

Not-For-Profit Financial and Accounting Terms

We hope you will find this glossary a useful resource when reviewing financial statements.

Accounts Payable: The amount owed to others (*e.g.*, vendors) for services or merchandise received by the organization.

Accounts Receivable: The amount owed to the organization for services or merchandise provided to others (*e.g.*, customers).

Accrual-Basis Accounting: A system of financial recordkeeping in which transactions are recorded as expenses when they are incurred and as income when it is earned, rather than when cash is paid or received. The alternative is *cash-basis* accounting. *Accrual-basis accounting* is more precise but also more complex.

Accrued Expenses: Expenses that have been incurred but have not been paid (*e.g.*, salaries, benefits)

Accrued Interest: Interest costs that have accumulated but have not been paid.

Allocation: A method of dividing expenses among different program, administrative and fundraising categories using a reasonable and consistent basis (common bases include staff time, number of employees and square footage).

Allowance for Doubtful Accounts: An estimate reflecting the portion of accounts or pledges receivable that the organization believes is likely not to be collected.

Assets: What the organization owns or has a right to use.

Audit: An examination, conducted by CPAs retained by the organization's Board of Directors, which provides assurance to internal and external users of the organization's financial statements that the statements are presented in accordance with *generally accepted accounting principles (GAAP)*. The audit results are presented to the Board in the form of an opinion from the CPA.

Balance Sheet: A report showing a snapshot of the financial condition of the organization at a particular moment in time. Also referred to as the Statement of Financial Position.

Board-Designated Funds: Funds earmarked by an organization's Board of Directors for a specific purpose, such as Operating Reserves. For accounting purposes these funds are still considered unrestricted because the condition was not specified by a donor.

Capitalizing an Asset: Recording the cost of land, building or equipment as *fixed assets* (on the Balance Sheet) rather than as an expense (on the *income statement*) when purchased.

Cash and Cash Equivalents: Funds that can be quickly and easily converted to cash (usually bank accounts, money market funds and other investments that mature within 90 days).

Cash-Basis Accounting: A system of financial recordkeeping in which transactions are recorded when cash is received or spent.

Cash Flow Statement: A report showing cash inflows and outflows for a specific period of time.

Chart of Accounts: A list of all accounts used in an accounting system, including *assets*, *liabilities*, equity, income and expenses.

Conditional Promise to Give: A commitment by a donor to make a contribution to the organization if a specific requirement is met.

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

Current Assets: Cash, investments, receivables and other *assets* that are expected to be available as cash within the next 12 months.

Current Liabilities: Those *liabilities* due to be paid within the next 12 months including the Current Portion of Long-Term Debt (loan principal payments that are due and payable within the next 12 months).

Deferred Revenue/Deferred Income: 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.

Deficit: Expenses in excess of income. Also referred to as Net Loss or a negative Change in *Net Assets*.

Depreciation: The recognition of the decrease in value of a fixed *asset* over its expected physical or economic life. This is recorded as an expense each year.

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

Fixed Assets: Tangible *assets* that have a useful life in excess of one year such as land, buildings, furniture and equipment.

Fiscal Year: A 12-month period which the organization uses for accounting and *Form 990* purposes. This period may be a calendar year but can also be any other 12-month period. A *fiscal year* accounting period should normally coincide with the natural operating cycle of the organization.

Form 990: IRS *Form 990* (Return of Organization Exempt from Income Tax) is the annual tax return document used by most tax-exempt organizations to report information about their finances and operations to the federal government.

Functional Expenses: Categories of expense delineated by the type of expense: program services, management and general, and fundraising. Required for IRS *Form 990* and audited financial statements.

Fundraising Expense: Expenses incurred in soliciting *contributions*, gifts, grants and other funding sources, including volunteer time.

Generally Accepted Accounting Principles (GAAP): The standard framework of guidelines for financial accounting established by the *Financial Accounting Standards Board (FASB)* to help ensure the accuracy and consistency of financial records and reports.

Income Statement: A report that summarizes the organization's activity (revenues and expenses) during a specific period of time. Also referred to as the Statement of Activities, Statement of Changes in *Net Assets* or Profit and Loss (P&L).

In-kind Contribution: A contribution made of goods or services rather than cash.

Letter of Determination: A letter from the IRS to a not-for-profit organization stating that the IRS recognizes the organization as a tax-exempt entity. In this document, the IRS indicates under which section of the Internal Revenue Code an organization is qualified.

Liabilities: What the organization owes to others.

Management and General Expense: Expenses for the general functioning of the organization, but not related to a specific fundraising or program activity.

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 (similar to equity in for-profit organizations). Divided into unrestricted, temporarily restricted and permanently restricted net assets, depending on donor-imposed restrictions.

Permanently Restricted Funds: *Contributions* that are to be retained, rather than spent, by the organization. The most common are endowment gifts which are invested and produce income that can be spent each year.

Pledge: A formal commitment to make a contribution of a specific amount. Also called, "promise to give" or "unconditional promise to give."

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

Release from Restrictions: Transfer of *temporarily restricted funds* into the organization's unrestricted accounts when the restriction has been satisfied.

Reserves: An amount set aside by the organization to be used in case of losses, unexpected expense, emergency, or planned future events, such as purchase of a building.

Restricted Funds: *Contributions* restricted by the donor for a specific use. These restrictions can be temporary or permanent in nature.

Temporarily Restricted Funds: *Contributions* given for a specific use or for use during a specific period of time. Once funds have been spent for the specified purpose or the period of time has lapsed the funds are released from restriction.

Unrestricted Funds: *Contributions* with no donor restrictions or limitations as to their use, as well as all other revenue sources