

Nonprofit Financial Management: 4 Reports to Know

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Unlike for-profit companies, nonprofit organizations are not operating with the sole purpose of earning income. Instead, they operate to pursue their mission and continuously serve their constituents. This means that [nonprofit financial reporting and management](#) also differs from that of the for-profit world.

The reports and statements generated for nonprofit finances are geared toward ensuring the organization stays accountable to its donors and constituents. All of the organization's departments should have a general understanding of these reports so they can better work together to help the organization succeed.

In this guide, we'll cover some of the most common and important financial statements that nonprofit finance teams generate, discussing their purpose and conclusions that can be drawn from each. We'll review the following reports:

1. [Statement of Activities](#)
2. [Statement of Cash Flows](#)
3. [Statement of Financial Position](#)
4. [Form 990](#)

Effective [financial management for nonprofits](#) has several challenging elements that must be taken into account. From donor-imposed restrictions on funds to strict grant requirements, there are many details that nonprofits need to keep in mind before making purchasing decisions.

Core nonprofit financial statements that fall under FASB and GAAP compliance help these organizations keep this complex information straight and ensure funds are allocated appropriately. Let's dive in to see how!

1. Statement of Activities

The nonprofit statement of activities is essentially a [fund accounting](#) report parallel to a for-profit's income statement. Instead of measuring income, it focuses on providing detailed information about how the nonprofit uses its funding to advance the organization's mission.

Have you ever looked at your personal finance history and thought to yourself, "How did I end up spending that much money?" Nonprofits should never have to ask this question because all of their expenditures are well-planned, accurately recorded, and reported on in this statement.

This effective bird's-eye view of your activities and the amount of money you spend on them can provide insight into whether you're on track with your organization's [budget](#), if it's time to secure additional funding, or if your organization needs to cut some expenses to remain financially healthy.

This critical report is divided into three concrete sections:

- **Revenue.** Nonprofits receive revenue from several different sources throughout the year, including individual contributors, granting organizations, donated materials, and investment returns. All of this should be recorded by source in the revenue section of the report.

- **Expenses.** In this section, your expenses should be divided and classified into three main categories: program, administrative, and fundraising. Include all of your organization’s costs, such as your salaries, rent, office expenses, and events.
- **Net assets.** This is simply the calculation of your expenses subtracted from your organization’s revenue. Be sure to pay attention to the net assets that omit donor-restricted funds, as this is the most liquid part of your budget.

Each of these sections is further divided into unrestricted and restricted assets, allowing your organization to better understand how much of the funding discussed in the report is liquid. At the end of the day, the report will look something like this:

| Statement of Activities | | | |
|----------------------------------|------------------|------------------------|------------------|
| Revenues | Unrestricted | Temporarily Restricted | Total |
| Individual Donations | \$150,000 | \$50,000 | \$200,000 |
| Grants | \$50,000 | \$100,000 | \$150,000 |
| Investment Income | \$75,000 | \$0 | \$75,000 |
| Other | \$0 | \$0 | \$0 |
| Total Revenues | \$275,000 | \$150,000 | \$425,000 |
| Expenses | | | |
| Program Services | \$160,000 | \$0 | \$160,000 |
| General and Administrative | \$37,000 | \$0 | \$37,000 |
| Fundraising | \$38,000 | \$0 | \$38,000 |
| Total Expenses | \$235,000 | \$0 | \$235,000 |
| Change in Net Assets | \$40,000 | \$150,000 | \$190,000 |
| Net Assets, Beginning of Year | \$4,300 | \$0 | \$4,300 |
| Net Assets, End of Period | \$44,300 | \$150,000 | \$194,300 |

According to [Jitasa’s statement of activities guide](#), the cherry on top of this report is its information is parallel to the information you need to provide on your annual Form 990. It breaks down your expenses into your program, administrative, and fundraising expenses—the same breakdown required on your annual tax forms.

2. Statement of Cash Flows

The nonprofit statement of cash flows is designed to help nonprofits recognize how cash moves in and out of the organization. You’ll not only gain a better understanding of how much money flows into your organization on a monthly basis but also of how much your nonprofit spends monthly.

The [statement of cash flows](#) is split into three main categories:

- Operating activities
- Investing activities
- Financing activities

These are broken down even further into specific activities under each category. For example, your nonprofit's credit card payments would fall under your financing activities, while cash paid to employees would fall under your operating activities. The statement will end up looking something like this:

| Statement of Cash Flow | |
|---|------------------|
| Cash Flows From Operating Expenses | |
| Cash Received From Contracts | \$50,000 |
| Cash Received From Contributions | \$250,000 |
| Cash Paid to Employees | -\$275,000 |
| Net Cash From Operating Expenses | \$25,000 |
| Cash Flows From Investing Activities | |
| Equipment Purchases | -\$5,500 |
| Net Cash From Investing Activities | -\$5,500 |
| Cash Flows From Financing Activities | |
| Credit Card Payments | -\$4,000 |
| Loan Payments | -\$7,500 |
| Net Cash From Financing Activities | -\$11,500 |
| Increase (Decrease) In Cash | \$8,000 |
| Cash at The Beginning of The Year | \$2,500 |
| Cash at End of Year | \$10,500 |

Imagine a nonprofit earns \$10,000 per month in grants to fund one of its programs. But, the program costs \$11,000 per month to run. While this might seem like a small difference (just \$1,000), your organization will slowly deplete its bank account if you continue spending that amount without earning additional revenue. The statement of cash flow can help you identify these issues before they become larger problems for your organization.

