

The Annie E. Casey Foundation

Program Related Investments
Glossary of Financial and Investment Terms

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Glossary of PRI Financial and Investment Terms

Acceleration	With respect to a loan, this refers to the right of the lender, in the case of borrower default, to declare all of the borrower's debt due and payable immediately.
Accounts payable	Amounts owed to creditors for goods and services.
Accrued expenses	An obligation resulting from the recognition of an expense prior to the payment of cash.
Amortization	The process of loan payment over time by regular payments of interest and principal. The "amortization period" refers to a fixed period during which regular loan payments are made. The payment includes interest due each period, plus a gradually increasing amount of principal.
Arbitrage	Profiting from differences in price when the same commodity is traded on two or more markets, taking advantage of disparities in prices between markets. For PRIs, this means making a profit by investing charitable investments made at below-market interest rates in market-rate investment vehicles.
Assets	Anything having commercial or exchange value owned by an organization.
Available unrestricted net assets	The part of the net assets of an organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations and that is available for use, e.g. not tied up in fixed assets.
Bridge loan	Temporary financing to a borrower who has secured a loan at a point in the future but who needs funding before that loan is put in place.
Business plan	A document that describes an organization's current status and plans for several years into the future. The plan projects opportunities and maps financial, operational, marketing and organizational strategies that will enable the organization to achieve its goals.
Cash flow loan	Temporary financing to a borrower who has sufficient expected revenues to cover current operating costs but who has not yet received those revenues.

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Cash flow statement	A statement that reports the cash receipts and cash payments of an entity during a particular period. Complete financial statements are required to include a cash flow statement.
Cash equivalents	Security investments that are readily converted to cash.
Cash and cash equivalents ratio	Cash plus cash equivalents divided by current liabilities. A measure of short-term liquidity.
Change in net assets	The difference in net assets from one accounting period to the next.
Change in unrestricted net assets	The difference in unrestricted net assets from one accounting period to the next. Formerly called net income.
Closing	For a loan, a specific time when the borrower signs final loan documents and the lender transfers funds to the borrower.
Collateral	Personal or real property that the borrower pledges to assure re-payment of a loan.
Comparative analysis	Method of analysis that utilizes the comparison of an organization to industry standards or similar organizations to identify questions.
Conditional promise to give	A promise to give that depends on the occurrence of a specified future and uncertain event to bind the promisor.
Construction financing	A loan to the developer of a project which covers the construction costs. Typically, these loans are short-term (1-3 years). At the time of occupancy, the developer uses a long-term loan, known as permanent financing, to pay off the construction loan.

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Covenant	A clause in a loan agreement in which a party promises to do, or to refrain from doing, certain things while the loan is outstanding. Covenants that require a party to do something are called “affirmative covenants.” Those that prohibit certain actions are called “negative covenants.” Covenants are designed to protect the lender’s interest.
Credit grading / risk rating	Formal evaluation of an organization’s credit history and capability to repay obligations.
Current assets	Cash, accounts receivable, inventory, and other assets that are likely to be converted into cash, sold, exchanged, or expensed in the normal course of business, usually within a year.
Current liabilities	Debt or other obligations due to be paid within the current period, usually a year.
Current portion of loans receivable	Those portions of loans that are due to be paid back <i>TO</i> the organization within the current year.
Current portion of loans payable	Those portions of loans that are due to be repaid <i>BY</i> the organization within the current year.
Current ratio	Current assets divided by current liabilities. The ratio shows a company’s ability to pay its current obligations from its current assets.
Debt	An amount owed for funds borrowed. Generally, debt is secured by a note, bond, mortgage or other instrument that states the repayment and interest provisions.
Debt coverage ratio	Change in unrestricted net assets plus interest plus non-cash depreciation divided by current notes payable. Measures an organization’s ability to pay its current debt obligations.
Debt to equity ratio	Total liabilities divided by total net assets (sometimes total unrestricted net assets). Sometimes the liabilities are restricted to long-term liabilities only. Measures an organization’s debt relative to its equity or net asset base.

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Debt service	The amount of payment due at regular intervals (usually monthly, quarterly, or annually) to meet a mortgage or debt agreement.
Deed of trust	The equivalent of a mortgage in some jurisdictions. The borrower conveys title to the property to be held as security to a trustee, who holds the title as security for the benefit of the lender. The transfer is accompanied by a trust agreement setting forth the terms of the security arrangement.
Default	Failure to meet the terms of an obligation
Depreciation	The systematic allocation of the acquisition cost of long-lived or fixed assets to the expense accounts of particular periods that benefit from the use of the assets. Depreciation is a non-cash expense.
Development budget	The projection of costs to develop a real estate project. Covers the planning, acquisition and construction period, until the project is sold or rented up.
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 nature of the organization, the environment in which it operates, and the purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association. A restriction on an organization's use of the asset contributed may be temporary or permanent.
Due diligence	The process of evaluating the opportunities and risks of a particular investment, including the careful confirmation of all critical assumptions and facts presented by a borrower. This includes verifying sources of income, accuracy of financial statements, value of assets that will serve as collateral, the tax status of the borrower, and other material information.
Earned income	Revenue that an organization generates through fees, interest and/or sales of products or services.

