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

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Debt</th>
<th>Net Assets</th>
<th>Ratio</th>
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<tbody>
<tr>
<td>1</td>
<td>$1,000,000</td>
<td>$1,250,000</td>
<td>.80</td>
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<tr>
<td>2</td>
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<td>3</td>
<td>$1,000,000</td>
<td>$2,000,000</td>
<td>.50</td>
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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