

Fahe Quantitative and Qualitative Analysis of Non-Profit Organizations

Presented by Fahe
State Caucus Meetings
November 2015

Quantitative Analysis

- As applied to finance and accounting, the measurement of results through *ratios*, *formulas* or *the expressions of other relationships* that can be expressed in mathematical terms.

Qualitative Analysis

- The key to Qualitative analysis rests in the ability of the analysts (and the organizations) to agree on the criteria by which the organizations will be measured as to performance and efficiency.

Qualitative Analysis

- BUT, the various oversight groups have not agreed as to the criteria or the standard target range.

Qualitative Analysis

- There is no agreed upon published data as to operating ratios of non-profit organizations providing, preserving or improving housing in Central Appalachia.

Therefore, as a *first step*, Fahe has prepared a Quantitative Analysis of its Members

- Spread sheet of 5 years Data*
 - Balance Sheet
 - Income Statement
- Calculation of selected Ratios

You may now open your packages

Contents

- Spread sheet of 5 years' Data *
- Ratio Calculations
- Ratio Definitions and Formulas
- Member ratios for each year
 - By Last Annual Revenue
 - By Category
- Risk Rating Matrix

How to Read Your Spreadsheet

(And some requests)

Headings

Subject: FAHE			
Date Spread: 5/24/2015	FISCAL YEAR END:		30-Jun
Spread By: Haralson			
Date Audit Received		9/30/2010	9/15/2011
Year ==>		2010	2011
Statement Type ==>			
Balance Sheet		Audit	Audit

Assets

Cash, Unrestricted		\$ 6,673,988	\$ 5,853,032	-12.3%
Cash, Restricted		\$ -	\$ -	#DIV/0!
Investments		\$ -	\$ 71,300	#DIV/0!
Other Current Assets		\$ 1,686,618	\$ 606,516	-64.0%
Total Current Assets		\$ 8,360,606	\$ 6,530,848	-21.9%
Notes Receivable		\$ 32,415,425	\$ 36,231,705	11.8%
Fixed Assets		\$ 860,177	\$ 800,908	-6.9%
All other Assets		\$ 1,242,246	\$ 1,568,119	26.2%
Total Other Assets		\$ 34,517,848	\$ 38,600,732	11.8%
Total Assets *		\$ 42,878,454	\$ 45,131,580	5.3%

Liabilities

Accounts Payable		\$ 156,698	\$ 100,133	-36.1%
Other Current Liabilities		\$ 719,337	\$ 874,141	21.5%
Total Current Liabilities		\$ 876,035	\$ 974,274	11.2%
Other Liabilities		\$ 22,858,992	\$ 24,654,321	7.9%
Total Liabilities		\$ 23,735,027	\$ 25,628,595	8.0%

Net Assets

Unrestricted Net Assets		\$ 18,543,427	\$ 18,902,985	1.9%
Temporarily Restricted Assets		\$ -	\$ -	#DIV/0!
Permanently Restricted Net Assets		\$ 600,000	\$ 600,000	0.0%
Net Assets		\$ 19,143,427	\$ 19,502,985	1.9%
Total Liabilities + Net Assets		\$ 42,878,454	\$ 45,131,580	5.3%

Revenue

Income & Expense				
Grant Revenue		\$ 2,672,906	\$ 2,854,983	6.8%
Earned Revenue		\$ 2,320,043	\$ 3,217,347	38.7%
Total Revenue		\$ 4,992,949	\$ 6,072,330	21.6%

Expenses

Mgt., Gen & Fundraising		\$ 1,697,616	\$ 3,699,649	117.9%
All other Operating Expense		\$ 304,197	\$ 292,656	-3.8%
Program Expense		\$ 2,708,334	\$ 1,720,467	-36.5%
Total Expense		\$ 4,710,147	\$ 5,712,772	21.3%

Change in Net Assets

Extraordinary Gain		\$ 250,000	\$ -	-100.0%
Change in Net Assets		\$ 282,802	\$ 359,558	27.1%
Total Change in Net Assets		\$ 532,802	\$ 359,558	-32.5%

Interest and Depreciation

Interest Expense		\$ 525,612	\$ 536,520	2.1%
Depreciation Expense		\$ 70,870	\$ 71,737	1.2%

For Accuracy, We Request...

- Ask your Auditor to –
 - Deliver your audit within 90-180 days
 - Segregate Restricted and Unrestricted Cash
 - Segregate Current from Non-Current Assets and Liabilities
 - Segregate Un-Restricted, Temporarily and Permanently Restricted Net Assets
 - Categorize Income and Expenses as above

The Ratios

Why Ratios?

