

# Glossary (Volume 2)

## Agency Funds

The agency funds consist of funds held by the congregation as custodian or fiscal agent for other agencies. Transactions of agency funds represent charges or credits to individual asset and liability accounts and are not revenue or expense transactions of unrestricted or restricted current funds. Agency funds may be recorded as accounts payable in the current unrestricted fund.

## Assets

The resources owned by the congregation. They may be tangible (land, buildings) or intangible (accounts receivable, investments, copyrights) in nature.

## Audit

An inspection of the accounting records and procedures of a business or other reporting entity by a trained accountant for the purpose of verifying the accuracy and completeness of the records. It may be conducted by a member of the organization (internal audit) or by an outsider (independent audit). A CPA audit determines the overall validity of financial statements. A tax (IRS) audit determines whether the appropriate tax was paid. An internal audit generally determines whether the company's procedures are followed and whether embezzlement or other illegal activity occurred. See also: Financial Review.

## Board Designated Funds

Funds that have been set aside by the board of directors or church council for a specific purpose. These internally designated funds may be redesignated at any time at the board's discretion. (See RESTRICTED FUNDS for internally designated versus externally restricted.)

## Bonding Of Employees

Fidelity bonds protect the congregation up to an agreed amount against loss from employee dishonesty such as fraud, embezzlement, etc. Therefore, key personnel (those having access to cash, securities and company records) should be bonded.

## Budget

Used to monitor financial activities throughout the year. The budget can provide a benchmark or comparison point that will alert the board to the first indication that their financial goals will not be met.

## Capital Appropriations

Current funds set aside for acquisition of or additions to fixed assets and shown as a transfer to the unexpended plant fund in the financial statements.

## Capital Expenditures

Expenditures that result in the acquisition of or addition to fixed assets. The expenditures are shown as a transfer out of the unexpended plant fund and into the net invested in plant fund.

## Chart of Accounts

A numerical listing in financial statement order of all accounts to be used by the congregation. The accounts are developed to conform with the organizational structure of the congregation.

## Comparative Financial Statements

Financial statements of the current period should be presented on a comparative basis with financial statements for one or more prior reporting periods. Comparative financial statements may present only summarized, total-all-funds information (in a single column) for each of the prior periods because of space limitations or to avoid the confusion that a second set of statements might cause.

## Contingent Liability

Liability incurred by a business (church) for acts other than those of its own employees. This particular situation may arise when an independent contractor is hired. The church can be held liable for negligent acts of the contractor to the extent that its representatives give directions or exercise control over the contractor's employees.

## Depreciation

A system of accounting that aims to distribute the cost or other basis value of tangible capital assets, less salvage (if any), over the estimated useful life of the asset in a systematic and rational manner. It is a process of allocation, not valuation. The straight-line method of depreciation is the most reasonable one.

Assets that are not exhaustible, such as landmarks, monuments, cathedrals, historical treasures, or structures used primarily as house of worship need not be depreciated.

## Endowment Fund

Permanent and true endowments—funds created by third-party donors with the stipulation, as a condition of the gift, that the principal is to be maintained inviolate in perpetuity (principal is not expendable) and that only the income resulting from the investment of the fund may be expended in accordance with instructions by the donor.

Term endowments—similar to permanent or true endowments except that the terms of the gift instrument permit the principal to be expended all or in part upon

the happening of a particular event or the passage of a stated period of time.

Quasi endowments—funds established by the board of directors or church council and functioning like an endowment fund. However, they are subject to change and restoration to current operating funds at the discretion of the board.

### **Expenditures**

Recorded when liabilities are incurred. This term designates the cost of goods delivered or services rendered, whether paid or unpaid, including expenses, capital outlays, etc.

### **Expenses**

Charges incurred, whether paid or unpaid, for operation, maintenance, interest and other charges that are presumed to benefit the current fiscal period.

