

# Glossary of Financial Terms for Nonprofits



## A

### **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. Referred to as grants receivable when the amount is related to a grant agreement.

### **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 for services received by the organization 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. The amount is often an estimate based on experience or trends in the industry.

### **Amortization**

The repayment schedule for a loan or other obligation, usually as a constant amount each month that is paid first to the interest calculated on the principal balance, and then to reduce the principal balance.

### **Assets**

What is owned by the organization.

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## **Audit**

A financial report that has been tested and verified for accuracy by a Certified Public Accountant (CPA) and prepared in accordance with Generally Accepted Accounting Principles. The most rigorous level of external financial statement preparation. An essential component of the audit is the Opinion Letter.

## **B**

### **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.

### **Balloon payment**

The final payment of a loan when the amortization is longer than the maturity of the underlying note. This payment is usually larger than the regular periodic payment.

### **Board-designated funds**

A condition stipulated 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.

### **Building reserve**

Funds set aside to pay for facility upkeep, upgrades, unexpected repairs that exceed money available through the regular budget, and replacement of fixtures and facility systems. Also known as a replacement reserve. Typically, these are unrestricted, but board-designated funds.

## **C**

### **Capital campaign**

A fundraising effort with a specific purpose and goals that is above and beyond the ongoing fundraising to support programs and operations for an organization. The purpose of the campaign is usually for a building project, special program, endowment, or reserves.

### **Capital expenditure**

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

### **Capital improvement**

A facility or equipment upgrade or enhancement that will have a life of more than one year, and that increases the value of an Asset. The cost of the improvement increases the value of an Asset rather than recognized as an expenses. *See Capitalizing an asset.*

### **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, such as bank accounts, money market funds or other investments which mature within 90 days.

## **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 projection**

A management tool used to predict incoming and outgoing cash during a specified period of time. Used to anticipate and plan for times of low and high cash balances.

## **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.

## **Change in net assets**

The net results of total income minus total expenses for a period of time, which may be Positive or Negative. Also referred to as surplus or Deficit. Commonly called profit or loss in the for-profit sector.

## **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 has the legal 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.

## **Compilation**

A financial report that has been prepared by, but not reviewed or audited, by a Certified Public Accountant (CPA). The financial reports have not been tested or verified and the CPA states no opinion about the accuracy of the statements. *See audit and review.*

## **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 is longer than one year.

# **D**

## **Days Cash on Hand**

A calculation of the number of days that an organization could continue to pay its operating expenses with current cash balances. It serves as a simple measure of the short-term financial stability of an organization.

## **Debt**

An amount owed to a person or organization for money borrowed. Common types are Loans, Promissory Notes, Bonds, or borrowed funds.

## **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.

## **Direct costs**

Those expenses which are used for a program area or cost center. Costs may be exclusively for that purpose or may be allocated between several uses.

# **E**

## **Earned revenue**

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

## **Endowment**

An amount of Assets owned by an organization that is invested with the intention to be held in perpetuity. The income and increases in value of the investments are available as income for program use and organizational purposes. Endowment funds received from a donor are Funds With Donor Restrictions and cannot be re-directed for other purposes. Endowment funds that are created by internal policy, they are Board-designated, or Quasi-Endowment. Endowments are subject to multiple accounting and legal rules.

## F

### **Fiduciary duties**

A legal obligation to act in the best interest of another entity or person. In the nonprofit sector, members of the board of directors have a fiduciary duty to act in the best interest of the organization including in activities related to the funds and other assets owned by the nonprofit.

### **Financial Accounting Standards Board (FASB)**

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

### **Fiscal sponsor**

The relationship created when a nonprofit, tax-exempt organization accepts grants and other contributions on behalf of a project or group that does not have its own tax-exempt status, and accepts the responsibility to oversee the use of funds.

### **Fixed assets**

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

### **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.

### **Funds with donor restrictions (formerly Permanently or Temporarily restricted funds)**

Funds with donor-imposed restrictions that can be satisfied by the passage of a defined period of time or by performing defined activities. These funds may be invested to produce a stream of income that can be spent. *See Endowment.*

### **Funds without donor restrictions (formerly Unrestricted funds)**

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

## G

### **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. Used for internal and external financial reporting, including audits.

## 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.

## I

### In-kind contribution

A contribution made of goods or services rather than cash.

### Income statement

A financial report that summarizes income and expenses and resulting surplus or deficit for a given period of time. Also known as the statement of activities.

### 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.

### Inventory

The cost of finished goods held for sale by an organization, or the raw materials and works-in-process that will become finished goods. Recorded as an asset until the item is sold.

