

# MANUELITO NAVAJO CHILDREN'S HOME INC., NEW MEXICO

## Management's Discussion and Analysis Year Ended December 31, 2011

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Our discussion and analysis of Manuelito Navajo Children's Home's ("the Home") financial performance provides an overview of the Home's financial activities for the fiscal year ended December 31, 2011. The Home's basic financial statements are comprised of five components: 1) statement of financial position with comparative totals from the prior year; 2) statement of activities with comparative totals; 3) statement of functional expenses with comparative totals; 4) statement of cash flows with comparative totals; and 5) notes to the financial statements. Please read this management's discussion and analysis in conjunction with the Home's financial statements.

### Financial Highlights

- The Home's net assets *decreased* by \$3,784 from a year ago.
- During the year, the Home received \$750,106 in total support and \$861,687 in total revenue.
- Total cost of all of the Home's operations was \$865,471. A detail of those operations is:
  - Our *Programs* functional expense component was \$200,061 before depreciation; a \$7,272 *decrease* from a year ago.
  - Our *General and Administrative* functional expense component was \$43,634 before depreciation; a \$3,223 *increase* from a year ago.
  - Our *Fundraising* functional expense component was \$51,937 before depreciation; a \$11,696 *decrease* from a year ago.
- The resources available for general use and board designation were \$31,974.

### Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Financial Position and the Statement of Activities (found on pages 3 and 4 of the Independent Auditors' Report) provide information about the activities of the Home as a whole and present a longer-term view of the Home's finances. The Statement of Functional Expenses and the Statement of Cash Flows start on page 5 of the Auditors' Report. These statements tell how these services were financed and expensed in the short term, as well as what remains for future spending. In addition, the Functional Expense financial statement also reports the Home's operations in more detail by providing information about the Home's three significant expense functions.

### Reporting the Home as a Whole

**The Statement of Financial Position and the Statement of Activities.** One of the most important questions asked about the Home's finances is, "Is the Home as a whole better off or worse off as a result of the year's activities?" The Statement of Financial Position and the Statement of Activities report information about the Home as a whole and about the activities in a way that helps answer this question. These statements include **all** assets and liabilities using the **accrual basis of accounting**, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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### Reporting the Home as a Whole – continued

These two statements report the Home's **net assets** and the Statement of Activities reports the change in them. You can think of the Home's net assets – the difference between assets and liabilities – as one way to measure the Home's financial health, or **financial position**. Over time, *increases or decreases* in the Home's net assets is one indicator of whether its **financial health** is improving or deteriorating. By nature, nonprofit organizations can have either a surplus or deficit in operations in any year, but repeated deficits or results that differ greatly from budgets are cause for concern. You will need to consider other non-financial factors, however, such as changes in the Home's donor base and the condition of the Home's physical plant, to assess the **overall health** of the Home.

### Reporting the Home's Functional Expenses

**The Functional Expense Statement.** The functional expense statement begins on page 5 of the Independent Auditors' Report and provides detailed information about the three significant expense functions. Disclosure of expenses by functional classification is required by the Statement of Financial Accounting Standards ("SFAS") No. 117; *Financial Statements of Not-For-Profit Organizations* which the Home elected to adopt and implement early back in 1994. This Standard also regulates the other financial statements mentioned here and included in the Auditor's Report. The objective of this standard is to enhance the relevance, understandability, and comparability of financial statements issued by nonprofit organizations. The reporting of expenses by both functional and natural classifications help control and manage money for particular purposes and to show that it is meeting legal responsibilities for reporting purposes. The Home's three functional classifications of expenses are program services, general and administrative, and fund raising.

**Program Services.** Most of the Home's basic services are reported as program services, which focus on the Home mission and purpose for its existence. Program services includes all funds expensed directly or indirectly to support the programs of the Home.

**General and Administrative.** These expenses represent administrative costs and costs associated with public information and donor accountability.

**Fund Raising.** Finally, these expenses consist of expenses related to the solicitation of contributions to finance the programs and other costs of the Home. Please note, all of the Home's support comes solely from private donations, except for a local grant provided annually from the City of Gallup's Lodgers' Tax, which exclusively funds the purchase of pyrotechnics used during a two-day summer bull riding fund raising event.

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### The Home as a Whole

The Home's net assets were virtually unchanged from a year ago – *decreasing* from \$401,216 to \$397,432. In contrast, last year's net assets *decreased* by \$74,080. Our analysis below focuses on the net assets (Table A-1) and the changes in net assets (Table A-2) of the Home's activities.

