



Not-for-Profit Financial Reporting: Understanding the Basics



Goals for Today

- Attain basic understanding of:
 - Types of financial reports a Board should expect to see for their organization
 - Common terminology used in NFP financial reporting
 - Purpose of each statement/section of a financial reporting package
 - Basic understanding of how typical financial transactions are reflected in the financial statements
- Improve your ability to serve as a fiduciary of your organization





Your Fiduciary Duty as a Board Member

BoardSource says:

“Fiduciary duty requires board members to stay objective, unselfish, responsible, honest, trustworthy, and efficient. Board members, as stewards of public trust, must always act for the good of the organization, rather than for the benefit of themselves. They need to exercise reasonable care in all decision making, without placing the organization under unnecessary risk.”



Your Fiduciary Duty as a Board Member



"I like the way these numbers look.
Good font choice, Higgins."

- One of the primary responsibilities of any nonprofit board member is to maintain the financial integrity of the organization they serve.
- Board members act as trustees of the organization's assets and must exercise due diligence and oversight to ensure that the nonprofit is well-managed and that its financial status remains sound.
- If you can't comprehend your organization's financial performance, how can you possibly fulfil this duty?





Not-for-Profit Financial Statements: Overview

Common components of a NFP's Financial Statement Reporting Package:

- Statement of Financial Position (aka Balance Sheet)
- Statement of Activities (aka Profit/Loss or Income Statement)
- Statement of Functional Expenses
- Statement of Cash Flows
- Footnotes



Accounting Methods

Two primary methods organizations use to track their finances:

- Cash Basis
 - Transactions recorded only when payment (cash) is received or paid
- Accrual Basis
 - Transactions recorded when they are incurred
 - When a sale is made
 - When a donation is awarded
 - When materials are ordered/received
 - When a service is provided to the organization





Accounting Methods – Cash Basis Pros and Cons

Pros:

- Simple - Essentially just shows deposits to your bank as revenue and disbursements from the bank as expenses.
- Provides an accurate and easy to understand picture of cash flows
- Certain tax benefits for For-Profit organizations

Cons:

- Does not comply with GAAP (Generally Accepted Accounting Principles)
 - Rarely an acceptable method for external reporting
- Does not track payables, loans, receivables, inventory, etc.
- Cannot match revenue against expenses in an accounting period
 - Example: Aim Conference revenue would primarily show in August/September (when registration/sponsorships received), but conferences expenses would show in October/November (when vendors are paid)





Accounting Methods – Accrual Basis Pros and Cons

Pros:

- Provides an accurate and more complete financial picture of the organization
- Easier to match revenues with expenses
 - Example: AIM Conference registration income and conference expenses would both be reflected in the October financial statements, regardless of when payments were made/received.
- Complies with GAAP (Generally Accepted Accounting Principles)
- Scales better as a business/organization grows

Cons:

- More complicated. Would require more bookkeeping expertise to record transactions properly
- Cash flow of the organization is far more difficult to understand from the financial statements



Cash Accounting

ABC Company has sales of \$6,000.
\$5,000 was collected in cash and \$1,000 that is still owed on accounts receivable.

They had monthly expenses of \$6,000; \$4,000 was paid in cash and they still owe \$2,000 on accounts payable.

	<u>Cash</u>	<u>Profit</u>
Sales	5,000	5,000
Expenses	- 4,000	- 4,000
	<hr/>	<hr/>
	1,000	1,000

Accrual Accounting

ABC Company has sales of \$6,000.
\$5,000 was collected in cash and \$1,000 that is still owed on accounts receivable.

They had monthly expenses of \$6,000; \$4,000 was paid in cash and they still owe \$2,000 on accounts payable.

	<u>Cash</u>	<u>Profit</u>
Sales	5,000	6,000
Expenses	- 4,000	- 6,000
	<hr/>	<hr/>
	1,000	0



Statement of Financial Position

Habitat for Humanity of Michigan, Inc. and Subsidiary
Consolidated Statement of Financial Position
June 30, 2021
 (With Summarized Comparative Information as of June 30, 2020)

