



Financial Health Metrics and Indicators for Your ESE

Understanding the financial health of your employment social enterprise (ESE) is critical to making smart, sustainable decisions that enable organizational growth and mission impact. But - knowing where to start the process of understanding financial health can be tough. This guide breaks down the essential financial metrics that ESEs should track throughout their growth. This guide is tailored to earlier-stage ESEs but is useful for organizations at any stage. Use this guide to:

- Understand what each core financial metric means and why it matters
- Learn how to calculate each metric using available financial data
- Identify which metrics to prioritize measuring and tracking based on your ESE's stage of growth

CONTENTS

Introduction	2
Key Questions this Guide will Help You Answer	2
For Executive Directors or CEOs	2
For Members of the Core Financial Management Team (CFO, Controller, Bookkeeper, etc.)	2
For Other Team Members	3
How this Guide is Organized	3
Important Definitions and Terms Used in this Guide	3
Metric Overview Table	4
Breakdown of Core Metrics	6
Core Metric #1: % Change in Unrestricted Operating Revenue (Profitability Metric)	6
Core Metric #2: % Change in Expenses (Profitability Metric)	7
Core Metric #3: Net Margin (Profitability Metric)	9
Core Metric #4: Earned Revenue Cost Coverage (Profitability Metric)	11
Core Metric #5: Days of Cash on Hand (Liquidity Metric)	13
Core Metric #6: Days of Liquid Unrestricted Net Assets (LUNA) (Liquidity Metric)	14
Core Metric #7: Debt-to-Equity Ratio (Leverage Metric)	16
Next Steps	18
Appendix: Recommended Level of Metric Development for Each ESE Maturity Stage	19



Introduction

Running an ESE requires navigating the dual demands of mission impact and business sustainability. This means that understanding, measuring, and monitoring financial health is critical. This guide introduces the seven core financial metrics every ESE should be tracking, and explains how each one can inform smarter decisions, stronger planning, and a more resilient organization. Whether you're an Executive Director or CEO, the leader or a member of the financial management team, or any other team member, this guide is built to meet you where you are.

We know financial analysis can feel intimidating at times, especially for earlier-stage ESEs with lean teams. That's why this guide focuses on plain language and actionable insights. You'll learn what each metric means, how to calculate it, where to find the data, and how its relevance shifts as your ESE grows. Our goal is to help you not just understand the numbers but use them to steer your enterprise with confidence.

Key Questions this Guide will Help You Answer

Depending on your role within your ESE, you may be asking different questions about your organization's financial health. This guide is structured to help answer the questions that matter most to you.

For Executive Directors or CEOs

You're the overall organizational and strategic leader. Financial health is part of what helps you understand what's working well (and on plan) for the organization and what's not. Financial health metrics can help you understand if there are urgent issues to address, if targets are being met, and if your ESE is ready for growth (and the role finances – such as external capital – will play in that growth). Key questions this guide will help you answer:

- Are we financially healthy enough to sustain or grow our ESE in the next 12–24 months?
- Which metrics should I be paying attention to in preparation for board or funder conversations?
- How do I spot early warning signs of financial issues, or know when we're ready to expand?
- How can we use financial data to tell a compelling story about our ESE's sustainability and growth?
- Which financial metrics are most important for demonstrating readiness to raise capital?

For Members of the Core Financial Management Team (CFO, Controller, Bookkeeper, etc.)

You're responsible for providing guidance, advice, and direction to the ED/CEO and other team members on the financial health of the organization. You track, interpret, and communicate the overall financial story of the ESE. Financial health metrics are your toolkit for assessing performance, identifying emerging risks, and informing strategic decisions. These metrics help ensure that internal processes and practices are aligned with the ESE's goals, and that the organization is prepared to engage funders or lenders with confidence. Key questions this guide will help you answer:

- How can I prioritize what to monitor now (versus what to focus on in the future as we grow)?
- How do I use these metrics to guide internal reporting processes and resource decisions?
- What do I need to do to ensure that the required metrics are updated in a timely manner and provide as accurate a picture as possible for leadership and other team members?
- Which metrics do capital providers (like CDFIs, foundations, or investors) care most about?
- What red flags in our financials might give a lender or investor pause, and how can we be prepared to address any questions before starting the fundraising process?



For Other Team Members

You may not be responsible for financial reporting, but your work is closely connected to the organization's financial reality. Understanding key financial metrics helps you see how your efforts contribute to overall sustainability and where challenges may lie. It also helps you engage more confidently in team discussions, planning, and problem-solving (especially if your ESE is particularly resource-constrained). Key questions this guide will help you answer:

- What do the core financial metrics mean, and how do they connect to our mission and sustainability?
- Where do these numbers come from, and how are they calculated?
- How can I use this knowledge to better understand our challenges and contribute to solutions?

How this Guide is Organized

This guide is designed to be both practical and flexible. Whether you want to get a quick snapshot of your ESE's financial health or dive deep into how each metric applies to your stage of growth, you'll find what you need in a clear, accessible format. Here's what you can find in this guide:

- **Metric overview table:** A one-page snapshot of the core ESE financial health metrics – what they measure, how to calculate them, and general benchmarks to keep in mind.
- **Breakdown of core metrics:** Each metric is described in more detail and is accompanied by guidance on the relevance of each metric to ESEs in different maturity stages.
- **Next steps:** Brief summary of practical next steps that will help you to implement and utilize this guide as your ESE grows.

