

FINANCIAL MANAGEMENT: 101

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OBJECTIVES

- Nonprofit Glossary
- Review Financial Reports
- Budgets
 - Annual Budget
 - Cash Flow Budget
- Form 990
- Functional Expenses

GLOSSARY HIGHLIGHTS

- **Board-designated endowment fund**
- **Contribution**
- **Donor-imposed restriction**
- **Endowment fund**
- **Financial asset**
- **Financial liability**
- **Functional classification**

GLOSSARY HIGHLIGHTS

- **Net assets**
- **Permanently restricted net assets**
- **Temporarily restricted net assets**
- **Unrestricted net assets**

FINANCIAL REPORTS

- **Statement of Financial Position**
- **Statement of Activities**
- **Budget Versus Actual**

BUDGETS

- **Annual Budget**
 - **Operational**
 - **Program**
- **Cash Flow Budget**

FUNCTIONAL EXPENSES

- **Program**
- **General and Administrative (G&A)**
- **Fundraising**

QUESTIONS



Glossary

Activities. Activities are efforts to accomplish specific objectives. Some activities include producing and distributing materials. For example, if an NFP undertakes a mass mailing that includes a letter and a pamphlet, producing and distributing the letter and pamphlet are part of the activity. Other activities may include no materials, such as an annual dinner or a radio commercial.

Board-designated endowment fund. An endowment fund created by an NFP's governing board by designating a portion of its unrestricted net assets to be invested to provide income for a long but unspecified period (sometimes called funds functioning as endowment or quasi endowment funds). See **endowment fund**. See also **designated net assets**.

Business. An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants.

Compensation or fees. Reciprocal transfers of cash or other assets in exchange for services performed.

Conditional promise to give. A promise to give that depends on the occurrence of a specified future and uncertain event to bind the promisor.

Contribution. An unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. Those characteristics distinguish contributions from exchange transactions, which are reciprocal transfers in which each party receives and sacrifices approximately equal value; from investments by owners and distributions to owners, which are nonreciprocal transfers between an entity and its owners; and from other nonreciprocal transfers, such as impositions of taxes or legal judgments, fines, and thefts, which are not voluntary transfers. In a contribution transaction, the value, if any, returned to the resource provider is incidental to potential public benefits. In an exchange transaction, the potential public benefits are secondary to the potential proprietary benefits to the resource provider. The term *contribution revenue* is used to apply to transactions that are part of the entity's ongoing major or central activities (revenues), or are peripheral or incidental to the entity (gains). See also **inherent contribution**.

Designated net assets. Unrestricted net assets subject to self-imposed limits by action of the governing board. Designated net assets may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses.

Donor-imposed condition. A donor stipulation that specifies a future and uncertain event whose occurrence or failure to occur gives the promisor a right of return of the assets it has transferred or releases the promisor from its obligation to transfer its assets.

Donor-imposed restriction. A donor stipulation that specifies a use for the contributed asset that is more specific than broad limits resulting from the following: (a) the nature of the NFP, (b) the environment in which it operates, and (c) the purposes specified in its articles of incorporation or bylaws, or comparable documents for an unincorporated association. A donor-imposed restriction on

an NFP's use of the asset contributed may be temporary or permanent. Some donor-imposed restrictions impose limits that are permanent, for example, stipulating that resources be invested in perpetuity (not used up). Others are temporary, for example, stipulating that resources may be used only after a specified date, for particular programs or services, or to acquire buildings and equipment.

Donor-restricted endowment fund. An endowment fund that is created by a donor stipulation requiring investment of the gift in perpetuity or for a specified term. Some donors may require that a portion of income, gains, or both be added to the gift and invested subject to similar restrictions. The term does not include a board-designated endowment fund. See **endowment fund**.

Endowment fund. An established fund of cash, securities, or other assets to provide income for the maintenance of an NFP. The use of the assets of the fund may be permanently restricted, temporarily restricted, or unrestricted. Endowment funds generally are established by donor-restricted gifts and bequests to provide (a) a permanent endowment, which is to provide a permanent source of income, or (b) a term endowment, which is to provide income for a specified period.

equity. See **net assets**.

Financial asset. Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either (a) receive cash or another financial instrument from a second entity or (b) exchange other financial instruments on potentially favorable terms with the second entity. A financial asset exists if and when two or more parties agree to payment terms and those payment terms are reduced to a contract. To be a financial asset, an asset must arise from a contractual agreement.

Financial liability. A contract that imposes on one entity an obligation to do either (a) deliver cash or another financial instrument to a second entity or (b) exchange other financial instruments on potentially unfavorable terms with the second entity.

