Financial Analysis completed for:

Staunton-Augusta-Waynesboro VA Habitat for Humanity

Effective April 2018

- ✓ **Operational Excellence team member completing analysis: Todd J. Fox**
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At the request of the Operational Excellence analyst team, a review of the financial condition was completed for Staunton-Augusta-Waynesboro (SAW) HFH ("affiliate"). The purpose of the analysis is to help determine 3 affiliate factors:

1. Financial health
2. Accountability and transparency
3. Published results

In order to accomplish this review, the following affiliate financial documents have been received and reviewed *(not in specific order*):

- ***Affiliate Board meeting minutes (various months)***
- ***Multiple Bank Statements***
- ***Profit and Loss statements (various months)***
- ***Balance Sheet statements (various months)***
- ***Various additional affiliate documents, statements and reports***

HFHI feels it is important to have an understanding of various financial statements as well as ratios that reflect the financial sustainability of an affiliate. Here is an overall review of the ratios completed involved in the analysis for the affiliate.

- **Current Ratio** ***(This computes the organizations ability to meet its current obligations. One of the most commonly used ratios in all nonprofit sectors. A healthy current ratio may appear in the 1.x to 4.x range or at least 1 to 1. Higher is better).***
  - **(March 2018) 2.66x (Above the acceptable level)**
    - ***This indicates that there are accessible/liquid assets that could be liquidated to pay for each $1.00 of debt. This also confirms that nearly $3.00 is available for each liability/debt.***

- **Working Capital** ***(This ratio reflects more of the affiliate financial position than many ratios indicate. It reflects what would remain if all short term resources were used to pay off short term debt. The more working capital an affiliate has on hand the less financial strain it may experience).***
  - **Summary: As reported in both the current and working capital ratios, if liabilities/debt would be eliminated (which is estimated at 1.03 million), assets would remain extremely strong at 1.7 million. This is a strong indication of the**

affiliate financial picture. While debt is high, it is manageable…and assets are managed even better. Well done affiliate!

- **Diversification of Support** ***(This ratio determines the diversification of support that the affiliate reports on 990 tax filings. Recommendation is to have a variety of support. (Nonprofit and HFHI experts recommend no more than 25-30% of revenue is from one source).***

    - **Total reported contribution = 147k**
    - **Largest reported contribution = "Other"**
        - **Percentage of contribution = 100%**

    - **Summary: While "other" is a normal category reflecting contributions, having one source total 100% of contributions is cause for concern. Assumption is that contributions are more diverse than 1 resource but this should be clarified and available for donor discussion if needed.**

- **Reported Public Support** ***(These figures are pulled from 990 tax filings which reflect the reported public support for a specific number of consecutive fiscal years. As with all funding resources, it is always best to have diversification).***

    - **Total 5 year support = 932k**
    - **Annual average support = 186k**

    - **Summary: FY 2012 through FY 2016 reported fair to moderate increases or decreases on an annual basis. No major concerns exist to report since annual changes are minimal in comparison.**

- **Growth of Revenue and Program Expenses** ***(This comparison determines if the affiliate is expanding or shrinking over a period of time. Calculation is completed by comparisons of total revenue of the current year with the prior year(s), then doing the same with total expenses. Nonprofit experts indicate that while this growth doesn't need to be dramatic, affiliates that fail to grow at least at the rate of inflation are in fact shrinking and therefore may be cutting programs that need to be supported).***

    - **Summary: FY 2017**
        - **Revenue growth of over 386k with a 38% increase**
        - **Expense growth of over 556k with a 45% increase**

    - ***While revenue is reporting growth of over 38%, expenses increased over 45% which results in negative revenue growth. Ongoing evaluation is recommended to ensure stable revenue growth with stable expense growth (or reduction). Minor concerns exist for this FY. Long term sustainability could be challenged if expenses continue to grow over revenue growth. Explanation recommended for plans to address this in future fiscal years.***

- **Time and Organizational Preparedness Test (*The difference between the end of the fiscal year and the date of the opinion letter should be less than 90 days but not more than 120 days. The Affiliate and/or Accounting firm have serious organizational problems if the date is greater than 120 days).***

    - ***Insufficient financial data provided for analysis***

- **Program Expenses** ***(Cost of goods and services distributed to fulfill the purpose of the affiliate. This is determined by comparing affiliate program expenses against total affiliate functional expenses. Nonprofit experts indicate that 7 out of 10 nonprofits spend at least 75% of their expenses directly on their program).***

    - **Summary: FY 2017 = 92%**
    - **HFHI recommends a <u>minimum</u> of 84% of total budget be spent on program expenses**

- **Administrative Expenses** ***(cost of business management, record keeping, budgeting, finance and all other management and administrative expenses. This is calculated by dividing reported administrative expenses by the total affiliate functional expenses).***

