



# Glossary of Financial Terms

## A

**accounts payable** – Money owed by an organization to its suppliers and/or vendors for goods or services purchased.

**accounts receivable** – Money owed to an organization for goods and services it has sold or that has been committed to it as a grant or donation. Also called **grants receivable**.

**accrued expenses or liabilities** – Items incurred during an accounting period for which payment is postponed. Examples include accrued salaries, accrued sales tax payable, and accrued rent payable.

**accumulated depreciation** – The total amount the value of fixed assets has decreased to date due to general wear and tear or obsolescence.

**AIA Document G702** – A form created by the American Institute of Architects to document the costs of work completed as of a certain date and the cost of work yet to be completed under a construction contract. Often used to track amounts that can be advanced by a lender to a borrower under a construction loan and helpful to ensure that there are sufficient funds remaining to complete and pay for the contract.

**amortization** – Repayment of loan principal and interest. A loan can be amortized in several ways, including: (a) in equal installments of principal and interest, often called “mortgage amortization,” where the interest component of the payment reduces as the principal is paid down; (b) in regular payments of varying amounts, often called “commercial amortization,” which result from paying off a constant principal each installment plus interest on the amount of principal owed; and (c) in very irregular principal payments plus interest, often incorporating a larger final payment. Any time the loan maturity is shorter

than the amortization term, a balloon balance will result. See **balloon**.

**appraisal** – A formal report usually created by a certified real estate appraiser evaluating a real estate property in order to determine its value. One or more of three valuation methods are used: cost, replacement value, and market value. Appraisals can be ‘as is’ or ‘as improved’ which includes the value created by future capital expenditures.

**assets** – An item of current or future economic benefit to an organization. Examples include: cash, short-term investments, accounts receivable, grants receivable, inventories, prepaid expenses, buildings, furniture, equipment, vehicles, and long-term investments.

**assumed name** – An alternate name under which an individual or a legal entity may conduct business. Also known as a **dba** or **doing business as** name. In a loan transaction, it is critical to know the correct legal name of an entity and document it accordingly and accurately. See **certificate of incorporation**.

**audit** – A financial statement as of a certain date, usually covering a twelve-month period, prepared by a Certified Public Accountant (CPA), that includes an opinion letter, a **statement of financial position (balance sheet)**, a **statement of activities (income statement)**, a **statement of cash flows**, and notes. An auditor can have an unqualified opinion, stating that the organization appears to have followed all accounting rules appropriately and that the financial reports are reasonably accurate representation of the company's financial condition, or a qualified opinion, highlighting certain compliance issues or limitations in the company's statements. See **review** and **compilation**.

**authorization of borrowing** – A resolution passed by a board of directors or trustees acknowledging and approving the incurrence of debt. Also known as a **borrowing resolution**. See **officer's certificate**.



## B

**balance sheet** – Statement showing an organization's financial position (assets, liabilities and net assets) at the close of business on a particular date. Also known as **statement of financial position**. (This statement changes daily.)

**balloon** – Final payment of a loan which is larger than the previous payments, arising when the amortization is longer than the maturity of the underlying note. See **amortization**.

**basis points** – A fraction of a percentage point, equal to one one-hundredth of a percent. Used to describe interest rates; i.e., 50 basis points is the same as ½%. See **points**.

**board-designated net assets/reserves** – Unrestricted net assets that have a defined use or purpose, as determined by an organization's board of directors.

**borrowed money/funds** – See **debt**.

**borrowing base** – A mechanism for monitoring that funds advanced under a line of credit bear some proportionality to either the asset being financed or the source of repayment. Usually defined as a percentage less than 100% of the available collateral, for instance, 80% of eligible accounts receivable. In order to fully secure a \$100,000 line of credit using an 80% advance ratio, the borrower must have \$125,000 in eligible accounts receivable at the time the loan is advanced. Typical advance ratios range from 50 to 80%. A borrowing base may be used as a control mechanism even if the loan is not secured by a lien on the receivables. See **line of credit**.

