Sample S20 Narrative Report

Sector: S20 - Community & Neighborhood Development
Revenue: Less than $1M
Periods: 12 months against the same 12 months from the previous year

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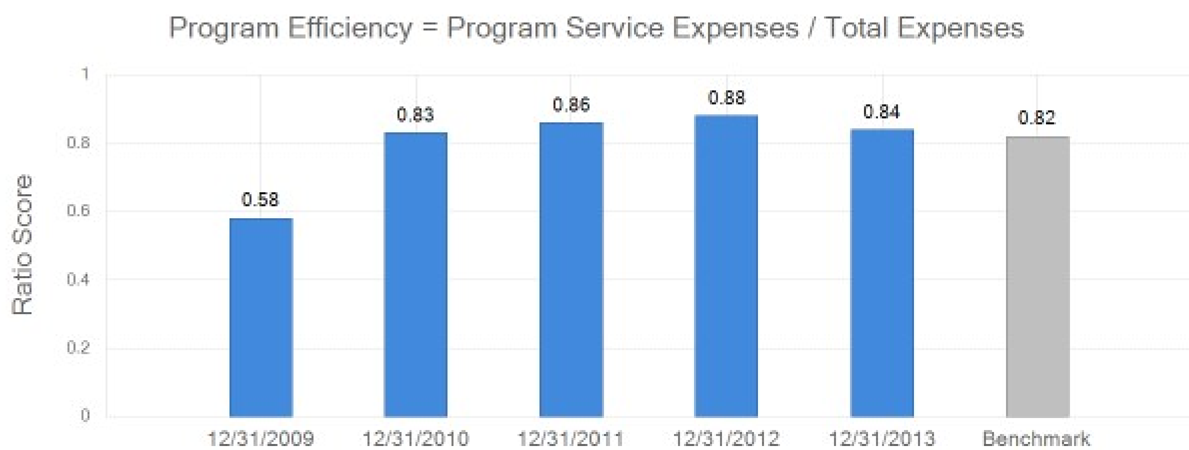
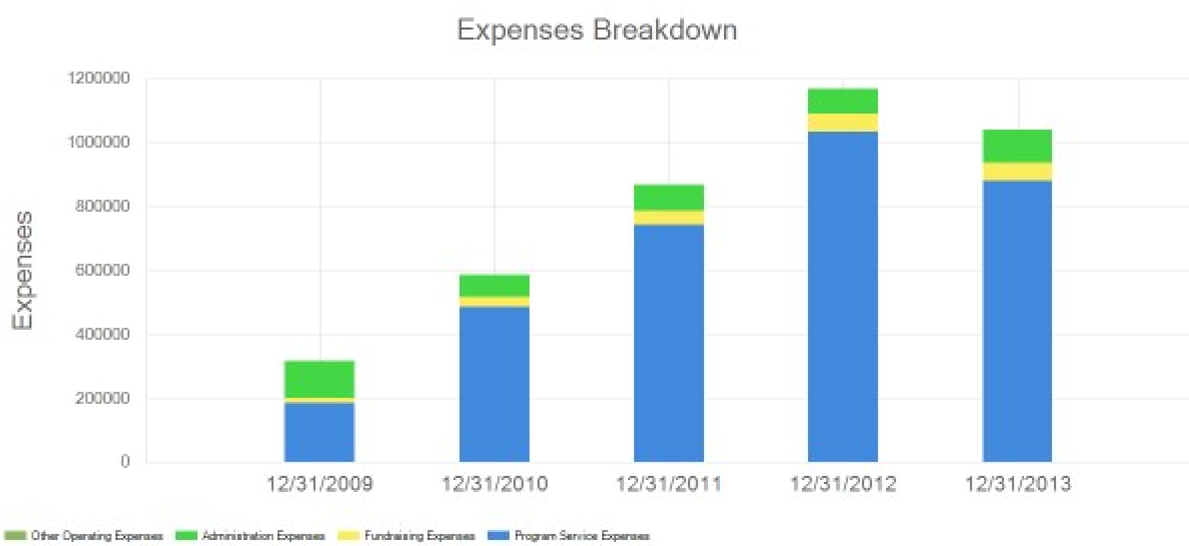
Nonprofit Operational Analysis

A measure of how well the organization is managing money with regard to its sector and mission.

It is good to see that fundraising expenses are generating a strong return, especially since the organization does not seem to have enough program revenue to pay for its total operating costs. Additionally, the organization is generating a low volume of program revenue compared to total revenue, a measure that remained the same from last period. As for program efficiency, the most important metric, the organization is dedicating about the same amount of money to its programs as its peers. Program efficiency is used by people inside and outside of the organization to evaluate its performance.



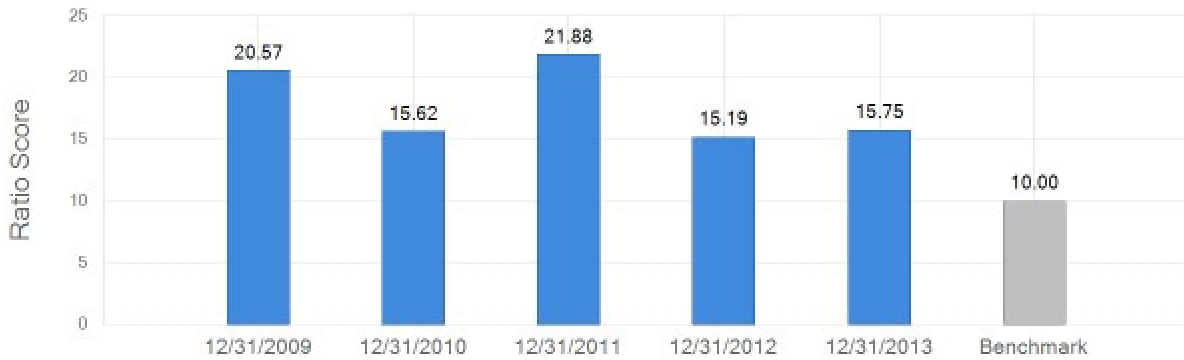
Shows the basic relationship between program expenses and total expenses. The best outcome would be a ratio close to 1, where the majority paid by a nonprofit would go towards "programs". This ratio is typically keenly watched by employees, managers, Board members, donors, and contributors. It tends to be one of the more important metrics that many nonprofits use in assessing performance.



