



Balance Sheet

CHAPTER OUTLINE

1. What is a balance sheet?
 - A. How is a balance sheet structured?
 - B. Sample balance sheet
2. What do I need to know about the balance sheet?

Chapter 1 Summary: Balance Sheet

INTRODUCTION

At any given time, a nonprofit needs to know where they stand financially. A **balance sheet** is a report that shows an organization's financial standing at a point in time. Having a solid understanding of your nonprofit's finances at any given time supports decision-making and planning.

1. WHAT IS A BALANCE SHEET?

A **balance sheet** is a statement or report showing an organization's financial position – assets, liabilities, and net assets – at the close of business on a particular date. This report is also known as a statement of financial position. The balance sheet is a snapshot taken at a moment in time, and simply put, 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.

A. How is a balance sheet structured?

The balance sheet is always arranged in the same order with **assets** at the top, followed by **liabilities**, and then **net assets**. This consistent format makes comparing financial reports easier.

ASSETS: What your organization owns or has the right to use.

- Assets are typically listed in order of liquidity, or how quickly you can turn the asset into cash.
- *Cash and cash equivalents* are available within three months.
- *Current assets* are those assets that can be converted into cash within 12 months.

LIABILITIES: What your organization owes to others.

- *Current liabilities* are those that are due within 12 months. This may include liabilities like accounts payable, accrued liabilities, and/or a current portion of long-term debt.

NET ASSETS: This is the difference between your total assets and total liabilities, effectively your organization's net worth. Net assets also represent the total resources your organization has saved from prior years.

- Net assets are classified based on the presence of donor restrictions on their use. You may have both “without donor restrictions” and “with donor restrictions.”

As you review the balance sheet, **focus on the relationship between current assets and current liabilities**. Looking at this relationship helps you determine whether your organization has enough resources available to pay its obligations over the next 12 months. If you notice the current liabilities getting close to or exceeding the current assets, this is an indicator that immediate action is needed.

With an understanding of your nonprofit's current assets and current liabilities, you can calculate the **current ratio**, which is a measure of liquidity. Acceptable current ratios vary but generally should be 1.5 or greater for financially stable organizations. If the current ratio is below one, the organization may have problems meeting short-term obligations.

PUTTING THE “BALANCE” IN BALANCE SHEET

This is a simple formula to help you think about the relationship between assets, liabilities, and net assets. This formula follows the typical balance sheet format.

$$\text{ASSETS} - \text{LIABILITIES} = \text{NET ASSETS}$$

You may prefer to think about the relationship as:

$$\text{TOTAL ASSETS} = \text{LIABILITIES} + \text{NET ASSETS}$$

(Assets that are owed to others) (Assets that are yours)

Both formulas provide an easy way to remember this relationship!

B. Sample balance sheet

In this section, there is a sample balance sheet and short activity to apply the ideas learned thus far.

A REALLY GREAT NONPROFIT ORGANIZATION (SAMPLE) STATEMENT OF FINANCIAL POSITION SEPTEMBER 30, 2024 AND 2023		
<u>ASSETS</u>	<u>2024</u>	<u>2023</u>
Current assets		
Cash and cash equivalents	\$25,843	\$29,843
Investments	17,855	17,440
Accounts receivable	4,833	5,750
Grants receivable	3,467	2,588
Promises to give	18,751	12,144
Prepays and deposits	1,284	1,743
Total Current Assets	72,033	69,508
Land	84,839	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
	\$377,420	\$378,032
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	\$7,320	\$5,530
Accrued Liabilities	3,220	2,421
Line of credit	15,000	0
Current portion of long-term debt	2,662	2,758
Total Current Liabilities	28,202	10,709
Long-term Debt, less current portion above	47,731	50,489
Total Liabilities	75,933	61,198
Net Assets		
Without donor restrictions	258,115	265,710
With donor restrictions	43,372	51,124
Total Net Assets	301,487	316,834
	\$377,420	\$378,032
Current Ratio	3	6

**ACTIVITY**

Review the sample balance sheet and respond to the following questions.

*Answers are on page 46.

