

## Financial Ratios Key Terminology

There are hundreds of possible financial ratios, common key ratios for Community Action Agencies are defined below.

Ratio	Definition	Formula
<b>Defensive Interval Ratio</b>	Compares liquid assets to expenses to determine the theoretical number of months an organization could cover its average expenses by utilizing highly liquid assets.	$\frac{(\text{Cash} + \text{Marketable Securities} + \text{Receivables})}{(\text{Average Monthly Expenses})} = \text{Defensive Interval Ratio}$
<b>Liquidity Ratio</b>	A metric for measuring the CAA's ability to pay its bills on time.	$\frac{(\text{Cash} + \text{Marketable Securities} + \text{Receivables} + \text{Inventory})}{(\text{Liabilities})} = \text{Liquidity Ratio}$
<b>Days of Cash Indicator</b>	Determines whether the cash position is improving or deteriorating by comparing the number of days cash is on hand from month to month.	$\frac{(\text{Cash Balance at Month End})}{(\text{Daily Expense Budget}^*)} = \text{Days of Cash Indicator}$
<b>Accounts Payable Indicator</b>	Provides an early warning sign that the CAA may be unable to satisfy debts.	$\frac{(\text{Accounts Payable})}{(\text{Average Monthly Expenses})} = \text{Accounts Payable Indicator}$
<b>Expenses to Net Assets</b>	Useful for assessing the CAA's ability to withstand difficult financial circumstances.	$\frac{(\text{Total Expenses})}{(\text{Total Assets})} = \text{Expenses to Net Assets}$



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Ratio	Definition	Formula
<b>Savings Indicator</b>	Method of determining the extent of a surplus.	$\frac{(\text{Revenue} - \text{Expenses})}{(\text{Total Expenses})} = \text{Savings Indicator}$
<b>Total Debt to Total Assets</b>	Compares debt to a set base.	$\frac{(\text{Total Debt})}{(\text{Total Assets})} = \text{Total Debt to Total Assets}$

\*The “Daily Expense Budget” is calculated by dividing the annual expense budget by 365.