This shows the breakdown of all expenses of the nonprofit. In most cases, the majority should go towards Program Service Expenses.

go towards Program Service Expenses.

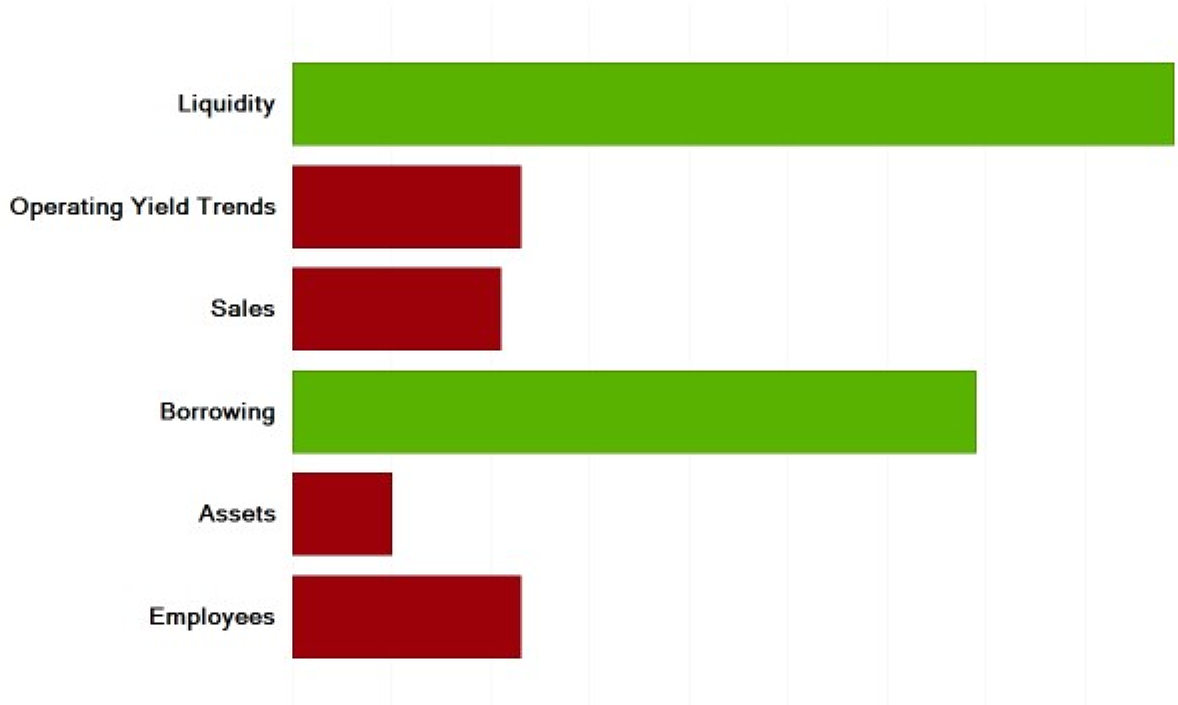
Fundraising Efficiency = Unrestricted Contributions / Unrestricted Fundraising Expenses



Shows how much contribution revenue a nonprofit can generate from fundraising activities/expenses. The ideal relationship is a high number, which would mean that the nonprofit is able to generate a multiple of how much it costs to do fundraising.

Nonprofit Financial Analysis

Summary Explanatory Content



Liquidity

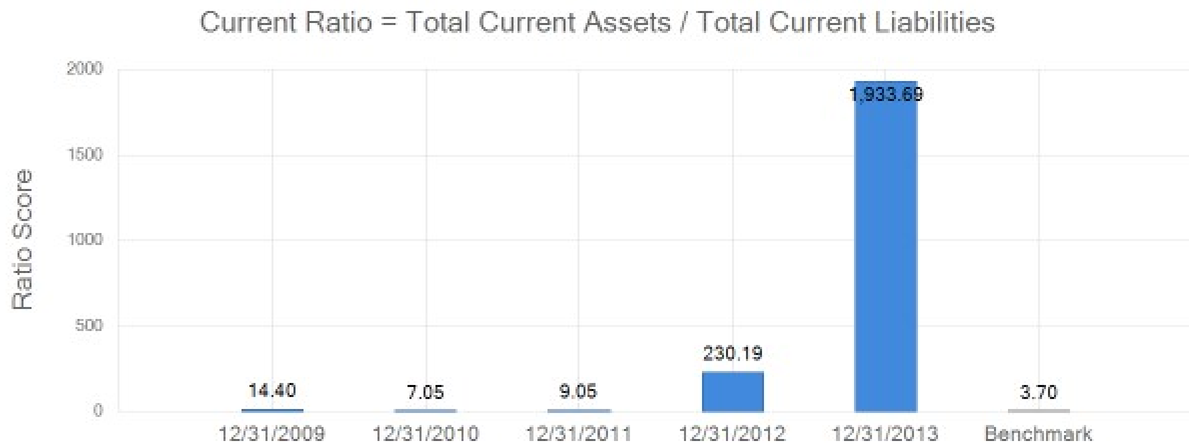
A measure of the organization's ability to meet obligations as they come due.