Important Definitions and Terms Used in this Guide

Throughout this guide there are some terms that will be used that are important to define. These terms fall into three categories:

1) ESE Maturity Levels: Finding your ESE's approximate maturity level will help you to navigate this guide and narrow in on the best next steps to take (see "Introduction to the ESE Financial Health Toolkit" for a more complete description of the ESE Maturity Levels). Briefly, the maturity levels are:

- **(1) Fundamentals:** Very early-stage ESEs who are establishing their financial infrastructure. From a financial management perspective, the focus is primarily on organizing financials in order to satisfy compliance requirements and to evaluate early market traction of the ESE's product or service offering.
- **(2) Early:** ESEs that have gained some market traction for their product or service offering. Financial management processes and roles are beginning to formalize. The ESE produces an annual budget and leadership reviews an updated Income Statement and Balance Sheet on at least a quarterly basis.
- **(3) Foundational:** The ESE's product or service offering has been clearly defined and validated in the market through loyal or repeat buyers. Financial management team structure is stable with clearly-defined roles, and leadership can confidently make data-informed decisions using financial reporting.
- **(4) Growth:** Your ESE is either undergoing growth or scale, or will be doing so in the near future. The ESE has multiple layers of staff and managers, goes through an annual audit, performs monthly variance analysis, and has a clear cash reserve policy in place.



- **(5) Mature:** Your ESE has scaled and is known beyond its immediate geography. Financial management is part of the strategic infrastructure. The main financial management challenge lies in continuously improving enterprise-level systems.

2) Metric Types: There are three main metric types into which the seven total metrics can be categorized. Understanding these three metric types helps to further clarify how each metric can be useful to ESEs. As you review this guide, you will see each metric labeled with its metric type:

- **Profitability:** This type of metric helps you understand whether your ESE is generating enough revenue (especially unrestricted operating revenue) to sustainably cover costs and whether trends are pointing toward traction or indicating risk. Profitability metrics indicate whether your core model is working, the market (including funders) is receptive, and costs and expenses are well understood and managed.
- **Liquidity:** This type of metric indicates whether your ESE can sustain itself through unexpected disruptions. Using the combination of the two liquidity metrics in this guide, you can better understand the financial resilience of your ESE as indicated by the combination of *cash and cash equivalents* as well as *liquid unrestricted net assets* that are available to your ESE to sustain itself through challenges that strain its financial resources.
- **Leverage:** This type of metric reveals how much of your ESE is funded by debt relative to the organization's equity or net assets. Leverage metrics are important for potential funders as it indicates an organization's readiness for growth and capacity for additional funding. An ESE that is "highly leveraged" (or has a high ratio of debt relative to its equity or net assets) usually has limited cash to invest in growth (as it must be used to pay off debt) and is also seen as having higher risk of default, thus making it more difficult to acquire additional investment.

3) Levels of Metric Development: In this guide we will be introducing a number of different metrics that are used by ESEs to monitor and manage financial health. But – a few words to reassure early-stage ESEs – not every financial metric needs to be fully built out and deeply analyzed right away. The "Levels of Metric Development" rubric below will help you understand when it's advisable to start tracking each metric, when you should invest time in deepening your understanding and use of each metric, and when you can begin to simply sustain and monitor each financial metric.

- **Not Yet Established:** If a metric is labeled "Not Yet Established" for your ESE's maturity level, this means that it isn't yet a priority to invest in establishing this metric.
- **Establish:** Metrics that are labeled "Establish" for your ESE's maturity level means that you should begin tracking the metric in a simple, consistent way. Focus on building basic familiarity and getting reliable data in place, even if it's manual or imperfect.
- **Evolve:** Metrics labeled as "Evolve" for your ESE's maturity level means that you should deepen your understanding and application of the metric. Consider refining how it's calculated, improving data accuracy, increasing frequency of measurement, or using it to inform more nuanced decisions.
- **Sustain:** Metrics labeled as "Sustain" for your ESE's maturity level are those that should be embedded in your regular financial practices. You should reliably be able to use the metric to monitor long-term trends, make strategic adjustments, and refine the metric's use as your ESE grows and changes.

Metric Overview Table

The table on the following page provides a snapshot of the core financial metrics featured in this guide. Use it as your quick-reference sheet - it includes what each metric measures, how it's calculated, and general guidance on what "healthy" might look like. Keep in mind that you don't need to master everything at once. Use this overview to get oriented and come back to it as your ESE grows. Each metric will be explained in more detail in the pages that follow.



