

## Finance Unlocked for Nonprofits

### Balance Sheet

**Speakers:** Val Thomas-Matson, Executive Producer of Look, Listen and Learn TV, and Jennifer Chang, Director of Learning at Nonprofit Association of Washington

**00:00:00 Video description:** *Finance Unlocked for Nonprofits. A padlock appears on screen that opens when the first number in the combination, 1 Balance Sheet, is entered. The animation fades to black, and videos of the speakers fade in side by side with Val on the right, Jennifer on the left. Val is an African American woman wearing a light blue cowl neck blouse. She is sitting in her home office. Jennifer is a light-skinned, multiracial woman with long dark brown shoulder hair. She is wearing a navy blue shirt, and behind her is a light blue curtain.*

**00:00:09 Val:** Hi, welcome to the Finance Unlocked for Nonprofits video series. We're here to talk about the balance sheet. So Jennifer, what can you tell me a bit about the balance sheet?

**Video description:** *The FUN padlock appears at the bottom of the screen with the speaker's name, Val Thomas-Matson, under the video.*

**00:00:20 Jennifer:** The balance sheet is a basic financial statement or report that every board member should get regularly. To make things more confusing, this report has two names. So, it's called the balance sheet, but in the nonprofit sector, this report is also called the statement of financial position.

**Video description:** *The FUN padlock appears at the bottom of the screen with the speaker's name, Jennifer Chang, under the video.*

**00:00:37 Val:** Oh, that is a bit confusing. If I am reviewing a balance sheet or statement of financial position – I am looking at the same report, right?

**00:00:48 Jennifer:** That's right, Val! The balance sheet is a snapshot taken at a point in time. Simply put, this is a report that shows what you own and what you owe on a specific date. Since the balance sheet provides financial information at a point in time, this report could change daily.

**00:01:05 Val:** So, this is like an organizational selfie of sorts. We're capturing a picture of the finances at a moment in time. So, tell me how the balance sheet is arranged?

**00:01:16 Jennifer:** The balance sheet is always arranged in the same order, and this makes comparing financial reports easier. At the top, we start with assets, followed by liabilities, and then net assets. Assets are what your organization owns or has the right to use.

How the assets are arranged on the balance sheet is all about liquidity. And, liquidity is really just a fancy word for how quickly you can access your assets. Cash, which is your most liquid asset, is going to float right up to the top. If you have cash or cash equivalents on your balance sheet, that means they are available within three months. You may also see current assets. These are assets that can be converted into cash within 12 months. Another important asset are things people owe to you, this is your accounts receivable. To sum it up, assets are all about how quickly you can access or get your hands on cash or resources.

**00:02:15 Val:** If I want to buy a computer right now for a new team member, the available money should be right at the top of the balance sheet. If I am planning on replacing my team's old computers sometime in the future, I might consider looking at longer-term assets.

**00:02:32 Jennifer:** Yes, that's a great example. I mentioned the next section of the balance sheet is liabilities. Liabilities are what your organization owes to others.

**00:02:41 Val:** So, if I go ahead and order my team those new computers they need, and I have a bill that stills need to be paid, this will show up in the liabilities section.

**00:02:52 Jennifer:** Right, things like accounts payable, things we owe to vendors, accrued liabilities – which tend to be things we owe to our employees. Really our debts or all the things we owe to others will be at the bottom under liabilities. You will likely have the term current liabilities on your balance sheet, and these are due within 12 months.

The last part of the balance sheet is the net assets. This is the difference between your total assets and your total liabilities, effectively your organization's net worth. Net assets also represent the total resources your organization has saved from prior years, and an important thing to note is net assets are classified based on the presence of donor restrictions on their use.

**00:03:39 Val:** Okay, so I get how the balance sheet is setup, but what am I supposed to look for when I review the balance sheet?

**00:03:47 Jennifer:** When you review the balance sheet, you want to focus on the relationship between the current assets and current liabilities. Looking at this relationship helps you determine whether your organization has enough resources available to pay your obligations over the next 12 months. If you notice the current liabilities, the part you have to pay, getting close to or going beyond the current assets, this is an indicator that action is needed and the organization needs to figure out a plan.

You should also review the balance sheet for anything unusual or any unexpected balances. Perhaps you notice something that you've never seen before or you were not aware of, this is a great place to ask a question. Also, you want to think about possible emergencies or programmatic opportunities your nonprofit may face. Do you have enough access to capital or cash for those situations?

**00:04:42 Val:** Alright...this is helpful. And yet, I'd like to go back quickly to net assets and the topic of reserves. Should boards be talking about reserves?

**00:04:52 Jennifer:** The topic of reserves should definitely be discussed at the board level. Reserves, or emergency funds, should be set aside by an organization for use in case of unexpected expenses, planned future events, or new programmatic opportunities. The board should set reserve targets and establish a policy that outlines procedures for using reserve funds.

**00:05:14 Val:** Next time I receive a balance sheet, I know at the top I'll find - what the organization owns, followed by what the organization owes, and at the bottom I'll essentially see the organization's net worth.

Now that we know more about the balance sheet, we invite you to join us for our next video on the income statement.

**00:05:35 Video description:** *The videos of the speakers fade to white. Finance Unlocked for Nonprofits. The FUN padlock with a combination 1 Balance sheet, 2 Income Statement, 3 Nine-Ninety, 4 Giving, 5 Oversight. When the combination is entered, the lock opens.*

*Nonprofit Association of Washington, Jacobson Jarvis & CO PLLC Certified Public Accountants, In partnership with Washington Secretary of State Corporation & Charities Division.*

*[nonprofitwa.org/learn](http://nonprofitwa.org/learn)*

**00:05:54 Video description:** *The screen fades to black. 3 Choices Creative Communications. [3greatchoices.com](http://3greatchoices.com).*