



Non-profit financial reporting:

Top 3 must-review items on your financial statement and how QuickBooks can help

Table of contents

01	Introduction
02	Key financial data points made simple
03	Item 1: Restricted vs unrestricted funds
06	Item 2: Revenue model structure
08	Item 3: Program costs
11	Final thoughts

Ready to learn more?

888-692-3621

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Introduction

Financial reporting is the lifeblood of non-profit organizations. An oversight-driven sector, non-profits rely on accurate, timely financial data throughout the year to present to board members and finance committees, comply with federal regulations, and ensure ample cash flow to support program services and long-term financial health. Financial reports show the organization's achievements in fulfilling its mission while also demonstrating effectiveness in handling revenue from donors, fundraising efforts and government grants against associated program expenses. QuickBooks can help you achieve this.

Non-profit groups understand the critical role financial reporting plays in communicating information to key constituents. As such, regular monthly reporting typically includes a Statement of Financial Position (balance sheet), a Statement of Activities (also known as the profit and loss statement (P&L or income statement), and other required reports unique to the organization.

Having real-time data on hand arms an organization's governing body (its Board of Directors) with the information necessary to make sound business decisions and ensure the viability and liquidity of the non-profit. Accurate reporting must also be maintained in the event of an audit.

Just like for-profit businesses, complete visibility of financial data at all times is necessary to make smart, informed economic decisions and maintain a strong inflow of cash. And all with the sole purpose of reinvesting profits back into the programs and services offered.

This eBook was created to provide you with an informative guide on the top KPIs (key performance indicators) for non-profits. We offer several tips throughout to help you maximize the power of QuickBooks to better manage your financials and ensure the sustainability and financial health of your organization.



Key financial data points made simple

Accounting and GAAP expert to non-profits, Megan Genest Tarnow, principal at The Mobius Group, deeply understands the reliance on financial reporting to the not-for-profit sector. "Non-profits are unique compared to many for-profit small businesses in that they do review financial statements regularly because of the overall structure of oversight and review. Boards or finance committees require monthly reporting to review financials and meet the budget-to-actual standard."

To help simplify financial reporting, Genest Tarnow offers three financial reporting items that non-profits should review each month. Additionally, as a QuickBooks ProAdvisor, she offers added insight into core system features that can save you valuable time and fuel business growth via deeper insight into business intelligence.

Item 1: Restricted vs unrestricted funds

It's important to have a clear understanding of what funds are restricted and those that are unrestricted. Restricted funds can be based on donor intent (money can only be used for a specific purpose as a result of designated giving or a designated timeframe. Restricted and unrestricted funds are one of the biggest differentiators between non-profit organizations and for-profit businesses. Donors can restrict contributions to either purpose or time (e.g., multi-year support).

According to Genest Tarnow, "Where non-profits tend to get into trouble is that they don't have a full understanding of what's restricted and what's not. They can't look at funds as one big pool of money...there needs to be a clear designation between restricted and unrestricted cash so they know what's available for them to spend."

Adding to the confusion, non-profits recently went from three categories of net assets to two. This means that non-profit organizations now have to report on net assets both with and without donor restrictions. On top of that, restricted assets can be categorized based on purpose, time or in perpetuity.

"The takeaway from all this is that non-profits need to know where their restricted funds are and whether funds are cash or receivable. This lets them know what is actually available for them to spend," explained Genest Tarnow. "This is why reviewing financial reporting every month is critical."

Simplifying data presentation is the key to helping stakeholders better understand the numbers. Within QuickBooks, Genest Tarnow sets up the P&L statement and balance sheet in three easy-to-follow columns: 1) [net assets] without donor restrictions, 2) [net assets] with donor restrictions and 3) total. "We use the very helpful Location feature in QuickBooks to set this up and simplify reporting for the client."

