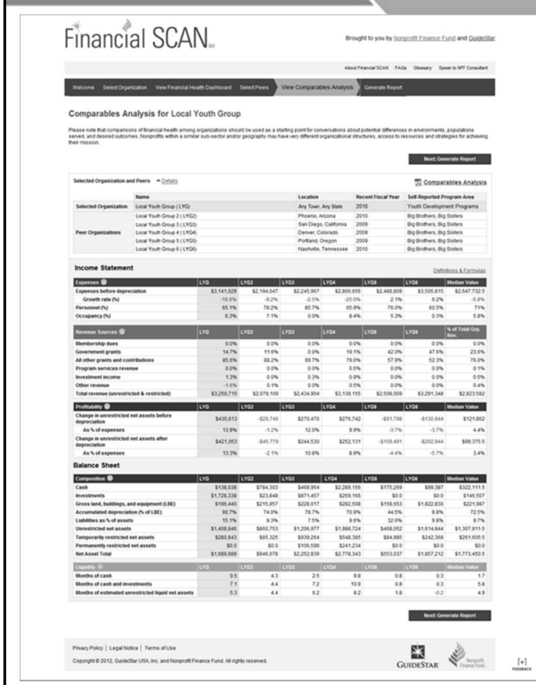
What Tools are Available – Benefits/Limitations

- Find a peer group of similar organizations and work with them to compile data on a regular basis.
- GuideStar – Lots of free information stemming from filed Federal Form 990s
- FinancialSCAN

Using Guidestar to Gather Benchmarking Data…

GUIDESTAR®

http://www.guidestar.org/rxg/analyze-nonprofit-data/index.aspx



FinancialSCAN

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Local Youth Group

2008-2012

EIN: 00-0000000
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Financial SCAN brought to you by Nonprofit Finance Fund (NFF) and GuideStar

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Save This PDF Report!

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How To Use The Report

This Financial SCAN uses IRS Form 990 data to provide a comprehensive overview of the selected organization's financial condition, incorporating Nonprofit Finance Fund's (NFF) philosophy and approach. It demystifies nonprofit finance, helping you understand how and what financial data to measure and comparing one organization's situation to up to five others. It can be used by nonprofits, boards, funders, consultants, and other stakeholders to plan for the future, communicate resource needs and make better decisions.

Remember that no one ratio or metric defines financial health for all nonprofits. NFF recommends that you enlist the help of experts to interpret the numbers and make sure you're drawing the right conclusions—the numbers always tell a story, but it is incomplete without an understanding of internal and external context.

Helpful Links

nonprofitfinancefund.org
guidestar.org
guidestar.org/nffscanfaqs
guidestar.org/nffscanabout

Local Youth Group
EIN: 00-0000000
Any Street
Any Town, Any State 00000

Mission Statement
Local Youth Group provides child care support and pre- and after-school activites for children ages 1-18.

Forms 990: 2012 , 2011 , 2010 , 2009 , 2008 , 2007* , 2006* , 2005*
* Year(s) not included in this Financial SCAN Report

Income Statement

Expenses	2008	2009	2010	2011	2012
Expenses before depreciation	$2,022,129	$2,469,673	$2,616,736	$2,528,860	$2,039,780
Growth rate (%)	-8.6%	22.1%	6.0%	-3.4%	-19.3%
Personnel	$1,590,798	$1,920,590	$2,100,174	$1,965,795	$1,555,680
Growth rate (%)	-8.5%	20.7%	9.4%	-6.4%	-20.9%

Revenue Sources (% of total)	2008	2009	2010	2011	2012
Membership dues	0.0%	0.0%	0.0%	0.0%	0.0%
Government grants	36.1%	39.1%	36.9%	18.9%	9.0%
All other grants and contributions	63.7%	60.6%	62.8%	80.7%	90.4%
Program services revenue	0.0%	0.0%	0.0%	0.0%	0.0%
Investment income	0.3%	0.3%	0.3%	0.4%	0.6%
Other revenue	0.0%	0.0%	0.0%	0.0%	0.0%
Total revenue (unrestricted & restricted)	**$2,274,835**	**$2,584,785**	**$2,878,479**	**$2,367,302**	**$2,164,296**
Growth rate (%)	18.3%	13.6%	11.4%	-17.8%	-8.6%

Profitability	2008	2009	2010	2011	2012
Change in unrestricted net assets before depreciation	$252,017	$79,654	$169,435	-$166,030	$11,120
As % of expenses	12.5%	3.2%	6.5%	-6.6%	0.5%
Change in unrestricted net assets after depreciation	$236,149	$43,045	$139,360	-$192,223	-$12,101
As % of expenses	11.6%	1.7%	5.3%	-7.5%	-0.6%

Balance Sheet

Composition	2008	2009	2010	2011	2012
Cash	$215,677	$245,144	$441,451	$415,727	$483,560
Investments	$319,363	$267,609	$382,377	$464,011	$546,382
Gross land, buildings, and equipment	$238,120	$266,068	$267,340	$267,935	$267,935
Accumulated depreciation	59.4%	62.2%	73.1%	82.8%	91.4%
Liabilities as % of assets	27.5%	27.0%	25.5%	25.4%	19.1%
Unrestricted net assets	$382,504	$425,549	$564,909	$372,686	$360,585
Temporarily restricted net assets	$328,430	$275,729	$395,272	$486,340	$581,849
Permanently restricted net assets	$0.0	$0.0	$0.0	$0.0	$0.0
Net Asset Total	$710,934	$701,278	$960,181	$859,026	$942,434

Liquidity	2008	2009	2010	2011	2012
Months of cash	1.3	1.2	2	2	2.8
Months of cash and investments	3.2	2.5	3.8	4.2	6.1
Months of estimated unrestricted liquid net assets	2.3	2	2.5	1.8	2.1

Key Data Checks

	2008	2009	2010	2011	2012
Material Data Errors	No	No	No	No	No

Note: This issue is relevant to a small number of organizations: The nonprofit subject(s) of this report may have affiliates. The Form 990 data may not include information about any or all potential affiliates. If an organization does have affiliates and these affiliates have substantial financial activity, the financial data in this report may not present a comprehensive picture of the nonprofit's financial condition. Please consult the 990s of any potentially related affiliates for additional information.

* Complete Mission Statement

We believe that all children deserve a safe environment. We make that environment available to families that otherwise might not be able to provide it to their offspring. We also provide tools and experiences to help the children in our care blossom into the individuals they were meant to be.

Expenses

NFF Perspective

A nonprofit's size can be determined by its annual operating expenses. Size reflects mission, strategy, and environment. The decision to grow should be informed by mission and whether clients, donors and others who financially support programs can pay for the costs of running the organization at its current and future size. Not every organization can or should grow. Growth does not always lead to greater social impact.

