

REPORT#: 2016-03

February 9, 2016

Jess Duran, Director
Community Services and Parks Department
Re: Community Development Block Grant (CDBG) – Financial Ratio Calculation

Dear Jess,

In accordance with Internal Audit's fiscal year 2015-16 audit work plan, Internal Audit calculated financial ratios for the CDBG community agency applicants as reflected in Exhibit A, attached.

These ratios were computed from the financial statements submitted by fiscal year 2016-17 CDBG applicants and furnished to Internal Audit by department management. No additional procedures were performed by Internal Audit to verify the accuracy of the financial information received.

Internal Audit has taken care in selecting ratios to calculate that are practical for operations in a non-profit environment. The ratios presented are meant to provide the CDBG Advisory Committee with an additional tool to utilize while deliberating on funding decisions for the current year. It is important to note that Internal Audit is not expressing an opinion on the financial health of any agency requesting funding by calculating the financial ratios.

Descriptive information and the standard formula for each ratio calculated are shown in the following table:

Financial Ratio	Standard Formula	Description
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<p>Reflects the organizations ability to meet short term obligations.</p> <p><i>A ratio of 1 or greater is a good sign suggesting that an entity would be able to pay off its obligations if they came due.</i></p>

Financial Ratio	Standard Formula	Description
Debt Ratio	$\frac{\text{Total Liabilities}}{\text{Unrestricted Net Assets}}$	<p>Reflects the proportion of debt a company has relative to its assets. It works opposite of the current ratio.</p> <p><i>A ratio less than 1 is a good sign which indicates that a company has less debt than assets.</i></p>
Defensive Interval	$\frac{\text{Liquid Assets}}{\text{Average Monthly Expenses}}$	<p>Reflects the number of months that the organization could operate if funding stopped and no additional funds were received.</p> <p><i>A higher ratio reflects an expected longer period of operation if funding were to stop.</i></p>
Functional Cost Allocation	$\frac{\text{Support Services Costs}}{\text{Total Expenses}}$	<p>Reflects the percentage of funds being spent on non-program related expenses such as general and administrative costs.</p> <p><i>A lower % indicates the entity is paying more on program related expenses.</i></p>
Fundraising Efficiency	$\frac{\text{Contributed Income}}{\text{Fundraising Expense}}$	<p>Reflects the average dollar raised from each dollar spent on fundraising.</p> <p><i>A lower amount indicates the entity is paying more in relation to the contributed income received.</i></p>
Reliance on Source Income	$\frac{\text{Largest Revenue Source}}{\text{Total Revenue}}$	<p>Identifies the potential risk as a % if the largest source of revenue were eliminated or reduced.</p> <p><i>A lower % indicates less risk if largest revenue source eliminated.</i></p>

Financial ratios are often used for quantitative analysis as a means to gain general information on the financial position of an organization, however, ratios do not provide a complete indicator of financial stability or performance of an organization and should not be evaluated on a stand-alone basis.

Additionally, Internal Audit recapped the financial ratio calculations in both summary and detail format by applicant and provided the information to department management in a separate written communication.

Internal Audit would like to thank you and your staff for the support and assistance provided to us during this project. Should you have any questions, please feel free to contact Sameel Salim or myself.

Thank you,

A handwritten signature in black ink that reads "Eileen Donahue". The signature is fluid and cursive, with the first name "Eileen" and last name "Donahue" clearly distinguishable.

Eileen Donahue,
Internal Audit Manager

cc: Yasmin Beers, Assistant City Manager
Moises Carrillo, Senior Community Development Supervisor
Robert Elliot, Director of Finance
Michele Flynn, Assistant Director of Finance
Scott Ochoa, City Manager
Audit Committee
City Council

Exhibit A

CDBG Applicant Name	Financial Stmt Year End	Current Ratio	Debt Ratio	Defensive Interval (months)	Functional Cost Allocation Ratio	Fundraising Efficiency	Reliance Source Income
Armenian Relief Society of Western USA, Inc.	06/30/15	6.13	.20	3.26	15%	*	95%
Housing Rights Center, Inc.	06/30/14	7.16	.16	8.20	2%	*	82%
Catholic Charities of Los Angeles, Inc.	06/30/15	2.72	.45	3.85	11%	\$ 137.19	34%
Glendale Youth Alliance, Inc.	06/30/14	3.89	.35	.97	24%	\$ 88.21	46%
Ascencia	06/30/14	2.59	1.06	4.96	22%	\$ 9.39	61%
Homenetmen Glendale Ararat Chapter	11/30/14	18.09	.86	11.40	15%	\$ 18.50	42%
The Salvation Army Southern California Division Los Angeles County	09/30/14	2.83	.99	1.14	9%	\$ 11.95	35%
Door of Hope	09/30/14	7.42	.30	5.37	21%	\$ 12.09	34%
Committee for Armenian Students in Public Schools	06/30/15	56.18	.02	6.43	15%	\$ 19.64	45%
Adventist Health	12/31/14	2.63	1.20	3.81	12%	*	95%
Family Promise of the Verdugos	06/30/15	**	0	6.21	23%	\$ 158.28	54%
Armenian Youth Association of California	04/30/15	22.07	.01	5.04	22%	*	21%

* Fundraising expense not identifiable in financial statements resulting in no value for ratio calculation.

** Liabilities are zero resulting in no value for ratio calculation.