MRDUCKS

MRNOT

OSMR

CMWANGS

LIBMRDUCKS

Short Term Solvency

Current Ratio (CA/CL)	≥ 1.25	9.54	6.70
Quick Ratio (Cash+Securities/CL)	> 0.15	7.62	6.08
Cash to Working Capital (Cash/(CA-CL))	$\geq .50$	0.89	1.07
Fixed Asset Mix (FA/TA)	$< .86$	0.02	0.02
Fixed Assets to Net Assets (FA/NA)	$\leq .66$	0.04	0.04
Net Asset Ratio (NA/TA)	$\geq .20$	0.45	0.43
Operating Liquidity (URCash/(Op. Exp/12))*	> 3	40.01	17.59
AP Turns (AP/(Rev./365))	< 30	11.46	6.02

The Ratios

- Sources for Target Ratios
 - HAC
 - Non-Profit Assistance Corporation
 - The CDFI Fund
 - NeighborWorks America
 - Risk Management Associates

Ratio Definitions and What Each Indicates

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Long Term Solvency

Current to Non-Current Liabilities (CL/LTD)	≤ 0.50	0.04	0.04
Current to Total Liabilities (CL/TL)	≤ 0.33	0.04	0.04
Debt to Equity (TL/NA)	≤ 2.5	1.24	1.31
Long Term Debt to Net Assets (LTD/NA)	≤ 0.8	1.19	1.26
Debt Ratio (TL/TA)	< 0.50	0.55	0.57
Debt Coverage (EBITD/Interest)	> 2	1.67	1.80

Efficiency and Profitability

Reliance (Grant Rev./Total Rev.)	<.40	0.54	0.47
Efficiency (M&G + Fundraising/ Op Exp.)	<.25	0.36	0.65
Profit Margin (Change in NA/Revenue)	>.05	0.06	0.06
Self Sufficiency (Earned Inc./ Op. Expense)	>=40%	1.16	0.81

CDFI Fund Employs One Additional Ratio

Deployment: Capital + Borrowed
Funds for Lending/Outstanding Notes
Receivable + Commitments

Applies to CDFI's and Loan Funds

The Financial Trend & Comparison Report

- For each member
 - Each ratio for each of the last 5 years
- Average 5-year Ratios for all members
- Average 5-year Ratios by last Annual Revenue
- Average 5-year Ratios by Category

How To Use Your Spreadsheet and Ratio Comparisons

Or

Fahe gave this to us, now what do we
do with it?

Potential Users

- Management/Financial Staff
- Board of Directors
- Your Banker(s)/Lender(s)
- State HFA
- Existing/Potential Investors
- Grant Funds
- Fahe

Assess Your Performance Against Target or Peers

- Positive: Debt/Equity

Debt to Equity (TL/NA)	≤ 2.5	1.24	1.31
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- Negative: Grant Reliance

Reliance (Grant Rev./Total Rev.)	$< .40$	0.54	0.47
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Identify Trends

Net Asset Ratio (NA/TA)	>=.20	0.43	0.44	0.48	0.47	0.53
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Anticipate Questions

AP Turns (AP/(Rev./365))	<30	11.46	6.02	4.02	7.98	28.71
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Set Standards, Benchmarks and Key Performance Indicators

- Debt to Equity (TL/NA) ≤ 2.5
- 0.31 0.40 0.36 0.37 0.32 0.33

Year-End Adjustments (Window Dressing)

- **Current Ratio (CA/CL)** Target ≥ 1.25
 »FYE = 1.12
- **Current/Long Term Debt** Target $\leq .33$
 »FYE = 0.33
- **Debt to Worth** Target ≤ 2.5
 »FYE = 1.45

How Will Fahe Use The Spreadsheet of Our Organization?

- Underwrite Credit Requests
- Identify Best Practices
 - Use Actual Ratios to Adjust Ratio Targets
- Early Warning System
- Risk Rating of Loan Portfolio
- Risk Rating to Drive Loan Loss Reserve

