OSU

Report prepared for: **Ministry Finance Analysis**

Sector: X20 - Christian

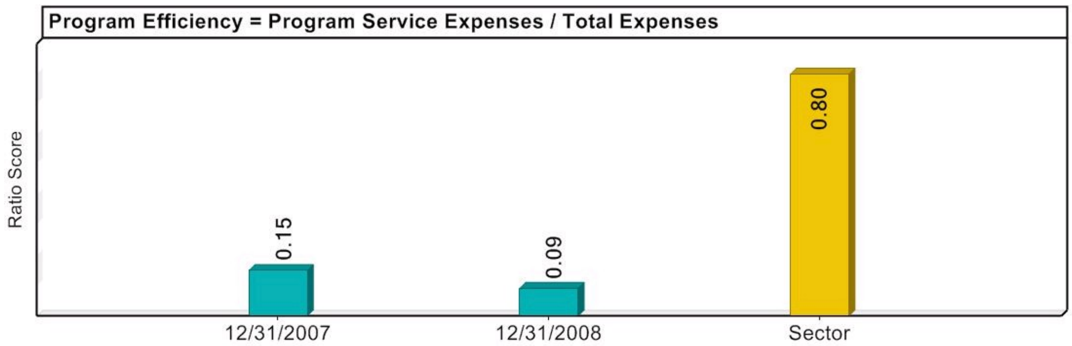
Revenue: $1M - $10M

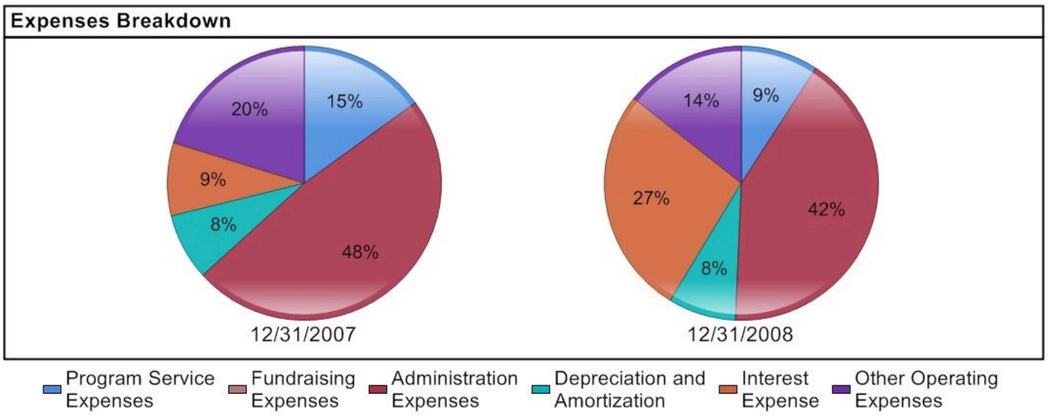
Periods: 12 months against the same 12 months from the previous year

