

# **Glossary of Financial Terms**

## **Not For Profit Organizations**

### **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 when they occur (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**

These are 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**

An asset is what is owned by the organization. An economic resource that is expected to be a benefit in the future.

### **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.

## **Statement of Financial Position (Not for Profit) or Balance sheet (For Profit)**

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 or Balance Sheet in the for profit 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 or Refundable Advances**

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.

## **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 (Profit) or Statement of Activities (Nonprofit)**

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. A gain or loss is **Realized** when cash is involved.

### **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.

