

# Glossary of Financial Terms

## **ACCOUNTS PAYABLE:**

The amount owed to others for services or merchandise received by the organization.

## **ACCOUNTS RECEIVABLE:**

The amount owed to the organization for services or merchandise provided to others.

## **ACCRUAL-BASIS ACCOUNTING:**

A system of financial recordkeeping in which transactions are recorded as expenses when they are incurred (i.e. when a bill is received for merchandise or services provided to the organization) and as income when it is earned (i.e. when services or merchandise is provided by the organization, or the organization receives a commitment of a contribution) rather than when cash is paid or received. The alternative is Cash-basis accounting.

## **ACCRUED EXPENSE:**

The costs of operation that have accumulated but are not yet due or payable.

## **ACCRUED INTEREST:**

Interest costs that have accumulated but are not yet due or payable.

## **ALLOCATION:**

A method of accounting that divides expenses among different program, administrative, and fundraising categories based on a formula that recognizes the use of the resources such as use of the facility or staff time.

## **ALLOWANCE FOR DOUBTFUL ACCOUNTS:**

An amount reflecting the portion of the accounts receivable which the organization reasonably believes it may not collect.

## **ASSETS:**

What is owned by the organization.

## **AUDIT:**

The process of providing assurance that the financial statements which are presented by the management of an entity are fairly stated in all material respects. This service is provided by an independent Certified Public Accountant.

## **BALANCE SHEET:**

A report showing the financial condition - Assets, Liabilities, and Net Assets - of the organization at a particular moment in time. Also referred to as a Statement of Financial Position in the nonprofit sector.

## **BOARD-DESIGNATED FUNDS:**

A condition placed by an organization's board of directors on how an amount of money is to be used. A common type of board designation is for Operating Reserves. For accounting purposes, these funds are considered unrestricted because the condition was not specified by a donor.

**CAPITAL EXPENDITURE:**

Payment of money to acquire fixed assets, such as a building or equipment

**CAPITALIZING AN ASSET:**

Recording the cost of land, a building or equipment as fixed assets rather than as an expense when purchased.

**CASH EQUIVALENTS:**

Funds which can be quickly and easily converted to cash - those bank accounts, money market funds or other investments which mature within 90 days.

**CASH-BASIS ACCOUNTING:**

A system of financial recordkeeping in which transactions are recorded when cash is received or spent. The advantage over accrual-basis accounting is its simplicity.

**CASH FLOW:**

The movement of cash into and out of an organization; or the difference between cash receipts and cash disbursements during a period of time.

**CASH FLOW STATEMENT:**

A report of incoming and outgoing cash during a specified period of time.

**CHART OF ACCOUNTS:**

A list of all accounts used in accounting system, including assets, liabilities, income, and expenses.

**COLLATERAL:**

An asset which is pledged to a lender until a loan is repaid. In case of default, the lender legally owns the right to obtain or sell the collateral to repay the loan.

**COMMITTED GRANT:**

A contribution for which the organization has received a formal notification from the donor that an award will be made at a future date.

**CONDITIONAL PROMISE TO GIVE:**

A commitment by a donor to make a contribution to the organization if a specific requirement is met. The agreement becomes binding once the requirement is met.

**CONSOLIDATED FINANCIAL STATEMENT:**

Financial statements that include added-together financial information for two or more related entities.

**CONTRIBUTION:**

An unconditional transfer of cash or other assets to a qualified tax-exempt organization in a voluntary, nonreciprocal transfer by another person or entity. Contributions include gifts of money, property, the use of property, services of volunteers, unconditional promises to make gifts in the future and bequests.

**CURRENT ASSETS:**

Cash, investments, receivables, and other assets that can be expected to be available as cash within twelve months.

**CURRENT LIABILITIES:**

Those liabilities due to be paid now or within the next twelve months.



**CURRENT PORTION OF LONG-TERM DEBT:**

The amount of the principal payments due and payable on loans within the next twelve months if the original term of the loan was longer than one year.

**CURRENT RATIO:**

The ratio of current assets to current liabilities. Used to measure liquidity.

**DEFERRED REVENUE:**

Income received in one accounting period that, because it has not yet been earned (by the provision of goods or services to the payor), is recognized in a later accounting period. It is reflected as a liability on the Balance Sheet until it is earned and can be recognized as income in a future accounting period.

