

Getting It Right

The Basics of
Nonprofit Financial Statements



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Goals for Today

- Generate a list of questions about nonprofit financial statements.
- Explain basic financial terms as they relate to nonprofit organizations
- Learn to navigate standard nonprofit financial statements
- Questions and Answers
- Evaluate

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Key Financial Terms

- Assets
 - Financial resources for use in accomplishing our organization's mission. These can be either Current Assets which are readily accessible (like cash), or Long-Term Assets which take more time and effort to access (like certain stock investments or property and equipment).
- Liabilities
 - Financial obligations owed by our organizations. These can take many forms such as accounts payable, salaries payable, payroll taxes payable, deferred revenue for work not yet performed, or any other service or money owed to another party.

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Key Financial Terms

- Support and Revenue
 - For nonprofits, the important question is:
 - When do we count the income as income?
 - Hoped for vs. Pledged vs. Committed vs. Received
 - Is it restricted to a specific purpose or condition?
 - Is it restricted to a specific time?
- Expenses
 - Like revenue, we need to know when to report:
 - Did we receive an invoice?
 - When did the activity covered by the expense occur?
 - Was the expense related to a specific grant or other specific source of revenue?

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Key Financial Terms

- Net Assets and Their Classifications
 - Unrestricted
 - Contributions received that have no donor-imposed restrictions. Often referred to as general support.
 - May also refer to the amount released from a temporary restriction.
 - Temporarily Restricted
 - Contributions received which have restrictions placed on their use by the donor. These restrictions can be satisfied by passage of specified time or fulfillment of specified purpose.
 - Permanently Restricted
 - Most often associated with endowments, these contributions are permanently restricted such that the principal balance of the gift may not be invaded. Examples could include a) endowed funds whose principal is allowed to accrue interest or income for the use of the organization or b) a gift of a building for permanent use as the organization's offices but not to be sold.

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What to Watch?

One of the most important line items to monitor for any nonprofit organization is the **Unrestricted Fund Balance** or **Total Unrestricted Net Assets**

You may find this line item on both the Statement of Activities and Statement of Financial Position

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Basic Types of Reports

- Statement of Financial Position

Basic financial report showing assets and liabilities as of a given date. This is a snapshot of your available resources and outstanding obligations, showing you what you have to work with.

This report is the equivalent of a balance sheet in a for-profit business and this information is recorded in the IRS Form 990, Part X, "Balance Sheet" section.

This report is required in order for your audited financial statements to be prepared in accordance with generally accepted accounting standards (GAAP).

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MNA Statement of Financial Position as of December 31, 2006

	Dec 31, 06	Dec 31, 05	\$ Change	% Change
ASSETS				
Current Assets				
Checking/Savings	145,819	35,644	110,174	309%
Accounts Receivable	19,478	9,014	10,465	116%
Other Current Assets	58,000	138	57,862	42051%
Total Current Assets	223,297	44,796	178,502	398%
Fixed Assets (net of depreciation)	524	294	230	78%
TOTAL ASSETS	223,821	45,090	178,732	396%
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts Payable	3,725	946	2,779	294%
Other Current Liabilities	12,536	8,081	4,456	55%
Total Liabilities	16,262	9,026	7,235	80%
Net Assets				
Unrestricted Net Assets	45,107	26,916	18,191	68%
Temporarily Restricted Net Assets	162,453	9,147	153,305	1676%
Total Net Assets	207,560	36,063	171,496	476%
TOTAL LIABILITIES AND NET ASSETS	223,821	45,090	178,732	396%

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Basic Types of Reports

•Statement of Activities

Basic financial report showing support and revenue, expenses, and the net effect on total assets for a given period. This is an historical record of activity for a given time period.

Similar to Income Statement or Profit & Loss Statement of a for-profit business, except that activity is separated based on its net asset classification: unrestricted, temporarily restricted, and permanently restricted. The unrestricted column of this report is reported on Part VIII, "Statement of Revenue" and Part IX, "Statement of Functional Expenses" of the new IRS Form 990.

This report is required in order for your audited financial statements to be prepared in accordance with generally accepted accounting standards (GAAP).

