



Reading the Signs: Troubling Financial Indicators

Bobby LaCour, CPA
Aldrich CPAs + Advisors LLP



- Audit Partner, Nonprofit and Governmental Organizations
- Specialize in investments and endowments
- Serve on the Finance Committee and Board of Directors of Serving Seniors
- Serve on the Audit Committee of 2 other San Diego nonprofits
- Lecturer in Nonprofit Accounting at the University of San Diego
- rlacour@aldrichadvisors.com



- Understanding of financial information
- Review components of a financial packages and evaluation
- Discuss what questions we should be asking
- Evaluate dashboards and their usefulness in business decisions
- How is your organization being impacted





“If you can’t explain it to a six year old,
you don’t understand it yourself”

Albert Einstein



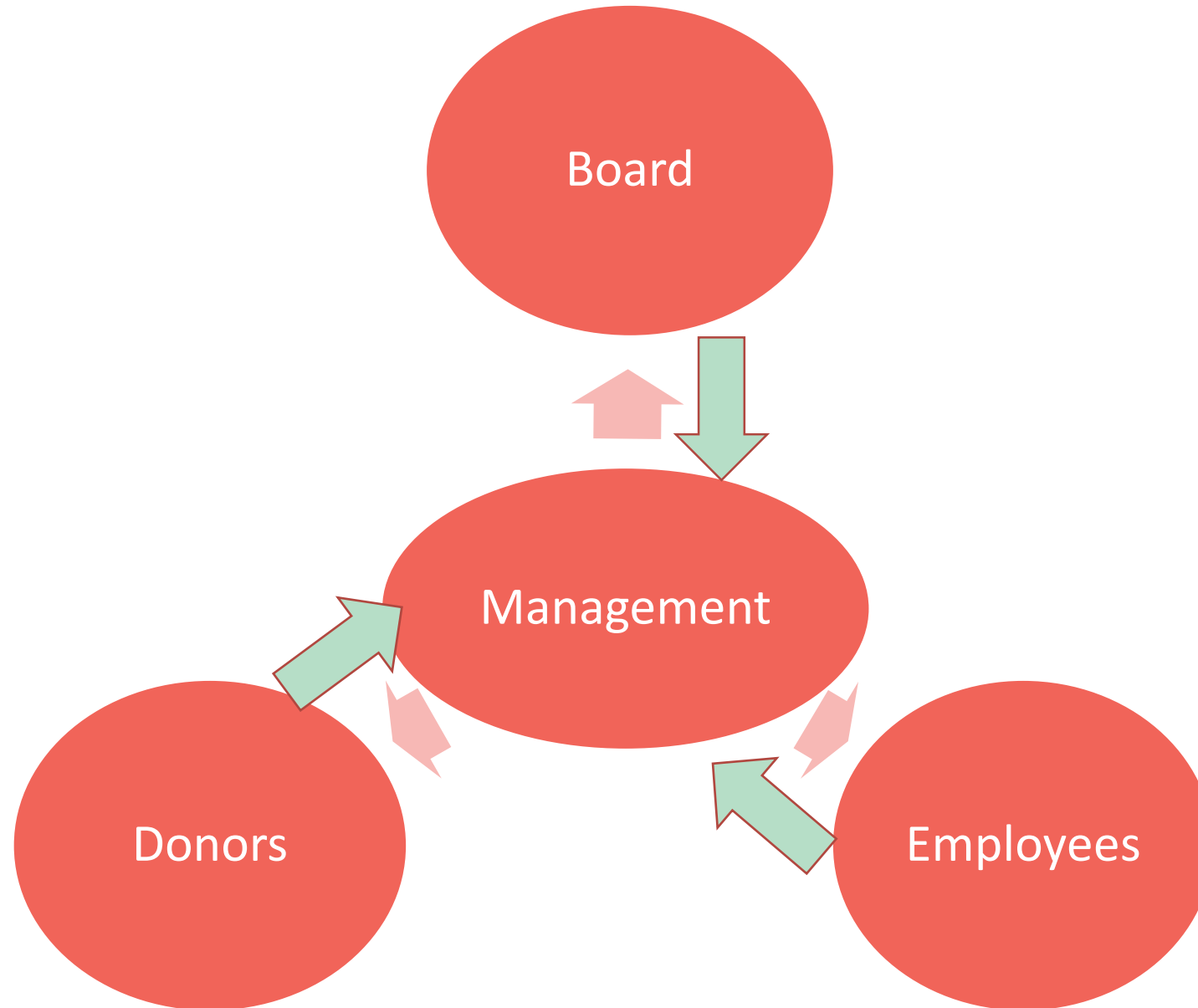
Who are the users of financial information? ● Aldrich

Internal

- Board
- Executive Committee
- Audit Committee
- Finance Committee
- Investment Committee
- Treasurer
- CEO
- CFO

External

- Donors
- Lenders
- Granting organizations
- Media
- Watchdog groups
- Attorney general
- IRS, FTB





- Income and spending
- Performance – current
- Performance – past
- Performance – future
- Cash availability – now, short-term & the horizon relevant to your organization