Question	Response
1. On what date was this balance sheet “snapshot” taken? On that day, what did the nonprofit own (total assets)?	
2. What did the nonprofit owe (total liabilities)?	
3. Are current liabilities close to or greater than current assets?	
4. Is the nonprofit’s current ratio greater than one? Remember: Current Ratio = Current Assets/Current Liabilities	
5. How much cash and cash equivalents does the nonprofit have?	

2. WHAT DO I NEED TO KNOW ABOUT THE BALANCE SHEET?

As a nonprofit board member, you should understand the following balance sheet concepts.

- **The balance sheet is a snapshot** taken at a moment in time. This report shows what your nonprofit owns and owes on a specific date.
- **Liquidity is how quickly you can access your cash or other short-term assets.** An organization’s liquidity represents their ability to meet obligations as they come due.
- **Assets are what your nonprofit owns or has the right to use.** There are different categories of assets including *cash and cash equivalents* as well as *current assets*.
- **Liabilities are what your nonprofit owes to others.**
- **Reserves, or emergency funds, should be set aside by the organization** for use in case of unexpected expenses, planned future events, or emergent programmatic opportunities.

There are balance sheet-related actions that you can take to develop and instill a strong nonprofit finance culture within your organization.

- **Review the balance sheet each month for anything unusual or any unexpected balances.** The balance sheet is a key financial statement that all board members should receive and review. If you have questions after reviewing the balance sheet, do not be afraid to ask for more information.
- **Implement a reserve policy if you do not already have one in place.** Developing and implementing a policy will generate conversations about the ideal amount of and procedures for using reserve funds that align with your nonprofit's specific situation. The board should consistently monitor whether or not you are meeting established reserve targets.
- **If the balance sheet shows continued decline, consider what that might mean for the organization's stability.** The board will need to have candid conversations to identify back-up plans (e.g., reserves, line of credit, debt, etc.) and when to implement the plans to ensure the organization has access to cash/resources.
- If your nonprofit is in a very stable financial place, **is it time to try new things? Is financial stability the goal at this point in the organization's development?** Consider the need to implement an *investment policy* to accept more risk and invest excess funds.



ACTIVITY

Your turn: Review your organization’s most recent balance sheet. Here are some questions to ask yourself. Use the space provided to write down your answers and any action steps. Consider asking these questions across several board meetings to see how your answers change over time.

Ask yourself...

Assets:

- What does your organization own?
- What are your organization’s current assets?

Liabilities:

- What does your organization owe?
- Are current liabilities less than current assets?

Liquidity & Current Ratio:

- Is your organization’s current ratio greater than one? If not, what is the organization doing to address potential liquidity issues?
- Does the organization have sufficient access to cash to cover emergencies or programmatic opportunities?
- How much money could the organization access in the next three months and 12 months?

Reserves:

- How much cash does the organization have in reserves?
- Does the organization have a reserve policy? If yes, is the organization meeting financial reserve targets? If not, are you talking about developing a reserve policy?

Restrictions:

- Does the organization have any restrictions on cash?
- Are the board and staff aware of contributions received with donor-imposed time or purpose restrictions? Have the restrictions been met?

Notes & Next Steps



1. The balance sheet is a snapshot of an organization’s financial position at a specific point in time. This report shows what a nonprofit owns and owes on a particular date.
2. Look at the relationship between current assets and current liabilities to help determine whether the organization has enough resources available to pay its obligations over the next 12 months. If the current liabilities get close to or exceed the current assets, this is an indicator action is needed.
3. All board members should receive and review the organization’s balance sheet monthly. Review the balance sheet for anything unusual or any unexpected balances.
4. Develop and implement a reserve policy and monitor whether or not the organization is meeting established targets. Reserve funds are for use in case of unexpected expenses, planned future events, or emergent programmatic opportunities.



Here are some questions to think about:

- After reviewing your organization’s most recent balance sheet, what can you say about your organization’s financial picture? What questions do you want to ask at the next board meeting?
- For your nonprofit, what types of unexpected expenses, planned future events, or programmatic opportunities could reserve funds support?

Reflections



Next steps:

- Take one of the activities or reflection questions in this chapter and discuss with others the concepts of the balance sheet.
- Check out these resources from Propel Nonprofits to learn more about the balance sheet and reserve policies.
 - [Balance Sheet Cheat Sheet](#)
 - [Operating Reserves with Nonprofit Policy Examples](#)