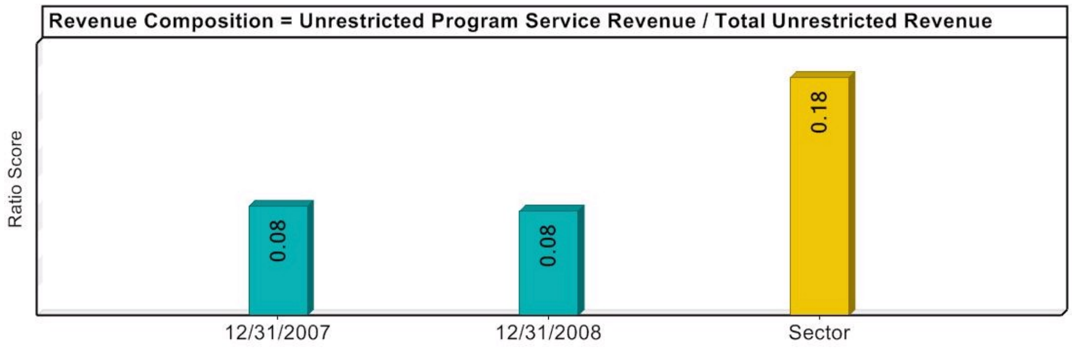
NONPROFIT OPERATIONAL ANALYSIS

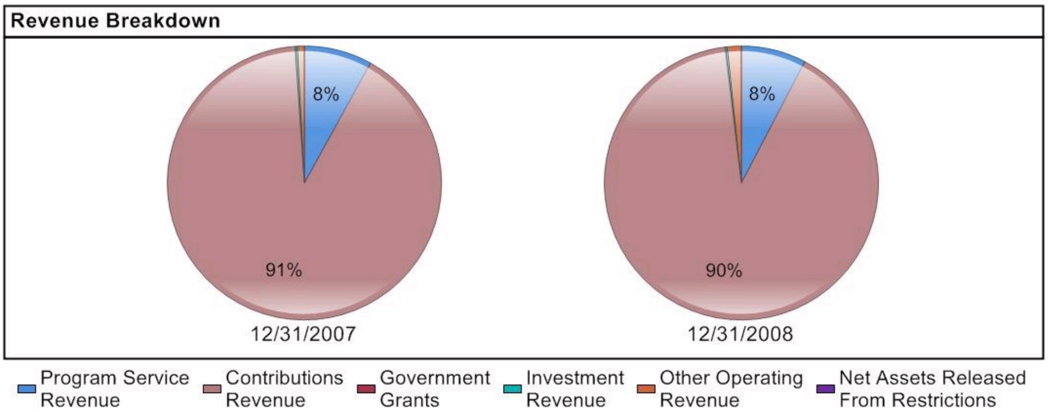
Generally, how is the organization managing money with regard to its sector and mission?

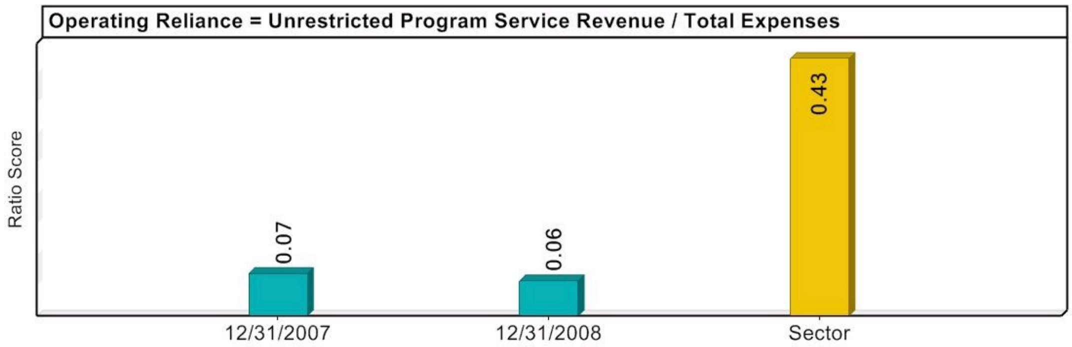
There are a few concerning results in this area of the report. First, it is troubling to see that the organization's program efficiency ratio has declined since last period and is below the sector's average. This metric measures the amount of money that an organization spends on its programs. If possible, management *should* attempt to spend more of its funds on programs since they are generally connected to the organization's mission and long-term goals. Although the organization has continued to have a moderate amount of program revenue relative to total revenue, it is concerning to see that the organization still does not have enough program revenue to cover an acceptable amount of total operating costs. If this low operating reliance ratio is a significant concern for the organization, then it may want to consider either slightly raising the amount of program revenue or attempt to decrease some of the total costs, if possible. In this particular case, it appears that the negativity of this low metric **may** be lessened some since the organization has a good amount of money available, in the form of contributions, as a result of fundraising expenses.