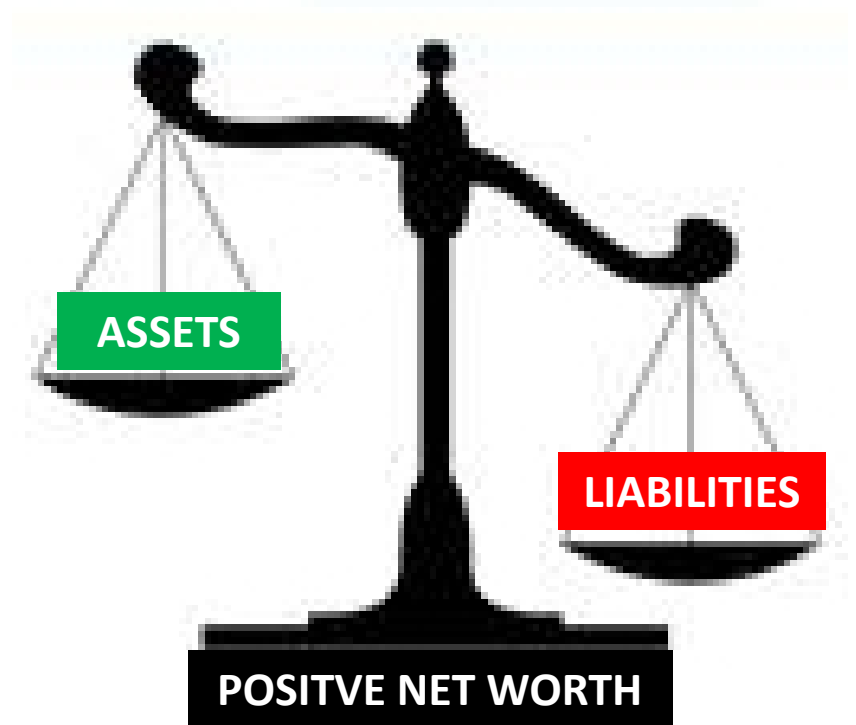


Should:

- Address needs of senior management, board, and department/program managers
- Be user friendly
- Be reviewed and discussed
- Used to make informed decisions

- Statement of Financial Position (Balance Sheet)
- Statement of Activities (Profit and loss statement)
- Statement of Functional Expenses
- Statement of Cash Flows

- AKA balance sheet
- Total assets, liabilities, and net assets
- Reported at a point in time
- Shows restricted funds



	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets:		
Cash	\$ 748,138	\$ 298,373
Cash - restricted	93,418	59,797
Investments	2,146,101	1,236,890
Accounts receivable	23,297	34,423
Promises to give	3,000	6,000
Prepaid expenses and other assets	<u>45,243</u>	<u>80,702</u>
Total Current Assets	3,059,197	1,716,185
Promises to Give, net of current portion	-	3,000
Property and Equipment, net of accumulated depreciation	9,174,099	9,590,127
Beneficial Interests in Charitable Remainder Trusts	<u>1,316,027</u>	<u>1,405,989</u>
Total Assets	<u>\$ 13,549,323</u>	<u>\$ 12,715,301</u>

Statement of Financial Position

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 69,401	\$ 136,252
Accrued wages and related expenses	330,531	371,207
Deferred revenue	378,542	607,762
Note payable	123,560	-
	<hr/>	<hr/>
Total Current Liabilities	902,034	1,115,221
Note Payable, net of current portion	662,240	-
Line of Credit	697,000	697,000
	<hr/>	<hr/>
Total Liabilities	2,261,274	1,812,221

Net Assets:

Without donor restrictions:

Undesignated	7,825,932	8,435,711
Board designated	15,000	25,657
With donor restrictions	3,447,117	2,441,712
	<hr/>	<hr/>
Total Net Assets	11,288,049	10,903,080
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 13,549,323	\$ 12,715,301

- Why did the investment balance increase?
- What is the note payable balance and when do we need to pay?
- Why didn't the line of credit balance change?





- How does it look compared to prior periods?
- Is there any change in the amount of net assets?
- If there are any investments, are they earning a reasonable rate of return?
- Should we invest?
- Are there enough liquid assets to cover temporarily restricted net assets?

- AKA Income Statement
- Revenue and expenses
- Period of time (year, month, etc.)
- Shows activity in restricted funds
- Variety of presentation styles



Statement of Activities

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Support:			
Program services:			
Youth community services	\$ 4,052,000	\$ -	\$ 4,052,000
Support and other revenue:			
Contributions	897,181	1,089,506	1,986,687
Special events	680,828	-	680,828
Less direct expenses	(221,456)	-	(221,456)
Rental income	320,258	-	320,258
Grants	149,219	-	149,219
Gain on disposal	7,500	-	7,500
Other income	91	-	91
Investment return, net	(43,306)	-	(43,306)
Change in charitable remainder trusts	-	(89,962)	(89,962)
Interfund transfers	(49,870)	49,870	-
Net assets released from restriction	44,009	(44,009)	-
Total Support and Other Revenue	<u>1,784,454</u>	<u>1,005,405</u>	<u>2,789,859</u>
Total Revenue and Support	5,836,454	1,005,405	6,841,859

Expenses:

Program services:			
Youth community services	5,283,084	-	5,283,084
Scholarships	67,554	-	67,554
Supporting services:			
Management and general	739,075	-	739,075
Fundraising	367,177	-	367,177
Total Expenses	<u>6,456,890</u>	<u>-</u>	<u>6,456,890</u>
Change in Net Assets	(620,436)	1,005,405	384,969
Net Assets, beginning	<u>8,461,368</u>	<u>2,441,712</u>	<u>10,903,080</u>
Net Assets, ending	<u>\$ 7,840,932</u>	<u>\$ 3,447,117</u>	<u>\$ 11,288,049</u>

