

Smith & Company CPAs, PC

Report prepared for: **Sample Theater, Inc.**

Industry: A65 - Theater

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

OVERVIEW



LIQUIDITY



OPERATING YIELD TRENDS



REVENUE



BORROWING



ASSETS



EMPLOYEES



OVERVIEW

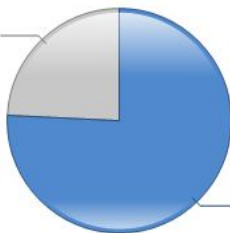


Generally, how is the organization managing money with regard to its sector and mission?

In this area of the report, we look at several metrics that reflect economic **and** qualitative factors in a company. **Conditions are somewhat similar** to last period. The company's program efficiency and revenue composition are both "average" or in line with the results of other similar companies. Both of these key metrics have stayed approximately the same from last period. It might be a good idea to **elevate at least the program efficiency** of the organization over time to get above average results in this specific area of the report. More weight is typically placed on program efficiency since it measures how many cents of each dollar spent are going to programs. One interesting and pretty good finding is that program revenues actually "eat-up" or pay for a "fair" chunk of total expenses (see the "operating reliance" results in the graph area).

Program Efficiency

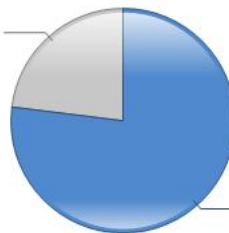
Other Expenses
24.23%



Prior

Program Service Expenses
75.77%

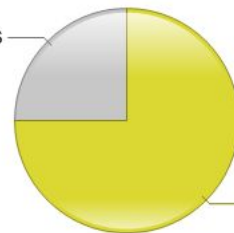
Other Expenses
23.04%



Current

Program Service Expenses
76.96%

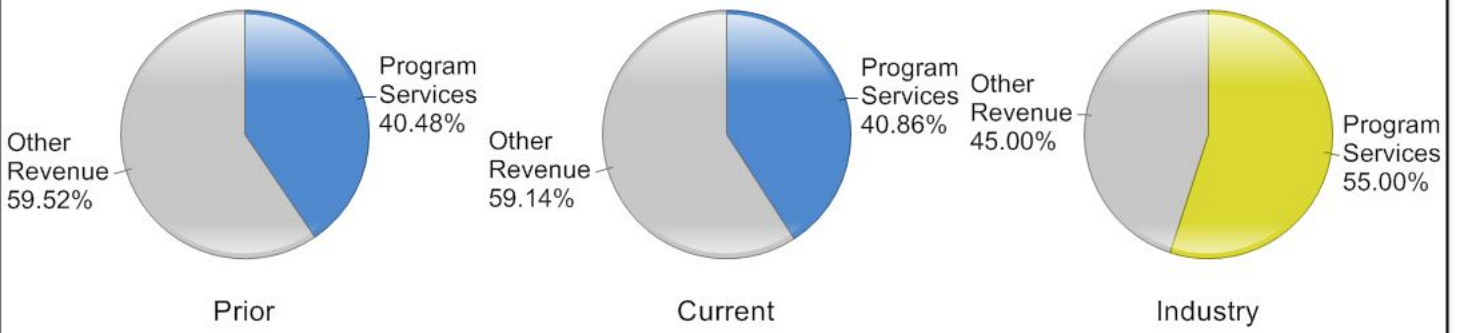
Other Expenses
25.00%



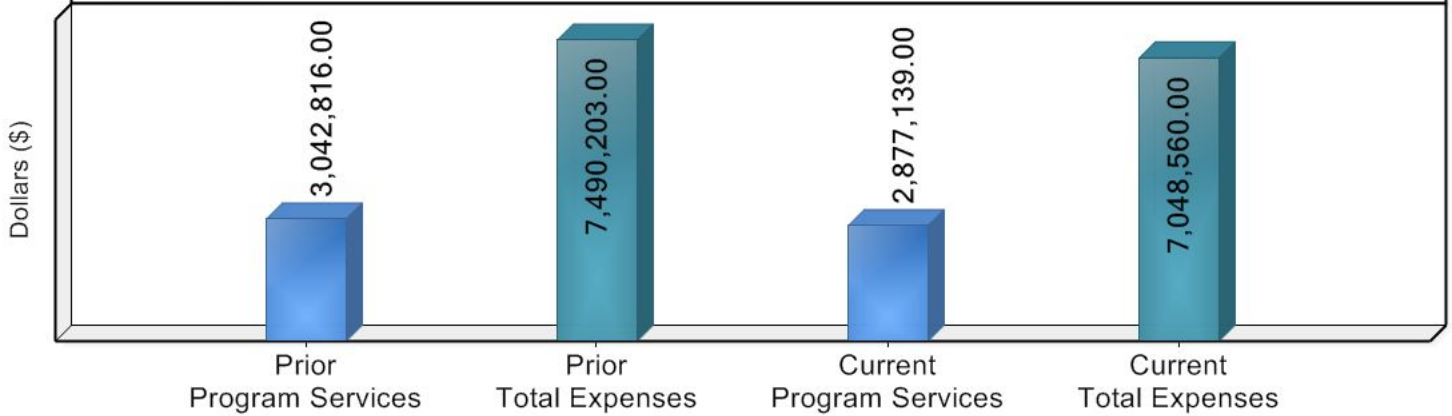
Industry

Program Service Expenses
75.00%

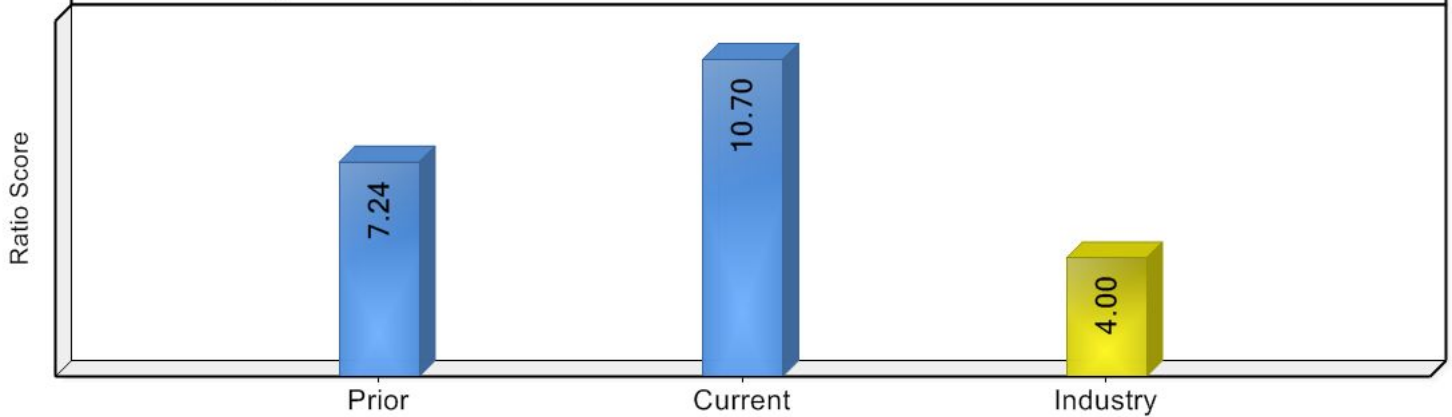
Revenue Composition



Operating Reliance



Fundraising Efficiency



LIQUIDITY

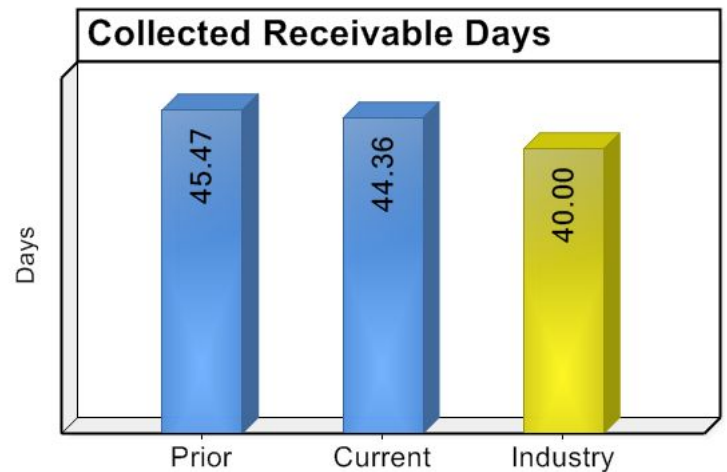
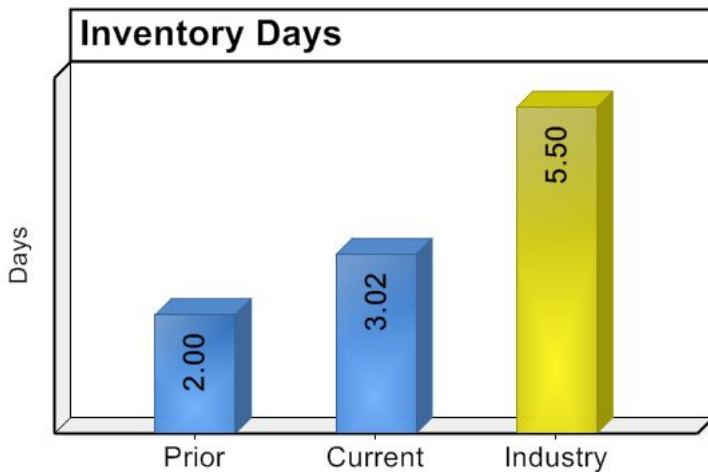
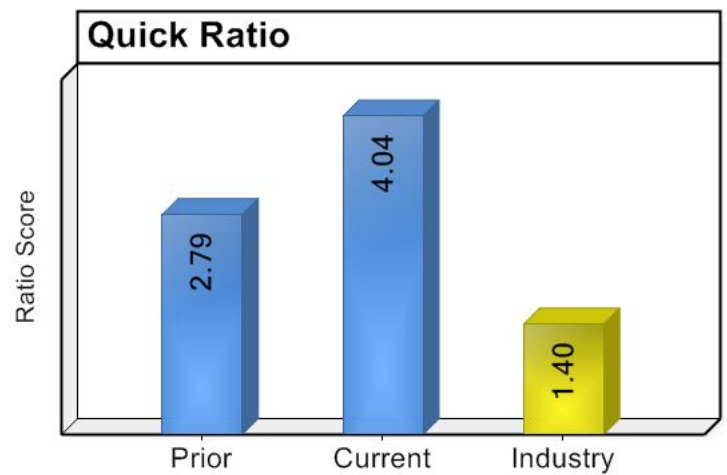
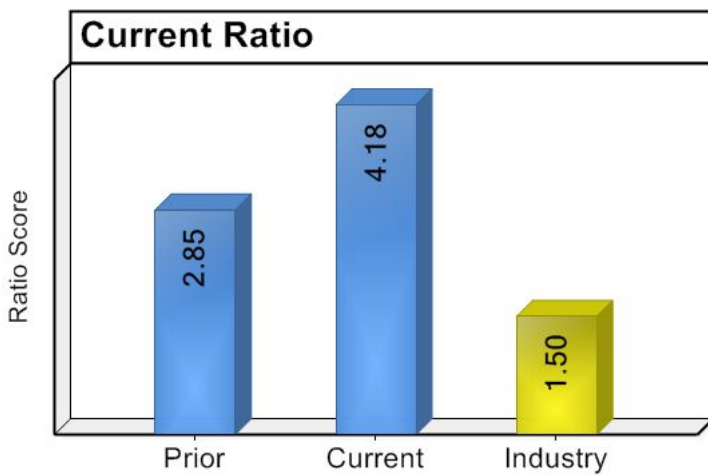


