DICTIONARY OF NOT-FOR-PROFIT ACCOUNTING TERMS & DEFINITIONS

Accrued expenses: Estimated obligations (usually expenses) that have been incurred but aren't supported by a vendor bill or other documentation.

Accounts payable: Obligations to pay for goods and services that have been acquired on open account.

Accounts receivable (trade): Amounts due the organization from sales of products or services.

Accounting tenets: Principles or theories of accounting that dictate in the most general terms how financial activity should be treated and are the underpinnings of GAAP.

Accrual basis: Basis of accounting that records the financial effects of transactions and other events and circumstances that have cash consequences for the entity in the periods in which those transactions, events, and circumstances occur, rather than only in the periods in which cash is received or paid by the entity.

Accumulated depreciation: Sum of depreciation charges taken from date of asset purchase to current date.

Advisory board: Group of people who provide some level of advice to a NFP board or management, who are not usually board members and do not have the same legal and fiduciary responsibilities of board members.

Amortization of discount: Periodic adjustments made to account for differences between initial recorded discount value (PV) and current value.

Amortization expense: Portion of intangible assets and deferred charges allocated to current period expense (similar to depreciation expense).

Annuity: Series of payments or receipts over a period of time.

Assets: Probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.

Audit report (independent): Report prepared by a CPA or CPA firm that states whether the financial statements included in the report present fairly the audited organization's financial position, results of operations, and cash flows in conformity with GAAP.

Bank reconciliation: Comparison of transactions listed on a bank statement with the transactions listed on an organization's books (i.e., G/L).

Beneficiaries: Individual or entity that will receive benefits from trust or other financial arrangement.

Board of directors: Individuals entrusted with the responsibility of ensuring that an organization accomplishes its purpose for being in existence (its mission).

Board of trustee: Similar to board of directors.

Bookkeeper: Individual whose primary responsibility is recording all financial activity in one or more books of record. Although still used, this term is becoming antiquated since financial transactions are typically maintained using computers and software and not physical books.

Budget: A monetary plan, guide, and tool to assist an organization's management in allocating existing and future resources and to assist in evaluating deficiencies and accomplishments in operations based on financial results.

Budget variance: Difference between actual financial results and budgeted amounts.

Bylaws: Document that specifies in broad terms how the organization will operate and be governed.

Capital lease: Lease (or rental agreement) where the purchaser is actually purchasing the asset rather than renting it because, by the end of the lease period, most of the asset is used up.

Cash: Currency (bill and coins) on hand and demand deposits held at banks and other financial institutions (checking and savings accounts).

Cash equivalents: Investments that are highly liquid and will be converted to cash in such a short period of time that a change in their value is highly unlikely.

Certified public accountant: Individual who satisfied all educational, examination, and experience requirements within a proscribed state jurisdiction.

Charitable gift annuities: Similar to charitable remainder trust but no actual trust is set up.

Charitable lead trust: Donor establishes a trust naming an NFP as beneficiary until the agreement terminates (e.g., donor or spouse dies), at which time the plans assets revert either to the donor or to another beneficiary.

Charitable remainder trust: Donor establishes a trust in which assets are contributed to an NFP in exchange for receiving distributions for a specific period of time and upon termination (e.g., donor or other beneficiary) the NFP gets to keep assets.

Chart of accounts: List of all account names and numbers in an organization's general ledger.

Check request form: Form used by purchaser or other employee requesting that payment be made for the purchase of goods or services and approved by authorized personnel.

Collections: Works of art, historical treasures, or similar assets that are (1) held for exhibition to the public, for educational purposes, or for research in furtherance of public service and not financial gain; (2) protected, cared for, and preserved; and (3) subject to a policy requiring any proceeds from the sale of collection items to be reinvested in other collection items.

Combined financial statements: Presenting together the financial statements of two or more interrelated, commonly controlled organizations after eliminating all interorganizational transactions.

Commercial enterprise: An organization whose purpose is to maximize its profits by providing products or services.

