The MinistryWatch.com 5 Star Ratings System

Overview

Purpose of the System

The MinistryWatch.com 5 Star Ratings system was created to help researchers, donors and managers assess a nonprofit organization's financial performance. Wall Watchers believes that accountability and efficiency are increased when better information is available to donors. The 5 Star Ratings system provides better information in several ways. First, it highlights different aspects of financial performance. The ratings system links financial information to important financial objectives, thereby providing a practical context for viewing financial information. Second, it adds an element of interpretive value to financial information. Donors, like investors, are not always willing to acquire the skills and invest the time required to perform their own financial analysis. Consequently, they see value in receiving information that has already been processed by others. Third, it provides a robust system to compare nonprofit organizations. Although these systems are common in the for-profit marketplace, such systems are almost nonexistent in the nonprofit world. In these ways, the 5 Star Ratings system provides better information to donors and nonprofit managers, which will ultimately assist in bringing improvement to the nonprofit sector.

Defining Characteristics of the System

The 5 Star Ratings system *objectively* measures the *relative* degree of *financial efficiency* achieved by *nonprofit organizations.*

First, the rating system is **objective**. The ratings are calculated based on financial variables taken from the organization's published financial information.

Second, the measurement is **relative**. Each rating reflects an organization's rank in a particular area relative to other nonprofits.

Third, the system measures **financial efficiency**. Wall Watchers believes that financial efficiency, as defined, is desirable in all organizations, regardless of individual mission or structure. Nowhere within the rating system is an attempt made to assess the effectiveness of programs.

Fourth, the ratings are applied specifically to **nonprofit organizations**. Organizations that are classified as nonprofits under section 501(c)(3) of the tax code are the primary candidates for analysis using this rating system.

Definition of Financial Efficiency

Financial efficiency, as calculated in the 5 Star Ratings system, is a measure of a nonprofit organization's ability to translate financial resources into mission-related activities. This measure leaves out any assessment of how effectively an organization's specific programs are accomplishing their desired purpose of providing spiritual or social goods. Despite this narrow focus, Wall Watchers believes that the 5 Star Ratings system will be a valuable tool to donors who wish to answer the question of which nonprofits have made the most of the financial resources they have been given.

Limitations of the System

The usefulness of the 5 Star Ratings system is limited by the quality of the underlying financial data inputs and the relevance of the model used to determine financial efficiency.

Quality of financial data
The data used in the model is taken primarily from an organization's audited financial statements or from the IRS Form 990 filed each year by many nonprofits. Wall Watchers makes no assurances as to the accuracy of the information contained within the audited financial statements or within the IRS Form 990.

Relevance of the model
All models have limitations. The 5 Star Ratings system measures financial efficiency. It does not measure program outcomes or program effectiveness. Although many of the financial ratios used to derive the ratings are commonly used ratios that may be useful in isolation, the model weaves them together to provide an overall measure of financial efficiency. The relevance of the rating system to users is dependent upon their agreement with the way in which these ratios are combined to evaluate financial efficiency.

Using the Ratings

The 5 Star Ratings do not assess an organization's integrity or the worthiness of its mission. They provide very specific information, namely an assessment of financial efficiency. Donors are encouraged to use the 5 Star Ratings in light of the two primary limitations described above and the following additional observations:

1. A rating is not a recommendation for or against giving to a nonprofit.
2. The ratings system is just one tool that a donor could use when evaluating a nonprofit.
3. The ratings are based on financial ratios that depict relationships within the financial information of nonprofits.
4. The ratings do not convey information about the value or accomplishments of the programs of nonprofits.
5. The ratings provide one possible assessment of financial efficiency.
6. The ratings provide information about how the nonprofit has performed in the past and do not necessarily reflect how it will perform in the future.
7. A nonprofit is rated only against the organizations in Wall Watchers' database. As the database grows with new organizations and new financial information, the ratings of an organization may change.
8. The ratings should be used whenever possible in conjunction with Wall Watchers Analyst Comments which are intended to provide context to the ratings and other financial information.