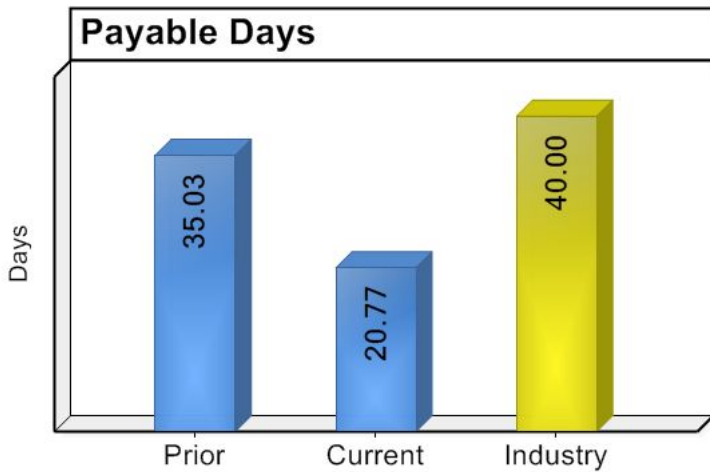
Generally, what is the organization's ability to meet obligations as they come due?

The goal in this report is to look at the many factors of success in business, the most important of which is staying liquid. Liquidity measures an organization's ability to pay its bills when they come due. It represents the firm's overall cash position. Nothing is more important to an organization than liquidity.

In this case, the organization has some very strong results in the liquidity section. Having "good" liquidity means that the organization will have more of an ability to withstand financial setbacks than its competitors. It also means that the firm will be able to take advantage of business opportunities. While it is true that this assessment is only based upon two specific Balance Sheet dates, it is certainly favorable to perform better than worse. This organization has done good work in this area -- note also that both the scope and the composition of the firm's liquidity base have improved, which is indicated in the graph area of the report.

The major liquidity "turn" ratios seem to be in line with industry averages. Specifically, receivable, payable, and inventory days ratios are all in a normal range. All of these tend to have a substantial effect on the cash account specifically.





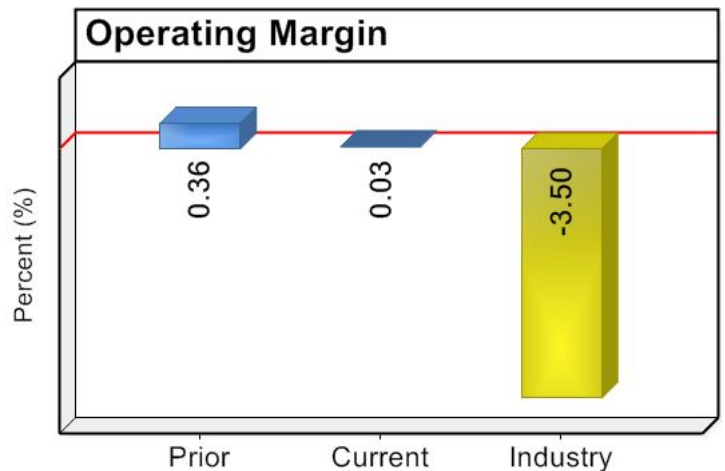
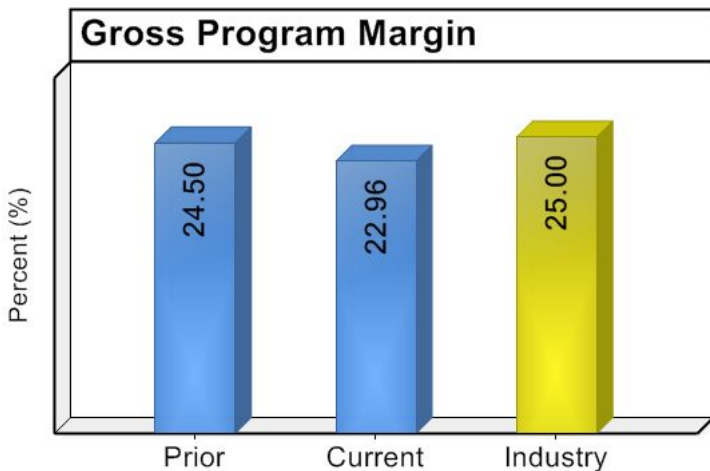
OPERATING YIELD (NET GAIN/LOSS) TRENDS



Are trends favorable in the organization?

Perhaps somewhat surprisingly, despite having declines in several important operating yield ratios and revenues this period, the company's position is still solid in this area. The most serious issue here is that revenues have declined this period. In general, most organizations want to grow revenues over time to keep up with rising expenses and the desire to improve program services.

