

## FINANCES FOR CAPITAL BUILDING PROJECTS GLOSSARY OF TERMS

Adapted by ArtsBuild Ontario from: Nonprofit Finance Fund

### A.

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

**Accounts (or grants) receivable** – Money owed to an organization by its suppliers and/or vendors for goods and services sold (or money committed to an organization through a grant or donation).

**Accrued expenses** – Expenses incurred, but not yet paid for, during an accounting period. Generally recorded as a current liability on the balance sheet. Examples include: accrued wages payable, accrued sales tax payable, and accrued rent payable.

**Amortization** – The repayment of loan principal and interest in many small cash flow instalments, as determined by an amortization schedule. A loan can be amortized in several ways. Under a “mortgage” amortization, the borrower pays a fixed monthly amount of principal and interest; while the monthly payment does not change, the portion allocated to interest vs. principal repayment varies as time progresses. “Commercial” amortization requires payments of fixed monthly principal, plus any interest accrued on the principal outstanding. Loans can also amortize in very irregular principal plus interest payments, often incorporating a larger final payment. Any time the loan maturity is shorter than the amortization term, a balloon balance will result.

**Appraisal** – A formal report, usually prepared 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’ 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.

**Audit** – An examination and verification of a company’s financial and accounting records and supporting documents by a Certified Public Accountant (CPA). The audit, prepared as of a certain date usually covering a twelve-month period, includes an opinion letter, statement of financial position (balance sheet), statement of activities (income statement), 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 a

reasonably accurate representation of the company's financial condition, or a qualified opinion, highlighting certain compliance issues or limitations in the company's statements

**Authorization of borrowing** – A resolution passed by a board of directors or trustees acknowledging and approving the incurrence of debt

**B.**

**Balance sheet** – Statement showing an organization's financial position (i.e., the magnitude, distribution and nature of assets, liabilities and net assets) at the close of business on a particular date

**Balloon** – A large, lump-sum payment scheduled at the end of a series of smaller payments, arising when the amortization is longer than the maturity of the underlying note.

**Basis points** – A fraction equal to one one-hundredth of a percentage point. Used to denote changes in interest rates

**Board-designated net assets or reserves** – Unrestricted net assets that have a defined use or purpose, as determined by an organization's board. Reserves can be established for many purposes, including: emergencies/rainy days, capital improvements and building replacements, investments in future programs, internal lines of credit, etc.

**Borrowing base** – A mechanism for monitoring whether 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, 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.

**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 and the ultimate need a certainty, but where the exact timing is uncertain. Typically, these are unrestricted but board-designated funds.

**Bylaws** – A document defining an organization’s purpose, procedures for governance and methods of operating. Bylaws typically describe the duties of officers and policies for their appointment; board size, composition and terms; frequency of board meetings; the authority to enter into contracts for borrowing money and other purposes; number of signatures required to bind the entity legally, etc.

**C.**

**Capital Project** – Projects for the construction, transformation, or renovation of permanent cultural infrastructure (e.g. theatres, galleries, museums, performing or exhibit spaces, etc.); restoration of artifacts, artworks, or cultural venues; or the permanent acquisition, purchase or installation of specialized equipment, such as sound systems, lighting, display cases, tents, etc., used to support and sustain cultural activities.

**Capital** – Money available for an organization’s use in business transactions. It typically describes money used to invest in an organization’s infrastructure.

**Capitalize** – Refers to the purchase of fixed assets which appear not on the income statement but on the balance sheet, where they are depreciated over their useful life.

**Capital structure** – The distribution, nature and magnitude of an organization’s assets, liabilities and net assets. Healthy organizations make choices about their capital structure, understanding the relative risks and merits of various options—e.g., whether to buy a building or grow an endowment.

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

**Case for Support** –written primarily for a capital campaign, that outlines an organization’s history, current status, and 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 timing of cash receipts and disbursements.

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

**Certificate of occupancy (C of O)** – A document from a local government building department that authorizes use of a certain space for specified activities by a certain number of people. Often required for construction projects prior to the occupancy of the space.

