



A Financial Analysis

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Executive Summary:

For almost 40 years, Comunidades Latinos Unidos En Servicio (CLUES) has provided culturally and linguistically relevant services for the Latino community in Minnesota. This report is meant to act as an analysis of the financial conditions that support CLUES' services. The analysis closely examines and compares the financial statements, 990 forms and impact reports from 2016 to 2018 to understand the financial health of CLUES. Particular attention was given to the statements of activities, balance sheets, and cash flow statements when analyzing the organization's financial statements. In addition, information publicly available through the organization's website provided additional context and background information to learn more about the revenue and expenses in relation to the services and programs being offered. The in-depth analysis focused on six aspects of CLUES' finances: revenue diversification, expenses, liabilities, operational effectiveness, net results, and liquidity.

The report found that CLUES relies on multiple revenue streams to support its operations and services. A majority of the streams are relatively stable though there has been a notable decrease in the number of contributions and private grants the organization has received. Findings also conclude that CLUES' revenue streams are largely unrestricted, and a sizable portion of the organization's assets are capital investments. The expense structure is reasonable, but their overhead has risen more than 10% since 2016. Net results show revenue is comfortably outpacing expenses, but liabilities are outpacing asset growth. Their financial health, when measured by liquidity, is steadily rising. However, the organization's long-term operability may be at risk due to their reliance on revolving credit, should they need to immediately liquify assets at any given time. The majority of CLUES' debt is derived from long-term interest accrued from loans that required repayment in 2015 and 2018. Moreover, this debt contributed to the organization's liabilities; there are several significant liabilities that CLUES has incurred over the three years that are concerning, particularly in fundraisers, construction costs, and "other long-term debt."

There are some adjustments that should be made to improve the impact and sustainability of CLUES.

1. The organization needs to increase the number of individual contributions through the formation of a funding committee that would identify potential donors including large-size donors.
2. CLUES held a sizable amount of fixed assets valued at nearly \$6.4 million in 2018. A portion of the assets could be liquidated to improve the cash liquidity level thus ensuring that the organization has enough cash.
3. As a growing organization, CLUES should consider increasing operating reserves that cover four to six months of operating costs. This increase in reserves would enable the organization to safeguard itself against any sudden financial loss.

4. The organization should consider investing some of its cash or reserves in low-risk investments that would generate additional income that could be put toward reserves.
5. Fundraising costs need to be reevaluated and new fundraising strategies should be considered that provide value and generate revenue that exceeds the cost of holding fundraising events.
6. Finally, the organization should diversify the board to include women thus ensuring that more perspectives are represented.

Background:

CLUES was founded in 1981 as Chicanos Latinos Unidos En Servicio in St. Paul, MN. CLUES was created to help provide mental health services that were culturally and linguistically relevant for the Latino community in St. Paul. Throughout the years, CLUES' services and beneficiaries expanded, triggering a small name change in 2005 to the organization we now know as Comunidades Latinos Unidos En Servicio. Today, they operate in 4 different locations throughout Minnesota including St. Paul, Minneapolis, Austin, and Willmar. CLUES's mission is "to advance the capacity of Latino individuals and families to be healthy, prosperous, and engaged in their communities." They do this through a variety of services and events including adult education courses for ESL, citizenship, and GED preparation, weekly food distributions for low-income families, college prep and mentoring programs for youth, and an annual community festival to name a few.

CLUES receives funding from government grants, corporations, foundations, and individual donors. Thanks to a \$7.5 million capital campaign CLUES opened a new building in 2019 that hosts their Latino elder program, the Teen Tech Center, and a nonprofit Latino art gallery. It also serves as an additional meeting and event space for the organization. In 2019, CLUES revenue exceeded \$10.7 million and they spent over \$9.8 million to run their programs. Today, CLUES employs more than 110 staff members and over 700 volunteers help support CLUES programs and initiatives that tens of thousands of people participate in and/or benefit from.

Key Findings:

Revenue diversification

CLUES relies on eight sources of revenue: government grants, contributions, private grants, interest, client paid and private insurance, rental income, in-kind contributions, and miscellaneous income. The most significant support comes from government grants which includes governmental grants, legislative appropriations, and fees for service. In 2016, government grants accounted for 40% of CLUES' revenue and increased to 52.5% in 2018.

