

7 Financial Reports Every Nonprofit Should Monitor

9 min read



The most successful nonprofit organizations – no matter how small or large – are run just like for-profit corporations, meaning their leaders know their numbers and use data-driven decision-making to guide the organization to mission success while expanding organizational impact.

Key Takeaways

- **Budget Performance (Nonprofit Budget vs. Actual):** The budget vs. actual can help you keep track of whether you're on target to achieve your annual fundraising goals and whether your spending is in check...
- **Development Scorecard:** A development scorecard is essential to nonprofits because it helps you determine where you're generating the greatest fundraising ROI so that you can determine the best way to invest money, people, and time into development strategies...
- **A Winning Strategy for Nonprofit Accounting:** Outsourced accounting is an excellent strategy for NPOs because it saves big time on labor costs while simultaneously helping to improve financial management and organizational health...

Recently, GrowthForce's founder and CEO, Stephen King appeared on Stephen Halasnik's [The Nonprofit MBA Podcast](#) to discuss the importance of financial reports for nonprofit leadership, management, and success.

In a nonprofit, especially in small or medium-sized NFPs, getting into a rhythm and developing a solid routine of reading and interpreting your financial reports can be a challenge. Most executive directors, while possessing exceptional focus, dedication, and passion, are not trained business executives with master's degrees in business administration. Although this is true, the most successful executive directors recognize the importance of their finances, as the lifeblood of their missions, and they learn to channel some of their passion into learning the financial management side of running an NPO.

To get started, executive directors should get comfortable with reading, interpreting, and using the information provided within the following essential [nonprofit financial reports](#).

The Top 7 Financial Reports Nonprofit Executive Directors Need

1. Organizational Scorecard

An organizational scorecard contains a bird's eye view of your organization, its performance, and performance trends. The scorecard primarily exists to help nonprofit leaders make strategic decisions.

"The best way to build financial reports that are actionable, that are financial intelligence to help you make data-driven decisions – that's the holy grail of your reporting package – [is starting] with the decisions."

As King explains, you don't want to start with the data. Instead, you want to start with your questions and then determine what data you need to look at in order to answer those questions. With this approach, an organizational scorecard (which contains current reports and trailing twelve-month charts of your NPO's gross revenue, net development revenue, and net income) can be used to answer the most important decisions in your nonprofit such as, "Where should the leadership team and board focus their time and energy?"

Read More: [Top 10 Tips for New Executive Directors](#)

Your scorecard can tell you whether you need to focus your time on bringing in more revenue, bringing in more people, or making tough decisions to cut spending.

Additionally, an organizational scorecard can help you determine which [programs](#) you should stop, start, or continue. As King puts it, unless your mission is to serve everyone, you can't serve everybody. Instead, you have to make data-driven decisions to determine which programs further your mission the most by serving the right people well.

2. Budget Performance (Nonprofit Budget vs. Actual)

This report provides a high-level, overarching perspective on your nonprofit's plan and performance outcomes. It shows you what you thought was going to happen (in terms of revenue and spending) and what really happened (in terms of revenue and spending). The budget vs. actual can help you keep track of whether you're on target to achieve your annual fundraising goals and whether your spending is in check.

In the nonprofit world, this report is vital because nonprofits are really tied to their budgets. They do not have the same flexibility as for-profit corporations to build their sales teams or diversify their revenue channels. Nonprofits are completely dependent on their donors and grants, meaning that their budgets are less flexible and not as readily able to address overspending.

With your budget performance report, you can determine whether the organization currently has any problems and where you should focus your time. (Hint: focus your time on identifying the cause of your problems and how to fix the issues.)

Download: [The Nonprofit Budget Guide: 11 Essential Rules Of Nonprofit Budgeting](#)

3. Statement of Activity (Nonprofit P&L by Program)

In the for-profit world, the nonprofit statement of activity is often referred to as an income statement or a profit and loss statement. In a nonprofit, it's essential to use careful expense and

revenue tracking so that you can leverage unit economics to generate profit and loss statements by class or program.

Your P&L by program makes it possible to assess program performance and decide which programs you should stop, start, or continue. Additionally, this report will help you determine the reason behind any budget discrepancies and pinpoint the source of cash flow problems.