	2021	2020
Assets		
Cash and cash equivalents	\$ 1,639,270	\$ 926,705
Receivables		
Trade accounts receivable	11,148	64,105
Contributions receivable	196,685	205,478
Loans receivable - net	1,433	-
Total receivables	209,266	269,583
Prepaid expenses and other assets	28,980	22,718
Grant advances	41,454	-
Funds held at Capital Region Community Foundation	67,480	51,998
Property and equipment - net	40,984	45,353
Total assets	\$ 2,027,434	\$ 1,316,357
Liabilities and Net Assets		
Liabilities		
Accounts payable	187,240	235,058
Deferred revenue	12,150	350
Accrued liabilities and other	85,028	55,568
Capital leases payable	10,761	14,099
Refundable advance - PPP proceeds	-	112,000
Loan payable - New Venture Fund	260,000	-
Total liabilities	555,179	417,075
Net Assets		
Without donor restrictions	739,800	298,890
With donor restrictions (note 9)	732,455	600,392
Total net assets	1,472,255	899,282
Total liabilities and net assets	\$ 2,027,434	\$ 1,316,357



Statement of Financial Position

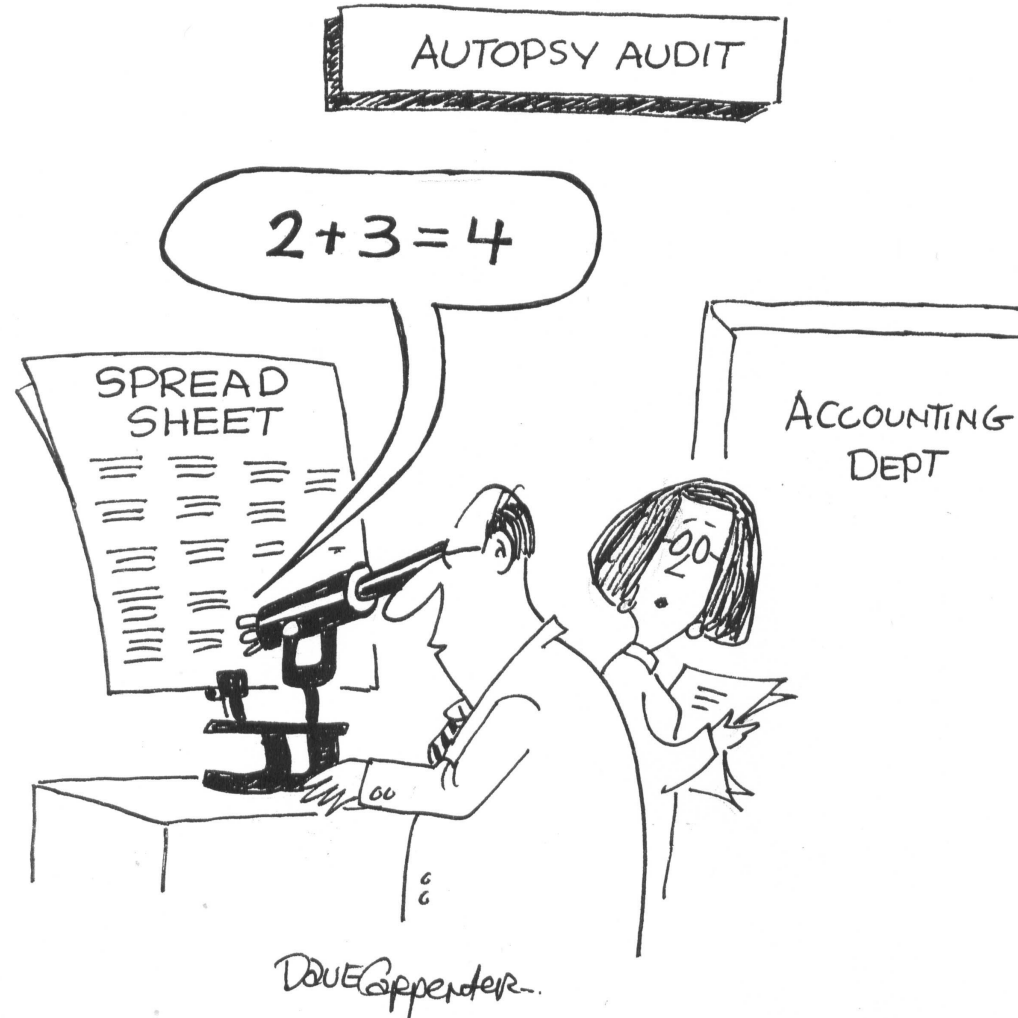
- Shows three basic components of your organization's finances:
 - Assets (what you own)
 - Liabilities (what you owe)
 - Net Assets (equity)
- Snapshot of your where your organization stands financially at a specific point in time
- $\text{Assets} = \text{Liabilities} + \text{Net Assets}$
- $\text{Net Assets} = \text{Assets} - \text{Liabilities}$

