UNDERSTANDING NONPROFIT FINANCIAL STATEMENTS
BOOKMINDERS® CHEAT SHEET

For Profit		Nonprofit
Income Statement	=	Statement of Activities
Net Income	=	Change in Net Assets
Balance Sheet	=	Statement of Financial Position
Retained Earnings / Equity	=	Net Asset Balance

Statement of Activity = An organization's financial performance for a specific time period

Revenues – Expenses = Change in Net Assets

Statement of Financial Position = an organization's cumulative financial position at any given point in time

Assets – Liabilities = Net Assets

A **Without Donor Restriction** contribution is free from any donor restrictions.

A **With Donor Restriction** contribution has donor-imposed restrictions that may be:

- removed by (1) the passage of time or (2) an act of the organization (including spending the funds for the donor-specified purpose)
- require that the initial funds must remain unspent

Income Recognition:

When EARNED: In Kind Contribution, Conditional Contribution, or Exchange Transactions

When NOTIFIED: Unconditional Contribution, Donation, Pledge, & Grant

A contribution promised that includes a right of return/release AND a barrier (not just a mere administrative requirement such as "submitting an annual report") – accounting under FASB ASU 2018-08. FASB 116 states that unconditional contributions must be recorded as revenue when the organization is notified that a promise to give has been made – not when the cash or asset is received.

Expense Considerations:

What: The expenditure of funds – (i.e. Salaries or Office Supplies)

Why: The purpose of the expenditure – general purpose of the organization (i.e. Admin) vs. a specific program (i.e. Program Services)

Who: The funding source used to pay for the expenditures – with stipulations limiting the use (i.e. Restricted) vs. general purpose contributions, grants, or contract monies (i.e. Unrestricted)

Analyzing Financial Statements:

Reliance on Sources of Income = Largest Source of Income divided by Total Income

Fundraising Efficiency = Total Fundraising Expense divided by Total Contributions (excluding contracts)

Functional Expense Allocation = $\frac{\text{Program Svc Exp}}{\text{Total Expenses}}$ vs $\frac{\text{Fundraising Exp}}{\text{Total Expenses}}$ vs $\frac{\text{Admin Exp}}{\text{Total Expenses}}$

Current Ratio = Current Assets divided by Current Liabilities