

GLOSSARY OF TERMS

Accounting: System for keeping track of the financial status of an organization and the financial results of its activities.

Accrual Basis Accounting: Records revenue and the related assets when they are earned. Expenses are recorded when they are incurred, even though they have not been paid.

Accounting Controls: Methods of procedures for the authorization of transactions, safe guarding of assets, and accuracy of accounting records.

Accounting Cycle: Period of time when cash is spent to acquire resources to provide services until cash is received in payment for the services provided.

Accounts Payable: Amounts owed to suppliers.

Accounts Receivable: Money owed to the organization or individual in exchange for goods and services it has provided.

Accrual basis: An accounting system that records revenues in the year in which they become earned (whether received or not) and the expenses in the year that resources are used.

Activities, Statement of: Financial statements that reports the results of operations over a period of time (revenues and expenses), as well as other changes in the net assets of the organization.

Allocations: Subdivisions of an *appropriation* into more detailed categories, such as *responsibility centers*, programs or *objects of expenditure*. Sometimes, spending is further broken down in *allotments*.

Allotments: A system that allocates budget resources to specific time periods or for use only after a certain event occurs.

Allowances: Discounts from the amount normally charged for services. These discounts are sometimes negotiated (e.g., with health maintenance organizations) and other times mandated by law (e.g., Medicare and Medicaid).

Assets: Valuable resources. They may be either physical, having substance and form such as a table or building, or intangible, such as the reputation the organization has gained for providing high-quality services.

Audit: Examination of the financial records of the organization to discover material errors, evaluate the internal control system, or determine if financial statements have been prepared in accordance with *Generally Accepted Accounting Principles (GAAP)*.

Audited Financial Statements: Financial statements that have been examined by a Certified Public Accountant, who issues an opinion letter, called the **auditor's report**.

Auditor's report: Letter from a Certified Public Accountant providing an expert opinion about whether the financial statements provide a fair representation of the organization's financial position and results of its operation in accordance with **Generally Accepted Accounting Principles (GAAP)**.

Audit Trail: Evidence on file so that an auditor's question about a transaction can be resolved by examining the underlying source documents.

Balance Sheet: Another name for the Statement of Financial Position. This report indicates the financial position of the organization at a specific point in time.

Board-designated funds: Resources that the board has decided to devote to a specific purpose. If board-designated resources are needed for other purposes, the board can remove the restriction. Treated as being unrestricted for external reporting; sometimes called board-restricted.

Board of Directors (Trustees): Governing body that has the ultimate responsibility for the decisions made by the organization.

Budget: A plan that provides a formal, quantitative expression of management's plans and intentions or expectations.

Capital Assets: Buildings or equipment with useful lives extending beyond the year in which they are purchased or put into service; also referred to as long-term investments, capital items, capital investments, or capital acquisitions.

Capital Budget: Plan for the acquisition of building and equipment that will be used by the organization in one or more years beyond the year of acquisition. A minimum dollar cutoff must be exceeded for an item to be included in the capital budget.

Capital Equipment: Equipment with an expected life beyond the year of purchase. Such equipment must generally be included in the capital budget.

Cash: Money on hand, plus cash equivalents.

Cash Basis of Accounting: Records revenue only when cash is received. Expenses are recorded only when they are paid.

Cash Equivalents: Savings and checking accounts and short term certificates of deposit; items that are quickly and easily convertible into cash.

Cash Flow Statement: Statement that examines the organization's sources and uses of cash.

Cash Management: Active process of planning for borrowing and repayment of cash or investing excess cash on hand.

Computerized Accounting System: Accounting software and a personal computer (or more advanced computer equipment) are used to process transaction data and print out reports, including financial statements.

Chart of Accounts: Attaches an account number to each ledger account, which is clearly defined as to type as an asset, liability, net asset, revenue or expense.

Contribution: An unconditional nonreciprocal transfer of an asset or cancellation of a liability to a not-for-profit organization

Cost: Amount spent on something. Costs have two stages; acquisition or unexpired cost and expired cost. When some asset or service is purchased, the price is considered to be the **acquisition cost**. If the item is an asset, the portion that has not been consumed will appear on the balance sheet at its unexpired cost. AS the asset is used up, it becomes an **expired cost**, or an expense.

Cost Allocation: the process of taking costs fro one area of **cost objective** and allocating them to others.

Current Assets: Resources the organization has that either are cash or can be converted to cash within one year or that will be used up within one year. Current assets are often referred to as short-term or near-term assets.

Current Liabilities: Those obligations that are expected to be paid within one year.

Debit: Bookkeeping term for an increase in an item on the left side of the fundamental equation of accounting or decrease in an item on the right side.

Deficit: The excess of spending over receipts; excess of expenses over revenues. This term sometimes is used to refer to the current year or budgeted year and sometimes to an amount that has been accumulated over a period of years.

Direct Costs: (a) Costs incurred within the organizational unit for which the manager has responsibility that are referred to as direct costs of the unit; (b) Costs of resources used for direct provision of good or services are referred to as the direct costs of those good and services.

Donor-restricted funds: General class of **funds** that must comply with various requirements donors have placed at the time of the donation on how the donation can be used. Examples of such funds include building replacement funds, building expansion funds, endowment funds, custodial funds, and strike funds.

