

ACCOUNTING MEASUREMENTS AND METRICS FOR NPO'S

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ABOUT THE SPEAKER

- Director of Auditing Services – Stancil & Company, CPA's.
 - Concentrate my efforts in serving not-for-profit organizations and closely-held family-owned businesses, overseeing 60+ attestation engagements a year.
- Active member in the Association Executives of North Carolina (AENC).
- Serve on the board of directors of my local home owners association and as the finance chair at my church.
- Graduate of the University of Scranton
- Member of both the AICPA and the NCACPA.
- Three young children, Aniela, Thomas & Samuel.

WHY USE ACCOUNTING MEASUREMENTS AND METRICS ?

- Accounting measurements and metrics use financial data to summarize organizational performance
- Accounting measurements and metrics are tools used to improve financial decision making
- Provides a quick snapshot approach that is easy to understand.
- Helpful in identifying trends within the Organization.

TYPICAL ACCOUNTING MEASUREMENTS & METRICS

- Overview of Operational Results
 - Budget comparisons for key income and expense line items
 - Departmental reports.
 - Cash on Hand / Investment balances, Etc.
- **But... financial analysis applicable to for profit entities is only partially useful for nonprofits.**
 - Profit margins mostly do not apply.
 - Revenue streams are different.
 - Equity is much different.
 - A/R and inventory turns not typical for a NPO.

ACCOUNTING MEASUREMENTS & METRICS - ADEQUACY OF RESOURCES

Operating Cash

(Annual Expenses - Depreciation / 365)

- This reflects how many days the organization could operate if no additional funds were received before investment accounts would need to be liquidated.
- Typically organizations like to maintain 90 – 365 days of operating cash.

Cash + Investments

(Annual Expenses - Depreciation / 365)

- This reflects how many days the organization could operate if no additional funds were received before requiring borrowed funds

ACCOUNTING MEASUREMENTS & METRICS - INVESTMENTS

**Portfolio's Rate of Return –
((S&P500 Rate of Return x (equity portfolio invest. %))
+ (Bond Rate of Return x (bond portfolio invest.%)))**

- Measures your portfolio return to the broader overall market's performance.
- A portfolio with an annual return of 10% can actually be underperforming if the broader markets annual return was 15% (equates to a 50% underperformance +fees incurred)
- “SPY”, “AGG” or “BND” are good general comparisons to benchmark against.
- "I'm not so much concerned about the return on my money as the return of my money" - Will Roger

ACCOUNTING MEASUREMENTS & METRICS – WORKING CAPITAL

Current Assets Current Liabilities

- Measures the financial health of an organization.
- A Ratio > 1 represents an organization that is able to meet its short term obligations and satisfy both maturing short-term debt and upcoming operational expenses.

ACCOUNTING MEASUREMENTS & METRICS – DEBT RATIO

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

- Measures the proportion of assets provided by debt.
- High values indicate future liquidity problems.
- High values indicate a organization to be “highly leveraged” and could have reduced capacity for future borrowings.
- Typically, a ratio < 0.5 is generally considered a healthy ratio.

ACCOUNTING MEASUREMENTS & METRICS – NET ASSETS

Temporarily Restricted Net Assets

(Cash + Investments + Pledge Receivables)

- This metric is useful in determining if an organization may be spending restricted cash for purposes other than those which the funder intended, or using monies designated for future purposes to meet current expenses.
- This ratio should be less than 1. (lower is better)

ACCOUNTING MEASUREMENTS & METRICS – INCOME RELIANCE RATIO

Income Source

Total Income

- Analyze the proportion each of the income streams contributes to the organization's total income.
 1. Contributions
 2. Grants
 3. Program service revenues
 4. Dividends and interest
 5. Membership Dues
 6. Special events
- Determine trends in line with strategic funding goals

ACCOUNTING MEASUREMENTS & METRICS – PROGRAM SERVICE EXP.

Program Service Expense

Total Expense

- Measures the relationship of funds spent for program purposes compared to all expenses.
- The Wise Giving Alliance of the Better Business Bureau has provided a standard of sixty five percent, with a minimum ratio of fifty percent.
- Note, this ratio can vary widely from industry to industry and by the size of the organization.

ACCOUNTING MEASUREMENTS & METRICS – FUNDRAISING EFFICIENCY

Fundraising Expense Contributions

- Calculates an organizations fundraising efficiency by determining how much it spends to generate \$1 in charitable contributions
- For example, Charity Z, with fundraising expenses of \$500,000 and total contributions of \$3.4 million, has a fundraising efficiency of \$0.147, which means it spends 14.7¢ to raise \$1.
- Charity Navigator’s study notes an average fundraising efficiency of \$0.10.