Despite lower revenues than last period, the organization has had very positive results in this area. What does this mean? Net income and operating margins are up, and all areas of liquidity look strong at this specific time. Better, all liquidity indicators have risen from last period, as depicted in the graph area of the report. For example, notice in the graph area that the organization's "current" and "quick" ratios are strong **and** have risen. This indicates that both the scope and composition of the liquidity base are sound (as of this **particular** time). Basically, the organization is doing well, even when compared to the competition. When we examine operating yield in a subsequent section, we'll realize even more fully the benefits that a strong liquidity position can yield. If the organization can maintain this strong position over time, management may be able to invest in the expense items that can help propel future operating yield levels. **Present** liquidity should help propel **future** net surpluses.

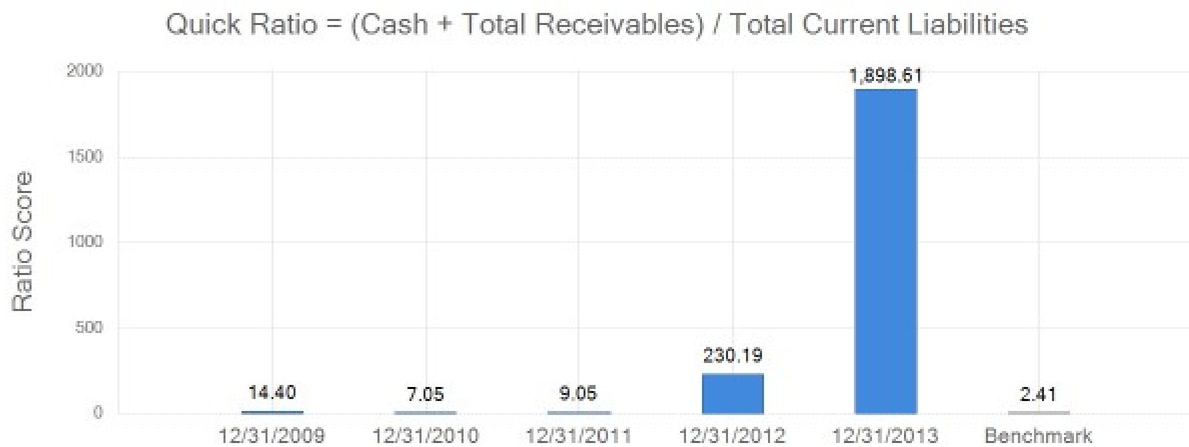
It's also interesting to note that lower revenue volume has coincided with better liquidity, which is typically true when the organization can still improve net income/profits.

Both the receivable and payable days ratios look low right now, which is important to note here. These ratios are a measure of how quickly the organization is collecting money it is owed and paying its bills/payables. Creditors will generally like to see a lower payable days ratio, as this can be an indicator of the payment strength of the organization.

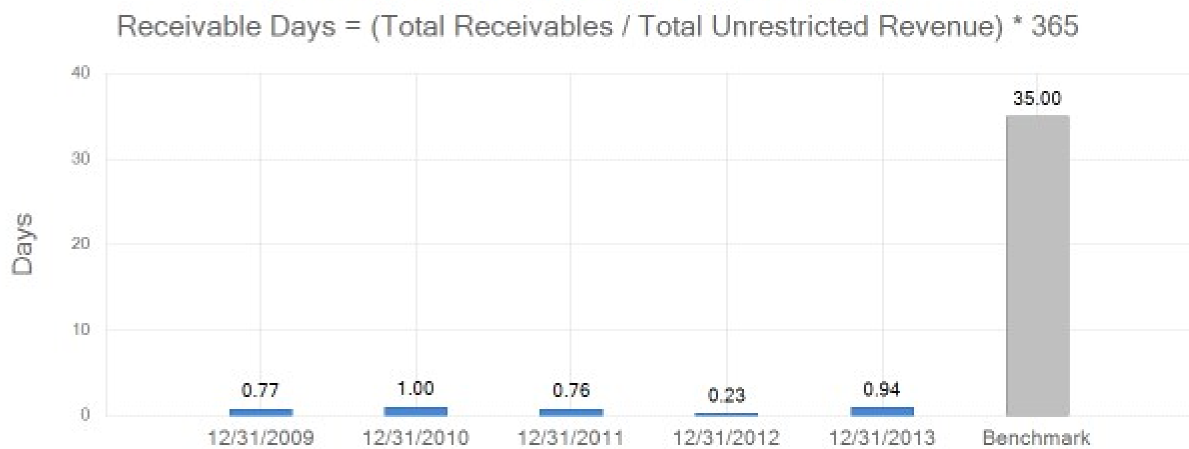
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



Generally, this metric measures the overall liquidity position of an organization. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" (numerator) are collectible. The higher the ratio, the more liquid the organization is.



This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the organization has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the organization.