Contributions consist of money given by corporations and foundations. Contributions in 2016 (\$2,831,521) and 2017 (\$2,890,021) saw little increase in revenue. In 2018, the contributions decreased by \$718,693. This is interesting because CLUES has a large amount of support from foundations and corporations with a majority of the support falling under the \$10,000-\$49,000 range as well as the Under \$10,000 range. Rental income and in-kind contributions both have seen steady growth over the past three years with in-kind contributions seeing a slight decline in 2018.

The private grants, interest, client paid and paid insurance, and miscellaneous income have all experienced the most change over the course of three years. The private grants faced a significant decline with CLUES receiving less than half of the amount given in 2017 (\$435,724). The earned interest has increased over the past three years which could be attributed to the growth of the organization and its investments. The client's paid and private insurance have steadily increased over the years as the organization has grown and expanded the services that are offered. The miscellaneous income has fluctuated the most over the past three years. In 2016, the organization received \$7,087 while 2017 only saw \$59. There was a significant increase in 2018 compared to the two prior years with CLUES receiving \$80,041. This increase could be attributed to CLUES' Donate Your Vehicle program or small, one time donations. The one-time contributions are typically less than \$500.

Expenses

Detailed Expenses from 990s

	Total	Salaries + Wages	Payroll Tax + Benefits	Occupancy	Office Expenses	Accounting	Interest
2016	6,762,336	3,816,670	925,975	583,972	304,376	122,079	32,308
2017	7,829,656	4,483,261	1,067,749	527,622	162,707	199,804	36,756
2018	11,410,715	4,566,000	1,110,443	558,426	141,361	272,434	62,240

As seen in the table above, CLUES expenses can be laid out as follows. Salaries and wages have been steadily increasing since 2016 with a 17.5% increase from 2016 to 2017 and a smaller 1.9% increase from 2017 to 2018. Occupancy has fluctuated slightly. Interestingly, office expenses decreased 46.5% in 2017 and 13.1% in 2018, but accounting expenses rose 63.7% between 2016 and 2017 and 36.4% between 2017 and 2018. Interest expenses saw only a small increase of 13.8% from 2016 to 2017 but increased by 69.3% from 2017 to 2018.

Functional Expenses from 990s

	Total	Program	Management	Fundraising
2016	6,762,336	5,293,762	1,052,812	415,762
2017	7,829,656	6,134,042	1,203,549	492,065
2018	11,410,715	5,934,948	4,860,498	615,269

The overhead ratio for 2018 is 48.0%, which is well above the 10% required by USAID and the 25% average. Almost half of their expenses are going to overhead. The ratio was 21.7% in 2016 and 2017, meaning it appears to have suddenly more than doubled in 2018. The management expense increase seems to mainly be concentrated in a \$3,592,613 property transfer to their real estate holding company, CREHC. The expense was related to the formation of CREHC: “As a requirement for receiving new market tax credit financing, CLUES was required to form a new 501(c)3 entity as a support organization to provide oversight and management of the new market tax credit structure. As a result, CLUES formed a new 501(c)3 nonprofit entity known as CLUES Real Estate Holding Company (CREHC)” (2018 CLUES Financial Statement).

Subtracting the property transfer amount, management expenses total 1,267,885 for 2018, and total expenses are at 7,818,102, leaving the overhead ratio at 24.1% for 2018. This is still an increase from 21.7% the 2 years prior, but not as drastic and concerning as 48.0%.

While no 990 is available yet for 2019, from CLUES financial impact report it appears that the overhead ratio has risen to 33% in 2019. Total functional expenses were \$9,862,645; management (\$2,473,507) and fundraising (\$785,163) expenses were \$3,258,670, leaving program expenses at \$6,603,975 for the year. Management expenses have therefore more than doubled since 2016, whereas program expenses have only increased by about 11%.

