

10 Things Financial Statements Can Tell You

Like David Letterman (minus the humor), any CPA can identify at least 10 things a careful reading of your financial statements can tell you about your not-for-profit organization. Here's my list. It begins with what you can learn from your "statement of financial position" or "balance sheet," which lists your assets (what you own), liabilities (what you owe), and net assets or reserves (what's left over after all the creditors are paid).

1. ***Will I have the money to pay my bills in the coming year?*** "Current assets" include cash and other assets—like *receivables* (what other people owe you) and marketable investments (stocks and bonds)—that are readily convertible to cash. Compare current assets with "current liabilities" (debts you must pay soon). If current assets exceed current liabilities, you're solvent; if not, you need to worry about how you will pay your bills when they come due.
 2. ***Are my assets really assets?*** Review the things that your balance sheet says you own. Do the values appear reasonable? Are some of them obsolete? If your organization's receivables are large, ask to see a list of them. If many of them have been on the books for a long time (over 180 days), they may not be worth the ink it took to print the list.
 3. ***Are the recorded liabilities complete?*** Ask the person who is responsible for your organization's books what's been done to make sure that all liabilities have been put on the books.
 4. ***Are "net assets" (assets minus liabilities) positive?*** In other words, does the organization have sufficient reserves to cover unforeseen circumstances?
 5. ***Does the organization have sufficient unrestricted net assets, or reserves that can be used as it sees fit?*** To determine this, ask how many months' expenses your organization could cover without any additional revenue. (As a rule of thumb, consider 6 or more months' expenses in reserve above average.)
- Things you can learn from your "Statement of Activities," or income statement:**
6. ***How diverse are my organization's sources of funding?*** Review the components of revenue. Is the organization dependent primarily on a single source of funding, or does it derive revenue from a variety of grants, memberships, contributors, and fundraisers?
 7. ***How does my organization's revenue and expenses compare to the amount we budgeted at the beginning of the year?*** Use the annual budget as a yardstick to measure management's ability to plan accurately, and to follow its plan.
 8. ***"Support services"*** (administration and fundraising) should be reasonable as a percentage of total expenses. (Use 25% as a guide for a service organization, and 15-20% for an organization that mostly distributes money to others.)
 9. ***Does management appear to be doing a good job of controlling costs?*** Compare actual to budgeted expenses. Are there significant variances? If so, can management explain them sensibly?
 10. ***Profit is not always a dirty word.*** Is your organization managing discretionary revenue sources wisely, and saving some of what it earns?
- The bottom line:** Intelligent use of financial statements does not give one all the answers but enables one to ask intelligent questions.
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Questions?

For more information contact Wegner LLP, CPAs and Consultants at (608) 274-4020 or www.wegnercpas.com.