Additionally, the operating margin has declined by 90.41% as well. As a result of this, net gains in dollars have also fallen. Still, the key to the company's strong performance here is that it is still generating a net surplus in the business, despite all of the softness seen this period. How did the company manage this? Basically, the company's position was so strong last period that even with the declines this period, its position is still quite solid. This is a benefit of consistently operating with a net surplus: such a condition allows an organization to take some hits but still operate successfully. As long as the company does not allow revenues to slide too much in the future, it should remain in a good position.





REVENUE

Are revenues growing and satisfactory?

Revenue data can be deceiving because, as discussed previously, it is easy to make erroneous conclusions about the business from short-run revenue data. For example, this company's revenues decreased from last period, which is obvious but not necessarily problematic in itself. What is more noteworthy is that revenues went down while the company added fixed assets. This is a troublesome dynamic because the new assets ultimately have to be "funded" by cash from revenues. Right now, management is generating significantly fewer revenues per asset dollar than last period. In financial terminology, this means that "asset turns" have fallen.

"The next three sections will examine how effectively the organization is using three of its most important resources: borrowed funds, assets, and employees. Ultimately, effectiveness here is determined by comparing changes in these resources to changes in the company'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?

These results are very interesting: debt went down, but so did revenues. It is somewhat difficult to reach a conclusion here, but because debt fell faster than revenues, there is indication of positive management of debt. Basically, the **rate** of debt loss is higher than the rate of revenue loss. Since debt is a resource that costs money, these results are positive.

ASSETS



Is the organization using gross fixed assets effectively?

The company has invested in more assets but revenue has fallen this period. The company will want to avoid allowing this result to turn into a trend, because over the long run these types of results could potentially depress revenues. The company's efficiency has fallen, since the operating margins have also decreased. Ultimately, fixed asset additions should improve both margins and revenues over time.

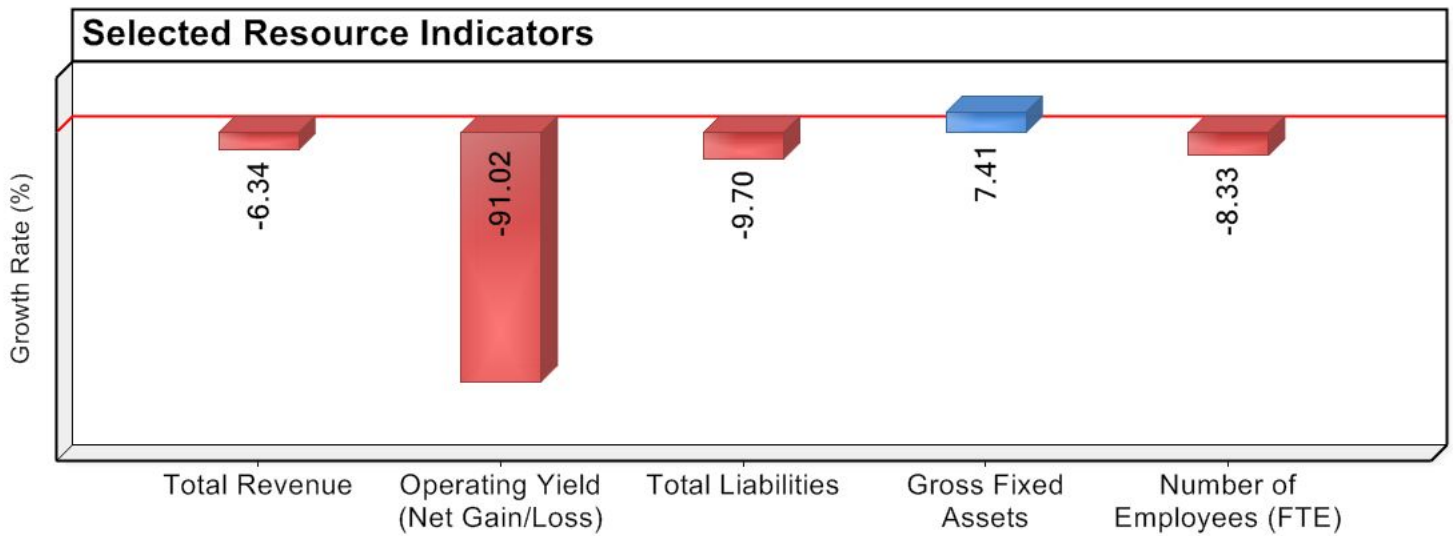
EMPLOYEES



Is the organization hiring effectively?