Liabilities

For CLUES in 2018, the liabilities are the following: accounts payable and accrued expenses, deferred revenue, mortgage and notes payable to unrelated third parties, and unsecured notes and loans payable to unrelated third parties. Accounts payable was \$356,241, secured mortgages and notes payable to unrelated third parties is \$2,527,760 while unsecured notes and loan payables to unrelated third parties were \$400,123. The deferred revenue (services that have yet to be completed and paid for by clients) is \$11,750; an 86.3% decrease in deferred revenue from 2017.

	2015	2016	2017	2018
Total assets	6,603,115	7,445,241	9,079,999	8,168,042
Total liabilities	958,445	887,500	1,365,796	3,295,874
Percentages of Liabilities to Assets	14.5%	11.9%	15%	40.3%

The overall liabilities that CLUES has is a 442.2% increase from 2017, primarily coming from secured mortgages and notes payable to unrelated third parties which totaled 2,527,760 in 2018 compared to \$466,238 in 2017. Overall liabilities for CLUES are \$10,602,198 in 2018, \$1,365,765 in 2017, \$887,500 in 2016.

CLUES did not have accrued interest in 2017 and 2016. Whereas long-term capital lease obligations went from \$5,769 in 2017 to \$40,045 in 2018; there were no long-term capital lease obligations in 2016.

Accrued wages and payroll taxes went down significantly from 2016 to 2018. In 2016, they totaled \$170,757, in 2017 they increased \$234,640 and in 2018 you can see the significant decrease to \$64,878. Accrued vacation was \$99,775 in 2016, \$183,972 in 2017, and lastly \$186,883 in 2018.

The most significant change in CLUES' liabilities is accrued construction and other liabilities. It was \$100,000 in 2016, \$117,440 in 2017, and then \$604,314 in 2018. This sharp increase in accrued construction expenses was possibly due to them breaking ground on their new St. Paul headquarters.

As stated on CLUES 990 for 2019, there are other expenses and liabilities based around fundraising activities. There were \$46,416 spent for non-cash prizes for both fundraisers in 2018 (CLUES Gala and Fiesta Latina), the rent/facility costs were \$5,097, while food and beverages cost \$55,935. Food and beverage costs were only noted for one event; there is a possibility of donations of food and beverage for the Fiesta Latina event. Entertainment was \$57,799 and other direct expenses were \$135,158. Overall, the fundraising events for the year lost \$292,232 and did not generate any revenue.

After review of the liabilities, it is apparent that the current liabilities of CLUES are not under control. There are fundraisers that do not generate revenue while construction was a significant portion of the liabilities for all three years. It is apparent that there needs to be a review of the liabilities and restructuring of priorities for monies spent. The liabilities to assets percentage went from 14.5% in 2015 to 40.5% in 2018. This is a significant leap and is quite concerning for the overall financial health of the organization.

Operational Effectiveness

CLUES is an operation that has been around for almost 30 years. While they have expanded significantly in that time, there are also some significant changes to their finances that have taken place. These changes are likely due to the fundraising for and completed construction of a \$7 million building in 2019. Initial numbers for 2019 show some of these financial changes beginning to shift back to what they had been in previous years. However, some of the changes should be watched closely and CLUES should work towards adjusting as soon as possible.

As seen in the expenses section, the overhead ratio for CLUES more than doubled in 2018 with 48% of their expenses going to management and fundraising. However, this increase in management and fundraising expenses is associated with the property transfer to their real estate holding company, CREHC. In years prior the overhead ratio was much more reasonable at around 21%. Initial numbers from the CLUES website for 2019 indicate an overhead ratio of about 33%. Assuming these numbers don't shift much once the formal financial report and 990 are released, it seems CLUES has reduced their overhead ratio from 2018, but it has increased from previous trends. While the 33% overhead percentage isn't of huge concern yet, it is worth a second look by CLUES and something they should keep on their radar to ensure it doesn't increase much more.

Outside of the overhead expenses for management and fundraising, CLUES provides an array of services categorized as health and wellness, education, arts and community engagement, and economic empowerment. The percent of expenses typically going towards program services was close to 80%. However, as demonstrated in the overhead ratio, it appears the percent of expenses for providing program services dropped to nearly 50% in 2018. While this seems like a dramatic drop in funding for programs, the actual program expenses stayed nearly the same from 2017 to 2018. In 2017, program expenses totaled \$6,134,042 while in 2018 program expenses totaled \$5,934,948. The dramatic shift in percentage can be accounted for by a more than \$3.5 million increase in management expenses which dramatically increased the total expenses as well as the overhead ratio. According to the financial statements, CLUES appears to allot a good amount of their budget to programming and keeping their overhead at a reasonable level.

