

Financial Statement Ratio Standards for California Nonprofit Organizations

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The purpose of this study was to measure the central tendencies of selected financial ratio activity of nonprofit organizations in the state of California. It is a secondary analysis of data collected from the California Nonprofit Database Project using records provided by the IRS and California Registry of Charitable Trusts of IRS Form 990 tax information for year 1997. Only organizations that completed an audit were studied. The data sample for this study included 6031 organizations.

The following financial ratios were described: current assets, quick assets, debt ratio, fund balance reserve, unrestricted fund balance reserve, management and general expense, and fundraising expense. The median was the most critical measure of central tendency and reflected the following results: current ratio of 5:1, quick ratio of 4:1, debt ratio at 22 percent, total fund balance reserve at 59 percent, unrestricted fund balance reserve at 87 percent, management expense of 12 percent and fundraising expense of zero percent. Because many organizations sampled did not list management and fundraising expenses or listed them as zero, a measure of the central tendencies of those nonprofit organizations that reported management and/or fundraising expenses of greater than zero was performed and the results were labeled as filtered ratios. Filtered management expense reported a median of 12 percent. Filtered fundraising expense reported a median of 6 percent.

Organizations in the data sample were also subdivided according to two independent variables for the purpose of determining whether groups of organizations distributed significantly on the key ratios along those variables. Organizations were first

grouped according to the amount of total annual revenues they reported: Revenues < \$250,000, \$250,000 - < \$500,000, \$500,000 - < \$1,000,000, \$1,000,000 - < \$2,000,000, \$2,000,000 - < \$5,000,000, and \$5,000,000 and greater. Analysis of variance testing demonstrated significance of <.01 for the management expense, filtered management expense, and filtered fundraising expense ratios. Results demonstrated that as organizations carry increased annual revenues, the percentage of management and fundraising expenses reported decreases significantly.

Second, organizations were grouped according to the percentage of revenues they received from government funding sources: 0 – 25, > 25 – 50, > 50 – 75, and > 75. Analysis of variance testing demonstrated significance of <.01 for the management expense, filtered management expense, fundraising expense, and filtered fundraising expense ratios. Results demonstrated that as organizations carry an increase in the percentage of government funding, the percent of management and fundraising expense reported decreases significantly.