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Endowment fund	An established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit organization. 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 permanent endowment, which is to provide a permanent source of income, or a term endowment, which is to provide income for a specified period. The principal of a permanent endowment must be maintained permanently – not used up, expended, or otherwise exhausted—and is classified as permanently restricted net assets. The principal of a term endowment must be maintained for a specified term and is classified as temporarily restricted net assets. An organization’s governing board may earmark a portion of its unrestricted net assets as a board-designated endowment (sometimes called funds functioning as endowment or quasi-endowment funds) to be invested to provide income for a long but unspecified period. The principal of a board-designated endowment, which results from an internal designation, is not donor restricted and is classified as unrestricted net assets.
Equity	Cash invested by owners, developers, or other investors in a project. Equity investments typically take the form of an owner’s share in the business, and return on equity involves a share in the profits. Evidence of business equity is usually in the form of shares of stock.
Expenditure responsibility	Procedures a foundation follows to see that a grant or a PRI is used only for the purpose for which it is made. This includes obtaining full and complete reports on expenditures from grantee or borrower organizations and full and detailed reporting to the IRS.
Fixed assets	Tangible property used in the operations of an organization, but not expected to be consumed or converted into cash in the ordinary course of events. E.g. facility, equipment, furniture etc.
Foreclosure	Formally a “foreclosure suit”; the procedure whereby a lender reclaims a property due to mortgage default.
Functional classification	A method of grouping expenses according to the purpose for which costs are incurred. The primary functional classifications are program services and supporting activities.

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Functional expenses	A method of grouping expenses according to the purpose for which costs are incurred. For example: program expenses, general and administrative expenses, cost of goods sold, and financing expenses. Audited financial statements sometimes include a Statement of Functional Expenses.
General and administrative expenses	All expenses that are not directly related to programs.
Guarantee	A pledge to cover the payment of debt or to perform some obligation if the person liable defaults. When a third party guarantees a loan, it promises to pay in the event of default by the borrower.
Hard costs	In a development budget, costs associated directly with construction. In contrast, soft costs include fees, taxes, insurance and other items above the actual construction costs.
Intermediary	A financial intermediary raises funds from depositors or investors, including individuals and organizations, and re-loans these funds to other individuals and organizations. Banks and thrifts raise funds from deposits and make consumer loans, residential mortgages and commercial loans. Nonprofit intermediaries raise funds through grants, program-related investments and social investments and re-lend to nonprofit organizations that will undertake projects such as affordable housing development, or targeted business assistance.
Jeopardizing investment	Investments that financially imperil the carrying out of the charitable activities of a private foundation. These are defined specifically by the Internal Revenue Service.
Lien	A legal right to have a debt repaid out of specifically identified property of the debtor.
Leverage	The level of debt in a project. “Highly leveraged” projects have a high level of debt compared to equity as a source of funds.

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Liabilities	Claim on the assets of an organization – excluding ownership. Characteristics include: <ul style="list-style-type: none">• It represents a transfer of assets or services at a specified or determinable date.• The organization has little or no discretion to avoid the transfer.• The event causing the obligation has already occurred.
Liquidity	Refers to the availability of cash, or “near cash resources”, for meeting an organization’s obligations. Near cash resources typically refers to investments, inventory, accounts receivable and other assets expected to be available in cash within three months.
Loan monitoring	The process of collecting information on the financial and programmatic performance of a loan during repayment.
Loan position	The order or preference with which lenders get repaid. When a project has multiple lenders, loan positions are negotiated along with other terms of the loan, such as interest rate and term.
Loan servicing	The process of communicating with a borrower and collecting payments during the term of a loan.
Loans receivable, net of current portion	Total amount of loans that an organization has lent out, less the amount that is due back to the organization in the current year.
Loans payable, net of current portion	Total amount of loans owed to creditors by an organization less the amount that is due in the current year.
Long-term assets	Assets not expected to be converted into cash, sold, or exchanged within the normal operating cycle of the organization; assets whose benefits are expected to be received over several years. Usually including: investments, plant assets and intangibles, such as patents or goodwill.
Long-term liabilities	Those liabilities that are due in a year or more. Normally interest is paid periodically over the term.