### Financial Analysis of the Home as a Whole

#### Net Assets

Table A-1 summarizes the Home's net assets for the fiscal year ending December 31, 2011.

**Table A-1**  
**The Home's Net Assets**

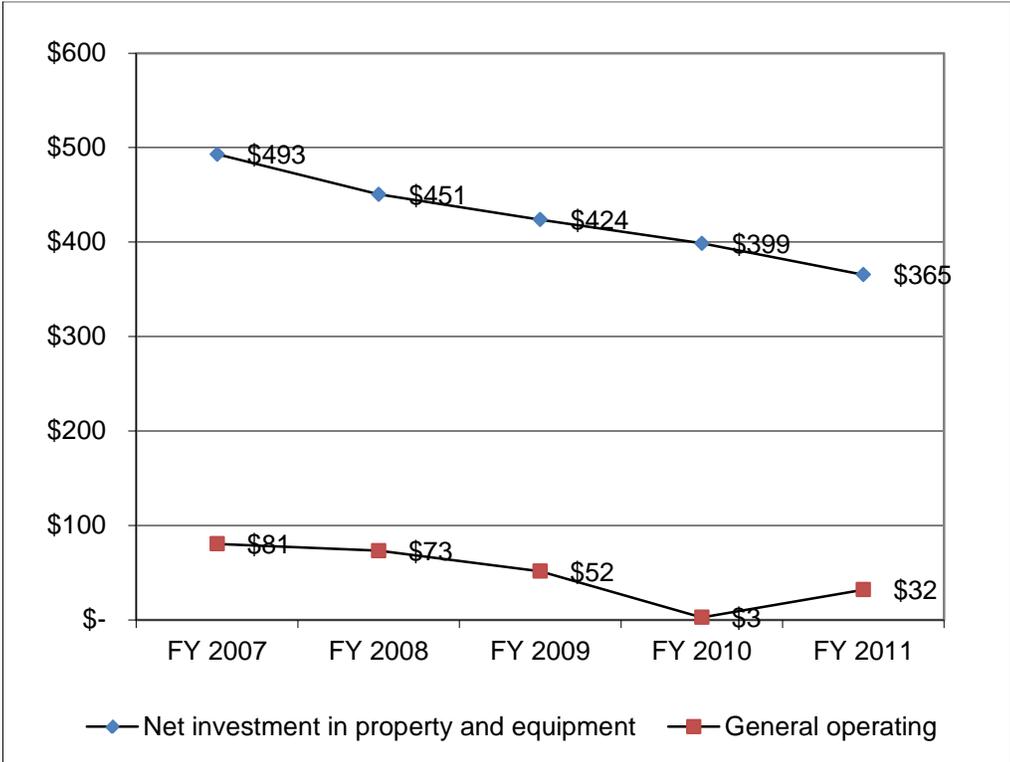
|                                             | 12/31/xx          |                   |
|---------------------------------------------|-------------------|-------------------|
|                                             | 2011              | 2010              |
| <b>Assets:</b>                              |                   |                   |
| Current assets                              | \$ 49,375         | \$ 88,694         |
| Non-current assets                          | <u>446,233</u>    | <u>481,974</u>    |
| <b>Total assets</b>                         | <u>495,608</u>    | <u>570,668</u>    |
| <b>Liabilities:</b>                         |                   |                   |
| Current liabilities                         | 98,176            | 59,452            |
| Long-term liabilities                       | <u>0</u>          | <u>110,000</u>    |
| <b>Total liabilities</b>                    | <u>98,176</u>     | <u>169,452</u>    |
| <b>Net assets:</b>                          |                   |                   |
| Net investment in property<br>and equipment | 365,458           | 398,594           |
| General operating                           | <u>31,974</u>     | <u>2,622</u>      |
| <b>Total net assets</b>                     | <u>\$ 397,432</u> | <u>\$ 401,216</u> |

Net assets of the Home's activities *decreased* by 0.94 percent (\$397.4 thousand compared to \$401.2 thousand). *General operating* net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, permanent donor restrictions, or other requirements – *increased* from \$2.6 thousand at December 31, 2010, to \$31.9 thousand at the end of this year. This slight *decrease* in net assets arose primarily by stabilizing a 30 percent continual declining-trend in net assets over the last five years. In addition, planned systemic control over operating expenditures and more focused fund raising efforts help us achieve our goal of stopping this declining trend. The next page depicts a graphical representation of this decline.

