

Mel King Institute – Definitions of Accounting Terms for Financial Statements for CDC's

1. **Financial Statements** - records that outline the financial activities of a business, an individual or any other entity.
2. **Consolidated Financial Statements** – financial statements of a group in which assets, liabilities, equity, income, expenses and cash flows of the parent (company) and its subsidiaries are presented as those of a single economic entity.
3. **Accrual basis** - recording transactions when incurred/they happen verses on the cash basis when cash is received or released.
4. **Cash basis** – reflects only cash receipts and cash disbursement – that is a transaction is recorded only when cash (currency or check) changes hands.
5. **Statement of Financial Position (Balance Sheet)** is snap shot of the organization's cumulative financial health; includes the assets, liabilities and net assets.
6. **Assets** – what things of value you own (cash, property).
7. **Current Assets** - Converted into cash over the next 12 months; typically include cash, pledges, prepaid expenses, due from affiliates.
8. **Long Term Assets** - Assets expected to be usable for more than 1 year. Typically include assets that are depreciated (i.e. building improvements, equipment), restricted cash and reserves, property under development, notes receivable and any financing fees, net of amortization.
9. **Current Liabilities** - Commitments that are due over the next 12 months; typically include accounts payable, accrued expenses, current portion of mortgage and notes payable, due to affiliates, deferred revenue.
10. **Long Term Liabilities** - Liabilities with a future benefit over one year or more. Typically include mortgage and notes payable (long-term portion), tenant security deposits, accrued interest, deferred developer fees).
11. **Net Assets (Equity)** - Net worth (Assets – Liabilities = Net Assets). What things of value you own (cash, property, etc.) less what you owe (payroll, mortgage, utilities, loans, etc.) equals your financial net worth (net assets or equity).

12. **Net Assets are classified into 3 classes** – Unrestricted, Temporarily Restricted and Permanently Restricted.
13. **Unrestricted Net Assets** – net assets of a non-profit resulting from revenue or gains from contributions not restricted by donors (results from operations).
14. **Temporary Restricted Net Assets**- net assets of a non-profit from a donor-imposed restriction that permits the recipient to use up or expend the donated asset as specified; is satisfied either by the passage of time or by the actions of the organization (purpose).
15. **Permanently Restricted Net Assets**- net assets of a non-profit from a donor-imposed restriction that stipulates that resources be maintained permanently but permits the organization to use up or expend part of all of the income (or economic benefits) derived from donated asset.
Example: Interest
16. **Negative Fund Balance** – when an organization’s total liabilities exceed assets.
17. **Positive Fund Balance** – when an organization’s total assets exceed liabilities.
18. **Intercompany Transactions** – involve dealings between companies in the group.
19. **Intercompany Eliminations** – used to remove dealings between companies in the group.
20. **Statement of Activities** – summarizes revenues and expenses within each fund for a period of time and includes a reconciliation of net assets at the beginning and end of the period. In business, this statement is usually called the “income statement” or the “profit and loss statement.”
21. **Statement of Functional Expenses** – shows expenses by expense category, such as salaries, rent, postage, printing and depreciation, according to the purpose for which they were incurred. The primary functional classifications are program and supporting services (such as management, general and fundraising).
22. **Statement of Cash Flows** – reports information about the cash receipts and cash payments of an organization during the reporting period. The statement of cash flows categorizes revenue and expenditures based on three types of activity: operating, investing and financing.
23. **Independent Auditor’s Report** – By law, an independent audit can be conducted only by an outside certified public accountant (CPA). In a letter to the board of directors, the auditor describes his or her analysis of the fairness of the financial statements and states whether they conform to generally accepted accounting principles.

24. **Notes to Financial Statements** – Almost all audited financial statements carry notes, which are important and should always be read. The notes include descriptive information about the organization, a summary of significant accounting policies and explanations or details of specific items in the financial statements.
25. **Ratios** - Financial ratio analysis is one tool used to improve financial decision making and alert management about “issues.” Ratios use financial data to summarize organizational performance and see how one organization’s financial indicators stack up against its peers.