Nonprofits need to cover the full costs of doing business. Full costs includes: 1) direct costs of delivering programs, 2) indirect costs that support effective program delivery, such as: fundraising and marketing staff, management salaries, occupancy and other infrastructure, and 3) costs associated with strengthening the balance sheet, such as investments in facilities or other fixed assets and the reduction of debt or other liabilities.

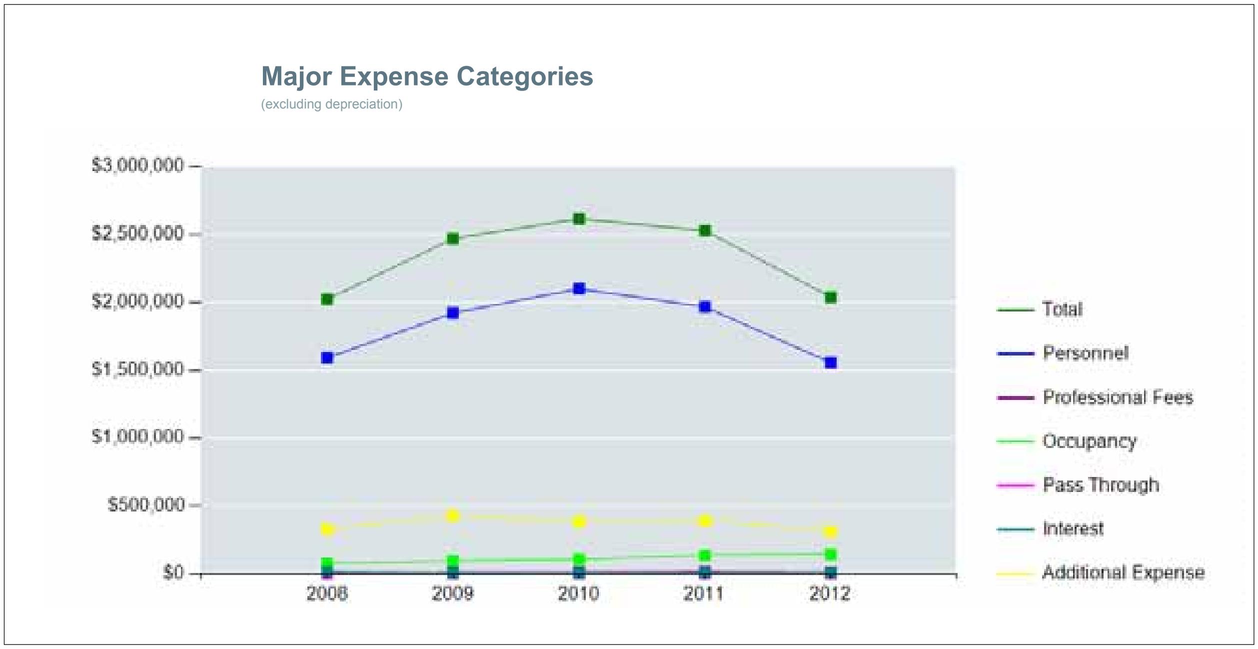
What Has Been the Size & Growth Trajectory of the Organization?

While some organizations experience incremental growth, others run periodic campaigns to scale their operations or go through planned cycles of increased and decreased activity. Growth can be destabilizing because hiring new personnel, building more complex infrastructure and starting new programs often precede the expansion of revenue to pay for it all.

Questions to Consider

- Has the organization grown steadily or become smaller?
- Does the organization's size reflect the demand for its programs?
- How have personnel decisions affected overall costs?

What Have Been Notable Trends in Expenses?



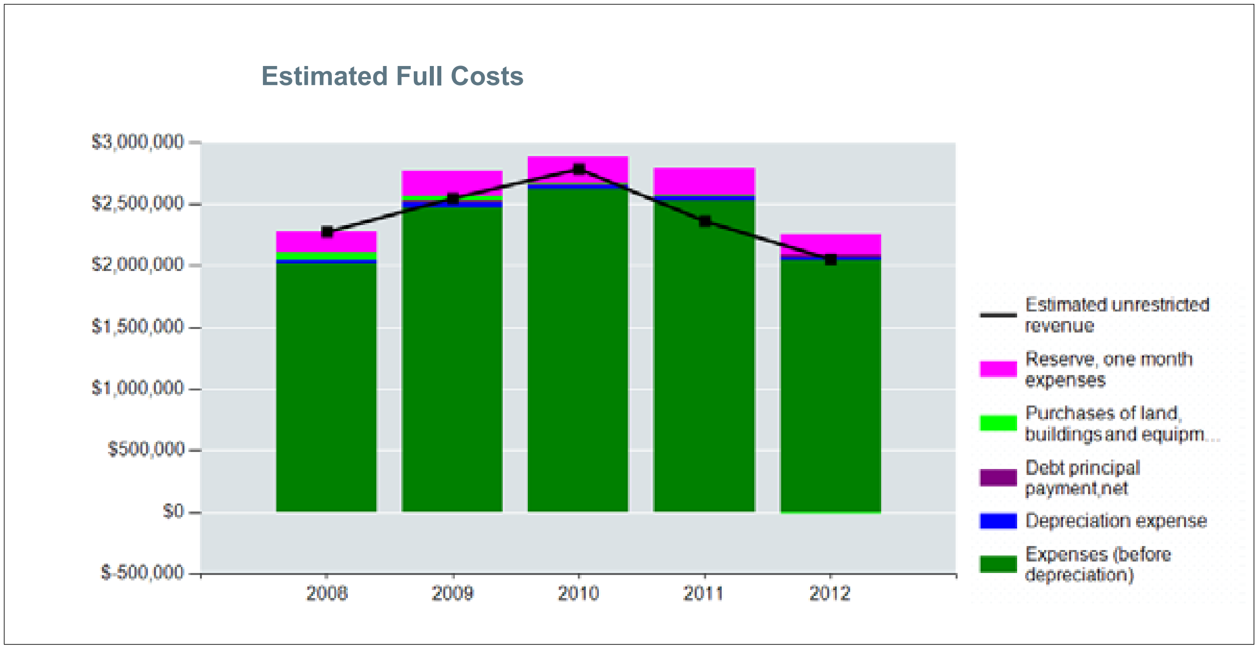
Nonprofit managers and boards need to focus on the major costs of running their operations. Often, personnel costs are the largest expense and drive overall growth or contraction. Ratios of spending among fundraising, administration and programs are not indications of an organization's social impact, and nonprofit supporters should not rely on arbitrary percentages. Instead, explore how supporting functions such as administrative costs are helping achieve desired and measurable program results. Remember, growing organizations often see indirect costs rise as they build their infrastructure ahead of new program delivery.

Technical Note: *"Additional Expenses" include any costs that the filing organization itemizes outside of the defined categories on the Form 990, as well as other expenses not included in the above five categories. These expenses may be both program and administrative in nature, and they may be substantive. Further analysis of the individual components of these expenses may be needed.*

Questions to Consider

- Which expense categories have grown or contracted significantly and why?
- Which expenses have been the most significant drivers of overall costs?
- Which expenses are fixed (i.e., cannot easily be reduced if revenue decreases) and which are flexible?

