



NGO Accounting  
Financial Ratio Analysis



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Introduction


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## Financial Ratio Analysis

- Financial ratio analysis is a quantitative analysis of information in the financial statements to evaluate relationships among financial items.
- These ratios can be used to analyze an organization over time or in comparison to similar organizations.

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## Purposes

- To evaluate the financial condition of the NGO
- To evaluate if the NGO's activities align with their objectives
- To meet the donor's accountability of the NGO's performance

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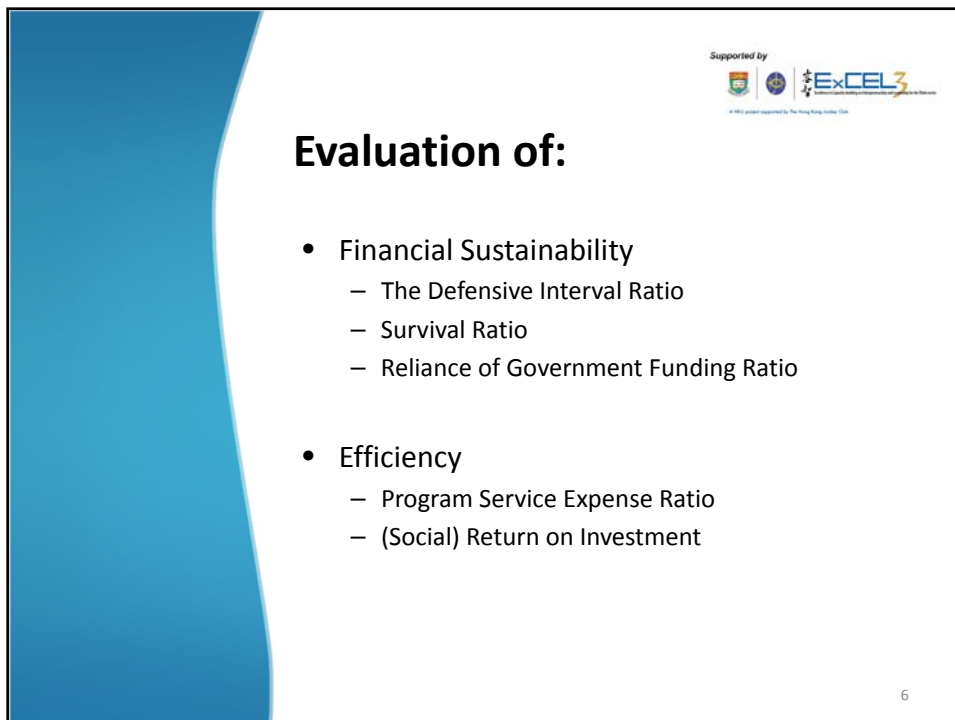
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# Useful NGO Financial Ratios

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## Evaluation of:

- Financial Sustainability
  - The Defensive Interval Ratio
  - Survival Ratio
  - Reliance of Government Funding Ratio
- Efficiency
  - Program Service Expense Ratio
  - (Social) Return on Investment

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**How long (e.g. how many months) the NGO can operate and function normally to support its mission if no additional funds are received?**

