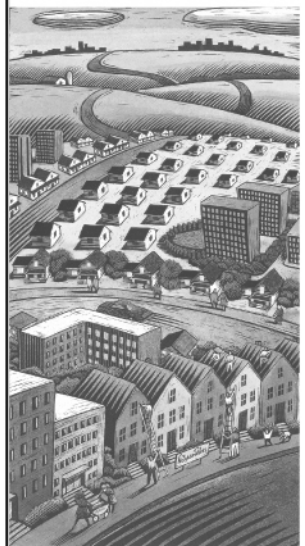


Lake Country Community Action, Inc. (LCCA) Three-Year Audit Analysis

***Note: This report is based on an assessment of a real nonprofit organization, but all names and recognizable details have been removed to preserve confidentiality**



Lake Country Community Action, Inc. (LCCA)

Three Year Audit Analysis

INTRODUCTION

Lake Country Community Action, Inc. requested a financial health analysis by NeighborWorks®America on August 15, 2007. This three year analysis is based on the audited financial statements for the years ended December 31, 2004 through 2006. LCCA is a human resources agency committed to helping people and changing lives. The organization is exempt from federal income taxes under Section 501(c)(3) of the internal revenue code and was incorporated to assist limited income families in learning to utilize all available resources to obtain the skills, knowledge, services and opportunities necessary to become self-sufficient, productive citizens within their community. The organization is located in River City, USA and serves a six county area in upstate USA. The activities of LCCA include the following; Emergency Assistance including low income home energy assistance, operation warm, operation share and emergency food & shelter, Housing including housing development and housing counseling, Volunteer Development, Income Tax Preparation Assistance, Training Services, Energy Conservation, Independent Living, Early Childhood Development including head start, early head start, full day/full year head start, pre kindergarten and foster grandparents.

ORGANIZATION STRUCTURE



The consolidated financial statements for the years 2004 through 2006 include the accounts and activities of LCCA and its wholly owned subsidiary Property Holdings, LLC. All material inter-company transactions were eliminated. During 2005, LCCA terminated its sponsorship of two HUD funded not for profit organizations; ABC Development Corporation and DEF Development Corporation. As a result the organization restated its beginning net assets as of January 1, 2005. The application for affiliation to NeighborWorks®America network indicated that the organization had housing projects in its pipeline including; renovation of 98 units of a former HUD 236 project, 187 LIHTC Multi-Family and Single-Family units and 60 elderly LIHTC units which are set to begin construction in 90 days. The 2006 audit did not include any reference to these projects.



AUDIT COMMUNICATIONS

The financial statements of LCCA were audited by the accounting firm, Weardown and Weary, LLC located in their home state. The organization received an unqualified audit opinion for all years

covered by this analysis. The federal expenditures of LCCA exceeded the \$500,000 threshold for all years thus the organization was required to file a report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133. There were no material weaknesses or questioned costs disclosed in the reports.

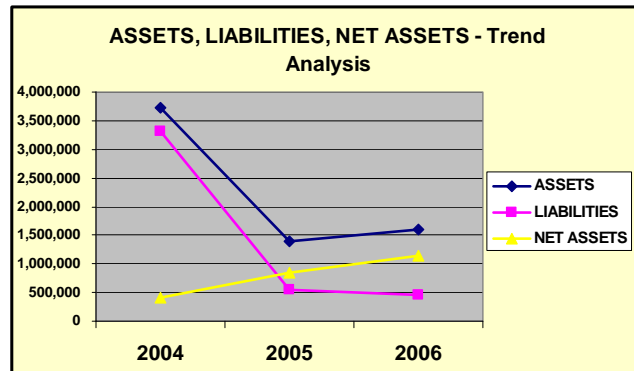
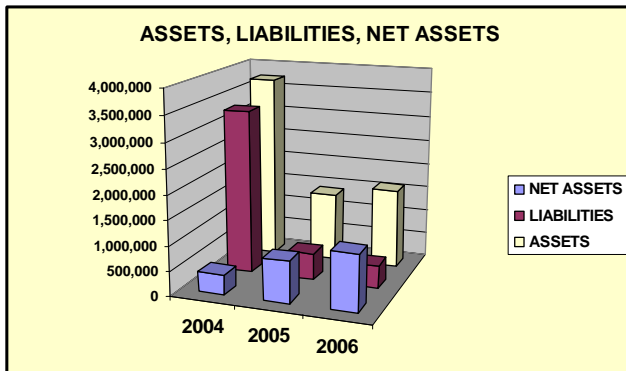
STATEMENT OF FINANCIAL POSITION



The Assets, Liabilities and Net Assets and the three year trends are presented in the table and charts shown below.