Assets



Liabilities
Net Assets



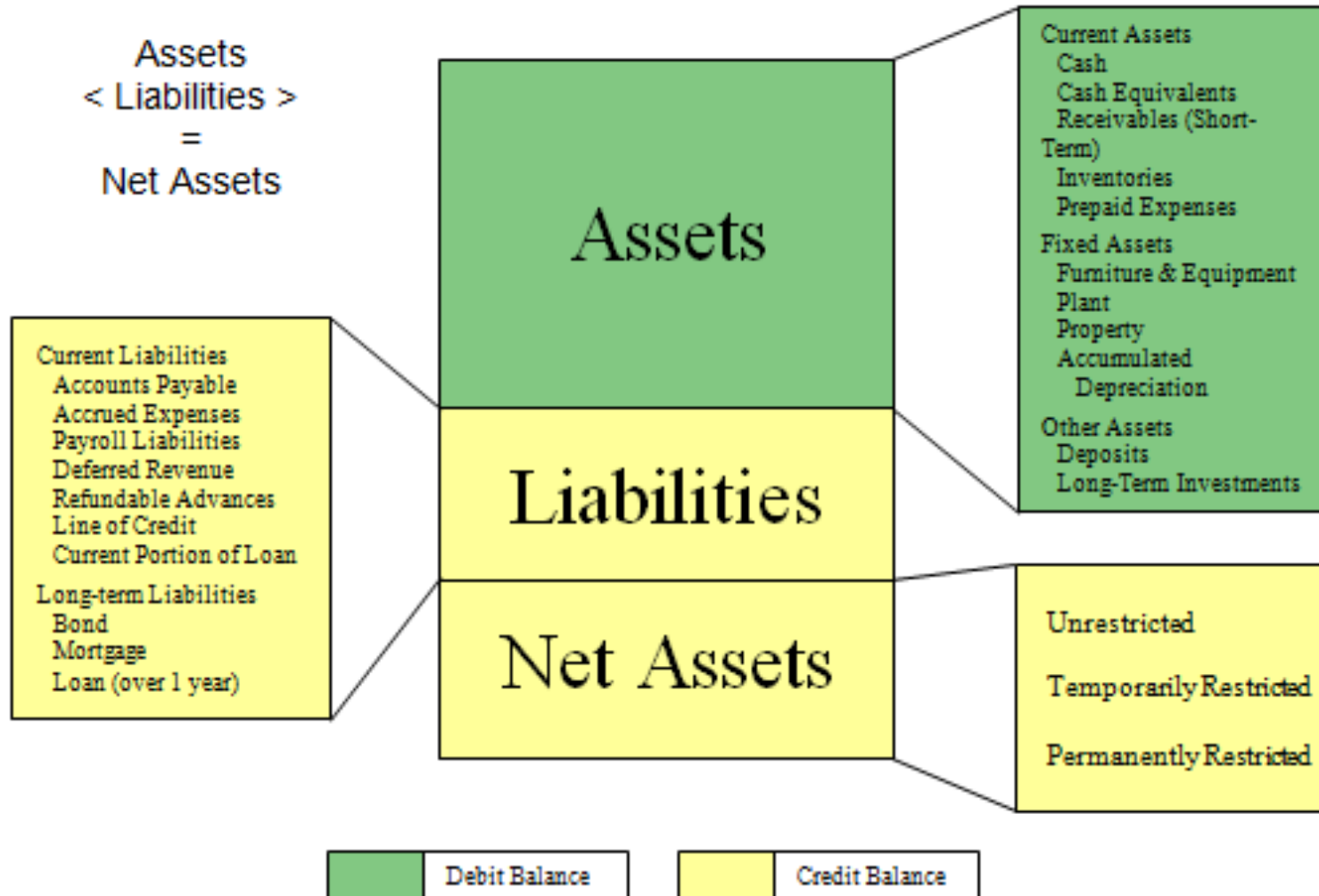


"There it is! I've isolated the origin of the firm's demise."