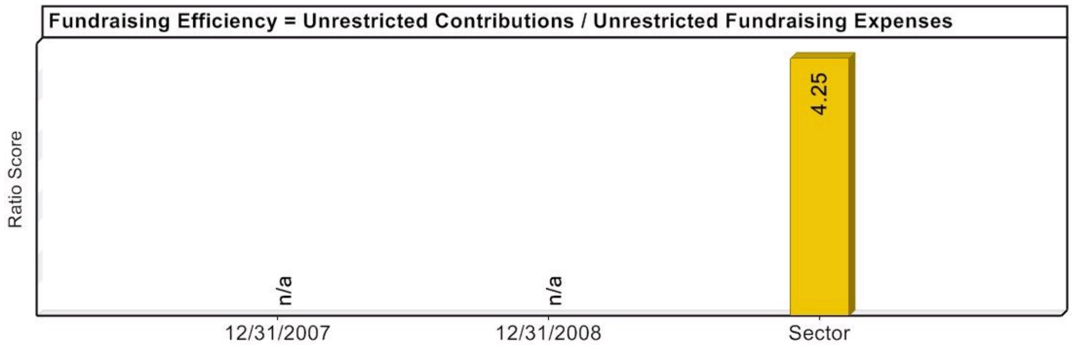





Revenue Composition = Unrestricted Program Service Revenue / Total Unrestricted Revenue
Ratio Score
0.08
0.08
0.18
12/31/2007
12/31/2008
Sector


Revenue Breakdown
8%
91%
12/31/2007
8%
90%
12/31/2008
Program Service Revenue
Contributions Revenue
Government Grants
Investment Revenue
Other Operating Revenue
Net Assets Released From Restrictions


Operating Reliance = Unrestricted Program Service Revenue / Total Expenses
Ratio Score
0.07
0.06
0.43
12/31/2007
12/31/2008
Sector


Fundraising Efficiency = Unrestricted Contributions / Unrestricted Fundraising Expenses
Ratio Score
n/a
n/a
4.25
12/31/2007
12/31/2008
Sector

NONPROFIT FINANCIAL ANALYSIS

LIQUIDITY	★☆☆☆☆	BORROWING	★☆☆☆☆
OPERATING YIELD TRENDS	★☆☆☆☆	ASSETS	★☆☆☆☆
REVENUE	★☆☆☆☆		

LIQUIDITY ★☆☆☆☆

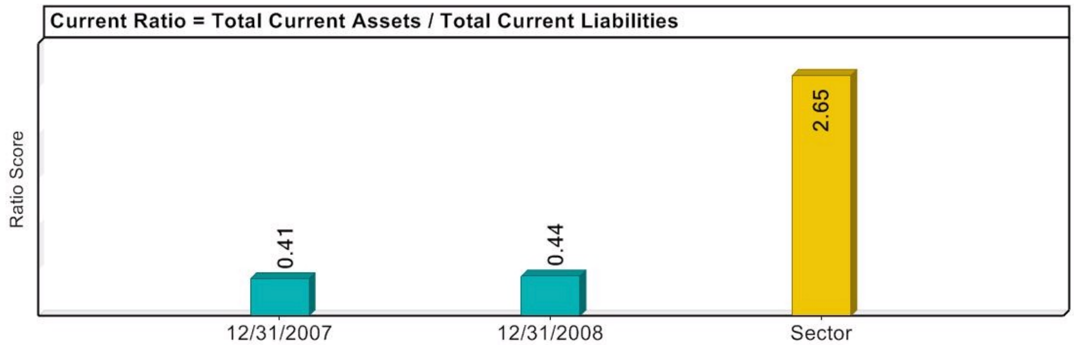
Generally, what is the organization's ability to meet obligations as they come due?

