

# LET'S TALK MONEY

## NONPROFIT FINANCE BASICS

### Before Talking About Money

Take time to think about roles before you dive into what you need to know.

#### Roles

Money is the fuel driving your organization forward, and so it is important that everyone plays a role in making sure you steward this resource well.

Role	Focus	What this looks like
Board chair	Guides <b>culture</b> to ensure it supports inclusive financial conversations and <b>decision-making</b> .	<ul style="list-style-type: none"> <li>Pro-actively creates a culture that supports inclusive conversations (see below).</li> <li>Facilitates meetings in a way that involves everyone in decision-making.</li> </ul>
Treasurer	Provides <b>oversight</b> on the financial systems.	<ul style="list-style-type: none"> <li>Ensures that the organization is using the right tools (accounting software, bank accounts, bank relationships, credit cards, etc.) to support effective financial governance.</li> <li>Provides leadership on financial policies and procedures.</li> <li>Ensures that there is board learning and orientation in place to support participation.</li> </ul>
Executive Director	<b>Manages finances</b> on a day-to-day basis. Provides feedback to the board on how financial systems are working.	<ul style="list-style-type: none"> <li>Implements the financial tools in a way that is efficient and effective.</li> <li>Provides the board with the reports and information they need.</li> <li>Communicates key information to staff as a bridge between them and the board.</li> </ul>
Board member	Ensures that the organization's finances are achieving its <b>mission</b> .	<ul style="list-style-type: none"> <li>Reviews financial reports (at least Balance Sheet and Income Statement) regularly.</li> <li>Participates actively in board discussions.</li> <li>Seeks out learning and support to fill knowledge gaps and build confidence.</li> </ul>
Staff member	Follows the policies and financial systems set by the board and Executive Director.	<ul style="list-style-type: none"> <li>Demonstrates compliance with policies.</li> <li>Asks questions when needed.</li> </ul>

# Financial Statements

## Balance Sheet

Think of the Balance Sheet as a "snapshot" of your organization's financials at a single point in time.

- It is also called a "Statement of Financial Position."
- It communicates what the nonprofit owns and owes at one point in time. That means it shows the worth of the organization.

What you need to know and what you need to watch

### WHAT TO KNOW

**Current** means you can access or convert to cash within 12 months.

Assets are in order of **liquidity**, or how easily you can turn them into cash.

These assets are harder to turn into cash. If most of your assets are here, a lot of your money is tied up and not available in the short term.

**Accounts Payable** tend to be bills to vendors and utilities.

**Accrued Liabilities** tend to be employee commitments like retirement and accrued payroll, and even principal payments on a loan due within a year.

#### Current assets

Cash and cash equivalents  
Investments  
Accounts receivable  
Grants receivable  
Promises to give  
Prepays and deposits

#### Land

Building and Equipment, net  
Promises to Give, long-term  
Endowment Investments

#### ASSETS

#### ABC NONPROFIT BALANCE SHEET SEPTEMBER 30, 20XX

**Receivable** means that the funds are promised to you. An organization following an accrual or modified accrual accounting system recognizes this type of income.

**Promises to Give** are also called **Pledges**.

"Net" means you reflect depreciation.

**A Line of Credit** is a flexible loan of a defined amount that an organization can access as needed.

#### LIABILITIES AND NET ASSETS

#### Current Liabilities

Accounts Payable  
Accrued Liabilities  
Line of credit

Current portion of long-term debt

Total Current Liabilities

Long-term Debt, less current portion above

Total Liabilities

#### Net Assets

Without donor restrictions  
With donor restrictions

Your **Net Assets** are broken out by restrictions. This is an accounting standard rule **unique to nonprofits**.

Current Ratio

#### 20XX Last year

\$ 25,843 \$ 29,829  
17,855 17,440  
6,833 5,750  
5,467 2,602  
18,751 12,144  
3,284 1,743

Total Current Assets 78,033 69,508

86,839 84,839

190,745 189,176

6,600 12,550

23,203 21,959

\$ 385,420 \$ 378,032

\$ 7,320 \$ 5,530

13,220 12,421

15,000 0

2,662 2,758

Total Current Liabilities 38,202 20,709

47,731 50,489

Total Liabilities 85,933 71,198

256,115 255,710

43,372 51,124

Total Net Assets 299,487 306,834

\$ 385,420 \$ 378,032

2 3

### WHAT TO WATCH

If you have a high level of **Accounts Receivable** or **Grants Receivable**, it means that a lot of your money is held outside your organization.