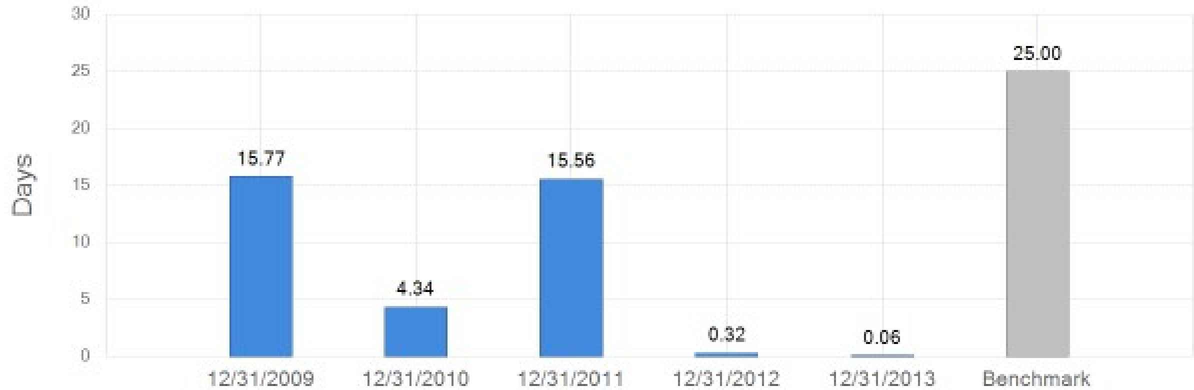


This number reflects the average length of time required to collect cash from receivable accounts such as pledged contributions and/or program services transactions completed using credit. It is crucial to maintaining positive liquidity.

Receivable Days Less Contributions = ((Total Receivables - Contributions Receivable) / (Total Unrestricted Revenue - Contributions)) * 365

This number reflects the average length of time required to collect cash from all receivable accounts except pledged contributions. It is crucial to maintaining positive liquidity.

Payable Days = (Payables / Program Service Expenses) * 365



This ratio shows the average number of days that lapse between the purchase of material and labor, and payment for them. It is a rough measure of how timely an organization is in meeting payment obligations.

Days Cash Reserve = (Unrestricted Cash / (Total Expenses - Depreciation and Amortization)) * 365

Cash reserve is a rough measure of the amount of cash on hand to cover future expenses. The organization should target 182 or more days of cash reserve.

Operating Yield Trends[1]

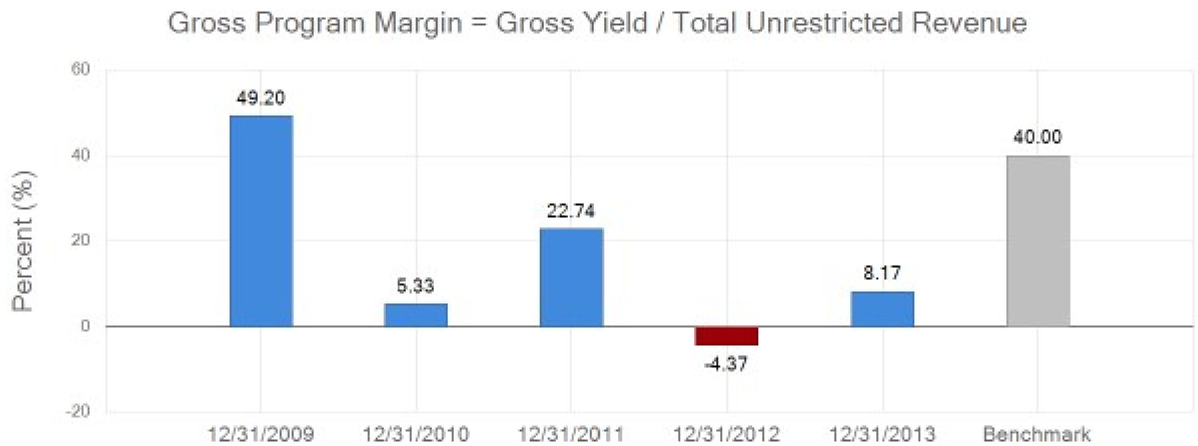
A measure of whether the trends in profit are favorable for the organization.

Despite a decline in revenues this period, the organization reduced its net loss dollars significantly by 53.58%. How was the organization able to achieve a better operating yield on lower volume? It looks as if managers significantly reduced expenses this period, which caused the operating margin to increase by 52.06%. The organization is now paying such a smaller percentage of each revenue dollar out in expenses that it has been able to reduce its deficit with fewer revenue dollars. This is clearly an example of good expense management; the most important time for an organization to control and reduce its expenses is when revenues are falling.

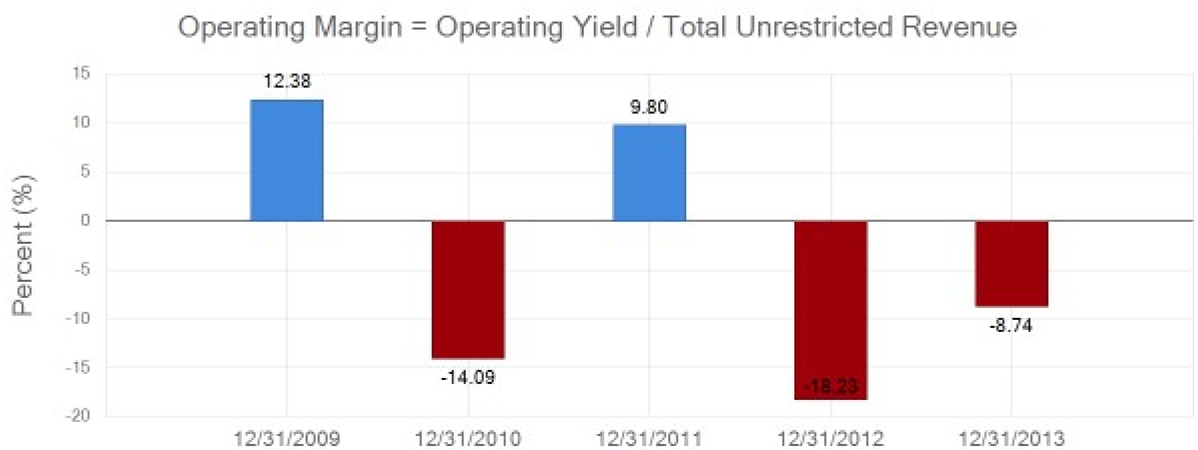
Keep in mind, however, that the organization's operating yield still needs further improvement. The operating margin is weak, both generally and relative to the margins that are being earned by other organizations in this sector; this is highlighted in the graph area of the report. The organization needs to continue to improve operating yield in the future. It will be difficult to maintain cash flow, improve (or even maintain) program services, and generate strong returns on assets with the current level of performance.

