

Glossary of Not-For-Profit Financial and Accounting Terms

This glossary serves as a helpful resource for understanding essential financial and accounting terms relevant to not-for-profit organizations. Each term is defined with examples to provide clarity.

Accounts Payable

Definition: The amount owed to vendors for goods and services received.

Example: A nonprofit owes \$5,000 to a printing company for marketing materials.

Accounts Receivable

Definition: The amount due to the organization from customers or donors for services rendered or goods sold.

Example: A local charity has \$2,000 in accounts receivable for a recent fundraising event ticket sale.

Accrual-Basis Accounting

Definition: An accounting method where revenues and expenses are recorded when they are earned or incurred, regardless of when cash is received or paid.

Example: A nonprofit recognizes \$10,000 in revenue from donations pledged in December, even if the cash is received in January.

Accrued Expenses

Definition: Expenses that have been incurred but not yet paid by the organization.

Example: Salaries for December may be owed but not paid until January.

Accrued Interest

Definition: Interest expenses that have accumulated but have not yet been paid.

Example: A nonprofit has \$200 in interest accrued on a loan by the end of the month.

Allocation

Definition: A method of distributing expenses across various programs and administrative categories based on a logical basis.

Example: A nonprofit allocates overhead costs based on the number of staff hours dedicated to each program.

Allowance for Doubtful Accounts

Definition: An estimate of the portion of accounts receivable that may not be collected.

Example: A nonprofit assesses that 5% of its \$50,000 accounts receivable may never be collected, setting an allowance for \$2,500.

Assets

Definition: Resources owned by the organization, including cash and physical items that provide economic benefits.

Example: Cash, equipment, and property owned by the nonprofit.

Audit

Definition: A formal examination of financial statements conducted by independent auditors to ensure accuracy and compliance with accounting standards.

Example: An annual audit performed by an outside CPA to validate the organization's financial reports.

Balance Sheet (Statement of Financial Position)

Definition: A financial statement that presents a snapshot of the organization's assets, liabilities, and net assets at a specific date.

Example: A balance sheet showing total assets of \$600,000 and total liabilities of \$250,000.

Board-Designated Funds

Definition: Funds allocated by the Board of Directors for specific uses, considered unrestricted for accounting purposes.

Example: The board sets aside \$100,000 in reserves for future program development.

Cash and Cash Equivalents

Definition: Liquid assets readily convertible to cash, such as cash in bank accounts or short-term investments.

Example: Funds in a checking account and a money market fund.

Cash-Basis Accounting

Definition: An accounting method where transactions are recorded only when cash is received or paid.

Example: A nonprofit recognizes revenue only when cash donations are deposited.

Cash Flow Statement

Definition: A financial statement that details cash inflows and outflows over a specified period.

Example: A statement showing \$150,000 in cash inflows from donations and \$100,000 in outflows for operating expenses.

Chart of Accounts

Definition: A listing of all account categories used in an organization's accounting system.

Example: Accounts for assets, liabilities, income, and expenses, organized numerically or categorically.

Conditional Contribution

Definition: A commitment from a donor to provide a contribution that is contingent upon certain requirements being fulfilled.

Example: A donor agrees to donate \$10,000 if the organization raises an additional \$5,000 from other sources.

Conditional Promise to Give

Definition: A commitment from a donor to make a contribution if certain conditions are met.

Example: A donor promises to give \$5,000 if the organization raises an additional \$15,000 from other sources.

Contribution

Definition: A gift or donation made to the organization, which can be in cash or in-kind (non-cash) resources.

Example: A corporation donates \$10,000 in cash and a local business provides office supplies worth \$2,000.

Current Assets

Definition: Cash and other assets expected to be converted into cash or used within the next year.

Example: Cash, accounts receivable, and inventory.

Current Liabilities

Definition: Obligations that are expected to be settled within the next 12 months.

Example: Accounts payable and short-term loan payments due within a year.

Deferred Revenue

Definition: Funds received for services or goods that have yet to be delivered, recorded as a liability until earned.