What Have Been the Estimated Full Costs of Doing Business?



This graph estimates the organization's annual full costs of doing business, which is calculated as the sum of: 1) operating expenses, 2) depreciation, 3) annual debt principal payment, 4) purchases of land, buildings and equipment, and 5) one month of cash savings (based on the expense size in the given year). The line shows whether estimated unrestricted revenue covers estimated costs.

Organizations frequently budget only to meet expenses before depreciation (bottom stacked bar). However, the items reflected in the other stacked bars can be critical for maintaining and building a healthy enterprise, supportive of mission and programs. While organizations rarely cover full costs every year, NFF encourages organizations to consider which of these items should be included in annual budgeting and fundraising planning.

Technical Note: *Because the Form 990 does not classify revenue according to restriction level, estimated unrestricted revenue is calculated as the sum of the change in unrestricted net assets and expenses. [Unrestricted Revenue-Expenses = Change in Unrestricted Net Assets]. "Debt principal payment, net" represents the overall decrease in outstanding debt principal and is calculated as: end of year debt minus beginning of the year debt.* ***For years where debt principal payment is zero in the graph above, either the debt balance increased or no debt payment was made.***

Questions to Consider

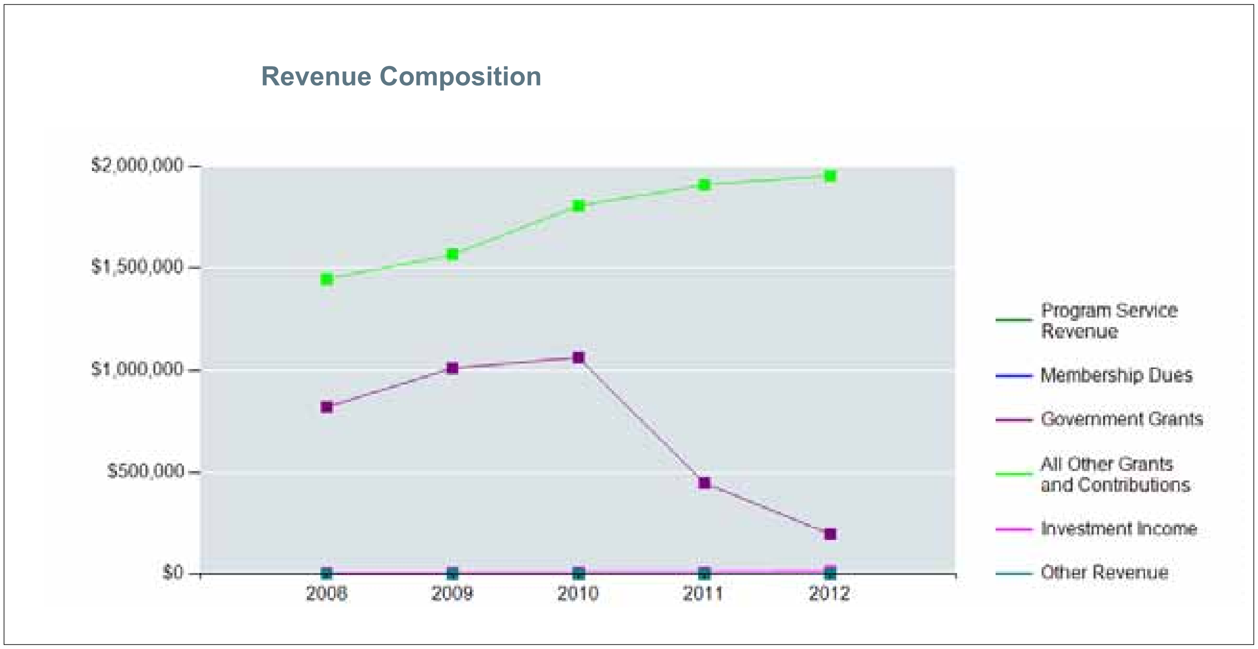
- Does the organization tend to generate enough unrestricted revenue to cover full costs, including balance sheet investments?
- Has the organization fully or partially covered depreciation annually or does it have a plan to set aside funds for future repairs and replacements of fixed assets?
- Has the organization periodically generated surplus cash to be set aside as working capital or a reserve?

Revenue Sources

NFF Perspective

The reliability, repeatability and flexibility of revenue are more important than where revenue comes from (revenue composition) and the ratio of earned vs. contributed revenue. The key is to invest in the staff and infrastructure to sustain the best revenue mix. Each type of revenue requires a different set of skills and expertise to develop. Nonprofits should evaluate their existing core competencies before pursuing a new type of revenue.

What Have Been the Major Revenue Sources?



Most organizations operate best with steady, predictable revenue to cover both fixed and variable costs. Organizations, however, may experience normal volatility in revenue if programming goes through cycles where expenses fluctuate with revenue. On the contrary, unexpected swings in revenue need to be assessed for cause, with appropriate action taken to identify replacement revenue or reduce expenses. A more detailed analysis of earned and contributed revenue streams than is often available in the Form 990 can provide greater insight about the organization's supporters and paying constituents.

***Technical Note:** Because revenue on the Form 990 does not distinguish between restricted and unrestricted contributions, this graph may contain temporarily and permanently restricted revenue that is not available for supporting operations in the given year. Please see the FAQ for more information.*

Questions to Consider

- Has the mix of revenue remained stable over time and how might it change in the future?
- Is leadership investing in future revenue-generating capacity (staff, skills, time, etc.) with potential payoff?
- If the organization has an endowment or other investments, how much income have they generated each year to support operations?

What Have Been Sources of Earned Revenue?

“Self-sufficiency,” when earned revenue covers expenses, is rarely possible for nonprofits. Organizations often depend on a mix of reliable earned and contributed revenue. Earned revenue can be mission-related—such as tuition for classes or government contracts—or not. Nonprofits should consider whether these activities that are not central to programs—such as rentals of excess space or concession/boutique sales—are making or losing the organization money, after accounting for related costs and staff time.

Questions to Consider

- Does the organization have a clear sense of its clients’ willingness and ability to pay for programs?
- Are activities appropriately priced, based on an assessment of cost and competition?
- Is the organization generating earned revenue through activities that may not be mission related and if so, do these activities fully cover their costs?

What Have Been Sources of Contributed Revenue?

Contributed revenue is composed of donated funds from individuals, foundations, corporations, and/or government agencies. Grants or donations can be unrestricted or restricted to specific programs or time periods. Unrestricted contributed income is used to cover the gap between expenses and the revenue earned through programs and other activities. This contributed “subsidy” is needed because nonprofits often provide services for which they can’t make money. As organizations grow, the gap between earned income and expenses widens. This increases the need for unrestricted contributed revenue.

