

# NONPROFIT PERSPECTIVES

## Key Performance Indicators for Nonprofit Organizations

Monitoring financial performance is just as important to Nonprofit Organizations (NPOs) as it is to all other types of entities, especially given NPOs' external sources of capital, financial stewardship and emphasis on accountability. Financial literacy goes beyond compiling statements for year-end review by the Board. Additionally, practicing financial steps are needed to comply with tax laws and grant covenants. Key Performance Indicators (KPIs) are good quantifiable measurements of a NPO's health or success. Below we listed three commonly used KPIs by the NPOs as benchmarking tools.

- **Program Efficiency Ratio:** By definition, the ratio is calculated by dividing an organization's program service expenses, which is money spent directly to further the NPO's mission, by its total expenses. It measures how much an organization is spending on its primary mission rather than administrative costs. It is ideal for this indicator to be as close to one as possible. However, since it would be unrealistic to expect all money spent by an organization to be used directly toward the mission, expected results should be in line with other NPOs with similar missions and business models.
- **Operating Reliance Ratio:** This ratio is to measure how effectively the NPOs could pay all expenses from program revenues alone, by dividing unrestricted program revenue by total expenses. In an ideal situation, the Operating Reliance Ratio would be one or greater as it indicates that the NPOs' programs are able to sustain itself and the management is mindful of the organization's expenses and cash flow. However, restricted revenues are sometimes relied on by many NPOs that affect the outcome of this calculation.
- **Fundraising Efficiency Ratio:** This ratio is often used by NPOs to measure how efficient the NPOs are at raising money. It is calculated by dividing the unrestricted contributions by the fundraising expenses, which are money spent by the NPOs to raise the unrestricted contributions. The higher the result, the more efficient the organization is at raising money. By monitoring this ratio, NPOs can gauge whether or not their fundraising efforts are becoming more or less efficient and re-evaluate as necessary.

Understanding these three KPIs is a starting point to select benchmarks more specific to your sector and organization. However, ratios aren't the last word and sometimes ratios alone can't reflect the full picture of a NPO's efficiency. Multiple tools and financial analyses should be used complementarily to provide a more in depth look into a NPO's financial health.

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