

# GLOSSARY

The nonprofit world uses terms from accounting, tax law, and other fields that may not be familiar to the general public. Here is a selective glossary of terms you may encounter in the grant application process.

## **501(c)(3)**

Section of the Internal Revenue Code that defines the organizations that are exempt from income tax because of their charitable nature. (The rest of section 501(c) lists other kinds of organizations that are exempt but not charitable, such as trade associations.) Charitable organizations file an application with the Internal Revenue Service, the Form 1023, to be recognized as a 501(c)(3) organization. See **Letter of Determination** below.

## **509(a)**

Section of the Internal Revenue Code that defines whether a 501(c)(3) charity will be considered a private foundation or a public charity. All 501(c)(3) organizations are presumed to be private foundations unless the charity can demonstrate that it should be treated as a public charity under one of the provisions of section 509(a).

## **ACCRUAL BASIS OF ACCOUNTING**

An accounting system that recognizes expenses and revenues when they accrue, not when cash is exchanged. Accrual basis accounting recognizes expenses when incurred and revenues when earned.

## **ANNUAL FUND DRIVE**

A regular effort by a charity each year to raise general operating support through direct mail or other appeals. Colleges, universities, and schools are the kinds of charities that typically hold annual fund drives.

## **AUDIT**

The procedure followed by an independent accountant to develop an opinion whether an organization's financial statements fairly represent the organization's financial condition. An audit includes selectively testing transactions and internal controls at an organization according to standards established by the accounting profession. An audit provides an organizational outsider the highest degree of assurance regarding an organization's finances. Compare **Compilation** and **Review**.

## GLOSSARY CONT.



### AUDITED FINANCIAL STATEMENTS

The financial information of an organization, presented in a standardized format following an audit by an independent accountant. Audited financial statements for nonprofit organizations include the auditor's opinion, followed by the statement of financial position, statement of activities, statement of cash flows, and notes amplifying certain portions of the statements. Certain kinds of organizations may also have a statement of functional expenses. The format and standards for financial statements are prescribed by the Financial Accounting Standards Board (FASB). See definitions of these terms elsewhere in this glossary.

### CAPITAL

An accounting term traditionally referring to a fixed asset such as a building or a significant piece of equipment. So-called "capital campaigns" derived that name historically because they were organized efforts to solicit funds for building projects and equipment. Today's capital campaigns, however, often include program, endowment, and operating funds in addition to capital projects.

### CASH BASIS OF ACCOUNTING

An accounting system that recognizes revenues and expenses only when cash is exchanged (such as when an invoice is paid). The system ignores transactions if they do not involve cash, such as expenses that have been billed but are not yet due.

### CHALLENGE GRANT

A type of charitable grant awarded by a grantmaker in order to encourage other donors to support the charity. A challenge grant typically will not be paid to the charity unless and until the charity obtains other gifts in a specified amount by a specified deadline.

### CLEAN OPINION

See **Unmodified Auditor's Opinion** below.

### COLLABORATIVE

An effort by two or more charities to combine their services, typically for a specific project. The term may also refer to efforts by grantmaking foundations to pool their grant resources.

### COMPILATION

An effort by a professional accountant to assemble an organization's records into financial statements in a consistent and readable format. An accountant performing a compilation does not test transactions or express any opinion about the organization's finances. Accordingly, it provides little or no assurance to an outsider about the organization's financial condition. Compare **Audit** and **Review**.

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### **CONFLICT OF INTEREST POLICY**

A formalized statement of policy by an organization defining when an employee, director, or other person covered by the policy has divided loyalties between the organization and the individual's business or personal interests. A conflicts policy also should specify the procedures to be followed for disclosure and disposition of conflicts as they arise.

### **CURRENT ASSETS**

An accounting term for those assets that a charity could reasonably expect to turn into cash or use within a one-year period.

### **CURRENT LIABILITIES**

An accounting term for those organizational obligations that are owed within the next year.

### **DUPLICATED**

A term applied to an agency's reported service numbers if the figures do not represent unique, individual clients. For example, an agency that serves the same ten people each month can report 120 clients per year on a duplicated basis, but ten clients on an unduplicated basis.