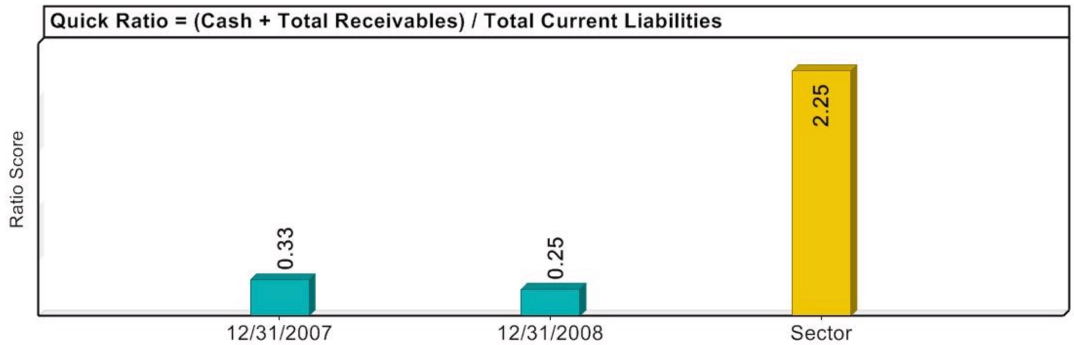
The organization has produced some unfavorable results in the liquidity area. The **first** one is that the organization's overall liquidity position continues to be weak right now, as it was last period as well. This means that there is not enough total current assets compared to what is owed to short-term creditors. The **second** one is that the NPO has had depreciation specifically in its cash and near-cash assets relative to short-term liabilities. This affects the organization's ability to meet obligations since it relies on the cash accounts to pay its bills.

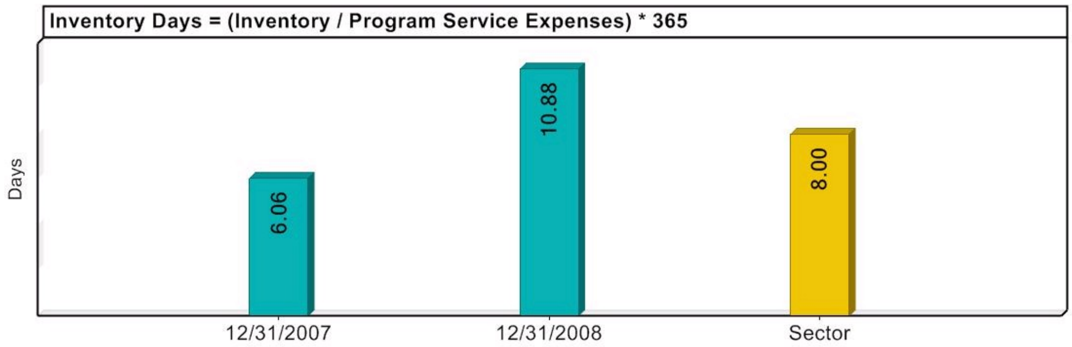
The organization has also produced the financial **combination of weak liquidity accompanied by lower revenues and earnings**. The NPO would typically want to avoid this result because organizations rely on operating yield dollars to actually boost liquidity conditions over time.

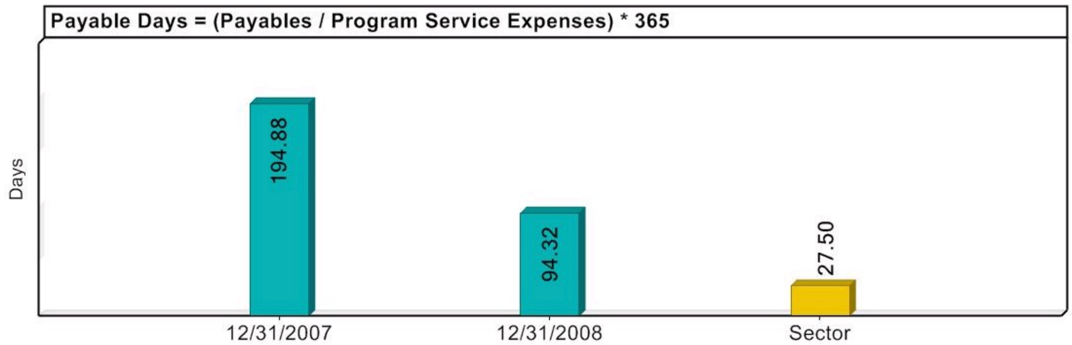
Given the overall liquidity conditions, it should be mentioned that the organization’s payable days are relatively high right now. Even though this may not be a favorable statistic to creditors, it may be positive for the organization to take advantage of trade credit by extending its payment period for bills/payables. This can help keep cash inside the organization for a longer period of time, which may provide some support to the current liquidity position.

