



Glossary of Terms

Accounts payable - The amount owed to others for services or merchandise received by the organization.

Accounts Receivable - dollars due from customers as a result of selling services or inventory on terms which allow for delivery prior to the payment of cash. The transaction exists as a receivable on the balance sheet until cash is collected from the customer.

Accrual basis accounting - A system of financial recordkeeping in which transactions are recorded as expenses when they are incurred (i.e. when a bill is received for merchandise or services provided to the organization) and as income when it is earned (i.e. when services or merchandise is provided by the organization, or the organization receives a commitment of a contribution) rather than when cash is paid or received.

Accruals: obligations owed but not yet billed.

Accrued expense - Costs of operation that have accumulated, but not yet due or payable.

Accrued interest - Interest costs or revenue which has accumulated, but are not received or paid.

Allocation - A method of accounting that divides expenses among different program, administrative, and fundraising categories based on a formula that recognizes the use of the resources such as use of the facility or staff time.

Allowance for doubtful accounts - An amount reflecting the portion of the accounts receivable which the organization reasonably believes it may not collect.

Amortization (depreciation) - The recognition, by recording an expense, of the decrease in value of a property, plant and equipment over its expected physical or economic life. The value of land is not depreciated.

Asset: an item of value owned by the organization. An asset may be in the form of cash, securities, equipment, or real estate, etc.

Audit - A financial report that has been tested and verified for accuracy and prepared in accordance with Canadian generally accepted accounting principles. An essential component of the audit is the Audit Report.

Balance sheet - A report showing the financial condition – Assets, Liabilities, and Net Assets - of the organization at a particular moment in time. Referred to as a Statement of Financial Position in the not-for-profit sector or Statement of Funds.

Beneficiary: A person who directly benefits from a non-profit's mission/ programs.

Capital: The built capacity of an organization, including financial and fixed assets. Capital is different from money. Money is used simply to purchase goods and services for consumption, whereas capital is more durable and is used to generate wealth through investment.

Capital Budget - A fiscal plan for the proposed additions to Property, Plant & Equipment and their financing.

Capital expenditure - Payment of money to acquire assets, such as a building or equipment

Capitalizing an asset - Recording the cost of land, a building or equipment as Property, Plant & Equipment rather than as an expense when purchased.

Cash flow - The movement of cash into and out of an organization; or the difference between cash receipts and cash disbursements during a period of time.

Cash flow statement - A report of incoming and outgoing cash during a specified period of time.

Cash basis accounting - A system of financial recordkeeping in which transactions are recorded when cash is received or spent. The advantage over accrual-basis accounting is its simplicity as it looks at cash coming in and going out.

Contributions (or contributed revenue): Income received in the form of donations from third-party sources such as public and private individuals and organizations. One of three main classifications of non-profit income; the other two are earned-income and investment income.

Contract: Provision of products or services according to agreed terms with a third party purchaser from the public, private or voluntary sectors. There is usually a competitive tendering process at the start and contract management throughout.

Charitable organization (also *registered charity* or *charity*): A type of non-profit organization committed to exclusively charitable purposes and registered as a charity under law. Regulation of charities, registration processes and definitions of "charitable purposes" vary across jurisdictions.

Current assets - Cash, investments, receivables, and other assets that can be expected to be available as cash within twelve months.

Current liabilities - Those liabilities due to be paid now or within the next twelve months. Represents what the organizations "owes" in the short term.

Deferred revenue - 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 in a future accounting period.

Donations: Financial and in-kind gifts given to a non-profit to help further its mission. Generally unrestricted and the donor trusts the organization to spend it as needed.

Diversification (or revenue diversification): A revenue strategy that aims to increase the predictability of an organization's revenue by spreading risk across a variety of funding types. For non-profits, revenue diversification is to equalize reliance on contributions, earned-income and investments.

Earned-income (or Earned revenue): The sale of products, services, processes, expertise and intellectual property for monetary return.

Fee-for-service: A fee charged by a non-profit in return for services delivered.

Financial statements - Financial statements consist of Statement of Operations (Income), Statement of Financial Position (Balance Sheet), Statement of Changes in Net Assets (Equity) and Statement of Cash Flows.