Revenues fell from last period, but the company lost employees at a faster **rate**. Employees are a form of cost, so it is possible that lower employee levels could improve operating yields **over the long run** by creating some efficiencies with a leaner workforce. This is not necessarily a bad strategy, especially considering that the fixed assets that were added this period have yet to improve revenues. Of course, managers should realize that this particular area of the report is a bit **limited**. This analysis aims to point out trends that could either become problematic or develop into opportunities if they continue in the future. All hiring decisions should be made based upon reliable financial projections, future programming needs, and an assessment of how new hires will improve the company's revenue stream.

"Great leaders take complete responsibility, under all circumstances, for the hires they make." -- J.P. Getty



A NOTE ON SCORING: Each section of this report (Liquidity, Operating Yield (Net 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 approximately well in the area.

RAW DATA

	6/30/2004	6/30/2003
Statement of Activities Data		
Program Services	\$2,877,139	\$3,042,816
Contributions	\$2,877,202	\$2,848,548
Government Grants	\$1,131,892	\$1,451,223
Additional Revenue	\$154,764	\$174,759
Total Revenue	\$7,040,997	\$7,517,346
Program Service Expenses	\$5,424,503	\$5,675,320
Gross Yield	\$1,616,494	\$1,842,026
Gross Program Margin	22.96%	24.50%
Fundraising Expenses	\$268,892	\$393,701
Administration Expenses	\$1,355,165	\$1,421,182
Total Expenses	\$7,048,560	\$7,490,203
Operating Yield (Net Gain/Loss)	\$2,437	\$27,143
Balance Sheet Data		
Cash and Cash Equivalents	\$390,165	\$583,603
Collected Receivables	\$855,705	\$936,547
Inventory	\$44,897	\$31,136
Total Current Assets	\$1,290,767	\$1,551,366
Gross Fixed Assets	\$865,726	\$806,004
Total Assets	\$2,566,137	\$2,546,021
Payables	\$308,664	\$544,720
Total Current Liabilities	\$308,664	\$544,720
Total Liabilities	\$1,428,311	\$1,581,784
Number of Employees (FTE)	11	12

INDUSTRY SCORECARD

Financial Indicator	Current Period	Industry Range	Distance from Industry
Program Efficiency	0.77	0.65 to 0.85	0.00%

= 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.			
Revenue Composition	0.41	0.40 to 0.70	0.00%

= Program Services Revenue / Total 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.			
Operating Reliance	0.41	0.40 to 0.70	0.00%

= Program Services 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 company is to liquidate expenses from just program revenue. The ideal score would be 1 or even above 1 in very rare cases.			
Fundraising Efficiency	10.70	3.00 to 5.00	+114.00%

= Contributions / 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.			
Current Ratio	4.18	1.10 to 1.90	+120.00%

= 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.			
Quick Ratio	4.04	0.90 to 1.90	+112.63%

= (Cash + Collected Receivable) / 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).

Inventory Days*	3.02 Days	1.00 to 10.00 Days	0.00%
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= (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.

Collected Receivable Days*	44.36 Days	20.00 to 60.00 Days	0.00%
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= (Collected Receivables / Total Revenue) * 365

Explanation: This number reflects the average length of time required to collect cash from receivable accounts such as pledged contributions and/or program services transactions completed using credit. It is crucial to maintaining positive liquidity.

Payable Days*	20.77 Days	20.00 to 60.00 Days	0.00%
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= (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	22.96%	10.00% to 40.00%	0.00%
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= Gross Yield / Total 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	0.03%	-7.00% to 0.00%	+0.03%
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= Operating Yield (Net Gain/Loss) / Total 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.

* These formulas have been scaled to approximate annual statistics.

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.).