

REPORT#: 2018-03

February 7, 2018

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

Dear Onnig,

In accordance with Internal Audit’s fiscal year 2017-18 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 2018-19 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 coming year. It is important to note that by calculating the financial ratios, Internal Audit is not expressing an opinion on the financial health of any agency requesting funding.

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

Financial Ratio	Standard Formula	Description
<b>Current Ratio</b>	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<p>Reflects the organization’s 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>

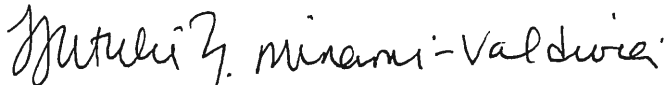
Financial Ratio	Standard Formula	Description
<b>Debt Ratio</b>	$\frac{\text{Total Liabilities}}{\text{Unrestricted Net Assets}}$	<p>Reflects the proportion of debt an organization has relative to its assets. It works opposite of the current ratio.</p> <p><i>A ratio of less than 1 is a good sign which indicates that an organization has less debt than assets.</i></p>
<b>Defensive Interval</b>	$\frac{\text{Liquid Assets}}{\text{Average Monthly Expenses}}$	<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>
<b>Functional Cost Allocation</b>	$\frac{\text{Support Services Costs}}{\text{Total Expenses}}$	<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>
<b>Fundraising Efficiency</b>	$\frac{\text{Contributed Income}}{\text{Fundraising Expense}}$	<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>
<b>Reliance on Source Income</b>	$\frac{\text{Largest Revenue Source}}{\text{Total Revenue}}$	<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 the largest revenue source was 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,

  
for Jessie Zhang  
Internal Audit Manager

cc:

Yasmin Beers, Interim City Manager

Elena Bolbolian, Director of Innovation, Performance and Audit

Robert Elliot, Director of Finance

Maggie Kavarian, Senior Community Services Supervisor, Community Services & Parks

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
Adventist Health	12/31/16	2.94	1.28	5.41	14%	*	94%
All for Health	7/31/16	7.30	.19	2.80	15%	\$27.38	81%
Armenian Cultural Foundation	7/31/16	2.91	1.32	6.50	37%	\$3.12	34%
Armenian Relief Society of Western USA, Inc.	6/30/17	6.39	.19	3.64	8%	\$223.96	90%
Ascencia	6/30/17	3.22	1.15	4.04	18%	\$10.40	68%
Catholic Charities of Los Angeles, Inc.	6/30/17	6.29	.44	8.09	10%	\$155.87	36%
Committee for Armenian Students in Public Schools	6/30/17	121.16	.01	4.27	34%	\$34.11	59%
Glendale Youth Alliance, Inc.	6/30/16	1.58	1.72	2.57	24%	\$75.82	42%
Homenetmen Glendale Ararat Chapter	11/30/16	7.11	.88	6.51	17%	\$3.66	56%
Housing Rights Center, Inc.	6/30/16	10.68	.10	7.86	2%	*	86%
The Salvation Army, Western Territory, Southern California Division	9/30/16	2.99	.43	2.15	20%	\$4.92	29%
YWCA of Glendale	6/30/16	5.64	.49	5.52	30%	\$11.46	61%

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