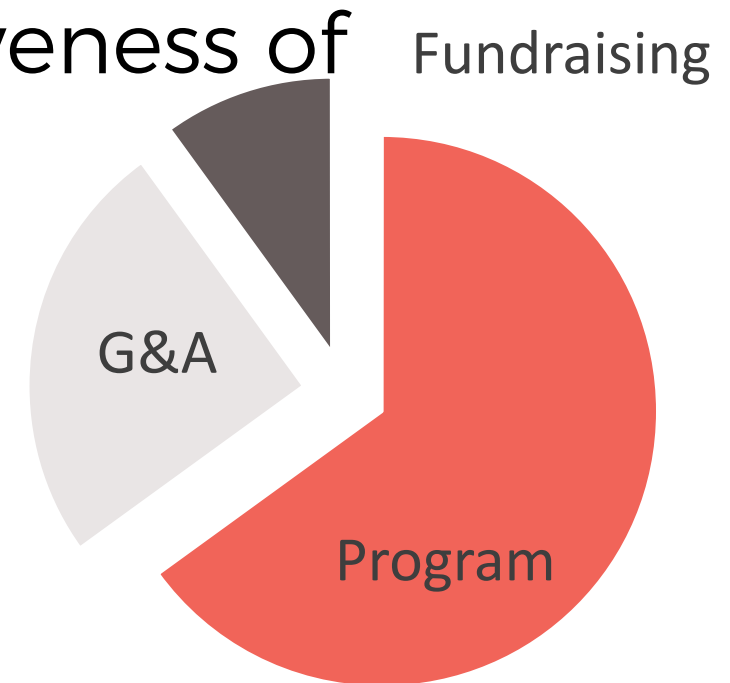
- Is income greater than the expenses? If not...why not?
- Is there a plan for increasing reserves?
- Has there been a balance between providing more services vs. building reserves?
- Have reserves been drawn upon during this period and was this approved?



- Have investment values gone down because of a bad market?
- How does it look compared to budget?
- How does it look compared to prior periods?
- Were there any significant revenues or expenses that weren't budgeted. What is the reason for this? Is the answer reasonable?



- Shows for what activities expenses were incurred
- Subject to estimates and manipulation
- Required to be reported financial statements and tax return
- Can be used to evaluate the effectiveness of Organization use of resources



Statement of Functional Expenses

	Program Services		Supporting Services		Total Expenses
	Youth Community Services	Scholarships	Management and General	Fundraising	
Salaries	\$ 2,832,541	\$ -	\$ 326,516	\$ 240,024	\$ 3,399,081
Employee health and retirement benefits	267,785	-	96,821	32,319	396,925
Payroll taxes	193,604	-	50,323	15,557	259,484
Workers' compensation	54,231	-	6,604	3,883	64,718
	<u>3,348,161</u>	<u>-</u>	<u>480,264</u>	<u>291,783</u>	<u>4,120,208</u>
Depreciation	517,854	-	-	-	517,854
Activities	502,875	-	-	-	502,875
Occupancy	468,836	-	25,817	513	495,166
Office	244,840	-	70,676	16,399	331,915
Insurance	59,863	-	30,507	2,196	92,566
Information technology	21,378	-	51,366	500	73,244
Advertising	20,260	-	337	50,471	71,068
Scholarships	-	67,554	-	-	67,554
Other	33,286	-	21,579	5,011	59,876
Professional fees	-	-	48,600	-	48,600
Travel	29,398	-	9,929	304	39,631
Interest	36,333	-	-	-	36,333
	<u>1,934,923</u>	<u>67,554</u>	<u>258,811</u>	<u>75,394</u>	<u>2,336,682</u>
Total Expenses	\$ <u>5,283,084</u>	\$ <u>67,554</u>	\$ <u>739,075</u>	\$ <u>367,177</u>	\$ <u>6,456,890</u>

- Provides a retrospective look at the changes during the period
- Cash from Operations, Investing, and Financing
- Can be difficult for smaller organizations to prepare
- Useful in analyzing how/where cash is generated



Statement of Cash Flows

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 384,969	\$ (444,667)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	517,854	470,766
Net realized and unrealized gains (losses) on investments	87,921	(4,473)
Change in charitable remainder trusts	89,962	155,424
Gain on disposal of property and equipment	(7,500)	-
Change in operating assets and liabilities:		
Accounts receivable	11,126	(8,810)
Promises to give	6,000	6,000
Prepaid expenses and other assets	35,459	(6,464)
Accounts payable	(66,851)	(85,825)
Accrued wages and related expenses	(40,676)	(18,894)
Deferred revenue	<u>(229,220)</u>	<u>84,125</u>
Net Cash Provided by Operating Activities	789,044	147,182

Statement of Cash Flows

Cash Flows from Investing Activities:

Purchases of property and equipment	(101,826)	(569,455)
Proceeds from sale of property and equipment	7,500	-
Purchases of investments	(2,211,835)	(100,080)
Proceeds from sales of investments	<u>1,214,703</u>	<u>118,954</u>
Net Cash Used by Investing Activities	(1,091,458)	(550,581)

Cash Flows from Financing Activities:

Proceeds from note payable	785,800	-
Proceeds on line of credit	100,000	445,000
Payments on line of credit	<u>(100,000)</u>	<u>(444,903)</u>
Net Cash Provided by Financing Activities	<u>785,800</u>	<u>97</u>

