

# 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?

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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?

6. Current Liabilities: Accounts Payable & Accrued Liabilities  
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?

## Questions to Ask About Balance Sheet and Income Statement

### 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 dependence 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?