**borrowing resolution** – See **authorization of borrowing** and **officer's certificate**

**bridge loan** – Loan made on a short-term basis in anticipation of being paid out by permanent or long-term funding. Also refers to loans made against contract receivables or capital campaign pledges,

expected to be repaid as those receivables or pledges are collected.

**building code** – Regulations, ordinances or statutory requirements of a governmental unit relating to building construction and occupancy.

**building permit** – Permission granted by a local government to build or renovate a specific structure at a particular site. More than one permit may be required, depending on the situation.

**building reserve** – A capital improvement reserve fund. Money set aside to pay for facility upkeep, where the amounts can be large, the ultimate need a certainty, but where the exact timing is uncertain. These are often big-ticket items, like replacing the roof, which are difficult to accommodate in a single year's budget. Also known as a **replacement reserve**. Typically, these are unrestricted, but board-designated funds.

**by laws** – A document outlining the governance of and what activities a legal entity may or may not engage in, including defining the officers, outlining the board composition and terms, the frequency of board meetings, the authority to enter into contracts for borrowing money and other purposes, and the number of signatures required to bind the entity legally.

## C

**capital** – Money available for an organization's use in business transactions. [Can also be referred to as what an organization has and how it is distributed: Assets, Liabilities, and Net Assets.] See **working capital**.

**capital campaign** – A fundraising drive that takes place outside of (and in addition to) annual operating fundraising, usually to raise funds for a facility (or capital project), an endowment, and/or reserves.

**capital project** – See **facility project**.

**capital improvement** – A facility or equipment upgrade (as distinguished from maintenance or repair) that will have a life of more than one year, and that



adds to an organization's asset base. While sometimes considered an "expense," this item should not show up on the Statement of Activities. Instead it should be capitalized and depreciated over its useful life and show up on the Statement of Financial Position as an increase in fixed assets and therefore on the Statement of Cash Flows in the investing section.

**capitalization** – The distribution, nature and magnitude of an organization's assets, liabilities and net assets. Also known as **capital structure**. Healthy organizations make choices about how they are capitalized, understanding the relative risks and merits of various options—e.g., whether to buy a building or grow an endowment. Also, "capitalized" refers to the purchase of fixed assets which do not appear on the income statement, but on the balance sheets, where they are depreciated over their useful life.

**case statement** – A case for support, written primarily for a capital campaign, that outlines an organization's history, current status, future plans, including facility plans, and fundraising objectives. The case statement helps align board members, funders, and supporters to a shared organizational vision.

**cash flow** – The receipt and disbursement of monies.

**cash flows from operating activities** – Cash changes in working capital items, such as accounts and grants receivable, inventory, accounts payable, accrued liabilities and deferred revenue.

**cash flows from financing activities** – Payments and/or receipts from lines of credit, notes payable, term loans.

**cash flows from investing activities** – Payments and/or receipts from acquisitions or sales of marketable securities, as well as from fixed assets such as property & equipment.

**certificate of incorporation** – A document usually issued by a government authority such as a secretary of state documenting that a legal entity has been formed, including when and where and its full legal name.

**certificate of occupancy (C of O)** – A document from a local government building department which authorizes use of a certain space for specified activities by a certain number of people. Often required on construction projects prior to the entity occupying the space being allowed to move in.

**change in net assets** – Net assets are calculated by taking total revenue (including restricted and non-operating) less total expenses (including non-operating). The change in total net assets is an overall representation of a "bottom line."

**change order** – A written order to a facility project's contractor, signed by the **owner** and the architect, issued after the execution of the contract, authorizing a change in the work or an adjustment in the contract sum or contract time.

**clean-up** – Term used to describe the requirement by the lender that a line of credit be completely paid out for a pre-defined period, usually a minimum of 30 days, during a one-year cycle. Also known as **annual clean-up period**.

**closing costs** – Expenses involved in transferring real estate from a seller to a buyer, including lawyer's fees, survey charges, title searches and insurance, and fees to file deeds and mortgages.

**closing fee** – A fee charged by a lender to provide a loan to a borrower. Considered compensation for the costs involved with underwriting the loan and holding the commitment available for a specified period of time until closing. The fee is often paid partially at application, partially at the acceptance of the commitment and partially at closing. Also known as **commitment fee** and **facility fee**.

