# Using Your Financial Statements to Answer Key Questions

When you’re familiar with the parts of a standard financial statement, it’s time to learn about your organization’s productivity and financial health by comparing the numbers they present. Here are some possible questions that use these parts of your financial statement.

 \* How efficient is the organization? Perhaps you know that it reached 4,500 people with its programs in the previous year. When you look at the statement of activities, you may divide the total costs by 4,500 to learn how much it cost to provide that service to each person. Depending on the depth and quality of those services, the cost per person may seem high to you, or modest, or just right.

 \* How did the organization perform financially in the previous year? You can look at the statement of activities to compare the total revenues to total expenses. If the revenues exceed the expenses, your organization made a profit. While you’re at it, check to see whether the total revenues in the Unrestricted Funds column exceed the total expenses in that column. That means you had more funds that were liquid — available to address immediate needs — than you had immediate expenses. Whether or not you had a deficit or surplus in a given year may not be that significant. You may have had a major grant and a surplus a year ago and were spending those surplus funds appropriately in the year that just ended. However, you will want to keep a close watch on deficits if they are recurring.

 \* What portion of the organization’s income was earned through providing goods and services? Looking at the revenue side of the statement of activities,you may learn that your nonprofit theater earned 50 percent of its annual income (a good rate for a mid-sized theater) or that your small natural science museum earned 10 percent of its annual income from admissions (a reasonable level for such a museum).

 \* Is your organization heavily dependent on one revenue source? Again, looking at the revenue side of the statement of activities, does 30 percent or more of the budget come from a single government contract or an annual white elephant sale? If that’s the case, you may want to make contingency plans if government funding shifts to new priorities or it snows on the day of your sale.

 \* What is the organization’s financial health? After you’ve figured out whether it had a surplus or deficit in the previous year, turn to the statement of financial position and look to the bottom of the page where it tells you the amount of the total net assets. If that is a positive number, the organization is not carrying a deficit.

 \* How much of your organization’s income is liquid — available to cover immediate costs? To answer this question, look at the statement of financial position and divide your total current assets by your current liabilities. If you come up with an answer that is higher than one, your organization probably could get access to the cash it needs to meet all of its current obligations. If you want to be stricter in answering this question, look at the current assets statement and divide your total cash (checking and savings accounts) by your current liabilities. Is *that* answer one or higher? If so, good

 \* Have you set aside enough money to cover the cost of services you’ve promised to provide? (Future services may be funded through a grant you’ve already received or future classes paid for by tuition you’ve already charged.) This kind of money is identified as temporarily restricted net assets (sometimes called deferred revenue) on your statement of financial position. Take this figure for temporarily restricted net assets and divide it by the total amount of your cash and savings. If the temporarily restricted net assets exceed your cash, you may be covering current expenses with funds meant for future activities. Six months from now, when you have to present the funded program or teach the classes and pay their instructors, you may be in financial trouble.

 \* If no additional money came in for a few months, how long could your organization cover its bills? Look at the statement of activities and divide the total annual expenses by 12. That gives you an estimate of your monthly expenses. Then take that monthly expense figure and divide it into your total cash and short-term investments (found under current assets on the statement of financial position). Do you end up with a number of three or more — suggesting that you could survive for three months without additional income? That’s good. Coming up with a number of six or more is even better.

 \* Many nonprofits struggle to set aside the funds they need to innovate. How much working capital do you have to invest in new program directions and ideas? To compute this amount, turn to your statement of financial position, add together your cash and short-term investments, and subtract from them your current liabilities. Then compare that figure to your total expenses (found on your statement of activities).Can you cover those expenses and have money to spare? If so, you can invest in product innovation, training, technology, new marketing, or another new idea.