

Financial Leadership Key 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

The recognition and recording of income when earned and expenses when incurred.

Activity

A core element of the nonprofit organization, for example, key programs, administration, and fundraising. See also allocation, common costs, specific activity costs.

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 of a nonprofit organization.

Allocation

The process of spreading costs to two or more activities. See also activity, allocation basis.

Allocation basis

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

Assets

The properties or resources the agency owns and uses, for example, cash, investments, receivables, and equipment. Assets are found on the Statement of Financial Position. See also liquidity.

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.

Below-the-line allocation

The process of allocating total common costs proportionately among the activities of the organization. See also common costs and allocation.

Budget

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

Budget manager

The staff or board person responsible for collecting information for the budget and building the drafts for staff/board review.

Capitalization

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

Cash basis of accounting

The recognition and recording of income and expenses only when the cash (income) is actually received and the bills are actually paid (expense).

Cash flow

The timing of cash receipts and disbursements.

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. See also activity.

Contingency budget

A budget created to anticipate a potential change to the organization's primary budget, for example, the development of a second budget to be considered if a large grant comes in half-way through a fiscal year.

Contracts receivable

See accounts receivable.

Current assets

Those assets that are cash or can be converted to cash within one year.

Current liabilities

Those liabilities that will be paid within one year.

Current ratio

A comparison of an organization's current assets to its current liabilities; indicates the ability to pay bills and meet financial obligations. See also current assets and current liabilities.

Deficit

Expenses in excess of related income.

Depreciation

The process whereby the cost of a capitalized item is allocated across the years of its useful life. See also capitalization.

Depreciation schedule

A spreadsheet for tracking the purchase of capitalized items and their depreciation status.

Diversification

In reference to nonprofit income, this means having a variety of funding types and sources so that an organization is not unduly dependent on a handful of sources.

Earned revenue

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

Endowment

A fund permanently restricted by the donor. Interest generated may be unrestricted, temporarily restricted, or permanently restricted.

Fiscal year

The organization's business year, that is, 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 expenses by function: program, administration, and fundraising.

Grants receivable

See accounts receivable.

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 of credit

A means of short-term borrowing from a bank to meet cash flow challenges. Should be used for income timing problems, not for profitability problems.

Liquidity

Refers to having assets that are cash or quickly convertible to cash. See also assets.

Liquid operating reserve

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

Matching principle

Presenting related income and expenses together in the appropriate period. A benefit of accrual basis accounting.

Net assets

The resources ultimately available to the organization (Assets – Liabilities = Net Assets). Found on the Statement of Financial Position. See also reserve.

OMB A-133

The principles for complying with federal contract awards. The A-133 audit is required of all nonprofits that spend more than \$500,000 in federal awards in a year.

Output/outcome

These are evaluation concepts. Outputs are the direct results of your efforts (e.g., shelter nights), while outcomes are the longer-term impacts (e.g., injury/deaths of battered spouses avoided).

Overhead activity

The combination of administrative and fundraising activities.

Overhead rate

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

Permanently restricted contributions

Contributions whose principle is to be invested indefinitely according to the donor's wishes.

Program activity

The mission-related work of a nonprofit organization that is not administration or fundraising activity.

Projection

An updated forecast of income and expense.

Ratio

The comparison of two numbers to create a financial indicator. See also current ratio.

Releasing funds from restriction

Spending temporarily restricted funds in accordance with an approved work plan/budget and/or in a specified time frame.

Reserve

The accumulated unrestricted net assets available for the organization's use. See also net assets.

Segments

The unique elements of a chart of accounts. See also chart of accounts.

Specific activity costs

Costs that can be directly associated with a single activity. See also activity.

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 by function over a period of time.

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.

Statement of functional income and expense

This report matches income and expense by function, for example, key programs, administration, and fundraising. Used to evaluate surplus/deficit status of each activity.

Temporarily restricted contributions

Grants and contributions that are to be spent for a specific purpose or during a restricted period of time.

Unrealized gains/losses on investments

The amount by which the market value of an asset exceeds or is less than the original cost of that asset.

Unrestricted contributions

Grants and contributions given by the donor without reference to a specific purpose or use within a specific time period.

Variance

Difference between planned and actual financial performance.