

Tyler Vermillion
Financial Statement Analysis
NP BUDG FIN MGMT

To: Board of Directors
From: Tyler Vermillion, Chief Executive Officer
Date: December 1, 2024
Subject: Analysis of Financial Position for Compassionate Addiction Treatment (2020-2022)

Dear Board Members,

My task was to evaluate Compassionate Addiction Treatment's (CAT) financial health by analyzing major financial metrics for the years 2020 through 2022. This memo summarizes CAT's financial performance, highlights its strengths and concerns, and responds to specific stakeholder questions. Overall, the analysis reveals a strong financial position with opportunities to improve efficiency and transparency.

Compassionate Addiction Treatment has shown substantial revenue and asset growth, which indicates a robust financial foundation. Total revenue grew by 65.5% from 2020 to 2021 and by 74.5% from 2021 to 2022, driven by increases in contributions and program service revenue. This strong revenue growth contributed to improved net assets, which rose from \$51,162 in 2020 to \$639,950 in 2022. However, CAT's reliance on contributions, as well as the efficiency of program spending, should be monitored to ensure alignment with long-term sustainability and mission fulfillment.

Percentage Changes and Common-Size Ratios

Analyzing five major financial items, we observe substantial growth and favorable expense control over the three-year period. Total assets increased by 47.4% from 2020 to 2021 and by 243.1% from 2021 to 2022, while liabilities decreased significantly, improving CAT's financial stability. Net assets grew by 192.9% in 2021 and by 327.1% in 2022, marking a steady improvement in CAT's financial health. Total expenses as a percentage of revenue decreased from 92.5% in 2020 to 65.5% in 2022, indicating increased efficiency in managing costs relative to revenue.

Common-size ratios further illustrate this improvement. Total liabilities as a percentage of total assets dropped from 62.6% in 2020 to 7.4% in 2022, while net assets rose from 37.4% of total assets in 2020 to 92.6% in 2022. This shift indicates a declining reliance on debt and a stronger equity base, both positive indicators for long-term sustainability.

Response to Stakeholder Concerns

A vendor expressed concern about CAT's ability to pay bills promptly. The Current Ratio, which compares total assets to total liabilities, addresses this concern. With a Current Ratio of 1.60 in

2020, 3.89 in 2021, and 13.41 in 2022, CAT shows increasing liquidity, reassuring vendors of our capacity to cover obligations in a timely manner.

A board member is interested in how quickly CAT collects amounts owed. Typically, the Receivables Turnover Ratio or Average Collection Period would provide insight into this concern. However, the absence of detailed receivables data in our records limits our ability to calculate these ratios accurately. Including detailed accounts receivable information in future reports will enhance our understanding of cash flow efficiency.

A donor is concerned about CAT's solvency and use of borrowed funds. The Debt to Assets Ratio, which measures the proportion of assets financed by debt, addresses this concern. This ratio declined from 62.6% in 2020 to 7.4% in 2022, indicating reduced reliance on debt. Given this trend, the donor should not be concerned about CAT's solvency, as CAT has consistently decreased its debt obligations while growing its asset base.

Another donor inquired about how much of their contribution would directly support the mission. The Program Expense Ratio indicates the percentage of total expenses allocated to program services, a key measure of mission focus. Although program-related spending fell below the industry benchmark of 65%, it fluctuated with program service revenue at 38.2% of total revenue in 2020, 52.2% in 2021, and 38.5% in 2022. This ratio highlights the need for closer alignment of expenses with mission-focused programs.

The question of whether CAT owns or rents its building can be inferred from Form 990 data, which reports no rental income or bond proceeds for property acquisition. This absence suggests ownership of the facility, though property records should be consulted for absolute confirmation.

Strengths and Concerns

One strength of CAT is its impressive revenue growth, nearly tripling from \$492,552 in 2020 to \$1,422,304 in 2022, primarily driven by increased contributions and program service revenue. This growth reflects successful fundraising and program expansion efforts. Another strength is CAT's strong liquidity, as seen in the increasing Current Ratio, which reassures stakeholders of our ability to meet short-term obligations. Finally, CAT's reduced reliance on debt is evidenced by the declining Debt to Assets Ratio, which has improved from 62.6% in 2020 to 7.4% in 2022, enhancing our solvency.

However, several concerns warrant attention. First, the program expense ratio falls below industry benchmarks, suggesting room for improvement in allocating expenses toward mission activities. Second, the heavy reliance on contributions, which made up 62.1% of total revenue in 2022, presents a financial risk if donation levels fluctuate. Finally, CAT's financial statements lack detailed accounts receivable data, which limits insights into our collection efficiency and cash flow management.

In terms of specific expenses, our reports do not currently separate telephone and internet expenses. To gain a clearer understanding of expense allocation, including these items in future detailed expense categories would improve transparency and accountability. Additionally, there is no available data on the proportion of restricted net assets, so providing this information in future reports would address donor concerns about restricted funds.

Debt Service Obligations and Overall Financial Strength

In response to a board member's concern about meeting debt service obligations, the analysis shows that CAT is well-positioned to handle such commitments. The reduction in both the Debt to Assets Ratio and total liabilities over the period underscores our financial health and capacity to meet any debt-related requirements without strain.

Overall, Compassionate Addiction Treatment is financially strong, with significant revenue growth, improved profit margins, and reduced debt reliance. CAT's increasing liquidity and net assets indicate sound financial management. Addressing the identified concerns—such as enhancing program spending efficiency and diversifying revenue sources—will further strengthen our financial health and sustainability.

Conclusion and Recommendations

In conclusion, CAT is well-positioned for sustained success. To build on this strong foundation, I recommend implementing more detailed expense categorization to better monitor allocations for mission-critical activities, developing strategies to diversify revenue beyond contributions, and including key financial metrics—such as accounts receivable and restricted net assets—in future reports. Maintaining strong financial stewardship will support continued growth and maximize our impact.

Thank you for reviewing this analysis. I am available to discuss these findings in greater detail.

Sincerely,

Tyler Vermillion

Chief Executive Officer