	Core Metric	Description	How is it calculated?	Guidance on target ranges
1	% Change in Unrestricted Operating Revenue	Measures how unrestricted operating revenue is changing from one period to another. Indicates whether your model and revenue-generating activities are gaining traction or facing potential risk.	$= \frac{\text{Current period revenue} - \text{Previous period revenue}}{\text{Previous period revenue}}$	- Note fluctuations of >10% YoY - Compare % change in this metric with the % change in expenses (below)
2	% Change in Expenses	Measures how expenses are changing from one period to another. Indicates whether expenses and costs are rising sustainably or whether they are outpacing unrestricted revenue growth. (Note: in order to be as conservative as possible, include <i>all</i> expenses in this calculation. A variation of this metric can include operating expenses only.)	$= \frac{\text{Current period expenses} - \text{Previous period expenses}}{\text{Previous period expenses}}$	- Note fluctuations of >10% YoY - Compare % change in this metric with the % change in unrestricted operating revenue (above)
3	Net Margin	Measures an ESE's net profit or surplus (or net loss or deficit) as a percentage of its total revenue. This is one of the signals of an ESE's financial sustainability, as a net profit or surplus can contribute to reserves or growth.	$= \frac{\text{Net income (or Change in net assets)}}{\text{Total Revenue}}$	- Lower risk (or "healthiest" net margin): >10% - Average: 0-10% - Higher risk: <0%
4	Earned Revenue Cost Coverage	Measures how much of an ESE's total expenses are covered by its business income (or earned revenue) alone. Higher ratios indicate that an ESE can cover more of its costs through its own operations without relying heavily on grants or donations.	$= \frac{\text{Total earned revenue}}{\text{Total expenses}}$	- Heavily dependent on the type of ESE and stage of growth, among other factors 1 or greater is not common among ESEs
5	Days of Cash on Hand*	Measures the number of days that an organization can continue to operate at its current size with cash on hand. It's an indicator of an organization's ability to weather shocks and disruptions that occur in the near-term. The more days, the longer an ESE could continue operations when faced with an unexpected challenge.	$= \frac{\text{Cash and cash equivalents}}{[\text{Operating Expenses} / 365]}$	- Lower risk: >90 days - Average: 14 – 89 days - Higher risk: <14 days
6	Days of Liquid Unrestricted Net Assets (LUNA)*	A similar concept to the above metric, with an important distinction as this metric includes <i>all</i> liquid unrestricted net assets in the numerator (including items such as accounts receivable). This metric further indicates an ESE's ability to weather shocks in the near- to mid-term. (Note: Sometimes referred to as "Days of Liquid Equity.")	$= \frac{\text{Liquid unrestricted net assets (or Liquid equity)}}{[\text{Operating Expenses} / 365]}$	- Lower risk: >90 days - Average: 14 – 89 days - Higher risk: <14 days
7	Debt-to-Equity Ratio	Measures how much debt your ESE carries relative to its net assets or equity. This demonstrates your ESE's organization's financial structure and risk (specifically, whether you're relying heavily on borrowed funds or are more equity-funded). A higher ratio may signal higher risk or financial stress, while a lower ratio typically reflects greater stability and flexibility for growth.	$= \frac{\text{Total liabilities}}{\text{Total equity (or Total net assets)}}$	- Lower risk: 0 to 3 - Higher risk: <0 (indicating negative equity) or >3 (indicating significant debt)

*Some ESEs may elect to calculate these as "weeks" or "months" instead of "days."



Breakdown of Core Metrics

Now that you've seen the high-level overview, this section walks you through each of the core financial metrics in more detail. For every metric, you'll learn what it measures, why it matters, and how to calculate it using available data. You'll also find guidance on where to locate the relevant numbers in your financial statements, plus guidance on why or how each metric is relevant to your ESE's maturity stage. Using the "Levels of Metric Development" defined earlier (Establish, Evolve, Sustain) each section will also help you determine how to prioritize your organization's focus on each metric as your ESE grows.

Core Metric #1: % Change in Unrestricted Operating Revenue (Profitability Metric)

This metric shows how your *flexible* (or unrestricted) revenue is changing from one period to another. It's one of the simplest indicators of whether your ESE's business and funding model is gaining traction or facing potential risk. Especially for ESEs in early stages of maturity, even modest growth can signal momentum and help build confidence in your strategy and revenue model. (Note that this metric is *different from* monitoring variance in revenue during your budget-to-actuals review process. Variance analysis is the process of identifying when and why actual performance differs from the planned budget. In contrast, this metric indicates whether unrestricted operating revenue changed and by how much regardless of what was planned.)

$$\text{\% Change in Unrestricted Operating Revenue} = \frac{\text{Current period revenue} - \text{Previous period revenue}}{\text{Previous period revenue}}$$

Getting the data and calculating this metric:

Step One: From your Income Statement or Statement of Activities, pull Unrestricted Operating Revenue for the two periods you want to compare (often the most recent closed fiscal year and the previous fiscal year). Note that you can also calculate this by starting with your Total Operating Revenue and subtracting any *restricted* revenue (donor-restricted or time/purpose-limited). Be sure to *exclude* non-operating revenue from any resulting total (e.g., asset sales, investment income).

Step Two: Use the above formula to calculate this metric.

