Promise House and My Friend's Place

A FINANCIAL ANALYSIS OF TWO NONPROFIT HOMELESS YOUTH ORGANIZATIONS

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UTD – SPRING 2017 | PA 6374

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Introduction

Following the financial crisis of 2007, greater scrutiny concerning transparency and financial reporting was placed on nonprofit organizations. On top of the IRS's expectation of completing the form 990, nonprofits are also now expected to complete annual audits to monitor and reflect their financial positions, as well as acquisition and allocation of revenue. Potential donors expect more information from nonprofits before making decisions to provide donations, grants, and even in-kind donations or pro-bono services. This report is a financial analysis of two nonprofit organizations focused on homeless youth. Sections will include the history, mission, governance, financial management, and financial position of Promise House (in Dallas, TX), and My Friend's Place (in Los Angeles, CA). The purpose of this report is to serve as a guide for both organizations for future strategic planning, as well as benchmarks for other nonprofit organizations.

Section 1: History, Missions, and Governance

History

Promise House (PH) began 31 years ago resulting from a community survey of homelessness in Dallas, Texas conducted by the Lover's Lane United Methodist Church. Beginning as a 16-bed emergency youth shelter, Promise House now consists of numerous programs and locations including the Wesley Inn, which is a place for teen mothers and their children *(*Promise House, History)

My Friend's Place (MFP), located in Los Angeles, California, was started by two people in 1988 after realizing extent of homeless youth that were living on the streets. What started as co-founders Craig Sholz and Steve LePore driving around town with sack lunches to hand out, turned into a physical space in 1992, serving 50-70 youth a day. Today, My Friend's Place consists of programs that still extend outside of their walls to reach youth on the street, as well as educate the community (My Friend's Place, Who We Are).

Mission

The mission of a nonprofit organization should be its heart and soul, and guide all decision-making and planning. Every member of the organization must act within the mission, whether it is the board choosing investment strategies, or the executive director (ED) in creating a new program.

Promise House: ***"Moving area youth in crisis toward safety."***
(Promise House, About Us)

My Friend's Place: ***"To assist and inspire homeless youth to build self-sufficient lives."***
(My Friend's Place, Who We Are)

Analysis

Promise House and My Friend's Place share similar missions of creating self-sufficiency through their programs. Both focus on the success of the youth they serve, but importantly that the success is self-driven. Both organizations keep their missions specific to the outcome of transitioning out of homelessness, but broad enough to allow leeway for future growth in programs and services. This allows for broad support of youth needs, as well as for future growth in community outreach and education.

Governance

Nonprofit trustees (boards) have a fiduciary responsibility to the organization that are directly associated with the legal aspects of financial reporting and compliance as restricted by federal and state laws. Including important policies and management practices allow for transparency and accountability, necessary to monitor the financial health of an organization as well as communicate to stakeholders (Weikert et al. 2013, 266).

Promise House

The Promise House board of directors is a mix of community volunteers and local business leaders, with the majority coming from real estate or financial backgrounds. Board members coming from a real estate background is useful for PH, as they have a working knowledge of the housing market in Dallas, as well as an understanding of city development, both crucial to understanding a city's homelessness situation (Promise House, Board of Directors).

My Friend's Place

My Friend's Place also utilizes an "advisory council" consisting of six members, including the co-founders. The makeup of MFP's board is much more varied and reflects the LA community (My Friend's Place, Leadership). This mix is important as it allows for far-reaching abilities to touch multiple levels of the community.

Analysis (See Table 1)

As reported in the IRS form 990, both have 23 voting members of their governing body (IRS 2013, IRS 2014). Neither delineate who are voting members versus solely advisory (and consequently, non-voting) members. Only Promise House notes that their Executive Director (ED) is reviewed by the board and details how compensation is figured for the ED (IRS 2013). Both organizations note that the pay for their ED is figured using an independent, outside source, but only Promise House uses the Schedule 0 to elaborate (IRS 2013). Both organizations provided copies of the form 990 to all concerned parties before submission (IRS 2013, 2014). Although both organizations have whistle-blower and conflict of interest policies, My Friend's Place does not make all key employees aware of their conflict of interest policy (IRS 2014).