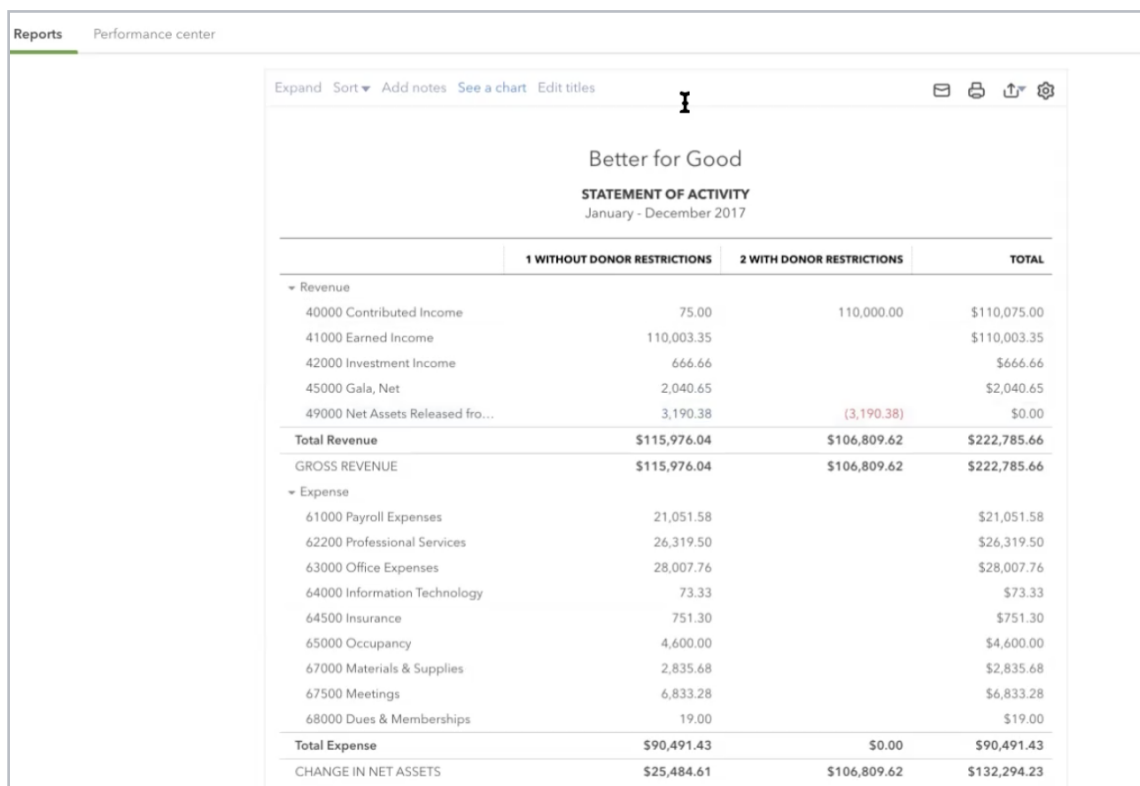
QuickBooks Tips:

The Location feature in QuickBooks is a helpful tag that can be applied to [revenue and expense transactions](#) in the system. This offers an easy way to categorize transactions and create a profit and loss statement that only shows transactions for the specific line of business that has been tagged. Note: The Location feature must be turned on in QuickBooks.

This is very useful for non-profits because it enables the P&L statement to be set up in three easy to follow columns: 1) without donor restrictions, 2) with donor restrictions and 3) total. From the dashboard, you can click on

any project to view the data in more detail. Within the individual project screen, you are presented with the profit margin percentage immediately at the top. Below the profit margin callout, QuickBooks does the math for you—breaking down the profit margin percentage to show income minus costs and the current profit in dollar amount.

“We work with each client to establish what their standard metric is for project profitability. The Project module offers a real-time snapshot of profit margin by project that we can review with the client to ensure they stay on track to hit their goals,” said Schulte.



Better for Good			
STATEMENT OF ACTIVITY			
January - December 2017			
	1 WITHOUT DONOR RESTRICTIONS	2 WITH DONOR RESTRICTIONS	TOTAL
▼ Revenue			
40000 Contributed Income	75.00	110,000.00	\$110,075.00
41000 Earned Income	110,003.35		\$110,003.35
42000 Investment Income	666.66		\$666.66
45000 Gala, Net	2,040.65		\$2,040.65
49000 Net Assets Released fro...	3,190.38	(3,190.38)	\$0.00
Total Revenue	\$115,976.04	\$106,809.62	\$222,785.66
GROSS REVENUE	\$115,976.04	\$106,809.62	\$222,785.66
▼ Expense			
61000 Payroll Expenses	21,051.58		\$21,051.58
62200 Professional Services	26,319.50		\$26,319.50
63000 Office Expenses	28,007.76		\$28,007.76
64000 Information Technology	73.33		\$73.33
64500 Insurance	751.30		\$751.30
65000 Occupancy	4,600.00		\$4,600.00
67000 Materials & Supplies	2,835.68		\$2,835.68
67500 Meetings	6,833.28		\$6,833.28
68000 Dues & Memberships	19.00		\$19.00
Total Expense	\$90,491.43	\$0.00	\$90,491.43
CHANGE IN NET ASSETS	\$25,484.61	\$106,809.62	\$132,294.23