It is also important to note that this period's operating yield improvements came as a result of decreased costs. While it is good to decrease costs when revenues are falling, and when the operating yield is weak generally as it is here, it can be difficult to continually improve the operating yield by cutting costs over the long run. This is because costs tend to rise naturally over time. If this organization wants to improve its operating margin to the sector average and above, it will likely need to increase its revenues in the future.

[1] Operating yield (net operating gain/loss) is the nonprofit equivalent of net profit.



This number indicates the percentage of revenue that is left over after paying for program expenses. It is an important statistic that can be used in business planning because it indicates how many cents of gross program profit can be generated by future revenue and also what percentage of revenue the organization can use for other expenses such as administration and fundraising.



A very important number. In fact, over time, it is one of the more important barometers that we look at. It measures how many surplus cents the organization is generating for every dollar it sells. This is a very important number in preparing forecasts.

Revenue

A measure of how revenue is growing and how it lends itself to the organization's program services.

Revenue numbers tend not to mean much by themselves. What is truly important is how revenue numbers affect an organization's program services and operating yield. For this organization, it is unfavorable that revenues are down. It is even more unfavorable that while revenues are down the organization has added significantly to its employee and asset bases. Basically, the organization is now generating far less revenue per employee and asset. Remember that the new employees and assets ultimately have to be "funded" from revenue-generated cash, so this dynamic could be harmful to the organization if it continues over the long run.

The next three sections will examine how effectively the organization is using three of its most important resources: borrowed funds, assets, and employees. Ultimately, effectiveness here is determined by comparing changes in these resources to changes in the organization's revenue level. Resources are costs that should be used to leverage higher revenues, since higher revenues are necessary to improve and expand the organization's program services and make progress toward its mission.

Borrowing

A measure of how responsibly the organization is borrowing and how effectively it is managing debt.

This organization's results are actually good in that revenues fell but at a slower rate than the level of debt. This means that the organization is carrying less debt **relative** to revenues for this period as compared to last period. Over time, this may actually help improve revenues, since debt carries a cost.

It is difficult to develop a debt strategy here. It is true that revenues and debt fell from last period. What should be explored is whether further decreases/increases in assets and debt can improve revenues. It is important to think about the relationship between borrowed dollars and revenues; as always, the organization should make only investments that will improve revenues.

Assets

A measure of how effectively the organization is utilizing their gross fixed assets.

Assets are like any other strategic weapon. If used effectively, they should lead to improved financial performance. Fixed assets generate long-term revenue growth.

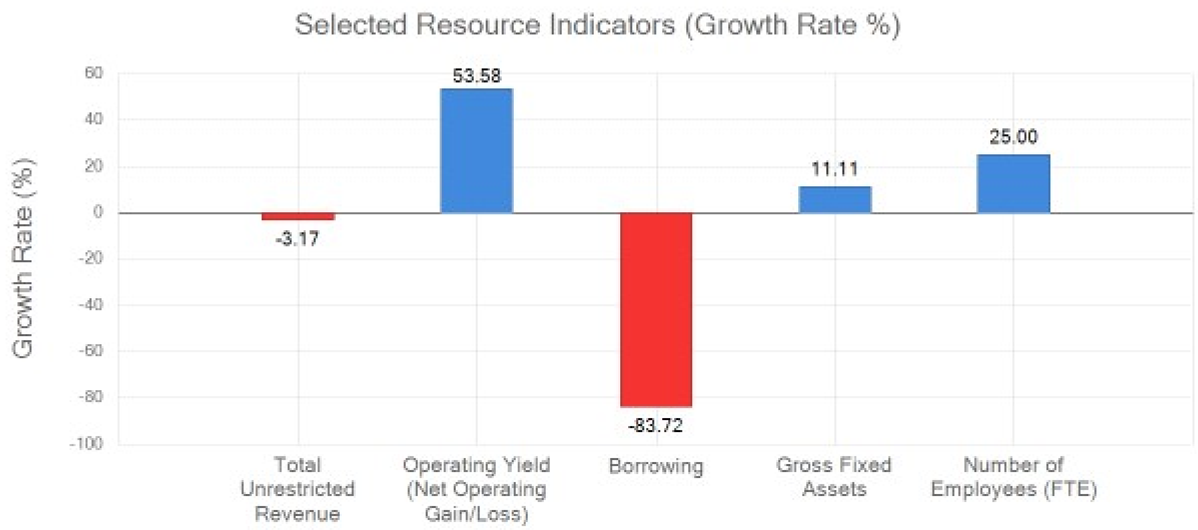
This organization has invested in some fixed assets but revenues fell during the same period. This is not a favorable combination. The asset additions may not have caused revenues to fall, but over time additions should help improve revenue levels. Otherwise, there is no advantage to investing in assets. On a positive note, it should be mentioned that the addition of the assets has not hurt overall liquidity or the operating margin; both of these have improved.