Technical Note: Because revenue on the Form 990 does not distinguish between restricted and unrestricted contributions, this graph may contain temporarily and permanently restricted revenue that is not available to support operations in a given year. Also, in the IRS Form 990, government contracts or grants where the government is not the primary beneficiary of the services provided, are considered contributed revenue. Please see the online FAQ section for more information.

Questions to Consider

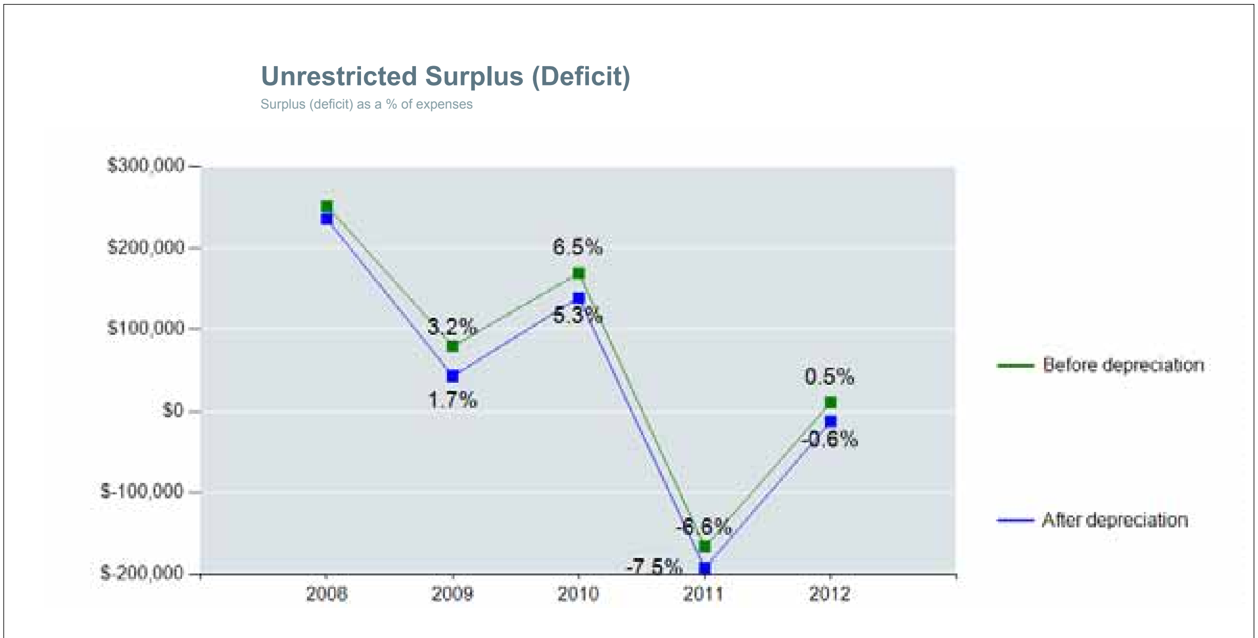
- Which revenue streams appear to have been relatively consistent and reliable over time?
- Which revenue streams may be at risk and how does the organization plan to replace them (or respond with cost cuts)?
- Is the organization able to turn down funding that might take it off course?

Profitability

NFF Perspective

Nonprofits need unrestricted surpluses to support long-term financial health, manage risk, and pursue innovation. Breaking even every year is rarely enough. Deficits mean an organization is borrowing money or depleting its cash. Consistent deficits can threaten mission and programs. Surpluses should be enough to meet annual debt obligations, make critical investments in fixed assets and contribute to savings. Some organizations have programming cycles that lead to surpluses only in certain years. They should ask whether the cash generated in surplus years is sufficient to cover the losses in deficit years, while also contributing to necessary savings.

Has the Organization Covered Its Costs?



Steady declines in unrestricted surpluses or regular deficits can indicate that leadership is not making the difficult decisions necessary to keep the organization in balance. There are times when deficits are unavoidable (in economic downturns or due to unexpected funding losses) and times when they are strategically planned with the expectation of future revenue. In either case, it is important to communicate early and clearly the reasons for deficits.

Technical Note: The revenue reported in the IRS Form 990 includes operating and non-operating revenue and donor restricted revenue. Because some of this revenue may be unavailable for use in a given year or earmarked for capital purposes, the surplus or deficit line on the Form 990 (calculated as total revenue less expenses) may be misleading as a definitive measure of operating performance. In this report, NFF therefore uses the change in unrestricted net assets –which is calculated from the balance sheet and excludes restricted funds—to calculate surplus or deficit.We are unable to remove non-operating funds, such as gains/losses on an investment portfolio or unrestricted revenue associated with a capital project, because they are not specified in the Form 990.

Questions to Consider

- How consistent have unrestricted surpluses (or deficits) been over time?
- Have results been improving or getting worse?
- Does the organization manage to regular surpluses in anticipation of future challenges and opportunities?

