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Navigating Nonprofit Financials: A Board Member's Guide to Reporting

May 22, 2025



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Presenting Today



Latha Saikrishnan

Signing Director

Latha currently serves with the Client Accounting and Advisory Services (CAAS) in the Northeast region. She has over 25 years of experience serving nonprofit organizations and for-profit entities. She specializes in indirect cost rate proposals, budgeting, financial reporting and automation. Latha joined CLA in Jan 2003.



Jackie Dodson

Consulting CFO

Jackie currently serves with the Client Accounting and Advisory Services (CAAS) in the Sunbelt region. She has 20 years of nonprofit accounting and finance experience and is a licensed CPA. She enjoys consulting with organizations on financial management and organizational processes in addition to accounting. Jackie joined CLA in March 2024.



Session CPE Requirements

- You need to attend 50 minutes to receive the full 1 CPE credit.
 - There will be 4 polling questions throughout the presentation. You must respond to a minimum of 3 to receive the full 1 CPE credit.

****Both requirements must be met to receive CPE credit****



Learning Objectives



Identify the key components of nonprofit financial statements, including the Statement of Financial Position, Statement of Activities, Statement of Functional Expenses, and Statement of Cash Flows.



Recognize the new revenue recognition standards and related risks, as well as the internal control and disclosure requirements.



Recall whether certain revenue transactions are contributions or exchange transactions.



Describe how to manage and report restricted funds, including donor-imposed restrictions and how they dictate the use and timing of funds.

Polling Question

How are you currently supporting a nonprofit organization?

- Board member
- CFO or finance staff
- Organization leader
- Volunteer
- Professional services firm
- Other





Nonprofit Financial Statements



Four Nonprofit Myths

01

Nonprofits
can't make
profits.

02

Nonprofits
must have
balanced
budgets.

03

Deficits are
better than
surpluses.

04

Revenue is
more
important than
assets.



Fiduciary Responsibility

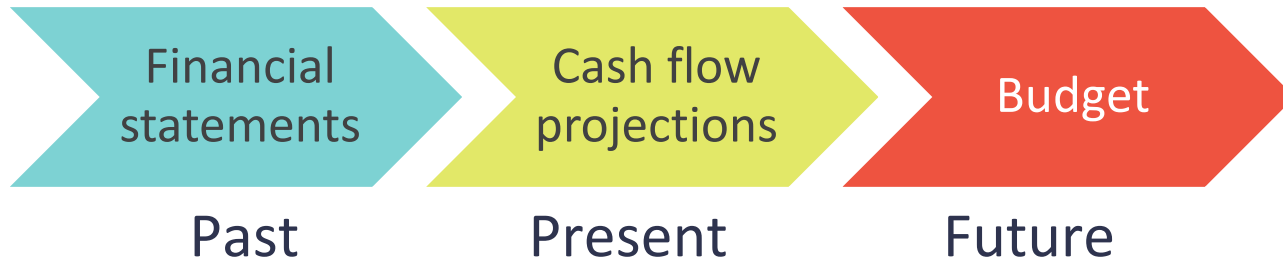
Financial oversight is a core responsibility of the board

- All board members:
 - Have equal and shared fiduciary responsibility
 - Understand the financial statements, tax returns and the audit
 - Confirm the protection and appropriate use of assets
 - Promote income-based spending
 - Discuss and adopt an annual budget



Financial Basic #1

Financial information is based on periods of time.



Financial Basic #2

Numbers are meant to be compared.

Current year actual vs. current year budget

vs. last year actual

vs. five-year trend

vs. benchmarks



Financial Basic #3



Anticipation is the key to financial stability.



Management needs **time to adjust** if revenues are not coming in according to plan.

Polling Question

How optimistic are you on the current economic conditions and the impact to your organization?

- 5 = Very confident
- 4 = Confident
- 3 = Neutral
- 2 = Somewhat confident
- 1 = Not at all confident



Nonprofit Financial Statements

Statement of financial
position

Statement of
activities

Statement of
cash flows

Statement of
functional expenses



Cash Vs. Accrual Basis Accounting

Cash basis

- Income is recorded when cash is **received**.
- Expenses are recorded when cash is **paid**.

Accrual basis

- Income is recorded when **earned**.
- Expenses are recorded when **incurred**.