Fixed Assets (Property, Plant & Equipment): physical assets which have life in excess of one year. This includes land, buildings, machinery, equipment, furniture/fixtures, and leasehold improvements. Associations will set up a policy from which amount to capital e.g. \$500.

Fund accounting - A system of accounting based on separating information into groups which reflect organizational divisions or donor-imposed restrictions.

Gift: A legal term for giving something of value (money or physical property) with no expectation of anything in return, financial or otherwise.

Grant: Restricted funding provided by private or public institutional donors to deliver specific outputs or mutually agreed outcomes. Usually involves a formal application process and results are often monitored by the funder.

Income mix: The number, type and proportion of sources that make up an organization's revenue.

Income Statement -A financial report that summarizes income and expenses and resulting surplus or deficit for a given period of time. Also known in the not-for-profit sector as the Statement of Operations.

Indirect costs: see **Overhead**

In-kind contribution - A contribution made of goods or services rather than cash.

Intangibles: assets which have no physical properties or "set" values. Examples of intangibles include reputation and goodwill.

Internally Restricted Fund – Restricted by board as a reserve. Can be taken out of restriction by board decision.

Inventory - the goods and materials a company sells to make a profit. Inventory exists in three forms: raw materials, work in progress, and finished goods. In the process of selling inventory, either cash is received or an account receivable is created.

Liabilities - What the organization owes to others, including accounts payable, debts, mortgages and other obligations to pay.

Long Term Debt: the portion of a term loan which does not have to be paid within the next year.

Net assets (also Equity): The non-profit equivalent of "shareholder's equity." The value of a non-profit's assets less the value of its liabilities. Divided into Unrestricted and Temporarily Restricted net assets.

Overhead: Ongoing expenses not directly related to running specific programs. Often incurred regardless of the level of business activity.

Open market: Selling products or services to customers, not as part of a long-term structured contract. The open market includes trading and enterprise activity such as providing education, training, paid-for advice, selling publications or other retail. Trading can directly further the organization's mission or can be purely to generate profit.

Patient capital: A debt or equity instrument with below-market rates or longer-than-average terms provided to lower-income recipients in support of a social venture.

Property, plant and equipment: An accounting term for company assets that are vital to business operations but cannot be easily liquidated.

Program Funding: Funding restricted to covering direct program expenses and linked to specific program outcomes.

Project Funding: Funding restricted to covering direct expenses of a short-term project or program pilot, usually one-time funding.

Public sector: One of two main sectors of organizational ownership, consisting of organizations owned by government. The other is the private sector, consisting of organizations owned by individuals or groups, such as businesses and voluntary organizations.

Restricted Funding: Funding given on the condition that it is spent according to funder's requirements.

Renewable Funding (also renewability): Funding sources that are very likely to continue for 3-5 years.

Revenue - Income earned from services performed or merchandise sold (as distinct from support, or contributed income) as well as grants and donations contributed to operations.

Secured loan - A loan for which something of value is pledged in the case that repayment cannot be made.

Short term debt/liability - A loan which is issued with a final payment date of one year or less.

Social enterprise: Organizations or initiatives that seek to achieve social goals through sustainable profits. Social enterprises are intent on using business tools and the power of the market place to solve social and environmental problems.

Social finance: Social finance is an approach to mobilizing private capital that delivers a social dividend and an economic return to achieve social and environmental goals. It creates opportunities for investors to finance projects that benefit society and for community organizations to access new sources of funds.

Sponsorship: Sponsors are typically corporate funders who provide cash or in-kind support to a program or event. In the case where the funding is provided with no expectation of a return, it is a gift. In the case where the sponsor provides funding in exchange for a commercial return (such as exclusive advertising rights at an event), it is earned-income activity.

Surplus (also Net Income): A company's total earnings (or profit) over a period of time. Net income is calculated for a non-profit organization by taking total income and subtracting depreciation and total expenses.

Temporarily restricted funds - Contributions given by the donor or granting organization for a specific use or for use during a specific period of time. The limitation is satisfied at a defined time or when certain activities have been performed and the funds are released from restriction.

Third party funding: see *Contributions*

Unrestricted: Funding given or earned that has no external requirements and can be used for any purpose by the organization.

Working Capital: A measure of both a company's efficiency and its short-term financial health. The working capital is calculated as current assets less current liabilities.