

GLOSSARY

OF FINANCIAL TERMS FOR NONPROFITS

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

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

A financial report that has been tested and verified for accuracy and prepared in accordance with *Generally Accepted Accounting Principles*. An essential component of the audit is the Opinion Letter.

Balance sheet

A report showing the financial condition – Assets, Liabilities, and Net Assets - of the organization at a particular moment in time. 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.

Bridge loan

A short-term loan with a specific repayment source.

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.

Contribution

A donation, gift or transfer of cash or other *assets*.

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.

Deferred revenue

Income for which payment has been received before it has been earned. 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 recognition, by recording an expense, of the decrease in value of a fixed asset over its expected physical or economic life. The value of Land is not depreciated.

Direct costs

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

Earned revenue

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

Financial Accounting Standards Board (FASB)

The national governing board which sets the accounting standards known as *Generally Accepted Accounting Principles (GAAP)*.

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.

Glossary of Financial Terms for Nonprofits

Functional Expenses

Categories of *expense* delineated by the type of expense: program services, management & general, and fundraising. 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 or 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.

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.

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 is 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.

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 which the donor has indicated may not be spent by the organization, but which are invested to produce a stream of income that can be spent. 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.

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.

Support

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

Technical assistance

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.

Unrestricted funds

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

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*.