



CATALOGUE FOR PHILANTHROPY

Glossary of Financial Terms

ACCOUNTS PAYABLE - Money owed by an organization to its suppliers and/or vendors for goods or services purchased.

ACCOUNTS RECEIVABLE - Money owed to an organization for goods and services it has sold or that has been committed to it as a grant or donation. Also called grants receivable.

ACCRUED EXPENSES OR LIABILITIES - Items incurred during an accounting period for which payment is postponed. Examples include accrued salaries, accrued sales tax payable, and accrued rent payable.

ADMINISTRATIVE COSTS - An expense incurred in controlling and directing an organization, but not directly identifiable with financing, marketing, or production operations. The salaries of senior executives and costs of general services (such as accounting, contracting) fall under this heading. Administrative costs are related to the organization as a whole as opposed to expenses related to individual departments. Also called administrative expenses.

AUDIT - A financial statement as of a certain date, usually covering a twelve-month period, prepared by a Certified Public Accountant (CPA), that includes an opinion letter, a statement of financial position (balance sheet), a statement of activities (income statement), a statement of cash flows, and notes. An auditor can have an unqualified opinion, stating that the organization appears to have followed all accounting rules appropriately and that the financial reports are reasonably accurate representation of the company's financial condition, or a qualified opinion, highlighting certain compliance issues or limitations in the company's statements. See review and compilation.

BALANCE SHEET - Statement showing an organization's financial position (assets, liabilities and net assets) at the close of business on a particular date. Also known as statement of financial position. (This statement changes daily.)

BOARD-DESIGNATED NET ASSETS/RESERVES - Unrestricted net assets that have a defined use or purpose, as determined by an organization's board of directors.

CASH FLOW - A schedule reflecting projected cash receipts and payments for payroll costs and other obligations to aid in determining seasonal and long-term borrowing needs and investment policy.

CREDIT/FINANCIAL ANALYSIS - Process used to understand and analyze the financial history and future prospects of an organization. May be done to help the organization understand its financial underpinnings, determine the likelihood that an organization can complete a project successfully or the likelihood that an organization can repay a loan. See underwriting process.

CURRENT ASSETS - Items that generally will be turned into cash, sold, or consumed within one year.

CURRENT DEBT - Obligations due in one year or less from the date of a financial statement. It includes advances under lines of credit, notes with maturities of one year or less, and the current portion (amount due in the next twelve months) of long-term debt.

CURRENT GRANTS & PLEDGES RECEIVABLE - Money owed to an organization within the upcoming twelve months for goods and services it has sold or that have been committed to the organization as a grant, donation or pledge.

CURRENT LIABILITIES - Obligations that will usually be repaid within one year.

DEFERRED REVENUE/INCOME - Payment received from a client for a transaction that has not yet occurred (e.g., subscription purchase for performances held on future dates). This situation creates an obligation, and thus a liability, for the organization to provide goods or services in the future. (Note: Financial Accounting Standards 116 and 117 reduced substantially the instances in which nonprofits should use such categorization by introducing the concept of temporarily restricted net assets.)

DEFICIT - The excess of expenses over revenue during an accounting period. Deficits can be measured before or after depreciation and non-operating activities. See surplus.

EARNED REVENUE/INCOME - Revenue or income received by an organization in exchange for its products or services, e.g., tuition or performance-based government contracts. See contributed revenue/income.

EXPENDITURE-DRIVEN REVENUE - A revenue that will be generated only if necessary expenditures take place; e.g., a gas station owner must spend money to buy gas from a distributor in order to sell gas to motorists.

EXPENSES - Represent the total cost of operating the organization, including payments made to employees and other parties, including operating expenses, debt, principal payments, capital expenditures, non-cash expenses, fixed assets, and funds set aside each year for future use.

FINANCIAL STATEMENT - A written report that quantitatively describes the financial health of an organization. A complete financial statement includes a balance sheet, an income statement, a statement of cash flows, and often a statement of functional expenses. Financial statements are usually compiled on a quarterly and annual basis. The term financial statement is commonly used to describe the statement of activities alone, which does not provide a complete picture of an organization's financial health/situation.

FRINGE BENEFITS - Payments made by an organization to cover pension, health insurance, and other benefits to employees.

FUNDRAISING COSTS - Any activities (campaigns, maintaining donor mailing lists, direct mail, grant writing) involved with soliciting contributions from individuals, foundations, government agencies, and others. Also called fundraising expenses.

IN-KIND - Non-cash items of value, such as specialized volunteer labor, donated goods or professional services. Specific accounting rules govern the recognition of in-kind revenue and expenses. In-kind expenses typically equal in-kind revenue on the income statement.

INCOME STATEMENT - A summary of the revenue and expenses of an organization during an accounting period. Also known as statement of activities or profit and loss statement.

LONG-TERM GRANTS & PLEDGES RECEIVABLE - Money owed to an organization in more than a year for goods and services it has sold or that have been committed to the organization as a grant, donation or pledge. The organization will not get the money for more than a year.

NET ASSETS - The difference between total assets and total liabilities, effectively net worth. Net assets are categorized as unrestricted, temporarily restricted, or permanently restricted.

NET ASSETS RELEASED FROM RESTRICTIONS - The transfer of funds from restricted net assets to unrestricted net assets due to the satisfaction of donor-imposed stipulations with respect to timing or purpose of the contribution.

OPERATING ACTIVITIES - Items that relate to the organization's main business or program activities. They may also be referred to as "above the line" activities (meaning they are included in the calculation of the operating surplus or deficit - the "bottom line"). See non-operating activities.

OPERATING DEBT - Debt to support the organization's main business or program activities, and day-to-day operations (e.g. line of credit).

OPERATING EXPENSES - Regular costs of doing business. Excluded are one-time, extraordinary or capital items such as funds passed through to other agencies, losses from sale of property, realized/unrealized investment gains or payments of debt principal.

OPERATING RESERVE - Funds set aside annually to be used to offset possible operating losses due to unexpectedly low revenue or high operating costs (a.k.a. rainy-day reserve).

OPERATING REVENUE - Funds received as unrestricted or released from temporary restriction to cover operating expenses. Excluded are one-time/episodic sources of income (such as capital campaign receipts, realized/unrealized investment gains and losses, gains from sale of property, and/or other extraordinary items) and all restricted revenue.

ORGANIZATIONAL BUDGET - A budgeting concept, organizational budgeting shows how organization resources are distributed among organizational units. Accountability for expenditures is assigned to a responsibility center manager, providing a basis for assessing performance against plan.

PASS-THROUGH REVENUE - Funds provided to the organization that must be spent on behalf of, or passed through to a secondary recipient. For example, re-grants.

PRO BONO - Professional work undertaken voluntarily and without payment or at a reduced fee as a public service. *Pro bono* service, unlike traditional volunteerism, uses the specific skills of professionals to provide services to those who are unable to afford them.

REVENUE - Payments for services, donations from individuals, foundations and corporations, support and contract payments from government agencies, income from fundraising activities, and investments.

FORM 990 - These Internal Revenue Service forms are filed annually by public charities and private foundations. Form lists assets, receipts, expenditures and compensation of officers.