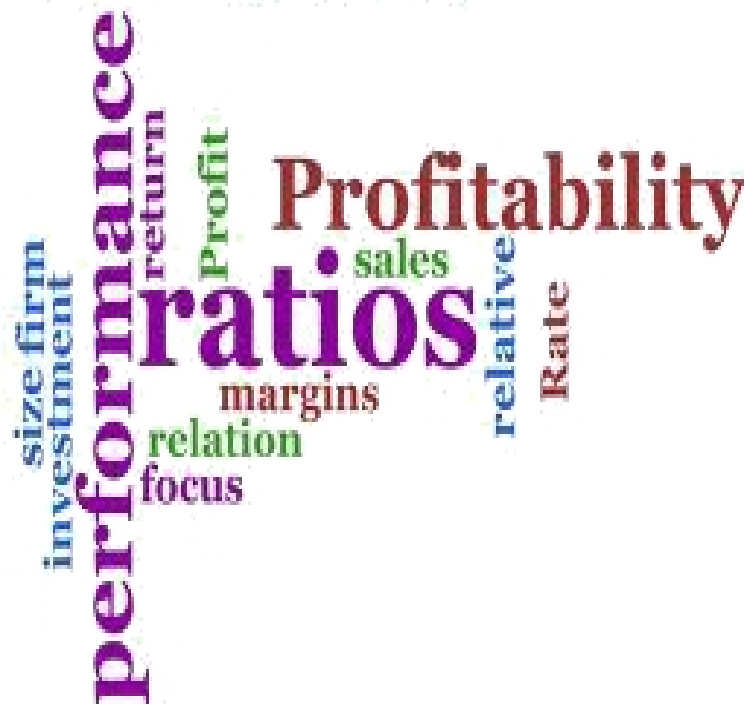
Net Increase (Decrease) in Cash	483,386	(403,302)
---------------------------------	---------	-----------

Cash and Restricted Cash, beginning	<u>358,170</u>	<u>761,472</u>
-------------------------------------	----------------	----------------

Cash and Restricted Cash, ending	<u><u>\$ 841,556</u></u>	<u><u>\$ 358,170</u></u>
----------------------------------	--------------------------	--------------------------

- Statement of Activities
- Statement of Cash Flows
- Statement of Functional Expenses
- Statement of Financial Position

measure



A word cloud of financial and performance metrics. The words are arranged in a circular pattern. The largest word is 'performance' in purple. Other large words include 'ratios' in purple, 'Profitability' in brown, and 'size firm' in blue. Smaller words include 'return', 'Profit', 'sales', 'margins', 'relation', 'focus', 'relative', and 'Rate'.

- Budget-to-actual (in total and by program)
- Aged receivables
- Cash-flow projection
- Others specific to your organization (usually non-financial)
- Financial ratios



- Budget to Actual Variances
- Spending on grants and contracts
- Anticipated future spending/cost controls strategies
- Completion of activities funded by restricted grants
- Forecasting the future based on the past results

- Liquidity Ratios
- Capital Structure Ratios
- Operating Ratios
- Spending Ratios

- Liquidity Ratios
 - Current ratio (Current assets/current liabilities)
 - Days of cash
 - W/O Donor Restriction ($\text{Cash \& CE} / [\{\text{Total Exp-Dep}\} / 365]$)
 - W/ Donor Restriction (same but for restricted cash)
 - Payable turnover ($\text{AP} / [\{\text{Total Exp-Dep}\} / 365]$)
 - Receivable turnover ($\text{Revenue} / \text{Average AR}$)
 - Operating reserve (NA W/O Donor Restrictions – $[\text{Fixed Assets-Debt Related to FA}] / [\text{Total Exp-Dep}]$)

- Capital Structure Ratios
 - Cash flow to total liabilities (Cash flow from operations/total liabilities)
 - Long-term debt to net assets (Long-term debt [including current portion]/net assets)

- Operating Ratios
 - Savings indicator ($[\text{Total Revenues} - \text{Total Expenses}] / \text{Total Expenses}$)
 - Contribution ratio ($\text{Total Contributions} / \text{Total Revenue}$)
 - Earned income ($\text{Total Earned Income} / \text{Total Revenue}$)
 - Fundraising efficiency ratio ($\text{Total Contributions} / \text{Total Fundraising Expenses}$)

- Spending Ratios
 - Program efficiency ratio ($\text{Total Program Expenses} / \text{Total Expenses}$)
 - Management ratio ($\text{Total Management Expenses} / \text{Total Expenses}$)
 - Fundraising ratio ($\text{Total Fundraising Expenses} / \text{Total Expenses}$)
 - Overhead ratio ($[\text{Total Management Exp} + \text{Total Fundraising Exp}] / \text{Total Fundraising Expenses}$)

Goals/Challenges	Reports
Obtain a loan	Covenant analyzer, cashflow analysis
Secure a grant	Grant requirements, compliance
Increase cash flow	Cashflow statement, revenue/expense analysis
Invest surplus cash	Broker analysis, investment performance
Increase volunteers	Satisfaction survey, performance survey

- The same analysis repeated at regular intervals and assessed for change over time
- Ratios (and most financial information, for that matter) are better applied and presented over an extended period so that the results of long-term plans are measured

Which is better?

Organization A	
	YE 2020
Revenues	\$700,000
Expenses	\$600,000
Change	\$100,000

Organization B	
	YE 2020
Revenues	\$700,000
Expenses	\$600,000
Change	\$100,000

Which is better?

