

NONPROFIT FINANCIAL MANAGEMENT BASICS

Adopting Accounting Methodology, Policies and Procedures: All organizations should have an Accounting Policy. This does not need to be long and involved but should lay out who is responsible for each area of financial management, how cash is handled, etc. Groups should be using financial software such as QuikBooks to track their financial business

Financial Reports/Audits: Primary financial reports required are the P&L or Profit & Loss Statement, also called “Statement of Cash Receipts & Expenditures” and a Balance Sheet that shows the assets and liabilities of the organization. Financial software provides templates for these reports or accounting professionals associated with the organization can help develop these. Reports to the board should not be excessively detailed and it is best to try to keep them to one page. If more detail is needed for certain areas like contributions, a second page called a “Detail Report” can be used to provide that information.

The P&L flows from the annual budget and a good report shows the previous year’s actual numbers, the current budget, the current budget to-date, the actual income and expenditures to date and the over or under amounts for each category. Capital income and expense should not be included on the regular P&L.

The Balance Sheet is the other report that should be provided at each board meeting and may be required by some funders. This is a snapshot on a specific point in time, usually the end of a month or quarter of the assets and liabilities of the organization. It shows cash on hand, cash reserves if any, physical assets like equipment and furnishings or a building, investments if any, valuable collections, etc. It also shows the liabilities which include accounts payable, payroll or other taxes owed, and loans if any.

Audits: For groups that reach a certain budget size, an annual audit is essential to raising funds. Foundations and other funders will require them. The Audit Committee selects the Auditor and oversees the audit process. The Executive Director and other staff are not excluded from the process, but to ensure transparency, the Audit Committee must control the audit process. When choosing an audit firm, try to find one with actual experience with nonprofits.

Reviewed Financials (in lieu of Audit):

A step down from audited financials is **reviewed financials**. In a review, the CPA report says that the firm has reviewed your financial statements under professional standards. The report further says that we express no opinion on the financials except nothing came to our attention when performing the review that would lead us to believe that they are materially misstated. Reviews cost typically around 40-60% of the cost of an audit.

Financial Transparency: The stock in trade for all nonprofits is their reputation so financial disclosures should be straight forward and accurate.

Restricted Funds: Funds donated for a specific purpose such as a capital campaign are considered “temporarily restricted” and should not be used for any other purpose. Funds designated for something like an Endowment are considered “permanently restricted” and their use is governed by the Board’s explicit directions.

Resource Allocation: (Admin, Fundraising, Program) It is important to track how much of your expenses are used for programs vs. administration and fundraising. Most Funders want to know the percentages and expect the majority of the expenses to be program-related. 80 – 85% or more should be allocated to program expense in most cases.

IRS 990: Tax-exempt nonprofit organizations are required to file an annual return. Which form an organization must file generally depends on its financial activity, as indicated in the chart below.

Status	Form to File	Instructions
Gross receipts normally ≤ \$50,000 Note: Organizations eligible to file the <i>e-Postcard</i> may choose to file a full return	990-N	n/a
Gross receipts < \$200,000, and Total assets < \$500,000	990-EZ or 990	Instructions At IRS.gov
Gross receipts ≥ \$200,000, or Total assets ≥ \$500,000	990	CPA prep recommended
Private foundation - regardless of financial status	990-PF	N/A