**Change in net assets** – Total revenue less total expenses. The change can either be positive (reflecting a surplus) or negative (reflecting a deficit). Nonprofits have four classifications of changes in net assets: unrestricted, temporarily restricted, permanently restricted and total.

**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's scope or an adjustment to the payment or timing of the contract.

**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 referred to 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.

**Collateral** – Asset(s) pledged to a lender until a loan is repaid. If the borrower defaults, the lender has the legal right to seize the collateral and sell it to pay off the loan.

**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.

**Compilation** – A financial report as of a certain date, usually covering a twelve-month period, that is assembled, but not reviewed or audited, by a Certified Public Accountant (CPA). Includes a statement of position (balance sheet), statement of activities (income statement), statement of cash flows, and possibly notes. 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 \$100,000 in revenue in 2000 and \$500,000 in revenue in 2004 has a CAGR of 50%.

**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, such as a mortgage.

**Construction manager** – A licensed general contractor who provides pre-construction services, professional management and technical services, including the identification of cost-effective means of meeting facility requirements.

**Contingency** – An amount (usually a percentage of total construction costs) budgeted to cover unexpected hard costs or soft costs incurred during a facility project.

**Contributed revenue/income** – Revenue or income received from individual, foundation, corporate, or government donations. The donor may make contributions on an unrestricted basis (i.e. not specify the services to be delivered or the time-frame for service delivery) or may impose restrictions for use of the contribution under specific circumstances or for specific purposes

**Credit/financial analysis** – An assessment of the financial history and future prospects of an organization. May be done to help the organization understand its financial underpinnings or to determine the likelihood of an organization completing a project successfully and repaying a loan.

**Current assets** – Items that will be turned into cash or consumed usually within one year. Examples include: cash, accounts receivable, short-term investments, inventories, and prepaid expenses.

**Current liabilities** – Obligations that will usually be repaid within one year. Examples include: accounts payable, accrued salaries, and short-term debt principal payments due on long-term debt.

**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-term liquidity. 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.

**Culture** – (As used in these guidelines) The expression of ideas, experiences, and customs of Canadians or groups of Canadians through the arts, heritage, and festivals.

**D.**

**Development Funding** – Project funding that is designed to assist eligible applicants in starting and/or building capacity for their new initiative. For example, development funding may be

directed towards establishing organizational structure or capacity, establishing new partnerships or leveraging funding from private donors or other levels of government.

**Days payable** – The number of days it takes for an organization to pay bills that it owes to outside vendors. Calculated as unrestricted operating expense (excluding personnel) divided by average accounts payable, with that amount divided into 360. (Average accounts payable= average of A/P at end of previous fiscal year and current fiscal year.)

**Days receivable** – The number of days it takes for an organization to collect receipts it is owed. Calculated as unrestricted operating revenue divided by average accounts receivable, with that amount divided into 360. (Average A/R= average of A/R at end of previous fiscal year and current fiscal year.)

**DBA** – Doing business as

**Debt** - An amount owed to a person or organization for money borrowed. Debt can be in the form of a promissory note, bond, mortgage or other instrument with explicit repayment terms and interest requirements. Debt may or may not be secured by a pledge of assets.

**Debt service** – Required repayment of principal and interest for a loan, usually expressed annually.

**Deferred revenue** – Payment received from a client for a transaction that has not yet occurred; for example, ticket purchases for a performance to be held on a later date. Although the money has been received, criteria required to recognize the amount as revenue have not yet been met. This situation creates an obligation for the organization to provide goods or services in the future.

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

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

**E.**

**Earned revenue/income** – Revenue or income that an organization receives in exchange for a service or product. Payments can be made by the direct beneficiary or recipient (for example, tuition) or by a third-party (for example, performance-based government contracts).

**Economies of scale** – The theory that an increase in the number of goods or services produced leads to greater efficiency (i.e. a lower cost of production for each additional unit).

**Eligible Costs, Eligible Expenses** – Expenditures that can be linked directly to the project’s objectives. In the context of the Creative City Fund, they may include: fees for consultants and/or contractors for event management, research, writing, editing or translation; fees/costs of preparation and production of celebratory events; fees/costs for design and construction of web sites directly related to the project, reasonable costs of holding meetings directly related to the project, and reasonable travel costs directly related to the project; fees for a project coordinator. The Creative City Fund does not provide funding for existing cultural activities. It only provides funding for new activities, or only those expanded/supplementary portions of existing activities.

