Additional Nonprofit Financial Ratios

- Liquidity Ratio:
  - Measures liquidity, financial strength, staying power
  - Cash plus Receivables plus Inventories plus Marketable Securities divided by Total Liabilities
  - Excludes restricted marketable investments
  - Similar to current ratio or working capital ratio in for-profit, but is more conservative because it includes ALL liabilities and not just current
  - 1:1 or greater desired; **how many times** can you cover your liabilities
- Defensive Interval Ratio:
  - A stability ratio. Measures ability to cover expenses (meet mission) with resources (current assets)
  - Cash plus Marketable Securities plus Receivables divided by Average Monthly Expenses (total annual expenses divided by 12)
  - Similar to Current Ratio in for-profit, but this measures **how much time** (not how many times)can you operate and cover expenses before running out of funds
  - Good for charities that depend on contributions from general public (vs. government contracts)
  - Look at trend. Too high-->sitting on cash or not collecting receivables (or establishing a reserve)
- Accounts Payable Aging Indicator
  - Also called A/P Turnover Ratio
  - Accounts Payable divided by Average Monthly Expenses
  - If too high (e.g. 2:1) organization is taking too long to pay bills. Why? No cash (cash management) or bills not being processed timely (stewardship)
  - If too low (e.g. 1:2) organization may not be using liquid assets efficiently (not investing)

- (LT) Debt to Net Assets Ratio
  - Also called, "bankers ratio"
  - .75 or lower is desirable
  - Measures degree of borrowing
  - Total long term debt divided by total net assets

Scenario	Debt	Net Assets	Ratio
1	$1,000,000	$1,250,000	.80
2	$1,000,000	$750,000	1.33
3	$1,000,000	$2,000,000	.50

- Revenue Dependency Ratios
  - Contributions divided by Total Revenue
  - Net Special Event Revenue divided by Total Revenue
  - Investment Income divided by Total Revenue
  - Look at trend
  - Disaggregated ratios
    - Foundation contributions divided by total contribution revenue
    - Corporate contributions divided by total contribution revenue
    - Individual contributions divided by total contribution revenue
- Profitability Margin
  - Net Income (change in net assets, revenue minus expense) divided by Total Revenue
  - Tells us how much is left over for every $1 earned. The higher the number the better
  - Measures pricing (not generally applicable in social service nonprofits but is relevant in hospitals, colleges & universities, etc.) and cost control (very relevant to all nonprofits)
  - Look at trend

- Program Spending Ratio
  - Percentage of total expenses attributable to program services
  - Total program expenses divided by Total agency expenses
  - The higher the percentage the better
- Management Expense Ratio
  - Total General and Administrative expense divided by Total Expenses
  - The lower the percentage the better
- Fundraising Expense Ratio
  - Total Fundraising expense divided by Total Expenses
  - The lower the percentage the better
- Overhead (Supportive Services) Ratio
  - Management & General expenses plus fundraising expense divided by Total Expenses
  - The lower the percentage the better (25% is an average benchmark)
- Fundraising Efficiency Ratio
  - Total fundraising expenses divided by total contributions
  - The smaller the relationship the better (e.g. less than 1:1)
  - Ratio is better (and more accurate) if use F/S information and not 990 because 990 excludes donated services