Common stock: Securities that represent ownership interest in a corporation that typically provides the owner with rights to sharing profits, losses, dividends, appreciation, and depreciation.

Compensated absence: Payment to employees for time not worked (e.g., vacation and personal time off).

Consolidated financial statements: Presenting together the financial statements of two or more entities in which one has a controlling economic or financial interest over the others after eliminating all interorganizational transactions.

Contingencies: Uncertain, existing conditions that may create a possible benefit (i.e., gain) or a legal obligation in the future that are based on past transactions or events.

Contributions: Voluntary, unconditional transfer of assets to an entity or assumption of their liability by another entity.

Contributions in kind: Voluntary, unconditional donations of noncash, goods, facilities, or services.

Contra asset account: Accounts used for tracking the reduction in the gross cost of an asset such as accumulated depreciation and allowance for bad debt.

Control environment: Encompasses the organization's general philosophy, the organizational structure and methods of authority, personnel procedures, external influences, and the ability to monitor its activities.

Credit: Right side of a transaction that represents a decrease to certain types of accounts and an increase to other types of accounts.

Debit: Left side of a transaction that represents an increase to certain types of accounts and a decrease to other types of accounts.

Deferred income/revenue: Receiving money in advance for providing goods or services in the future (i.e., received before it is earned).

Defined benefit plan: Retirement plan where specific benefit amounts are calculated to be received in the future, based on employees' age, years of service to the organization, or salary earned.

Defined contribution plan: Retirement plan in which individual accounts are set up for each participant and benefits are based on a combination of contributions made, earning on contributions invested, and any other participants' forfeitures allocated to individual accounts.

Deposits in transit: Cash deposited in an organization's bank account but not included on the bank statement due to timing.

Depreciation: Allocation of a portion of the total cost of a tangible asset over its estimated useful life.

Discount rate: Interest rate (i.e., percent) used to calculate PV.

Donations (*see* Contributions)

Donor advised funds: Charitable giving vehicle wherein an individual, family, or corporation makes an irrevocable, tax-deductible contribution of personal assets to a charity and at any time thereafter can exercise a right to make a recommendation on either uses of the account, such as providing advice about how to invest or make distributions from the account.

Donors: Individuals, corporations, or other entities that make contributions to a NFP organization.

Double-entry system: System that promulgates that every entry made to a business' financial records (also known as books) has two sides—a debit and a credit—and is balanced.

Employee: Generally, anyone who performs services for an organization that is controlled by the organization about *what will be done and how those services will be performed.*

Endowment funds: A fund created by a donor contribution with the stipulation that the fund must be held in perpetuity and permanently restricted; the income earned must be used for unrestricted or restricted purposes in accordance with the donor's wishes.

Equity method of accounting: Requires that the NFP record the purchase of the shares of the commercial entity at its fair value and recognizes investment income each year based on the percentage interest the NFP has in the invested company if the NFP has the ability to exercise significant influence over operating and financial policies of the commercial entity. Significant influence is assumed when stock ownership is between 20 and 50 percent.

Exchange transactions: Purchase of goods or services for money or another asset.

Executive director: Senior manager at an NFP organization who oversees operations and personnel and implements board of directors' decisions.

Excise tax: Tax incurred by NFP organizations for various allowed (e.g., private-foundation investment income) and disallowed (e.g., supporting political campaign) activities.

Exempt organization: Organization exempt from paying income or other taxes by the Internal Revenue Service or other governmental regulatory body.

Expenditures: Outflows of cash or other resources.

Expense: Using up of an asset or incurring some type of liability (or obligation) to create or generate revenue.

Expense reimbursement grants: Grant provision that requires the organization to first incur approved, budgeted, expenses before receiving any grant proceeds.

Fair value: The price that would be received to sell an asset or paid to transfer a liability in an orderly, arms-length transaction between market participants at the measurement date.

Federal unemployment tax: Required payments to the federal government for future unemployment benefits of terminated employees based on a percentage of all current employees' salary up to maximum amount.

Fee for service: Payment of money or other asset in an arms-length transaction in exchange for services performed.