ACCOUNTING MEASUREMENTS & METRICS – SAVINGS INDICATOR

$$\frac{\text{Income} - \text{Expense}}{\text{Total Expense}}$$

- The savings indicator measures the ability of an organization to add to its net assets.
- The savings indicator is a simple way to determine if an organization is adding to or using up its net asset base

ACCOUNTING MEASUREMENTS & METRICS – OTHER RATIOS

- CEO wages as percent of total expenses
- Cost Per Unit of Service (program cost / unit of service)
- Benefit Cost Ratio (payroll taxes, insurance / Wages)
- A/R DSO Ratio ($AR / (annual\ sales / 365)$)
- Effective Tax Rate (income tax expense / pretax income)

BOARD MEETING PRESENTATIONS

- Financial presentations at board meetings should provide a quick snapshot of the current financial status of the organization.
- Detailed financial statements and comparisons to budget line item details should be discussed through the finance committee.
- The Board should receive a summary report of key issues related to the finances of the organization.
- A “Financial Dashboard” can provide your accounting measurements and metrics in a efficient and effective manner.

BOARD MEETING PRESENTATIONS

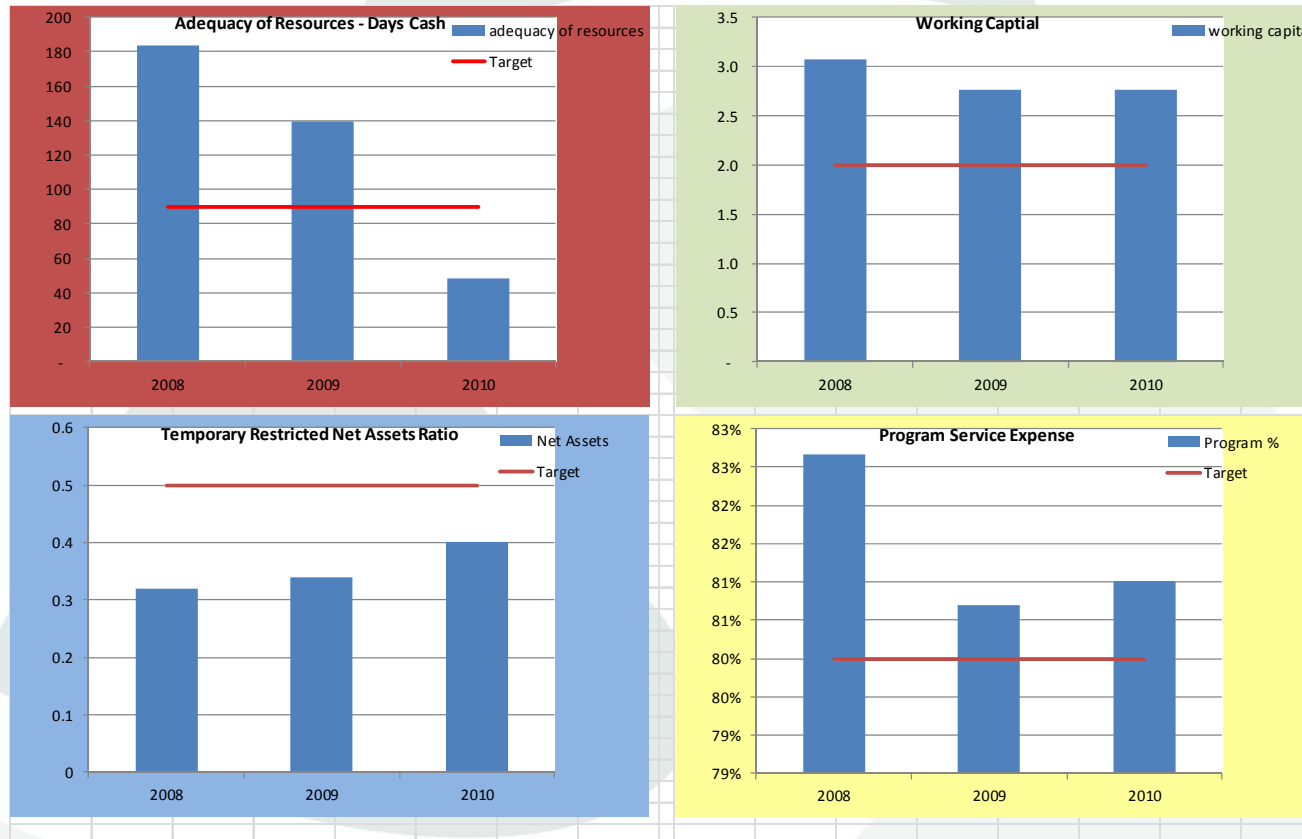
- Creating a color coded financial "dashboard" provides a quick and easy reference to relevant information

