

KNOW YOUR AUDIENCE: WHO IS IT FOR?

When 501(c)3 small publishers work on their various financial documents they should understand who will want each one and why. Here is a brief list:

CASH FLOW REPORT/STATEMENT

Audience: **YOU and your Board**

Detailed, month-by-month cash flow reports/statements are not generally submitted to government entities, funders, donors, or the public in nonprofit accounting, but they can be crucial for YOU to be able to stay in business! They are also often provided to the board for oversight and accountability.

IRS FORM 990

Audience: **The IRS, but frequently also funders, donors, the public**

Your IRS Form 990 includes a statement of revenue and a statement of functional expenses (together they form a “statement of financial activity”) and a Balance Sheet (assets, liabilities, net assets). The Statement of Functional Expenses is unique to nonprofit accounting in that it shows donors how much of their donation went to programs versus fundraising or administration. Obviously the IRS is the primary audience for your 990 even though audits of tax exempt entities are uncommon. But 990s must also be made available upon request to anyone who asks (and can be accessed through Guidestar.org). If funders do not ask for 990s (or audited/reviewed financial statements) they may still choose to access them to provide context for your proposal budget and double-check your figures.

AUDITED/REVIEWED FINANCIAL STATEMENTS (includes Statement of Financial Position/Balance Sheet + Statement of Financial Activity/P&L + Statement of Functional Expenses + in the case of audited financials an analysis of errors/weaknesses often provided only to the Board)

Audience: **The BOARD, funders who require them, potentially donors and the public**

The usual way a board tests and comes to trust the figures of an organization is by having an independent auditor formally audit or review the org’s numbers and produce a report that includes financial statements. The government requires audited financial statements for organizations above a \$750K budget level. Under that threshold, the less costly and less in-depth “Financial Review” is recommended, and below an annual budget of 250K, just the Form 990 and “in-house” organizational budget will do for most funders. When requested by the public nonprofits do not legally have to provide anything beyond their most recent 990; however most organizations with formal financial reviews or audited financials will provide them to the public upon request as a general best practice.

GLOSSARY of SYNONYMS:

In accounting there are often multiple terms for the same thing. For instance:

> *Balance Sheet = Statement of Financial Position*

> *In nonprofit accounting, Income Statement = Earnings Report = Profit & Loss Statement = P&L = Operating Statement = “Statement of Financial Activity” i*

> *Equity = “Net Assets” in nonprofit accounting*