**DEFICIT:**

Expenses in excess of income; an operating loss or a negative change in Net Assets.

**DEPRECIATION:**

The process of allocating the cost of long-term tangible assets over the estimated useful life. The value of Land is not depreciated.

**DESIGNATED:**

Refers to unrestricted resources that the board has voted to set aside for a period of time or for a specific use. While the board may use the term endowment because the restriction was set internally, the funds can be made available by the board for any use at any time. Board-designated funds are classed with unrestricted net assets.

**DIRECT COSTS:**

Those expenses which are specifically attributable to a program area or cost center.

**DIRECT PUBLIC SUPPORT:**

Contributions, gifts, grants, and bequests received directly from the public. Includes amounts received from individuals, trusts, corporations, estates, foundations, public charities, or raised by an outside professional fundraiser.

**EARNED REVENUE:**

Income received for providing services or goods, rather than as a voluntary contribution.

**ENDOWMENT:**

An established fund of cash, securities, or other assets to provide income for the nonprofit. The use of the assets may be permanently restricted, temporarily restricted, or unrestricted.

**EXCHANGE TRANSACTION:**

A revenue transaction related to the provision by an organization of goods or services to customers in exchange for payment of approximately commensurate value.

**FINANCIAL ACCOUNTING STANDARDS BOARD (FASB):**

The organization which sets the accounting standards known as Generally Accepted Accounting Principles (GAAP) which are applicable to entities in the United States of America.

**FIXED ASSETS:**

An asset that has a relatively long useful life, usually several years or more, such as equipment, furniture, buildings, and land. Also called Capital Assets.

**FORM 990:**

Return of Organization Exempt from Income Tax filed with the Internal Revenue Service annually. May be supplemented with Form 990-T if the organization has unrelated business income.

**FUNCTIONAL EXPENSES:**

A method of grouping expenses according to the purpose for which costs are incurred. The primary functional expenses are program expenses, fundraising expenses, management expenses and general expenses. Required for IRS form 990 and audited financial statements. Often reflect the use of allocations.

**FUND ACCOUNTING:**

A system of accounting based on separating information into groups which reflect organizational divisions or donor-imposed restrictions.

**GENERAL LEDGER:**

Accounting system tool for recording all transactions

**GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP):**

The set of norms and standards of nonprofit accounting practices established by the Financial Accounting Standards Board (FASB) to help ensure the accuracy and consistency of financial records and reports.

**GRANTS:**

Contributed assets given by an individual or another organization with no reciprocal receipt of services of goods. Sometimes are given with a legal restriction imposed upon its use.

**INCOME STATEMENT:**

A financial report that summarizes income and expenses and resulting surplus or deficit for a given period of time. Also known in the nonprofit sector as the Statement of Activities.

**INDIRECT PUBLIC SUPPORT:**

Contributions received indirectly from the public (1) through solicitation campaigns conducted by federated fundraising agencies or organizations such as the United Way; (2) from a parent organization or another organization with the same parent; or (3) from a subordinate organization.

**IN-KIND CONTRIBUTION:**

A contribution made of goods or services rather than cash.

**INTERNAL CONTROLS:**

The system of practices, procedures and policies intended to safeguard the assets of the organization from fraud or error and ensure accurate recordkeeping.

**LIABILITIES:**

What the organization owes to others, including accounts payable, debts, mortgages, and other obligations to pay.



**LONG-TERM DEBT/LIABILITIES:**

An obligation to pay a loan or other obligation with a maturity or due date of more than one year.

**MANAGEMENT AND GENERAL EXPENSE:**

Expenses for the general functioning of the organization but not related to fundraising or programs. Such expenses include the salaries of the chief officer and the chief officer's staff for activities not related to fundraising or programs. Other costs include those associated with meetings of the board of directors or similar governing group; legal services; accounting; liability insurance; office management; auditing; personnel; preparation, publication, and distribution of an annual report; and investment expenses not related to programs or rental income.

**MANAGEMENT LETTER:**

A letter that an independent auditor may issue with the audit report if there are significant issues of concern regarding accounting procedures or reporting uncovered during the audit.

**NET ASSETS:**

The difference between the organization's total assets and its total liabilities on the balance sheet indicating the net financial worth for the organization. Net assets are the accumulation of the difference between cumulative income less cumulative expenses over the life of the organization. Divided into Unrestricted, Temporarily Restricted, and Permanently Restricted net assets.