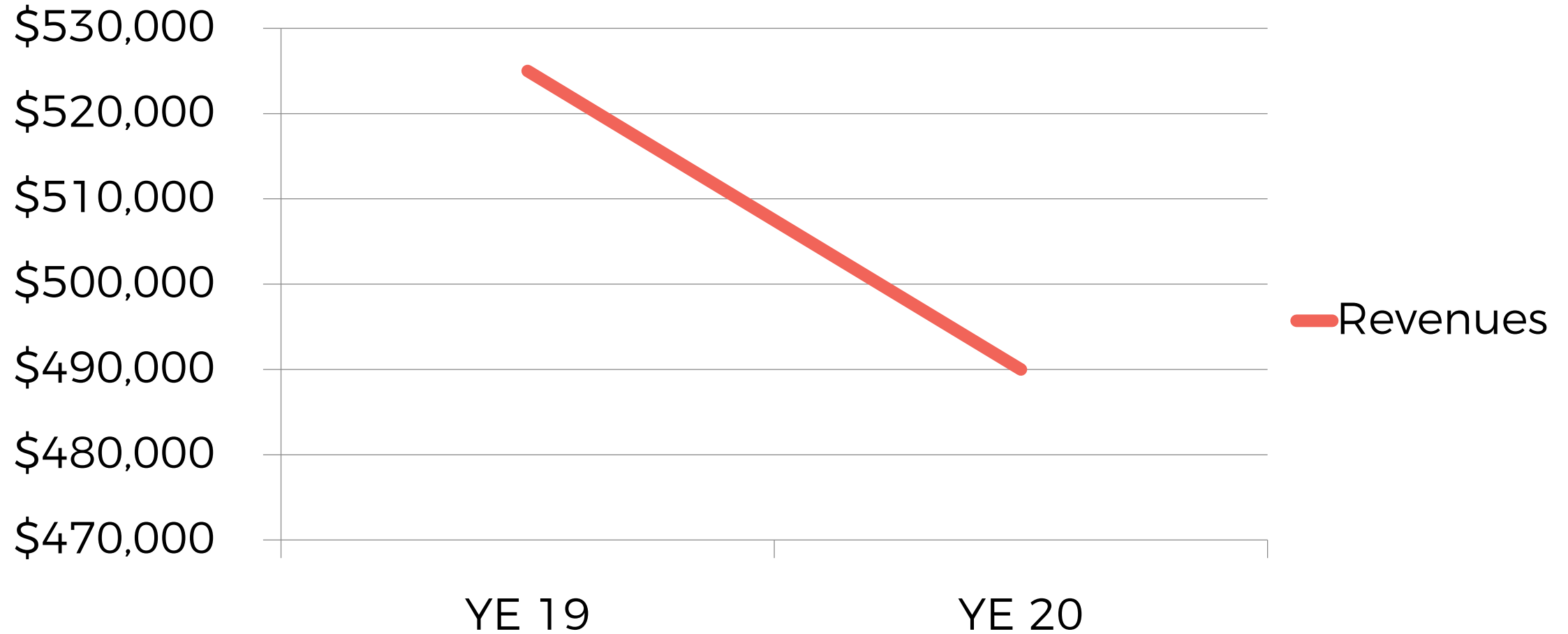
Organization A

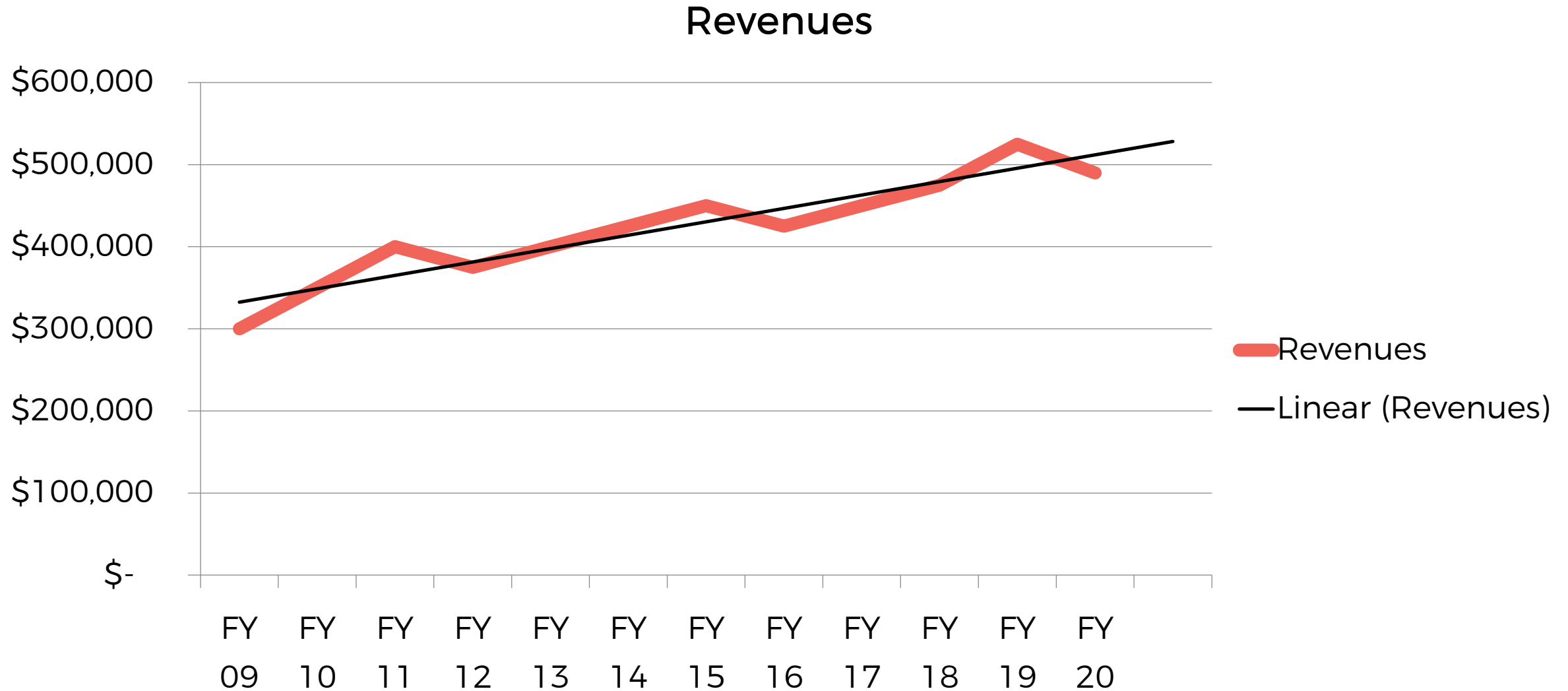
	YE 2016	YE 2017	YE 2018	YE 2019	YE 2020
Revenues	575,000	550,000	600,000	600,000	700,000
Expenses	500,000	500,000	525,000	500,000	600,000
Change	75,000	50,000	75,000	100,000	100,000