## **THE DEFENSIVE INTERVAL RATIO**

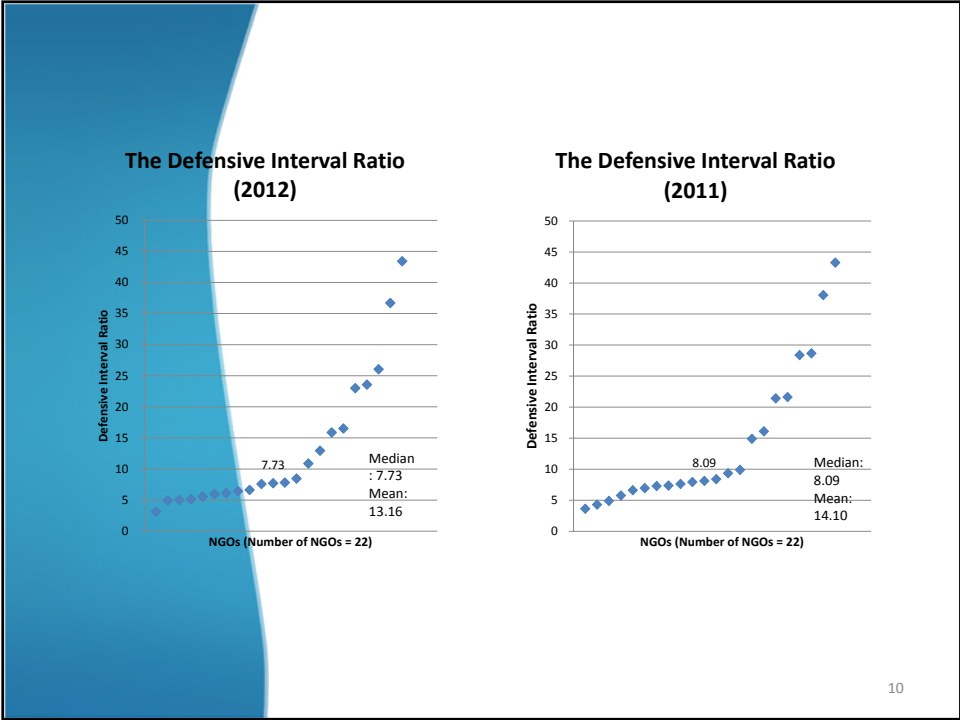
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**THE DEFENSIVE INTERVAL RATIO =**

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| Example                                  |                   |                   |
|--|-------------------|-------------------|
| Year                                     | 2012              | 2011              |
| Cash                                     | 10,892,265        | 12,215,558        |
| Receivables                              | 2,166,233         | 1,322,436         |
| Marketable Securities                    | 497,808           | 477,192           |
|  | <b>13,556,306</b> | <b>14,015,186</b> |
| Average Monthly Expense                  | <b>2,213,737</b>  | <b>1,731,458</b>  |
| <b>Defensive Interval Ratio (months)</b> | <b>6.12</b>       | <b>8.09</b>       |

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How long (e.g. how many days) the NGO can survive if all its funds are dried up and levels of activity remain the same?

## SURVIVAL RATIO

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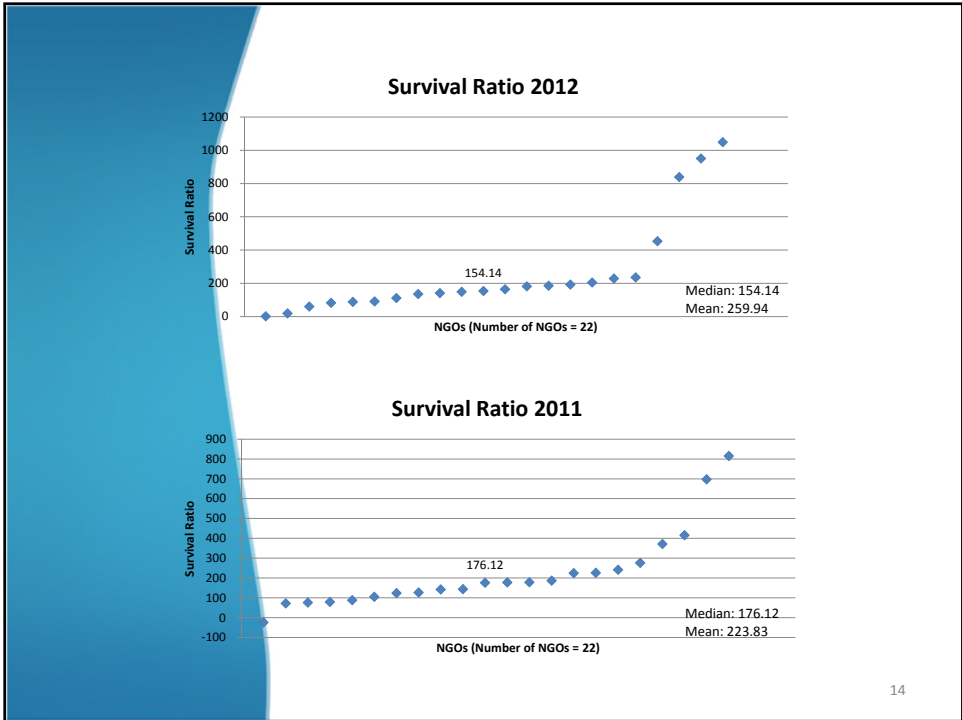
**SURVIVAL RATIO =**

