DNB INSIGHTS

WHY A BALANCED BUDGET DOESN'T NECESSARILY MEAN YOU HAVE THE CASH

A practical financial-management insight for nonprofit leaders

THE SHORT VERSION

A balanced operating budget tells you that planned revenue and planned expenses are equal. It does not tell you when cash will arrive, whether cash is restricted, what debt principal must be repaid, what capital purchases are planned, or what is happening on the balance sheet.

Three different views of financial reality

Nonprofit leaders can get into trouble when the operating budget is treated as the whole financial picture. A useful decision requires looking at three connected—but different—views:

1. Operating Budget / Profit & Loss
Shows revenue and expenses for a period. It answers: Are the organization's planned operating activities financially balanced?

2. Balance Sheet / Statement of Financial Position
Shows what the organization owns, what it owes and its net assets at a point in time. It helps reveal obligations, reserves, receivables, restricted resources and accumulated financial position.

3. Cash Position / Cash Flow
Shows whether cash is actually available when the organization needs it. Timing matters: revenue can be recognized or budgeted before the cash is received, while obligations may require cash now.

How a “balanced” budget can still create a cash problem

Imagine a nonprofit approves a $500,000 operating budget with $500,000 of expected revenue and $500,000 of expected expenses. On paper, the budget is balanced. But during the year, several things happen:

- A major grant is awarded, but part of the cash will not be received until later in the year.
- Some cash in the bank is restricted for a specific program and cannot be used for general operating needs.
- The organization must make principal payments on a loan. Principal reduces debt on the balance sheet rather than appearing as an operating expense in the same way interest does.
- A needed equipment purchase uses cash but may be recorded as a capital asset rather than fully appearing as an operating expense when purchased.
- The organization plans to place money into—or draw money from—reserves.
- Receivables, payables or other timing differences change when cash actually moves.

Result: the operating budget may still show revenue equal to expenses while unrestricted cash becomes tight. The budget is not necessarily wrong—it is simply answering a different question.

What should nonprofit leaders look at together?

LOOK AT	IT HELPS ANSWER	WATCH FOR
Operating Budget	Are planned revenues and expenses aligned?	Deficits, unrealistic assumptions, mission/priorities
Balance Sheet	What do we own, owe and have available?	Debt, reserves, restricted resources, receivables/payables
Cash Planning	Will cash be available when needed?	Timing gaps, restricted cash, large payments, seasonal pressure

The management question is bigger than “Does the budget balance?”

A stronger budgeting process asks whether the organization’s operating plan, financial position and cash needs work together. That means considering debt repayment, capital needs, reserves, restricted resources and the timing of cash—not merely making the revenue and expense columns equal.

THE DNB LENS

The goal is not simply to produce a balanced spreadsheet. The goal is to understand whether the organization has the resources, financial position and cash capacity to carry out the work its mission requires.

Questions to take back to your organization

- ☐ Are we reviewing the balance sheet alongside the operating budget?
- ☐ Do we know how much of our cash is actually available for general operations?
- ☐ Have we included debt principal, capital purchases, reserve activity and other balance-sheet-related cash needs in our planning?
- ☐ Do we understand when major grants, receivables or other revenue will actually become cash?
- ☐ Could we have a balanced annual budget and still face a cash shortage during part of the year?

Put the insight into action

Budget Know-How: Nonprofit Budget Building System expands this concept into a practical budgeting process that connects the operating budget with balance-sheet and cash planning, including restricted resources, reserves, debt and capital needs.

MISSION → RESOURCES → CAPACITY → IMPACT

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