Financial Analysis and Nonprofits

The 5 Star Ratings system is built around a specific financial analysis framework. This framework contains four main pillars. First, the system uses financial ratios to calculate ratings. Second, the system is based upon a certain theoretical understanding of nonprofit and for-profit organizations. Third, the system determines overall financial efficiency by examining three separate financial efficiency areas. Fourth, the system uses the concepts of risk and return to describe the trade-offs and construct the ratios that define financial efficiency for each area. Each of these aspects of the framework is described here in greater detail.

The Use of Financial Ratios in Financial Analysis

An examination of relationships within an organization's financial information can provide a snapshot of financial performance at one point in time or over a certain reporting period. Commonly referred to as financial ratio analysis, this technique is often used to evaluate for-profit organizations. Although the goals of nonprofits are different from the goals of for-profits, financial ratios can provide insight into the financial structure and performance of both for-profits and nonprofits. Each of the ratios used in the ratings system is constructed using financial information taken from IRS Form 990s and audited financial statements. As more information about nonprofit performance becomes available in the future, it is likely that new measures of financial efficiency will be created and analysis will continue to improve.

Nonprofits and For-Profits

The primary goal of nonprofit organizations is to initiate and operate programs that meet a perceived need in the world. Nonprofits are not formed for the benefit of the organizations themselves or for the benefit of their donors. This is quite different from the primary goal of for-profit organizations. Their goal is to provide a return to their investors. The goals of an organization affect how its financial information is to be interpreted. For example, revenues minus expenses measures profit in a for-profit organization. This is a measure managers usually wish to maximize. However, revenues minus expenses measures surplus in a nonprofit organization. Surplus is not necessarily a measure that the managers of nonprofits wish to maximize. Many would even argue that managers should try to minimize surplus in order to avoid the perception that they are hoarding funds. This illustrates just one way in which the financial information of nonprofits is interpreted differently from that of for-profit organizations.

Despite different goals, nonprofit and for-profit organizations share a basic structure that can be likened to a manufacturing process in a factory. Like a manufacturing process, organizations start with some kind of **input**, or resource. They move these inputs through a process that has some kind of asset **infrastructure**. Because of the significant costs involved, organizations are sometimes forced to incur debt to finance the building of their asset infrastructure. This debt is like a **mortgage** taken against a new manufacturing facility. The amount of processing that takes place through an infrastructure is often referred to as **throughput**. As throughput is channeled through the process, either the intended **output** or a **bi-product** is produced. Output is what an organization wants to generate from its process. Bi-products are typically not desirable, but they are usually unavoidable. We believe that the financial structure of organizations corresponds to the fundamental structure that we have laid out here. However, this correspondence between financial data and basic organizational structure is not the same for nonprofits and for-profits. The different goals of nonprofits and for-profits require us to define and evaluate these basic elements differently. Understanding how to interpret the financial information of organizations is critical to constructing useful financial ratios for use in evaluating financial efficiency. A useful way to interpret the financial information of for-profits and nonprofits with respect to their basic organizational elements is as follows:

Manufacturing Elements	**Corresponding Financial Measure**	
	For-Profits	*Nonprofits*
Inputs	Contributed Capital, Retained Earnings	Contributions, Other Income
Infrastructure	Assets	Assets
Mortgage	Liabilities	Liabilities
Throughput	Revenue	Total Expenses
Bi-products	Expenses	Non-program Expenses
Output	Profit	Program Expense

The most noticeable differences between for-profits and nonprofits in this analogy are the concepts of **inputs, output**, and **throughput**. The other elements of the manufacturing process are very similar for nonprofits and for-profits.

Inputs – Inputs are the resources at the disposal of the organization. In for-profits, contributed capital (a balance sheet item) is the primary input. For nonprofits, contributions (a revenue item) are the primary inputs. Each measure represents the resources that the organization receives to carry out its mission. Since stockholders of for-profit organizations expect to eventually receive their capital back (along with their share of retained earnings), the inputs of for-profits affect the balance sheet. Since donors relinquish all rights to the resources they contribute to nonprofits, the inputs of nonprofits affect the income statement as revenue. Secondary forms of input are other income in nonprofits and retained earnings in for-profits.