Functional classification. A method of grouping expenses according to the purpose for which the costs are incurred. The primary functional classifications are program services and supporting activities.

Funds functioning as endowment. Unrestricted net assets designated by an entity's governing board, rather than restricted by a donor or other outside agency, to be invested to provide income for a long but unspecified period. A board-designated endowment, which results from an internal designation, is not donor-restricted and is classified as unrestricted net assets. The governing board has the right to decide at any time to expend the principal of such funds. (Sometimes referred to as quasi endowment funds.) See also **designated net assets**.

Legal entity. Any legal structure used to conduct activities or to hold assets. Some examples of such structures are corporations, partnerships, limited liability companies, grantor trusts, and other trusts.

management and general activities. Activities that are not identifiable with a single program, fund-raising activity, or membership development activity but that are indispensable to the conduct of those activities and to an entity's existence.

Membership development activities. Membership development activities include soliciting for prospective members and membership dues, membership relations, and similar activities. However, if there are no significant benefits or duties connected with membership, the substance of membership development activities may, in fact, be fundraising.

Net assets. The excess or deficiency of assets over liabilities of an NFP, which is classified into three mutually exclusive classes according to the existence or absence of donor-imposed restrictions. See **unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.** **net investment (equity) in land, buildings, and equipment.** The total carrying value (after accumulated depreciation) of all property and equipment, less directly related liabilities. This amount is exclusive of real properties that are held for investment purposes.

Nonfinancial asset. An asset that is not a financial asset. Nonfinancial assets include land, buildings, use of facilities or utilities, materials and supplies, intangible assets, or services.

Nonprofit activity. An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with an NFP, a nonprofit activity possesses characteristics that distinguish it from a business of for-profit business entity.

Not-for-profit entity. An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity: (a) contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return, (b) operating purposes other than to provide goods or services at a profit, and (c) absence of ownership interests like those of business enterprises. Entities that clearly fall outside this definition include the following: (a) all investorowned enterprises and (b) entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance companies, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Permanent restriction. A donor-imposed restriction that stipulates that resources be maintained permanently but permits the NFP to use up or expend part or all of the income (or other economic benefits) derived from the donated assets.

Permanently restricted net assets. The part of the net assets of an NFP resulting from the following: (a) contributions and other inflows of assets whose use by the NFP is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the NFP, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Program activities or services. The activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the NFP exists. Those services are the major purpose for and the major output of the organization and often relate to several major programs.

Promise to give. A written or oral agreement to contribute cash or other assets to another entity. A promise carries rights and obligations --- the recipient of a promise to give has a right to expect that the promised asset will be transferred in the future, and the maker has a social and moral obligation, and generally a legal obligation, to make the promised transfer. A promise to give may be either conditional or unconditional.

Reclassification. Simultaneous increase of one class of net assets and decrease of another, usually as a result of the release or lapsing of restrictions.

Restricted net assets. Resources whose use is restricted by donors as contrasted with those over which the NFP has complete control and discretion. Restricted net assets may be permanently or temporarily restricted.

Restricted support. Donor-restricted revenues or gains from contributions that increase either temporarily restricted net assets or permanently restricted net assets. See also **unrestricted support.**
stipulation. A statement by a donor that creates a condition or restriction on the use of transferred resources.
supporting activities. All activities of an NFP other than program services. Generally, they include the following: (a) management and general activities, (b) fundraising activities, and (c) membership development activities.

Temporarily restricted net assets. The part of the net assets of an NFP resulting from the following: (a) contributions and other inflows of assets whose use by the NFP is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the NFP pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications from or to other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the NFP pursuant to those stipulations.

Temporary restriction. A donor-imposed restriction that permits the donee to use up or expend the donated assets as specified and that is satisfied either by the passage of time or by actions of the donee.

Unconditional promise to give. A promise to give that depends only on passage of time or demand by the promisee for performance.

Unrestricted net assets. The part of net assets of an NFP that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The only limits on the use of unrestricted net assets are the broad limits resulting from the following: (a) the nature of the NFP, (b) the environment in which the NFP operates, (c) the purposes specified in the NFP's articles of incorporation or bylaws, and (d) limits resulting from contractual agreements with suppliers, creditors, and others entered into by the NFP in the course of its business. Unrestricted net assets generally result from revenues from providing services, producing and delivering goods, receiving unrestricted contributions, and receiving dividends or interest from investing in income producing assets, less expenses incurred in providing services, producing and delivering goods, raising contributions, and performing administrative functions.

Unrestricted support. Revenues or gains from contributions that are not restricted by donors. See also **restricted support.**