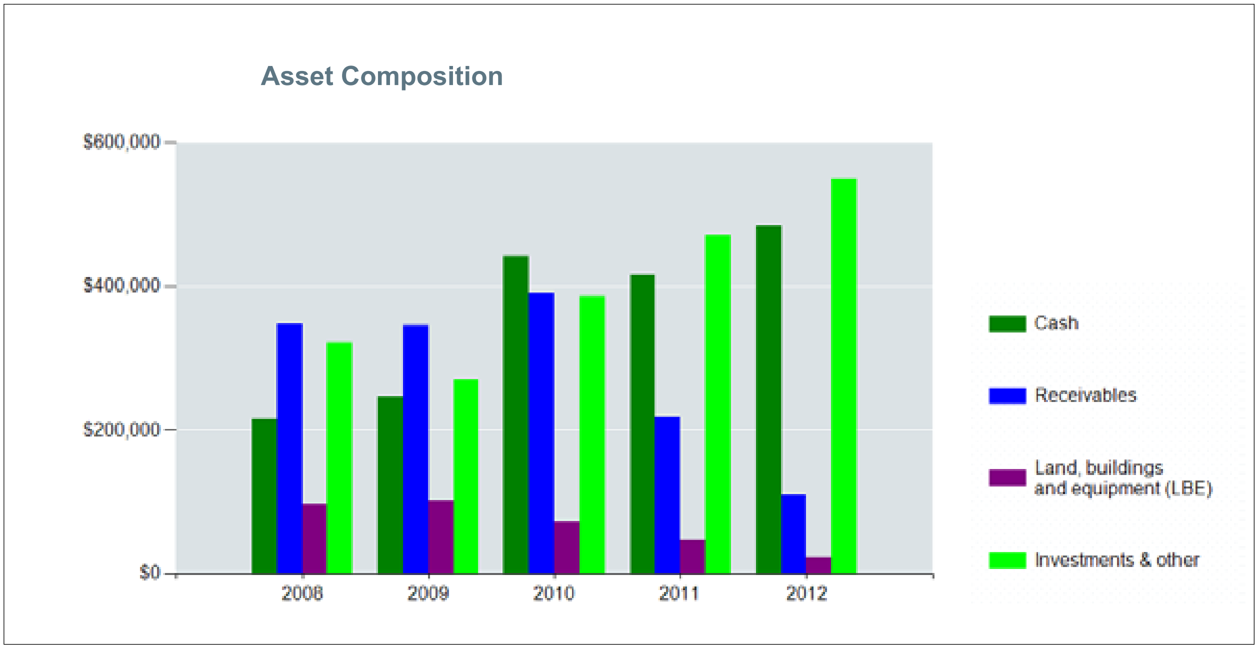
Balance Sheet Composition

NFF Perspective

The balance sheet, also known in the nonprofit sector as the Statement of Financial Position, reveals an organization's ability to manage risk and pursue growth or other opportunities. It is a summary of an organization's financial condition at a specific point in time—in the case of this report, each fiscal year end. The balance sheet includes an organization's assets (what it owns), liabilities (what it owes to others) and net assets (net worth). A strong balance sheet has enough accessible cash to withstand seasonal fluctuations in cash flow, maintain and upgrade fixed assets, repay short- and long- term obligations, and save for future strategies and innovations.

The balance sheet is directly impacted by annual operating surpluses or deficits. Each year that ends with an operating surplus will increase net assets, while each deficit year will decrease net assets. If an organization does not generate revenue to cover its expenses, it will need to find the funds somewhere—often by depleting existing cash, extending payables or maxing out a line of credit.

How Has Asset Distribution Changed Over Time?

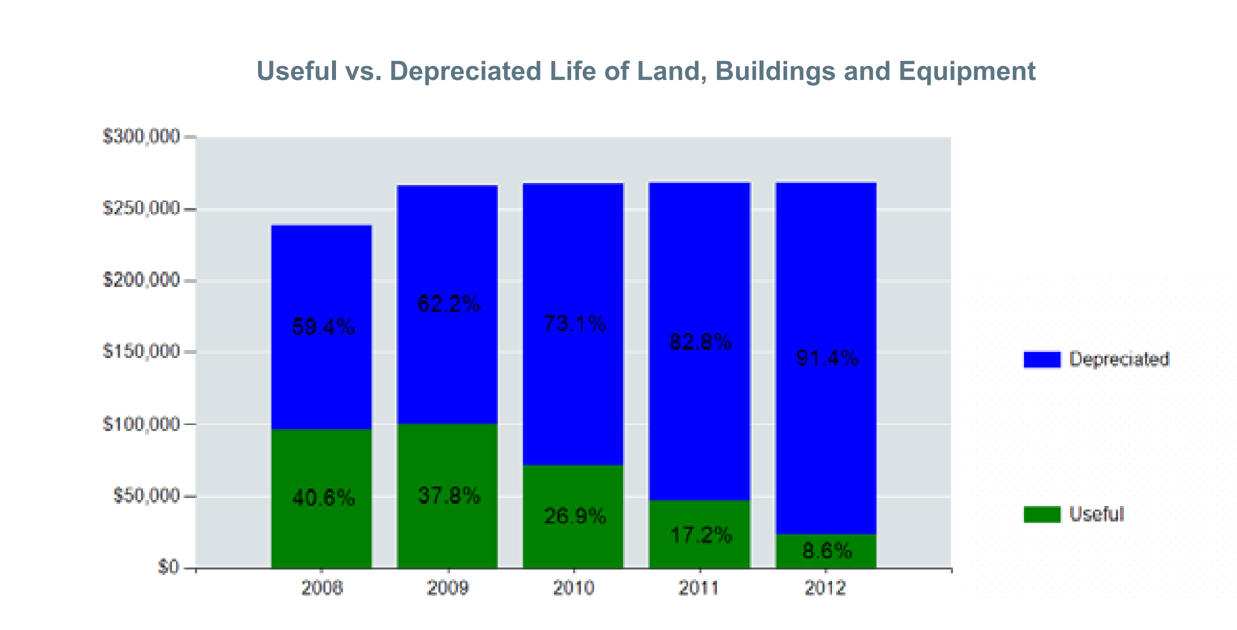


Assets often influence business decisions and liquidity. Organizations with significant land, buildings and equipment (LBE) and/or receivables often need more cash than those with simpler asset structures. As organizations grow, their balance sheets often become more complex. It is important to understand the terms of any donor-imposed restrictions on cash, receivables and investments, as they can limit the availability of funds.

Questions to Consider

- What assets does the organization require to support its mission and does the current distribution meet these needs?
- Does the organization's mission require that it own a "home" or could leadership explore other space alternatives?
- If receivables are significant, how readily do they convert into cash? Can they be collected faster?
- Does the organization have adequate cash and/or liquid investments to manage the seasonality of cash flow and save for a rainy day? If not, what is its strategy to address liquidity constraints?

Does the Organization Own Land, Buildings and Equipment?



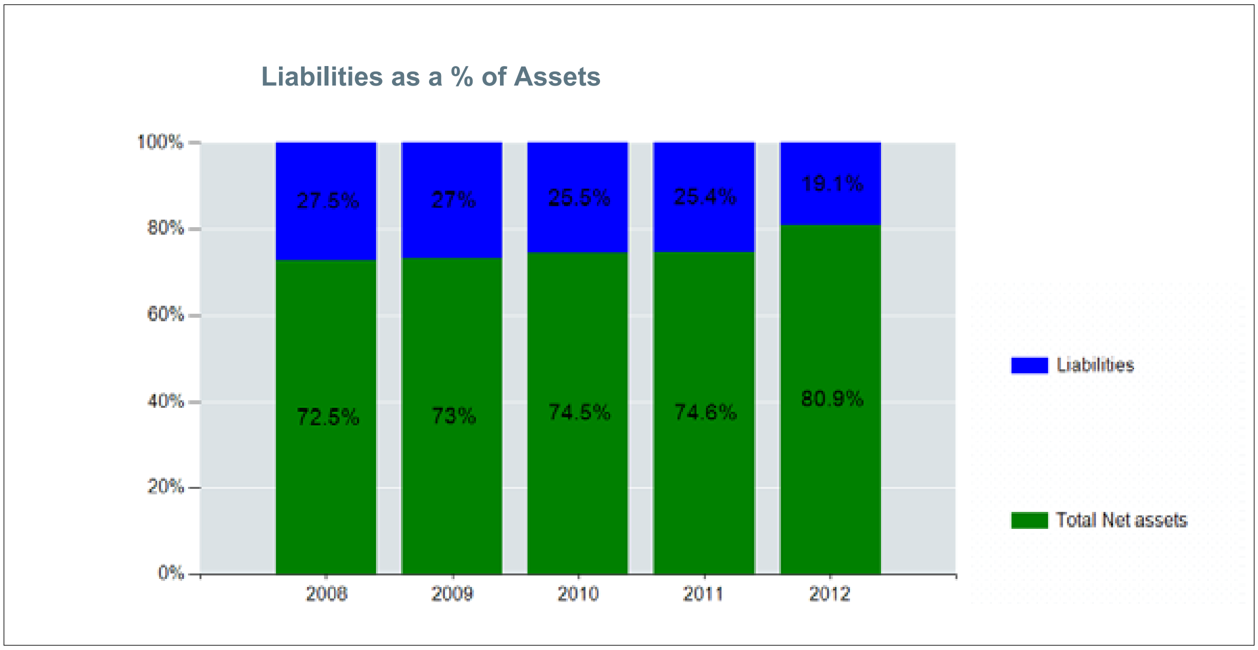
The sum of each green and blue column represents the total land, buildings and equipment ("LBE"), or fixed assets, at their historical acquisition costs. For example, if a nonprofit bought a building for $100,000 and over time the market value appreciated to $120,000, the building would remain on the books at $100,000. (Accounting differs from market value, which is educated speculation until property is sold.) The blue bars represent an accounting estimate of the accumulated wear and tear on fixed assets.