**NET FIXED ASSETS:**

The value of land, buildings, equipment, and other fixed assets owned by the organization after the deduction of the accumulated depreciation of those assets.

**NOTES PAYABLE:**

The amount an organization owes to others for loans.

**NOTES RECEIVABLE:**

The amount an organization is owed for loans made to others.

**OMB CIRCULAR A-133:**

A publication of the U.S. Office of Management and Budget prescribing audit requirements for nonprofits with government contracts.

**OPERATING EXPENSE:**

General term for expenses incurred for all the activities of the organization.

**OPERATING RESERVE:**

An unrestricted fund balance set aside by the organization's board to stabilize an organization's finances by providing cash as a cushion for planned or unplanned future expense or losses.

**OVERHEAD:**

The costs that cannot be identified with a program activity but are needed for the general administration of the organization. This expense is often distributed among programs based on a formula.

**PERMANENTLY RESTRICTED FUNDS:**

Funds on which the donor has imposed restrictions that stipulate the resources be maintained permanently



but permits the organization to use up or expend part or all of the income (or other economic benefits) derived from the donated assets. Frequently called an endowment.

**PLEDGE:**

A formal commitment to make a contribution of a specific amount.

**PREPAID EXPENSE:**

An expense that is paid before use of the good or service, such as insurance paid in advance.

**PROGRAM SERVICES REVENUE:**

Fees and other monies received by an organization for services rendered. These services must relate directly to the primary purpose for which the organization received its tax-exempt status.

**RATIO ANALYSIS:**

The process of utilizing the relationships between raw data in the financial statements, usually expressed as percentages, when analyzing financial information.

**REFINANCE:**

To replace one loan with another, usually in order to extend the maturity, change the payment amount, or to consolidate several loans.

**RELEASE FROM RESTRICTIONS:**

The accounting transaction used to transfer temporarily restricted funds into an organization's unrestricted accounts when the restriction has been satisfied (such as when a special project is initiated).

**RESERVES:**

An amount set aside by the Board to be used in case of losses or an unexpected expense.

**RESTRICTED FUNDS:**

Contributions which are designated by the donor for a specific use. See also temporarily restricted funds and permanently restricted funds.

**REVENUE:**

Income earned from services performed or merchandise sold (as distinct from support or contributed income).

**SECURED LOAN:**

A loan for which something of value is pledged in the case that repayment cannot be made.

**SHORT-TERM DEBT/LIABILITY:**

A loan which is issued with a final payment date of one year or less.

**STATEMENT OF ACTIVITIES:**

A financial report that summarizes income and expenses and resulting surplus or deficit for a given period of time. Also known in the nonprofit sector as the Income Statement.

**STATEMENT OF FINANCIAL POSITION:**

A report showing the financial condition - Assets, Liabilities, and Net Assets - of the organization at a particular moment in time. Referred to as a Balance Sheet in the for-profit sector.



**SUPPORT:**

Income from voluntary contributions and grants (as distinct from revenue or earned income).

**TECHNICAL ASSISTANCE (TA):**

Help and advice provided on a specialized subject matter.

**TEMPORARILY RESTRICTED FUNDS:**

Contributions given by the donor or granting organization for a specific use or for use during a specific period of time. The limitation is satisfied at a defined time or when certain activities have been performed and the funds are released from restriction.

**UNCONDITIONAL PROMISE TO GIVE:**

A pledge to make a contribution of cash or another asset without requiring the organization to meet any condition prior to receiving the contribution.

**UNREALIZED GAIN (LOSS):**

The increase (decrease) in value of an investment asset held by an organization but which has not been received through the sale of the asset.

**UNRELATED BUSINESS INCOME (UBI):**

Income from a trade or business conducted by a tax-exempt organization that is not substantially related to the purposes for which the organization is exempt. (See IRS Code Sec. 512 and 513 for precise definition.) Net income from such activities is taxable, reported on IRS Form 990-T.

**UNRESTRICTED FUNDS:**

Contributions given without the donor placing any restrictions or limitations as to their use.

**UNRESTRICTED NET ASSETS:**

The portion of net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

**UNSECURED LOAN:**

A loan made without collateral.

**WORKING CAPITAL:**

The portion of an organization's assets which is not invested in fixed assets or obligated to pay current liabilities but is available to fund day to day working needs; Also known as net current assets.