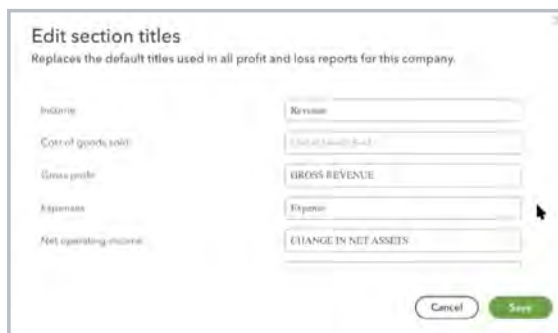
The ability to present an organized P&L with relevant location titles provides clients with an easy-to-understand snapshot of financial data.

You can also access the “Edit section titles” feature (available in a pop-up window) to quickly replace default titles and customize a client’s P&L statement.

“Non-profits don’t use certain accounting terminology such as “operating income” or “gross profits” so it’s a nice to be able to go in and edit those section titles to names that make the report line up better...so it’s more clear to clients,” explained Genest Tarnow.

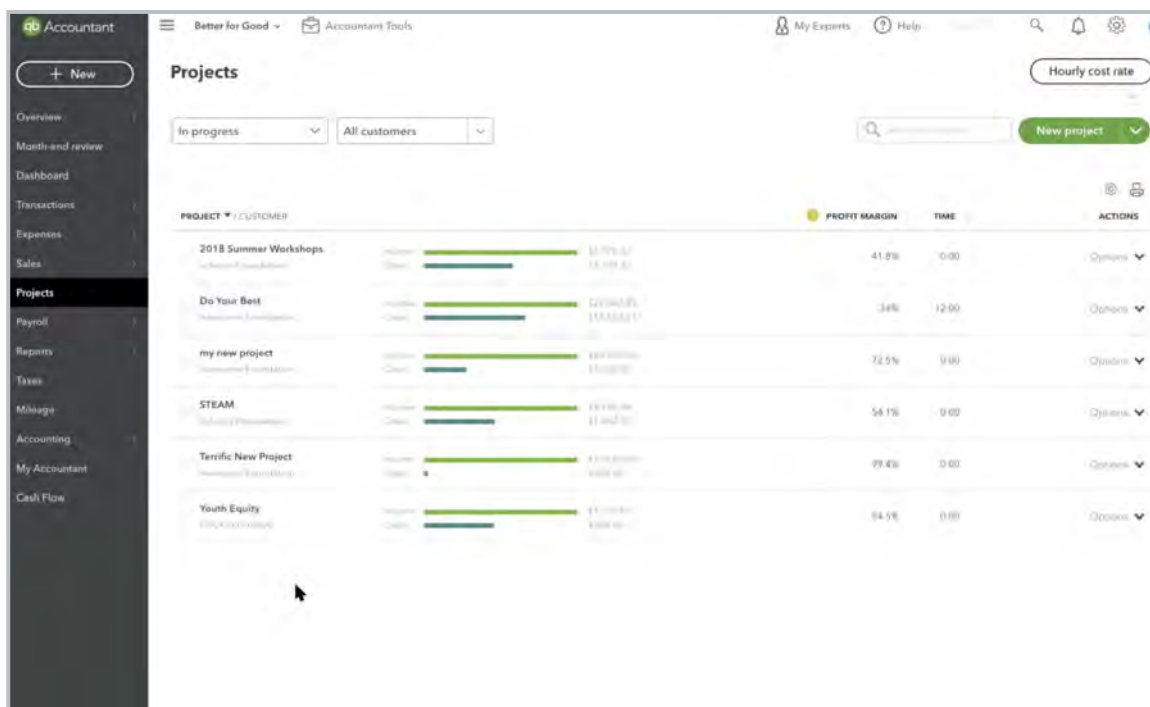
The Projects module is another feature that offers a quick overview of income versus costs on any given classes.

Genest Tarnow provided more insight: “When we have restricted grants that we are tracking



Use this feature to rename default sections of the report in the P&L and balance sheet

specific transactions back to, using the Projects module is great because we can quickly see the total amount that’s come in, what we’ve spent so far, and difference of what’s still in restriction.”