Statement of Financial Position

- Nonprofit balance sheet
- Snapshot at point in time
- Key components
 - Assets
 - Liabilities
 - Net assets
- Insight on financial stability
 - Assess operational capacity
 - Evaluate financial stability

Nonprofit Organization Statements of Financial Position December 31, 2024 and 2023		
	12/31/2024	12/31/2023
ASSETS		
Current Assets		
Cash & Cash Equivalents	2,822,585	3,273,932
Pledges Receivable	1,362,940	609,145
Other Current Assets	39,748	25,875
Total Current Assets	4,225,273	3,908,953
Fixed Assets	26,514	21,238
Other Assets	5,000	7,700
TOTAL ASSETS	4,256,787	3,937,890
LIABILITIES AND NET ASSETS		
Liabilities		
Current Liabilities		
Accounts Payable	38,721	113,516
Accrued Liabilities	34,814	114,454
Total Current Liabilities	73,535	227,969
Other Liabilities	84,496	20,000
Total Liabilities	158,031	247,969
Net Assets		
Net Assets without Donor Restrictions	2,392,044	3,059,876
Net Assets with Donor Restrictions	1,297,877	483,091
Change in Net Assets	408,835	146,954
Total Net Assets	4,098,756	3,689,921
TOTAL LIABILITIES AND NET ASSETS	4,256,787	3,937,890



Statement of Activities

- Nonprofit P&L
- Performance over period of time
- Key components
 - Revenue
 - Expenses
- Insight on financial performance
 - Fundraising effectiveness
 - Resource allocation

Nonprofit Organization Statements of Activities For the Years Ended December 31, 2024 and 2023		
	Jan - Dec 2024	Jan - Dec 2023
Revenue		
Corporate Contributions	1,162,437	500,396
Individual Contributions	18,760	16,258
Grant Revenue	995,280	1,587,745
Interest Income	108,669	32,984
In-Kind Contribution	10,000	-
Total Revenue	2,295,145	2,137,383
Expenses		
Program Expenses	962,493	1,097,705
Dues & Subscriptions	7,971	4,184
Insurance	10,815	8,126
Advertising & Marketing	228,769	291,271
Office Supplies	7,230	7,106
Rent & Facility	88,000	72,567
Salary & Benefits	539,532	500,755
Taxes & Licenses	7,476	428
Travel	12,949	1,650
Bank Charges & Fees	745	271
Depreciation Expense	10,331	6,367
In-Kind Expense	10,000	-
Total Expenses	1,886,310	1,990,429
Change in Net Assets	408,835	146,954



Statement of Cash Flows

- How cash is generated and used over a period of time
- Key components
 - Operating
 - Investing
 - Financing
- Insight on financial health
 - Transparency
 - Accountability
 - Compliance

Nonprofit Organization	
Statement of Cash Flows	
For the Year Ended December 31, 2024	
OPERATING ACTIVITIES	
Change in Net Assets	408,835
Adjustments to reconcile Change in Net Assets to Cash provided by operations:	
Accounts Receivable (A/R)	(753,794)
Prepaid Expenses	(19,440)
Accumulated Depreciation	10,331
Accounts Payable (A/P)	(74,794)
Accrued Expense	(79,073)
Total Adjustments to reconcile Change in Net Assets to Cash provided by operations:	(916,770)
Net cash provided by operating activities	(507,935)
INVESTING ACTIVITIES	
Fixed Assets	(15,608)
Security Deposits	7,700
Net cash provided by investing activities	(7,908)
FINANCING ACTIVITIES	
Long-Term Loan	64,496
Net cash provided by financing activities	64,496
Net cash increase/(decrease)	(451,347)
Cash at beginning of period	3,273,932
Cash at end of period	2,822,585



Statement of Functional Expenses

- Specific to nonprofit
- How resources are utilized
- Key components
 - Expenses
 - Functions
- Insight on financial efficiency
 - Transparency
 - Accountability
 - Compliance

Nonprofit Organization				
Statement of Functional Expenses				
For the Year Ended December 31, 2024				
	Program	Fundraising	Management & General	Total
Expenses				
Program Expenses	962,493	-	-	962,493
Dues & Subscriptions	4,783	1,594	1,594	7,971
Insurance	6,489	2,163	2,163	10,815
Advertising & Marketing	114,384	114,384	-	228,769
Office Supplies	4,338	1,446	1,446	7,230
Rent & Facility	52,800	17,600	17,600	88,000
Salary & Benefits	323,719	107,906	107,906	539,532
Taxes & Licenses	4,486	1,495	1,495	7,476
Travel	7,769	2,590	2,590	12,949
Bank Charges & Fees	447	149	149	745
Depreciation Expense	6,199	2,066	2,066	10,331
In-Kind Expense	10,000	-	-	10,000
Total Expenses	1,497,906	251,394	137,010	1,886,310