RISK RATING	1-Prime	2-Excellent	3-Good	4-Average	5-Marginal	6-Special Mention	7-Substandard	8-Doubtful	9-Loss
Earnings/Profitability	Exceptional. Margins much higher than industry, stable or increasing	Strong, stable earnings, consistently higher than industry average	Solid earnings, generally equal to or exceeding industry norms	Adequate earnings may be below industry norm. Some inconsistency.	Earnings and margins are volatile and below standard.	Weak and volatile. Improvements uncertain.	Sustained losses. Unfavorable outlook.	Sustained losses. Improvement unlikely.	Sustained losses, no reasonable chance for improvement.
Cash Flow/Repayment Sources	Exceptional. DCR much higher than industry. Access to pubic market and other lenders.	Strong. Easily covers debt service. DCR higher than norm, limited access to markets	Solid, easily covers debt service. DCR generally meets norms, acceptable to other lenders.	Adequate DCR but below standards. Inconsistency, but generally acceptable.	Inconsistent. DCR marginally adequate or slightly inadequate with improvement expected.	Inadequate to cover debt service at present. Expected to be temporary.	Clearly inadequate. Uncertain or unfavorable outlook.	Clearly inadequate. Improvement highly unlikely.	Clearly inadequate with no chance for improvement.
Asset Quality/Liquidity	Exceptional quality. CR and QR much higher than norm. Substantial liquidity.	Excellent quality. CR and QR higher than norm.	Good asset quality. CR and QR generally in line with norms.	Average asset quality. CR and QR slightly lower than norms.	Marginally acceptable asset quality. CR and QR below norms.	Uncertain or unacceptable asset quality. Liquidity ratios below norm.	Unacceptable or poor asset quality. Liquidity ratios well below norms.	Poor asset quality. Liquidity ratios well below norms and declining.	Poor asset quality. Liquidity ratios well below norms and declining.
Leverage	Very low compared to norms.	Lower than industry norms. Stable or improving.	Comparable to industry norms.	Slightly higher than norms but stable.	Higher than industry norms.	Very high compared to industry norms.	Significantly higher than industry norms, Net worth may be negative.	Much higher than norms and increasing. Net worth may be negative.	Much higher than norms and increasing. Net worth may be negative.
Management	Highly experienced and capable. Depth in key areas with succession plan.	Highly experienced. Continuity and depth in most key positions.	Experienced and capable. Adequate continuity and depth.	Exp. And capable. Succession plans in question.	Acceptable. Succession plan is weak.	Inexperienced or questionable capability. Succession plan inadequate.	Weak or inexperienced.	Management deficiencies well defined.	Management deficiencies are severe.
Collateral	Secured 100% by CD's or blue-chip stock with 50% margin.	Very low LTV & loan short term relative to collateral (i.e. 30% LTV, 5-yr R.E. loan.	Generally meets policy for both LTV and term.	Exception to policy as to either LTV or term or take-out.	Generally does not meet policy guidelines for LTV and term.	Does not meet policy guidelines but with minimal exposure.	Does not meet policy guidelines. Significant exposure.	Does not meet policy guidelines. Substantial exposure.	Does not meet policy guidelines. Little or no value.
Industry/Market	Established and stable industry. Commanding market share. No threats or concentrations.	Established and stable. Strong market share. No threats or concentrations.	Stable and strong, with some cyclicity. Positive outlook. Above average market share.	Average but with acceptable cyclicity. Vulnerable to sudden economic change. Ave. market share.	Cyclical, vulnerable to sudden economic change. Outlook questionable. Medium market share.	Very cyclical. Small or declining market share. Poor outlook.	Very cyclical. Small or severely declining market share. Poor outlook	Industry has broad based problems, may be long term in nature.	Industry has longer term problems affecting majority of participants.
Financial Reporting	CPA audited, unqualified, clean letter, timely.	CPA audited, unqualified or CPA reviewed, timely.	CPA compiled with footnotes, timely.	CPA compiled without footnotes. Generally timely.	Internal statements only but generally timely and reliable.	Internal statements only, may not be reliable or timely.	Qualified audit with potentially negative impact or unreliable and outdated.	Unacceptable financial reporting.. Audit qualified due to viability concerns.	Unacceptable financial reporting.
Participation	Always participates in FAHE events. Follows Best Practices, seeks and gives FAHE input.	Almost always participates in FAHE events, seeks and gives FHE input.	Frequently participates in FAHE events & seeks FAHE input	Often participates in FAHE events; seeks FAHE input and assistance.	Usually participates in FAHE events; seeks or accepts FAHE input and assistance.	Occasionally attends FAHE events; accepts FAHE input or assistance.	Infrequently attends FAHE events; resists FAHE offers of input or assistance.	Rarely participates; Rejects FAHE offers of input or assistance.	Almost never participates; rejects FAHE input or assistance.

What Fahe Can Now Offer

- Available to discuss and provide observations
- Prepare a short financial analysis
- Create graphs and charts
- Present to your Board
- Assistance in developing the financial section of grant applications
- Consulting service to develop a full business analysis based on NWA's PRO and PROMPT model
- Discussions with State HFA's

Thank You

- Your feedback is appreciated