

# BALANCE SHEET *kit*



FINANCE UNLOCKED  
FOR NONPROFITS

Healthy organizations know where they are financially at any given time. A Balance Sheet is a report showing where you stand financially at a point in time. *It is also known as a Statement of Financial Position.*

## KNOW

Above all, a nonprofit board member should understand these five BALANCE SHEET concepts:

- ✓ **Snapshot:** A balance sheet is a snapshot taken at a moment in time. It shows what you own and what you owe on a specific date.
- ✓ **Liquidity:** How quickly you can access your cash or other short-term assets. It represents an organization's ability to meet its obligations as they come due.
- ✓ **Assets:** What your organization owns or has the right to use. *Cash and cash equivalents* are available within three months. *Current assets* are those 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.
- ✓ **Reserves:** Emergency funds; an amount set aside by the organization to be used in case of unexpected expense, planned future events, or unexpected programmatic opportunity.

## KNOW MORE

- ✓ **The Balance Sheet is always arranged in the same order**, assets at the top, followed by liabilities and then net assets. This makes comparing Balance Sheets between organizations easier.
- ✓ **Assets are typically listed in order of liquidity**, or how quickly you can turn them into cash.
- ✓ **Focus on the relationship between Current Assets and Current Liabilities.** This helps you determine whether your organization has enough resources available to pay its obligations over the next 12 months. If Current Liabilities are getting close to Current Assets or exceed Current Assets, this is a red flag.

*Finance Unlocked for Nonprofits (FUN) represents a partnership between Washington Nonprofits and Jacobson Jarvis & Co PLLC.  
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- ✓ **Liquidity can also be measured by calculating the Current Ratio: Current Assets/Current Liabilities.** Acceptable current ratios vary and are generally between 1.5 and 3 for healthy organizations. If the current ratio is below 1, the organization may have problems meeting its short-term obligations.
- ✓ **Net Assets**, known as equity in the for-profit world, is the total amount your organization has saved or retained from prior years. This is the formula that puts “balance” into the balance sheet:

$$\text{Assets} - \text{Liabilities} = \text{Net Assets (Equity)}$$

Put another way:  $\text{Assets} = \text{Liabilities} + \text{Net Assets (Equity)}$

The way we show net assets is changing. Starting in 2018, net assets should be classified as “without donor restrictions” and “with donor restrictions.” Please see the Balance Sheet in this kit for an example of what this looks like.

## PRACTICE

Test your knowledge on how to read the Balance Sheet using the sample on the next page:

1. On what date was this snapshot taken? On that day, what did “A Really Great Nonprofit” own?
2. What did it owe?
3. Are Current Liabilities close to or greater than Current Assets?
4. Is its current ratio (Current Assets/Current Liabilities) greater than one?
5. How much cash does it have?

### Answers

1. September 30, 2017. \$377,420
2. \$75,933
3. No. Current assets exceed current liabilities.
4. Yes, it is 3.
5. \$25,843

**A REALLY GREAT NONPROFIT ORGANIZATION  
(SAMPLE) STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2017 AND 2016**

<u>ASSETS</u>	2017	2016
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
	<b>\$ 377,420</b>	<b>\$ 378,032</b>
<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
	<b>\$ 377,420</b>	<b>\$ 378,032</b>
Current Ratio	3	6

# ASK

Now look at your own organization's Balance Sheet. Ask the same questions and use the **Balance Sheet Pulse** on page 5 to document your answers. Keep track of your answers over your next few board meetings to see how your answers change over time.

- What do we own?
- What do we owe?
- Are current liabilities less than current assets?
- Is our current ratio greater than one?
- How much cash do we have in reserves?
- What can you say about your organization's financial picture based on your understanding of its Balance Sheet?

# ACT

These are Balance Sheet-related actions that you can take to 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. Don't be afraid to ask questions!
- Implement a Reserve Policy, if you don't have one already. This will generate conversations about what the right amount of reserves is for your specific organization and situation. Consistently monitor whether or not you are meeting your established reserve targets.
- If the Balance Sheet shows continued decline, consider what that might mean for the stability of the organization. Identify back up plans (reserves, line of credit, debt, etc.) to ensure that you have access to cash/capital. Have frank conversations as to when you would implement these plans.
- If you are in a very stable place, is it time to try new things? Is stability the goal? Consider the need to implement an Investment Policy to accept more risk and invest excess funds.

# BALANCE SHEET PULSE

		Date	Date	Date	Date
Assets  Liabilities  Liquidity  Current ratio  Restrictions  Reserves  Action steps	<b>Key Questions</b>				
	What do we own?				
	What do we owe?				
	Do we have sufficient access to cash to cover emergencies or programmatic opportunities? How much money could we access in 3 months? 12 months?				
	Is our current ratio greater than one? If not, what are we doing about it?				
	Are we aware of any restrictions on cash?				
	Are we meeting our financial reserve targets?				
	Make a note of any actions that you are going to take before your next meeting.				

## FURTHER RESOURCES

### **Financial Statements Review Checklist**

<https://jjco.com/wp-content/uploads/2017/06/Financial-Statements-Review-Checklist.pdf>

### **Jacobson Jarvis: "What Board Members Need to Know About Not-for-Profit Finance and Accounting"**

<https://jjco.com/resources/jjco-booklets-useful-links/>

### **Nonprofits Assistance Fund "Balance Sheet Cheat Sheet":**

<https://nonprofitsassistancefund.org/resources/item/balance-sheet-cheat-sheet>

**Nonprofits Assistance Fund "Nonprofit Operating Reserves and Policy Examples":** <https://nonprofitsassistancefund.org/resources/item/nonprofit-operating-reserves-policy-examples>

*Finance Unlocked for Nonprofits (FUN) was designed to increase nonprofit finance literacy in ways that help board members to grow their mission and protect their assets. It should not be considered as a substitute for professional advice.*