Example: A nonprofit receives a \$2,500 advance for a conference scheduled for next year.

Deficit

Definition: The situation when expenses exceed revenue during a specific period. Also known as a net loss.

Example: A nonprofit reports \$50,000 in expenses and only \$40,000 in revenue for the fiscal year.

Depreciation

Definition: The systematic allocation of the cost of a fixed asset over its useful life.

Example: A nonprofit depreciates a \$10,000 vehicle over five years, recording an annual expense of \$2,000.

Endowment

Definition: A permanent fund where the principal is invested, and only the income generated is used to support the organization's activities.

Example: An endowment fund of \$1 million generates \$40,000 annually for scholarships.

Fiscal Year

Definition: A 12-month period used for accounting purposes, which may differ from the calendar year.

Example: A nonprofit operates from July 1 to June 30 for its fiscal year.

Form 990

Definition: The annual report filed by tax-exempt organizations with the IRS, detailing financial information and activities.

Example: A nonprofit files Form 990 to disclose financial activities and ensure transparency to the public.

Functional Expenses

Definition: Expenses categorized by their purpose: program services, management and general, and fundraising costs.

Example: A nonprofit categorizes expenses as \$200,000 for programs, \$50,000 for management, and \$30,000 for fundraising.

In-Kind Contribution

Definition: A donation of goods or services rather than cash.

Example: A local artist donates their time to create a mural for the nonprofit's community center.

Liabilities

Definition: Financial obligations or debts that the organization owes to outside parties.

Example: Loans, mortgages, and accounts payable represent the nonprofit's liabilities.

Net Assets

Definition: The difference between total assets and total liabilities, reflecting the surplus or deficit of the organization.

Example: A nonprofit has \$300,000 in net assets after deducting \$150,000 in liabilities from \$450,000 in assets.

Permanently Restricted Funds

Definition: Donations that must be retained indefinitely, with only the income generated available for use by the organization.

Example: An endowment that generates income for scholarships but where the principal must remain intact.

Pledge

Definition: A formal commitment from a donor to contribute a specific amount at a later date.

Example: A donor pledges to contribute \$5,000 over five years to support a new program.

Prepaid Expense

Definition: An expense paid in advance for services or goods that will be received in the future.

Example: A nonprofit pays \$1,200 for a one-year insurance policy upfront.

Refundable Advances

Definition: Funds received by an organization that must be returned if certain conditions are not met or if the services are not rendered.

Example: A government agency provides a \$10,000 grant as a refundable advance for a specific project, which must be returned if not completed.

Reserves

Definition: Funds set aside for future expenses or emergencies, providing financial stability.

Example: A nonprofit maintains a reserve of \$50,000 to cover unexpected costs.

Restricted Funds

Definition: Contributions that are subject to specific donor restrictions regarding their use.

Example: A donor restricts \$10,000 for a particular project, which cannot be used for general operations.

Restricted Contribution

Definition: A donation with specific limitations or conditions set by the donor concerning its use.

Example: A donor gives \$20,000 specifically for a new community outreach program.

Temporarily Restricted Funds

Definition: Contributions that can only be used for specific purposes or within a designated timeframe.

Example: A grant received for a project that must be spent within one year.

Unrestricted Funds

Definition: Funds without donor-imposed restrictions, allowing the organization to use them as needed.

Example: General donations that can be used to support any aspect of the organization's operations.

Difference Between Conditional Contribution and Restricted Contribution

- **Conditional Contribution:** This type of contribution is contingent upon the completion of certain actions or fulfillment of specific criteria. If the conditions are not met, the organization is required to return the funds.
Example: A donor may offer \$10,000 if the organization raises an additional \$5,000 from other sources.
- **Restricted Contribution:** This is a donation that comes with specific limitations set by the donor regarding how it can be used. The organization must use the funds as specified, but unlike conditional contributions, there are no additional conditions for completion.
Example: A donor might restrict a \$20,000 gift specifically for enhancing community outreach programs.

In summary, conditional contributions depend on specific conditions being met, while restricted contributions are limits on how the funds can be used without further criteria for the donation itself.

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