The Projects module offers at-a-glance visibility into income versus costs.



Item 2: Revenue model structure

Understanding the revenue model is the next must-review item. Typically, this is broken down into contributions (money donated) and earned income. The goal is to ensure that funds are appropriately balanced by tracking where they are coming into the organization. Reviewing the revenue model monthly allows the non-profit to make adjustments when funding is “out of whack.”

Genest Tarnow explained: “We look at the total earned income, the total contributed income, and then track what percentage of funds are coming from which area.”

From there, it’s important to dig down further into the numbers.

“Organizations should start with an overview of contributed versus earned and then drill down into each larger category to see where the money is coming from. Is it individual donors? Is it a foundation? Is it the government? In other words, is it coming from one “type” of customer.

The goal is to identify if the client has too many eggs in one basket and, if so, decide if we need to diversify income.”

QuickBooks Tips:

Providing data in a highly organized manner is essential with non-profits. There are so many types of funds that filter through an organization that it can quickly become a “big jumbled mess” according to Genest Tarnow. For example, a non-profit may create an income account for every grant received, which presents on the financial statement as a random pile of accounts.

To correct this issue and help refine the revenue structure, you can assign Parent accounts. This allows you to collapse detailed information under each Parent account within the Statement of Activity to help keep focus on the big picture.

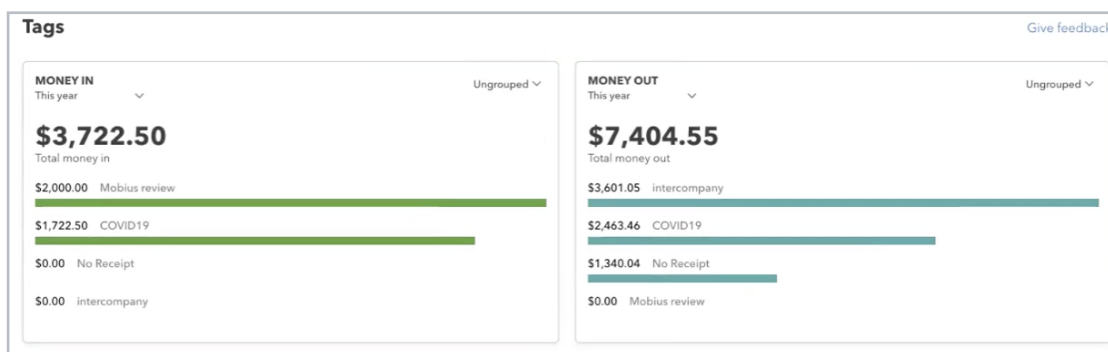
Clients who want to track costs for other activities beyond just programs can use the Tag feature in QuickBooks. Tags are an easy way to track expenses that you want to keep an eye on.

“I have a client that just wanted to see how much they were spending on their newsletter. It’s not a program and not a line item on the Chart of Accounts, but there are still expenses associated with it like design, printing and postage. Creating a tag allowed them to see exact costs,” said Genest Tarnow.

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STATEMENT OF ACTIVITY
January - December 2017

	1 WITHOUT DONOR RESTRICTIONS	2 WITH DONOR RESTRICTIONS	TOTAL
Revenue			
4000 Contributed Income	75.00	110,000.00	\$110,075.00
4100 Endowment Income	110,000.33		\$110,000.33
4200 Investment Income	666.66		\$666.66
4300 Grants, Fees	2,040.65		\$2,040.65
4400 Non-Assets Realization	6,790.88	(3,191.86)	\$3,599.02
Total Revenue	\$115,978.04	\$104,809.62	\$222,788.66
DETAILED REVENUE	\$115,978.04	\$104,809.62	\$222,788.66
Expenses			
4500 Payroll Expenses	91,891.54		\$91,891.54
4600 Professional Expenses	54,319.56		\$54,319.56
4700 Office Expenses	28,007.76		\$28,007.76
4800 Information Technology	43.33		\$43.33
4900 Insurance	111.30		\$111.30
5000 Entertainment	4,400.00		\$4,400.00
5100 Materials & Supplies	2,315.67		\$2,315.67
5200 Meetings	8,932.29		\$8,932.29
5300 Dues & Memberships	19.00		\$19.00
Total Expenses	\$90,891.63	\$0.00	\$90,891.63
CHANGE IN NET ASSETS	\$25,086.41	\$104,809.62	\$132,294.23

Organize data under parent accounts to keep reporting clean.