**Current Assets** divided by **Current Liabilities** equals the **Current Ratio**. This ratio shows liquidity. Your current ratio should be more than 1.0.

Between the two years, the organization accessed its **Line of Credit**.

Note the decrease in **Net Assets** of \$7,347. This is the same as the deficit on the Income Statement.



Show what you know

Reflect on what you learned on the previous page. Label this Balance Sheet with the information you remember. Circle what you need to watch for. It is okay to turn back and remind yourself.



ABC NONPROFIT BALANCE SHEET SEPTEMBER 30, 20XX			
<u>ASSETS</u>			
	<u>20XX</u>	<u>Last year</u>	
Current assets			
Cash and cash equivalents	\$ 25,843	\$ 29,829	
Investments	17,855	17,440	
Accounts receivable	6,833	5,750	
Grants receivable	5,467	2,602	
Promises to give	18,751	12,144	
Prepays and deposits	3,284	1,743	
Total Current Assets	78,033	69,508	
Land	86,839	84,839	
Building and Equipment, net	190,745	189,176	
Promises to Give, long-term	6,600	12,550	
Endowment Investments	23,203	21,959	
	<b>\$ 385,420</b>	<b>\$ 378,032</b>	
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities			
Accounts Payable	\$ 7,320	\$ 5,530	
Accrued Liabilities	13,220	12,421	
Line of credit	15,000	0	
Current portion of long-term debt	2,662	2,758	
Total Current Liabilities	38,202	20,709	
Long-term Debt, less current portion above	47,731	50,489	
Total Liabilities	85,933	71,198	
Net Assets			
Without donor restrictions	256,115	255,710	
With donor restrictions	43,372	51,124	
Total Net Assets	299,487	306,834	
	<b>\$ 385,420</b>	<b>\$ 378,032</b>	
Current Ratio	2	3	



### Ten Minute Activity

- Compare the information here with your own Balance Sheet.
- Circle the information under “what to watch” on your Balance Sheet.
- Discuss the issue of the line of credit drawn here. What do you think is going on?

# Income Statement

The Income Statement shows money a nonprofit spends and brings in over a period of time.

- It is also called a “Statement of Activities” or “Profit or Loss Statement” (or just P&L).
- It communicates the work of the organization.
- An Income Statement often includes your budget, so you can compare the two for variances.

What you need to know and what you need to watch

## WHAT TO KNOW

**Support** is contributory in nature. No exchange of goods or services. Can be restricted or unrestricted.

**Revenue** is earned income. It is unrestricted.

The exact line items depend on your organization.

Your goal over time is to have a positive number, or **Excess**, that contributes to your **Working Capital** and ability to save for future program expansion, asset purchases, or reserves.

## WHAT TO WATCH

**Revenue Diversification.** You want to make sure you aren't too dependent on any one type of income.

**Functional Expenses** You are required to track expenses by function for the IRS Form 990. This includes program services, admin, and fundraising.

Notice how the **deficit** shows up on the Balance Sheet.