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MNA Statement of Activities

January 1, 2006 to December 31, 2006

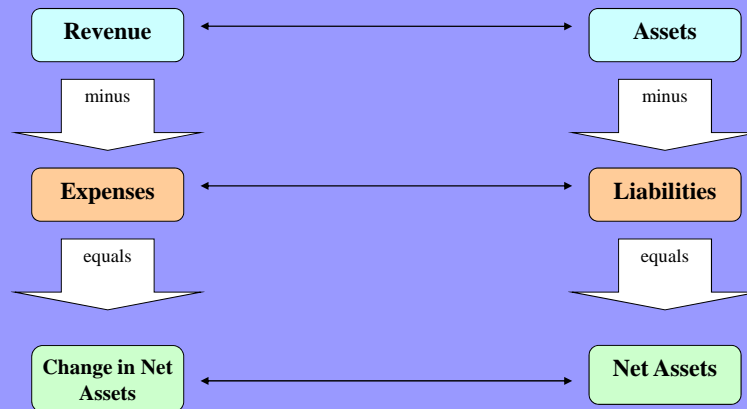
	Unrestricted	Temp Restricted	Total
Support and Revenue			
Membership Dues	58,180	0	58,180
Conference / Training Revenue	79,201	0	79,201
Program Fees	14,368	0	14,368
Foundations	0	200,832	200,832
All other sources	17,336	0	17,336
Net assets released from restrictions	47,527	(47,527)	0
Total Support and Revenue	216,611	153,305	369,916
Expenses			
Payroll Expenses	113,898	0	113,898
Contracted Services	40,842	0	40,842
Travel	8,344	0	8,344
Occupancy	7,513	0	7,513
All other expenses	27,823	0	27,823
Total Expenses	198,420	0	198,420
Increase (decrease) in net assets	18,191	153,305	171,496
Net assets at beginning of year	26,916	9,147	36,063
Net assets at end of year	45,107	162,453	207,560

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Relationship of Statement of Activities to Statement of Financial Position

Statement of Activities

Statement of Financial Position



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Other Basic Types of Reports

- **Budget vs. Actual**
Report comparing actual expenses for a given period to the budget for that same period. The actual expense column of this report is basically the same as the “Unrestricted” column on the Statement of Activities.
- **Statement of Functional Expenses**
Basic report listing expenses by function: programs services, fundraising, and management and general (administration). This report is required on IRS Form 990 and is commonly included in audited financial statements.

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MNA Budget vs. Actual

January 1, 2006 to December 31, 2006

	Actual	Budget	\$ Variance	% Variance
Support and Revenue				
Membership Dues	58,180	48,500	9,680	20.0%
Conference / Training Revenue	79,201	49,000	30,201	61.6%
Program Fees	14,368	13,000	1,368	10.5%
Foundations	0	69,500	(69,500)	-100.0%
All other sources	17,336	6,750	10,586	156.8%
Net assets released from restrictions	47,527	60,000	(12,473)	-20.8%
Total Support and Revenue	216,611	246,750	(30,139)	-12.2%
Expenses				
Payroll Expenses	113,898	107,958	5,940	5.5%
Contracted Services	40,842	49,300	(8,458)	-17.2%
Travel	8,344	21,650	(13,306)	-61.5%
Occupancy	7,513	6,216	1,297	20.9%
All other expenses	27,823	45,170	(17,347)	-38.4%
Total Expenses	198,420	230,294	(31,874)	-13.8%
Increase (decrease) in net assets	18,191	16,456	1,735	10.5%

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MNA Statement of Functional Expenses

January 1, 2006 to December 31, 2006

	Total	Program Services	Supporting Services	
			Management & General	Fundraising
Functional expenses				
Salaries and wages	99,139	90,023	6,389	2,726
Benefits and taxes	14,759	14,174	417	168
Contracted services	1,050	939	90	21
Supplies	2,566	2,427	133	6
Telephone	2,314	2,170	118	27
Postage and shipping	1,957	1,901	6	50
Occupancy	7,638	7,015	464	159
Equipment rental and maintenance	328	309	15	4
Printing and publications	7,954	7,940	0	13
Travel	6,324	6,285	35	4
Conferences, conventions & meetings	41,035	41,035	0	0
Depreciation expense	294	269	17	8
Other expenses	13,063	12,855	168	40
Total functional expenses	198,420	187,341	7,852	3,226

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Questions and Answers

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