**collateral** – Asset pledged to a lender until a loan is repaid; also called security. If the borrower defaults, the lender has the legal right to seize the collateral and sell it to pay off the loan.

**commitment or commitment letter** – A statement in writing outlining and acknowledging the terms of a lender's obligation to a borrower to loan a certain amount of money at a particular rate of interest, contingent upon specific conditions being met by the borrower.



**commitment fee** – See **closing fee**.

**compilation** – A financial report as of a certain date, usually covering a twelve-month period, put together, but not reviewed or audited, by a Certified Public Accountant (CPA) that includes a statement of position (balance sheet), a statement of activities (income statement), a statement of cash flows, and may or may not have notes. See **audit** and **review**. The CPA states no opinion about the accuracy of the statements.

**compound annual growth rate** – A calculation that estimates average annual percentage growth over a specified period of time, e.g., an organization that had \$100K in revenue in 2000 and \$500K in revenue in 2004 has a CAGR of X%.

**construction documents** – Drawings, specifications and legal documents setting forth in detail the requirements for the construction of the project.

**construction loan** – A loan, usually short-term, which is made to finance construction. The funds are disbursed as needed or in accordance with a pre-arranged plan, and the money is repaid upon completion of the project, often from the proceeds of a long-term loan, e.g., a mortgage.

**construction manager** – A licensed general contractor who provides pre-construction services, professional management and technical services, including helping identify cost-effective means of meeting facility requirements. See **project manager**.

**contingency** – An amount budgeted (usually a percentage of total construction costs) to cover unexpected hard costs or soft costs.

**contributed revenue/income** – Revenue or income received from individual, foundation, corporate, or government donations with no products or services provided by the organization in direct exchange for the funds. See **earned revenue/income**.

**credit/financial analysis** – Process used to understand and analyze the financial history and future prospects of an organization. May be done to help the organization understand its financial underpinnings, determine the likelihood that an

organization can complete a project successfully or the likelihood that an organization can repay a loan. See **underwriting process**.

**current assets** – Items that generally will be turned into cash, sold, or consumed within one year.

**current debt** – Obligations due in one year or less from the date of a financial statement. It includes advances under lines of credit, notes with maturities of one year or less, and the current portion (amount due in the next twelve months) of long-term debt.

**current grants & pledges receivable** – Money owed to an organization within the upcoming twelve months for goods and services it has sold or that have been committed to the organization as a grant, donation or pledge.

**current liabilities** – Obligations that will usually be repaid within one year.

**current portion of long-term debt** – Amount of principal on long term debt due within one year. Interest is not included in this amount.

**current ratio** – Comparison of current assets to current liabilities, commonly used as a measure of short-run solvency. A ratio of 1:1 means an organization would have just enough cash to cover current liabilities if it ceased operations and converted its current assets to cash.

## D

**days payable** – The number of days on average it takes for an organization to pay bills that it owes to outside vendors.

**days receivable** – The number of days on average it takes for an organization to collect receipts it is owed.

**dba** – Doing business as. See **assumed name**.

**debt** – An amount owed to a person or organization for money borrowed. Debt can be represented by a promissory note, bond, mortgage or other form stating repayment terms and interest requirements. Debt may



or may not be secured by a pledge of assets. Also known as **borrowed money** or **borrowed funds**.

**debt service** – Required repayment of principal and interest for a loan, usually expressed annually. (Note: financial statements prepared on an accrual basis will show interest expense on the Statement of Activities, while principal will appear on the Balance Sheet.)

**deferred revenue/income** – Payment received from a client for a transaction that has not yet occurred (e.g., subscription purchase for performances held on future dates). This situation creates an obligation, and thus a liability, for the organization to provide goods or services in the future. (Note: Financial Accounting Standards 116 and 117 reduced substantially the instances in which nonprofits should use such categorization by introducing the concept of temporarily restricted net assets.)

