Not-for-profit Key Performance Indicators (KPI's)

presented by: Chris Frye and Claire Manspile

Your Speakers

Chris **Frye**, CPA,
chris.frye@yhbcpa.com

Claire **Manspile**, CPA,
claire.manspile@yhbcpa.com

Goals

- Emphasize the importance of KPI's and benchmarking
- Understand the three types of KPI's
- Making sense of what the data is telling you
- Articulating results to key stakeholders

KPIs Defined

- Key performance indicators (KPIs) refer to a set of quantifiable measurements used to gauge a company's overall long-term performance. KPIs specifically help determine a company's strategic, financial, and operational achievements, especially compared to those of other businesses within the same sector.

- Key Performance Indicators (KPIs) are the critical (key) quantifiable indicators of progress toward an intended result. KPIs provide a focus for strategic and operational improvement, create an analytical basis for decision making and help focus attention on what matters most.

Benchmark: *something that serves as a standard by which others may be measured or judged*

Investopedia & kpi.com

"What gets measured gets done."
Peter Drucker

"Not everything that can be counted counts, and not everything that counts can be counted."
Albert Einstein

"If you don't know where you are going, you'll end up someplace else."
Yogi Berra

The Role of a Financial Manager

- Manage daily financial operations
- Internal and external reporting and compliance
- Strategic decision making

Where are you spending the majority of your time?

Sifting through the clutter

- Most organizations are drowning in data
- Measuring what matters and not just what is easy
- Align KPI's to your current strategy and vision
- Be ready to pivot if changes are needed

Three types of KPI's

1. Financial
2. Operational
3. Outcome

Financial KPI's

- Assess financial health of the organization.
- **Liquidity metrics**
  - Current ratio
  - Quick ratio
  - A/R days
  - A/P days
  - Days cash on hand
- **Operating efficiency**
  - Program efficiency (program expenses as a % of total expenses)
  - Fundraising efficiency (fundraising expenses / contribution revenue)
  - Revenue composition (usually measured as a % of program service to total revenue)
  - Operating margin
  - Return on net assets
- **Leverage**
  - Debt to equity
  - Debt service coverage
  - Equity multiplier (total assets / total equity)
- Keep in mind that balance sheet ratios are at "a point in time", so results should be interpreted accordingly.
- Benchmark against comparable organizations if possible.
- Balance between averages, best-in-class, and what is right/attainable for your organization.
- Forward-thinking: growth, inflation, etc.

Operational KPI's

- These will vary from organization to organization
- Examples include:
  - Retention rates (students, members, etc.)
  - Staff turnover rate
  - Enrollment trends
  - Number of constituents served
  - Number of donors/new donors
  - Time for month-end close
  - Time to resolve internal IT issues
- Benchmarking data for operational KPI's can be harder to find

Outcome KPI's

- Measuring impact can be difficult
- Donors and third parties value outcome achievements
- These should be longer-term and more strategic in nature
- Examples include:
  - Impact analysis
  - Experiences/customer satisfaction
  - Any results that show you are accomplishing your mission, vision, exempt purpose

Who determines what is most important?

- What do your stakeholders want to see?
- Finance, IT, H/R, fundraising, board of directors should have a say
- Brainstorming sessions
- Third-parties (loan covenants, GuideStar, Charity Navigator)
- Cost/benefit of obtaining and measuring data

Taking Action

- Present information and act upon what the information is telling you
- Drill down to root causes
- Looking at trends versus point-in-time data
- Are you getting better, worse, staying the same?
- Balancing act of focusing on your strengths while working on your weaknesses

Presenting Results

- Dashboards
- Understanding your audience
- Clearly show performance against defined targets
- Being able to explain out of the ordinary results and anomalies
- Remove items if no longer important or relevant
- Presentation: quality vs. quantity vs. visualization
- Establish a review or quality control process before releasing data

Questions?

Thank You!

Chris **Frye**, CPA,
chris.frye@yhbcpa.com

Claire **Manspile**, CPA,
claire.manspile@yhbcpa.com

Example Industry Scorecard

Financial Indicator	Current Period	Sector Range	Distance from Sector
Current Ratio	4.55	1.90 to 4.16	+9.37%

= 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. The higher the ratio, the more liquid the organization is.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Quick Ratio	4.55	1.30 to 3.20	+42.19%

= (Cash + Total Receivables) / 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). The higher the number, the stronger the organization.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Operating Margin	10.00%	-1.00% to 3.00%	+233.33%

= Operating Yield / Total Unrestricted 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.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Receivable Days	19.50 Days	20.00 to 50.00 Days	+2.50%

= (Total Receivables / Total Unrestricted 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.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Payable Days	13.26 Days	10.00 to 40.00 Days	0.00%

= (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.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Gross Program Margin	26.47%	32.00% to 40.00%	-17.28%

= Gross Yield / Total Unrestricted 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.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Program Efficiency	0.82	0.60 to 0.80	+2.50%

= Program Service Expenses / Total Expenses

Explanation: Shows the basic relationship between program expenses and total expenses. 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.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Revenue Composition	0.84	0.59 to 0.82	+2.44%

= Unrestricted Program Service Revenue / Total Unrestricted 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.

Financial Indicator	Current Period	Sector Range	Distance from Sector
Operating Reliance	0.93	0.30 to 0.60	+55.00%

= Unrestricted Program Service 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 nonprofit is to liquidate expenses from just program revenue. The ideal score would be 1 or even above 1 in very rare cases.

Example Industry Scorecard

Fundraising Efficiency	4.22	5.00 to 15.00	-15.60%

= Unrestricted Contributions / Unrestricted 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.

Employee Productivity	$2.79	--	--

= Unrestricted Revenue / Total Payroll

Explanation: This metric measures the dollars of revenue generated per dollar spent on payroll.

Investment Yield	10.00%	--	--

= Investment Revenue / Investment Balance

Explanation: Investment yield shows the investment rate of return.

Days Cash Reserve	57.68 Days	90.00 to 120.00 Days	-35.91%

= (Unrestricted Cash / (Total Expenses - Depreciation and Amortization)) * 365

Explanation: Cash reserve is a rough measure of the amount of cash on hand to cover future expenses. The organization should target 182 or more days of cash reserve.

Receivable Days Less Contributions	17.31 Days	--	--

= ((Total Receivables - Contributions Receivable) / (Total Unrestricted Revenue - Contributions)) * 365

Explanation: This number reflects the average length of time required to collect cash from all receivable accounts except pledged contributions. It is crucial to maintaining positive liquidity.

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.).