Output – Output is the measure of goal accomplishment. For-profits try to maximize the margin of revenues over expenses to produce the profit they desire. Nonprofits try to maximize the amount of program services they provide through their total spending. Program expense is the financial measure that most closely conveys the quantity of goal accomplishment for nonprofits. Admittedly, this measure does not tell us whether or not the actual program expenditures are producing the outcomes desired. However, from a strictly financial management perspective, the goal of the organization is to maximize expenditures for programs. Evaluating the methods and efficiencies of the programs themselves is beyond the scope of this quantitative ratings system.

Throughput - Throughput refers to the amount of activity that flows through the process. In for-profits, the amount of activity is the amount of product sold or the amount of service provided (their revenues). For nonprofits, the amount of activity is the amount spent to run their operations (their expenses). Throughput is a means to an end for both types of organizations. Sales in for-profits are meant to generate profit and expenditures in nonprofits are meant to operate good programs.

Financial Efficiency Areas

The 5 Star Ratings system addresses three areas of financial efficiency. The first area focuses on **inputs**, the second on **outpu**t, and the third on **throughput**. The calculation of the overall efficiency measure is based on these three separate efficiency area calculations. This structure gives users of the ratings a more complete understanding of an organization's financial condition than a singular measure would provide.

The three financial efficiency areas identified in the 5 Star Ratings system are Fund Acquisition, Resource Allocation, and Asset Utilization.

1. *Fund Acquisition*

Fund Acquisition relates to how the organization raises support. It focuses on the organization's **inputs**.

2. *Resource Allocation*

Resource Allocation relates to how the organization spends its resources in the current period on mission-related activities. It focuses on the organization's **output**.

3. *Asset Utilization*

Asset Utilization relates to how the organization uses its asset base to further its operations in the future. It focuses on the organization's **throughput**.

Risk and Return

Important to the framework of the 5 Star Ratings Systems are the concepts of risk and return. In the world of investment analysis, risk and return are used to convey a basic trade-off. Generally, to receive a greater return, an investor has to assume greater risk. Investment "efficiency" is achieved when an investor maximizes return relative to risk. In the same way, risk and return trade-offs exist for nonprofits as they make choices about how to use their financial resources. In the 5 Star Ratings system, a relationship between two variables is identified as the primary determinant of efficiency in each area. One of these variables can be viewed as the "risk" variable and the other as the "return" variable. To maximize its efficiency rating in a particular area, a nonprofit would seek to maximize the return variable relative to the risk variable. For each efficiency area, two ratios are constructed to measure efficiency. One ratio contains the risk variable in the numerator and the other ratio contains the return variable in the numerator. Both ratios use a common variable in the denominator. The two ratios are then used together to calculate efficiency.

Capturing the risk and return variables in separate ratios accomplishes three important purposes. First, it ensures that ratios can be constructed by using a denominator that will almost never be zero such as total revenue or current assets. This makes the system much more robust. Second, capturing the relationship in two ratios rather than one adds a third variable to the analysis (the denominator in each ratio). While the impact of the third variable on the ratings calculation is minimized by its use as the denominator in both the risk ratio and the return ratio, the effect is not completely muted. If the relationship between the primary variables (the numerators) is very similar or equal for two organizations, the third variable is more likely to affect the relative ratings of the two organizations. Third, the individual ratios themselves contain useful information about the financial make-up and performance of an organization, facilitating further analysis. This is similar to the way that the three areas of efficiency provide more information about overall financial efficiency than a singular efficiency measure would provide.

In summary, the 5 Star Ratings system assesses financial efficiency in three separate areas. To address each efficiency area, a fundamental relationship between two financial variables is captured through the construction of a risk ratio and a return ratio. These two ratios are combined and the result is compared to other organizations to determine efficiency in a particular area. The individual ratios and separate efficiency area ratings provide detailed information that can be used to further analyze a nonprofit's financial situation and performance.