Form 990

- All federal Form 990's are posted to GuideStar, a website where forms can be viewed by anyone
- This means –
 - Open to the public
 - Open to donors
- Transparency, compliance and quality are key

Form 990 **Return of Organization Exempt From Income Tax** OMB No. 1545-0047

2022 **Open to Public Inspection**

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)
Do not enter social security numbers on this form as it may be made public.
Go to www.irs.gov/Form990 for instructions and the latest information.

Department of the Treasury
Internal Revenue Service

A For the 2022 calendar year, or tax year beginning **2022**, and ending **2022**

B Check if applicable:
☐ Address change
☐ Name change
☐ Initial return
☐ Final return/terminated
☐ Amended return
☐ Application pending

C Name of organization
Doing business as
Number and street (or P.O. box if mail is not delivered to street address) Room/suite
City or town, state or province, country, and ZIP+® or foreign postal code

D Employer identification number

E Telephone number

F Name and address of principal officer:

G Gross receipts \$

H Is this a group return for subsidiaries? ☐ Yes ☐ No
H(b) Are all subsidiaries included? ☐ Yes ☐ No
 If "No," attach a list. See instructions.

J Tax-exempt status: ☐ 501(c)(6) ☐ 501(c)(1) (Insert no.) ☐ 4947(a)(1) or ☐ 527

K Website: **M** Group exemption number

L Year of formation **M** State of legal domicile

Part I Summary

1 Briefly describe the organization's mission or most significant activities:

2 Check this box ☐ if the organization discontinued its operations or disposed of more than 25% of its net assets.

3 Number of voting members of the governing body (Part VII, line 1a) **3**

4 Number of independent voting members of the governing body (Part VII, line 1b) **4**

5 Total number of individuals employed in calendar year 2022 (Part V, line 2a) **5**

6 Total number of volunteers (estimate if necessary) **6**

7a Total unrelated business revenue from Part VIII, column (C), line 12 **7a**

7b Net unrelated business taxable income from Form 990-T, Part I, line 11 **7b**

Revenue

8 Contributions and grants (Part VIII, line 1h) **8**

9 Program service revenue (Part VIII, line 2g) **9**

10 Investment income (Part VIII, column (A), lines 3, 4, and 7d) **10**

11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e) **11**

12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12) **12**

Expenses

13 Grants and similar amounts paid (Part IX, column (A), lines 1–3) **13**

14 Benefits paid to or for members (Part IX, column (A), line 4) **14**

15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10) **15**

16a Professional fundraising fees (Part IX, column (A), line 11e) **16a**

b Total fundraising expenses (Part IX, column (D), line 25) **b**

17 Other expenses (Part IX, column (A), lines 11–14d, 11f, 12d, 13d, 14d, 15d, 16d, 17d, 18d, 19d, 20d, 21d, 22d, 23d, 24d, 25d, 26d, 27d, 28d, 29d, 30d, 31d, 32d, 33d, 34d, 35d, 36d, 37d, 38d, 39d, 40d, 41d, 42d, 43d, 44d, 45d, 46d, 47d, 48d, 49d, 50d, 51d, 52d, 53d, 54d, 55d, 56d, 57d, 58d, 59d, 60d, 61d, 62d, 63d, 64d, 65d, 66d, 67d, 68d, 69d, 70d, 71d, 72d, 73d, 74d, 75d, 76d, 77d, 78d, 79d, 80d, 81d, 82d, 83d, 84d, 85d, 86d, 87d, 88d, 89d, 90d, 91d, 92d, 93d, 94d, 95d, 96d, 97d, 98d, 99d, 100d) **17**

18 Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25) **18**

19 Revenue less expenses. Subtract line 18 from line 12 **19**

Assets and Liabilities

20 Total assets (Part X, line 16) **20**

21 Total liabilities (Part X, line 26) **21**

22 Net assets or fund balances. Subtract line 21 from line 20 **22**

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here Signature of officer **Date**

Type or print name and title

Paid Preparer Use Only Print/preparer's name Preparer's signature Date Check ☐ if self-employed PTIN

Print name Phone number **PTIN**

May the IRS discuss this return with the preparer shown above? See instructions ☐ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11282Y Form 990 (2022)



Financial Statement Analysis



Financial analysis enhances the story told by the financial statements.