TABLE 1

	2004	2005	2006
ASSETS	3,724,292	1,388,361	1,605,860
LIABILITIES	3,317,929	546,420	455,944
NET ASSETS	406,363	841,941	1,149,916



Total assets decreased \$2,118,432 (57%) over the three year analysis period. The decline in total assets was attributed to the decision of the organization to terminate its sponsorship of two HUD funded not for profit organizations which had previously been part of the consolidated financial statements. LCCA restated the 2005 beginning net assets to reflect this change in its organizational structure. Total assets were \$1,605,860 on December 31, 2006 and were comprised of cash 18%, accounts receivable 21% and property and equipment, net 61%. Total liabilities followed a similar trend line to that of total assets as depicted in the graph above due to the aforementioned change in the organization’s structure. On December 31, 2006 total liabilities were \$455,944 and consisted of accounts payable 51%, accrued expenses 10%, long term debt 20% and deferred support 19%.

The balance sheet composition of LCCA’s assets and liabilities was typical of a community action program (CAP). CAP agencies are often noted for the relatively small amount of total assets when compared to the total revenues generated during each year. The total assets of LCCA equated to approximately 13% of the total revenues generated in 2006. While this is common for CAP agencies

there is an inherent level of risk due to the high dependency on governmental support and lack of consistent sustainable sources of other revenues.

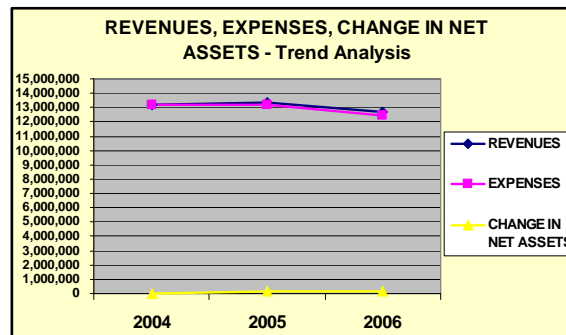
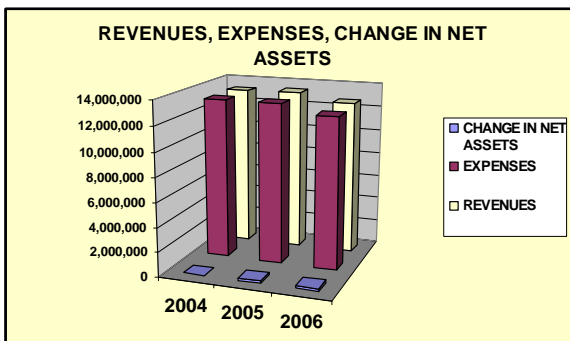
STATEMENT OF ACTIVITIES



The Revenues, Expenses and Change in Net Assets and the three year trends are presented in the table and charts shown below.

TABLE 2

	2004	2005	2006
REVENUES	13,225,097	13,361,495	12,681,861
EXPENSES	13,223,143	13,158,627	12,478,181
CHANGE IN NET ASSETS	1,954	202,868	203,680
GROSS MARGIN	0%	2%	2%



LCCA has generated relatively low returns on its revenues over the three year analysis period which is consistent with most community action programs. Total revenues have remained fairly consistent averaging \$13,089,484. Total revenues declined \$543,236 (4%) since 2004. For the year ended December 31, 2006 total revenues were \$12,681,861 and consisted of support from the State 16%, Department of Health and Human Services (Head Start funding) 58%, other support 10%, investment and other revenues 2% and non-cash contributions 14%. The non-cash contributions were comprised of space costs, salaries, transportation, contract services and supplies. Grants, contributions and other support decreased \$455,017 (4%) over the three year period and were 98% of total revenues in 2006. The table below summarizes total revenues for the organization.

TABLE 3

	2004	2005	2006
State Government	1,791,512	2,013,806	2,007,207
Department of Health and Human Services	7,023,722	7,179,880	7,351,829
Department of Education	254,819	0	0
Corporate Sponsorships	0	0	693,827
Contracts for Volunteer Services	728,799	688,000	0
Local United Way	181,093	192,821	196,551
Department of HUD	86,754	26,234	34,652
United Way of America	63,382	65,490	51,754
Other Support	325,928	451,005	385,447
Non - Cash Contributions	2,484,337	2,593,770	1,764,062
TOTAL SUPPORT	12,940,346	13,211,006	12,485,329
Interest/Investment Income	7,315	6,770	11,773
Other Revenues	277,436	143,719	184,759
TOTAL REVENUES	13,225,097	13,361,495	12,681,861

The trend line for total expenses mirrors that of total revenues which again is a strong characteristic of community action programs. Total expenses decreased \$744,962 (6%) over the three year period. For the year ended December 31, 2006 total expenses were \$12,478,181. The primary expense categories were personnel related costs 61%, space costs 16%, direct assistance 7% and other costs 6%. The audited financial statements did not include a schedule of functional expenses which separated programmatic expenses from management and general expenses. The table below summarizes total expenses over the three year analysis period.