	MONTH						YEAR TO DATE									
	Actual	Budget	M(W)	%	YTD	M(W)	%	Year to Date	Budget	M(W)	%	YTD	Budget	M(W)	%	
September																
INCOME:																
Principals	29,000	98,210	(17,207)	-18%	616,062	9,944	1.6%	79,000	296,296	(217,296)	-73%	2,115,147	1,326,144	-61%		
Non-Grants	17,448	15,868	1,580	10%	136,224	11,228	8%	17,448	81,272	(63,824)	-79%	750,000	(52,000)	-7%		
Interest Income	501	800	(299)	-37%	638	(57)	-9%	501	2,700	(2,199)	-81%	4,462	(3,951)	-89%		
Investment	-	-	-	-	-	-	-	-	6,000	(6,000)	-100%	80,775	(80,775)	-100%		
Real Estate	47,097	42,224	4,873	12%	42,686	4,401	10%	47,097	147,782	(100,686)	-68%	140,936	(118,838)	-84%		
Disposal Income	-	-	-	-	-	-	-	-	10,500	(10,500)	-100%	-	-	-		
Other Income	13,082	13,202	(120)	-1%	113,214	11,221	10%	13,082	9,500	(3,582)	-38%	8,000	(4,000)	-50%		
Total Income	110,528	113,202	(2,674)	-2%	1,182,204	112,221	9%	110,528	617,276	(506,748)	-82%	3,776,260	(2,277,000)	-60%		
EXPENSES:																
Administrative:																
Annual Conference Expense	437	564	(127)	-23%	377	(60)	-16%	437	304	133	44%	324	324	100%		
Church Fees	345	450	(105)	-23%	645	(200)	-31%	345	1,950	(1,605)	-82%	1,424	(1,078)	-76%		
Office Supplies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rec. Admin Equip/Telephone	573	589	(16)	-3%	139	(133)	-95%	573	583	10	2%	583	583	100%		
Total Administrative	1,355	1,603	(248)	-16%	1,161	(333)	-29%	1,355	1,447	(92)	-6%	1,431	(1,431)	-100%		
Artistic:																
Artists' Expenses	140	140	-	0%	388	(248)	-64%	140	1,275	(1,135)	-90%	1,093	843	77%		
Flowers	24	24	-	0%	70	(46)	-66%	24	74	(50)	-68%	1,561	1,452	93%		
Compositional Core Supplies	109	628	(519)	-81%	70	(20)	-29%	109	1,978	(1,869)	-94%	1,811	1,811	100%		
Musical:																
Choir Music	708	375	(333)	-89%	301	(405)	-135%	708	1,125	(418)	-37%	1,304	608	47%		
Choir Music	19	19	-	0%	53	(34)	-64%	19	37	(18)	-49%	58	58	100%		
Ball Choir	31	39	(8)	-21%	380	(341)	-90%	31	114	(83)	-73%	1,080	(513)	-47%		
Musical Maintenance	288	255	(33)	-13%	1,765	(465)	-26%	288	4,800	(4,512)	-94%	4,800	4,800	100%		
Misc Music Supplies	427	213	(214)	-100%	409	(16)	-4%	427	638	211	33%	836	408	49%		
Total Musical	1,509	1,027	(482)	-47%	1,793	(596)	-33%	1,509	6,777	(5,268)	-78%	6,777	(5,163)	-76%		
Other:																
Other Music Supplies	114	114	-	0%	287	(173)	-60%	114	2,069	(1,955)	-94%	2,069	2,069	100%		
Youth Materials	551	1,050	(499)	-48%	114	(437)	-383%	551	2,000	(1,449)	-72%	162	(349)	-216%		
Total Other	665	1,164	(499)	-43%	401	(324)	-81%	665	4,069	(3,404)	-84%	1,651	(1,181)	-72%		
Total Expense	3,319	3,787	(468)	-12%	3,354	(1,554)	-46%	3,319	12,014	(8,694)	-72%	12,014	(8,163)	-68%		
Net Income																
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Net Income	107,209	109,415	(2,206)	-2%	1,178,850	100,667	9%	107,209	605,262	(498,054)	-82%	3,764,246	(2,268,837)	-60%		



BOARD MEETING PRESENTATIONS

- Blue = Exceeds Targets, Green = Meeting Targets, Yellow = Slightly Below Targets, Red = Below Targets



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