## **Financial Accounting Standards**

### **Board (FASB)**

FASB sets forth accounting standards for financial reporting and audits. Compliance is not mandatory; however, The American Institute of Certified Public Accountants (AICPA) has issued guidelines, rules and regulations with which an organization must comply to receive a certified audit report with a “clean opinion”. Of particular interest to congregations are: Statement of Financial Accounting Standards No. 117, Financial Statements of Not-for-Profit Organizations (FASB 117) and Statement of Financial Accounting Standards No. 116, Accounting for Contributions Received and Contributions Made (FASB 116).

### **Financial Review**

A verification of the financial acts of the Treasurer and others with financial responsibility. The “financial review” is informal in relation to the more formal “audit” which must be performed and certified by a Certified Public Accountant.

### **Fund**

A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and fund balances and changes in the fund balances. Separate accounts are maintained for each fund to insure observance of limitations and restrictions placed on the use of resources.

### **Fund-Accounting System**

Funds are separated into individually balanced groups according to their end use. The procedures by which resources for various purposes are classified for accounting and reporting purposes are (1) in accordance with activities or objectives as specified by donors, (2) in accordance with regulations, restrictions, or limitations imposed by sources outside the district, or (3) in accordance with directions issued by the board of directors.

\*Note: Fund-accounting does not comply with Generally Accepted Accounting Practices and is not used with financial reports prepared in accordance with FASB 117.

### **Fund Balance**

Represents the net assets and/or the accumulated operating balance (deficit) for a period and may include funds restricted by donors, such as funds for endowment, property and equipment, and loan purposes.

### **General Journal**

A journal containing all entries not recorded in special journals. The general journal is flexible in that any transaction can be recorded in it. However, those transactions with a high rate of occurrence, such as cash receipts and disbursements, are more appropriately recorded in separate journals.

### **General Ledger**

A book, file, or other device that contains the accounts needed to reflect, in summary and in detail, the financial position and the results of financial operations.

### **Internal Control**

Consists of all measures used by a business for the purposes of (1) safeguarding its resources against waste, fraud, and inefficiency; (2) promoting accurate and reliable financial data; (3) promoting operational efficiency; and (4) encouraging adherence to prescribed managerial policies. The primary responsibility for internal control rests with management.

### **Journal Voucher**

Provides for the recording of certain transactions. Usually contains an entry or entries, explanations, references to documentary evidence supporting the entry or entries, and the signature of one or more properly authorized officials.

### **Liabilities**

Debt or other legal obligation arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date.

### **Petty Cash**

A system for handling minor disbursements whereby a fixed amount of money, designated as petty cash, is set aside for this purpose. Disbursements are made from time to time as needed, with a receipt voucher being completed in each case. At certain intervals or when the petty cash is completely expended, the petty cash fund is replenished for the amount of disbursements. The total of petty cash on hand plus the amount of signed receipt vouchers at any one time must equal the total amount of petty cash authorized.

### **Property (Plant) Funds**

In this fund are the fixed assets owned by the congregation and related accounts. They include land, building improvements and equipment, the obligations relative thereto, and unexpended property funds.

### **Reimbursement**

Pay back for expenses incurred.

**Restricted Funds (Current)**

Current restricted fund balances represent funds available for financing operations that are restricted by donors and other external agencies to specific purposes or programs.

Board of director or church council designations do not create restricted funds, since the removal of the designation remains the discretion of the board of directors or council.

**Revenue**

All income received or anticipated.

**Statement of Changes in Fund****Balances**

Reports the support, revenue, capital or nonexpendable additions, and functional expense categories. The purpose of a statement of changes in fund balances is to reveal the activity that affected the fund balances during a specific period of time.

**Statement of Financial Position****(Balance Sheet)**

Reflects the financial position of the congregation or organization at a particular point in time. Summarizes the assets, liabilities and fund balances of the congregation.

**Subsidiary Ledger**

A group of subsidiary accounts; the sum of the balances is equal to the balance of the related control account in the general ledger.