Organization B

	YE 2016	YE 2017	YE 2018	YE 2019	YE 2020
Revenues	6,500,000	4,000,000	2,000,000	1,000,000	700,000
Expenses	4,000,000	2,000,000	1,000,000	600,000	600,000
Change	2,500,000	2,000,000	1,000,000	400,000	100,000

Revenues







Purpose

- Present information graphically
- Combine the key performance indicators from various reports
- Helps the non-financial reader connect the information

A Dashboard Must:

- Align definitions of success across the organization;
- Encourage dialogue about progress toward goals;
- Facilitate timely identification of successes and challenges;
- Ground decisions in concrete data and evidence; and
- Illuminate relationships between different activities.

Your Agency

Sample Key Items Report

Actual results reported through

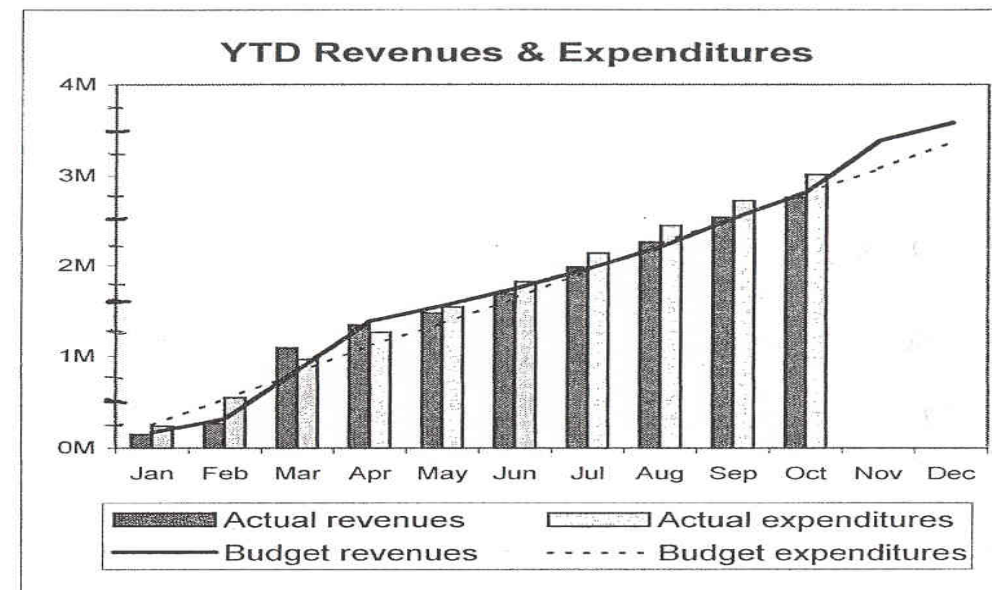
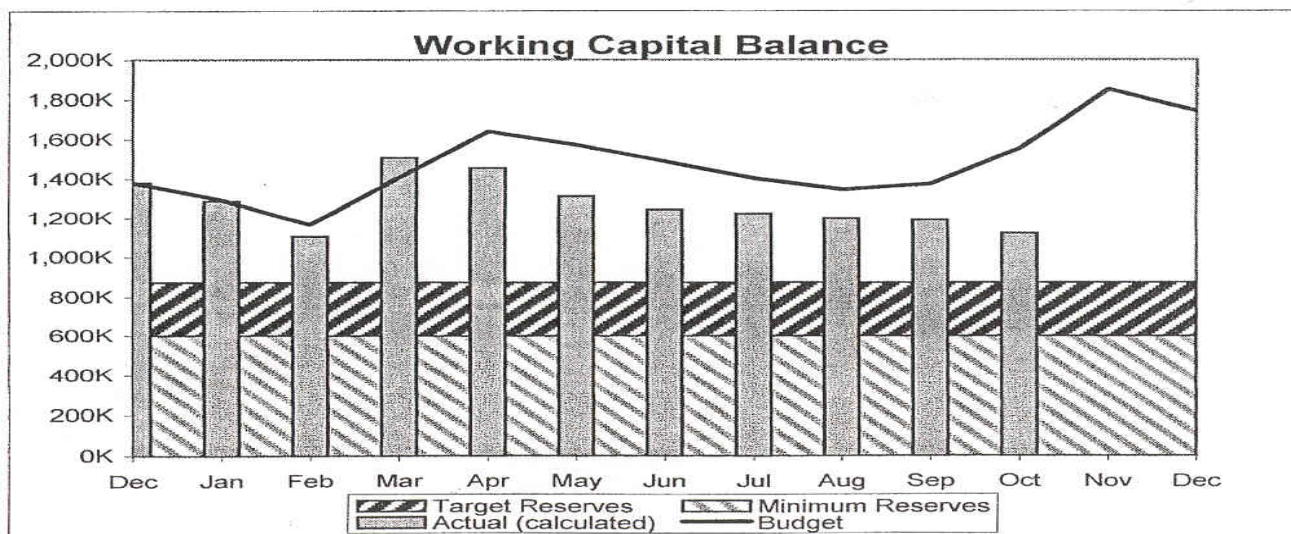
12/31/20