FICA: Federal Insurance Contribution Act (a/k/a Social Security).

Financial Accounting Standards Board: The designated private sector organization for establishing standards of financial accounting that govern the preparation of financial statements.

Fiscal year: Discrete period of time (usually 12 months) used by an organization to account for its operations that can end in any month (e.g., June or December).

Fund accounting: Method of accounting that required an organization to separate its major activities into separate categories or funds (e.g., operating fund, special-use fund). Each fund maintains its own assets and liabilities, sources of revenue, and support and expenses. Each fund also is self-balancing and has its own general ledger accounts.

General journal: Separate book or file used to record miscellaneous transactions where all debit and credit entries balance to zero as opposed to specific journals that are used to enter specific activity such as cash disbursement journal or cash receipts journal.

General ledger: A book or computer file that stores all detail or summary financial transactions of an organization.

Generally Accepted Accounting Principles: Composite of various standards, conventions, and rules for recording, categorizing, and summarizing transactions and preparing financial statements or reports that accurately reflect an organization's operations at a particular point in time and with the least subjectivity or variability.

Generally Accepted Auditing Standards: Rules approved by the Auditing Standards Board, a rule-making body of the American Institute of Certified Public Accountants (AICPA), that requires that the auditor ask certain questions, obtain and examine various documents, and resolve all questions that might undermine the veracity of the financial statements or other presented reports.

Highly compensated employees: Defined by the IRS as one of the five highest compensated employees of an organization (including employees of a disregarded entity of the organization) other than officers or key employees. The five highest compensated employees are determined by the amounts of reportable compensation for the calendar year ending with or within the organization’s tax year.

Historic cost: Money paid or other resource given up or foregone, to acquire, produce, consume, or exchange another asset.

Independent contractor: A person who provides services to an organization but who is not treated as an employee.

Intangible assets: Assets with no physical substance such as patents, copyrights, trademarks and goodwill.

Internal controls: The system of policies and procedures that an organization uses to: ensure the reliability of financial reporting, comply with all required laws and regulations, protect its assets, and ensure that its resources are used properly to achieve it organizational mission efficiently and effectively.

Internal Revenue Code: Domestic statutory tax law of the United States covering income tax, payroll taxes, gift taxes, estate taxes, and statutory excise taxes.

Internal Revenue Service: The federal agency responsible for enforcing the U.S. Treasury Department’s revenue laws.

Inure Accrue or flow to the benefit of someone.

Investment portfolio: A pool of different investments owned by an organization that can include marketable securities (stocks and bonds), real estate, investment in partnerships, and any other income producing asset.

Joint costs (fund-raising): Expenditures (or costs) that have elements of both fund-raising and either programs or management and general or both.

Key employee: Defined by the IRS as someone who earns a significant salary (e.g., >$150,000) and has authority to make major organizational decisions or significant control over the organization activities.

Liabilities: Probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

Loans payable: Legal obligation to pay a specific sum of money at a specific period of time.

Marketable securities: Equity and debt securities that are listed on a public exchange that can be readily bought or sold.

Net assets: Difference between what an organization owns and what it owes, broken down into three categories: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Net assets with donor restrictions: New category created with the Accounting Standards Update (ASU 2016-14), Presentation of Financial Statements of Not-For-Profit Entities, where the previous two categories, temporarily restricted net assets and permanently restricted net assets are combined into one category. Effective for fiscal years beginning after December 31, 2017.

Net assets without donor restrictions: New category created with the Accounting Standards Update (ASU 2016-14), Presentation of Financial Statements of Not-For-Profit Entities, changing the name of the previous category, unrestricted net assets. Effective for fiscal years beginning after December 31, 2017.

Notes payable: Written promise to pay a specific sum of money at a specific period of time in the future.

Notes to financial statements: Material disclosures required by generally accepted accounting principles that are not presented on the face of financial statements but accompany those statements as a supplementary document.

NFP mission: The purpose a NFP organization is created, reason for existence and perpetual goal.