Interpreting this metric (when calculated on an annual basis):

- Positive % change is a healthy indicator for this metric
- Earlier stage ESEs can consider +15% to +40% as "healthy" range for this metric (especially given that the denominator is likely smaller relative to larger ESEs)
- Later stage ESEs or ESEs undergoing more gradual growth can consider +5% to +15% as a "healthy" range for this metric
- Earlier stage ESEs may see volatility in this metric, especially in the first years of operations
- Any negative change in this metric should be investigated to understand the root cause(s)



- ESEs that calculate -10% for this metric on a year-over-year basis or that see any negative trend (calculating a negative value multiple periods in a row) should urgently investigate the root cause(s), as there may be significant issues affecting the ESE's financial sustainability

Guidance on using this metric for ESEs of different stages of maturity:

Core Metric 1: % Change in (Unrestricted) Operating Revenue		
Your ESE's stage of maturity	Recommended Level of Metric Development	Using this metric at your ESE's stage of maturity
Fundamentals	Establish	Spot basic revenue trends and assess if your model is generating interest or traction. Track metric from year to year manually or via simple reports. Focus on understanding the total amount and whether it's increasing or decreasing.
Early	Establish / Evolve	Assess whether revenue is growing in line with expenses. Pull numbers from your income statement regularly (quarterly if feasible and relevant ¹). Be sure to clearly separate earned vs. contributed revenue. Identify major drivers of change (e.g., change in customers, funders, or market landscape).
Foundational	Evolve	Use it to inform budgeting and forecasting, comparing growth by source or business line. If you're able, begin to build more detailed reports using your accounting software. If feasible, begin to integrate Double Bottom Line (DBL) accounting. ²
Growth	Sustain	Integrate metric into regular dashboarding. Evaluate whether revenue growth is healthy and sustainable (i.e., there's reliable, confident forecasting of continued unrestricted funding or earned revenue). Align revenue expansion with operational capacity to ensure growth can be sustained.
Mature	Sustain	Monitor multi-year trends for long-term stability. Break down by business line and revenue stream. Use in conjunction with cost/expense and margin metrics to evaluate ROI of growth strategies.

Core Metric #2: % Change in Expenses (Profitability Metric)

This metric shows how your ESE's total spending is changing from one period to another. It's a straightforward way to monitor whether costs and expenses are accelerating, holding steady, or declining, and how that trend aligns with changes in revenue. For early-stage ESEs especially, tracking expense growth helps ensure that spending doesn't outpace the organization's capacity to generate revenue or raise funds. (Note that – similar

¹ Unrestricted revenue during the year (e.g., quarterly or monthly) may vary due to seasonality or other realities. Comparing the values year-over-year will likely identify more useful long-term trends but monitoring it quarterly or monthly may help identify unexpected changes. But, once again, use caution if you monitor this metric more frequently than yearly as there may be drastic dips or spikes that are due to market factors largely outside of the ESE's control.

² See the "Understanding and Implementing Double Bottom Line (DBL)" tool for more on DBL.



to Core Metric #1 – this is different from a budget variance analysis, which compares actual expenses to what was budgeted. For this metric, we’re simply looking at how your actual expenses changed year over year.)

$$\text{\% Change in Expenses} = \frac{\text{Current period expenses} - \text{Previous period expenses}}{\text{Previous period expenses}}$$

Getting the data and calculating this metric:

Step One: From your Income Statement or Statement of Activities, pull the Total Expenses for the two periods you want to compare (often the most recent closed fiscal year and the previous fiscal year). Be sure to include all expenses (not just operating expenses). This should cover program expenses, general and administrative (G&A), fundraising, and any non-operating costs (such as interest or financing costs).

Step Two: Use the above formula to calculate this metric.

Interpreting this metric (when calculated on an annual basis):

- A positive % change in expenses is expected if your ESE is growing, adding staff, or expanding services
- If expenses are growing faster than revenue, it could signal a potential mismatch between growth and sustainability. It could, however, simply signal investment in expanding capacity in anticipation of growth.
- If expense growth is stable or declining while revenue is increasing, this could indicate improved efficiency. A trend of negative % change in expenses over multiple periods should be investigated to understand the root cause(s) and to ensure that data is being captured and reported accurately.
- A sudden, significant increase or drop (+/- 10%) in total expenses should be investigated further. Was this due to a strategic investment, budget cuts, or perhaps accounting reclassification?
- While some growth is expected, ongoing high growth in expenses (+25% or more) should be closely monitored, especially if it's not matched by revenue growth



Guidance on using this metric for ESEs of different stages of maturity:

Core Metric 2: % Change in Expenses		
Your ESE's stage of maturity	Recommended Level of Metric Development	Using this metric at your ESE's stage of maturity
Fundamentals	Establish	Track total annual expenses manually using basic reports or your accounting software. Use the metric to understand if expenses are outpacing unrestricted revenue growth. Watch out for unexpected spikes.
Early	Establish / Evolve	Compare expense growth to revenue growth regularly. Pull numbers from your income statement annually (or quarterly if feasible and relevant ³). Begin identifying key cost/expense categories (e.g., staffing, COGS) that drive most of the change.
Foundational	Evolve	Use this metric to inform expense management strategies and budget planning. Layer in more granularity from your accounting software (e.g., by business line or department). Begin comparing actual vs. budgeted expenses. If feasible, begin to integrate Double Bottom Line (DBL) accounting.
Growth	Sustain	Incorporate expense trends into forecasts and variance analysis. Use this metric to test if scaling is creating efficiencies (i.e., reliably producing unrestricted revenue growth at a higher rate than growth of expenses). If not, consider revisiting scaling/growth strategy.
Mature	Sustain	Monitor multi-year trends across departments and programs. Use expense trends to inform strategic investments and decisions about cost structure optimization.