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.









OPERATING YIELD TRENDS[1]

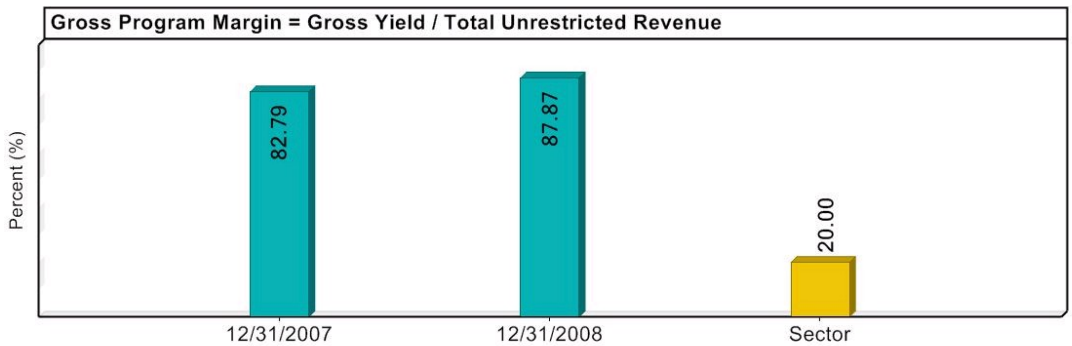
Are trends favorable in the organization?

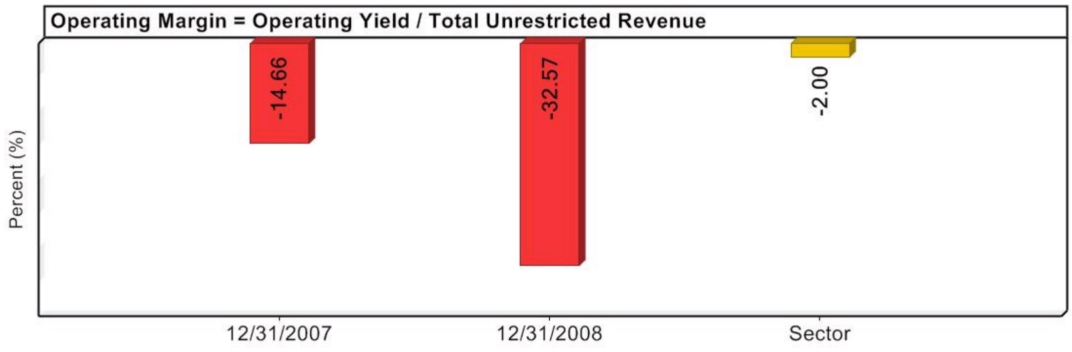
The issue in this area is that the operating margin is low. This means that **the organization is spending too much on expenses** relative to the revenue volume that it is generating.

More importantly, operating margins have fallen from last period and the net deficit has grown, which are both negative results. It looks like the NPO spent more on costs this period than it did last period. Normally, this might be acceptable if revenues rose significantly. It is expected that costs will rise over time as the organization grows towards its mission; this is certainly the case when revenues rise. However, since revenues actually declined this period and the operating margin is generally weak, the organization should be careful about increasing expenses at this point. In short, it is critical to manage expenses very well if revenues continue to decline (or even stay at this level) in the future.

Currently, the operating margin is even weak relative to that of other similar NPOs, which is important to note. You can review this comparison in the graph area of the report. It is true that we are only reviewing two periods of data; nevertheless, it is better to respond quickly to slips in key indicators than to allow them to develop into negative trends. Over time, consistently large net deficits can create a slippery slope leading to weakening liquidity and cuts in program services.