Net Results

	2016	2017	2018
Net Results	727,185	1,156,462	-2,842,035
Total revenue	7,489,521	8,986,118	8,568,680
Total expenses	6,762,336	7,829,656	11,410,715

Net results decreased drastically between 2017 and 2018, reaching -\$2,842,035. Subtracting the transfer to CLUES' real estate holding company, the net result is \$750,578 for 2018, which is still lower than 2017 but not as drastic. Expenses increased by 45.7% between 2017 and 2018, and yet total revenue decreased by 4.7% in the same period. The only increases in revenue were a small increase of \$27,793 in investment income and a moderate increase of \$361,325 in program service revenue. Total revenue increased from 2016-2017 and decreased by \$417,438 from 2017 to 2018. Using the revenue and expense totals from their 2019 financial impact report, the net result was \$843,699 for 2019.

	2015	2016	2017	2018
Total assets	6,603,115	7,445,241	9,079,999	8,168,042
Total liabilities	958,445	887,500	1,365,796	3,295,874

Total assets increased by 23.7% from 2015 to 2018, whereas total liabilities increased 243.88% from 2015 to 2018. If you look at the current ratios and net assets, they appear to be in good condition. The current ratio in 2018 was 1.57, meaning they have \$1.57 of current assets to cover every \$1 of current liabilities. But the current ratio was 5.48 in 2015, 7.55 in 2016, and 8.05 in 2017, reflecting steady asset growth from 2015 to 2017 that was followed by a sudden large increase in liabilities without proportional asset growth.

	2015	2016	2017	2018
Net assets	5,644,670	6,557,741	7,714,203	4,872,168
Cash and cash equivalents	651,079	821,892	2,507,611	156,268

Net asset change from beginning to the end of 2018 was -\$2,842,035 after a steady increase from the previous 3 years. Cash and cash equivalents rose from 2015 to 2017 and then decreased drastically from \$2,507,611 in 2017 to \$156,268 in 2018. This loss is almost certainly directly related to its 2018 expansion operation when CLUES began building a 19,000 ft² expansion to its headquarters. In August of 2018, they secured a \$2,600,000 bridge loan from the Raza Development Fund as well as 3 loans from Partnerships of Hope XIX totaling \$6,860,000.

In summary, CLUES' liabilities have been rapidly growing while assets and revenue have been shrinking. However, they are not currently experiencing losses.

Liquidity

CLUES' liquidity has been steadily rising, however the organization's overall liquidity ratios from 2016 to 2018 fall below a healthy 1.0.

	2018	2017	2016
Current Ratios	1.57	8.05	7.55
Quick Ratios	1.2	6.56	5.56
Liquidity	0.7	0.48	0.5

Considering the quick ratios, the organization could realistically liquidate all cash and accounts receivable if needed and still have enough to continue operating. However, the assets available for liquidation are limited to cash and accounts receivable. All the grants and pledges receivable are from organizations, corporations, and the state and federal governments. The majority of their revenue and support is unrestricted.

The current and quick ratios both saw a large decrease in the most recent financial statement for 2018. This is likely a result of the increased cash invested in property construction and equipment.

Cash received for long-term debt also increased in 2017 and 2018, contributing to an increase in cash flow. However, within these years, CLUES also made payments on debt that was about 8% of the cash received. They also paid interest that totaled to nearly four times the amount in each of the preceding two years.

While the cash and equivalents decreased in 2018, their capital increased through acquisitions in property and equipment.

Despite the acquisition and increase of capital, their debt is gradually increasing, notably in 2015 and 2018 when the requirement for interest payments on loans went into place.