**deficit** – The excess of expenses over revenue during an accounting period. Deficits can be measured before or after depreciation and non-operating activities. See **surplus**.

**depreciation** – A non-cash expense associated with reducing a fixed asset's book value due to general wear and tear over its defined accounting or useful life. Depreciation is only an approximation of the amount needed to replace fixed assets. .

## E

**earned revenue/income** – Revenue or income received by an organization in exchange for its products or services, e.g., tuition or performance-based government contracts. See **contributed revenue/income**.

**economies of scale** – Theory that the more you produce of a good or service, the less it costs for each additional unit, i.e., efficiency.

**environmental audit phase I** – A report usually issued by an environmental engineering or other qualified entity to determine the risk or reality of environmental contamination of a real estate property. The terms of a real estate purchase often require the

seller to pay for and supply a satisfactory Phase I audit as a condition of the sale, and a lender taking a mortgage on a real estate property will usually require a satisfactory review of the environmental report prior to closing the loan transaction. If the report is inconclusive or reveals possible contamination, more testing in the form of a Phase II may be required.

**equity** – Represents the difference between an asset's market value and the amount of debt associated with that asset. Also refers to the amount a developer or owner invests in a project. In for-profit accounting, refers to the difference between total assets and total liabilities and may be called "owners' equity."

**expenses** – Represent the total cost of operating the organization, including payments made to employees and other parties, including operating expenses, debt, principal payments, capital expenditures, non-cash expenses, fixed assets, and funds set aside each year for future use.

## F

**facility fee** – See **closing fee**.

**facility project** – The acquisition of a building or other physical space through purchase or leasehold; a renovation; a construction project; a relocation; a change in number of sites; or an equipment purchase. Any project that involves a change in a facility. Also known as a **capital project**.

**FASB** – Financial Standards Accounting Board. Independent board responsible for establishing and interpreting generally accepted accounting principles (GAAP). Financial Accounting Standards 116 and 117 govern the nonprofit sector. FAS 116 deals with contributions made and received while FAS 117 deals with financial statement format.

**feasibility study** – A determination of the likelihood that a proposed idea, plan or project will fulfill certain economic and operational objectives. Often undertaken to predict the viability of a new venture, facility project or capital campaign.





**financial statement** – A written report that quantitatively describes the financial health of an organization. A complete financial statement includes a balance sheet, an income statement, a

statement of cash flows, and often a statement of functional expenses. Financial statements are usually compiled on a quarterly and annual basis. The term financial statement is commonly used to describe the statement of activities alone, which does not provide a complete picture of an organization's financial health/situation.

**fixed assets** – The net worth of the physical items an organization owns (e.g., property, building, equipment, improvements), which cannot easily be converted to cash. Often called **property & equipment (P&E)**.

**fixed price contract** – In construction, a contract between the owner/developer and the general contractor where the contractor agrees to complete the project for a sum fixed in advance regardless of cost.

## G

**GAAP** – Generally Accepted Accounting Principles. A widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board.

**general conditions** – The portion of the construction contract document in which the rights, responsibilities, and relationships of the involved parties are itemized. Items include security, job site insurance, temporary structures, demolition and utilities.

**general contractor** – The main contractor for a project who provides on-site management of the construction project and performs the actual construction work or hires smaller, more specialized subcontractors to perform specific tasks.

**GMP contract** – Stands for Guaranteed Maximum Price contract and is a term used in construction projects to define the most money that the agreed

upon construction specifications can cost. Also referred to as fixed price, as distinct from contracts priced at time plus materials. Generally thought to protect the client from unexpected cost overruns.

**good standing certificate** – A document issued by a government authority, usually a secretary of state, affirming that a legal entity such as a corporation or partnership has complied with all of that authority's filing requirements to be duly organized and authorized to do business in that state. It does not warrant anything regarding payment of taxes owed to the government authority.

**grants receivable** – See **accounts receivable**.

**guarantee** – A formal obligation by a third party to provide repayment of a loan owed by another entity should that entity default on the loan. The guarantor may be an individual or a corporation.