Section 2: Financial Management

Financial management and control are vital to the longevity of any organization. Careful maintenance of all financial aspects is necessary for sustainability, as no aspect of funding or cost will remain constant over time.

Cost Structure

Promise House

Promise House's total expenses in 2014 were $2,695,928. Most PH expenses go toward fixed costs, accounting for 91% of their total expenses. PH costs are more direct than indirect (84% and 16% of total expenses, respectively). Most of PH's fixed costs lie within their category of "salaries". This is acceptable understanding the number of programs they have, but more importantly, the services they provide. Much of the staff that PH employees work directly with youth in the form of caseworkers and direct contact workers, as is a vital component to dealing with homeless youth is meeting them on a personal level as well as ensuring the health, safety, and well-being (Promise House Financial Statements, 2014).

My Friend's Place

My Friend's Place's total expenses in 2015 were $1,376,291, with 84% going toward fixed costs such as salaries, payroll, equipment, and taxes. MFP's variable costs accounted for 16% of their total costs, which may be considered high if remains a consistent amount or increases (MF Place Financial Statements, 2015).

Analysis

Both organizations are similar in their mix of fixed to variable and direct to indirect. Promise House seems to have a much higher amount going to salaries ($2,042,079) (Promise House Financial Statements, 2014) than My Friend's Place ($877,879) (MF Place Financials, 2015), but overall the variance between the two is not drastic. Having a higher percentage going to fixed costs allows for a more stable budget, in that it offers a steady number to work from versus the uncertainty that may come with the variable costs. Being a nonprofit that is likely affected by economic downturn, fixed costs could aid in the stability needed to maintain services to an increased number of clients. My Friend's Place has a greater number of expenses that could be categorized as indirect (24% of total expenses) (Promise House Financial Statements, 2014) than Promise House (16%) (MF Place Financials, 2015). Again, this could be explained by salaries, and seems feasible that the higher cost toward salaries would be easier to adjust in that two organizations with similar missions and budgets could in theory maintain similar staff levels.

Revenue Structure

Promise House

In 2014, Promise House had a total revenue of $2,877,039, $1,134,192 in unrestricted assets, and a $11,111 decrease in net assets (Promise House Financial Statements, 2014). PH utilizes more public funding that generally comes with more restrictions on revenue.

My Friend's Place

In 02015, My Friend's Place had a total revenue of $2,100,140, $2,218,157 in unrestricted assets, and a $667,173 increase in net assets (MF Place Financials, 2015). MFP receives most their funding from private sources, which generally have less restrictions.

Analysis

PH would benefit from finding more unrestricted funds to compensate for expenses, where greater unrestricted funds allow MFP to have an increase in revenue after expenses, giving them more of a safety net.

Revenue Structure (Fundraising)

*Analysis (*Promise House, Events) (My Friend's Place, News and Events)

There are many similarities between organizations. Both have numerous ways in which people can get involved in their fundraising efforts. MFP appears to do a better job of offering numerous ways in which donors can choose to donate funds, and even sponsorship aspects. This is important as it allows donors to feel that they are connected to where their money is spent, and aids the organization in finding diverse donors. Where PH is more strategic in their ongoing and annual events, remaining consistent, both offer a fair amount of opportunities for fundraising.

Both organizations have a similar program geared toward young professionals. If an organization has the capacity to support this type of program, it is an efficient way to gain revenue while also utilizing public support for additional fundraising and outreach. Members pay money to be a part of the program, then attend social events that in turn gain more revenue for the organization, while serving as advocates for the organization.

Cash Management

A cash-flow budget is intended to report on how liquid (how much cash is on hand) the organization is (Weikert et al. 2013, 36).

Promise House

In 2014, PH had $202,173 from operations and a reduction of $57,947 to investments. PH ended the year with $591,544 (Promise House Financial Statements, 2014).

My Friend's Place

In 2015, MFP had $406,396 from operations and $303,045 from investing, ending the year with $1,471,109 in cash (MF Place Financials, 2015).

