Glossary of Nonprofit Accounting Terms

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General Terms

Fund Accounting: Method of accounting whereby asset, liability and net asset accounts are grouped according to purpose and/or restriction. Generally used by government entities and not-for-profit organizations. Each fund is a self-balancing set of accounts.

GAAP: Acronym for Generally Accepted Accounting Principles. Conventions, rules and procedures that define accepted accounting practice at a particular time. The Financial Accounting Standards Board organized these standards into the Accounting Standards Codification (ASC). The ASC is divided into several major topic areas. Topic 958 addresses accounting for not-for-profit entities. You can sign up to access the Basic View of the ASC for free at https://www.fasb.org/store/subscriptions/fasb/new.

Statement of Financial Position (Balance Sheet) Terms

Common Asset Accounts:

Current assets: Cash or assets the organization plans to turn into cash or use up to generate revenue in the next fiscal year.

Cash and cash equivalents: Cash in the bank or in highly liquid and secure securities, such as U.S. treasury bills or CDs with a maturity of one year or less. In an audited financial statement, cash with a donor-imposed restriction limiting its long term (i.e., more than a year) use must be classified in a separate account from unrestricted cash.

Accounts receivable or Trade receivables: Amounts owed to the organization from completed sales or services rendered and expected to be received within one year.

Pledges or grants receivable: Amounts committed to the organization by an outside donor. Rather than the full or *gross* amount that is due, these receivables are presented on the balance sheet at *net realizable value*, i.e. the amount the nonprofit expects to receive after considering an estimate of uncollectible pledges or grants receivable.

Prepaid expenses: Costs, such as insurance, paid in advance of receiving benefits are recorded as an asset. The asset value is reduced (with an offset to expense) as the benefit associated with the cost is consumed. For example the benefit of insurance coverage is consumed with the passage of time. The asset value of prepaid insurance would be reduced each month with an entry to insurance expense as the insurance is used up.

Inventory: Tangible property held for sale or materials used to make products that are held for sale.

Investments: The value of stocks and bonds held as investments. In audited financial statements, the amount reported is the *fair market value* as of the balance sheet date.

Fixed Assets (Property, Plant and Equipment): It includes the historical cost of land as well as the *net book value* of other long-lived physical assets. The *net book value* is the historical cost of long-lived assets less accumulated depreciation. The value of fixed assets on the balance sheet does not reflect fair market value or the cost of replacement, since these assets are not generally intended to be sold. Instead the accounting is designed to allocate the cost of a long-lived asset over its useful life. In general, the value of fixed assets is reduced each year by recording a non-cash *depreciation* expense. Often the value of the asset drops according to a straight-line method that reduces the value in equally sized increments over the estimated useful life of the asset.

Collections: Works of art, historical treasures, or similar items that may not decline in value. Nonprofits must select a policy for recording collection items and consistently apply it to all collections. Some nonprofits choose to expense acquisitions and contributed collection items immediately. If the collection is capitalized, then depreciation need not be taken if the economic benefit of the asset is not consumed over time.

Common Liability Accounts:

Accounts Payable: Unpaid bills and other amounts owed to vendors for goods or services rendered.

Accrued Wages: Salaries and wages earned by employees but not yet paid.

Grants Payable: Grant amounts promised to individuals or other organizations.

Deferred Revenue (Refundable Advances): Grants received from donors that have not been recognized as revenue because the *conditions* of the grant have not been met. Also payments received for services that have not been rendered yet, such as an advance payment for a class.

Due to Third Parties: Certain nonprofit organizations, such as the United Way and federated membership organizations, collect contributions from one group and transfer them to another nonprofit. When these organizations are operating as a transfer agent with no *variance power* to change the recipient, then the associated cash receipts are not recorded as revenues by the transfer agent, rather they are carried as liabilities.

Long Term Debt: Money owed to a creditor. Long term debt can be in the form of bank loans, publicly traded bonds, or privately arranged debt financing.

Net Asset Accounts:

Net assets are divided into categories:

Unrestricted: The portion of net assets not restricted by donor-imposed stipulations. This amount is positive when the sum of historical revenues and gains from unrestricted contributions exceeds the amount of expenses. The amount is negative when the total historical expenses exceeds the unrestricted revenues.

Temporarily Restricted: The portion of the net assets limited by donor-imposed stipulations that either expire with time or can be fulfilled by actions of the organization.

Permanently Restricted: The portion of the net assets limited by donor-imposed stipulations that will not expire with time or be fulfilled by actions of the organization. True endowments are permanently restricted funds.

Board Designated: The portion of net assets designated by the board of directors for a particular purpose.

Statement of Activities (Income Statement) Terms

Contributions: An unconditional transfer of cash or other assets to a nonprofit or a settlement or cancellation of a liability in a voluntary nonreciprocal transfer. This includes unconditional promises to pay cash or other assets in the future. To be recognized as revenue, there must be documentation to verify a promise was made and received.

Gifts in Kind: Any gift to a charity other than a cash gift, such as donations of tangible goods, services, rents (use of facilities or equipment), investment securities and unreimbursed out-of-pocket expenses.

Donated Goods: Non cash donation of physical goods, such as the donation of supplies instead of cash.

Donated Services: Record donated services as revenue and an expense and/or asset if the services would otherwise need to be purchased, if specialized skills are required and if the provider of the services has those skills.

Donated Use of Facilities: Recognize revenue and a prepaid asset when a lease is finalized to the extent the organization receives a below market rate for use of facilities. Reduce the asset and recognize expense as time passes and the lease is used up.

P&L: Abbreviation for Profit and Loss, a report that shows income and expenses for a specific time period.

Program Service Revenue: Exchanges between a nonprofit and another party in which the nonprofit provides a service in exchange for a transfer of cash or another asset. For example nonprofits may receive fees from governmental agencies or from clients they serve.

Membership Dues: Some organizations have members that pay an annual fee to receive certain services. Often membership dues are actually contributions if no benefits are received by the donor in exchange for dues.

Special Events Revenue: The portion of revenues raised by fundraising events representing the fair market value of the event. The fair market value received is recorded separately from contributions.

Investment Income: Income earned from investments including dividends on stock and interest on bonds. Realized gains/losses on investment securities may be included in this account or as its own line item.

In the Statement of Activities, expenses are divided into three functional categories:

Program Expenses are the costs associated with the delivery of goods and services to beneficiaries, customers or members that fulfill the organization's mission.

Fundraising Expenses include publicizing and conducting fundraising campaigns, maintaining donor mailing lists, conducting fundraising events, preparing and distributing fundraising materials and other activities involved in soliciting contributions or memberships.

Management and General Expenses, also called administrative expenses, include expenses related to oversight, organization management, record-keeping, budgeting, financing and related activities. Collectively fundraising and management and general expenses are referred to as support services.

