

# FINANCIAL LEADERSHIP TO STRENGTHEN YOUR IMPACT

---

## Glossary of Terms

### **A-133**

See OMB A-133

### **Accounts payable**

An organization's unpaid bills.

### **Accounts receivable**

Income already promised or earned but not yet received by an organization. Can be further specified, for example, grants receivable, contracts receivable, pledges receivable.

### **Accrual basis of accounting**

The recognition and recording of income when earned, regardless of when the cash is received and expenses are recorded as they are incurred (such as when services are performed or goods are delivered), instead of when they are paid.

### **Activity**

A core element of the nonprofit organizations, for example, key programs, administration, and fundraising.

### **Activity-based system**

Is the recording of an organizations finances based primarily on its activities rather than its funding sources.

**Activity by funding source report**

A report that shows how costs for a particular activity are covered by multiple funding sources.

**Administrative activity**

The finance, legal, board-related, and general oversight activities of a nonprofit organization.

**Allocation**

The process of spreading costs to two or more activities.

**Allocation basis**

The rationale for allocation percentages, for example, number of full-time-equivalents (FTE) per activity or total costs before allocation.

**Assets**

The properties or resources the agency owns and uses.

**Audit**

The process completed by an auditor that results in an issued opinion on whether year-end financial statements reflect the actual financial activity and condition of the organization for the time period in question.

**Bottom line allocation**

The process of allocating common costs proportionately among the activities of the organization.

**Budget**

The organization's plan expressed in dollars (income and expenses). Allows the organization to track actual performance against an approved plan.

**Capitalization**

The recording of an item as an asset rather than as an expense when it is purchased.

**Cash basis of accounting**

Is the recognition and recording of income only when the cash is actually received and expenses are recognized and recorded only when they are actually paid.

**Cash flow projection**

A projection that focuses on the timing of cash receipts and disbursements rather than on its functional classification or level of restriction so that an organization may assess its ability to meet its obligations.

**Chart of accounts**

The numerical system for tracking assets, liabilities, net assets, income, and expenses in an accounting system. Drives the reporting capacity of an organization.

**Common Costs**

Those costs that benefit more than one activity and that are not easily identifiable with a single activity. (Also called “shared.”)

**Conditional Support**

Revenue such as grants and contributions that are made contingent upon a qualifying event, such as a challenge grant.

**Current ratio**

A comparison of the organization’s current assets to its current liabilities; indicates that ability to pay bills and meet financial obligations.

**Deficit**

Expenses in excess of related income.

**Depreciation**

The process whereby the cost of a capitalized item is broken down systematically among the periods in which the organization will receive benefit from its use.

**Donated Goods & Services**

Items and professional services that are donated to an organization

**Earned Revenue**

Earned revenue is income that the organization obtains through exchange transactions such as fees, ticket sales, and certain but not all government contracts.

**Fiscal year**

The organization's business year, for example, January through December or July through June.

**Fixed Assets**

Assets with a prolonged useful life such as equipment, land and buildings.

**Form 990**

The Federal tax return required to be filed annually by most nonprofits.

**Full-time equivalent (FTE)**

The number of full-time positions at an organization, for example, two full-time staff people and two half-time staff people equals a total of four employees but three FTE.

**Functional expense classification**

The presentation of information about expenses by functional classification (or activity): Program, administration and fundraising.

**GAAP**

**Generally Accepted Accounting Principles** – principles and guidelines developed by FASB to provide guidance in the proper recording and reporting of an organizations accounting affairs

**General ledger**

A recording of all transactions of the organization entered into the accounting system usually ordered by the chart of accounts.

**In-Kind Contributions**

Items and professional services that are donated to an organization

**Internal Controls**

A set of policies and procedures to prevent deliberate or misguided use of funds for unauthorized purposes.

**Liabilities**

The debts of the organization, for example accounts payable, unpaid employee salaries and vacation leave, and loans.

**Line by line allocation**

The process of allocating common costs by a predetermined rate for each expense line item.

**Liquid operating reserve**

Unrestricted money that the organization has accumulated over time beyond what it needs to pay its immediate bills and other commitments.

**Net Assets**

The resources ultimately available to the organization. (Assets – Liabilities = Net Assets)

**Net Assets With Donor Restrictions**

Previously called temporarily restricted net assets, these are grants and contributions that are to be spent for a specific purpose (which hasn't yet occurred) or over a specific period of time. For example, this includes foundation grants for a specific project or multi-year gifts. This may also include permanently restricted net assets intended for an endowment.

**Net Assets Without Donor Restrictions**

Previously called unrestricted net assets, grants and contributions given by the donor without reference to a specific purpose to be used at the organization's discretion to accomplish the mission.

**OMB A-133**

The principles for complying with federal contract awards. The single audit, formerly known as an A-133 audit, is required of all nonprofits that spend more than \$1,000,000 in federal awards in a year.

**Overhead rate**

The percentage calculated by comparing total overhead expenses (administration plus fundraising) to total expenses.

**Permanently Restricted Support**

Grants and contributions whose principal is to be invested according to the donor's wishes.

**Program Services**

The activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfills the purposes or mission for which the organization exists.

**Source-based system**

Is the recording of an organization's finances based on its funding source reporting requirements rather than its activities.

**Statement of activities**

Also known as the income statement or profit and loss statement in the for-profit world, this statement reports the financial activity of the organization over a period of time by function.

**Statement of financial position**

Also known as the balance sheet in the for-profit world, this statement summarizes the assets, liabilities, and net assets of the organization as of a specific date.

**Supporting Services**

All activities of a not-for-profit organization other than program services (management, fundraising and membership development).

**Unconditional Support**

Revenues that are given without reference to any contingency or qualifying event

**Variance**

Difference between planned and actual financial performance.