Questions to Ask About Balance Sheet and Income Statement

Balance Sheet

Definitions:
Assets - What the charity owns or is owed
Current Asset - Expected to be converted to cash or used with one year, e.g. GICs or other short-term investments
Long-Term Asset - Expected to be converted to cash or used after one year, e.g. capital assets, longer term investments such as endowment funds
Net Assets - What’s left after subtracting liabilities from assets

1. Current Assets: Cash & Cash Equivalents
   Not necessarily the bank balance, as it could represent more than one bank account and short-term investments.

   Questions to Ask:
   • What is included in the total cash and cash equivalents?
   • If this value has increased or decreased significant from last month/year, why?

2. Current Assets: Accounts receivable
   Amounts owed to (earned by) the charity from others.

   Questions to Ask:
   • What is included in the total accounts receivable?
   • When will these amounts be paid?
   • Are there any amounts that have been outstanding for a long time?
   • Are any amounts likely to be uncollectible or written off?
   • If this value has increased or decreased significant from last month/year, why?

3. Current Assets: Pre-paid expenses
   Expenses paid in the current month/year for supplies or services that will be used in a future month/year.

   Questions to Ask:
   • What is included in the total pre-paid expenses?
   • If this value has increased or decreased significant from last month/year, why?

4. Long-term Assets: Capital (Land, Buildings, Equipment)
   Listed on financial statements at book value (amount of purchase; so, if donated, will show as zero value).

   Questions to Ask:
   • What is market value of assets?
   • Are assets insured for market value (not book value)?
   • If this value has increased or decreased significant from last month/year, why?
5. Long-term Assets: Investments, e.g. endowment fund
   Unlike capital assets, long-term investments are recorded at market value.

   Questions to Ask:
   • If this value has increased or decreased significant from last month/year, why?

   A/P - Amount owed to vendors but not paid at the end of the fiscal period, e.g. items purchased/received but invoice not paid until later.
   Accrued Liability - Similar to A/P but not about purchases from vendors, e.g. vacation accrual.

   Questions to Ask:
   • What are the amounts owing and to whom?
   • If this value has increased or decreased significant from last month/year, why?

7. Current Liabilities: Deferred Revenue/Grants
   Revenue received and deposited in the current month/year for services to be delivered in a future month/year.

   Questions to Ask:
   • What is this revenue for?
   • When will the funds be spent?
   • If this value has increased or decreased significant from last month/year, why?

   TIP: If you have a lot of money in cash, it could be because you have a lot of deferred revenue. In other words, there should be a correlation between the amount of cash and deferred revenue.

8. Long-Term Liabilities: Loans
   Amounts owing for long term loans.

   Questions to Ask:
   • Why does the organization have a loan/loans?
   • When will the loan be re-paid?
   • If this value has increased or decreased significant from last month/year, why?

9. Long-Term Liabilities: Obligations on Capital Leases
   Amounts owing for capital leases.

   Questions to Ask:
   • What is being leased?
   • When will the lease(s) end?
   • If this value has increased or decreased significant from last month/year, why?
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10. Net Assets
    Net worth of organization; similar to personal net worth.

    Questions to Ask:
    • Is the organization net worth increasing or decreasing? Why?
    • Cash, unrestricted and internally restricted assets represent an organization’s free and clear money. Does this equal 3 to 6 months of committed operating expenses?

    E.G. Capital Assets and other long-term investments are not available. Externally restricted assets are not available.

Income Statement

1. Revenue

    Questions to Ask:
    • Is revenue increasing or decreasing year-over-year? Why?
    • How diversified is the funding, i.e. calculated % of each funding source.
    • Is dependance on primary funder increasing or decreasing year-over-year.
    • Which funding is single year? Multi-year? Is there a plan to replace funding before it ends?

2. Expenses

    Questions to Ask:
    • Salaries/Benefits usually will be an organization’s largest expense. How many staff are permanent? Contract? In other words, what is the organization’s risk if a contract is lost/cancelled?
    • Rental/Leased Space - How long is the rental/lease commitment? How long does this commitment extend beyond the term of the primary funding source?
    • Generally, is the increase/decrease in expenses from one month/year to the next proportionate to the increase/decrease in revenue?