ABC NONPROFIT INCOME STATEMENT SEPTEMBER 30, 20XX				
INCOME SUPPORT	YTD Actual	YTD Budget	Budget Variance	20XX Budget
Individual donor contributions	\$ 75,636	\$ 64,375	\$ 11,261	\$ 87,000
Foundation grants - Acme Foundation	15,000	50,000	(35,000)	50,000
Foundation grants - other	25,000	35,000	(10,000)	40,000
State contracts	21,107	23,000	(1,893)	25,000
County contracts	8,849	10,000	(1,151)	10,000
Sponsors	9,750	8,500	1,250	10,000
Special events	5,055	5,000	55	28,000
Other	1,027	1,000	27	2,000
<b>Total support</b>	<b>\$ 161,424</b>	<b>\$ 196,875</b>	<b>\$ (35,451)</b>	<b>\$ 252,000</b>
REVENUE				
Admissions	\$ 31,758	\$ 28,000	\$ 3,758	\$ 38,000
Membership fees	9,737	9,200	537	12,000
Sales of items	3,689	3,700	(11)	5,000
Interest income	128	125	3	200
Other	165	170	(5)	500
<b>Total revenue</b>	<b>\$ 45,477</b>	<b>\$ 41,195</b>	<b>\$ 4,282</b>	<b>\$ 55,700</b>
<b>Total support and revenue</b>	<b>\$ 206,901</b>	<b>\$ 238,070</b>	<b>\$ (31,169)</b>	<b>\$ 307,700</b>
EXPENSES				
Salaries, benefits, & taxes	\$ 141,359	\$ 138,750	\$ 2,609	\$ 185,000
Occupancy (rent, utilities)	24,686	24,911	(225)	34,000
Communication (phone, internet)	1,872	1,875	(3)	2,500
Technology	1,936	1,875	61	2,500
Professional development	1,011	1,000	11	1,000
Program expenses	11,087	18,050	(6,963)	24,000
Professional fees (CPA, attorney...)	10,145	11,250	(1,105)	15,000
Supplies	5,749	6,205	(456)	8,000
Printing	6,832	7,373	(541)	7,500
Insurance (liability/ D&O)	3,386	1,264	2,122	2,000
Fundraising (general)	1,243	1,200	43	1,500
Fundraising (special event)	2,237	1,800	437	5,000
Depreciation	2,138	2,138	0	2,850
Other	567	500	67	1,000
<b>Total expenses</b>	<b>\$ 214,248</b>	<b>\$ 218,191</b>	<b>\$ (3,943)</b>	<b>\$ 291,850</b>
<b>Excess (Deficit)</b>	<b>\$ (7,347)</b>	<b>\$ 19,879</b>	<b>\$ (27,226)</b>	<b>\$ 15,850</b>

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### Ten Minute Activity

- Tell a story about this organization. Use the data provided in the Income Statement to imagine what is going on. Challenge each other on any assumptions you make.
- Tie together the Income Statement and the Balance Sheet. For example, there is a deficit here of \$7,347. Where does that show up on the Balance Sheet?



# Five Ideas to Improve Board-Finance Engagement

## 1. Meet people where they are

**Why:** Prior knowledge shapes what board members can understand and apply. Experts often skip over what they assume is obvious; they leave out the “connective tissue” between ideas.

**Tip:** Ask about board members’ comfort with financial topics. Start with the basics and build confidence step-by-step. Consider offering a “Finance 101” refresher. Provide foundational information required for higher order finance decisions.

## 2. Focus their attention on what matters

**Why:** Directing attention to what matters reduces cognitive overload and improves understanding and memory.

**Tip:** Highlight 3-5 key metrics on financial reports. Use visual cues like bolding, color, or arrows to guide discussion and focus board time. Do the math for them.

## 3. Give them a chance to make meaning from the numbers

**Why:** Stories help us make meaning of information. Our brains instinctively use story to organize information, and we can use this instinct to help board members make sense of our finances.

**Tip:** Use storytelling to explore three themes, each one going deeper into your organization’s values.

- **Understanding:** Do they understand the numbers?
- **Business model:** Can they explain the implications of the numbers and what would happen in a variety of income- and expense-related scenarios?

- **Myths and stories:** Do they make connections between the numbers and myths (like overhead myth, value placed on underpaying staff in the nonprofit sector) and other stories.

## 4. Make it social

**Why:** Adults learn best when they can discuss, problem-solve, and reflect with others. Peer learning deepens understanding and confidence.

**Tip:** Use pairs or small groups during board meetings to explore financial scenarios. Give space for discussion before opening the floor to the full group. Conversation topics: Scenarios, storytelling (above), and strategic questions in front of the organization.)

## 5. Tap into their emotions

**Why:** When financial conversations connect to what people care about, board members are more likely to engage and make meaningful decisions.

**Tip:** Invite board members to share their personal experiences with money or values around financial decisions. Help board members know their personal connection to conversations and why conversations matter for the mission of the organization.

### More on board engagement:

<https://jjco.com/2025/03/17/how-to-engage-your-board-members/>

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