Core Metric #3: Net Margin (Profitability Metric)

Net Margin tells you how much of your revenue remains after covering all expenses (operating and non-operating expenses). This metric gives one of the clearest signals of financial sustainability. A positive net margin means your ESE is generating surplus that can contribute to reserves or be reinvested in the mission. A negative margin (or deficit) may indicate financial risk, especially if there are sequential deficits over multiple periods. While this metric may fluctuate (especially in early-stage ESEs or ESEs undergoing periods of significant investment in capacity), persistently low or negative net margins should be explored and addressed.

³ Similar to unrestricted revenue, expenses (especially variable expenses) may have seasonality through the year. Consider this when deciding whether to use this metric for decision-making on a quarterly basis.



$$\text{Net Margin} = \frac{\text{Net income (or Change in net assets)}}{\text{Total Revenue}}$$

Getting the data and calculating this metric: You can pull the necessary numbers directly from your Income Statement or Statement of Activities. Use unrestricted revenue (both earned and contributed) that has been recognized in the periods included in the calculation, including any amounts released from restriction. Then subtract total expenses, including program, admin, fundraising, and non-operating expenses like interest or depreciation in order to find the net income or change in net assets. Divide this number by your total unrestricted revenue to calculate the net margin as a percentage using the formula above.

Interpreting this metric (when calculated on an annual basis):

- A positive net margin or surplus is considered healthy. 10% or more is considered very healthy.
- A negative net margin indicates a deficit – or, that your expenses were greater than your unrestricted revenue and revenue that was released from restrictions during that period. This may be acceptable in some years, but it is unsustainable over time.
- A net margin of 0% means indicates a break-even year
- Repeated negative margins may suggest a need to re-evaluate your cost structure, revenue strategy, or both
- Surpluses can be used to build operating reserves, reduce debt, or reinvest in capacity and mission growth



Guidance on using this metric for ESEs of different stages of maturity:

Core Metric 3: Net Margin		
Your ESE's stage of maturity	Recommended Level of Metric Development	Using this metric at your ESE's stage of maturity
Fundamentals	Establish	Begin calculating net income and total revenue annually using your income statement. Focus on understanding whether your organization is breaking even or operating at a loss.
Early	Establish / Evolve	Calculate net margin at least annually and compare it to prior years. Understand what's driving gains or losses (Costs and expenses spiking? Earned or contributed revenue falling
Foundational	Evolve	Track net margin by program or business line if possible. Use the metric to assess financial sustainability of earned income streams, and to prepare for potential capital conversations.
Growth	Sustain	Monitor net margin quarterly and incorporate it into management reports. Use it to evaluate how changes in pricing, staffing, or wraparound services affect profitability.
Mature	Sustain	Net margin becomes a key performance indicator for both internal strategy and external funder/investor engagement. Regularly analyze trends and variances. Use alongside Double Bottom Line (DBL) analysis to assess mission-aligned margin performance.

Core Metric #4: Earned Revenue Cost Coverage (Profitability Metric)

This metric measures how much of your ESE's total expenses are covered by its earned revenue alone. It's a critical indicator of how self-sustaining your overall model is without including contributions, grants, or subsidies. While many ESEs will operate with an earned revenue cost coverage ratio below 1.0 (meaning earned revenue does not cover total costs), tracking this number over time is a valuable indicator of traction in the market and operational efficiency for your ESE's business.

$$\text{Earned Revenue Cost Coverage} = \frac{\text{Total earned revenue}}{\text{Total expenses}}$$

Getting the data and calculating this metric:

Step One: Identify your Total Earned Revenue (income from sales of products or services) and your Total Expenses (including program, admin, and non-operating costs) on your Income Statement or Statement of Activities. It's important to use all expenses (not just cost expenses related to earned revenue activities) in order to get a full picture of how earned revenue supports the entire enterprise.



Step Two: Divide your Total Earned Revenue by your Total Expenses according to the formula above.

Interpreting this metric:

- A ratio below 1.0 means earned revenue doesn't fully cover all costs and expenses of the ESE, which is common for ESEs
- A ratio of 1.0 or above means the ESE is fully covering expenses through earned income alone and may be generating a surplus from its earned income activity. This is an indicator of strong business viability and may signal opportunity to rapidly grow or expand the model.
- Tracking this metric over time reveals progress toward sustainability and can inform pricing, staffing, and other investment decisions
- External funders and lenders may use this ratio (among other metrics) to evaluate your financial resilience and growth readiness

Guidance on using this metric for ESEs of different stages of maturity:

Core Metric 4: Earned Revenue Cost Coverage		
Your ESE's stage of maturity	Recommended Level of Metric Development	Using this metric at your ESE's stage of maturity
Fundamentals	Establish	Begin identifying what portion of your revenue is earned (vs. contributed). Start calculating what percent of total expenses are covered by earned income using income statement data.
Early	Establish / Evolve	Improve tracking of earned revenue by line of business. Use this metric to explore whether your pricing or volume is aligned with sustainability goals. Understand how much subsidy from contributed revenue your ESE relies on.
Foundational	Evolve	Segment expenses more clearly and consider separating direct costs of service delivery from wraparound services (using DBL accounting if possible). Use this metric to begin making decisions about pricing, staffing, or capital needs.
Growth	Sustain	Integrate this metric into regular financial reporting. Monitor trends by business line and track whether enterprise growth is improving cost coverage, or if fundraising strategies need to be adjusted in order to fuel growth.
Mature	Sustain	Use this metric in management and board reports. Consider layering in DBL analysis to indicate if/how earned revenue covers social (or program support) costs, and to what degree subsidies may always be needed to sustain the model.



