

Three Essays on Nonprofit Net Assets

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Any annual excess of revenues over expenses that a public charity earns in a fiscal period will result in a “profit”. These annual operating profits, or change in net assets, accumulate on an organization’s balance sheet and are reflected as “Net Assets.” These net assets are comparable to the equity portion of a for-profit entity’s balance sheet and are stock financial measures; profits, on the other hand, appear on organizations’ operating statements and are flow financial measures. The limited research on nonprofit net assets does not support the contention that such profits occur only due to unforeseen donor generosity or poor forecasting skills of the organization. Rather, these organizational profits may be a goal of nonprofit public charities. Nonprofit accumulation of net assets, then, may also be a choice made by nonprofits. Much of the existing literature is either silent concerning net assets or assumes that the nonprofit status of public charities implies a breakeven financial goal for the organization. Breakeven operations would result in no operating profits and, by extension, no net asset accumulation.

Despite their importance to nonprofit financial operations and stability, little research has explored the size, growth, and motivations for net assets. The essays in

this dissertation add to this literature by addressing specific oversights in the existing literature. The first essay examines the determinants of the accounting basis chosen by nonprofits in the reporting of their public financials. This essay essentially examines how net assets are measured by nonprofits, and what differentiates organizations that choose to report on different accounting bases.

The second essay analyzes the determinants of net assets by nonprofit public charities with an emphasis on the role of risk within the context of distinct nonprofit financial reporting requirements. This essay focuses on empirically determining why nonprofit net assets exist (that is, why nonprofits do not seek to simply breakeven financially).

The third essay develops a theoretical framework of risk for the nonprofit sector. The essay explores whether the complex notion of financial risk can be operationalized into a single measure of risk, or whether multiple might serve as better instruments.

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