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NAP Part 10

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The Cleveland Ronald McDonald House's and Comparison Organizations'

Second Financial Analysis

In addition to examining organizations' income statements, we also need to analyze their balance sheets in order to more fully understand their financial condition. Whereas income statements shows us all the income organizations brought in during their fiscal year, all the expenses they incurred during the year, and their net income as a result of that year's activities, balance sheets show us organizations' financial position on the last day of the fiscal year. Also, whereas income statements start over every year, beginning on the first day of the fiscal year with \$0 in income and \$0 in expenses, balance sheets account for income, liabilities, and expenses over the course of organizations' existence.

Balance sheets show us organizations'' assets, or what they own; liabilities, or what they owe; and net assets, or what they are worth as they are on the last day of the fiscal year. Organizations' assets minus their liabilities equals their net assets.

When we look at balance sheets we are analyzing them for liquidity and leverage. Liquidity is a measurement for how easily an organization's assets can be turned into cash. We determine this by looking at the organization's assets. Liquidity is important because it will offer the organization financial security if they were not able to meet financial need at any time in its operation. Liquidity will also help pay bills it already has and upcoming expenses for the next three to six months. Organizations' most liquid assets are, in this order, cash and equivalents, all

forms of receivables, inventory, and finally investments. Organizations' least liquid assets are fixed assets because property, land, plants, equipment, and vehicles are difficult to sell. Buyers are one in a few and these items are often needed and in use.

Organizations should have enough cash on hand to pay the bills they already owe, or accounts payable as well as enough to cover at least three, and hopefully six months of expenses. The Cleveland Ronald McDonald House, otherwise known as the Cleveland RMH, has \$4,161,834 of cash on hand which is enough to pay the bills they already owe, which total \$1,233,413. That amount of cash is enough to pay their expenses for 616 days, or 20.5 months. Based on this information, this nonprofit does have enough liquidity, and should continue to save to ensure the amount of liquid assets they have on hand remains high.

Leverage is how in debt an organization is. To assess organizations' leverage, we examine their liabilities, and compare those to their assets. It is better to have a low leverage, meaning that the organization has fewer liabilities compared to assets. This is important because the more in debt an organization is, the less financially it is. The debt must be paid and it needs to be paid out of profit. Otherwise, the organization will secure even more debt. The Cleveland RMH's debt is 50.39% compared to its assets, meaning it has high leverage.

Based on The Cleveland RMH's liquidity and leverage, as well as its operating financial sustainability as revealed by its income statements, it appears that its financial condition is in moderate standing. Even though the Cleveland RMH has a high leverage and little payment on its property, the organization's ability to sustain itself for another 20.5 months with only available cash on hand is exceptional in comparison to other organizations, and the Cleveland RMH had a net income for its fiscal year. Therefore, this nonprofit should focus on lowering its

leverage to improve its financial state. Instead of expanding the home that is owed so much on, the organization should be dedicating a portion of its income to paying off its liabilities.

I will also examine my comparison organizations' financial condition, looking at their liquidity and leverage, and then assess their overall financial health and compare their situations with one another and my primary organization.

The Columbus RMH has \$3,115,668 in cash in hand, which is enough to pay its current bills, totaling \$962, 873. That amount of cash is enough to pay its expenses for 437 days, or 14.6 months. Therefore, this organization is sufficiently liquid, and should continue its operations as it has been doing, so future finances will hopefully project to the same results. Its leverage is 4.89%, meaning it has very low leverage. Overall, The Columbus RMH's financial condition is good because the organization had a large net income, proved to be very liquid, and has very low leverage.

The St. Louis RMH has \$811,711 in cash in hand, which is enough to pay its current bills, totaling \$153, 904. That amount of cash is enough to pay its expenses for 86 days, or 2.9 months. Therefore, this organization is insufficiently liquid, and should continue to save to ensure that it will have at least three months, if not six months or cash on hand. The organization will need to decrease its expenses to allow for more savings. Its leverage is 16.36%, meaning it has low leverage. Overall, the St. Louis RMH's financial condition is poor. Even though the organization has low leverage, this leverage may be projected to increase based of their negative net income and insufficient amount of cash on hand to cover financial crises.

The Philadelphia RMH has \$1,392,018 in cash on hand, which is enough to pay its current bills, totaling \$130,923. That amount of cash is enough to pay its expenses for 135 days,

or 4.5 months. Therefore, this organization is sufficiently liquid, and should continue to decrease its expenses to ensure the optimal amount of cash on hand of six months. Its leverage is 0.54%, meaning it has extremely low leverage. Overall, the Philadelphia RMH's financial condition is good because of many factors. The Philadelphia RMH had a very large net income, a very leverage almost amounting to 0%, and a sufficient amount of cash on hand.

Of these four organizations in this nonprofit subsector of humanitarian social services, the financial situations of two out of four are good, while the other organizations' financial condition are moderate or poor. Some of the reasons why these nonprofits may be in these situations are their inability to work well enough with potential donors to ensure these donors gave to their organization. Most, if not all Ronald McDonald Houses are supported in large by charitable donations. Some of these organizations receive more donations than others which may distinguish between the financial securities of some Ronald McDonald Houses to the next Ronald McDonald House. In the future, these organizations need to realize that at any moment the donations they receive could dwindle and eventually stop. It is of the utmost importance that organizations that are extremely reliant off of public donations take necessary precautions to safeguard their future financial security. It is recommended that these organizations decrease expenses and save income in the form of liquid assets that may protect them from future financial crises.