

# Appendix A

## Glossary of Financial Terms

**Accountable Reimbursement Plan** - A method of reimbursing employees for business/ministry expenses that requires them to account for each expense by providing appropriate documentation (such as a receipt with the purpose, place, and other information). Using this plan, the church does not have to report the reimbursements as income to the employees. Without it, the reimbursements must be reported as income. While the employees may deduct some of the expenses on their tax returns, they end up paying taxes they would not have to pay if the church used an accountable reimbursement plan.

**Assets** – Resources, properties, rights or claims against others that have future benefits. Assets belong to the church and normally have a useful life that extends beyond one year. Examples include buildings, furniture, equipment, and amounts due from others (loans).

**Audit** – An examination of the accounting records, reports, and procedures of the church by someone independent of the financial functions of the church. The audit will normally consist of a variety of tests, questions, and review procedures to determine whether all transactions have been properly recorded and summarized in reports. It may also test to see that established policies and procedures are being followed, and that they are appropriate and adequate.

**Budget** – A detailed projection of revenues and expenses for a future period of time. The budget provides a tool for measuring how actual results compare with expectations. This helps to monitor and manage the church’s resources.

**Calendar Year** – The church must select a 12-month period for the accounting year, known as a *fiscal year*. Annual reports and “closing” the books are done at the end of this period. If the church chooses the period from January 1 to December 31, records are being kept on a calendar year.

**Chart of Accounts** – A logical sequence of numbers that are used to identify and segregate the accounts of the church. Transactions in the church records are recorded by type, according to the established account numbers and titles.

**Closing** – At the end of an accounting period (usually the fiscal year), all accounts need to be “closed.” No more entries should be recorded for that fiscal year. The balances of the accounts are reported as of that last day of the period (called the *closing date*) in the financial reports. Closing balances can be handled in two ways:

- Balances in the ongoing asset and liability accounts (such as cash, mortgages, and fund accounts) are *carried forward*. This means the closing balance for these accounts becomes the opening balance for the new period.
- Balances in the receipt and disbursement accounts start over at zero for the new period, and the net amount is carried forward in the fund balance.

**Continuing Resolution** – A resolution that the church governance authority makes which continues from year to year until it is formally changed. The governance authority’s resolution regarding the housing allowance portion of the pastor’s salary should be recorded in the form of a continuing resolution.

**Designations** – Contributions and gifts that donors give for a specific purpose, project or, in special situations, person. The back of the Receipt Form from the National Office lists common designations. It is important that all gifts be used in accord with the donor’s designation, if at all possible.

**Disbursements** – The spending of funds from the church’s resources for various purposes. These should be:

- for approved purposes only
- properly recorded in the church’s records

**Endorse** – To sign or stamp the back of a check as the payee before cashing the check or transferring it to another party (including the bank). Checks should be restrictively endorsed as soon as possible. This prevents unauthorized persons from cashing or depositing the checks if they are lost or stolen. Endorsement restrictions typically state “for deposit only” and show the church’s account name and number.

**Fiscal Year** – See *Calendar Year* above.

**Fringe Benefits** – Benefits provided to the church’s pastor or employees in addition to salary. Medical insurance and life insurance are examples of fringe benefits.

**Housing Allowance** – A portion of the pastor’s salary designated to cover housing costs. This portion of the pastor’s salary is not subject to federal income tax. Specific rules apply to determine the treatment of this amount. These rules are discussed in Chapter 6.

**Imprest** – An imprest account balance does not change as funds are withdrawn or replaced. For example, an imprest petty cash fund will be established with a certain amount of cash. At any point in time, the sum of all cash and receipts for expenditures from the fund will equal the original amount. The balance on the church’s books will not change unless the amount of the fund itself is either increased or decreased.

**Income Replacement** – Insurance payments intended to replace income lost due to injury or death.

**Internal controls** – A system of procedures and policies established to safeguard the church’s assets and help insure the integrity of the records. A full discussion of various internal controls recommended for churches is included in Chapter 2.

**Invoice** – A document received from vendors or service providers that describes the amount owed to them for goods or services provided.

**Journal** – A book (or electronic file) containing information regarding financial transactions called entries.

**Liabilities** – Obligations that must be settled in the future through disbursement of funds or performance of services. Examples include mortgages, loans, and amounts due for credit purchases.

**Negotiable** – Money or a document representing money (such as a check or money order) that the *bearer* (person having it) can transfer to someone else freely, without restriction.

**Pass-through Account** – An account in which you record both revenues and expenditures. Use these when receiving designated funds, which must “pass through” in their entirety to the designated person or project.

**Petty Cash** – Small (petty) amounts of cash held to cover small expenditures. Keeping a petty cash fund is often convenient for the church and the treasurer.

**Receipts** – Two meanings:

- Funds received by the church
- A form given to a donor as evidence of his or her contribution

**Reconciliation** – The process of identifying all items causing a difference between two balances that should agree once the differences are accounted for. For example, the balance shown in the checkbook or a bank account usually will not agree with the balance shown on the monthly bank statement. This is because the bank may have recorded transactions that have not yet been recorded in the checkbook (interest accrued or a charge for printing checks). The opposite may also occur (outstanding checks the bank has not yet processed). Once all items are added and subtracted from one of the balances to account for all the differences, the balances should be equal. Missing items or unidentified differences must be followed up. The process is known as “reconciliation.” (Reconciliation is discussed in Chapter 5.)

**Remittance form** – The form that accompanies the funds the church sends (remits) to the National Office each month. The form identifies how the most recent contributions were designated and leaves room for additional designations for the next remittance to the National Office. A new remittance form is attached to your receipt from the National Office, to be used the next time funds are sent in. (Remittance forms are discussed in Chapter 4).

**Running balance** – Continuation of the balance in a particular account or category. The balance is kept “running” by adding the current period activity to the balance at the end of the previous period.

**Signing authority** – Authority given by the church governance authority or district to persons in the church (such as the treasurer) to sign checks or other important documents.

**Tax-deductible** – The Internal Revenue Service and state taxing authorities allow taxpayers to deduct certain contributions from their income when determining the amount of taxes that the

person must pay. The taxpayers must substantiate tax deductions. Therefore, the church should give contributors receipts so they can justify their deductions. Also you must distinguish between those contributions that are tax-deductible and from those that are not deductible (such as a personal gift for a missionary). Tax-exempt status is discussed in Chapter 1, and the issuance of receipts in Chapter 3.

**Transfer** – From time to time, it may be necessary to transfer funds from one fund or bank account to another. These transfers need to be recorded in the appropriate records and report them in the Condensed Monthly (or Annual) Financial Report.

**Vendor** – A person or company which provides goods or services for payment.