Employees

A measure of how effectively the organization is hiring and managing its employees.

This organization has hired significantly more staff, but revenues have actually fallen from last period. This is not an ideal result. Nonprofits should generally boost revenues when adding personnel -- even employees are a form of leverage.

Unless this is a **deliberate strategy** to build the organization by hiring staff who will contribute to revenues in the future, this is probably a situation that should be avoided. The organization has also increased its assets, which also adds stress to these results. Organizations prefer to see revenues leveraged when additional resources are added. This analysis is based upon past data and is therefore limited, but these points should be considered when managers are planning for the organization's future. The organization may need to allow some time for the new hires and assets to improve revenues.



This data is based on the two most recent available periods.

Raw Data

Statement of Activities	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Program Service Revenue	$0	$0	$0	$0	$0
Contributions	$361,737	$510,819	$959,577	$887,059	$897,509
Government Grants	$0	$0	$0	$0	$0
Investment Revenue	$0	$0	$2,101	$536	$209
Royalties	$0	$0	$2,101	$0	$0
Membership Dues	$0	$0	$0	$0	$0
Other Operating Revenue	$963	$2,288	$0	$101,689	$60,181
Net Assets Released From Restrictions	$0	$0	$0	$0	$0
Total Unrestricted Revenue	$362,700	$513,107	$961,678	$989,284	$957,899
Program Service Expenses	$184,235	$485,767	$743,038	$1,032,525	$879,637
Rent	$0	$0	$6,383	$3,150	$5,400
Payroll & Benefits	$42,194	$212,972	$263,035	$237,128	$288,596
Utilities	$0	$0	$0	$0	$0
Depreciation and Amortization	$0	$0	$0	$0	$0
Interest Expense	$0	$0	$0	$0	$0
benefits	$0	$0	$13,887	$18,313	$22,499
payroll taxes	$0	$0	$9,395	$15,159	$18,253
director payroll	$0	$0	$39,697	$46,000	$46,002
Gross Yield	$178,465	$27,340	$218,640	($43,241)	$78,262
Gross Program Margin	49.20%	5.33%	22.74%	-4.37%	8.17%
Fundraising Expenses	$17,583	$32,695	$43,852	$58,389	$56,977
Payroll & Benefits	$0	$0	$0	$40,000	$40,000
Rent	$0	$0	$0	$0	$0
Utilities	$0	$0	$0	$0	$0
Depreciation and Amortization	$0	$0	$0	$0	$0
Interest Expense	$0	$0	$0	$0	$0
benefits	$0	$0	$0	$0	$307
payroll taxes	$0	$0	$0	$3,060	$3,060
director payroll	$0	$0	$9,924	$10,000	$9,999
Administration Expenses	$115,976	$66,961	$80,531	$78,675	$104,984
Rent	$0	$12,364	$4,327	$7,574	$10,483
Payroll & Benefits	$109,500	$45,570	$40,439	$39,283	$63,148
Utilities	$0	$0	$0	$0	$0
Depreciation and Amortization	$0	$0	$0	$0	$0
Interest Expense	$0	$0	$0	$0	$0
benefits	$0	$0	$0	$0	$307
payroll taxes	$0	$0	$3,093	$6,402	$4,066
Other Operating Expenses	$0	$0	$0	$0	$0
Rent	$0	$0	$0	$0	$0
Payroll & Benefits	$0	$0	$0	$0	$0
Utilities	$0	$0	$0	$0	$0
Depreciation and Amortization	$0	$0	$0	$0	$0
Interest Expense	$0	$0	$0	$0	$0
Total Operating Expenses	$317,794	$585,423	$867,421	$1,169,589	$1,041,598
Operating Yield (Net Operating Gain/Loss)	$44,906	($72,316)	$94,257	($180,305)	($83,699)
Operating Margin	12.38%	-14.09%	9.80%	-18.23%	-8.74%
Other Inflows	$0	$0	$0	$0	$0
Other Outflows	$0	$0	$0	$0	$0
Total Change In Net Assets	$44,906	($72,316)	$94,257	($180,305)	($83,699)