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

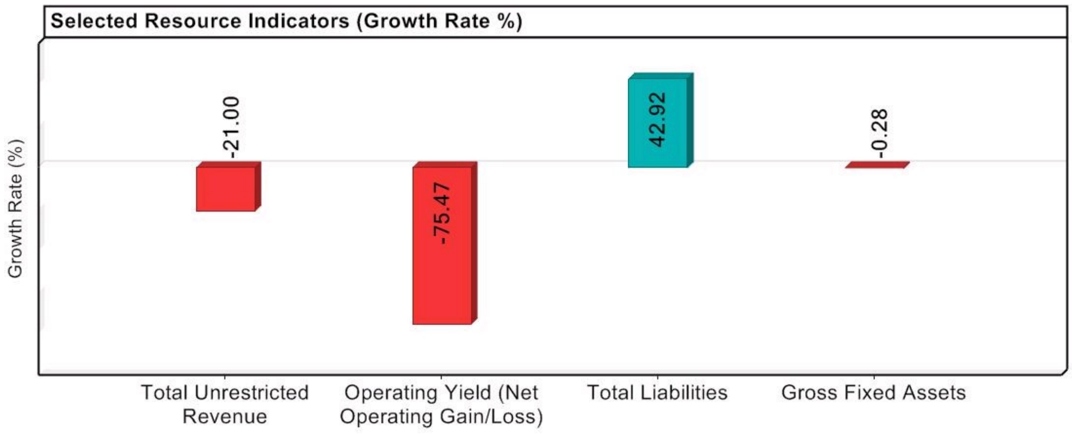




REVENUE

Are revenues growing and satisfactory?

The organization's revenues have fallen this period. Unfortunately, because the asset base has stayed relatively the same, this means that the organization is now generating lower revenue per fixed asset dollar. This dynamic could negatively affect program services if revenues continue to fall in the future. Typically, NPOs want to see revenue increasing over time; this is true because the costs of programs continually increase, no matter what the inflation rate is. Of course, as mentioned in the previous section, managers will want to look for longer-term results in this area -- results from the Overview and Liquidity sections are more important than revenue results generally.



The next two sections will examine how effectively the organization is using two of its most important resources: borrowed funds and assets. 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

Is the organization borrowing responsibly?

Any NPO needs to make sure it is borrowing effectively -- using leverage optimally. It is always important to monitor how effectively an organization is using borrowed dollars.

In this case, significant debt was added, but revenues fell from last period. Although it is possible that the NPO has invested in some resources that will generate revenues in the future, it could also be that the investment in debt has simply not been helpful. Even short-term debt carries some risk and should therefore return improved revenues. Additionally, operating margins are down by 122.10% this period, which is not favorable when combined with lower revenues.

On a general note, it is a good idea to meet with the organization's bankers on a regular basis to keep the relationships strong and use them as strategic partners to optimize the NPO's use of debt.

ASSETS

Is the organization using gross fixed assets effectively?

The results in this area are not very positive. The impact that this situation has on the Assets section is that it lowers performance because less revenue is moving through a relatively unchanged asset base. Another way of saying this is the revenue per asset dollar statistic has fallen. This is not a favorable result, particularly because the operating margin also fell, which means that the organization is less efficient in overall operations than it was last period.

A NOTE ON SCORING: Each section of this report (Liquidity, Operating Yield (Net Operating Gain/Loss) Trends, etc.) contains a star rating which measures the organization's overall performance in the area at the time of the report's generation. One star indicates that the organization is below average or may possibly need improvement in the area. Three stars indicate that the organization is about average for the area. Five stars indicate that the organization is above average or performing quite well in the area.