$$\frac{\text{NET CURRENT ASSETS X 365 DAYS}}{\text{TOTAL INCOME}}$$

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| Example                         |                      |  |                      |
|---------------------------------|----------------------|--|----------------------|
| Year                            | 2012                 |  | 2011                 |
| <b>Net Current Assets X 365</b> | <b>4,719,317,505</b> |  | <b>4,969,780,505</b> |
| <b>Total Income</b>             | <b>25,933,499</b>    |  | <b>22,083,211</b>    |
| <b>Survival Ratio (days)</b>    | <b>181.98</b>        |  | <b>225.05</b>        |

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**How to measure the risk of reliance  
and autonomy?**

**RELIANCE ON GOVERNMENT  
FUNDING RATIO**

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**RELIANCE ON GOVERNMENT  
FUNDING RATIO =**

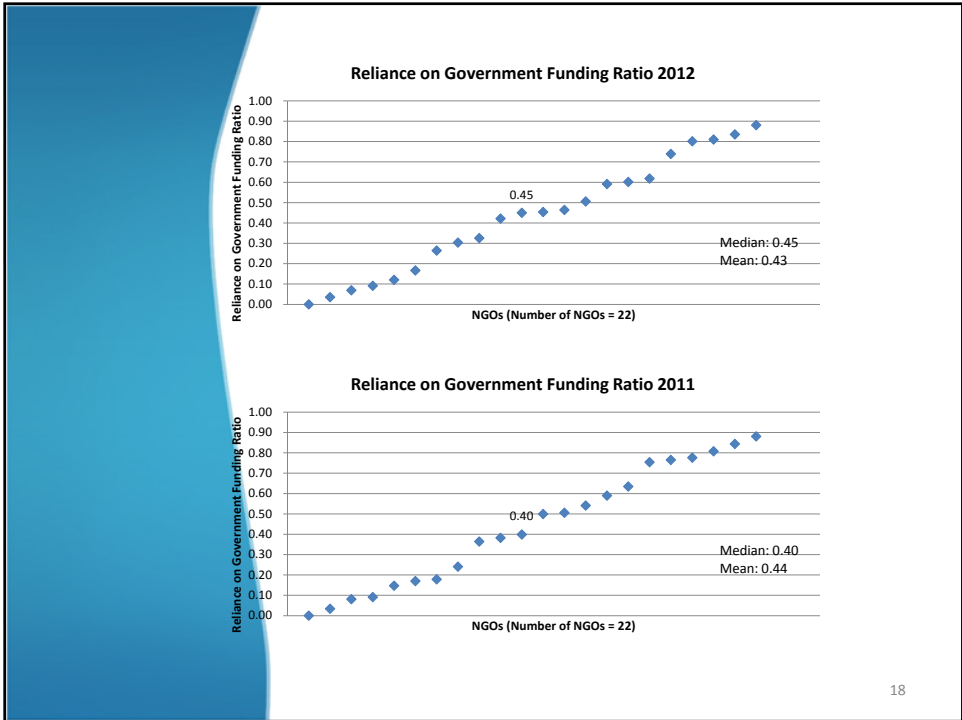
$$\frac{\text{TOTAL GOVERNMENT GRANTS}}{\text{TOTAL INCOME}}$$