Statement of Financial Position

STATEMENT OF FINANCIAL POSITION - DIAGRAM



Statement of Financial Position - Assets



- Asset definition:

A resource with economic value that an individual, corporation, or government owns or controls with the expectation that it will provide a future benefit

- Sorted by how quickly they can be converted to cash on Statement of Financial Position
- Common examples:
 - Cash
 - Prepaid Expenses
 - Accounts Receivable
 - Inventory
 - Investments
 - Loans/Notes Receivable
 - Property and equipment

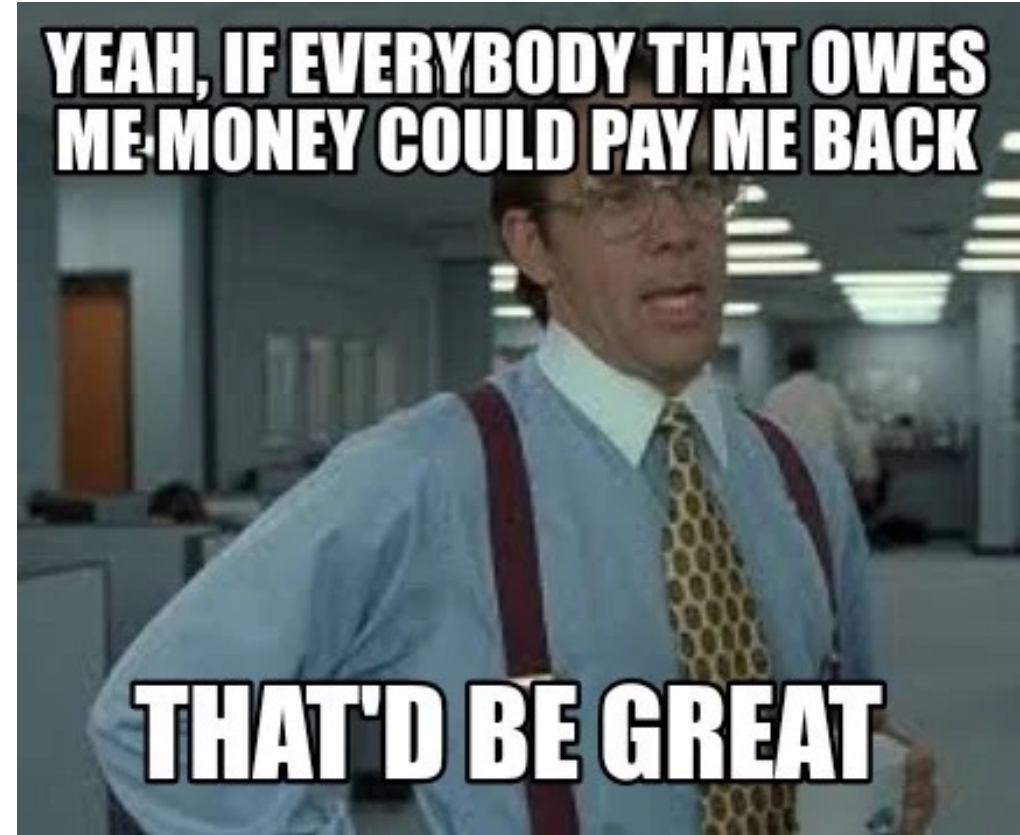


Statement of Financial Position - Liabilities

- Liability definition:

Something a person or company owes, usually a sum of money, that are settled over time through the transfer of economic benefits including money, goods or services.

- Sorted based on their due dates (i.e., how quickly you expect them to be paid off) on the Statement of Financial Position
- Common examples:
 - Accounts Payable
 - Payroll owed to employees
 - Deferred revenue
 - Loans Payable (i.e., notes or mortgages)



Statement of Financial Position – Net Assets



The property's value

=\$500,000



Minus money you owe
on the property

=\$200,000



Your equity

=\$300,000

- Net Asset definition:

What would remain if your organization sold off all its assets and paid off all its liabilities.