NFP organization: A legal entity or group formed for some purpose other than to make a profit and not owned by any one or more individuals or entities.

Office of Management and Budget: Cabinet-level office of the president of the United States whose predominant mission is to assist the president in overseeing the preparation of the federal budget and to supervise its administration of executive-branch agencies. The OMB also evaluates the effectiveness of agency programs, policies, and procedures; assesses competing funding demands among agencies; sets funding priorities; and ensures that agency reports, rules, testimony, and proposed legislation are consistent with the president's budget and with administration policies.

Operating leases: Agreement for the rental of property between a user of the property (leasee) and the renter of the property (leasor) for a specific sum of money.

Operating year: Discrete period of time (usually 12 months).

Payroll service company: Commercial company that handles payroll-related functions, such as calculating payroll taxes, processing payroll checks, remitting payroll taxes, submitting required reports to regulatory agencies, and preparing payroll reports for management.

Payroll taxes: All federal, state and local income taxes, Social Security, and Medicare taxes (FICA) withheld from wages paid to employees along with the employers' portion of FICA. Sometimes included in this category are employer payments for federal and state unemployment tax, tate disability, and workers compensation, which are technically insurance and not payroll taxes.

Permanently restricted net assets: Assets that are restricted from use by one or more donors. Typically, the principal amount (i.e., the amount of the original gift) must be held in perpetuity (i.e., forever) by the organization and the income earned on invested assets can be used for either unrestricted or restricted purposes in accordance with donors' stipulations.

Petty cash: Bills and coins kept on hand in a box, envelope, or draw to pay for small, incidental expenses, such as local transportation (subways, taxis), meals for staff meetings, and postage.

Pledges: Promise to make a donation at a future point in time. Pledges can be unconditional or conditional (based on some nonguaranteed occurrence).

Pooled investments: Combining of investments into one single portfolio fund to earn a larger return or reduce investment management fees or other investment costs.

Power of attorney: A legal document that enables an individual to designate another person, called the attorney in fact (as opposed to an attorney at-law), to act on his/her behalf (as agent) until some point in the future as specified in the document or required by law.

Prepaid expense: Expenses paid for before benefits are received and recorded as an asset in the organization's general ledger in accordance with accrual-based GAAP rules. The asset is subsequently reclassified to an appropriate expense account in the year the benefit is received.

Present value: Current worth (value) of future sums of money, calculated by discounting future amounts at an appropriate interest rate (opposite of compounded interest).

Program expense: Direct and indirect (allocated) expense related to the performance of a major organization's program.

Program service revenue: Revenue generated from program activities that includes any products or services provided by an NFP organization.

Public charity: Organization classified by the Internal Revenue Service as a qualifying, Internal Revenue Code section 501(c)(3) tax-exempt organization that derives a significant portion of its revenue and support from the general public.

Private foundation: Organization that receives most of its funds from a small number of individuals or entities, such as from one family or corporation, and has as its primary activity the making of grants to other charitable organizations and individuals, rather than operating charitable programs.

Private operating foundation: Private foundation that devotes most of its resources to the active conduct of its exempt activities but doesn't receive enough funding from the general public to be classified as a public charity.

Realization: The converting of an asset or right to an asset into cash (e.g., actually receiving a pledged donation).

Recognition: Including a transaction in the organization's general ledger (e.g., recognizing or recording a promise to make a contribution or pledge receivable).

Refundable advance: Money that is received from a governmental agency or other entity, which might not be earned and might need to be returned.

Release of restricted funds: The recognition of restricted contributions or grants as unrestricted assets after the time or purpose restriction has been met.

Review (accountant's report): Analytical, numeric tests and other procedures performed by a CPA or CPA firm to ascertain whether the organization's financial statements are materially correct and free of misstatement. It differs from a financial audit in that no corroborating documentation is examined.

Separation of duties: The partitioning of various accounting and authorization duties and responsibilities to different individuals to remove the degree of control a single individual has over a particular process, thereby reducing the opportunity of someone doing something improper or illegal, such as misappropriating assets.