Core Metric #5: Days of Cash on Hand (Liquidity Metric)

Days of Cash on Hand tells you how long your ESE could continue to operate using only the cash and cash equivalents you have readily available. This effectively demonstrates how long the ESE could sustain itself financially on available cash alone if suddenly there was no new incoming cash flow. This metric is one of the ways to demonstrate the degree to which your ESE can sustain itself through major near-term financial strain. Such financial strains could include a large, unexpected expense (e.g., major repairs for a vehicle that aren't covered by insurance) or lower than anticipated revenue (e.g., a customer is unable to pay an invoice or there's a sudden shift in the market). Days of Cash on Hand is a metric that stakeholders such as board members want to know in order to understand the financial resilience of the ESE and to decide whether building cash reserves should be a priority. (Note: This metric can be expressed in Weeks or Months as needed.)

$$\text{Days of Cash on Hand} = \frac{\text{Cash and cash equivalents}}{[\text{Operating Expenses} / 365]}$$

Getting the data and calculating this metric:

Step One: Use your Balance Sheet or Statement of Financial Position to locate your “Cash and cash equivalents.” Note that it is most useful if you take this value from the Balance Sheet or SOFP from your most recently closed month.

Step Two: Calculate your average daily expenses by identifying your total annual expenses on your Income Statement or Statement of Activities.⁴ Divide this total by 365 in order to get your average daily expenses. (Optionally, you can divide this total by 52 for average weekly expenses and 12 for average monthly expenses if you want to calculate this as “Weeks” or “Months” of cash on hand, respectively.) If possible, use a rolling 12-month total for expenses (instead of the total from the most recently closed year) in order to calculate this as accurately as possible.⁵

Step Three: Divide the value from Step One by the value in Step Two according to the formula above.

Interpreting this metric:

- 14 to 89 days is considered a moderate or “average” range for this metric for many ESEs
- Less than 14 days signals major cash flow risk. Less than 30 days may signal some cash flow risk, especially if there is future volatility anticipated in funding or expenses
- 90+ days suggests strong liquidity, increased capacity to take on risk, and better positioning for growth

⁴ Be sure to *exclude* non-cash expenses such as depreciation and amortization. In order to be more conservative in this calculation, you may elect to *include* interest expenses even though these expenses are not considered operating expenses

⁵ Importantly, if your organization is seeing a recent increase in expenses, consider taking the most recent 6- or 3-month total of expenses as your starting point in this step. By doing so you'll account for this increase in expenses and have a more conservative calculation in this metric (which will be more useful for internal planning as it will better reflect reality).



- In some cases, a very high number for this metric may also signal underinvestment in growth or staff; while this scenario may be rare, it contributes to the value of monitoring this metric
- Monitoring this metric over time helps leadership anticipate cash flow dips and plan for cash reserve use or replenishment

Guidance on using this metric for ESEs of different stages of maturity:

Core Metric 5: Days of Cash on Hand		
Your ESE's stage of maturity	Recommended Level of Metric Development	Using this metric at your ESE's stage of maturity
Fundamentals	Establish	Begin calculating this metric using your cash balance and average weekly or monthly expenses. Even rough estimates help you understand how long your cash would last without new cash inflows.
Early	Establish / Evolve	Monitor cash monthly and use this metric to assess whether your reserves are increasing, decreasing, or varying month-to-month. Aim to build cash reserves covering at least 1–2 payroll cycles.
Foundational	Evolve	Integrate this into budget planning and use it to test different cash flow scenarios. Work with key stakeholders (e.g., board members) to set a minimum threshold for cash reserves and make it an organization priority to work towards achieving and maintaining that threshold.
Growth	Sustain	Use this as a key liquidity indicator in financial dashboards. Tie this metric into decision-making related to growth, including how to finance investments in capacity building. Significant reserves could offer a growing ESE a strategic advantage by enabling lower-cost external financing or by offering an alternative to external financing in general.
Mature	Sustain	Monitor trends over time. Compare to Days LUNA (Core Metric #6) to understand your near- vs. medium-term resilience and financial flexibility. Connect changes in this metric to other metrics, as well as to growth stages or expected cycles in the market.