- Similar concept to what “equity” is in the for-profit world; this would be the leftover money the shareholders and partners actually own after all debts are settled.
- Categorized based on existence or absence of donor restrictions
 - With Donor Restrictions
 - Temporarily restricted
 - Permanently restricted
 - Without Donor Restrictions
 - Board Designated
 - Unrestricted undesignated





Statement of Financial Position – Net Assets

Net Assets With Donor Restrictions

- Portion of an NFP's net assets that are subject to donor/grantor-imposed restrictions, such when the funds can be used or for what purposes they can be used for
 - Temporarily restricted
 - Donor/grantor restrictions that are only temporary in nature, such as those that will be met by the passage of time or other events specified by the donor/grantor
 - Permanently restricted
 - Donor/grantor restrictions that are perpetual in nature, where the donor stipulates that resources must be maintained in perpetuity
 - E.g., corpus of an endowment fund





Statement of Financial Position – Net Assets

Net Assets Without Donor Restrictions

- Portion of an NFP's net assets that are available for use in general operations and not subject to donor/grantor restrictions
 - Unrestricted - Board Designated
 - Restrictions established by actions/policies of the organization's governing Board. Can be removed or changed through future actions taken by the Board.
 - Can include funds (without donor restrictions) set aside by the Board for things like:
 - Endowment funds
 - Operating reserves
 - Capital reserves
 - Unrestricted - Undesignated
 - Remaining portion of net assets without donor restrictions nor Board designations



Habitat for Humanity of Michigan

Net Asset/Fund Tracking

6/30/2022

	Consumers PHR Grants	Endowment Earnings (Temp Restricted)	Endowment (Perm Restricted)	Total Restricted Activity	Board Designated - Endowment	Board Designated - Operating Reserve	Board Designated - Fair Lending Services	Unrestricted Undesignated	Total Unrestricted Activity	Total Net Assets
Balance at 6/30/2021	\$ 241,737.14	\$ 8,805.99	\$ 20,463.00	\$ 732,455.65	\$ 38,211.17	\$ 234,630.00	\$ -	\$ 466,958.81	\$ 739,799.98	\$ 1,472,255.63
Current Period Contributions:										
July	\$ -	\$ 202.24	\$ -	\$ 702.24	\$ 264.03	\$ -	\$ -	\$ 67,873.24	\$ 68,137.27	\$ 68,839.51
August	\$ -	\$ 597.34	\$ -	\$ 15,892.41	\$ 779.83	\$ -	\$ -	\$ 224,920.85	\$ 225,700.68	\$ 241,393.09
September	\$ -	\$ (837.41)	\$ -	\$ 354,339.99	\$ (1,093.26)	\$ -	\$ -	\$ 149,860.56	\$ 148,567.30	\$ 502,907.29
October	\$ -	\$ 1,050.66	\$ -	\$ 134,508.67	\$ 1,371.66	\$ -	\$ -	\$ 224,049.16	\$ 225,420.82	\$ 359,927.49
November	\$ -	\$ (530.23)	\$ -	\$ 2,225.67	\$ (692.23)	\$ -	\$ 50,000.00	\$ 117,912.38	\$ 167,220.15	\$ 169,445.82
December	\$ -	\$ 946.08	\$ 500.00	\$ 27,249.87	\$ 1,235.13	\$ -	\$ -	\$ 175,797.11	\$ 177,032.24	\$ 204,282.11
January	\$ -	\$ (1,340.74)	\$ -	\$ 11,455.28	\$ (1,750.36)	\$ 126,884.00	\$ -	\$ (20,486.25)	\$ 104,647.39	\$ 116,102.67
February	\$ -	\$ (605.20)	\$ -	\$ 15,418.34	\$ (790.11)	\$ -	\$ -	\$ 86,248.37	\$ 85,458.26	\$ 100,876.60
March	\$ -	\$ 328.26	\$ -	\$ 16,631.86	\$ 421.22	\$ -	\$ -	\$ 196,704.31	\$ 197,125.53	\$ 213,757.39
April	\$ 100,000.00	\$ (1,791.18)	\$ -	\$ 206,994.82	\$ (2,298.44)	\$ -	\$ -	\$ 466,199.75	\$ 463,901.31	\$ 670,896.13
May	\$ -	\$ 72.35	\$ -	\$ 10,072.35	\$ 92.85	\$ -	\$ -	\$ 192,993.46	\$ 193,086.31	\$ 203,158.66
June	\$ -	\$ (1,817.72)	\$ -	\$ 96,277.98	\$ (2,332.51)	\$ -	\$ -	\$ 323,353.30	\$ 321,020.79	\$ 417,298.77
YTD Income/Contrib.	\$ 100,000.00	\$ (3,725.55)	\$ 500.00	\$ 891,567.48	\$ (4,792.19)	\$ 126,884.00	\$ 50,000.00	\$ 2,205,226.24	\$ 2,377,318.05	\$ 3,268,885.53
Subtotal	\$ 341,737.14	\$ 5,080.44	\$ 20,963.00	\$ 1,624,023.13	\$ 33,418.98	\$ 361,514.00	\$ 50,000.00	\$ 2,672,185.05	\$ 3,117,118.03	\$ 4,741,141.16
Current period restrictions met:										
July	\$ -	\$ -	\$ -	\$ 24,196.22	\$ -	\$ -	\$ -	\$ 117,554.84	\$ 117,554.84	\$ 141,751.06
August	\$ 29,123.97	\$ -	\$ -	\$ 65,216.99	\$ -	\$ -	\$ -	\$ 235,460.97	\$ 235,460.97	\$ 300,677.96
September	\$ 31,407.00	\$ -	\$ -	\$ 60,849.89	\$ -	\$ -	\$ -	\$ 187,121.89	\$ 187,121.89	\$ 247,971.78
October	\$ 1,800.00	\$ -	\$ -	\$ 23,919.88	\$ -	\$ -	\$ -	\$ 249,863.75	\$ 249,863.75	\$ 273,783.63
November	\$ 4,881.06	\$ -	\$ -	\$ 59,047.89	\$ -	\$ -	\$ -	\$ 225,450.81	\$ 225,450.81	\$ 284,498.70
December	\$ 14,305.00	\$ -	\$ -	\$ 62,563.26	\$ -	\$ -	\$ -	\$ 166,641.82	\$ 166,641.82	\$ 229,205.08
January	\$ 4,923.00	\$ -	\$ -	\$ 53,946.83	\$ -	\$ 8,710.50	\$ -	\$ 151,936.73	\$ 160,647.23	\$ 214,594.06
February	\$ 3,132.00	\$ -	\$ -	\$ 38,589.66	\$ -	\$ 8,710.50	\$ -	\$ 147,598.53	\$ 156,309.03	\$ 194,898.68
March	\$ 2,705.05	\$ -	\$ -	\$ 34,917.36	\$ -	\$ 8,710.50	\$ -	\$ 244,670.81	\$ 253,381.31	\$ 288,298.66
April	\$ 7,547.00	\$ -	\$ -	\$ 131,801.56	\$ -	\$ 8,710.50	\$ -	\$ 227,137.63	\$ 235,848.13	\$ 367,649.69
May	\$ 1,060.00	\$ -	\$ -	\$ 41,868.65	\$ -	\$ 8,710.50	\$ -	\$ 245,707.10	\$ 254,417.60	\$ 296,086.25
June	\$ 16,646.50	\$ -	\$ -	\$ 198,319.41	\$ -	\$ 15,008.78	\$ -	\$ 243,561.00	\$ 258,569.78	\$ 456,889.19
Total Expenditures	\$ 117,530.58	\$ -	\$ -	\$ 795,037.59	\$ -	\$ 58,561.28	\$ -	\$ 2,442,705.87	\$ 2,501,267.15	\$ 3,296,304.74
Ending Balance	\$ 224,206.56	\$ 5,080.44	\$ 20,963.00	\$ 828,985.54	\$ 33,418.98	\$ 302,952.72	\$ 50,000.00	\$ 229,479.18	\$ 615,850.88	\$ 1,444,836.42
Net Change =	\$ (17,530.58)	\$ (3,725.55)	\$ 500.00	\$ 96,529.89	\$ (4,792.19)	\$ 68,322.72	\$ 50,000.00	\$ (237,479.63)	\$ (123,949.10)	\$ (27,419.21)



