

Glossary

Access • Clarification of who has access to what and when, also referred to as segregation of duties. Key areas of access can include: bank account access, organizational credit cards, blank check stock, cash/checks received, accounting system, donor database, payroll system, and approval authority.

Actuals • True financial results. Actual income or expenditures, as opposed to those budgeted or projected.

Assets • What your organization owns or has the right to use. Cash and cash equivalents are available within three months. Current assets are those that can be converted into cash within 12 months.

Avoiding Fraud • Safeguards that organizations put in place to identify possibilities for fraud and ways to keep the organization and its participants from committing fraud. Avoiding fraud and maintaining a positive reputation is important to the continuing success of an organization.

Budget • Your financial plan, including an estimate of income and expenses. In a nonprofit, the budget considers both fiscal accountability and mission priorities. The budget should be reviewed and approved by the Board of Directors.

Communication (between development and finance) • Fundraising and financial reporting must move forward in alignment for effective and timely information to reach the individuals or institutions funding a nonprofit's work.

Compliance & Penalties • Although a nonprofit does not pay taxes, reporting is mandatory to maintain the nonprofit tax status. There are several legal and financial penalties that can fall on an organization if the Form 990 is not filed on time, is incomplete, or is not filed correctly.

Current Ratio • Current assets divided by current liabilities. It is a ratio that measures whether or not an organization has enough resources to pay its obligations over the next 12 months.

Endowments • Donations given with the intent that the principal (corpus) will be maintained intact in perpetuity (permanently restricted) and that earnings will be used for general operations or specific purposes, as defined by the donor.

Fees-for-service • Income generated from the delivery of some service.

General operating • Funds given to sustain the organization with no restrictions on how funds should be spent.

Governance • The act of governing, including how decisions are made in order to sustain the long term health of an organization. In a Form 990 context, it includes maintaining your exempt purpose, board independence, and certain written policies and procedures.

In-kind • Donations other than cash or pledges, typically goods or services. Note that an organization should be careful about issuing tax letters related to in-kind donations given that some in-kind donations can be tax-deductible (i.e. goods at fair market value) and others (i.e. volunteer time) are not tax deductible.

Internal Controls • Policies and procedures implemented with the following objectives:

- ▲ Effectiveness and efficiency of operations
- ▲ Safeguarding assets against loss and unauthorized use or disposition
- ▲ Reliability of financial reporting
- ▲ Compliance with applicable laws and regulations and adherence to policies

Liabilities • What your organization owes. Current liabilities are those that are due within 12 months.

Liquidity • Liquidity is how quickly you can get your hands on your cash or other assets. It represents an organization's ability to meet its obligations as they come due.

Marketing Tool • The 990 can be used to market the organization's mission, programs, success and stability. This can include program accomplishments and statistics, volunteer numbers/hours, areas served, etc.

Period of Time • While the balance sheet is a snapshot taken at a point in time, the Income Statement presents activity over a period of time. Can be over a month, quarter or year. Often "YTD" or Year to Date.

Pledges • A formal commitment to make a contribution of a specific amount. Also called promises to give. Pledges can come from individual donors or from institutional funders (foundations, corporations, etc).

Policies and Procedures • Policies are protocols to guide decisions and achieve desired outcomes. Procedures are the steps to take to implement something. Together, policies and procedures represent an organization's detailed list of what needs to be done, who is responsible, how roles and duties are segregated, and steps for achieving completion.

Public Document • The Form 990 is your organization's most public financial document and can be viewed by any member of the public. The Form 990 is automatically uploaded to

GuideStar.org where the public, including potential donors and funders, review 990s in making funding decisions.

Reporting • Presentation of meaningful financial information to internal decision makers (management, Board) or external users (funders, donors, banks, etc). Internal reporting needs to be done on a consistent, timely basis and reports should facilitate informed decision making. External reports should meet any specific requirements and be reviewed with an eye to how they portray your organization.

Reserves • Emergency funds, or an amount set aside by the organization to be used in case of emergency, unexpected expense, planned future events, or unexpected programmatic opportunity.

Restrictions • Contributions earmarked by the donor for a specific use. Restricted gifts require additional tracking/accounting to ensure that we are stewarding them appropriately and using them for their intended purpose. Restrictions fall into the following three categories:

- ▲ Unrestricted - no donor imposed stipulations, but may include Board-designated funds
- ▲ Temporarily Restricted - restricted for a specific purpose or future period as stipulated by the donor
- ▲ Permanently Restricted - the corpus of these gifts are to be maintained in perpetuity (see endowments above)

Revenue diversification • Using multiple funding sources to hedge against financial instability.

Review • Examination of an organization's finances in summary form in order to ensure that everything is in order. Examination of internal controls to assess viability and accuracy. Continual review and update ensure an organization is operating at the highest efficiency possible.

Snapshot • What you own and owe on a specific date. The Balance Sheet is a snapshot taken at a point in time. It summarizes what the organization owns and owes on a specific date.

Special event income • Income generated through the attendance of some event, either through donations given at the event or ticket sales.

Finance Unlocked for Nonprofits (FUN) was designed to increase nonprofit finance literacy in ways that help board members to grow their mission and protect their assets. It should not be considered as a substitute for professional advice.