Core Metric #6: Days of Liquid Unrestricted Net Assets (LUNA) (Liquidity Metric)

Days of Liquid Unrestricted Net Assets (LUNA), also called Days of Liquid Equity, tells you how long your ESE could operate using its unrestricted liquid resources (not just cash, but also other unrestricted assets that can be converted to cash with relative ease). For ESEs that are ready to utilize this metric, it can be used in combination with Days of Cash on Hand (Core Metric #5) to give a broader view of liquidity. In fact, LUNA can be seen as giving an ESE a picture of total reserves (and not just cash reserves). LUNA is calculated by starting with net assets (total assets minus total liabilities), then excludes restricted and illiquid portions. This approach provides a more conservative and comprehensive view of liquidity, which is particularly valuable



when evaluating readiness for sustained operations, major investments, or growth. Like Days of Cash, Days of LUNA is a key indicator that funders, lenders, and boards often use to evaluate overall financial health of an organization.

$$\begin{array}{l} \text{Days of LUNA} \\ \text{(or Days of} \\ \text{Liquid Equity)} \end{array} = \frac{\text{Liquid unrestricted net assets}}{[\text{Operating Expenses} / 365]}$$

Getting the data and calculating this metric:

Step One: Start with your Net Assets (located on your Statement of Financial Position or Balance Sheet). This figure equals your Total Assets minus Total Liabilities.

Step Two: Beginning with the total from Step One, subtract any restricted net assets (donor-imposed) and board-designated net assets that are not realistically available for short-term operations. Board-designated assets are technically unrestricted but set aside for specific purposes by board policy (e.g., an endowment established by a board policy). Include them only if they are both liquid and readily accessible (i.e., if a simple majority board vote can release board-designated net assets, then it may be reasonable to include those). This gives you your *unrestricted* net assets (but still may include some illiquid amounts, which will be addressed in Step Three).

Step Three: Beginning with the total from Step Two, subtract net fixed assets (fixed assets *less* any unpaid debt tied to them) and any other illiquid assets. This ensures only liquid resources remain. The resulting total is your Liquid Unrestricted Net Assets (LUNA) (or, sometimes referred to as Liquid Equity). (It's very important to subtract any unpaid debt that was used to finance any fixed assets in this step. This is because this unpaid debt was already accounted for in Step One, so if you do not subtract it from the value of fixed assets to get the *net* fixed asset value, you will effectively be double-counting the debt in this step.)

Step Four: Calculate your average daily expenses by identifying your total annual expenses on your Income Statement or Statement of Activities.⁶ Divide this total by 365 in order to get your average daily expenses. (Optionally, you can divide this total by 52 for average weekly expenses and 12 for average monthly expenses if you want to calculate this as "Weeks" or "Months" of cash on hand, respectively.) If possible, use a rolling 12-month total for expenses (instead of the total from the most recently closed year) in order to calculate this as accurately as possible.⁷

Step Five: Divide your LUNA total (from Step Three) by daily operating expenses. The result is your Days LUNA.

⁶ Be sure to *exclude* non-cash expenses such as depreciation and amortization. In order to be more conservative in this calculation, you may elect to *include* interest expenses even though these expenses do not qualify as operating expenses.

⁷ Importantly, if your organization is seeing a recent increase in expenses, consider taking the most recent 6- or 3-month total of expenses as your starting point in this step. By doing so you'll account for this increase in expenses and have a more conservative calculation in this metric (which will be more useful for internal planning as it will better reflect reality).



Guidance on using this metric for ESEs of different stages of maturity:

Core Metric 6: Days of Liquid Unrestricted Net Assets (LUNA)		
Your ESE's stage of maturity	Recommended Level of Metric Development	Using this metric at your ESE's stage of maturity
Fundamentals	Not yet established	Most very early-stage ESEs will not yet have significant LUNA beyond cash. ESEs in this stage should prioritize tracking Core Metric #5 (Days of Cash) in order to monitor their liquidity.
Early	Establish	Begin formally tracking unrestricted net assets. Calculate liquid reserves by subtracting net investment in fixed assets. Measuring Days LUNA internally will help the team to further understand its financial sustainability.
Foundational	Evolve	Use this metric alongside Core Metric #5 to assess financial stability. Begin setting internal targets or minimum thresholds.
Growth	Sustain	Monitor this metric regularly. Use it to inform decisions about reinvestment, risk tolerance, and readiness for loans or growth capital. When scenario planning, use it to model scenarios and inform policies on if, when, and how to deploy LUNA reserves in instances of financial strain.
Mature	Sustain	Present this metric to funders and board to demonstrate fiscal strength. Tie the metric to long-term reserve strategies and policies.

Core Metric #7: Debt-to-Equity Ratio (Leverage Metric)

The Debt-to-Equity Ratio shows how much of your ESE is financed through debt compared to your equity (or net assets, in nonprofit terms). This ratio highlights your organization's level of leverage. In other words, it indicates the extent to which you are relying on borrowed funds to finance operations and growth. A higher ratio means your ESE is more highly leveraged (greater reliance on debt), while a lower ratio (that is greater than zero) indicates less debt burden. A negative ratio (less than zero) is an alarming signal, as it indicates that your liabilities are greater than your total assets, leaving your organization with negative net assets (equity). In other words, you owe more than you own (which is a red flag for financial health and to potential donors, investors, or lenders).

$$\text{Debt-to-Equity Ratio} = \frac{\text{Total liabilities}}{\text{Total equity}}$$

Getting the data and calculating this metric:

Step One: On your Balance Sheet or Statement of Financial Position, find Total Liabilities (this is your total debt).