Analysis

It does appear as though both Promise House and My Friend's Place have in place separate financial procedures for monitoring cash. Promise House is diligent in their attention to cash per their "Cash, Cash Equivalents and Investments" section of their Financial Statements Report. Although My Friend's Place reports on cash flow, their explanation for doing so is less detailed than that of Promise House. In My Friend's Place's Financial Statements Report includes a "Cash and Equivalents" section, but is limited compared to PH (Promise House Financial Statements, 2014, MF Place Financials, 2015).

Investment Practices

Aside from being prudent and wise while making financial decisions, nonprofit organizations need to be sure to diversify their investments. Diversification will allow the organization's investments to remain stable during economic downturns and financial struggles within the organization (Weikert et al. 2013, 266)

Promise House

Promise House had $893,736 divided between two COD's in 2013, $1,500 in investment income, and used $128,404 of net cash toward investment, including equipment PH did not incur any loss from investments between 2014 and 2015 (Promise House Financial Statements, 2014).

My Friend's Place

My Friend's Place had $239,952 in COD's in 2015, $2,341 ion investment income, and $303,045 of net cash going toward investment. MFP did not incur any loss from investments from 2014 to 2015 (MF Place Financials, 2015).

Analysis

Both Promise House and My Friend's Place allocate excess cash reserves to Certifcate of Deposits (COD) in "high-quality" bank or brokers backed by the FDIC or SPIC, as they are more secure short-term investments. PH mentions that they choose fair market value investments with original maturity rate of 90 days, where MFP considers any investment with maturity rate under 30 days to be considered a "cash equivalent". Neither organization had a readily accessible note of endowments found within their audits or 990s, or seem to diversify their investments beyond CODs. Although their investments are not great in diversity, they are both choosing a more stable form of investment in COD's. Both organizations should consider diversifying their investments (Promise House Financial Statements, 2014).

Capital Budgeting and Financing

Capital budgeting concerns long-term asset investments such as the implementation of new programs, or installation of new facilities (Weikert et al. 2013, 246). Often, capital budgets are separate than operating budgets, as they are solely concerned with the capital project (Weikert et al. 2013, 248).

Promise House

Promise house's capital debt accounted for 7.4% of total net assets and 7% of total expenses (IRS, 2013). PH does not appear to hold any debt in the form of loans, but the organization does have $225,000 in accounts payable (from 990 section X, line 17). PH's capital assets, $1,739,874, account for over half (57%) of the organization's net assets (IRS, 2014).

My Friend's Place

My Friend's Place's capital debt accounted for 30% of total assets and just over 50% in total expenses. MFP does not appear to utilize loans, and has $91,459 in accounts receivable (from 990 section X, line 17). MFP had $751,577 in capital assets, which accounted for 25% of total assets and 26% of net assets (IRS, 2014).

Analysis

Promise House is known to utilize grants as means for funding capital projects, which is seen in their most recent capital project that will house LGBT youth in a new facility. This is a practical means for financing capital projects, if the funding is accessible. Being a larger, well established, organization, PH has an advantage in securing public and private funding through reputation and past results.

My Friend's Place has a relatively low amount of capital debt, but they also have lower capital assets than PH. This could be indicative of the fact that they are nearly 100% privately funded, which may indicate that their spaces are donated or fully funded. Here this may aid MFP in having to find capital financing from outside sources with high interest rates (such as banks), it does not insulate them from the cost or maintenance of maintaining facilities, and this may offset the value that they bring. This can be seen in PH's difference between capital debt (7% of net assets and liabilities) and capital assets (57%) versus MFP's 55% of total expenses in capital debt and only capital assets accounting for only 26% of net assets (IRS, 2013).

Section 3: Financial Condition

The financial condition of an organization is monitored through ongoing financial analysis. This allows the ED and board of directors to know how liquid, efficient, solvent, and profitable the organization is (Weikert et al. 2013, 132). This practice is important, as it serves as an indicator for what is benefiting the organization financially, what may be hindering it, and what can be done to improve it.