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| Example                              |            |  |            |
|--------------------------------------|------------|--|------------|
| Year                                 | 2012       |  | 2011       |
| Total government grants              | 10,923,545 |  | 11,024,401 |
| Total income                         | 25,933,499 |  | 22,083,211 |
| Reliance on Government Funding Ratio | 0.42       |  | 0.50       |

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How to measure the efficiency of programs / services that directly benefit the community ?

## PROGRAM SERVICE EXPENSE RATIO

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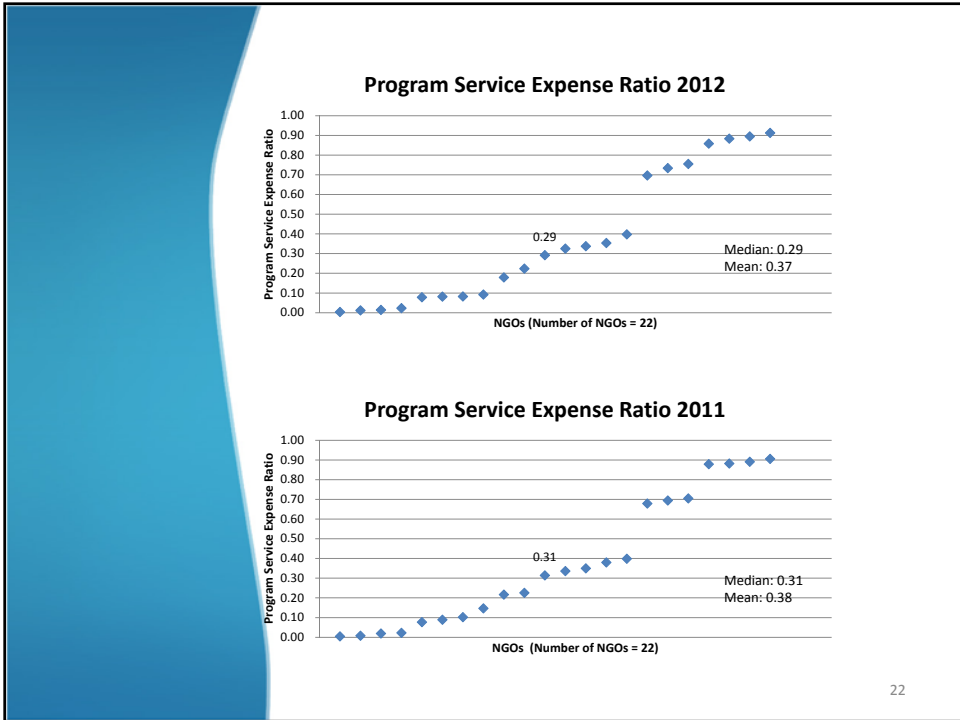
PROGRAM SERVICE EXPENSE RATIO =

$$\frac{\text{PROGRAM SERVICE EXPENSES}}{\text{TOTAL EXPENSES}}$$

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| Example                       |            |  |            |
|-------------------------------|------------|--|------------|
| Year                          | 2012       |  | 2011       |
| Program Service Expenses      | 7,755,193  |  | 6,973,903  |
| Total Expenses                | 26,564,838 |  | 20,777,494 |
| Program Service Expense Ratio | 0.29       |  | 0.34       |

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How to measure the efficiency of  
utilizing the funding?


## RETURN ON INVESTMENT

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RETURN ON INVESTMENT =

$$\frac{\text{SURPLUS (DEFICITS)}}{\text{TOTAL FUNDING}}$$


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Is Return on Investment (ROI)  
appropriate for evaluating the  
efficiency of an NGO?

→ Social Return on Investment  
(SROI)

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Thank you!

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