Statement of Financial Position	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Total Cash and Cash Equivalents	$113,856	$39,361	$284,621	$210,005	$280,421
Unrestricted Cash	$6,058	($14,317)	$43,120	$99,712	$150,303
Unrestricted Cash	$0	$0	$0	$0	$0
Restricted Cash	$0	$0	$0	$0	$0
Restricted Cash	$99,839	$47,898	$241,501	$110,293	$130,118
Total Receivables	$765	$1,400	$2,001	$620	$2,472
Contributions Receivable	$60	$100	$300	$50	$200
Contributions Receivable	$0	$0	$0	$0	$0
Accounts Receivable	$0	$0	$0	$0	$0
Other Receivables	$0	$0	$0	$0	$0
Accounts Receivable	$0	$0	$0	$0	$0
Other Receivables	$0	$0	$0	$0	$0
Inventory	$0	$0	$0	$0	$0
Current Investments	$0	$0	$0	$0	$0
Other Current Assets	$0	$0	$0	$0	$5,227
Total Current Assets	$114,621	$40,761	$286,622	$210,625	$288,120
Gross Fixed Assets	$100,000	$100,000	$100,000	$90,000	$100,000
Accumulated Depreciation	$0	$0	$0	$0	$0
Net Fixed Assets	$100,000	$100,000	$100,000	$90,000	$100,000
Long Term Investment Assets	$0	$0	$0	$0	$0
Other Assets	$0	$0	$0	$0	$0
Total Assets	$214,621	$140,761	$386,622	$300,625	$388,120
Payables	$7,959	$5,780	$31,673	$915	$149
Short Term Debt	$0	$0	$0	$0	$0
Notes Payable / Current Portion of Long Term Debt	$0	$0	$0	$0	$0
Other Current Liabilities	$0	$0	$0	$0	$0
Total Current Liabilities	$7,959	$5,780	$31,673	$915	$149
Total Long Term Liabilities	$0	$0	$0	$0	$0
Notes Payable / Senior Debt	$0	$0	$0	$0	$0
Notes Payable / Senior Debt	$0	$0	$0	$0	$0
Notes Payable / Subordinated Debt	$0	$0	$0	$0	$0
Other Long Term Liabilities	$0	$0	$0	$0	$0
Notes Payable / Subordinated Debt	$0	$0	$0	$0	$0
Other Long Term Liabilities	$0	$0	$0	$0	$0
Total Liabilities	$7,959	$5,780	$31,673	$915	$149
Total Net Assets	$206,662	$134,981	$354,949	$299,710	$387,971
Number of Employees (FTE)	3.0	4.0	6.0	8.0	10.0

Common Size Statements

Statement of Activities	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	Industry* (322)
Program Service Revenue	0%	0%	0%	0%	0%	36%
Contributions	100%	100%	100%	90%	94%	25%
Government Grants	0%	0%	0%	0%	0%	23%
Investment Revenue	0%	0%	0%	0%	0%	3%
Royalties	0%	0%	0%	0%	0%	N/A
Membership Dues	0%	0%	0%	0%	0%	0%
Other Operating Revenue	0%	0%	0%	10%	6%	8%
Net Assets Released From Restrictions	0%	0%	0%	0%	0%	4%

Restrictions	0%	0%	0%	0%	0%	4%
Total Unrestricted Revenue	100%	100%	100%	100%	100%	100%
Program Service Expenses	51%	95%	77%	104%	92%	69%
Rent	0%	0%	1%	0%	1%	N/A
Payroll & Benefits	12%	42%	27%	24%	30%	N/A
Utilities	0%	0%	0%	0%	0%	N/A
Depreciation and Amortization	0%	0%	0%	0%	0%	N/A
Interest Expense	0%	0%	0%	0%	0%	N/A
benefits	0%	0%	1%	2%	2%	N/A
payroll taxes	0%	0%	1%	2%	2%	N/A
director payroll	0%	0%	4%	5%	5%	N/A
Gross Yield	49%	5%	23%	-4%	8%	31%
Fundraising Expenses	5%	6%	5%	6%	6%	2%
Payroll & Benefits	0%	0%	0%	4%	4%	N/A
Rent	0%	0%	0%	0%	0%	N/A
Utilities	0%	0%	0%	0%	0%	N/A
Depreciation and Amortization	0%	0%	0%	0%	0%	N/A
Interest Expense	0%	0%	0%	0%	0%	N/A
benefits	0%	0%	0%	0%	0%	N/A
payroll taxes	0%	0%	0%	0%	0%	N/A
director payroll	0%	0%	1%	1%	1%	N/A
Administration Expenses	32%	13%	8%	8%	11%	15%
Rent	0%	2%	0%	1%	1%	N/A
Payroll & Benefits	30%	9%	4%	4%	7%	N/A
Utilities	0%	0%	0%	0%	0%	N/A
Depreciation and Amortization	0%	0%	0%	0%	0%	N/A
Interest Expense	0%	0%	0%	0%	0%	N/A
benefits	0%	0%	0%	0%	0%	N/A
payroll taxes	0%	0%	0%	1%	0%	N/A
Other Operating Expenses	0%	0%	0%	0%	0%	9%
Rent	0%	0%	0%	0%	0%	N/A
Payroll & Benefits	0%	0%	0%	0%	0%	N/A
Utilities	0%	0%	0%	0%	0%	N/A
Depreciation and Amortization	0%	0%	0%	0%	0%	N/A
Interest Expense	0%	0%	0%	0%	0%	N/A
Total Operating Expenses	88%	114%	90%	118%	109%	96%
Operating Yield (Net Operating Gain/Loss)	12%	-14%	10%	-18%	-9%	4%
Other Inflows	0%	0%	0%	0%	0%	1%
Other Outflows	0%	0%	0%	0%	0%	1%
Total Change In Net Assets	12%	-14%	10%	-18%	-9%	4%

Statement of Financial Position	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	Industry* (322)
Total Cash and Cash Equivalents	53%	28%	74%	70%	72%	20%
Unrestricted Cash	3%	N/A	11%	33%	39%	N/A
Unrestricted Cash	0%	0%	0%	0%	0%	N/A
Restricted Cash	0%	0%	0%	0%	0%	N/A
Restricted Cash	47%	34%	62%	37%	34%	N/A
Total Receivables	0%	1%	1%	0%	1%	10%
Contributions Receivable	0%	0%	0%	0%	0%	N/A
Contributions Receivable	0%	0%	0%	0%	0%	N/A
Accounts Receivable	0%	0%	0%	0%	0%	N/A
Other Receivables	0%	0%	0%	0%	0%	N/A
Accounts Receivable	0%	0%	0%	0%	0%	N/A

