

# Nonprofit Accounting Academy

## What are unrestricted net assets?

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Net Assets = Total Assets – Total Liabilities

Net assets represent the amount of your organization's assets financed by equity as opposed to debt. Net assets may be restricted or unrestricted.

Restricted net assets are restricted by the donor. For example a grant may be restricted as to when or how it may be used or a building may be restricted as to its use.

Unrestricted net assets are not donor restricted. Unrestricted net assets give you the most flexibility and are critical to your ability to run your organization.

Unrestricted net assets are NOT the same as cash or (a more advanced concept) liquid unrestricted net assets (LUNA). LUNA is defined below.

## Unrestricted net assets example

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### Happy Families Center

#### BALANCE SHEET

As of June 30, 2017

Cash	\$ 10,000
Equipment	9,000
Accumulated Depreciation	(1,000)
Other Assets	2,000
Total Assets	<u>\$ 20,000</u>
Accounts Payable	\$ 1,500
Net Assets	
Temporarily Restricted	4,000
Unrestricted	<u>14,500</u>
Total Net Assets	<u>18,500</u>
Total Liabilities and Equity	<u>\$ 20,000</u>

In the above balance sheet example, Happy Families Center has \$20,000 in total assets. Subtracting \$1,500 of liabilities (accounts payable) leaves \$18,500 in net assets. Of the \$18,500 in net assets, \$4,000 of cash is temporarily restricted due to a small grant they received but haven't yet spent which is restricted for summer programs.

The sum of the remaining \$6,000 in cash plus other assets and minus liabilities (accounts payable) makes up the \$14,500 balance of net assets.

As you can see, the \$14,500 of unrestricted net assets is not the same as cash. In fact, it includes \$8,000 of net equipment (\$9,000 in equipment based on the original purchase price less \$1,000 accumulated depreciation.)

## Why should I care about unrestricted net assets?

You absolutely need unrestricted net assets to function as a nonprofit. If unrestricted net assets fall too low, you run the risk of using restricted net assets for purposes not specified by the donors. This not only violates donor trust, it's illegal.

Nonprofit managers should understand current unrestricted net assets available to fund current operations. Besides unrestricted cash you should consider "liquid unrestricted net assets," also called LUNA. You might be missing some important considerations if you only look at cash.

LUNA = Unrestricted net assets – (net fixed assets – debt related to fixed assets) – other illiquid noncurrent assets. This formula may translate to cash plus short term accounts receivable and minus accounts payable.

(Apologies for wading into a complicated area, but we'd feel we were doing you a disservice if we didn't include mention of LUNA!)

## Overview of how to record unrestricted net assets

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QuickBooks does not automatically track restricted net assets. If you want to see restricted net assets broken out on your balance sheet, you need to make a journal entry.

If you want to record unrestricted net assets, make sure you have three equity type accounts set up:

1. Unrestricted net assets, which is the retained earnings account
2. Temp Restricted Net Assets for temporarily restricted net assets,
3. Perm Restricted Net Assets for permanently restricted net assets, also called endowment.

At the end of the accounting period, create a journal entry to adjust the balances in Temp Restricted Net Assets and Perm Restricted Net Assets based on how much the organization holds in temporarily and permanently restricted assets. The remaining net assets, the sum of the amount left in Unrestricted Restricted Net Assets plus any net income or loss for the fiscal year, equals total Unrestricted Net Assets.