The Three Financial Efficiency Areas

Using the financial analysis framework described above, ratios have been constructed to measure the efficiency achieved with respect to Fund Acquisition, Resource Allocation, and Asset Utilization. These ratios are based on certain assumptions about the goals of nonprofit organizations with respect to each financial efficiency area. These assumptions are described below.

Fund Acquisition

Fund Acquisition relates to how an organization raises support. In nonprofits, the most significant source of support is typically donor contributions. In order to receive contributions, a nonprofit usually has to spend resources on fundraising activities. If an organization can minimize the amount it must spend to raise the support it needs, then it will maximize the resources it has available for its mission-related activities, which corresponds directly to the definition given for financial efficiency. Therefore, the primary financial relationship in the fund acquisition area of financial efficiency area is the relationship between ***fundraising costs*** and ***contributions received***. The more contributions an organization receives relative to the amount it spends on fundraising, the more efficient it is in this area.

The risk and return ratios used in the rating system for Fund Acquisition capture this fundamental relationship between fundraising costs and contributions received. The Fundraising Cost Ratio is used to measure the risk dimension of this efficiency area. If an organization incurs high fundraising costs relative to total revenue, then there is a greater possibility that the organization's efforts are wasteful or inappropriate. However, this must be considered in conjunction with the organization's reliance on public support. An organization that places a greater reliance on contributions is more likely to require greater fundraising efforts to support it. Therefore, the Contributions Reliance Ratio is used as the return measure for assessing Fund Acquisition efficiency. These ratios are constructed as shown below:

Ratio Name	Risk/Return	Calculation
Fundraising Cost Ratio	Risk	**Fundraising Costs**/Total Revenue
Contributions Reliance Ratio	Return	**Public Contributions**/Total Revenue

Criticisms of fundraising measures addressed

Traditionally, consideration of fundraising issues has focused on fundraising ratios that compare the amount of contributions received to the costs incurred to raise those funds. Despite popular appeal, many in the nonprofit community have criticized the use of fundraising ratios.

1. One criticism is that it is difficult, if not impossible, to determine the true costs associated with raising specific contributions. Methods for assigning costs to fundraising efforts vary from organization to organization. Furthermore, the importance placed on fundraising ratios has given nonprofits an incentive to allocate as much as possible to program expense.

2. A second criticism is that contributions represent only one possible source of revenue. Many organizations earn revenues in ways other than direct solicitation of public support. Focusing on fundraising efforts looks at only one component of the organization's overall resource acquisition activity.

3. Third, some academics question whether a high fundraising ratio is necessarily a sign of inefficiency. They argue that an organization is better off spending money to raise money as long as it raises more than it spends.

These concerns and others have caused many to question whether fundraising ratios should be used at all to evaluate the management of a nonprofit.

We have approached the fund acquisition decision in the following manner.

1. First, we acknowledge that organizations allocate costs to fundraising differently. Although this reduces some of the comparability of fund acquisition measures, it does not entirely take away their usefulness. As improvements continue to be made in the accounting standards that set guidelines for cost allocations, some of the variability in allocation method will be eliminated. However, even with better standards, imperfect information will always be a weakness of purely quantitative analysis. That is why qualitative analysis is an important tool for gaining a more complete understanding of the organization. Through this more extensive research, analysts are able to shed light on the policies and procedures used by the organization to allocate fundraising costs. Even if an organization is underreporting fundraising costs (as many argue), this fact will not be identified or addressed unless information about fundraising spending is reported and examined, as is done through a ratings system.

2. With regard to the second criticism, an organization's expenditures for fundraising should be considered in conjunction with its reliance on contributions as a revenue source. Organizations that rely primarily on contributions may be required to incur greater marginal fundraising costs than an organization that is able to generate revenue through other sources. We have incorporated this consideration into our Fund Acquisition efficiency measure through the Contributions Reliance Ratio.

3. Finally, in response to the third criticism described above, we think that a measure of Fund Acquisition efficiency will continue to be desired by donors as long they are concerned about the efficient use of their donations. If a donor subscribes to the view that Fund Acquisition efficiency is not relevant, then our system allows the donor to focus on other efficiency measures when making a giving decision. The 5 Star Ratings are not intended to serve as an endorsement or recommendation of an organization. They are simply additional information that a donor may find useful and relevant.