Single Audit Act: Legislation passed by Congress in 1984 to improve auditing and management for federal funds provided to state and local governments, such as reducing overlaps caused by the simultaneous performance of audits by different federal agencies.

Split-interest agreement: Created when a donor contributes assets directly to an NFP or places assets in a trust for the benefit of the NFP organization, but the NFP is not the sole beneficiary of the assets or the income generated from the assets.

Straight-line method Simplest method for determining what portion of an asset's cost to allocate as a current year's expense. Method requires that the asset's cost be divided by its estimated useful life in years and the result recognized as a current-period depreciation expense.

Statement of activities: One of the three financial statements required to be presented in order to be in compliance with GAAP. It shows the major categories of income and support and expenses categorized by major program and supporting services (management and general and fundraising) and covers a specified period of time (usually one year). This statement is similar to the income statement (or statement of profit and loss) that is presented by commercial entities.

Statement of cash flows: One of the three financial statements required to be presented in order to be in compliance with GAAP that shows the cash receipts and cash disbursements during a specified period (e.g., one year), classified by three principal sources of use: operations, investing, and financing.

Statement of Financial Accounting Standards: Accounting standards promulgated by the Financial Accounting Standards Board (see above) that is integral part of generally accepted accounting standards.

Statement of Financial Position: One of the three financial statements required to be presented in order to be in compliance with GAAP that shows the totals of major categories of assets, liabilities, and net assets at a particular point in times. This statement is called the balance sheet for commercial entities.

Statement of Functional Expenses: One of the four financial statements required to be presented by voluntary health and welfare organizations (VHWO) in order to be in compliance with GAAP. This statement is optional for all other organizations. This statement is a two-dimensional report that shows expenses by function (e.g., program and supporting services) and by natural classification (e.g., salaries, office supplies).

Statement of position: Publications produced by the Auditing Standards Board of the American Institute of Certified Public Accountants that provide technical guidance to auditors on a wide range of subject matter.

Statutory employee: Rules embodies by federal statute that classify workers as employees.

Statutory nonemployee: Rules embodied by federal statute that classify workers as not employees.

Support: Income that is not generated through an exchange transaction (i.e., by providing a product or services) and includes contributions, grants, contributed facilities, and services.

Temporarily restricted net assets: Assets (cash, receivables, etc.) received over one or more years that are restricted by the donor until some future time or for a specific purpose. Once the restriction is met, the assets become unrestricted and can be used for any legitimate purpose.

Trial balance: List of the totals of each account in the general ledger at a particular point in time.

Trust: Agreement with an individual or entity to take title to property owned by a grantor (donor) and to protect or conserve it for either the grantor or the trust's beneficiary or beneficiaries.

Trustee: Empowered to manage the trust and ensure in most cases that the trust investments earn an appropriate return.

Useful life (estimated): Estimated period of time an asset (e.g., property and equipment) is expected to be useful or productive and may not correspond to its actual physical or economic life.

Uniform Management of Institutional Funds Act: Document (Act) prepared in 1972 by members of the National Conference of Commissioners on Uniform State Laws that provided guidance and authority to charitable organizations about the management and investment of funds held by those organizations.

Uniform Prudent Management of Institutional Funds Act: Updated the Uniform Management of Institutional Funds Act in 1994 and has been enacted by 43 jurisdictions. The act updates rules on investment decision making for trusts, including charitable trusts, and imposes additional duties on trustees for the protection of beneficiaries.

Unrelated business income: Income from a trade or business that is regularly carried on by an exempt organization and that is not substantially related to the performance by the organization of its exempt purpose or function, except that the organization uses the profits derived from this activity.

Unrelated business income tax: Taxes on income derived from activities not related to the organization's exempt purpose (see unrelated business income)

Unrestricted net assets: Similar to the capital account of a commercial company. It is the excess of NFPs assets over their liabilities and it can be used for any legitimate purpose.

Voluntary Health and Welfare Organization: Organizations formed for the purpose of performing voluntary services for various segments of society and are tax exempt, supported by the public, and operated on a NFP basis.