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Mortgage	An instrument through which a lender secures a legal right to repayment of debt by taking title to the real estate pledged by the borrower. Usually, a promissory note creates the obligation to repay the loan in accordance with the terms of the. The mortgagor is the borrower; the mortgagee is the lender.
Net assets	The difference between an organization's total assets and total liabilities. Formerly called fund balance or net worth.
Net assets released from restrictions	Those assets that were restricted for either a period of time or for a particular purpose for which donor-imposed conditions have been met, thus allowing the assets to become available for use.
Opinion letter	That part of an audit in which the accountant gives his/her opinion as to whether or not the financial statements are in accordance with generally accepted accounting principals and whether or not the financial statements represent fairly the financial position and change in financial position of the organization.
Permanent financing	The long-term financing for a real estate project. The permanent loan usually has a term of 15-40 years, and is used to pay off the short-term construction loan, which provided funds to build the project.
Permanent restriction	A donor-imposed restriction stipulating that resources be maintained permanently but permits the organization 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 organization resulting from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.
Prepaid expenses	An expenditure paid in advance of its use, such as rent or insurance premiums. The payment is considered an asset because it entitles the organization to future benefits.
Principal	The basic amount of a loan, notwithstanding interest or other premiums.
Prime rate	The interest rate banks charge to their most credit-worthy corporate customers.

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Program expenses	Those expenses that are directly related to programs of the organization.
Promise to give	A written or oral agreement to contribute cash or other assets to another entity. A promise to give may be either conditional or unconditional.
Property, plant and equipment	Fixed assets used to house or help conduct the organization's activities, such as buildings, furniture, equipment, land, and natural resources.
Qualifying distribution	An amount, including program-related investments and reasonable and necessary grant administration costs, a private foundation pays to accomplish religious, charitable, scientific, literary, or other public purposes. Private foundations must distribute annually as a minimum qualifying distribution 5% of net assets.
Quick ratio	Cash, marketable securities, and accounts receivable divided by current liabilities. This ratio focuses on an organization's more liquid assets, and answers the question "if revenue stopped coming in, could this organization meet its current obligations?" Sometimes called Acid Test.
Ratio analysis	Method of analysis that utilizes the relationship of numbers found in the financial statements to determine values and evaluate risks. Comparing such ratios to those of prior periods and/or other organizations reveals trends and identifies eccentricities.
Realized gain/(loss)	Gain or loss resulting from the sale or other disposal of an asset.
Receivable (grants, other)	Any collectible (other than loans, which are listed separately) owed or promised to an organization.
Recourse	The right to demand payment from the borrower. In a full recourse loan, the lender has the right to take any assets of the borrower if the loan is not repaid. In a limited recourse loan, the lender can only take assets named in the loan agreement. In a non-recourse loan, the lender's rights are limited to the particular asset financed by the loan.
Recoverable grant	An agreement under which a grantee commits to repay a grant under certain circumstances, generally, if the project financed by the grant is financially successful. If not, the grantor is under no obligation to repay.

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Restricted support	Donor-restricted revenues or gains from contributions that increase either temporarily restricted net assets or permanently restricted net assets. Also refer to unrestricted support .
Revenues, gains and support	The inflow of assets resulting from the sale of goods or services or charitable donations.
Schedules and notes	A supporting set of calculations, with explanations, that show how figures in a financial statement are derived or reveal other important financial information not shown in the three basic statements.
Security	A pledge of value to assure the performance of an obligation or the repayment of a debt. Security on a loan can include real estate, personal property, stocks, and mortgages.
Soft costs	In a development budget, fees (developer, architect, legal and others), taxes, insurance and other costs which are additional to acquisition and construction costs.
Statement of activities	Summary of the revenues, costs, and expenses of an organization during an accounting period. Together with a statement of financial position as of the end of an accounting period and a cash flow statement, it constitutes an organization's financial statement.
Statement of financial position	Statement showing the status of an organization's assets, liabilities and net assets on a given date. Assets are equal to liabilities and net assets, and the statement of financial position is a listing of the items making up the two sides of the equation. Together with a statement of activities for the duration of the accounting period and a cash flow statement, it constitutes an organization's financial statement.
Temporarily restricted net assets	The part of the net assets of an organization resulting from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations.
Temporary restriction	A donor-imposed restriction that permits the done organization to use up or expend the donated assets as specified and is satisfied either by the passage of time or by actions of the organization.
Term	The length of time until a loan or other obligation is fully repaid.

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Times interest earned ratio	Ratio of pretax income or change in unrestricted net assets plus interest expense to interest expense. This ratio measures how many times interest expense is covered by operating earnings.
Trend analysis	Comparisons of financial statements covering different sequential time periods in order to identify financial trends.
Unconditional promise to give	A promise to give that depends only on passage of time or demand by the promisee for performance.
Unearned income	Income received by an organization for which no service or good is given. Normally this refers to charitable donations made by foundations, government, corporations, or individuals.
Unrealized gain/(loss)	Gain or loss that has not become actual. It becomes actual when the asset in which there is a gain or loss is actually sold. Also called a paper gain or loss.
Unrestricted net assets	The part of net assets of an organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.
Unrestricted support	Revenues or gains from contributions that are not restricted by donors.
Venture capital	Funds used to start a new business or enterprise. Because new ventures entail high risks, investors often choose to provide this capital in return for part ownership of the enterprise rather than a loan. If the enterprise is successful, the return to an equity investor will likely exceed the return to a lender, given the same amount of capital provided.
Working capital	In accounting terms, working capital is the difference between an organization's assets that can be converted to cash within one year

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