## H

**hard costs** – The direct costs to construct a building or structure, otherwise known as "bricks and mortar" costs, as distinguished from legal, financing, architects', and similar fees required for the project but that are not visible in the physical structure. See **soft costs**.

**HVAC** – An acronym referring to Heating, Ventilation, and Air Conditioning systems, which in a modern building usually come as a package.

## I

**income statement** – A summary of the revenue and expenses of an organization during an accounting period. Also known as **statement of activities** or **profit and loss statement**.

**in-kind** – Non-cash items of value, such as specialized volunteer labor, donated goods or professional services. Specific accounting rules govern the recognition of in-kind revenue and



expenses. In-kind expenses typically equal in-kind revenue on the income statement.

**inter-creditor agreement** – A legal document outlining the rights of two or more lenders with loans to the same borrower. Often defines the positions of the lenders with respect to priority of collateral filings, principal and interest repayment, and priority of repayment in the event of liquidation of the borrower or collateral.

**interest** – One of the costs of using money, usually expressed as an annual percentage, that a lender charges a borrower for the use of the principal over time.

**interest only** – A loan in which the payments represent only the interest accrued for a period of time. The entire loan amount (principal) is then either amortized over an agreed upon time period, or paid off in one lump sum payment (balloon).

**IRS determination letter** – A document issued by the Internal Revenue Service to a nonprofit organization confirming its status as an organization exempt from paying federal income taxes and stating the type of exempt organization, for instance, 501(c)(3) and the date of that exemption.

## L

**leasehold improvements** – Renovations to leased space to suit the renter's needs. These may be paid for either by the landlord or the tenant.

**letter of intent** – A non-binding proposal from a lender indicating under what terms it would consider lending a certain sum of money to a specific borrower. See **commitment**.

**letter of credit** – An instrument or document issued by a bank guaranteeing the customer's payment up to a stated amount during a specified period, for which the customer is charged a fee. It substitutes the bank's credit for the buyer's and eliminates the seller's risk. It may be a **commercial** letter of credit, more often seen in international commerce, or a **standby** letter of credit.

**liability** – Items owed by an organization or claims against its assets. Examples include: accounts payable, accrued salaries and benefits, accrued payroll taxes, deferred revenue, lines of credit, construction loans, current portion of long-term debt, short-term notes payable, and long-term debt.

**lien** – A legal claim against an asset which is used to secure a loan and which must be paid when the asset is sold. Liens can be structured in different ways. In some cases, the creditor will have legal claim against an asset, but not actually hold it in possession, while in other cases the creditor will actually hold the asset until the debt is paid off.

**line of credit** – A loan in which the lender allows advances up to a specific amount over a specific period of time until the maturity date. It is usually revolving, meaning amounts repaid can be re-borrowed up to the total committed amount and/or the limitations of a **borrowing base**.

**liquidity** – A measure of how much cash and "near cash" (assets readily convertible to cash such as marketable securities) an organization has available, usually measured as the amount of assets in cash or cash equivalents less current liabilities. Can also include the unused amount from lines of credit that are available to the borrower.

**liquid net assets** – The estimated amount of unrestricted net assets NOT invested in **property & equipment (P&E)** or **board-designated reserves**. Essentially this is the liquid amount of unrestricted net assets available to support operations. Also known as **undesignated unrestricted net assets**.

**LLC** – Limited liability company, a business structure that is a hybrid of a partnership and a corporation. Its owners are shielded from personal liability, and all profits and losses pass directly to the owners without taxation of the entity itself.

**loan closing** – Legal session where final loan documents are executed. The loan may or may not be funded at this time.

**loan documents** – Documents containing the terms of the loan and outlining the rights and obligations of the borrower and the lender. May include the following: the **loan agreement** which details the terms





of the loan including interest rate and repayment; the **note** or **promissory note** whereby the borrower promises to repay the obligation; any **security agreements** or **mortgage**, outlining the collateral securing the loan; the **guarantee**; and, **subordination** and/or **inter-creditor agreements**.

**loan term** – The amount of time over which a borrower is expected to repay the loan. The loan term may not be the same as the **amortization**, which determines the periodic repayment amounts and whether there is a large or balloon principal balance due at maturity.