Liquidity

Liquidity indicates how much cash the organization has on hand, and is indicated by the current ratio, quick ratio, and working capital. The goal for current and quick ratios are a minimum of 1, and indicate how quickly resources can be turned into cash. Working capital is the difference between assets and liabilities and should also be at least 1 (Weikert et al. 2013, 136).

Promise House

PH had an increase in current ratio, quick ratio, and working capital from 2013 to 2014 (See Table 2), which allows them to have enough cash on hand to secure in time of need.

My Friend's Place

Despite decreases in current ratio, quick ratio, and working capital from 2013 to 2014, MFP was still liquid in both years (See Table 3). This downward trend could be indicative of problem in financial condition, but further analysis of more year's reports would be necessary to make a sound determination.

Analysis

Both organizations are solvent, having high quick and current rations and a lot of capital, but both may have excess accessible funds that could be better served than in short-term investments or cash. As following sections will demonstrate, both organizations are profitable and solvent enough to place excess funds into existing programs or toward future projects or programs. PH should become aware of what has allowed for their increase in liquidity and continue those practices, where MFP needs to analyze their decrease in all factors to ensure that the downward direction does not continue.

Solvency

Solvency concerns how well the organization can carry its debt, and is often used as by banks and measured by leverage. Higher leverage indicates less reliability to pay off debts, as there are more debts than resources held. The minimum acceptable level of both debt-to-asset and debt-to-equity ratios should be below .04 (Weikert et al. 2013, 36 132).

Promise House

PH debt-to-asset and debt-to-equity ratios are relatively high and increased from 2013 (.05) to 2014 (.08) (See Table 4).

My Friend's Place

MFP maintained solvency in both 2013 and 2014, and decreased both debt-to-asset and debt-to-equity ratios, both remaining under the .04 threshold (See Table 5).

Analysis

Promise House is trending downward with increased ratios for both ratios, indicating the organization has more debt than resources. PH needs to carefully evaluate their solvency situation to maintain a good balance between their assets and debt, as it will make them more desirable for future investors, especially if they consider seeking bank loans in the future. MFP will be wise to maintain whatever practices they have currently established to continue with this upward trend toward lower leverage.

Efficiency

Efficiency is measured by asset turnover ratio and days receivable. Asset turnover is indicative of how much money the organization receives for money spent, or every dollar invested (Weikert et al. 2013, 132). Days receivable reports on when money is promised (or pledged) to when it is received (Weikert et al. 2013, 132). Asset turnover ratio is more favorable with a higher result, where the greater the days receivable, the longer it takes to get promised funds.

Promise House

PH is trending upward with their asset turnover ratio (up from 5.14 to 13.46), indicating that in 2014, PH generated $13.46 for every $1 the organization invested. PH is trending downward with concern for days receivable, as it increased from 16.20 in 2013 to 26.9 in 2014

(See Table 6).

My Friend's Place

MFP had a significant decrease asset turnover ratio, which should be monitored closely. The ratio dropped from 7.74 (2013) to 2.52 (2014), indicating that they are now receiving nearly five less dollars invested. Days receivable increased by a few days, but is of little concern as it is still within the acceptable range (See Table 7).

Analysis

Both organizations have positive days receivable ratios, as they both have kept their days below 30. Only Promise House had a ratio above 20. Considering that was in the most recent year, and shows an increase, it may be a red flag, or something to monitor at best. Promise House has greater asset turnover ratios for both years, and a significant increase from 2013 to 2014, indicating a positive trend toward gaining more revenue for services provided (See Table 6). On the contrary, My Friend's Place has demonstrated negative trend, dropping their ration from 7.74 to 2.51 from year to year (See Table 7). This is a red flag for MFP in that they do not want to drop into a negative ratio, a direction they seem to be headed.

Profitability

Profitability, as concerned with this analysis, is measured by the organization's profit margins. Despite the reality that nonprofit organizations do not operate under the guise of seeking profit, it is still advisable to maintain a positive profit margin to allow for future growth, replacement of equipment and supplies, and the possibility of economic downturn (Weikert et al. 2013, 132).