A more accurate estimate of accumulated depreciation (blue bar) can be obtained through professional assessment (i.e., from an engineer). High accumulated depreciation suggests postponed facility repairs and systems replacements. Some nonprofits choose to set aside surpluses in order to replace fixed assets when the time comes. Others pursue periodic capital campaigns. If the organization's leadership does not prioritize raising and setting aside funds for fixed assets, program effectiveness and constituents' safety may be at risk.

Questions to Consider

- What has been the wear and tear on the organization's fixed assets over time?
- If mission considerations make property ownership the best option, how will leadership secure and set aside cash to pay for replacements and upgrades?
- How will new fixed assets impact regular operations? What will be the additional ongoing costs that require new sources of revenue?

How Have Assets Been Financed?



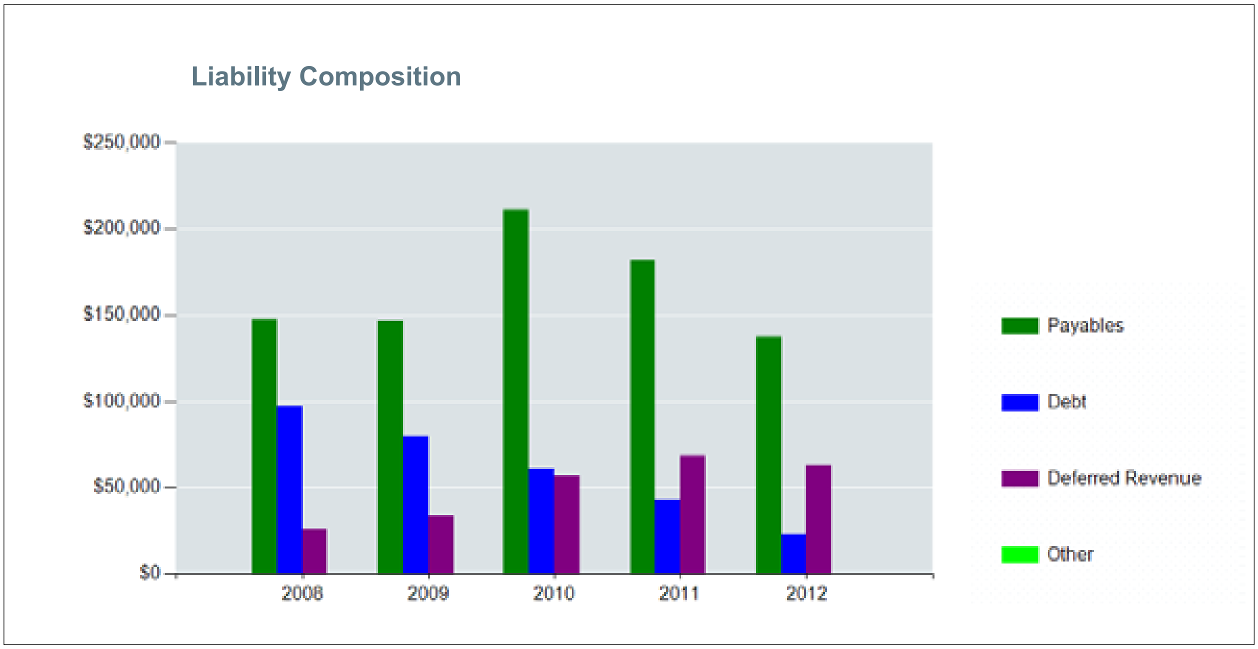
This graph shows the percentage of assets owed to others (blue bar), versus those that are wholly owned and clear of obligations (green bar). If liabilities as a percent of assets exceed 100%, the organization has negative net assets, meaning it owes to others more than it owns in assets.

When managed properly, liabilities can be an essential element of an organization's financial structure. However, they need to be repaid in a timely manner. Special attention should be paid to a situation of steadily increasing liabilities or obligations exceeding 50% of assets.

Questions to Consider

- If liabilities have been significant and/or growing, what are the organization's plans to reduce them over time?
- If the organization has significant fixed assets, have they been financed by debt, and, if so, what is the plan to repay obligations and/or borrow again?
- Will any growth plans require the organization to take on new debts?

How Has the Distribution of Liabilities Changed Over Time?