**loan-to-value ratio** – The ratio of the amount of money a lender is willing to lend divided by the appraised or other value of the property.

**LOC** – See **line of credit**.

**long-term debt** – Debt obligations due in longer than one year. It includes multi-year term loans, mortgage loans, and capitalized long-term leases.

**long-term grants & pledges receivable** – Money owed to an organization in more than a year for goods and services it has sold or that have been committed to the organization as a grant, donation or pledge. The organization will not get the money for more than a year.

## M

**months of cash** – The number of months the organization could operate with current cash reserves. The cash position at some point in time (usually at fiscal year end) divided by the average monthly operating expense before depreciation.

**months of undesignated unrestricted net assets** – Number of months of truly liquid and unrestricted net assets available to meet daily needs.

**mortgage** – Security instrument by which the borrower (mortgagor) gives the lender (mortgagee) a lien on property as collateral for the repayment of a loan.

## N

**net assets** – The difference between total assets and total liabilities, effectively net worth. Net assets are categorized as unrestricted, temporarily restricted, or permanently restricted.

**net assets released from restrictions** – The transfer of funds from restricted net assets to unrestricted net assets due to the satisfaction of donor-imposed stipulations with respect to timing or purpose of the contribution.

**net fixed assets, or net property & equipment** – Net worth of property and equipment after accumulated depreciation. See **property & equipment**.

**net working capital** – See **working capital**.

**non-operating activities** – Revenue and expenses not directly related to the organization's program or other main activities. They can include capital campaign grants, expenses related to capital projects, gains/losses in the investment portfolio, and one time or extraordinary transactions such as the sale or write-off of assets. May also be used to account for dollars passed through an organization—e.g., re-grant funds.

**non-operating debt** – Debt that does not relate to the organization's main business and program activities, or day-to-day operations (e.g. loans to finance fixed assets and buildings).

**non-operating net assets** – Temporarily restricted resources not directly related to the organization's programs or activities, e.g., capital campaign funds.

**non-operating revenue** – Revenue not directly related to an organization's programs or activities, such as capital receipts and temporarily or permanently restricted revenue.

**non-use fee** – A fee paid by the borrower on the average amount of the commitment that was not drawn or used. A typical non-use fee is 0.5%, or 50 basis points. Typically assessed on revolving lines of credit but may also be assessed on other types of loans. Charged by a lender as compensation for



keeping an undrawn line of credit available to the borrower.

**note** – A document signed by the borrower evidencing the debt. See **promissory note**.

## O

**occupancy expenses** – All costs relating to the rent, utilities, insurance and maintenance of program and office space.

**officer's certificate** – A certificate signed by an officer of the corporation stating that at a duly called board meeting the referenced board resolution was adopted and that resolution remains in effect. See **authorization of borrowing and borrowing resolution**.

**operating activities** – Items that relate to the organization's main business or program activities. They may also be referred to as "above the line" activities (meaning they are included in the calculation of the operating surplus or deficit - the "bottom line"). See **non-operating activities**.

**operating expenses** – T Regular costs of doing business. Excluded are one-time, extraordinary or capital items such as funds passed through to other agencies, losses from sale of property, realized/unrealized investment gains or payments of debt principal.

**operating debt** – Debt to support the organization's main business or program activities, and day-to-day operations (e.g. line of credit).

**operating reserve** – Funds set aside annually to be used to offset possible operating losses due to unexpectedly low revenue or high operating costs (a.k.a rainy-day reserve).

**operating revenue** – Funds received as unrestricted or released from temporary restriction to cover operating expenses. Excluded are one-time/episodic sources of income (such as capital campaign receipts,

realized/unrealized investment gains and losses, gains from sale of property, and/or other extraordinary items) and all restricted revenue.

**opinion of counsel** – A letter provided by an attorney representing the borrower in a debt or loan transaction affirming that the documents the borrower is signing represent a binding commitment on the borrower to repay the indebtedness according to the terms outlined in the documents. A non-contravention opinion also affirms that the execution of the loan documents does not violate any other obligations the borrower may have.