### **ENDOWMENT**

A category of a charity's assets that the donor has restricted to remain intact, usually in perpetuity. If assets are held as endowment, the charity typically spends annually either a percentage of the market value of the assets, or the income generated by the assets, for the purposes for which the endowment was established. An endowment can be unrestricted, meaning distributions can be used for any purpose, or restricted, meaning distributions must be used for a limited purpose, such as funding scholarships. (A charity's board of directors may also decide to set aside charity assets for endowment, but those assets are termed "quasi-endowment" or "board-designated endowment" and are considered unrestricted expendable assets from an accounting perspective.)

### **FASB**

Financial Standards Accounting Board, the governing board that develops the accounting standards for nongovernmental organizations, including rules, procedures, and applications. Taken as a whole, FASB Standards define what is acceptable practice in the accounting profession and are therefore referred to as Generally Accepted Accounting Principles, or GAAP.

### **FISCAL YEAR**

The one-year period selected by an organization for financial reporting purposes, which may differ from the calendar year. For example, an organization's fiscal year could extend from September 1 of one calendar year to August 31 of the following calendar year. Each consecutive 3-month period within the fiscal year is called a fiscal quarter.

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### **FORM 990**

Form of federal informational tax return filed annually by publicly supported charities, unless they qualify for an exception to the filing requirement. Nearly all of Form 990 is public information under federal law. See Public inspection copy of Form 990. Private foundations like the King Foundation file a similar tax return called the Form 990-PF. Any charity, whether public or private, that has certain kinds of income must also file a Form 990-T.

### **FORM 990-PF**

Form of federal tax return filed annually by private foundations, which calculates any federal taxes due and demonstrates the foundation has met its federally required payout. The return, including its list of contributors, is public information under federal law. See Public inspection copy of Form 990 below.

### **GRANT CONTRACT**

A written agreement between a grantmaking organization, such as a private foundation, and a charitable organization, typically spelling out the purpose of the grant, the payment schedule, grant reporting requirements, and similar matters.

### **IN-KIND CONTRIBUTIONS**

Non-cash gifts to a charity, such as donations of materials or equipment.

### **LETTER OF DETERMINATION**

A letter issued by the Internal Revenue Service to a charitable organization notifying the group that the IRS has determined the group is a charity under section 501(c)(3) of the Internal Revenue Code, and that the group is either a private foundation or a publicly supported charity.

### **LETTER OF INQUIRY**

A brief letter sent by a charity to a grantmaking organization, usually in a format prescribed by the grantmaker, asking if the grantmaker would consider a complete proposal from the charity to fund a specified project.

### **LIQUID ASSETS**

Cash on hand or in banks, or investments that can be quickly converted to cash.

### **MANAGEMENT LETTER**

A statement issued by an organization's independent auditor commenting on internal financial controls and other management issues discovered during the audit process. A management letter typically includes areas needing improvement and recommendations for addressing those areas during the next 12-month period.

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### **MATCHING GRANT**

A grant made with the provision that the amount donated must be matched by other donations on some formula, such as 1:1.

### **MODIFIED CASH BASIS OF ACCOUNTING**

A form of the cash basis method that records some items, such as payroll taxes, using the accrual method.

### **MULTIYEAR GRANT**

An award pledged by a grantmaking organization to be paid to the charity over a period of more than one year.

### **NET ASSETS**

The difference between a charity's total assets and total liabilities. Compare **Unrestricted Net Assets**.

### **OPERATING BUDGET**

A financial plan that projects an agency's overall revenue and expenses for a specified period.

### **OPERATING LOSS**

A condition that exists when an agency's expenses exceed revenue for the financial reporting period.

### **OPERATING SUPPORT OR GENERAL OPERATING SUPPORT**

Unrestricted donations to a charity, which the charity may use for any purpose, such as paying its operating costs, including salaries, utilities, and occupancy costs. Compare to **Program Support**.

### **PERMANENTLY RESTRICTED**

Term applied to assets, such as an endowment, on which the original donor imposed a permanent restriction. Compare to **Temporarily Restricted Assets** and **Unrestricted Assets**.

### **PROGRAM**

Term used to describe a discrete group of focused activities conducted by a charity to achieve a particular result. A homeless shelter, for example, might operate a job training program to assist its clients in becoming financially independent.

### **PROGRAM BUDGET (ALSO PROJECT BUDGET)**

A financial plan that projects the revenue and expenses for a specified period, but only for a specific program or project within the charity's activities, not for the charity as a whole.