MANUELITO NAVAJO CHILDREN'S HOME INC., NEW MEXICO

Management's Discussion and Analysis  
Year Ended December 31, 2011

Total Net Assets  
Home's Activities  
(in thousands)



**MANUELITO NAVAJO CHILDREN'S HOME INC., NEW MEXICO**

**Management's Discussion and Analysis - continued  
Year Ended December 31, 2011**

**Financial Analysis of the Home as a Whole – continued**

**Changes in Net Assets**

Table A-2 summarizes the Home's changes in net assets for fiscal year 2011. All activities during the year *decreased* the Home's net assets by \$3,784.

**Table A-2  
Changes in the Home's Net Assets**

|                                      | Total                        |                              |
|--------------------------------------|------------------------------|------------------------------|
|                                      | 2011                         | 2010                         |
| <b>Revenues, support, and gains:</b> |                              |                              |
| <b>Contributions:</b>                |                              |                              |
| Donations – Home                     | 720,933                      | 655,375                      |
| Donations - School                   | 8,844                        | 10,164                       |
| Donations in-kind                    | 20,329                       | 2,164                        |
| <b>Revenue and gains:</b>            |                              |                              |
| Dividends and royalties              | 1,905                        | 0                            |
| Local government contracts           | 5,000                        | 0                            |
| Interest income                      | 4,642                        | 6,103                        |
| Rental income                        | 3,940                        | 5,700                        |
| School income                        | 93,928                       | 108,248                      |
| Gain on disposition of fixed assets  | 0                            | 2,000                        |
| Sale of water                        | 0                            | 2,275                        |
| Miscellaneous                        | <u>2,166</u>                 | <u>577</u>                   |
| <b>Total revenues</b>                | <b><u>861,687</u></b>        | <b><u>792,606</u></b>        |
| <b>Expenses:</b>                     |                              |                              |
| Program services                     | 574,424                      | 570,682                      |
| General and administrative           | 180,197                      | 175,819                      |
| Fundraising                          | <u>110,850</u>               | <u>120,185</u>               |
| <b>Total expenses</b>                | <b><u>865,471</u></b>        | <b><u>866,686</u></b>        |
| <b>Change in net assets</b>          | <b>(3,784)</b>               | <b>(74,080)</b>              |
| <b>Net assets, beginning of year</b> | <b><u>401,216</u></b>        | <b><u>475,296</u></b>        |
| <b>Net assets, end of year</b>       | <b><u><u>397,432</u></u></b> | <b><u><u>401,216</u></u></b> |

The Home's total revenues *increased* by 8.7 percent or \$69,081. At the same time, the total of all expenses *decreased* during the year by 0.1 percent, or \$1,215. Overall, this year in five years, the Home has stabilized its operations by controlling costs and increasing revenues. Of course, the increase in revenues is largely due to the increase in the generosity of our Benefactors "Donors" who are blessed by God our Father.

# MANUELITO NAVAJO CHILDREN'S HOME INC., NEW MEXICO

## Management's Discussion and Analysis - continued Year Ended December 31, 2011

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### **General Fund Budgetary Highlights**

Over the course of the year, the Superintendent projects a beginning budget and in working with the Board of Directors revises the Home's budget as needed. These budget revisions fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in December 2010). The second category includes changes that are approved to prevent any budget overruns at year-end, if any.

Each year, the Home budgets total revenues at 80 percent of the total projected revenues for each year. In this way, we are able to provide 'protection', if you will, in not overspending. We take a conservative approach in budgeting.

### **Property and Equipment Assets and Debt Administration**

#### **Property and Equipment Assets**

At the end of 2011, the Home had \$365,458 invested in a broad range of property and equipment; mainly land, buildings, and vehicles. Our buildings are approaching 50 years and older and are in need of constant maintenance and repair. Some buildings and attaching water and sewer lines are in need of major repair.

#### **Debt**

At year-end, the Home's activities had \$0 in long-term notes outstanding. The *decrease* in long-term debt of 100 percent, or \$110,000, resulted from the continual 'pay-downs' of our existing debt through scheduled payments and eventually the payoff of the debt; again only by the generous giving of our Donors.

#### **Requests for Information**

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Home's finances. If you have questions about this report or need any additional information, please contact Jim Christian, Superintendent, or John Alexander, Business Manager, at Post Office Box 58, Gallup, New Mexico 87305-0058; or call (505) 863-5530; or email at [jalexander@manuelitohome.org](mailto:jalexander@manuelitohome.org).