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Kent John Chabotar

Financial Ratio Analysis Comes to Nonprofits

Virtually all nonprofit organizations, including colleges and universities, have been adversely affected by declines in governmental assistance, unfavorable economic circumstances, and greater competition for private gifts and grants. Also creating problems for educational nonprofits are enrollment declines and excess staff hired during the expansion years. "Cutback management" has become part of the language of university presidents, museum and hospital directors, school headmasters, church officials, governors and mayors, and other leaders in the nonprofit sector [17, 18].

Ratio Analysis

Understanding the financial condition of the nonprofit organization is an important part of deciding how to respond to these pressures. Many have concluded that financial ratios, which have been used for many years by financial analysts in business, could also serve nonprofits. For example, the National Association of College and University Business Officers and John Minter Associates have pioneered the use of ratio analysis in higher education [7]. A financial ratio is the relationship between two numbers drawn from the organization's balance sheet, operating statement, and related records. Analysis of a ratio such as tuition revenues to instructional expenditures provides a better understanding of financial condition and institutional priorities than either of these data standing alone. The most frequently cited

Kent John Chabotar is lecturer on finance and accounting at the Harvard Graduate School of Education and vice president and treasurer of the Education Development Center, Inc., in Newton, Mass.

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