    - **Summary: FY 2017 = 6%**
    - **HFHI recommends a <u>maximum</u> of 8% of total budget spent on administrative expenses**

- **Fundraising Expenses** ***(The cost of fundraising campaigns and events. This ratio allows organization to see how spending on overhead and fundraising services such as campaigns or special events compare to how much is being spent on programs. This is calculated by dividing the affiliates fundraising expenses against the total functional expenses).***
    - **Summary: FY 2017 = 2%**
    - **HFHI recommends a <u>maximum</u> of 9% of the total affiliate budget be spent on fundraising expenses**

- **Fundraising Efficiency** ***(The cost of funds/amount spent to raise each dollar within the affiliate. HFHI occasionally sees affiliates reporting in their financial statements or 990's that zero dollars are allocated to fundraising. Because this is highly unlikely, this can be a red flag with the IRS and major funders. This is calculated by using the total fundraising expenses divided against the total revenue contribution).***

    - **Summary: FY 2017 = 20%**
    - **HFHI recommends a <u>maximum</u> of 19% of fundraising revenue is used for fundraising expenses**

- **Affiliate's largest reported Asset** ***(If the largest asset is accounts receivable, the organizations future financial health is dangerously relying on an outside entity. There is the possibility that if the entity does not pay all of the receivable, the affiliate could experience financial problems).***
    - **Largest reported asset (Mortgages - discounts) = 923k, 34% of total current assets**
    - **2nd largest reported asset (Afflt land) = 759k, 28% of total current assets**

        - **Summary: Largest reported assets are excellent resources with excellent value and opportunity for appreciation. Additional large assets were reported so in summary of all current assets, the affiliate is managing their assets well.**

- **Affiliate mortgage delinquency** ***(The number of loans with delinquent payments divided against the total number of loans held in affiliate mortgage portfolio. Both months listed in ratio are based on affiliate reported data to HFHI)***
    - **(March 2018) = (30-90+ days = 3%) (1-29 days = 0.00%)**
        - **Summary: HFHI recommends mortgage delinquency to be <u>below</u> 6%.**

- **Affiliate mortgage leveraging ratio** ***(The number of mortgages sold or pledged including FlexCAP, mortgage sales and zero equivalent programs. Ratio is calculated by taking the total mortgages sold or pledged divided against the total number of performing mortgages).***
    - **<u>No reported data provided for analysis or on file with HFHI but options may exist to help support sustainability and growth plans at affiliate.</u>**

- **House Production Summary** ***(This information is based on affiliate reported data to HFHI)***
    - **2017: 7 (2 new, 1 rehab, 4 repair)**
    - **2016: 1 (1 new)**
    - **2015: 3 (1 repair, 2 recycle)**
    - **2014: 7 (2 rehab, 4 repair, 1 recycle)**
    - ***4 year total: 18***
        - ***4 ½ homes per year average house production (new, rehab, repair or recycle)***

- **Tithe reported for calendar year 2017 = $4,899.98**
- **Lifetime tithe committed to HFHI = $210,729**

- **Survival Ratio** ***(Funds that are immediately available to a business, and can be spent as needed, as opposed to assets that must be sold to generate cash. The amount of cash on hand determines what projects an affiliate can undertake without going into debt. Experts indicate 90 days of operating cash reserve with aspirations of attaining 6 months reserve. The ratio is calculated by using a variety of data reported on the Balance Sheet and Profit & Loss Reports).***

    - **(March 2018) analysis:**
        - **Estimated days of cash on hand = 6 months (until liquid cash is exhausted)**
        - ***Summary: Nonprofit and HFHI recommendation is to maintain minimum of 3 months reserves. SAW HFH is reporting approximately 6 months reserves. While this reserve ratio may fluctuate monthly, having 6 months reserves is a strong affiliate attribute and needs to be recognized. Well done affiliate!***

- **Overview of affiliate "public awareness test" and specific 990 Tax Return clarifications**
    - **Affiliate Website was reviewed and is very well done. Relevant and up to date information was available for volunteerism, donations, staff and board of directors as well as ReStore details. Overall, the site was easy to locate and navigate. Additionally, these details were reviewed:**

        - **YES- Whistleblower policy indicated for public knowledge (990 report)**
        - **YES- Conflict of interest policy indicated for public knowledge (990 report)**
        - **YES- Affiliate transparency and accountable to the public was nonexistence and no affiliate 990 tax return available on website**

Overall, the analysis provided excellent results which places the affiliate at an outstanding position of growth and increasing the impact in Staunton Augusta Waynesboro communities. As affiliate leaders and board members reading this summary, strong indicators reported reflect good momentum and strong leadership driving the movement. Keep up the good work.

On an overall basis, if affiliate were rated by the HFHI Operational Excellence financial analyst team the financial rating would be: <u>3.50</u> ***(1-4 rating scale, 1 being poor, 4 being financially strong)***

Respectfully submitted:
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