

Sample Financial Ratios¹

Financial ratio	How it's calculated...	This ratio tells us...
Current ratio	= Current Assets / Current Liabilities	How quickly an agency can convert its short-term assets into cash to pay its short-term liabilities. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" (numerator) are collectible. The higher the ratio, the more liquid the organization. Generally, a "healthy" organization will have a current ratio of at least 1.
Cash on hand (in days)	= (Unrestricted Cash & Equivalents x 365 Days) / (Total Operating Expenses - Annual Depreciation)	How long, in days, the organization could meet operating expenses without receiving new income. It is helpful to compare your current figure to past values as well as to other similar organizations. Organizations typically strive to maintain at least 90 - 180 days cash on hand. Also, unrestricted investments can be included in the numerator, if these assets can be converted into cash in a timely fashion.
Operating reserves ratio	= Unrestricted Net Assets / Total Operating Expenses	The percent of available operating funds an organization maintains to cover unforeseen increases in operating expenses or declines in income. Unrestricted net assets may be used to cover the normal fluctuations of day-to-day operations, if needed. If this ratio is low, the organization lacks unrestricted, spendable funds to meet temporary cash shortages, an emergency, or a potential deficit situation.
Savings ratio	= (Total Revenue - Total Operating Expenses) / Total Operating Expenses	Measures the ability of an organization to add to its unrestricted net assets; positive values indicate an increase in savings. The savings ratio is a simple way to determine if an organization is adding to or using up its unrestricted net assets (operating reserve).
Earned income ratio	= Fees for Services / Total Operating Revenue	The composition of funds coming from fees for service relative to total revenues. It is useful for observing both long and short-term trends, as well as for setting strategic goals.
Contributed revenue ratio	= (Contributions + Net Special Events) / Total Operating Revenue	Measures the composition of funds derived from contributions and special events, net of expenses, relative to total revenues. It is useful for observing both long and short-term trends, as well as for setting strategic goals.
Government revenue ratio	= Government Funds / Total Operating Revenue	Measures the composition of funds from government sources relative to total revenues. It is useful for observing both long and short-term trends, as well as for setting strategic goals.

¹ Developed by The Bayer Center for Nonprofit Management



Your Agency's Financial Ratios...²

Financial ratio	How it's calculated...	Fiscal year-end 2009	Fiscal year-end 2008	Trend?	Goal?
Current ratio	= Current Assets / Current Liabilities				
Cash on hand (in days)	= (Unrestricted Cash & Equivalents x 365 Days) / (Total Operating Expenses - Annual Depreciation)				
Operating reserves ratio	= Unrestricted Net Assets / Total Operating Expenses				
Savings ratio	= (Total Revenue - Total Operating Expenses) / Total Operating Expenses				
Earned income ratio	= Fees for Services / Total Operating Revenue				
Contributed revenue ratio	= (Contributions + Net Special Events) / Total Operating Revenue				
Government revenue ratio	= Government Funds / Total Operating Revenue				

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Financial Vulnerability Index (FVI) Model³

FVI factors	How it's calculated...	This factor tells us that...
Funding concentration	$= \sum_j (\text{Revenue}_j / \text{Total Operating Revenue})^2$	An agency with fewer revenue sources is more vulnerable to a financial shock than another with multiple revenue sources. A charity that receives all of its revenue from one source will have a funding concentration of one, while an agency with multiple sources of revenue will have a funding concentration number approaching zero.
Debt ratio	$= \text{Total Liabilities} / \text{Total Assets}$	The higher the debt ratio, the more likely a financial shock could destabilize an agency.
Profitability ratio	$= (\text{Total Revenue} - \text{Total Expenses}) / \text{Total Expenses}$	An agency that is able to generate an operating surplus is more likely to withstand a financial shock. This ratio should be based on <u>operating</u> revenues and expenses.
Administrative ratio	$= \text{Management \& Administrative Costs} / \text{Total Operating Revenue}$	An agency with a low administrative ratio is more financially vulnerable because it may not be able to further reduce discretionary costs.
Organizational size	$= \text{Natural Logarithm (Total Assets)}$	Larger organizations are less financially vulnerable than smaller ones. (The organizational size variable has no explanatory power independent of the FVI model, but rather was added to the model by nonprofit academicians John Trussel, Janet Greenlee and Thomas Brady to suggest that everything else being equal, a larger agency is less financially vulnerable than a smaller one.)
FVI model equation	$\text{FVI Model} = 1 / (1 + e^{-Z})$, where $Z = 0.7754 + (0.1496 * \text{Funding Concentration}) + (0.9272 * \text{Debt Ratio}) - (2.8419 * \text{Profitability Ratio}) + (0.1206 * \text{Administrative Ratio}) - (0.1665 * \text{Organizational Size})$	
What the model tells us...	The FVI model uses five factors to predict whether or not an agency will be able to carry out its mission if faced with one or more financial shocks. According to the model, an agency with <u>an FVI score of less than 20% is not financially vulnerable</u> .	
Source:	http://www.nysscpa.org/cpajournal/2002/0602/dept/d066602.htm	

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