The organization manages its liquidity and its reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining appropriate cash flow to provide reasonable assurance that long-term debt obligations will be discharged. The organization's goal is to maintain current financial assets less current liabilities at a minimum to cover 30 days of operating expenses. To achieve this target, the organization monitors its liquidity on a regular basis. CLUES has a revolving line of credit with Bremer Bank, with an available balance of \$400,000, which the organization may tap into in times of low liquidity with the intent it is paid back as soon as reasonably possible. Borrowings are secured by the organization's inventory, equipment, accounts receivable, and general intangibles. No advances were outstanding under the line of credit as of December 31, 2018, and 2017.

Recommendations

1. Increase Individual Contributions

The CLUES Board consists of 12 members, 4 executive committee members, and 8 members at large. Of these members, only 8 are listed under individual donors. All of the executive members have made contributions greater than \$1,000 with one member making contributions of about \$5,000. Individual contributions are relatively small compared to the overall need of the organization with most contributions falling in the \$499 and under category. The board of directors should direct the members at large to identify and engage with donors who could give larger contributions. The organization clearly has an array of partners so why not work with them to identify additional donors who can contribute \$5,000 or more. This identification process could be done through the formation of a CLUES Funding Committee consisting of members from both the executive committee and members at large.

2. Liquidate some assets to improve liquidity ratio

As demonstrated above, CLUES' liquidity ratio falls below a healthy 1.0 with a 0.7 ratio. However, CLUES does hold quite a bit of fixed assets, which valued at nearly \$6.4 million in 2018. Liquidating a small amount of these assets could easily bring their cash liquidity ratio up to a healthy 1.0, ensuring they have enough cash to keep the organization running without any glitches.

3. Increase operating reserves

CLUES currently holds reserves that would cover 30 days of operation if something were to happen and all funding fell through. We recommend that CLUES increases their operating reserves to hold between four and six months of operational costs. This will help if anything unexpected happens and revenue is lost unexpectedly.

4. Invest some cash and/or reserves to generate more revenue

In line with other recommendations to increase liquid assets and considering that CLUES had an increased cash flow from 2017 to 2018, the organization may want to consider using a portion of their cash to engage in some low-risk investments and generate more income and contribute to reserve funds.

5. Reduce fundraising event costs

According to their 990, CLUES recent fundraising events such as their annual CLUES Gala and Fiesta Latina have actually cost the organization more money than the event raises. Looking into these events and taking steps to ensure they are actually raising money is crucial. CLUES could adjust the cost to execute the event, adjust the fundraising methods during the events, or create completely different fundraising strategies if these events are not providing value.

6. *Diversify the Executive Board to include more women*

CLUES offers programs and services that are aimed, not exclusively but primarily, at supporting women. In particular, their *Children & Parenting* programming and services as well as their *Survivor and Advocacy* programs and services. While there are women in leadership within the CLUES organization at the administrative level, the current Board of Directors includes just one woman alongside three other men on the executive committee. The at-large members from the Board of Directors make up a group of only men. With women's interests at stake, it would serve them well to include more women's perspectives and increase female representation on the Board of Directors.

Lessons learned

While there were many lessons learned, we will highlight the following three: the importance of substantial reserves, making fundraising events profitable, and ensuring the accounting is balanced.

One thing that stood out to us in this analysis was the fact that CLUES has enough operating reserves to cover only 30 days of operation. For such a large organization that provides a wide array of services, this seems like an incredibly small amount. Experts differ in their opinions on what a substantial reserve fund should look like, but usually somewhere between three and six months of reserves is preferred. When discussing CLUES and the number of people it provides services to in the community, we strongly believe they should have a larger operating reserve to ensure they will be able to continue to provide services even if something goes wrong. A sufficient operating reserve is incredibly important, and in the midst of a global pandemic, that fact is blatant now more than ever.

Another section that stood out to us in their 990 forms specifically was the cost of putting on their two large fundraising events and how much money they were making. In the end, they were actually spending more money to put on the fundraisers and weren't making any money from the contributions. It shows that fundraising events are not always the best way to make money as they can be incredibly expensive to put on. It's important to crunch the numbers and see how much value these events are really bringing to the organization and its beneficiaries and make decisions about future events accordingly.