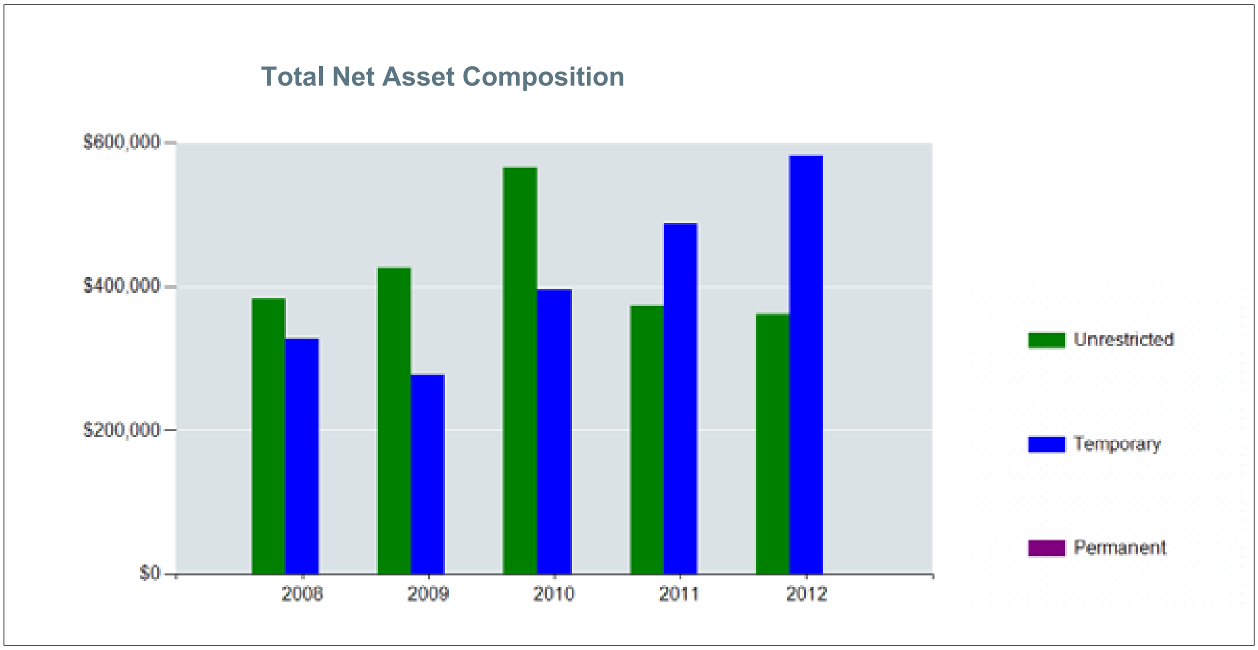


Debt can be used as a temporary source of capital, to manage cash flow or finance fixed assets. Organizations that borrow need to understand the size of annual surpluses required each year to repay borrowed funds over the life of the loan. Organizations that delay payments to vendors (payables) and/or spend cash in advance of service delivery (deferred revenue) on an unrelated purpose may be jeopardizing relationships with important suppliers or constituents.

Questions to Consider

- Has the organization delayed payables, incurred unplanned debt, or inappropriately spent deferred revenue as a way of accessing cash to fund operations?
- If the organization has debt, what is the impact of annual debt service on cash flow?
- What is the nonprofit’s strategy to reduce payables or accrued expenses that are too high?

What Has Been the Composition of Net Assets?



There are two main types of donor-restricted funds: temporary and permanent. Both can limit the flexibility of an organization's net worth. Temporarily restricted net assets are restricted to specific uses or for a particular period of time; they become unrestricted when the designated purpose is satisfied or period is over. Temporarily restricted net assets are most useful when they can be released in a timely fashion and cover the full costs of particular programs or projects. Permanently restricted net assets are commonly endowments but may also be historic buildings or land trusts. Unrestricted net assets have no restrictions but may not be liquid and readily available for operations. To estimate unrestricted liquid net assets (ULNA): ULNA= Unrestricted Net Assets – (Fixed Assets –Mortgage or Equipment Loans). You are subtracting out the "home equity" portion of the organization's unrestricted net worth.

Questions to Consider

- What portion of unrestricted net assets has been liquid and available for operations, as opposed to invested in land, buildings and equipment?
- What portion of temporarily restricted net assets is not available within the year for program delivery and operations? Does the organization have any ability to negotiate the terms of restricted funds?
- Does the organization have a permanently restricted endowment and, if so, what percent of the annual operating budget has its interest typically covered?

Liquidity

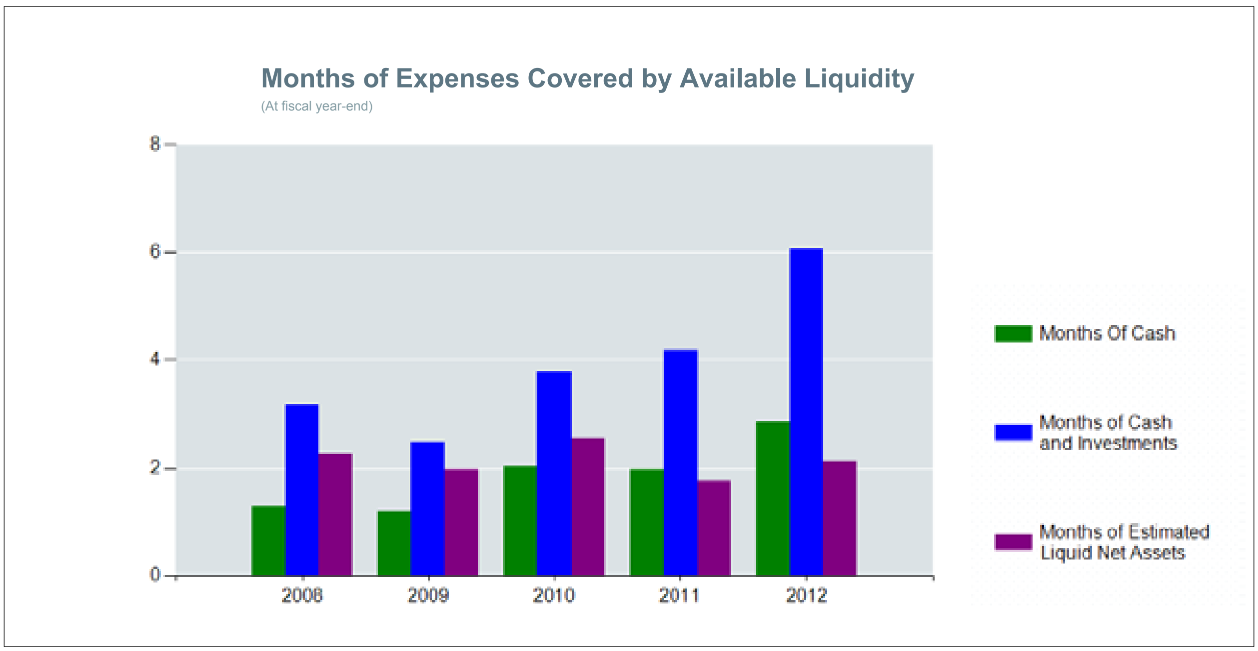
NFF Perspective

Liquidity represents cash or assets readily convertible to cash. Organizations require liquidity to manage the uneven timing of cash flow, cope with the unexpected, and take program and operational risks.

There is no “right” amount of liquidity. Organizations need more or less depending on multiple considerations, such as: stage of development, facility needs, predictability of revenue streams, and strategic goals. Liquidity can also vary from month to month depending on the cyclicality of the business. Organizations with surplus cash often make the sound choice to set aside a portion of these funds into one or more unrestricted boarddesignated reserves, with policies governing the use and replenishment of funds. While operating with no reserves may signal neediness, it can be a risky and unstable management strategy.

Risk means not having cash when you need it!

Has the Organization Had Adequate Access to Cash?



Several indicators are used in this report to assess appropriateness of liquidity. These metrics are presented here in terms of how many months of expense coverage they provide at fiscal year end. “Months of cash and investments”, for example, measures how long an organization can operate with existing cash and investments at current expense levels.

Determining liquidity is often complex for nonprofits. Receivables can take longer than usual to collect. Cash and investments are often restricted by donors, creating the impression that a nonprofit is flush, when it may be dealing with a cash crunch. (Investments, in particular, may represent a permanently restricted endowment, where the corpus cannot be spent.) In contrast, unrestricted liquid net assets (Unrestricted Net Assets – [Fixed Assets –Mortgage or Equipment Loans]) can be spent for any purpose. IRS Forms 990 do not require nonprofits to report reserves, so they will typically appear in cash or investments and unrestricted net assets.

