Nonprofit Financial Management
Vocabulary

Accounting Costs -- is the amount of money needed--whether to buy, sell, or make something (product/service). This cost is captured in a nonprofit's accounting system (e.g. QuickBooks, Quicken, Excel). It is used as a financial decision-making tool, related to budgeting and financial analysis of operations.

Account Payable - money the organization owes, current liability
Account Receivable - money owed to the organization, current asset
Accrued Salary Expenses - salaries the nonprofit owes to the staff, current liability
Assets - resources owned by the organization
Bonds/Notes Payable - loans the nonprofit take out to handle unforeseen cash flow problems
Cash & Cash Equivalent - current assets that are the most liquid. Include: checking, savings, money market accounts, and T-bills
Cash Budget -- is a forecast of cash receipts and disbursements over a short period (usually weekly, bi-weekly, monthly, or quarterly). This is different from an operating budget. A nonprofit could have a balanced operating budget yet have no cash on hand to pay bills (illiquid)--which can lead to a closed organization.

Cash Flow Management -- is the process of projecting, monitoring, analyzing, and adjusting cash inflows, cash outflows, and cash balances.
Deferred Revenue - monies paid to the nonprofit in advance--unearned revenue. Once the nonprofit provides the service it moves from Deferred Revenue (current liability) to Revenue
Depreciation - assigning a value based on the useful life of the asset and deducting this cost from the original cost over time. The depreciation value is snapshot at time of purchase, it is different from the market value of the asset.
Direct Costs – the expenses associated directly with running a program/service
-Such as the program director, staff, program supplies
-These expenses are directly linked to an objective. It is easy to identify which program/department incurred the costs
Economic Decision Making -- deals with opportunity costs
Endowment - a permanent (restricted) fund provided by donors where, usually, the principal cannot be touched, but the interest income, dividends, and investment gains can be used in accordance with the wishes of the donor. The donor decides how and when the principal and the investment income can (or can't) be spent.
Financial Analysis - review of an organization's financial statements to determine its financial health, by using financial ratios. Ratios can identify: liquidity, solvency, efficiency, profitability, diversification of revenues, and the matching of revenues with expenses.
Financial Decision Making -- deals with the organization's accounting system

Fixed Costs - costs remain the constant over a certain volume of activity.
Training program fixed costs would be the facility used to train clients
Fund - any part of an organization (e.g. department/program) that maintain separate accounting records

Funding Model - a mathematical representation of key financial and operational relationships.

Nonprofit Financial Management

Vocabulary

Indirect Costs – the expenses are not associated directly with a running program/service but are necessary.
-Such as mortgage/rent, utilities, social media
-Benefits multiple programs/services and it is not easy to identify which program/department incurred the costs.
-Is required in order to know the full cost of a program/service

Intergenerational Equity - having a surplus at the end of each year to be used for future programs/services

Inventories - merchandise the organization owns and plans to sell it, current asset
Leverage - amount of debt used to finance assets
Line of Credit -- is a cushion of credit that can address short-term deficit issues. In addition, it may be preferred over large cash reserves--which is often an issue for nonprofits.
Requirements: convince bank of creditworthiness, possibly provide collateral (alternatively a nonprofit can collaborate with a larger, more financially secure nonprofit/foundation to get the loan approved. The larger institution can contribute the money directly or back the loan--either way supports a nonprofit and its mission).
Liquidity – having the cash or access to cash to meet the organization's financial obligations.
Can consist of: cash, cash equivalents, investments with a maturity date less than 1 year, and an unused line of credit.
Marketable Securities - securities invested for 1 year or less (current asset). Includes: stocks, bonds. Is recorded at market value, not historic cost.
Matching - for a given accounting period the revenues and expenses must match. For example, the invoice to pay June rent is reported when the expense occurs (June) not when paid.
Mortgage Loan - portion of the principal mortgage debt not to be paid in the current fiscal year, this is the long-term liability portion. The portion due in the current year is Mortgage Payable (current liability)

Mortgage Payable - the portion of the mortgage principal due in the current year, is a current liability. The remainder of the mortgage is recorded under long-term liabilities (mortgage loan)
Net Assets - (also known as Fund Balance) is the difference between total liabilities and total assets of a particular fund; the accumulation of cumulative revenues minus cumulative expenses.
Nonprofits Net Assets (per FASB guidelines) must be divided into 3 categories:
- unrestricted
- temporarily restricted
- permanently restricted

Opportunity Costs -- the value/cost of not allocating resources to a project/task. When a decision is made to allocate resources to a project those resources can't be used simultaneously for another project; the project not selected is the opportunity cost for those resources. It is used as an economic decision-making tool concerned with allocating limited resources.
Pledges Receivable - funds promised to the organization, current asset. Typically the nonprofit allocates only a portion (80% as receivable) and the balance (20%) would be allocated to "allowance for bad debts"--it is deducted from the total pledge and the net amount appears on the Balance Sheet

Prepaid Expenses - a short-term asset that is paid before they are incurred
Private Foundation - an individual, family, or corporation that is endowed (funded) as a nonprofit who in turn provide support to public charities. They are subject to federal taxes, unlike other nonprofits.

Profitability - having a surplus at the end of each year
Program Centers -- (regarding costing services) are departments that deliver services directly to clients.
- Such as: soup kitchens, job training, or health screenings
- Also known as Mission Centers

Property & Equipment - (also known as fixed assets) are long-term assets: property (e.g. vehicles, land, buildings) and equipment (e.g. computers). Any asset with life expectancy greater than a year is considered a fixed asset.
-These assets can be depreciated
-*Normal office equipment (staplers, calculators, are usually listed as supplies/expenses.*

Restricted Funds - the funder has given money to a nonprofit organization but has attached stipulations to its usage. The funder's stipulations can vary--it can permit the organization to spend the corpus after 10 years of spending only interest from the corpus or it can only permit disbursement of the funds to a specific program (such as juvenile mental health) or any other requirements the funder deems. Since a nonprofit's cash flow is usually uncertain, having funds with these restrictions often prove challenging to the leadership team's objective to maintain liquidity.
- Permitted to spend the interest, dividends, or gains
- Principal is not to be spent

Solvency - ability to meet long-term financial obligations
Step Costs - costs remain constant based within each level but the cost varies on each level based on activity or usage
Product/Services sells: 1-10 at $7/each, 11-20 at $5.75 each, 21 or more at $4.50 each
Support Centers -- (regarding costing services) are the departments in an organization that provide services to the Program Centers
- Such as: administration, fundraising, or janitorial services
- Also known as Service Centers

Temporarily Restricted Funds - not currently available for use by the nonprofit but once the restriction ends the money will move to the unrestricted area
Unrestricted Net Assets - money donated to the nonprofit without restrictions
Variable Costs - costs vary in proportion to the amount of volume
Training program variable costs would be the literature distributed, based on the number of clients
Working Capital -- current assets minus current liabilities.
Techniques for managing *Working Capital:*
-Having billing/collection systems in place to expedite payment
- reduce inventory in order to free up cash
-delay payments made to vendors (excessive use may impact future business)