It produces insights that allow the reader to form **judgments** and **questions**.



Financial analysis must always be done with an eye on context:

Program, core “business”
Age or lifecycle stage
Size

Characteristics of Financial Health

- Financially healthy nonprofits:
 1. Have sufficient financial resources to support stable programs.
 2. Have a ready source of cash, or access to cash, available in times of shortfalls.
 3. Are committed to income-based spending.
 4. Retain positive cash and net assets at the end of each year.
 5. Have established, or have specific plans to establish, an operating reserve to cover cash shortfalls and program growth.
 6. Have boards and management that hold themselves accountable for the financial stability of the organization.



Key Performance Indicators

- Current ratio
 - Current assets / current liabilities

$$\text{2024: } 4,225,273 \div 73,535 = 57.5$$

$$\text{2023: } 3,908,953 \div 227,969 = 17.1$$

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	12/31/2024	12/31/2023
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Liabilities		
Current Liabilities		
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TOTAL LIABILITIES AND NET ASSETS	4,256,787	3,937,890

Key Performance Indicators

- Days (or months) cash on hand
 - Cash / daily (or monthly) expenses

2024: $2,822,585 \div (1,886,310/365) = 546 \text{ days}$

2023: $3,273,932 \div (1,990,429/365) = 600 \text{ days}$

2024: $2,822,585 \div (1,886,310/12) = 18 \text{ months}$

2023: $3,273,932 \div (1,990,429/12) = 19 \text{ months}$

Nonprofit Organization Statement of Financial Position As of December 31, 2024 and 2023

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Current Assets		
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Nonprofit Organization Statement of Activities For the Year Ended December 31, 2024 and 2023

	Jan - Dec 2024	Jan - Dec 2023
Total Expenses	1,886,310	1,990,429
Change in Net Assets	408,835	146,954

Key Performance Indicators

- Program efficiency ratio
 - Program expense / total expense

2024: 1,497,906 / 1,886,310 = 79%

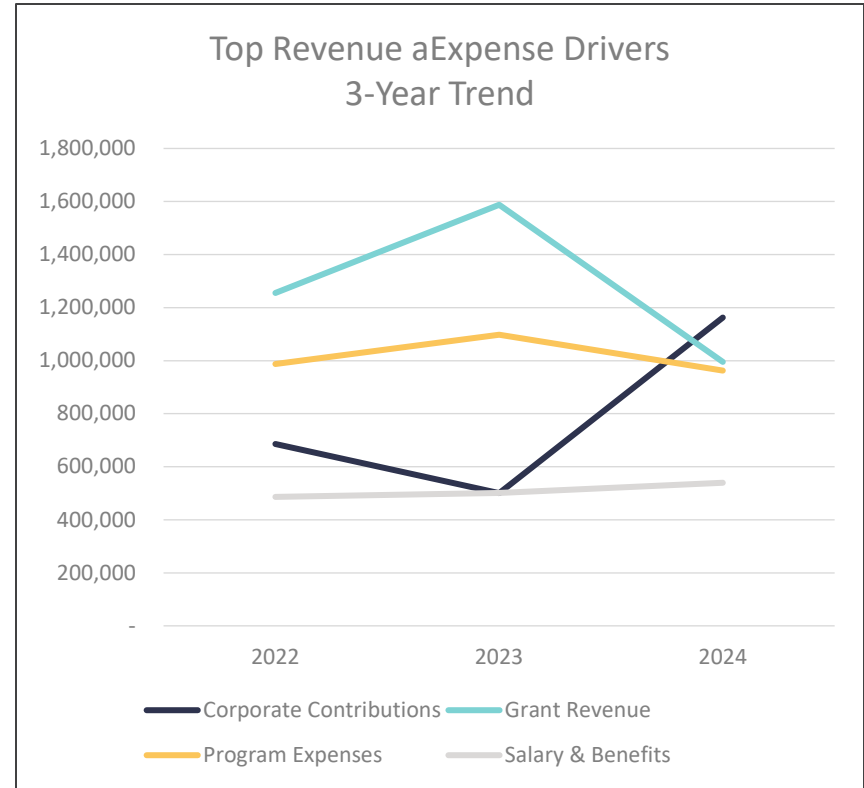
Nonprofit Organization Statement of Functional Expenses For the Year Ended December 31, 2024

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Expenses				
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In-Kind Expense	10,000	-	-	10,000
Total Expenses	1,497,906	251,394	137,010	1,886,310
Efficiency Ratios	79%	13%	7%	



Key Performance Indicators

- Trend analysis
 - Top revenue and expense drivers
 - Year over year





Revenue Recognition Standards



What's All This About Revenue Recognition?