Accounts Receivable	0%	0%	0%	0%	0%	N/A
Other Receivables	0%	0%	0%	0%	0%	N/A
Inventory	0%	0%	0%	0%	0%	1%
Current Investments	0%	0%	0%	0%	0%	0%
Other Current Assets	0%	0%	0%	0%	1%	2%
Total Current Assets	53%	29%	74%	70%	74%	75%
Gross Fixed Assets	47%	71%	26%	30%	26%	25%
Accumulated Depreciation	0%	0%	0%	0%	0%	7%
Net Fixed Assets	47%	71%	26%	30%	26%	19%
Long Term Investment Assets	0%	0%	0%	0%	0%	4%
Other Assets	0%	0%	0%	0%	0%	3%
Total Assets	100%	100%	100%	100%	100%	100%
Payables	4%	4%	8%	0%	0%	8%
Short Term Debt	0%	0%	0%	0%	0%	0%
Notes Payable / Current Portion of Long Term Debt	0%	0%	0%	0%	0%	0%
Other Current Liabilities	0%	0%	0%	0%	0%	11%
Total Current Liabilities	4%	4%	8%	0%	0%	22%
Total Long Term Liabilities	0%	0%	0%	0%	0%	16%
Notes Payable / Senior Debt	0%	0%	0%	0%	0%	N/A
Notes Payable / Senior Debt	0%	0%	0%	0%	0%	N/A
Notes Payable / Subordinated Debt	0%	0%	0%	0%	0%	N/A
Other Long Term Liabilities	0%	0%	0%	0%	0%	N/A
Notes Payable / Subordinated Debt	0%	0%	0%	0%	0%	N/A
Other Long Term Liabilities	0%	0%	0%	0%	0%	N/A
Total Liabilities	4%	4%	8%	0%	0%	38%
Total Net Assets	96%	96%	92%	100%	100%	62%

*The industry common size figures shown above were taken from all nonprofit organizations with NTEE code S20 for all years in all areas with yearly revenue under $1 million.

Sector Scorecard

Financial Indicator	Current Period	Sector Range	Distance from Sector
Program Efficiency = Program Service Expenses / Total Expenses	0.84	0.77 to 0.87	0.00%
Explanation: Shows the basic relationship between program expenses and total expenses. The best outcome would be a ratio close to 1, where the majority paid by a nonprofit would go towards "programs". This ratio is typically keenly watched by employees, managers, Board members, donors, and contributors. It tends to be one of the more important metrics that many nonprofits use in assessing performance.			
Fundraising Efficiency = Unrestricted Contributions / Unrestricted Fundraising Expenses	15.75	5.00 to 15.00	+5.00%
Explanation: Shows how much contribution revenue a nonprofit can generate from fundraising activities/expenses. The ideal relationship is a high number, which would mean that the nonprofit is able to generate a multiple of how much it costs to do fundraising.			
Current Ratio = Total Current Assets / Total Current Liabilities	1,933.69	1.90 to 5.50	+35,058.00%
Explanation: Generally, this metric measures the overall liquidity position of an organization. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" (numerator) are collectible. The higher the ratio, the more liquid the organization is.			
Quick Ratio = (Cash + Total Receivables) / Total Current Liabilities	1,898.61	1.30 to 3.52	+53,837.78%
Explanation: This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the organization has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the organization.			
Receivable Days = (Total Receivables / Total Unrestricted Revenue) * 365	0.94 Days	20.00 to 50.00 Days	+95.30%
Explanation: This number reflects the average length of time required to collect cash from receivable accounts such as pledged contributions and/or program services transactions completed using credit. It is crucial to maintaining positive liquidity.			
Receivable Days Less Contributions = ((Total Receivables - Contributions Receivable) / (Total Unrestricted Revenue - Contributions)) * 365	13.73 Days	N/A	N/A
Explanation: This number reflects the average length of time required to collect cash from all receivable accounts except pledged contributions. It is crucial to maintaining positive liquidity.			
Payable Days = (Payables / Program Service Expenses) * 365	0.06 Days	10.00 to 40.00 Days	+99.40%
Explanation: This ratio shows the average number of days that lapse between the purchase of material and labor, and payment for them. It is a rough measure of how timely an organization is in meeting payment obligations.			
Days Cash Reserve = (Unrestricted Cash / (Total Expenses - Depreciation and Amortization)) * 365	52.67 Days	120.00 to 244.00 Days	-56.11%
Explanation: Cash reserve is a rough measure of the amount of cash on hand to cover future expenses. The organization should target 182 or more days of cash reserve.			
Gross Program Margin = Gross Yield / Total Unrestricted Revenue	8.17%	15.00% to 65.00%	-45.53%
Explanation: This number indicates the percentage of revenue that is left over after paying for program expenses. It is an important statistic that can be used in business planning because it indicates how many cents of gross program profit can be generated by future revenue and also what percentage of revenue the organization can use for other expenses such as administration and fundraising.			
Operating Margin = Operating Yield / Total Unrestricted Revenue	-8.74%	-1.50% to 1.50%	-482.67%

Explanation: A very important number. In fact, over time, it is one of the more important barometers that we look at. It measures how many surplus cents the organization is generating for every dollar it sells. This is a very important number in preparing forecasts.

NOTE: Exceptions are sometimes applied when calculating the Financial Indicators. Generally, this occurs when the inputs used to calculate the ratios are zero and/or negative.

READER: Financial analysis is not a science; it is about interpretation and evaluation of financial events. Therefore, some judgment will always be part of our reports and analyses. Before making any financial decision, always consult an experienced and knowledgeable professional (accountant, banker, financial planner, attorney, etc.).