Balance Sheet Cheat Sheet

The balance sheet – also called the Statement of Financial Position – serves as a snapshot, providing the most comprehensive picture of an organization's financial 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 without donor restrictions and available for current and future use.

Recognizing net assets **with donor restrictions** 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 net assets without donor restrictions** 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 cannot 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?

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Balance Sheet Cheat Sheet

All Services to All People of Minnesota, Inc.
Balance Sheet
December 31, 2017

Assets		Without Donor Restrictions	With Donor Restrictions	Total 2017
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
Gov't Grants and 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 Expenses		2,200		2,200
Long-Term Pledges Receivable		10,000		10,000
Land		20,000		20,000
Building		609,386		609,386
Furniture and 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				
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
Notes (loans) 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
Net Assets		**282,945**	**80,000**	**362,945**
Total Liabilities and Net Assets	$	**932,906**	**80,000**	**1,012,906**

Current ratio:

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

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

Change in net assets without donor restrictions:

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

$27,224 surplus

Days cash on hand:

$$\frac{\text{Cash \& current investments}}{\text{Annual cash requirements / 365}}$$

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

= 62 days cash

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

Working capital ratio:

$$\frac{\text{Net assets without donor restrictions - net fixed assets}}{\text{Annual cash requirements / 365}}$$

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

= 42 days working capital

Debt to equity ratio:

$$\frac{\text{Total liabilities}}{\text{Total net assets without donor restrictions}}$$

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

Assets with donor restrictions:

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