Finally, one issue that we kept running into in the financial statements was variances in the numbers. For example, one financial statement held 2016 and 2017 numbers, and the next showed numbers from 2017 and 2018. However, the 2017 numbers from the statements differed. It often wasn't a huge variance, but these changes were not explained in the document and so we weren't sure why those numbers had changed, whether it was intentional or a mistake. Making sure the numbers are balanced is important and if there are adjustments or corrections, making

note of those so others can understand what happened. Having thorough numbers and narrative is crucial.

Annex

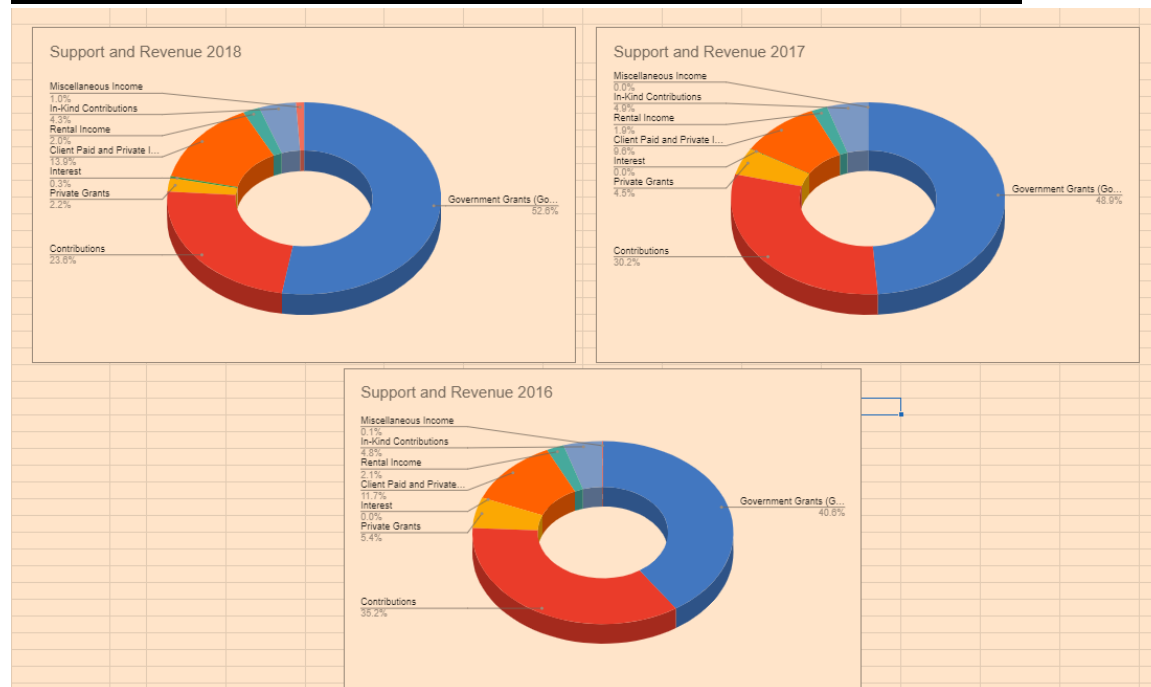
IRS Form 990- 2018

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 Schedule G (Form 990 or 990-EZ) 2018 **INC.**

Part II Fundraising Events. Complete if the organization answered "Yes" on Form 990, Part IV, line 18, or reported more than \$15,000 of fundraising event contributions and gross income on Form 990-EZ, lines 1 and 6b. List events with gross receipts greater than \$5,000.

		(a) Event #1	(b) Event #2	(c) Other events	(d) Total events (add col. (a) through col. (c))
		CLUES GALA (event type)	FIESTA LATINA (event type)	NONE (total number)	
Revenue	1	179,513.	95,109.		274,622.
	2	175,613.	90,634.		266,247.
	3	3,900.	4,475.		8,375.
Direct Expenses	4				
	5	22,368.	24,250.		46,618.
	6	957.	4,140.		5,097.
	7	55,935.			55,935.
	8	46,524.	11,275.		57,799.
	9	69,917.	65,241.		135,158.
	10	Direct expense summary. Add lines 4 through 9 in column (d)			300,607.
	11	Net income summary. Subtract line 10 from line 3, column (d)			-292,232.

Support and Revenue (Generated from Statement of Activities 2016-2018)



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