Glossary of Key Financial Ratios

Current Ratio	The Current Ratio is a liquidity ratio. It measures a child care center's ability to pay its current bills and other obligations in a timely manner. It is calculated by dividing Current Assets by Current Liabilities. A Current Ratio of 1:1 or higher is generally considered good. **Current Ratio = Current Assets ÷ Current Liabilities**
Quick Ratio	The Quick Ratio is also a liquidity ratio. It measures a child care center's ability to pay its current bills and obligations with only its most liquid assets – unrestricted cash and investments. The Quick Ratio is a much more conservative measurement than the Current Ratio. An organization that is having a hard time collecting its accounts receivable may want to pay close attention to its Quick Ratio. **Quick Ratio = (Unrestricted Cash + Investments) ÷ Current Liabilities**
Days Cash on Hand	Another liquidity measure, Days Cash on Hand gives a quick test of how adequate the child care center's operating reserve is. It tells how many days of expenses the center could pay with the cash it has on hand. Thirty days is a minimum reserve with 90 days as a goal. Days Cash on Hand is especially important for nonprofit organizations dependent on operating grants and enterprises that receive most of their income from the child care assistance program. **Days Cash on Hand = Unrestricted Cash ÷ [(Total Expenses – Depreciation – In Kind Expenses) ÷ 360]**
Debt to Net Worth Ratio	The Debt to Net Worth Ratio (also known as the Debt to Net Asset Ratio for nonprofits) measures how well an organization can borrow money and repay its creditors. A ratio of 3:1 or lower is generally considered satisfactory. If a child care business or organization owns real estate and is carrying a mortgage, a Debt to Net Worth Ratio as high as 6:1 may be acceptable. A negative ratio is not good and shows that the child care center has been operating at a loss. This leverage ratio is calculated by dividing Total Liabilities by Net Worth. **Debt to Net Worth Ratio = Total Liabilities ÷ Net Worth**
Days Receivable	Days Receivable measures how many days it generally takes a center to collect its Accounts Receivables. Many child care centers do not have Accounts Receivable at all because they require parents to pay in advance. However, those child care centers receiving income from the Child Care Assistance Program usually have Accounts Receivable because of the lag between the time of service and the receipt of payment from the state. They may also have receivables from parents who owe their co-payments. Generally, Days Receivable should be no higher than 14 days. **Days Receivable = Accounts Receivable ÷ (Program + Government Fees) * 360**

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