Resource Allocation

Resource Allocation relates to how an organization spends its resources in the current period on mission-related activities. For nonprofits, mission-related activities are the programs that the organization was created to perform. In order to perform mission-related activities, a nonprofit usually has to spend some resources on activities that are necessary but not directly related to the mission (i.e. administrative and fundraising expenditures). If an organization can minimize the amount it must spend on activities not related to the mission, then it will maximize the resources it has available for mission-related activities, which corresponds directly to the definition given for financial efficiency. Therefore, the primary financial relationship in the Resource Allocation area of efficiency is the relationship between ***total expenses*** and ***program expense***, which is the closet approximation to mission-related activities in the financial information available. The more that resources are allocated to program expense relative to total expenses, the more efficient the organization is in this area.

The risk and return ratios used in the rating system for Resource Allocation capture this fundamental relationship between total expenses and program expenses. The Spending Ratio is used to measure the risk dimension of this efficiency area. It indicates how much of the revenue received in a year is spent on that year's operations. If an organization spends all of its resources in the period received, then there is a greater possibility that the organization will not be able to fund operations in the future. However, saving resources for future periods reduces the support given to the mission now. Therefore, the Program Output Ratio is used as the return measure for assessing Resource Allocation efficiency. It indicates how much of the revenue received in a year is spent to support mission-related activities versus how much will be saved or used to cover administrative costs (including fundraising costs). These ratios are constructed as shown below:

Ratio Name	Risk/Return	Calculation
Spending Ratio	Risk	**Total Expenses**/Total Revenue
Program Output Ratio	Return	**Program Expense**/Total Revenue

Asset Utilization

Asset Utilization relates to how an organization utilizes its asset base to further its operations in the future. For nonprofits, assets represent investments in the future of the organization. Through the purchase of facilities and equipment, the building of endowments, and the establishment of reserves, nonprofits create the necessary infrastructure to increase the scope of their operations over time. As they grow, nonprofits must continually make tough decisions about whether to invest resources in additional assets that will benefit future operations or use more of their resources to increase activities more directly today. Striking this balance can be one of the biggest challenges faced by nonprofit management. If it is successful in meeting this challenge, the nonprofit will maximize the resources it has available for mission-related activities, which corresponds directly to the definition given for financial efficiency. Therefore, the primary financial relationship in the Asset Utilization area of efficiency is the relationship between ***total assets*** and ***total expenses***, which is the closet approximation to total activity in the financial information available (the portion of activity that is mission-related is addressed in the Resource Allocation area). The more annual activity (total expense) that the organization is able to conduct relative to its total investment in assets, the more efficient the organization will be in the Asset Utilization area.

The risk and return ratios used in the rating system for Asset Utilization capture this fundamental relationship between total assets and total expenses. The Degree of Long-Term Investment Ratio is used to measure the risk dimension of this efficiency area. It provides a measure of how much the organization has invested in assets that are intended to affect the organization in the long-term. If an organization invests a large amount of resources in facilities, endowments, and reserves (i.e. long-term assets), then it may be focusing on its own survival to the detriment of the mission for which it was created. However, if investing in those assets allows the organization to expand and leverage its activities more effectively, then investing in those assets may in fact be a better way to use resources. Therefore, the Current Asset Turnover Ratio is used as the return measure for assessing Asset Utilization efficiency. It provides a measure of how much annual activity the organization is able to support relative to its investment in assets intended for a more immediate use (i.e. current assets such as cash, inventory, etc.). These ratios are constructed as shown below:

Ratio Name	Risk/Return	Calculation
Degree of Long-Term Investment	Risk	**Total Assets**/Total Current Assets
Current Asset Turnover	Return	**Total Expenses**/Total Current Assets

The Model

The 5 Star Ratings system computes an organization's overall financial efficiency as a composite of three separate efficiency measures each corresponding to one of the three financial efficiency areas. Each of the three efficiency ratings is calculated by subtracting a risk score (based on the financial ratio that measures risk) from a return score (based on the financial ratio that measures return). The relationship between the efficiency areas, the basic elements of organizations, and the risk and return measures used is summarized in the following table:

Financial Efficiency Area	Element in Focus	Risk Measure	Return Measure
Fund Acquisition	Donated Inputs	Fundraising Cost Ratio	Contributions Reliance Ratio
Resource Allocation	Outputs	Spending Ratio	Program Output Ratio
Asset Utilization	Throughput	Degree of L-T Investment	Current Asset Turnover
Efficiency	All elements	Combines risk and return for each category	

5 Star Ratings are computed in the following manner:

1. For each financial efficiency area, calculate the risk ratio and the return ratio for all organizations in a sector.

2. Compute the average for the risk ratio and the return ratio across the entire population.

3. Calculate a risk score and a return score for each organization using the following formula:

   Organization Ratio / Population Average Ratio

4. For each organization, subtract the risk score from the return score to get an efficiency score.

5. For each organization, calculate the percent rank (percentile) of an organization's efficiency score relative to the efficiency scores of all other organizations.

6. Assign an area efficiency rating of one to five stars to the organization based on the following distribution

00.0% - 10.0%	1 Star
10.0% - 32.5%	2 Stars
32.5% - 67.5%	3 Stars
67.5% - 90.0%	4 Stars
90.0% - 100.0%	5 Stars

To compute the overall 5 Star Rating of an organization, perform the following additional steps:

7. For each organization, calculate the simple average of the three individual percent ranks (one for each of the three financial efficiency areas) to get an overall efficiency average.

8. For each organization, calculate the percent rank of an organization's overall efficiency average relative to the average efficiency averages of all other organizations.

9. Assign a 5 Star Rating of one to five stars based on the distribution used above for the individual financial decision efficiency ratings.

The Future of Ratings Systems

Potential Improvements in the Use of Financial Ratios and Ratings

The six ratios used in the 5 Star Ratings system utilize information from an organization's IRS Form 990 or audited financial statements. This information includes variables from the statement of financial position (balance sheet) and the statement of activity (revenues and expenses statement). Although Wall Watchers believes that financial ratios are a valuable tool for nonprofit analysis, it also recognizes some of the problems and limitations associated with using financial ratios. For example, since the balance sheet reflects the financial situation at the end of the year and the revenues and expenses statement reflects a full year of activity, combining these two types of information can sometimes be misleading. One method that is commonly used to adjust for this (but not in the 5 Star Ratings system) is to use an average of beginning and ending balances for the balance sheet variables in ratios that use information from both statements. In addition, there are often one-time events that make an organization's financial information in one year significantly different from its "normal" years. To address both of these issues, Wall Watchers intends to eventually introduce ratings that utilize a three-year average for each of the financial ratios used. By using three-year averages, the comparability of organizations with different fiscal years and reporting dates will increase. Although constructing ratings that use three years of financial information is preferable, doing so requires that information from multiple years be available for all of the organizations being rated together. However, this amount of information is not always available for some organizations, so the 5 Star Ratings will initially be calculated based on only the most recent year of data. Another area where improvement could be made to the rating system would be to incorporate a dimension that measures how efficiently an organization utilizes personnel, whether employees or volunteers, to accomplish its mission. This also may require information that is not readily available. Wall Watchers will continue to seek ways to increase the availability of data and the relevance of the 5 Star Ratings system. Some of this improvement will occur with innovations such as the planned three-year rating or a dimension to consider the use of people. Some improvement, however, will not be possible until more information is available in the public realm.

A Final Note

It is important to note that Wall Watchers does not consider the 5 Star Ratings system to be the final word on nonprofit financial analysis. In fact, it is only the beginning. Wall Watchers believes that as information about nonprofits becomes increasingly available and as the tools for conveying and analyzing that information (e.g. the Internet) become increasingly sophisticated, new ratings models will be produced which look at nonprofits in different ways. The users of these models (primarily donors) will ultimately choose to use the model or models that are most consistent not only with their own information needs, but also with their own ideas about how nonprofits should be utilizing their resources.