**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. 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

**F.**

**Facility project** – Any improvement, expansion, renovation or acquisition of physical space. Examples include: a building acquisition through purchase or leasehold, a renovation, new construction, relocation, or an expansion in the number of sites.

**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.

**Festivals** – Festivals are a means of bringing ideas, experiences, and customs to a broad public in a concentrated package over a brief period of time. Festivals can occur around many themes or forms of expressions, in both arts and heritage – for example, dance, particular genres of music, film, theatre, particular ethnic traditions, and so on.

**Financial statement** – A written report that quantitatively describes the financial health of an organization. A complete financial statement includes a balance sheet, income statement, statement of cash flows, and often a statement of functional expenses. Financial statements are usually compiled on a quarterly and annual basis.

**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. Generally thought to protect the client from unexpected cost overruns.

## G.

**GAAP** – Generally Accepted Accounting Principles. A widely accepted set of rules, conventions, standards, and procedures for reporting financial information.

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

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

**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.

**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.

**Heritage** – Heritage refers to the natural environment, built environment and to those ideas, experiences, and customs of Canadians or groups of Canadians that are passed on to future generations, and to the means of their preservation and recollection.

**Hard costs** – The direct costs to construct a building or structure. Otherwise known as “bricks and mortar” costs, as distinguished from indirect legal, financing, architect, and similar fees required for the project but not visible in the physical structure.

**HVAC** – Heating, Ventilation, and Air Conditioning system. In modern buildings, the design, installation and control of these functions are integrated into a single system.

## I.

**In-Kind Contributions** – Materials or services that are donated to a project by either a third party or by the applicant. An in-kind contribution is considered a real contribution to the total cost of the proposed activities of the project but it is not reimbursable, as no money has changed hands. By definition, in-kind contributions are donations and, therefore, there cannot be funding related to in-kind expenses. Donated materials or services may be eligible as an in-kind contribution if they:

- Are essential to a project's success, eligible under the program guidelines and would otherwise be purchased and paid for by the recipient;
- Can be measured at fair value at the date of contribution (fair value would be estimated using market or appraisal values at the date of contribution, i.e. fair value could be determined in relation to the purchase of similar materials and services);
- Are recorded in the recipients accounting books.

Examples of in-kind contributions include event space, salaries of volunteers contributing time to the project, etc.

**Income statement** – A summary of the revenue and expenses of an organization during an accounting period.

**In-kind revenue** – A non-cash item 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 revenue should always equal in-kind expenses 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 payments, and 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 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).

## L.

**Legacy** – acts or actions related to a project that will leave a lasting impression upon the community.

**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 which terms it would consider lending a certain sum of money to a specific borrower.

**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.

**liabilities** – 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** - 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 type of loan structure whereby 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 assets readily convertible to cash (such as marketable securities) an organization has available. Can also include the unused amount available on a line of credit.

**LLC** – Limited Liability Company. A business structure 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.

**Long-term debt** – Debt that has a maturity of more than one year. Examples include: multi-year term loans, mortgage loans, and capitalized long-term leases

## **M.**

**Months of cash** – The number of months an 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.

**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. In for-profit accounting, known as the net worth or equity of an organization. Net assets can be categorized as unrestricted, temporarily restricted, or permanently restricted.

**Net assets released from restrictions** – The transfer of funds from restricted to unrestricted due to the satisfaction of donor-imposed stipulations with respect to timing or purpose of the contribution (or, in rare cases, due to permission of a donor of permanently restricted funds).

**Non-operating activities** – Items 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 to another organization—e.g., re-grant funds.

**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.

## **O.**

**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 the resolution remains in effect.

**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 – i.e., the “bottom line”).

**Operating and maintenance expenses** – The ordinary expenses of operating and maintaining a property, such as taxes, insurance, repairs, security, utilities, etc. Unlike facility improvements and repairs, which are capitalized on the balance sheet and depreciated on the income statement, they are directly expensed on the statement of activities.

