Balance Sheet Cheat Sheet

Nonprofits Assistance Fund
Helping nonprofits thrive

The balance sheet – also called the Statement of Financial Position – serves as a snapshot, providing the most comprehensive picture of an organization's finanical situation.

WHY IS THE BALANCE SHEET IMPORTANT?

The balance sheet reports an organization's assets (what is owned) and liabilities (what is owed). The net assets (also called equity, capital, retained earnings, or fund balance) represent the sum of all the annual surpluses or deficits that an organization has accumulated over its entire history. If it happened in your financial past, the balance sheet reflects it.

The balance sheet also indicates an organization's liquidity by communicating how much cash an organization has at present and what assets will soon be available in the form of cash. Assets are usually listed on a balance sheet from top to bottom by rank of liquidity (i.e. from most easily turned into cash to those assets most difficult to turn into cash). Understanding liquidity is important to understand how flexible and responsive an organization can be.

SIX KEY MEASURES

The balance sheet has a lot of valuable information. Our Balance Sheet Cheat Sheet highlights six key measures that are useful for all types of nonprofits. Below is a brief explanation of each of these financial indicators:

Days cash on hand measures liquidity and estimates how many days of organizational expenses could be covered with current cash balances.

The **current ratio** measures assets that will be cash within a year and liabilities that will have to be paid within a year and can provide an indication of an organization's future cash flow.

By filtering out the portion of total net assets that are tied up in fixed assets (i.e. assets that will likely never be converted to cash), the **working capital ratio** measures how much of an organization's resources are unrestricted and available for current and future use.

Recognizing **temporarily restricted net assets** and representing them as such in financial statements is crucial so that organizational decision-makers are aware of obligations in the future.

The **change in unrestricted net assets** indicates if an organization operated the most recent fiscal period at a financial gain or loss. This line is a direct connection with and should be equal to the bottom line of an organization's income statement (also called a Statement of Activities or profit/loss statement).

The **debt to equity ratio** measures financial leverage and demonstrates what proportion of organizational debt versus organizational net assets are being utilized to support the organization's finances.

Some of the ratio calculations require information that can not be found on the balance sheet. A few pieces may need to be found on the income statement or other financial statements.

OTHER CONSIDERATIONS

Nonprofits vary in size, structure, income reliability, and other financial aspects, which makes it inappropriate to establish a set of standards or benchmarks for most financial ratios. Nonprofit leaders should be able to articulate and understand these calculations and their relevance, as well as monitor selected measures over time to gain an accurate understanding of financial trends. Your organization is heading somewhere – do you know where?

Our mission is to strengthen community by investing capital and expertise in nonprofits. Find out more about Nonprofits Assistance Fund's loans, training,resources, and financial advice tailored for nonprofits at: www.nonprofitsassistancefund.org.

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All Services to All People, Balance Sheet, December 31, 2014

	Unrestricted	Temp. Restr.	Total
ASSETS			
Cash in Checking	65,570		65,570
Savings	57,800	40,000	97,800
Investments	26,000		26,000
Accounts Receivable	51,130		51,130
Govt Grants & Contracts Receivable	39,000		39,000
Grants Receivable	–	40,000	40,000
Pledges Receivable	17,000		17,000
Subtotal Current Assets	256,500	80,000	336,500
Prepaid Expense	2,200		2,200
Long-Term Pledges Receivable	10,000		10,000
Land	20,000		20,000
Building	609,386		609,386
Furniture & Equipment	177,300		177,300
Computer Equipment	39,110		39,110
Accumulated Depreciation	(181,590)		(181,590)
Subtotal Long-Term Assets	676,406	–	676,406
Total Assets	**932,906**	**80,000**	**1,012,906**
LIABILITIES & NET ASSETS			
Accounts Payable	49,055		49,055
Payroll Taxes Payable	6,024		6,024
Deferred Revenue	5,500		5,500
Accrued Vacation	26,720		26,720
Note (loan) Payable	80,000		80,000
Current Portion Long-Term Debt	29,904		29,904
Subtotal Current Liabilities	197,203	–	197,203
Mortgage Loan Payable	482,662		482,662
Less: Current Portion	(29,904)		(29,904)
Subtotal Long-Term Liabilities	452,758	–	452,758
Total Liabilities	**649,961**	–	**649,961**
Net Assets			
Net Assets Beginning of Year	255,721	20,000	275,721
Change in Net Assets	27,224	60,000	87,224
Total Net Assets	**282,945**	**80,000**	**362,945**
TOTAL LIABILITIES & NET ASSETS	**932,906**	**80,000**	**1,012,906**

Current ratio:

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\frac{\$256{,}500}{\$197{,}203} = \mathbf{1.3}$$

Change in unrestricted net assets:

Also called net income, profit/loss, and surplus/deficit.

$27,224 surplus

Days cash on hand:

$$\frac{\text{Cash and current investments}}{\text{Annual cash requirement / 365}}$$

$$\frac{\$65{,}570 + \$57{,}800 + \$26{,}000}{\$878{,}325^{*} / 365}$$

= **62 days cash**

*Annual cash requirement ($878,325) can be found using information on the income statement.

Working capital ratio:

$$\frac{\text{Unstricted net assets - net fixed assets}}{\text{Annual cash requirement / 365}}$$

$$\frac{\$282{,}945 - (\$20{,}000 + \$609{,}386 + \$177{,}300 + \$39{,}110 - \$181{,}590 - \$482{,}662)}{\$878{,}325^{*} / 365}$$

= **42 days working capital**

Debt to equity ratio:

$$\frac{\text{Total liabilities}}{\text{Total unrestricted net assets}}$$

$$\frac{\$649{,}961}{\$282{,}945} = \mathbf{2.3}$$

Temporarily restricted assets:

Do we have assets obligated for use in a future period?