**owner** – The entity which hires an architect and contractors to design and complete a facility project. The owner need not actually own the facility being improved, e.g., a building tenant can be the "owner" when undertaking leasehold improvements.

**owner's representative** – The person designated as the official representative of the owner in connection with a project, especially in monitoring construction progress on-site. See **project manager**.

## P

**pass-through revenue** – Funds provided to the organization that must be spent on behalf of, or passed through to a secondary recipient. For example, re-grants.

**permanently restricted net assets** – Funds with donor-imposed stipulations that the principal not be spent, e.g., traditional endowments; some or all of the earnings are available for specific or general operations.

**phase I** – See **environmental audit phase I**.

**points** – Traditionally the fees paid by borrowers to induce lenders to make a mortgage loan; the payment of additional points may result in a reduced rate to the borrower. Also used as a shortened version of **basis points** and therefore might be used as a substitute for **commitment fee**, **facility fee**, or **closing fee** as in "How many points do you charge?"



**prepaid expenses** – Items an organization pays for in advance of their being due. Examples include insurance premiums and rent that may be paid for a twelve-month period at the beginning of the year.

**prime rate** – A national average rate of interest charged by banks, commercial lenders, and other financial institutions, published in *The Wall Street Journal* and other sources.

**principal** – The amount of money that is borrowed, and that the borrower must pay back, as distinct from interest, which is the amount owed for using or borrowing the funds.

**profit and loss statement** – See **income statement**.

**pro forma income and expenses** – Statement showing the projected annual income and operating expenses of an organization to reflect a future event such as completion of a project.

**property & equipment (P&E)** – The net worth of the physical items an organization owns (e.g., property, building, equipment, improvements), which cannot easily be converted to cash. Often called **fixed assets**.

**project manager** – The individual assigned or hired to manage and coordinate all aspects of the project. See **construction manager** and **owner's representative**.

**promissory note** – See **note**.

## R

**ratio analysis** – Conversion of financial numbers into ratios, often used as a tool to evaluate financial trends and health of an organization.

**real estate broker** – A licensed agent who acts as the middle person between a buyer and a seller of property. A broker, acting as a tenant's representative, can identify suitable spaces and negotiate a lease that meets the tenant's needs.

**renovation** – General term applied to the process of upgrading an existing building, which can range from

minor changes to major reconstruction. Gut rehab refers to major reconstruction, typically involving demolition of all but the "guts" of a building before renovating it. Also known as **rehab**.

**replacement reserve** – See **building reserve**.

**request for proposals (RFP)** – A request sent to prospective consultants or contractors, once the scope of the project is clearly defined, which includes everything requested in an **RFO**, plus a proposal of how the consultant would approach the work and what fees would be involved.

**request for qualifications (RFQ)** – A request sent to prospective consultants or contractors asking for basic information about areas of expertise, references from former clients, services, methods and fee structure.

**reserves** – Money set aside to pay for future anticipated expenses. Reserves can be established for many purposes, including: emergencies/rainy days, capital improvement and building replacement needs, future investments, and general operations.

**restatements** – Revisions of an organization's earlier financial statements. The need for restatements can result from fraud, misrepresentation or a simple clerical or calculation error.

**revenue** – Payments for services, donations from individuals, foundations and corporations, support and contract payments from government agencies, income from fundraising activities, and investments.

**review** – A financial report as of a certain date, usually covering a twelve-month period put together and reviewed, but not audited, by a Certified Public Accountant (CPA) that includes a statement of position (balance sheet), a statement of activities (income statement), a statement of cash flows, and may have notes. A review is not considered as independent a financial report as an audit would be but requires a higher level of due diligence than a compilation. See **audit** and **compilation**.

**revolving line of credit** – See **line of credit**.



## S

**scope of work** – A detailed description of what work is to be done for a specific project.

**security** – Real estate or personal property used as collateral to back up a loan, which gives the lender tangible property that may be sold upon **default** to pay off the indebtedness.

