

## **Analyzing Nonprofit Financial Reports**

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*Use these questions as guides to analyzing the financial information provided by nonprofits as a way to evaluate their financial health.*

### **1. Balance Sheet**

- Does the nonprofit have sufficient cash for the immediate future? One rule of thumb is to have at least one month of cash reserve on hand.
- Are there a lot of funds tied up in “accounts receivable” – meaning funds due to the organization that have not yet been paid? What’s the timing and likelihood of collecting these funds?
- How much liability is being carried by the organization? How will they pay this?
- Is the organization paying off any existing debts? Is the payment process incorporated in the operating budget?

### **2. Income and Expense/Revenue Statement**

- Are there more funds coming in (revenues) than going out (expenses)?
- What percentage of funds is being directed towards key activities – programs, administration, fundraising, etc? Is the percentage balance appropriate for the organization at this stage of their life cycle?
- How is financial information presented? Can you understand the reports?
- Are there any really big income or expense items that you do not understand?
- Are special projects – like capital campaigns, restricted programs – accounted for so they are easily understood?
- How is the organization performing against budget goals?

### **3. General Financial Management**

- Has the organization conducted an audit recently? Did the management letter indicate that the organization was well-managed or were there any issues which need to be addressed?
- Are tax reports filed on a timely basis?
- Are there tax issues or legal issues pending?
- Is the treasurer actively involved?
- Are there written financial controls?