The Tags feature makes easy work of tracking anything the client wants to monitor.



Item 3: Program costs

Understanding program costs is at the heart of longevity and sustainability for non-profits. Because there are many expenses associated with program operations, non-profits need full visibility into financial data to best plan for the future, mitigate risk of cash shortfalls and appropriately report to the IRS.

“Non-profits are required by the IRS to report their expenses by function, which is whatever they decide their programs are, plus admin and fundraising. Historically, there have been watchdog organizations that look at admin and fundraising costs as a guide of sorts to measure the efficiency and effectiveness of the organization,” said Genest Tarnow. “More importantly for the non-profit, by understanding program costs, it helps to determine if they can support programs on their own or if they need to be subsidized with other contributions.”

Non-profits are highly regulated and monitored. This is why maintaining accurate and detailed records of program costs is so important. For example, the administrative part of running a program can include HR, insurance, accounting and Board expenses. The fundraising part can include anything related to marketing the organization and the raising of contributions, including the expense of office space, postage, copier use and so on. Every dollar spent on a given program must be calculated to maintain accurate, compliant reporting.

Reviewing program costs is sometimes an annual exercise. However, for non-profit groups where cash is tight and decisions on keeping or cutting programs must be made, monthly review is recommended.

QuickBooks Tips:

QuickBooks offers non-profit entities full visibility into financial data—to track and closely monitor all expenses associated with program operations. Complete transparency into the numbers allows stakeholders to gauge accurate costs, which include not only program operation expenses but also ancillary costs associated with admin and fundraising. All of this data is required for tax filings.

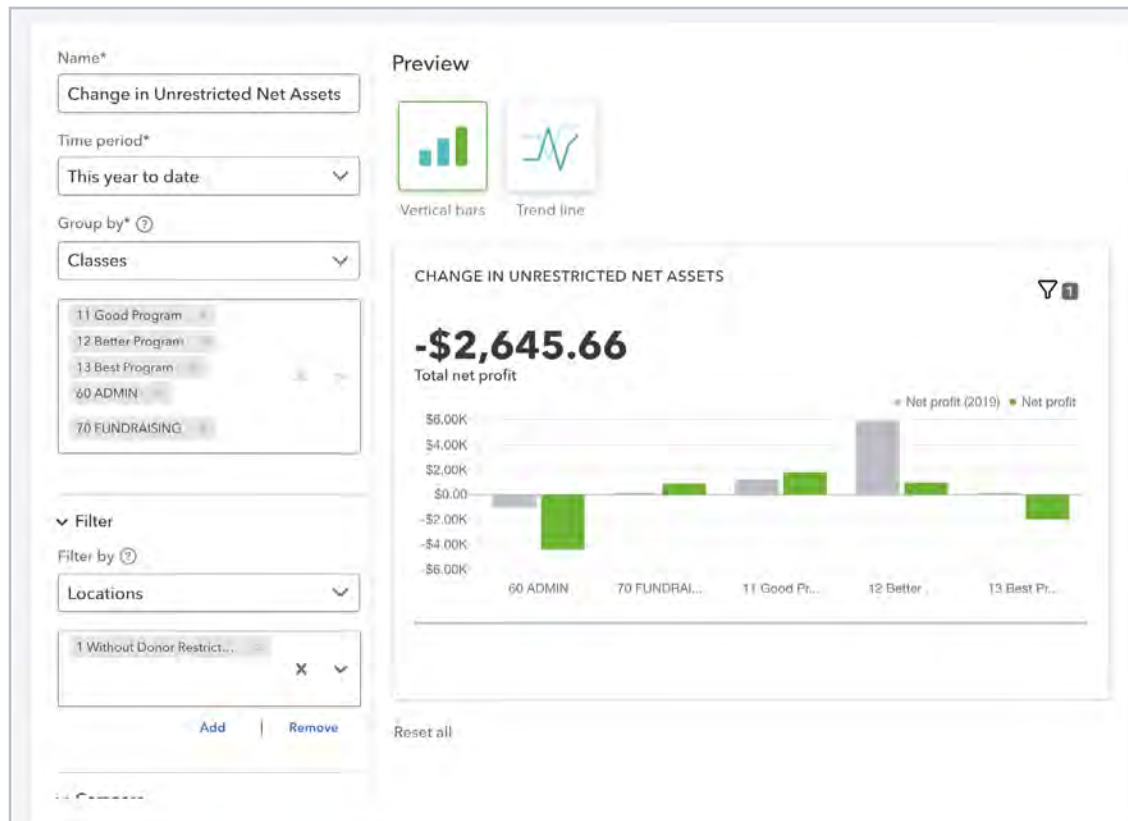
Genest Tarnow explained: “The first step is knowing the direct costs for each program for tax purposes. [Reporting in QuickBooks](#)

indicates program-by-program costs and allocates admin and fundraising costs across programs so you can see the cost of each.”

