

A Board Member's Guide to Nonprofit Financial Statements

Board members are legally responsible for the organization's finances, and most were never taught how nonprofit statements differ from business ones. This guide explains the four reports you will see at board meetings, what to look at first in each, and the questions worth asking.

The one idea to take away: nonprofits separate money with donor restrictions from money without. A healthy-looking bank balance can be mostly money donors have already earmarked. Always ask how much is unrestricted.

Statement of financial position

The nonprofit balance sheet. What you own, what you owe, and the difference, called net assets.

What to look at first

- **Cash against monthly expenses.** Divide cash by average monthly spending to get months of cash on hand. Under three is worth a conversation.
- **Net assets with donor restrictions.** Money donors have told you how or when to spend. It is not available for general operations, however large the cash balance looks.
- **Receivables.** Pledges and grants promised but not yet received. Ask how old they are and whether all of them will arrive.
- **Liabilities.** Accrued payroll, unpaid bills, deferred revenue, loans. Anything growing month after month needs an explanation.

Statement of activities

The nonprofit income statement. Revenue and expenses for the period, split into activity with and without donor restrictions.

What to look at first

- **The change in net assets without donor restrictions.** This is the closest thing to profit or loss on your general operations. A large restricted grant can make the bottom line look healthy while operations run at a loss.
- **Net assets released from restriction.** Restricted money moving into unrestricted as it is spent. If this line is empty all year, the releases are not being recorded.
- **Revenue concentration.** How much comes from your largest funder. Losing a source that provides a third of revenue is a board-level risk.

Statement of functional expenses

Expenses by nature (salaries, rent, supplies) and by function (programs, management and general, fundraising). The same split appears on Form 990 Part IX.

What to look at first

- **Is the split based on something?** Timesheets or a time study for salaries, square footage or headcount for shared costs. A split that never changes from year to year is usually a guess.
- **Fundraising cost.** If your executive director spends real time with donors, some of their salary belongs in fundraising. Showing zero is a red flag to auditors.

Budget against actual

Not a required statement, but the one your board will use most. Actual results beside the approved budget, with the difference.

What to look at first

- **Variances with explanations.** Every significant difference should come with a sentence explaining why. A number without a reason does not tell the board anything.
- **Timing against real problems.** A grant that arrived late is timing. Expenses running ahead of budget every month is a trend.

Ten questions worth asking

You do not need to be an accountant to ask these. A finance function in good shape can answer every one quickly.

- 1 How many months of operating expenses could we cover with unrestricted cash?
- 2 How much of our cash is restricted, and do the restricted fund balances agree with the balance sheet?
- 3 Did our general operations make or lose money this year, apart from restricted grants?
- 4 Which funder provides the largest share of revenue, and what is our plan if that funding ends?
- 5 Are we on track to spend each grant within its award period, or will we have to return money?
- 6 Are any grant reports, tax filings or payroll payments overdue?
- 7 What did the last audit or review find, and has each finding been fixed?
- 8 How do we decide how salaries are split between programs, administration and fundraising?
- 9 Who can move money, and does anyone other than that person review the bank activity?
- 10 Do our books agree with the Form 990 we last filed?

A few terms

Net assets	Assets minus liabilities. The nonprofit equivalent of equity.
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Donor restriction	A limit set by the donor on how or when a gift can be spent. Purpose restrictions and time restrictions are the two kinds.
Release from restriction	The entry that moves money from restricted to unrestricted once it has been spent on its purpose or its time has arrived.
Functional expenses	Expenses grouped by what they accomplished: program services, management and general, or fundraising.
ASC 958	The accounting standard that governs nonprofit financial statements in the US.
Form 990	The annual information return most tax-exempt organizations file with the IRS. It is public.

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