Technical Note: *Not all unrestricted net assets are liquid and available for meeting operating needs. Months of liquid net assets represent the portion of unrestricted net assets that are not concentrated in fixed assets. This metric is calculated as unrestricted net assets minus "ownership" of fixed assets. Ownership is estimated as: unrestricted land, buildings and equipment (LBE), net of associated debt and accumulated depreciation. For the purpose of this report, all secured debt up to the value of net LBE is assumed to represent financing of fixed assets. The graph may not accurately represent an organization's liquid net assets IF one or more of the following is true: 1) fixed assets are donor restricted, 2) most secured debt is for operating purposes rather than for the purchase of LBE, 3) most unsecured debt is actually LBE-related.*

Questions to Consider

- What liquidity is available to manage cash flow cycles, handle the unexpected and respond to future opportunities?
- If cash has been tight, how does the leadership plan to address this in the future?
- If the organization has a line of credit, has it been used properly as a tool to manage cash flow, as opposed to as a source of cash to cover deficits?
- Has the leadership considered establishing and fundraising for one or more unrestricted board-designated reserves with policies governing use and replenishment?

Organizations Selected (Target & Peers)

Organization Name	Location	Recent FY	NTEE Code
Local Youth Group (LYG)	**Miami, Florida**	2012	**Youth Development Programs**
Local Youth Group 2 (LYG2)	Denver, Colorado	2012	Youth Development Programs
Local Youth Group 3 (LYG3)	San Diego, California	2012	Youth Development Programs
Local Youth Group 4 (LYG4)	Portland, Oregon	2012	Youth Development Programs
Local Youth Group 5 (LYG5)	Nashville, Tennessee	2012	Youth Development Programs
Local Youth Group 6 (LYG6)	Phoenix, Arizona	2012	Youth Development Programs

Peer Group Criteria

NTEE Code	O Youth Development
# of organizations	1990

Income Statement

Expenses	LYG	LYG2	LYG3	LYG4	LYG5	LYG6	Peer Median	Group Median
Expenses before depreciation	$3,141,029	$2,806,656	$2,245,967	$2,488,809	$3,505,815	$2,194,047	$2,647,732.5	$799,128
% growth in expenses	-16.6%	-20.0%	-2.5%	2.1%	6.2%	-9.2%	-5.9%	0.0%
Personnel (% of expenses)	65.1%	65.9%	85.7%	76.0%	60.5%	78.2%	71%	57.5%
Occupancy (% of expenses)	6.3%	8.4%	0.0%	5.3%	0.3%	7.1%	5.8%	3.7%

Revenue Sources (% of total)	LYG	LYG2	LYG3	LYG4	LYG5	LYG6	Peer Avg.	Group Avg.
Membership dues	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%
Government grants	14.7%	19.1%	0.0%	42.0%	47.6%	11.6%	22.5%	-861.1%
All other grants and contributions	85.6%	79.0%	99.7%	57.9%	52.3%	88.2%	77.1%	48.2%
Program services revenue	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%	0.1%	22.6%
Investment income	1.3%	0.9%	0.3%	0.0%	0.0%	0.0%	0.4%	-44.4%
Other revenue	-1.6%	0.5%	0.0%	0.0%	0.0%	0.1%	-0.2%	933.3%
Total revenue (unrestricted & restricted)	**$3,250,715**	**$3,139,155**	**$2,434,904**	**$2,508,009**	**$3,291,348**	**$2,079,109**	$2,783,873	$2,105,390

Profitability	BBABSOGM	BBBSOCI	BBBSOSDCI	BBBSCN	BBBSOMT	BBBSOCA	Peer Median	Group Median
Change in unrestricted net assets before depreciation	$435,613	$276,742	$270,470	-$91,798	-$130,944	-$26,746	$121,862	$40,221
As % of expenses	13.9%	9.9%	12.0%	-3.7%	-3.7%	-1.2%	4.4%	4.9%
Change in unrestricted net assets after depreciation	$421,053	$252,131	$244,530	-$109,491	-$202,944	-$45,779	$99,375.5	$15,354
As % of expenses	13.3%	8.9%	10.8%	-4.4%	-5.7%	-2.1%	3.4%	1.8%

Greater Miami

Organizations Selected (Target & Peers)

Organization Name	Location	Recent FY	NTEE Code
Local Youth Group (LYG)	Miami, Florida	2012	Youth Development Programs
Local Youth Group 2 (LYG2)	Denver, Colorado	2012	Youth Development Programs
Local Youth Group 3 (LYG3)	San Diego, California	2012	Youth Development Programs
Local Youth Group 4 (LYG4)	Portland, Oregon	2012	Youth Development Programs
Local Youth Group 5 (LYG5)	Nashville, Tennessee	2012	Youth Development Programs
Local Youth Group 6 (LYG6)	Phoenix, Arizona	2012	Youth Development Programs

Peer Group Criteria

NTEE Code	O Youth Development
# of organizations	1990

Balance Sheet

Composition	LYG	LYG2	LYG3	LYG4	LYG5	LYG6	Peer Median	Group Median
Cash	$138,038	$2,289,156	$468,954	$175,269	$99,387	$784,303	$322,111.5	$195,956
Investments	$1,728,338	$269,166	$871,457	$0.0	$0.0	$23,848	$146,507	$0
Gross land, buildings and equipment (LBE)	$196,440	$282,508	$228,017	$158,653	$1,822,830	$215,957	$221,987	$316,276
Accumulated depreciation (% of LBE)	90.7%	70.9%	78.7%	44.5%	8.8%	74.0%	72.5%	43.7%
Liabilities as % of assets	15.1%	9.6%	7.5%	32.6%	9.8%	9.3%	9.7%	9.6%
Unrestricted net assets	$1,408,846	$1,988,724	$1,206,977	$468,052	$1,614,844	$860,753	$1,307,911.5	$523,047
Temporarily restricted net assets	$280,843	$548,385	$939,264	$84,985	$242,368	$85,325	$261,605.5	$14,301
Permanently restricted net assets	$0.0	$241,234	$106,598	$0.0	$0.0	$0.0	$0.0	$0
Total net assets	$1,689,689	$2,778,343	$2,252,839	$553,037	$1,857,212	$946,078	$1,773,450.5	$752,016

Liquidity	LYG	LYG2	LYG3	LYG4	LYG5	LYG6	Peer Median	Group Median
Months of cash	0.5	9.8	2.5	0.8	0.3	4.3	1.7	2.7
Months of cash and investments	7.1	10.9	7.2	0.8	0.3	4.4	5.8	4.2
Months of estimated unrestricted liquid net assets	5.3	8.2	6.2	1.8	-0.2	4.4	4.9	3.0