The Performance Center in QuickBooks (located under Reports) further extends visibility into the data—offering real-time intelligence by program in graph form. The Performance Center dashboard offers a single organized space to review data with clients.

Better for Good							
PROFIT AND LOSS BY CLASS							
January - December 2017							
	11 GOOD PROGRAM	12 BETTER PROGRAM	13 BEST PROGRAM	60 ADMIN	70 FUNDRAISING	99 SHARED	TOTAL
▼ Revenue							
40000 Contributed Income	100,000.00	10,000.00			75.00		\$110,075.00
41000 Earned Income	616.17	9,694.25	42,915.50	54,158.49	1,349.60	1,269.34	\$110,003.35
42000 Investment Income					666.66		\$666.66
45000 Gala, Net					2,040.65		\$2,040.65
Total Revenue	\$100,616.17	\$19,694.25	\$42,915.50	\$54,158.49	\$4,131.91	\$1,269.34	\$222,785.66
GROSS REVENUE	\$100,616.17	\$19,694.25	\$42,915.50	\$54,158.49	\$4,131.91	\$1,269.34	\$222,785.66
▼ Expense							
61000 Payroll Expenses	466.17	2,516.18	6,307.97	10,777.66	983.60	0.00	\$21,051.58
62200 Professional Services	150.00	1,400.00	14,614.50	10,155.00			\$26,319.50
63000 Office Expenses		126.93	26,769.25	1,111.58			\$28,007.76
64000 Information Technology				73.33			\$73.33
64500 Insurance				751.30			\$751.30
65000 Occupancy			400.00	4,200.00			\$4,600.00
67000 Materials & Supplies		1,727.46	389.22	719.00			\$2,835.68
67500 Meetings		5,592.00	949.23	292.05			\$6,833.28
68000 Dues & Memberships			19.00				\$19.00
Total Expense	\$616.17	\$11,362.57	\$49,449.17	\$28,079.92	\$983.60	\$0.00	\$90,491.43
CHANGE IN NET ASSETS	\$100,000.00	\$8,331.68	\$ (6,533.67)	\$26,078.57	\$3,148.31	\$1,269.34	\$132,294.23
▼ Allocate Change in Net Assets							
8500 (Increase)/ Decrease - A...		(1,522.06)	6,533.67	(26,078.57)	(3,148.31)	(1,269.34)	\$ (25,484.61)
8800 (Increase)/ Decrease - P...	(100,000.00)	(6,809.62)					\$ (106,809.62)
Total Allocate Change in Net A...	\$ (100,000.00)	\$ (8,331.68)	\$6,533.67	\$ (26,078.57)	\$ (3,148.31)	\$ (1,269.34)	\$ (132,294.23)
Total Allocation of Change in N...	\$ (100,000.00)	\$ (8,331.68)	\$6,533.67	\$ (26,078.57)	\$ (3,148.31)	\$ (1,269.34)	\$ (132,294.23)
Unallocated Change in Net Ass...	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Setting up the P&L by class offers a clear view of program costs.



View change in unrestricted net assets by program.

QuickBooks offers many features that help non-profit organizations leverage business intelligence to make smart, informed decisions throughout the year. Providing data to clients in an organized, easy-to-understand format arms them with the information required to stay on a healthy financial path.



Compare restricted and unrestricted changes in net assets year to date.

Final thoughts...

While not an exhaustive list, the tips offered in this eBook provide non-profits with sound advice on what to look for in their financial statements. By reviewing the key data points each month and leveraging the powerful features in QuickBooks, stakeholders can stay informed on cash flow, net and gross assets, profit margins, and the overall financial health and sustainability of their organization.

- **Learn more** about how QuickBooks can provide you with better data and insights to grow your non-profit organization:
[QuickBooks Online Advanced for reporting & insights.](#)



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