**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). These may be unrestricted but board-designated funds.

**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 that 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.

**Outcomes** – The changes brought about as a result of project outputs. Outcomes may occur within organizations, communities, or individuals; they may relate to behaviour, skills, knowledge, attitudes, values, condition, or other attributes. Outcomes must be measurable, either by quantitative or qualitative means. For example, as a result of this project, you anticipate an increase of X% in community participation. There should be a direct relationship between outputs and outcomes.

**Outputs** – the amount of time, energy, work, goods or services put into the project. These outputs should result in your intended outcome(s).

**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.

**P.**

**Pass-through grants** – Funds provided to an intermediary that must be spent on behalf of a secondary recipient.

**Permanently restricted net assets** – Net assets categorized as permanently restricted due to donor-imposed restrictions. With permanently restricted net assets such as endowments, the organization cannot spend or liquidate the principal amount but, generally, may use the revenue and realized gains from the invested principal for a restricted or unrestricted purpose. Local jurisdictions may impose additional limitations or access on such funds.

**Points** – Traditionally the fees paid by borrowers to induce lenders to make a mortgage loan; shorthand for percentage points—i.e., a point equals a percentage point of the amount of a loan (e.g., a 2-point fee on a \$500,000 loan is \$10,000). 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 or closing fee, as in “How many points do you charge?”

**Prepaid expenses** – Items an organization pays for in advance of their due date. 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.

**Principal** – The amount of money that is borrowed or remaining unpaid on a loan. Distinct from interest, which is calculated as a percentage of principal and charged for the privilege of using borrowed funds.

**Pro forma income and expenses** – Statement showing the projected annual income and operating expenses of an organization

**Project Manager** – The individual assigned or hired to manage and coordinate all aspects of the project.

**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** (also known as rehab) – The process of upgrading an existing building, ranging from minor changes to major reconstruction. Gut rehab refers to major reconstruction, typically involving demolition of all but the “guts” of a building before renovation.

**Request for proposals (RFP)** – A request sent to prospective consultants or contractors to bid for a clearly defined project or service. Includes everything requested in an RFQ, plus information about how the consultant would approach the work and what fees would be involved. A client uses an RFP to determine which consultant or contractor to hire.

**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.

**Restricted assets** – Resources limited by donor specifications for use under specific circumstances or purposes.

**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). Includes a statement of position (balance sheet), statement of activities (income statement), statement of

cash flows, and potentially notes. A review is not considered as independent a financial report as an audit but requires a higher level of due diligence than a compilation

**S.**

**Scope of work** – A detailed description of the work to be done for a specific project.

**Security agreement** – A legal document executed by a borrower granting a lender an interest in certain of the borrower’s assets as 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 portion (amount due in the next twelve months) 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 fees, and legal fees.

**Stakeholder** – Any individual or group with concern for or about an organization’s success and viability. Includes board members, trustees, subscribers, members, clients, staff, donors and former donors, foundations, corporations and volunteers.

**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 the following three categories:

**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 receipts from lines of credit, notes payable, term loans, etc.

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

**Subordinated loan** – A loan that is behind the claims 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.

**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** – Net assets with a donor-imposed time or purpose restriction that, once satisfied, become reclassified as unrestricted.

**Term** – The length of time that a loan is outstanding

**Title reports** – Any of several types of reports of public record, prepared by a title insurance company, to document the ownership history of a real estate property, as well as any claims or questions about ownership (such as easements, rights of way, mortgages, mechanics liens, water and sewer lines, etc.). A title search, or examination of all public records to uncover potential problems, leads to a title commitment, or draft title insurance policy. Once research is completed and open issues are resolved, a premium is paid and the title policy, confirming property ownership and title insurance coverage, is issued.

**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.**

**Underwriting process** – Process used to analyze the financial condition of an 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.

**Unrestricted net assets** – Unrestricted net assets less board-designated assets and net investments in plant, property, and equipment (PP&E). This balance represents net assets generally available to meet operating needs.

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

**W.**

**Working capital** – The strict accounting definition is current assets less current liabilities. Also 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 can readily access (e.g. unused line of credit) to meet its obligations as they come due