TABLE 4

	2004	2005	2006
Personnel Costs	7,714,260	7,844,286	7,571,783
Travel	124,652	84,041	80,187
Space Costs	2,493,924	2,419,002	2,029,335
Consumable Supplies	731,475	631,744	599,153
Other Costs	945,285	868,227	844,890
Direct Assistance	714,054	751,843	846,738
Transportation Costs	412,007	485,322	436,503
Interest Expense	11,181	12,934	10,788
Depreciation Expense	76,305	61,228	58,804
TOTAL EXPENSES	13,223,143	13,158,627	12,478,181

The 2007 budget for LCCA projected an increase in net assets of \$15,227 on total budgeted revenues of \$15,175,716. Total revenues are projected to increase by 20% compared to actual revenues reported in 2006. Head Start funding from the Department of Health and Human Services was the largest single budgeted revenue source and comprised 61% of total projected revenues. Personnel and related costs remained the primary expenses in the 2007 budget and represented 55% of total budgeted expenses.

CASHFLOWS, LIQUIDITY AND LEVERAGE

Cash was \$294,202 on December 31, 2006. Cash increased \$82,202 (39%) during the period 2004 through 2006. The table below breaks down the components of cash as presented in the statement of cash flows in the audit reports.

TABLE 5

	2004	2005	2006
Cash provided (used) by operating activities	30,559	57,241	263,475
Cash provided (used) by investing activities	(14,464)	(39,415)	(53,795)
Cash provided (used) by financing activities	(30,637)	(33,234)	(64,492)
Increase (decrease) in cash	(14,542)	(15,408)	145,188
Beginning cash balance	189,053	164,422	149,014
Ending cash balance	174,511	149,014	294,202

The table below presents the key working capital, liquidity and leverage ratios for LCCA for the years 2004 through 2006. Generally, the liquidity of the organization was weak and carried most of the liquidity attributes associated with community action programs (CAP). Relatively thin working capital and small number of day's cash when compared to the large volume of revenues are attributes that are common to these types of organizations. The low days of cash presented in the table below represent a financial health risk issue for LCCA as they are well below the median days of cash for other CAP agencies in the NeighborWorks® America Network.

TABLE 6

	2004	2005	2006
Current Assets	518,718	413,954	636,462
Current Liabilities	227,253	314,830	276,406
Net working Capital	291,465	99,124	360,056
Current Ratio	2.3	1.3	2.3
Quick/Cash Ratio	1.1	0.5	1.1
Days of Cash	7	4	9
Current Ratio – Unrestricted	2.0	1.3	2.3
Quick/Cash Ratio – Unrestricted	0.8	0.5	1.1
Days of Cash – Unrestricted	5	4	9
Debt to Net Assets	816%	65%	40%

The current ratio measures the ability of LCCA to meet its current obligations as they come due with cash and assets easily converted to cash. The current NeighborWorks® America guideline for the current ratio is 1.5 or greater and the 2006 network median for CAP agencies was 2.1. The quick/cash ratio measures the organization's ability to meet its current obligations as they come due with cash. The days of cash measurement indicates the number of days of expenses that can be paid with the current levels of cash. The current NeighborWorks® America guideline is 90 days or greater and the 2006 network median for CAP agencies was 49 days. The leverage of LCCA was excellent for the

2005 and 2006 which was after organization terminated its sponsorship of two subsidiaries. The current NeighborWorks® America guideline for the debt to net asset ratio was 300% or less and the 2006 network median for CAP agencies was 115%. The notes to the 2006 financial statements stated that there were cash balances held by financial institutions in excess of insured limits.

CONCLUSION



The audited financial statements for LCCA for the years 2004 through 2006 indicated that the organization was relatively stable financially. The organization presented a financial profile that was similar to many of the CAP agencies in the network. .

The organization was able to consistently generate revenues averaging in excess of \$13 million per year with surpluses equating to 2% or less. LCCA is highly dependent on its governmental support to deliver its services. Grants, contributions and other support accounted for 98% of the organization's total revenues during 2006. Non-contribution revenues which consisted of investment income and miscellaneous income accounted for the remaining 2% of revenues. This extremely high dependency of governmental support coupled with limited sources of other revenues pose significant financial health risk for the organization should there be a material interruption of support. The liquidity of LCCA was weak, even for a CAP agency. The organization had only 9 days of cash available on December 31, 2006 as compared to a 2006 network median for CAP's of 49 days. LCCA needs to extend its efforts to develop additional non-governmental revenue streams in order to mitigate the associated financial risk and to provide needed cash surpluses to ensure the organization's sustainability in the future.