Step Two: From the same statement, find Total Equity (or Total Net Assets).

Step Three: Divide Total Liabilities by Total Equity (or Total Net Assets) according to the formula above.

Interpreting this metric:

- A high ratio (greater than 3) suggests your ESE is heavily financed by debt, which may increase financial risk, especially if revenues fluctuate and/or net margin is trending downwards (indicating uncertainty around ability to repay existing debt).
- A low ratio (between 0 and 3) suggests your ESE is relying less on debt and more on its own net assets, which generally indicates greater financial stability and resilience. This can make your organization more attractive to funders and investors, as it signals lower risk. However, an extremely low ratio may also suggest underutilization of debt as a tool for growth (but – only if your ESE is ready to scale).
- This ratio can also turn negative if equity or net assets are negative (liabilities exceed assets), which is a red flag for financial health.

Guidance on using this metric for ESEs of different stages of maturity:

Core Metric 7: Debt-to-Equity Ratio		
Your ESE's stage of maturity	Recommended Level of Metric Development	Using this metric at your ESE's stage of maturity
Fundamentals	Not yet established	Most ESEs at this stage are not taking on significant debt. Focus instead on building a positive net asset position on your Balance Sheet or Statement of Financial Position (this can be done by achieving positive Net Margins – Core Metric #3 – over multiple consecutive periods through optimized revenue and carefully controlled expenses.)
Early	Establish	Begin calculating total liabilities vs. net assets. Understand your baseline leverage and how it may affect readiness for borrowing.
Foundational	Evolve	Use this to prepare for conversations related to fundraising for growth. Compare your Debt-to-Equity ratio to peers, assess risk tolerance, and begin working with leadership and the board if necessary to establish debt policies for the ESE.
Growth	Sustain	Monitor this as part of your financial dashboard. Use it to balance growth with fiscal responsibility.
Mature	Sustain	Regularly report on this metric to the board as well as to current and prospective funders. Use this metric as a key input in capital strategy and long-term planning.



Next Steps

In order to apply the insights in this tool, consider the below next steps:

1. **Reflect on your ESE's Metrics:** Begin by assessing the financial health metrics your ESE is currently tracking. Ask whether additional metrics should be established to cover gaps, or whether existing ones can be evolved (measured more rigorously, more frequently, or with better data quality).
2. **Address What's Needed to Improve your ESE's Metrics and Measurement Systems:** For each metric that needs to be established or evolved for your ESE, determine:
 - **Data needs** – Do you have the data required, and is it reliable? Where will you get it?
 - **Ownership** – Who will manage the collection, calculation, and reporting of the metric? With what frequency do these metrics need to be calculated and reported?
 - **Decision pathways** – What kinds of decisions could this metric trigger? Who in your ESE needs to receive the reporting in order to make those decisions? And, once decisions are made, who needs to be informed of the decisions and how will they receive that information?
3. **Consider Dashboarding Tools:** Explore whether a dashboard or system would help you aggregate, monitor, and communicate your financial metrics. While advanced financial software platforms can support real-time reporting, many early-stage ESEs can meet their needs with simple tools such as Excel or Google Sheets or with dashboard functions available through your existing accounting software (e.g., QuickBooks). As your organization grows, you may wish to explore integrated accounting systems or dashboarding platforms to streamline monitoring and strengthen decision-making.



Appendix: Recommended Level of Metric Development for Each ESE Maturity Stage

Recommended Level of Metric Development for Each ESE Maturity Stage							
ESE Maturity Stage	Profitability Metrics				Liquidity Metrics		Leverage Metric
	Core Metric #1: % Change in Unrestricted Operating Revenue	Core Metric #2: % Change in Expenses	Core Metric #3: Net Margin	Core Metric #4: Earned Revenue Cost Coverage	Core Metric #5: Days of Cash on Hand	Core Metric #6: Days of Liquid Unrestricted Net Assets (LUNA)	Core Metric #7: Debt-to-Equity Ratio
Fundamentals	Establish	Establish	Establish	Establish	Establish	Not yet established	Not yet established
Early	Establish / Evolve	Establish / Evolve	Establish / Evolve	Establish / Evolve	Establish / Evolve	Establish	Establish
Foundational	Evolve	Evolve	Evolve	Evolve	Evolve	Evolve	Evolve
Growth	Sustain	Sustain	Sustain	Sustain	Sustain	Sustain	Sustain
Mature	Sustain	Sustain	Sustain	Sustain	Sustain	Sustain	Sustain

KEY

Not yet established	It isn't yet a priority to invest in establishing this metric.
Establish	You should begin tracking the metric in a simple, consistent way. Focus on building basic familiarity and getting reliable data in place, even if it's manual or imperfect.
Evolve	Deepen your understanding and application of the metric. Consider refining how it's calculated, improving data accuracy, increasing frequency of measurement, or using it to inform more nuanced decisions.
Sustain	This metric should be embedded in your regular financial practices. You should reliably be able to use the metric to monitor long-term trends, make strategic adjustments, and refine the metric's use as your ESE grows and changes.