NONPROFITS ASSISTANCE FUND
Helping Nonprofits Thrive

Financial Issues for Emerging Nonprofit Leaders

Nonprofit organizations impact communities and individuals by delivering services, providing advocacy, and building community. Behind the scenes, powerful missions, innovative programs, and passionate staff and volunteers are supported by financial activities and decisions. Healthy nonprofit organizations employ financial management practices that build stability and flexibility both today and in the future.

Budgeting – Budgets matter because they provide the financial information to support all planning. Effective budgets are realistic, using sound assumptions and clear accountability to achieve those assumptions.

Program Costs – Financial decisions rely on good information. It is essential that organizations understand the real costs of their programs in order to make decisions about fundraising needs, contract terms, and program expansion or modification.

Diverse Funding Sources – While it sounds good, diversifying funding sources isn't easy, and isn't necessarily a smart move. Different types of income require different systems, structures, relationships, and communications.

Overhead Costs – Nonprofits are required to account for functional expenses – program services and general/administration & fundraising (or overhead). While lower overhead expenses may sound better to donors, this emphasis is destabilizing and unsustainable. Make the case by reframing from "overhead" to "infrastructure."

Cash Flow – Day to day, cash in the bank to pay the bills often matters more than any financial statement or long-term plan. Cash flow can be monitored and managed with a few basic management tools.

Financial Information – To be an effective leader, encourage everyone to develop financial literacy. This includes learning the terminology, understanding and using financial reports, and asking lots of questions. Good information is provided by trained and respected staff and professionals.

Financial Responsibility – Responsibility for making financial decisions and carrying out financial activities is shared throughout an organization. Responsibility needs to be supported with good information, frequent communication, and appropriate authority.

Operating Reserves – Every nonprofit needs to have some cash in reserve in order to respond to an unexpected downturn or opportunity. Is there a golden number that every organization should maintain, and how can a nonprofit build reserves?

Accountability and Transparency – Between the IRS, Attorney General, foundations, and donors, everyone is demanding information and answers about how nonprofits receive and use financial resources. This trend is accelerating and many nonprofits choose to make accountability an important organizational value.

Financial Integrity – As public charities, nonprofits can expect to be held to a high standard of integrity and honesty in all financial activities. While policies, job descriptions, and internal controls help to maintain this integrity, they are built on the foundation of mission, values, and leadership.

Responding to Financial Problems – Sometimes things go wrong – contracts are lost, fundraising plans flounder, and expenses skyrocket. Responding to financial problems requires strong leadership, good communication, creative planning, and decisive action.

Interdependence – Financial management connects to every aspect of a nonprofit – governance, planning, programs, evaluation, on and on. Keeping everything connected is what financial leadership is all about.

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