With your nonprofit's statement of cash flow, you can also draw additional conclusions, determining your organization's free cash flow (measuring the liquidity and flexibility of cash at your organization) or your cash flow to debt (the funding available to service nonprofit debts).


3. Statement of Financial Position

The nonprofit statement of financial position is the equivalent of a for-profit balance sheet. This crucial financial report is designed to provide a snapshot of your nonprofit's overarching financial health.

Similar to other nonprofit statements, your nonprofit statement of financial position is split into three sections:

- **Assets** (*what your organization owns*). This section lists the items your organization owns by the time it would take to make the assets liquid. Cash, an already liquid asset, is therefore listed first in this section.
- **Liabilities** (*what your organization owes*). While assets are organized by liquidity, your liabilities are organized by the date they need to be paid. Listed first are shorter-term liabilities, also known as current liabilities. Listed below those are the long-term liabilities that could be paid over the following months or years.
- **Net assets** (*your organization's equity*). This section is further divided by the restrictions of your organization's assets. It's divided by unrestricted net assets, net assets that have temporary restrictions, and funds that are restricted perpetually.

The finalized report will end up looking something like this:

| Nonprofit Statement of Financial Position  | | |
|---|------------------|------------------|
| Assets | 2018 | 2019 |
| Cash and Cash Equivalents | \$250,000 | \$240,000 |
| Contributions Receivable | \$50,000 | \$45,000 |
| Prepaid Expenses | \$2,000 | \$1,750 |
| Property and Equipment | \$75,000 | \$75,000 |
| Total Assets | \$377,000 | \$361,750 |
| Liabilities | | |
| Payables | \$125,000 | \$120,000 |
| Debt | \$55,000 | \$45,000 |
| Other | \$15,000 | \$15,000 |
| Total Liabilities | \$195,000 | \$180,000 |
| Net Assets | | |
| Without Donor Restrictions | \$130,000 | \$120,000 |
| With Donor Restrictions | \$52,000 | \$61,750 |
| Total Net Assets | \$182,000 | \$181,750 |
| Total Liabilities and Net Assets | \$377,00 | \$361,750 |

Not only does this statement help nonprofits gain a snapshot view of their overall financial health, but it can also be the basis of additional calculations to provide more insight. If you subtract your property and equipment assets from your total unrestricted assets, then divide the resulting number by your average monthly expenses, you'll end up with your months of LUNA (liquid unrestricted net assets).

Months of LUNA = (total unrestricted assets - property and equipment assets) / average monthly expenses

This calculation shows your organization's liquidity, allowing you to evaluate the risk your nonprofit can take. Generally, if you have fewer than three months of LUNA, you should take action to readdress your financial positioning. If you have more than three months of LUNA, you have a little more flexibility that can be used to fund organizational growth.

4. Form 990

While nonprofit organizations are exempt from paying taxes, they still need to report their finances to the IRS on an annual basis. The tax form required by nonprofit organizations is known as the Form 990.

The IRS uses this form to make sure nonprofits are legitimate, [compliant](#), and deserve to maintain their tax-exempt status. The first step to filing one of these tax forms is understanding which form your organization is eligible to file:

- **Form 990-N.** This is the shortest tax form your nonprofit may have to file. It's an eight-question online form designed for the smallest organizations that receive less than \$50,000 in gross receipts on an annual basis.
- **Form 990-EZ.** This form is like the little brother to the Standard Form 990. It's a four-page form that can be filed by nonprofits that make more than \$50,000 in gross receipts but less than \$200,000. These organizations also need to have less than \$500,000 in total assets.
- **Standard Form 990.** Any organization with more than \$500,000 in total assets or more than \$200,000 in gross receipts must file the Standard Form 990. This is the original 12-page form filed with the IRS annually.

Keep in mind that your Form 990 isn't the only tax requirement that nonprofits must meet to remain compliant. Be sure to send any necessary donation receipts to your donors, sponsors, and other eligible organizations. Research the tax implications of other fundraising activities you might conduct as well.

Nonprofit financial management is unique from for-profit organizations because it focuses on maintaining accountability to both donors and constituents rather than earning a profit. That's why nonprofits leverage fund accounting to maintain their finances.

Now that you better understand the various forms and reports associated with fund accounting, your organization can compile and draw conclusions from these statements to strengthen your own financial health. However, the best way to maximize their potential is to collaborate with a nonprofit financial professional to garner as many insights as possible and determine the best next steps.

<https://resources.foundant.com/blog/nonprofit-financial-management-4-reports-to-know>