Promise House

Promise house's profit margin is dangerously low and showed a decline from 2013 to

2014 (.3 to .15) (See Table 8). This is dangerously close to running a deficit and does not allow for inflation in coming years.

My Friend's Place

Profit margin for MFP shows them in a deficit for 2014 (-.03), and reduced from 2013 (.02) (See Table 9). This trend cannot continue or MFP will find itself unable to sustain in the long run considering inflation, as well as make themselves less desirable to prospective donors.

Analysis

Although MFP has a positive profit margin, it is a minimal one, bordering on negative. Both organizations need to improve this number to ensure they do not run (or continue to run) in a deficit. It appears that Promise House has some serious investigation to do, as they have both lower profit margin and liquidity. MFP benefits from higher liquidity, indicating that they could use some of their excess funds to place toward services. Promise House needs to find another form of funding, as they show promise with efficiency, indicating that with funding, they could continue to increase revenue through services.

Conclusion

Promise House and My Friend's Place share many similarities, not limited to missions and history, but stretching into their financial aspects. Both appear to be maintaining their finances with the current mechanism they use, but both must remain vigilant in monitoring their financial positions as well as the economy. During times of economic downturn, innovation becomes necessary when both private and public funds become less readily available. If both organizations continue to perform internal audits by outside sources, share important financial information with all stakeholders, and continue to find innovative ways to raise revenue, they will have capacity to grow services over time, as they have both done successfully.

Tables

Table 1: **Board Management and Policy**

	Yes	**No**	**Yes**	**No**
Section A: Governing Body and Management				
Line 2: Relationships with other officers, directors, ect.		x		x
line 3: Delegation of duties to outside entity		x		x
Line 4: Any significant changes to governing documents		x		x
Line 6: Have members or stockholders		x		x
Document Meetings				
8a: of the governing body		x	x	
8b: Committees with authority on behalf of governing body		x	x	
Section B: Policies				
10a: Local chapters or branches		x		x
11a: Provided copy of 990 to all members of governing body	x		x	
11b: Describe Schedule O process	x			
12a: Written Conflict of interest policy	x		x	
12b: Officers, trustees, and key employees made aware of policy	x			x
12c: Regularly and consistently monitor enforcement and compliance	x			x
line 13: Written whistleblower policy	x		x	
line 14: Written document retention and destruction policy	x		x	
Process determining pay completed by outside/independent source				
15a: For CEO, ED, or top management official	x		x	
15b: Other key employees		x	x	

Table 2: Liquidity (PH)

	2013	2014	Difference
Current Ratio	20.08	11.78	(8.3)
Quick Ratio	4.57	3.68	(.89)
Working Capital	$2,392,076	$2,379,956	($12,120)

(Promise House, 2014)

Table 3: Liquidity (MFP)

	2013	2014	Difference
Current Ratio	33.52	41.69	8.17
Quick Ratio	20.49	24.97	4.48
Working Capital	$2,237,237	$2,904,410	667,173

(MF Place, 2015, IRS 2014)

Table 4: Solvency (PH)

	2013	2014	Difference
Debt-to-Asset Ratio	.05	.08	.03
Debt-to-Equity Ratio	.05	.09	.04

(Promise House, 2014)

Table 5: Solvency (MFP)

	2013	2014	Difference
Debt-to-Asset Ratio	.03	.02	(.01)
Debt-to-Equity Ratio	.03	.02	(.01)

(MF Place, 2015, IRS 2014)

Table 6: Efficiency (PH)

	2013	2014
Asset Turnover Ratio	5.14	13.46
Days Receivable	16.20	26.90

(Promise House, 2014)

Table 7: Efficiency (MFP)

	2013	2014
Asset Turnover Ratio	7.74	12.75
Days Receivable	12.75	15.49

(MF Place, 2015, IRS, 2014)

Table 8: Profitability (PH)

	2013	2014
Profit Margin Ratio	.02	-.03

(Promise House, 2014)

Table 9: Profitability (MFP)

	2013	2014
Profit Margin Ratio	.03	.15

(MF Place, 2015, IRS 2014)

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