

# Analysis of sample balance sheet of a nonprofit organization

This is one of the last documents to be prepared by a nonprofit organization but the first that we will take up here. This is because we want to have a bird's eye view and this reverse engineering will exactly do that for us.

Simply put, a balance sheet is a statement of Assets and liabilities of an organization. Liabilities are also called the 'source of funds'

Assets are called 'Uses of funds'

e.g.

If a nonprofit organization receives a donation – it has to honor some performance in return to the donor. Thus donation is a 'liability' or a 'source of fund'.

Now if the organization purchases a truck out of the donation – it becomes the Asset of the organization and is therefore 'Use of funds'

By common sense an organization (or for that matter any one) can only spend what it has got.

Thus 'Source of Fund' should always be equal to the 'Uses of Funds' + 'Unused funds' or

'Liabilities' = 'Assets'

By accounting convention and to maintain homogeneity, 'Source of funds' is always written on the left side and 'uses of funds' is written to the right in the balance sheet.

Putting this in a tabular format we get the most preliminary balance sheet.

<b>Source of funds (Liabilities)</b>	<b>Uses of Funds (Assets)</b>
Listing of all fund sources	Listing of all assets purchased out of those funds (if funds are used for a purpose other than for building assets – say for e.g funds used for salary etc.. they are not to be listed here but somewhere else.(discussed later)  + Unused funds

What follows is a sample balance sheet of a typical nonprofit organization –

**Balance Sheet for ABC Nonprofit as on 31<sup>st</sup> December, 2008**

Source of funds (Liabilities)	\$	Uses of Funds (Assets)	\$
<b>Long-term Liabilities/Sources</b>		<b>Long term Assets</b>	
Long Term Debt		Fixed Assets	
		Investments	
<b>Short-term Liabilities/ Sources</b>		<b>Short Term Assets</b>	
Accounts Payable		Cash + Bank balance	
Grants Payable		U.S. Treasury bonds	
Refundable Advances		Pledges Receivable	
		Prepaid Expenses	
		Inventories	
		<b>Net Assets (unused funds)</b>	
		Without Restriction	
		With Donor Restriction	
<b>Total :</b>	<b>XXXX</b>	<b>Total:</b>	<b>XXXX</b>

The net effect – **Sources of Funds = Uses of Funds + Unused funds (Net Asset)**  
 Liabilities = Assets

**Meaning of terms used here –**

**Balance Sheet Assets**

**Cash** – Liquid funds or funds in the form of U.S. Treasury bonds or deposit in the bank.

**Pledges/ Grants receivable** – These are amounts committed by an external donor to the organization. Pledges or grants should be recorded as the amount the nonprofit

expects to receive or the net realized value. Nonprofits should not report the full or gross amount because the line item could be overstated.

**Prepaid expenses** – These are expenses incurred in advance for receiving goods, services, or benefits for the nonprofit organization. The value of such assets decline over a period of time as and when the benefits are consumed by the organization.

**Investments** – Organization's investment in stocks and bonds are mentioned under this category. The investments are recorded at their fair market value on the date of preparation of the financial statements. However, when filing the tax return, this can the amount can be the fair market value or historical cost whichever is lower.

**Fixed assets** – all property and equipment owned by the organization are mentioned under this category. Fixed asset are reported at the net book value of the assets and not at the fair market value of the asset because fixed assets are generally not sold. The net book value is the historical cost of the long-term assets minus depreciation.

### **Balance Sheet: Liabilities**

**Accounts payable** – Amounts payable to vendors and creditors for goods or services delivered to the organization are mentioned under this head.

**Grants payable** – These are grant/donations promised by the nonprofit organization to other organizations or individuals.

**Deferred revenue /Refundable advance** – This category includes those grants/donations that have been received but are still not considered or recognized as revenue because the donor's conditions for the grant have not been met.

**Dues to third parties** – These are amounts payable to another organization where the nonprofit organization merely acts as a transfer agent collecting donations from the donor and disbursing the funds to another group. As the organization merely acts as an intermediary and does not have any power to change the recipient of the funds, such amounts are considered liabilities.

**Long term debt** – Debts taken for a period longer than one year and includes long term bank loans, publicly traded bonds, or privately arranged debt financing.

### **Balance Sheet: Net Assets**

Net assets are simply the unused funds represented by the difference between the total assets and total liabilities of the balance sheet. As per legal reporting requirements all net assets must be classified into three categories –

**Net Assets Without Restriction** – Funds unrestricted by the donor as to its terms and condition of usage.

**Net Assets With Restriction** - Funds whose usage is limited by donor stipulations. These could be temporarily restricted, which have stipulations that are temporary in the sense that the restrictions can either be removed by performing certain actions or can automatically expire over a certain time period. The donor restriction can also be permanently restricted, which are funds where restrictions do not get removed or expire over a period of time. For instance – Planned giving endowments which restrict the usage of the funds into perpetuity could be classified as permanently restricted.