4. Statement of Financial Position

The statement of financial position is the nonprofit equivalent of the balance sheet in the for-profit world. A statement of financial position is essential because it provides a quick snapshot of the NPO's current financial health at the time the report is generated. At a glance, the executive director and board members can get a feel for how much the nonprofit has in assets (liquid and non-liquid) and how much it owes in liabilities (short and long-term).

This report can also be used to calculate a handful of vital key performance indicators to test the organization's health. These metrics can help you determine if and how well the organization is capable of covering its expenses.

Run Your Nonprofit Like a For-Profit.

An Executive Director's Guide to Board & Management Reports

[Download: The Top 7 Management and Board Reports Nonprofits Should Be Looking At](#)

5. Development Scorecard

A development scorecard is essential to nonprofits because it helps you determine where you're generating the greatest fundraising ROI so that you can determine the best way to invest money, people, and time into development strategies. This report is like a P&L by program but with a strong focus on your P&L by development strategy.

The Development Scorecard tracks your primary revenue channels and separates development expenses into different categories so that you can view different expenses by revenue type to determine the ROI of various marketing strategies.

Many executive directors and nonprofit board members are surprised by the results of their development scorecards because many expect large donors like corporations and foundations

to be their primary revenue sources. However, King explains that data reported by Giving USA shows the opposite with 82% of giving in the United States coming from individual donors and individual planned giving.

Read More: [How Much Do Bookkeeping & Accounting Services for Nonprofits Cost?](#)

Additionally, many nonprofit leaders find that the events they organize aren't the biggest drivers of funds. Despite bringing in plenty of revenue, events cost a lot of money and time to organize, and this eats away at their ROI. While events are important for publically acknowledging donors, recruiting new donors, and recruiting new board members, they shouldn't be heavily relied on for fund generation. They simply don't generate a strong ROI, especially when compared to development activities like personally soliciting major donors, visiting them, and taking the time to educate them about your organization's impact.

6. Statement of Activity Forecast

In an NPO, cash flow seasonality is one of the biggest challenges. In most organizations, end-of-year giving accounts for the vast majority (in many cases, between 60-70%) of revenue. So, when this big portion of revenue does not arrive until November and December, organizations tend to run into cash flow problems around August.

The statement of activity forecast projects your profit and loss through the end of the year so that you can assess whether or not you're on track with your budgetary plan. This report can help you better anticipate whether your current activities are going to lead you into a future cash flow shortage so that you can make adjustments and alternative strategies to address cash flow problems before they start.

7. Cash Flow Forecast

If your organization has cash flow problems, then your cash flow forecast is your most important report. King explains that financial report priorities can vary based on where an organization exists in terms of Maslow's Hierarchy of Needs. When an NPO has cash flow problems, the organization is in survival mode, and your cash flow forecast can help you better prepare to continue covering your costs by planning your way out of cash flow shortages.

When experiencing cash flow problems, organizations must have a handle on their true, fully-loaded costs. This can help them determine a break-even point to understand how much money (earned revenue or donated funds) they need to bring in per each client they serve.

Additionally, seasonality (largely driven by end-of-year giving) can contribute to cash flow problems in summer and fall. Organizations suffering seasonal cash flow problems can help address the problem by working to convert their annual donors to monthly givers. King recommends suggesting that the donor drop the last digit of their annual donation to calculate their monthly gift (so, \$100 per month instead of \$1,000 per year). This is a simple way to attract monthly donors and increase the total gift by 20%.

It's also smart to encourage monthly givers to sign up for automatic donations via ACH transfers from their bank accounts. This helps you avoid costly credit card fees and the headache of updating expired or changed credit card information.

The Nonprofit Board Report Challenge: A Winning Strategy for Nonprofit Accounting

Outsourced accounting is an excellent strategy for NPOs because it saves big time on labor costs while simultaneously helping to improve financial management and [organizational](#) health.

"I think our greatest value is to teach you how to read and interpret the results; to teach you how to be able to pinpoint where you have to focus your time; to teach you how to understand which programs do you stop, start, and continue; who you should serve and where you get the biggest ROI in development," King says of GrowthForce's nonprofit accounting services. "It's transformational that you're able to be a more effective executive director if you know how to look at a report and not get intimidated."

For more information about nonprofit management and these essential nonprofit financial reports, we invite you to download our free ebook [The Executive Director's Guide to Nonprofit Board and Management Reports](#) or check out GrowthForce's Podcast, [Path to Profit: Lessons Learned From Growth-Driven Business Leaders](#).