Furthermore, the creation of competing ratings models is only part of the evolving nonprofit information marketplace that will ultimately provide for a more efficient allocation of resources and make nonprofits more responsive to donors. An examination of the for-profit capital markets, complete with their investment advisors, ratings organizations, regulatory bodies, and online transaction brokers, provides a good picture of how an information marketplace can facilitate this kind of efficiency. Wall Watchers' ultimate goal with the creation of the 5 Star Ratings system is not only to empower donors with a useful tool to help them with their decision-making today, but also to help spur the discussion and innovation that will transform the nonprofit information marketplace of tomorrow.

Illustration

Using fictitious financial information for one organization, the construction of the ratings is demonstrated here.

The first step in producing the ratings is to calculate the six individual financial ratios used in the model. These six ratios are calculated using the most recent year's financial information found in the IRS Form 990 or audited financial statements and are shown here for our example organization.

	Ministry Ratio	Ratio Definition
Fund Acquisition Efficiency Ratios		
Fundraising Costs Ratio	0.07	(Fundraising Costs / Total Revenue)
Contribution Reliance Ratio	0.50	(Public Contributions / Total Revenue)
Resource Allocation Efficiency Ratios		
Spending Ratio	0.95	(Total Expense / Total Revenue)
Program Output Ratio	0.81	(Program Expense / Tot Revenue)
Asset Utilization Efficiency Ratios		
Degree of Long-Term Investment Ratio	3.75	(Total Assets / Total Current Assets)
Current Asset Turnover Ratio	5.23	(Total Expense / Total Current Assets)

The next step is to calculate a "score" for each of the six ratios. This "score" is calculated by dividing the individual ratio for one organization by the average ratio for the entire population. The ratio scores for the organization in our example are shown below.

	Ministry Ratio	Sector Avg	Ratio Score (Indiv / Sector)
Fund Acquisition Efficiency Ratios			
Fundraising Costs Ratio	0.07	0.08	0.88
Contribution Reliance Ratio	0.50	0.71	0.70
Resource Allocation Efficiency Ratios			
Spending Ratio	0.95	0.98	0.97
Program Output Ratio	0.81	0.84	0.96
Asset Utilization Efficiency Ratios			
Degree of Long-Term Investment Ratio	3.75	2.95	1.27
Current Asset Turnover	5.23	4.26	1.23

Next, the risk score is subtracted from the return score for each efficiency area to calculate three efficiency scores. Based on the distributions of the three efficiency scores for all of the organizations, percent ranks are calculated for each individual organization's three efficiency scores. This is shown below for our example organization.

		Ratio Score (Indiv / Sector)	Efficiency Score (Return - Risk)	Percentile Rank
Fundraising Costs Ratio	Risk	0.88		
Contribution Reliance Ratio	Return	0.70		
Fund Acquisition Efficiency			(0.17)	7%
Spending Ratio	Risk	0.97		
Program Output Ratio	Return	0.96		
Resource Allocation Efficiency			(0.01)	47%
Degree of Long-Term Investment Ratio	Risk	1.27		
Current Asset Turnover	Return	1.23		
Asset Utilization Efficiency			(0.04)	45%

Finally, a rating of one to five stars is assigned to each efficiency measure based on the percent rank distribution described below.

00.0% - 10.0%	1 Star
10.0% - 32.5%	2 Stars
32.5% - 67.5%	3 Stars
67.5% - 90.0%	4 Stars
90.0% - 100.0%	5 Stars

To determine the overall financial efficiency measure, the three individual percent ranks calculated previously are averaged for each organization. Based on the distribution of this "average percent rank" statistic, a new percent rank is calculated to determine the relative overall financial efficiency of each organization.

	Percent Rank	5 Star Rating	
Fund Acquisition Efficiency	7%	***1 Star***	
Resource Allocation Efficiency	47%	***3 Stars***	
Asset Utilization Efficiency	45%	***3 Stars***	
Avg of % Ranks	33%		(Simple average of 3 Individual % Ranks)
Overall Financial Efficiency	31%	***2 Stars***	(Based on distribution of all Orgs Avg % Ranks)