Financial Accounting Standards Board (FASB) provides guidance on when we can report the revenue we receive and when we can use it.



Today we'll talk about how it affects:

Contracts and things like contracts
Contributions and things like contributions



Clarify the difference between:

reciprocal/exchange (contract-like)
transactions
nonreciprocal/nonexchange (contribution-like) transactions





Exchange Transactions



Five Steps to Evaluate

Step 1

- Identify contract

Step 2

- Identify performance obligations

Step 3

- Determine transaction price

Step 4

- Allocate transaction price

Step 5

- Recognize revenue



Types of Exchange Transactions



Membership dues



Conference and meetings



Program fees



Royalties/licensing agreements

Common Challenges

Recognizing
revenue in the
correct period

Allocation of
revenue to the
specific obligations

Satisfaction of
performance
obligations



Polling Question

I would like someone from CLA to contact me to discuss these services:

- Accounting and advisory
- Financial statement audit
- Tax return preparation
- Managing investments
- Nothing at this time





Grants and Contributions



Types of Contributions

(1) Donations and pledges

Contributions made by individuals or organizations, either as immediate donations or as pledges to donate in the future.

(2) Grants

Funds provided by government agencies, foundations, or corporations to support specific programs or projects.

(3) Bequests revenue

Contributions received from individuals' wills or estate plans, typically as a part of their legacy.

(4) In-kind contributions

Non-monetary donations such as goods, services, or volunteer time that support the nonprofit's operations.





FASB ASC 958 and Key Principles

FASB ASC 958

Comprehensive guidance for accounting and reporting by nonprofit entities, including grants and contributions. It aims to improve the clarity and consistency of financial statements for nonprofit organizations.

Recognition criteria

Revenue recognition criteria involve determining when and how to recognize different types of revenue streams. Contributions are recognized when received or promised unconditionally, while grants are recognized based on the terms of the grant agreement.

Measurement and disclosure

Determining the fair value of contributions and other revenue streams. Disclosure requirements include providing detailed information about the nature and amount of contributions received and any restrictions on their use.

Common Challenges

Misclassification
of revenue

Timing of
revenue
recognition

Documentation
of donor intent

Measurement of
in-kind
contributions

Regulatory and
compliance
challenges





Managing Restricted Funds



Two Categories of Restrictions

Without donor restriction

- Assets which are free of all donor-imposed restrictions and are therefore available for use by the organization subject only to those broad limits that relate to the nature of the organization, its by-laws, or its contractual agreements.

*All assets with **non-donor-imposed** limits, such as board designation for a specific purpose, are considered unrestricted.

With donor restriction

- Contributed assets received with donor-imposed limitations that may be removed by actions of the organization or that expire with the passage of time.
 - Purpose restricted
 - Time restricted
- *Previously “temporarily restricted” and “permanently restricted”



Management of Restricted Funds

- Is crucial for maintaining financial integrity and transparency within an organization.
- Involves ensuring that donations and grants are used strictly according to donor specifications.
- Requires meticulous tracking, clear documentation, and regular audits to maintain compliance and transparency.
- Includes balancing restricted and unrestricted funds to maintain operational flexibility and financial health.



Frequent Difficulties

- Miscommunication regarding donor intent
- Complexity in tracking and reporting
- Legal and ethical compliance
- Balancing funds with and without restrictions
- Resource allocation



Common Errors in NFP Financial Reporting: Restrictions



Types of restrictions: time and purpose

Many pledges have both
Documentation of donor intent



Implicit time restrictions (e.g., multi-year pledges)



Net asset classifications:

Board-designated reserves
Endowments
Restrictions



Disclosure of restrictions

Calculating the release of restrictions



Calculating and presenting perpetual endowments

Earnings on perpetual endowments
Disclosure of underwater endowments

Polling Question

Did you find the information in this CLA webinar helpful to you and your organization or business?

- Yes
- No



Thank you!

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