Statement of Activities and Changes in Net Assets

Habitat for Humanity of Michigan, Inc. and Subsidiary
 Consolidated Statement of Activities and Changes in Net Assets
 For the Year Ended June 30, 2021

(With Summarized Comparative Information for the year ended June 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2021	2020
Revenue, gains, and support				
Fee for services	\$ 123,113	\$ -	\$ 123,113	\$ 206,087
Contributions	443,725	483,044	926,769	819,579
Federal grants	700,231	-	700,231	390,629
State grants	1,524,657	-	1,524,657	815,389
Investment income - net	7,816	6,369	14,185	(1,560)
Interest income	1,025	562	1,587	2,009
Miscellaneous income	1,264	-	1,264	3,606
Net assets released from restrictions	357,912	(357,912)	-	-
Total revenue, gains, and support	3,159,743	132,063	3,291,806	2,235,739
Expenses				
Program expenses				
Community and affiliate support	2,484,634	-	2,484,634	1,632,185
Support Services				
Management and general	214,215	-	214,215	318,067
Fundraising	19,984	-	19,984	64,741
Total expenses	2,718,833	-	2,718,833	2,014,993
Change in net assets	440,910	132,063	572,973	220,746
Net assets at beginning of year	298,890	600,392	899,282	678,536
Net assets at end of year	\$ 739,800	\$ 732,455	\$ 1,472,255	\$ 899,282



