

Nonprofit Cash Flow Statement: Purpose & Preparation Tips



ARTICLE 07.27.23 JUSTIN HUBBARD

Like any organization, nonprofits have operating expenses to consider—which means that nonprofit cash flow statements are a vital part of the organization's financial considerations.

Whether you're at the helm of a small nonprofit or stepping into a financial role at an established 501(c)(3) organization, it's important to familiarize yourself with these documents.

Let's take a closer look at how nonprofits manage cash flows from operating.

What is a nonprofit cash flow statement?

A nonprofit [cash flow statement](#) is a financial statement that shows the inflows and outflows of cash in a nonprofit organization over a specific period of time—usually a month, quarter, or year. The purpose of the cash flow statement is to provide information about the sources and uses of cash in the organization.

The cash flow statement usually includes three sections:

- **Operating activities** show the cash inflows and outflows from the organization's normal business operations, such as revenue from donations, grants, and fundraising events, as well as expenses such as salaries, rent, and program expenses.
- **Investing activities** show cash flow related to the organization's investment activities, such as the purchase or sale of assets.
- **Financing activities** show cash flow related to the nonprofit's financing activities, such as the receipt or payment of loans.

Together, these three sections provide a comprehensive view of the day-to-day financial activities of the organization. Depicted on a nonprofit cash flow statement, they allow leadership and stakeholders to understand how effective they are in managing financial resources.

What's the difference between a P/L report and a cash flow statement?

A Profit and Loss (P/L) report, called a Statement of Activities for nonprofits, and a cash flow statement are two important financial statements businesses use to track financial performance. The key difference between the two is that a P/L report shows the **profitability** of a business over a period of time, while a cash flow statement shows the

flow of cash over the same period.

The importance of nonprofit cash flow statements

Beyond its use as a financial guidance tool, a nonprofit cash flow statement also serves a wide variety of other critical functions. Some of the important uses for this financial document include:

- **Providing insight into the organization's financial health.** The cash flow statement provides information that can help determine whether the organization has enough cash to cover its expenses and determine its overall financial health.
- **Helping with short- and long-term budgeting.** Creating accurate budgets is critical for nonprofits. Cash flow statements can be used to forecast future inflows and outflows, and to identify potential cash crunches before they become real.
- **Facilitating better decision-making.** Financial leaders at nonprofits often rely on the cash flow statement to determine whether the organization has enough cash to invest in new programs or initiatives, as well as which activities may be a burden on the organization.
- **Increasing an organization's transparency.** [Transparency and accountability are critical](#) for the success of nonprofit organizations. By making their cash flow information available to stakeholders, they can demonstrate their financial responsibility.
- **Providing information for financing activities.** nonprofit organizations may need to borrow money or attract investors to support their operations. Cash flow statements offer valuable information about the organization's ability to repay debts responsibly.

How to prepare a nonprofit statement of cash flows

If you're in a position to prepare financial documents for a nonprofit organization, you'll be happy to know that the cash flow statement is among the simplest to compile. Many bookkeeping and accounting software platforms can generate them automatically; however, it's worth understanding the process step by step:

1. **Change in net assets:** Start by determining the organization's change in net assets for the reporting period (month, quarter, year). This information is recorded on the nonprofit's Statement of Activities.
 - **Additions and subtractions to cash:** Identify all cash changes by their impact on associated asset and liability accounts.
2. **Cash from investing activities:** Look at any transactions related to the organization's investing activities, such as the purchase or sale of assets. Calculate the net result from those activities.
3. **Cash from financing activities:** Finally, tally the sum of the organization's financing activities, such as the receipt or payment of loans.
4. **Ending balance:** Add the net cash from operating, investing, and financing activities to the beginning cash balance to determine the ending cash balance for the reporting period.

Cash flow is critical for nonprofits

Like commercial businesses, nonprofit organizations have overhead and operating expenses to contend with. Yet, they don't typically focus on selling goods or services as a means to cover those expenses. Instead, they rely on the generosity of donors to help them make ends meet. Behind the scenes, healthy cash flow management keeps the mission alive.

On the surface, a nonprofit cash flow statement is a representation of the inflows and outflows of cash; however, that cash flow tells a story. It's important to understand what to look for when reviewing these statements—it could make all the difference when it comes to the responsible financial management of the organization.

Learn how Dean Dorton can help your nonprofit organization [manage its financial statements](#).