

## Financial Indicators

INDICATOR	SOURCE <sup>1</sup>	HOW TO CALCULATE	WHAT TO LOOK FOR
<b>Cash Flow/ Liquidity</b>			
Ability to pay current bills	Fin. Pos.	Quick Ratio:  <u>Cash + Cash Equivalents</u> Accounts Payable	A ratio of “1” or higher is a preliminary indicator of strong liquidity. Exception: If cash is related to restricted funding for projects that have not yet been completed.
Ability to meet payroll	Fin. Pos. Func. Act.	Cash ÷ (Annual Salaries ÷ 12)	Less than one month’s salaries in the bank can indicate cash flow problems.
Cash	Fin. Pos. - Assets	Compare current year cash with prior year cash.	A significant decrease can indicate cash flow problems.
Accounts Receivable	Fin. Pos. - Assets	Compare current year A.R. with prior year A.R.	A significant increase in receivables can mean greater difficulty paying bills.
Line of credit	Fin. Pos. – Liabilities Notes		Does the organization have access to credit? If so, have they drawn down the full line of credit? Having credit is positive; maxing out the credit can be a red flag.
Payroll Taxes Payable	Fin. Pos. – Liabilities	Compare current and prior years.	If payroll taxes payable are growing, and total salaries remains the same, this can be a significant red flag.
Restricted Net Assets	Fin. Pos. – Assets and Net Assets	<u>Cash + Receivables</u> Restricted Net Assets	If this ratio is less than one it means that the organization has spent restricted funding on operations.
Unrestricted Net Assets	Fin. Pos.		If unrestricted net assets are less than zero the organization has more obligations than it has resources to meet those obligations. The organization may not be viable.

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Unrestricted Net Assets (continued)	Fin. Pos.	Compare current and prior years.	If unrestricted net assets are shrinking it means that the organization is meeting this year's bills with money raised in previous years. Questions: Was this planned? Is there a limit on what the organization will spend from
	Fin. Pos. Fin. Activity	$\frac{\text{Unrestricted Net Assets}}{\text{Total Expenses}}$	A preliminary indicator of how well the organization could operate in case of emergency – what percent of expenses could the organization meet with current unrestricted net assets?
	Fin. Pos. Fin. Activity	$\frac{\text{Expendable Unrestricted Net Assets}}{\text{Total Expenses}}$	Expendable unrestricted net assets = Unrestricted Net Assets – (Fixed Assets – Related Liabilities). These represent unrestricted net assets that could actually be used to pay bills in case of emergency. The lower this percentage, the fewer months the organization could continue to be viable in case of extreme emergency.
<b>Other Indicators</b>			
Revenue composition	Fin. Activity	$\frac{\text{Revenue by Category}}{\text{Total Revenue}}$	Indicates how dependent the organization is on specific funding sources. The more diverse the revenue, the more stable the organization.
		Compare revenue this year with revenue from the prior year.	Significant changes up or down are important to understand, as they indicate possible changes in the organization's activities.

## FINANCIAL CHECKLIST

INDICATOR	SOURCE <sup>1</sup>	HOW TO CALCULATE	WHAT TO LOOK FOR
Expenses	Fin. Activity	Compare expenses this year with expenses from the prior year.	Again, ask questions about significant changes. For example, have salaries gone down and fees for contractors gone up? What might this mean for how the organization is delivering service?
Opinion	Opinion Letter		Is the opinion “clean” or are there exceptions?
Audit date	Opinion Letter		Was the audit completed within three months of the end of the fiscal year? An audit completed after six months may indicate problems with the financial records.
Management Letter	Addendum to Audit		Are there significant deficiencies or material weaknesses cited by the auditor? If so, does management indicate how these issues will be addressed?