Statement of Activities and Changes in Net Assets

- Shows the income and expenses of your organization (i.e. its financial activities) over a period of time.
- Also shows the change in your organization's net assets from the beginning of the year to the end of the year
- Very similar to a For-Profit company's Profit & Loss (P&L) statement, but a negative change in net assets is not necessarily a bad thing like a lose on a P&L would indicate
- Expenses categorized by "natural" and/or "functional" classification
 - Natural – Printing, salaries, supplies, postage, etc.
 - Functional – Home repair program, Housing Counseling program, Prison Build program, general administration, fundraising.





Statement of Activities and Changes in Net Assets

Change in Net Assets vs. Profit/Loss Example:

- Habitat Michigan (HFHM) began the year with \$242k in restricted net assets, funds collected in previous years and earmarked for a specific purpose, like making home repair to Habitat affiliates.
- HFHM spent (or "released") \$117k of this money to issue repair grants to affiliates and received another \$100k to add to the restricted net asset balance
- \$242k starting balance - \$117k "released" + \$100k restricted donations received = \$224k remaining at end of the year; a "loss" of \$17k
- HFHM didn't take a loss - we simply used the funds for their intended purpose!

	Consumers PHR Grants
Balance at 6/30/2021	\$ 241,737.14
Current Period Contributions:	
July	\$ -
August	\$ -
September	\$ -
October	\$ -
November	\$ -
December	\$ -
January	\$ -
February	\$ -
March	\$ -
April	\$ 100,000.00
May	\$ -
June	\$ -
YTD Income/Contrib.	\$ 100,000.00
Subtotal	\$ 341,737.14
Current period restrictions met:	
July	\$ -
August	\$ 29,123.97
September	\$ 31,407.00
October	\$ 1,800.00
November	\$ 4,881.08
December	\$ 14,305.00
January	\$ 4,923.00
February	\$ 3,132.00
March	\$ 2,705.05
April	\$ 7,547.00
May	\$ 1,060.00
June	\$ 16,648.50
Total Expenditures	\$ 117,530.58
Ending Balance	\$ 224,206.56
Net Change =	\$ (17,530.58)



Statement of Functional Expenses



"We could hire another accountant and secretary, but wouldn't it be fun to have a barista?"

- Shows the organization's expenses from the Statement of Activities and Changes in Net Assets, but categorized by the "function" of each expense
- Functions include specific programs, administrative/general, and fundraising expenses of the NFP
- Functional expense reporting required for NFP's annual Form 990
- Portion of expenses used for programs vs. administrative costs is important to many donors
 - Your 990s are publicly available!





Statement of Functional Expenses

- CEO receives a salary of \$100k, this statement shows how much of their time (i.e. what percentage of their salary) is spent on management vs. fundraising vs. programs.
- What portion of your printing and postage costs are used for program needs versus administrative needs? This statement gives you a clearer idea of exactly what you're spending money on.
- NFP should have a process for determining what function each expense should be classified to or a standard method for allocating costs shared across programs such as by:
 - Assigning staff to specified departments/programs
 - Allocating office expenses based on square footage used for program vs. admin staff
 - Allocating salaries based on hours worked for specific programs





AFFILIATES IN MOTION CONFERENCE

INNOVATING

Serving and Building Communities Together

Statement of Cash Flows



I didn't talk when they had me on the rack, or used thumb screws. But when they started to explain a cash flow statement...



Transaction Examples

(ASSETS + \$100)

LIABILITIES + (NET ASSETS + \$100)

The organization receives a \$100 cash donation. Assets and Net Assets increase.

(ASSETS - \$100)

LIABILITIES + (NET ASSETS - \$100)

The organization spends \$100 on office supplies. Assets and Net Assets decrease.

ASSETS

(LIABILITIES + \$100) + (NET ASSETS - \$100)

The organization receives an electric bill for \$100, which remains unpaid. Liabilities increase and Net Assets decrease.





“A raise?! In my day, if we needed more money, we just borrowed it.”



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