Revenues

	Actual YTD	Budget YTD	Variance	Variance as % of Budget
Private fundraising	1,376,142	1,191,535	184,607	15.5%
Program income	1,102,296	1,329,114	(226,818)	-17.1%
Investment income	202,118	211,468	(9,350)	-4.4%
Other income	82,712	89,368	(6,656)	-7.4%
Total	2,763,268	2,821,485	(58,217)	-2.1%

Expenditures

	Actual YTD	Budget YTD	Variance	Variance as % of Budget
Program A	2,105,987	1,869,551	(236,436)	-12.6%
Program B	364,794	350,735	(14,059)	-4.0%
Program C	291,389	322,391	31,002	9.6%
Non-program	256,548	268,936	12,388	4.6%
Total	3,018,718	2,811,613	(207,105)	-7.4%



Ratios

	2018	2019	2020	Goal
Current Ratio	x	x	x	x
# Days of Working Capital	x	x	x	x
Maintenance Expense per Unit	x	x	x	x
Collection Rate	x	x	x	x

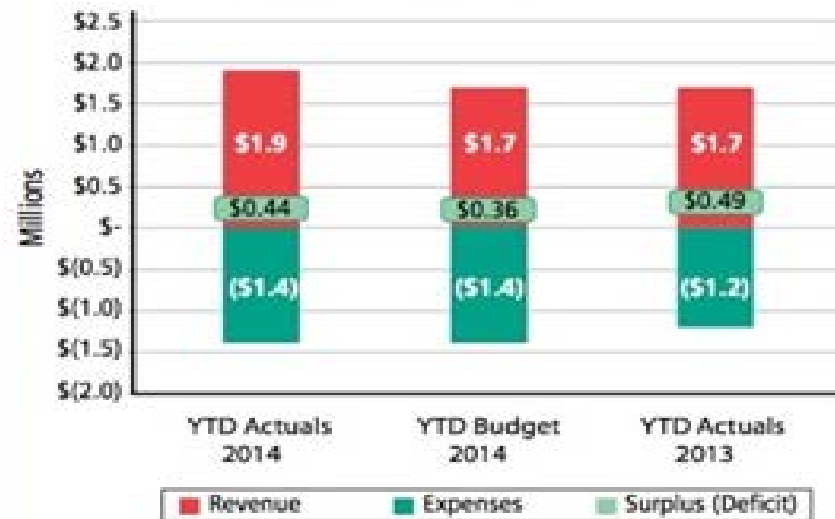
Successful Dashboards:

- Communicate strategic-level results;
- Be user-friendly;
- Snapshot of current status as well as trends over time;
- Show performance against defined targets;
- Highlight out-of-the-ordinary results; and
- Include key performance indicators (KPIs).

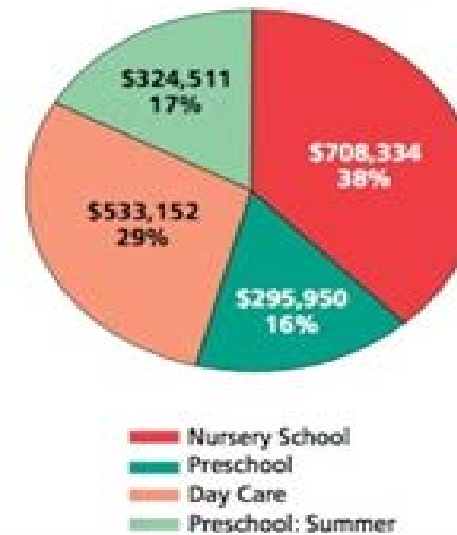


EARLY CHILDHOOD EDUCATION

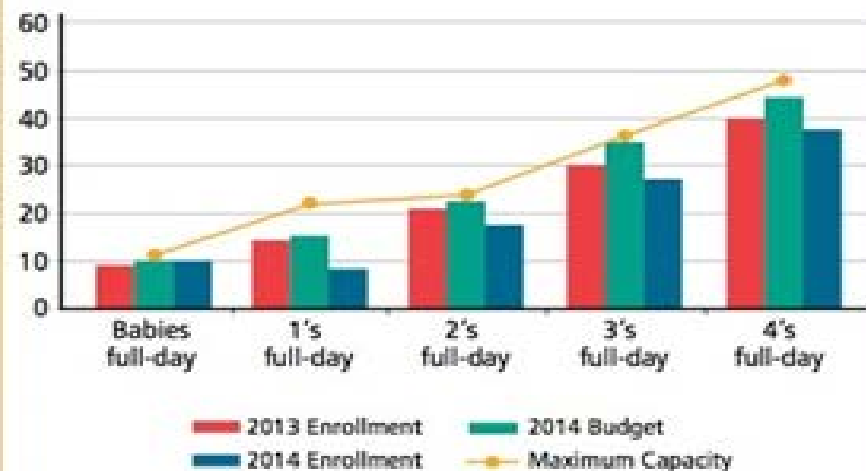
● YTD Operating Results



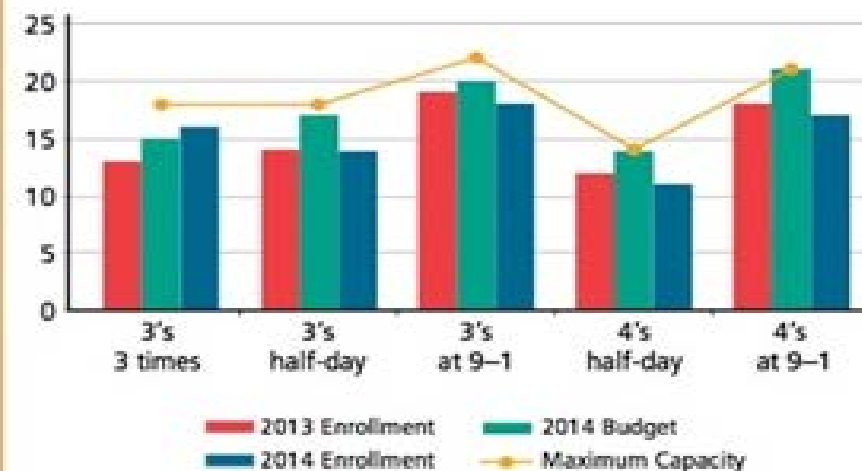
Revenue by Service Type



● YTD Early Childhood Enrollment – Full Time



● YTD Early Childhood Enrollment – Part Time





How to determine KPIs:

- Focus on key drivers of the Organization
- Consider each revenue stream and the factors that influence it
- Look at key expenses and what impacts them
- Define program delivery mechanisms that influence results



AggreGate Client v4.43.01 - admin

File View Help

Main Dashboard Mail Server (Network Host) x

System ? ? ? ?

Servers

- Server (v4.43.01, localhost:6460, admin)
 - Timezones
 - Access Policies
 - Shifts
 - Organizations
 - Cardholders
 - Devices
 - All Devices
 - Discovery
 - ac (auto-registered) (Agent / Access Point)
 - Keytroller 1 (Keytroller)
 - Keytroller 2 (Keytroller)
 - admin.mysql (SQL Database)
 - admin.stats2 (Network Host)
 - tr610 (Agent / Time Recorder)
 - admin.wmi (WMI)
 - Demo Device (Virtual Device)
 - Device Groups
 - OPC
 - Environment Monitoring
 - Generic Devices
 - Network Management
 - Printers
 - Routers
 - SCADA
 - Servers
 - Switches
 - Time Recorders
 - Virtual Devices
 - Workstations
 - Device Servers
 - Users
 - Drivers/Plugins
 - Event Filters
 - Alerts
 - Reports
 - Trackers
 - Global Common Data
 - User Common Data
 - Scheduled Jobs
 - Queries
 - Widgets

Device Configuration - Keytroller 1 (Keytroller) (users.admin.devices.ktr) ? ? ? ?

Basic Settings

- Machine Name (0-16 chars.) Machine #01
- Date Display Format DD-MM-YYYY
- Measurement Units metric
- Vehicle Type electric
- Stop & logout through input 4 Stop when OP->CL

User Codes

- Programmer ID-code (1-14 chars.) 123
- User Table Click to open...
- RFID code length (1-14) 4
- HEX->DEC RFID code conversion (en/dis) disabled
- HEX code length (1-14) 14
- ID-code entry from keypad all User categories
- Logins with "911" code (en/dis) disabled

Event Log

Speed Monitoring

- Speed monitoring mode disabled
- Speeding alarms disabled
- Speeding grace period (1-99 seconds) 5
- Speed Limit (0-999) 100
- Wheel Diameter (1-999 cm/in) 100
- Gearbox Ratio (1-999) 1

Server (localhost:6460, admin) - Event Log

All Events - admin (Administrator)

Server Time	Context	Event	Level	Data
23.08.2011 11:02:48	Check Incoming Mail	Information	Warning	Information=Context action returned error message during job execution: Empty command
23.08.2011 11:02:48	Check Incoming Mail	Information	Info	Information=Job execution started for context:
23.08.2011 11:02:27	Keytroller 2 (Keytroller)	Information	Error	Information=Failed to connect to device: Connection timed out: connect
23.08.2011 11:02:20	Administration	Information	Info	Information=Executing script: Device Information (users.admin.scripts.deviceInfo)
23.08.2011 11:02:07	TH Sensor A (Modbus)	Information	Error	Information=Failed to connect to device: Connection refused: connect
23.08.2011 11:02:06	TPH Sensor B (Modbus)	Information	Error	Information=Failed to connect to device: No such port: null

Related Actions

- Copy
- Paste
- Edit Device Properties
- Setup Monitoring Profile
- Manage Device
- Configure Device
- Synchronize
- Reset Device Driver
- Delete

Trackers

Server	Tracker	Value	Status
Server (localhost:6460, ad...	Humidity (TH Sensor A)	39.2	Moderate
Server (localhost:6460, ad...	Temperature (TH Sensor A)	24.2	Moderate
Server (localhost:6460, ad...	Free Physical Memory	2437 Mb	
Server (localhost:6460, ad...	CPU 1 Load	42	High
Server (localhost:6460, ad...	CPU 2 Load	23	Moderate
Server (localhost:6460, ad...	Database Events	345187	
Server (localhost:6460, ad...	Total Users	5	
Server (localhost:6460, ad...	Total Devices	47	
Server (localhost:6460, ad...	Online Devices	26	
Server (localhost:6460, ad...	Offline Devices	9	Offline Devices Detected

Temperature Chart - admin.th... ? ? ? ?

Showing 1 - 50 of 89

Created new resource: SVG Demo



Who and When

Monthly	Monthly	Quarterly (minimum)
Department Managers	Executive Leadership	Board of Directors
<ul style="list-style-type: none">- Budget to Actual for programs and grant contracts- Performance Dashboard	<ul style="list-style-type: none">- Performance Dashboard- Budget to Actual for program and organization wide- Statement of Activities- Balance Sheet- Cash Flow Projections- Year End Forecast	<ul style="list-style-type: none">- Management Narrative- Performance Dashboard- Budget to Actual for program and organization wide- Statement of Activities- Balance Sheet- Cash Flow Projections- Year End Forecast

NOW WHAT?

Bobby LaCour
rlacour@aldrichadvisors.com