### Investment

A general term to describe financial Assets owned by an organization. The category is broad and may include stocks, bonds, and other financial instruments. Investments are subject to numerous accounting rules and standards.

### IRS 990

The standard federal reporting requirement for nonprofit organizations and private foundations. The majority of nonprofits are required to submit an annual information return to the Internal Revenue Service. The specific version is determined by the type of nonprofit, organization size, and activities.

## L

### Leasehold improvements

Remodeling, renovation, and upgrades to leased space to suit the tenants' needs. The cost of improvements may be paid for by the landlord or by the tenant. When paid by the nonprofit tenant, the cost of improvements becomes an asset and is depreciated over the term of the lease

### Liabilities

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

### Liquid net assets

The amount of unrestricted net assets that is not invested in property and equipment. This amount is the true amount of unrestricted net assets available as a cushion for unexpected problems or opportunities and to support operations. *See net assets.*

## **Liquidity**

A measure of how much cash and assets that can be easily converted to cash (such as short-term investments) an organization has available for use in the immediate or near future.

## **Long-term debt/liabilities**

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

# **M**

## **Management and general expenses**

Expenses that are used for the purpose of planning and managing the organization as a whole rather than for programs or fundraising. Expenses may include all or part of the cost of executive staff, finance, human resources, board of directors, and general promotion and communications. A type of functional expense that frequently reflects the use of allocations.

## **Mortgage**

Legal agreement entered into by a borrower granting a lender a lien on a real estate asset collateral for the repayment of a loan.

# **N**

## **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 net assets with donor restrictions and net assets without donor restrictions.

## **Net assets released from restrictions**

The accounting transaction for the transfer of funds from net assets with donor restrictions to net assets without donor restrictions after satisfying donor-imposed stipulations for the use of the funds.

## **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.

# **O**

## **Occupancy expense**

All costs relating to the rent, utilities, insurance, assessments, and maintenance of the organization's locations for programs and offices.

## **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.

# **P**

## **Pass-through funds**

Funds received by an organization that must be spent on behalf of, or passed through to a secondary recipient. Examples include re-granted funds and direct payments to beneficiaries.

## **Pledge**

A formal commitment, generally in writing, 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.

## **Principal**

The amount of money that is borrowed and that the borrower must pay back to the lender. The interest, or price of borrowing, is added to the principal.

## **Profit and loss statement**

*See Income Statement or Statement of Activities.*

## **Program service revenue**

Income earned from providing one or more program services. It may be paid by the direct user of the service or through a contract with a third party such as an insurance company or government agency.

## **Promissory note**

*See Note Payable.*

## **Property and equipment**

The Asset value of the physical items an organization owns such as buildings and improvements, equipment, and furniture that will be used for more than one year. Often called fixed assets.

# **R**

## **Ratios**

A tool to analyze and assess the financial condition of an organization by converting financial information into standard ratios. By using standard calculations, financial information can be compared more easily to historical or industry information.



## Receivables

See *accounts receivable* or *notes receivable*.

## 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 funds with donor restrictions 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 for needs that are outside of the regular annual budget. Reserves may be designated for operating, building, opportunity, or other purposes.

## Restricted funds

Contributions which are designated by the donor for a specific use. See also funds with donor restrictions.

## Revenue

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

## Review

A financial report that has been prepared by a Certified Public Accountant (CPA) that has been subject to some testing and verification. A Review is not prepared with the same rigor and standards as an Audit and does not include an opinion letter. See *audit and compilation*.

## Royalty

A payment made to an organization by another party for the use of an asset, often an Intellectual Property Asset such as a creative or scientific work. A form of Income for the owner of the asset, and an expense for the user.

# S

## Secured loan

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

## Security agreement

A legal document executed by a borrower granting a lender the right to take a specified asset in case the borrower defaults on a loan.

## Short term debt/liability

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

## Statement of activities

One of the primary financial reports for an organizations, reporting the income, expenses, and change in net assets for a period of time. See *income statement*.

## Statement of cash flows

A financial report component summarizing the sources and uses of cash for a period of time. The Statement of Cash Flows is a historical report and is different in form and use from a cash flow projections. *See cash flow.*

### **Statement of financial position**

One of the primary financial reports for an organization, reporting the assets, liabilities, and net assets as of a specific date. *See Balance Sheet.*

### **Support**

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

### **Surplus**

Income in excess of expenses; an operating profit or a positive Change in Net Assets.

## **T**

### **Technical assistance**

Help and advice provided on a specialized subject matter.

## **U**

### **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 or loss**

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

### **Unsecured loan**

A loan made without collateral.

## **W**

### **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.