**security agreement** – A legal document executed by a borrower granting a lender an interest in certain of the borrower's assets in order to provide collateral for a loan. In combination with a **UCC filing**, it serves as public notice of the lender's claim on specific assets of the borrower.

**short-term debt** – Debt due one year or less from the date of a financial statement. Includes advances under lines of credit, notes with maturities of one year or less, and the current (amount due in the next twelve months) portion of long-term debt.

**soft costs** – Expenses, other than "bricks and mortar," incurred in developing a real estate project. These costs include financing fees, fundraising fees, interest costs, inspection fees, permits, architectural, and legal fees. See **hard costs**.

**stakeholder** – Anyone with concern for or about an organization such as board members, trustees, subscribers, members, clients, staff, donors and former donors, foundations, corporations and volunteers.

**statement of activities** – Summary of the revenue and expenses of an organization during an accounting period. Also known as **income statement** or **profit and loss statement**.

**statement of cash flows** – Summary of the sources and uses of cash that reconciles cash at the beginning of the year with cash at the end of the year, organized into three categories: **cash flows from operating activities**, **cash flows from financing activities**, and **cash flows from investing activities**. See **cash flow**.

**statement of financial position** – See **balance sheet**.

**subordinated loan** – A loan that is behind the claim of other lenders and repayable in liquidation only after other debts with a higher claim or priority have been satisfied. Loans can be subordinated by their terms or by their collateral or lien position. Regularly scheduled payments of principal and interest may often be made even though the debt is subordinated.

**surplus** – The excess of revenue over expenses during an accounting period. Surpluses can be measured before or after depreciation and non-operating activities. See **deficit**.

**survey** – A document prepared by a surveyor or other qualified entity uniquely identifying the location and boundaries, including the legal description, of a real estate property. Usually required by the purchaser of the property and a mortgage lender.

**swing space** – Interim space occupied during a construction/renovation project.

## T

**temporarily restricted net assets** – Accumulated net assets with a donor-imposed time or purpose restriction that, once satisfied, become released.

**temporarily restricted cash (current)** – Revenue with time or purpose restrictions that are set to be satisfied within twelve months, releasing the unrestricted revenue to the organization within the year.

**temporarily restricted cash (non-current)** – Revenue that will not be released from time or purpose restrictions for organizational use for more than a year.

**term** – The length of time that a loan is outstanding.

**title reports** – Any of several types of reports, including searches, commitments, and insurance policies, prepared by a title insurance company documenting the ownership history of a real estate



property. A title commitment is prepared prior to issuing a title insurance policy for a mortgage loan, which confirms the ownership of a property.

**triple net lease** – A lease in which the tenant pays, in addition to rent, its portion of the utilities, taxes, and insurance related to the operation of the property. If only one or two of these expense categories are the responsibility of the tenant, the lease is referred to as single- or double-net, respectively.

## U

**UCC (Uniform Commercial Code)** – A set of standards for all U.S. states to follow for certain types of commercial transactions. A **UCC filing**, also known as a **UCC-1** or a **UCC-1a** for the name of the form used for it or a **financing statement**, serves as public notice of a lender's claim on certain assets of a borrower. See **security agreement**.

**underwriting process** – Process used to analyze the financial condition of the organization and its project (where applicable) in conjunction with the terms and conditions of a loan and the ability of a loan applicant to meet those terms and conditions. See **credit analysis**.

**undesignated net assets** – Unrestricted net assets less board-designated assets and net investments in plant and equipment. This balance represents net assets generally available to meet operating needs.

**unrestricted net assets** – Funds that have no external restriction as to use or purpose.

**undesignated unrestricted net assets** – The estimated amount of unrestricted net assets NOT invested in P&E or board-designated reserves. Essentially this is the liquid amount of unrestricted net assets available to support operations. Also known as **liquid net assets**.

**unsecured debt** – A loan obligation that is not backed by the pledge of specific collateral.

## W

**working capital** – Strict accounting definition is current assets less current liabilities. But it is often used to describe the amount of liquidity an organization has at its disposal; i.e. how much cash and near cash it has on hand or has ready access to (e.g. unused line of credit) in order to meet its obligations as they come due.