RAW DATA

	12/31/2007	12/31/2008
Statement of Activities		
Program Service Revenue	$125,400	$94,776
Contributions	$1,420,802	$1,116,748
Government Grants	$0	$0
Investment Revenue	$3,789	$2,745
Other Operating Revenue	$13,202	$20,726
Net Assets Released From Restrictions	$0	$0
Total Unrestricted Revenue	$1,563,193	$1,234,995
Program Service Expenses	$268,970	$149,843
Gross Yield	$1,294,223	$1,085,152
Gross Program Margin	82.79%	87.87%
Fundraising Expenses	$0	$0
Administration Expenses	$865,492	$679,957
Depreciation and Amortization	$141,028	$130,996
Interest Expense	$154,255	$440,950
Other Operating Expenses	$362,688	$235,493
Total Operating Expenses	$1,792,433	$1,637,239
Operating Yield (Net Operating Gain/Loss)	($229,240)	($402,244)
Operating Margin	-14.66%	-32.57%
Other Inflows	$0	$0
Other Outflows	$207,584	$32,143
Total Change In Net Assets	($436,824)	($434,387)
Statement of Financial Position		
Total Cash and Cash Equivalents	$53,643	$17,965
Total Receivables	$0	$0
Inventory	$4,465	$4,465
Other Current Assets	$8,527	$9,605
Total Current Assets	$66,635	$32,035
Gross Fixed Assets	$4,347,289	$4,335,040
Accumulated Depreciation	$1,306,594	$1,412,481
Net Fixed Assets	$3,040,695	$2,922,559
Investment Assets	$0	$0
Other Assets	$204,991	$760,287
Total Assets	$3,312,321	$3,714,881
Payables	$143,611	$38,723
Other Current Liabilities	$18,890	$34,246
Total Current Liabilities	$162,501	$72,969
Long Term Liabilities	$1,939,578	$2,931,260
Total Liabilities	$2,102,079	$3,004,229
Total Net Assets	$1,210,242	$710,652

SECTOR SCORECARD

Financial Indicator	Current Period	Sector Range	Distance from Sector
Program Efficiency	0.09	0.73 to 0.87	-87.67%

= Program Service Expenses / Total Expenses

Explanation: Shows the basic relationship between program expenses and total expenses. The best outcome would be a ratio of 1, where all amounts 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.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Revenue Composition	0.08	0.05 to 0.30	0.00%

= Unrestricted Program Service Revenue / Total Unrestricted Revenue

Explanation: This metric shows the composition of the organization's revenue stream. Specifically, it shows how many cents in program revenue there are for each dollar of revenue generated. Some people like to look at this to see how dependent the entity is on outside funding.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Operating Reliance	0.06	0.30 to 0.55	-80.00%

= Unrestricted Program Service Revenue / Total Expenses

Explanation: Shows how able a nonprofit entity is to pay for total expenses from program revenues alone. Many times (although not always) program revenues are more predictable and consistent sources of money and, therefore, it is a point of interest to see how able a nonprofit is to liquidate expenses from just program revenue. The ideal score would be 1 or even above 1 in very rare cases.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Fundraising Efficiency	N/A	2.50 to 6.00	N/A

= Unrestricted Contributions / Unrestricted Fundraising Expenses

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.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Current Ratio	0.44	1.50 to 3.80	-70.67%

= Total Current Assets / Total Current Liabilities

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.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Quick Ratio	0.25	1.40 to 3.10	-82.14%

= (Cash + Total Receivables) / Total Current Liabilities

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.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Inventory Days	10.88 Days	1.00 to 15.00 Days	0.00%

= (Inventory / Program Service Expenses) * 365

Explanation: This metric shows how much inventory (in days) is on hand. It indicates how quickly an organization can respond to market and/or product changes. Not all organizations have inventory for this metric. The lower the better.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Payable Days	94.32 Days	10.00 to 45.00 Days	-109.60%

= (Payables / Program Service Expenses) * 365

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.

Gross Program Margin	87.87%	10.00% to 30.00%	+192.90%

= Gross Yield / Total Unrestricted Revenue

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	-32.57%	-4.00% to 0.00%	-714.25%

= Operating Yield / Total Unrestricted Revenue

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.).