### **PROGRAM EVALUATION**

An assessment of a charity's programs to determine whether the programs, and therefore the charity, are achieving their desired results.

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### **PROGRAM EXPENSE RATIO**

The relationship, expressed as a percentage, between what a charity spends on the direct provision of services through its programs, and what it spends overall.

### **PROGRAM SUPPORT**

A contribution that the donor restricts for use in a specific area of the charity's services. Compare to **Operating Support**.

### **PUBLIC INSPECTION COPY OF FORM 990**

A copy of a charity's annual tax return available for public inspection in compliance with federal law. All 501(c)(3) charities that file a tax return, both public charities and private foundations, must make their returns (and some other tax documents) available to any member of the public who requests them. Making the return "widely available" on the internet (through the agency's own or a third-party website) may satisfy this requirement. Public charities are not required to disclose the names of contributors on the public inspection copy of the return. Private foundations are so required. See **Form 990** and **Form 990-PF** above.

### **QUASI-ENDOWMENT**

Assets set aside by a charity's board of directors, instead of a donor, for endowment purposes. Because the board can reverse that decision, the assets are termed "quasi-endowment" and are considered unrestricted assets from an accounting perspective. See **Endowment** above.

### **REVIEW**

Slightly better than a compilation, a review is an effort by a professional accountant not only to assemble an organization's financial records into financial statements, but also to perform some limited analysis to determine if the statements seem to be internally consistent. An accountant performing a review does not test transactions or controls, or give an opinion.

An in-person visit by a grantmaker to a charity to meet the agency's key staff, program principals, and clients. Site visits typically occur during the process of evaluating a request for funding, but may also occur after a grant has been awarded to assess a program's progress.

### **SPONSORSHIP**

A contribution made to help put on a special event held by a charity to raise funds or awareness of the charity's services.

### **STATEMENT OF ACTIVITIES**

One of the three typical financial statements for nonprofit organizations, equivalent to a profit-and-loss statement or income statement in for-profit accounting. The statement of activities includes income, expenses, and changes in net assets.

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### STATEMENT OF CASH FLOWS

One of the three typical financial statements for nonprofit organizations, showing the cash receipts and cash disbursements for the organization during the reporting period, and whether the cash is related to operating, investing, or financing activities by the charity.

### STATEMENT OF FINANCIAL POSITION

One of the three typical financial statements for nonprofit organizations, equivalent to a balance sheet in for-profit accounting. The statement of financial position includes assets, liabilities, and net assets.

### SUPPORTING ORGANIZATION

An organization that is treated as a public charity, instead of a private foundation, because of its relationship to one or more public institutions or publicly supported charities. IRS Section 509(a)(3) and related regulations describe three levels of relationship that will classify the charity as a supporting organization: “operated, supervised, or controlled by” (Type 1); “supervised or controlled in connection with” (Type 2); and “operated in connection with” (Type 3).

### TEMPORARILY RESTRICTED ASSETS

A term applied to a contributed asset on which the donor has placed restrictions that will expire either by the passage of time, or through the organization’s activities, such as conducting a particular program. Compare to **Permanently Restricted Assets** and **Unrestricted Assets**.

### TOTAL LIABILITIES

All claims against an organization’s assets, such as accounts payable, payroll taxes, and bank loans.

### UNAUDITED FINANCIAL STATEMENTS

A set of financial statements (usually a statement of financial position and a statement of activities) prepared by a nonprofit organization for its internal use, which have not been scrutinized by an independent accountant using the testing and control procedures required by auditing standards.

### UNDUPLICATED

A term applied to an agency’s reported service numbers if the figures represent unique, individual clients. For example, an agency that serves the same ten people each month can report 120 clients per year on a duplicated basis, but ten clients on an unduplicated basis.

### UNMODIFIED AUDITOR’S OPINION

A statement by an independent accountant who has audited an organization’s financial records, that the financial statements prepared as a result of the audit fairly represent the organization’s financial condition in all material respects, with no exceptions. Also called a clean opinion, and formerly known as an unqualified auditor’s opinion.

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### **UNRESTRICTED ASSETS**

Assets that have not been designated to specific uses by the donor. A charity may use unrestricted funds in carrying out its operations, or for any other purpose it determines appropriate.

### **UNRESTRICTED NET ASSETS**

Those net assets on which there are no donor restrictions.