

Glossary of Financial and Accounting Terms

Accounts Payable

The amount owed to others (i.e., vendors) for services or merchandise received by the organization.

Accounts Receivable

The amount owed to the organization for services or merchandise provided to others (i.e., 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

Costs of services or merchandise that have been used, 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 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 it may not collect.

Assets

What the organization owns.

Audit

An examination conducted by CPAs retained by the organization's Board of Directors that 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, a 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 those bank accounts, money market funds or 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 during 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

Assets that have a useful life of several years or more such as land, buildings, furniture and equipment.

Fiscal Year

A 12-month period for which the organization plans the use of its funds. 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 is an annual tax return document used by public charities 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

Total expenses incurred in soliciting contributions, gifts, grants and other funding sources.

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** and **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 organization has successfully applied for tax exempt status. In this document, the IRS indicates under which section of the Internal Revenue Code an organization is qualified.

Liabilities

What the organization owes.

Management and General Expense

Expenses for the general functioning of the organization, but not related to fundraising or programs.

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.

Permanently Restricted Funds

Contributions that may never be spent by the organization. The most common are endowment gifts, which are invested to 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 or emergency.

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