Depreciation Expense: The allocation of the cost of property and equipment to expense over its economic useful life.

Encumbrance: An indication that a certain amount of money has been earmarked for a particular purpose and is no longer available for other uses.

Endowment Fund: Restricted **fund** that contains permanent assets that belong to the organization and that may not be spent; only earnings may be removed from this fund under normal conditions.

Expenditure: Term used instead of expense in modified accrual systems to contrast timing of recognition from when the item is used (expenses under accrual) to when an obligation is incurred to pay for the item using current financial resources (expenditure under modified accrual).

Expenses: Outflow of assets to acquire goods and services to operate the organization. Expenses are measured at cost.

Expense Accrual: Term used to distinguish the **accrual basis** of accounting from the governmental **modified accrual** basis of accounting.

Financial Statements: Reports that convey information about the organization's financial position and results of its activities.

Financial Statement Analysis: Analysis of the profitability and viability of an organization by reviewing financial statements, including their accompanying notes and the auditor's report; performing *ratio analysis*; and using comparative data.

Fiscal Year: One-year period defined for financial purposes. A fiscal year may start any point during the calendar year and finishes one year later. For example, "fiscal year 2006 with a June 30 year-end" refers to the period from July 1, 2005, through June 30, 2006.

Fixed Assets: Those assets that will not be used up or converted to cash within one year; sometimes referred to as long-term assets.

Full cost: Total of all costs associated with an organizational unit or activity, including both direct and indirect costs.

Fund: An accounting entity with its own separate set of financial records for recording and reporting assets, liabilities, fund balance (owner's equity), and changes in fund balance.

Fund Raising Expense: Incurred in an organization's efforts to raise money.

Generally Accepted Accounting Principles (GAAP): Set of rules that must be followed for the organization's financial statements to be deemed a fair presentation of the organization's financial position and results of operation.

Governmental Accounting Standards Board (GASB): Authoritative body that develops governmental *Generally Accepted Accounting Principles (GAAP)*.

General Ledger Account: Accumulated transaction data for each type of asset, liability, revenue or expense.

Income: Excess of revenues over expenses for a specific period of time. Also called the change in net assets.

Indirect costs: (a) Costs assigned to an organizational unit from elsewhere in the organization are indirect cost for the unit; (b) Costs within a unit that are not incurred for direct provision of goods or services are indirect costs of those goods and services.

Infrastructure: Stationary assets with extremely long lifetimes, including bridges, tunnels, dams, roads and similar assets.

Internal Control: A system of accounting checks and balances designed to minimize both clerical errors and the possibility of fraud or embezzlement; the process and systems that ensure that decisions made in the organization are appropriate and receive appropriate authorization. Requires a system of accounting and administrative controls.

Journal: Where transactions are initially recorded.

Liabilities: Legal financial obligations the organization has to outsiders. Essentially, money that an organization owes to someone.

Liquid assets: Cash or other assets that can quickly be converted to cash to meet the short-term liabilities of the organization.

Management and General Expenses: Incurred for the overall direction of the organization, general record keeping, business management, board activities and related purposes.

Management Letter: Letter from a certified public accountant to the management of the organization discussing weaknesses in the internal control system that were revealed as part of an audit.

Materiality: The accounting concept that small errors that do not make a difference can be ignored. The auditor makes a judgment about whether something is material.

Mission Statement: Statement of purpose or reason for existence of an organization, department, or unit. This statement provides direction regarding the types of activities that the organization should undertake.

Net Assets: The equivalent of owner's equity in a not-for-profit or governmental organization; assets less liabilities.

Not-for-profit (NFP) organization: An entity that (a) gets contributions from providers who do not expect an equal return, (b) has goals other than providing goods and services for a profit, and (c) has an absence of ownership interest.

Operating Budget: Plan for the day-in and day-out operating revenues and expenses of the organization. It is generally prepared for one year.

Opinion Letter: Letter from a Certified Public Accountant to users of the organization's audited financial statements providing the accountant's expert opinion as to whether the financial

statements are a fair presentation of the financial position and results of operations of the organization, in accordance with Generally Accepted Accounting Principles.

Overhead: Indirect costs allocated to a unit or department from elsewhere in the organization.

Overhead rate: The cost base divided into the cost pool.

Permanently Restricted Net Assets: Net assets that must be maintained in perpetuity due to donor-imposed restrictions.

Program Service Expenses: Incurred in an organization's program efforts.

Property and Equipment: Include land, building and equipment. Property and equipment have economic useful lives that exceed one year. Some leased assets qualify as property and equipment. Depreciation expense is recorded on property and equipment, except land.

Recognition: The point at which a financial event is considered to have occurred and can be recorded in the financial records of the entity. The time of recognition differs under the cash and accrual bases of accounting.

Reconcile: To identify the items that cause two amounts to be different. A bank reconciliation identifies the items that cause the bank's balance to differ from the balance on the books.

Restricted Funds: Funds whose assets are limited as to their use; if the restriction is placed by the donor, it can only be removed by the donor. However, if the assets were restricted by the board, then the restriction may be removed by the board.

Revenue: Amounts of money that the organization has received or is entitled to receive in exchange for goods or services that it has provided.

Segregation of Duties: To divide tasks within an organization so that no one single person performs all functions within an accounting cycle. (e.g. no one can authorize, receive and record a transaction within an accounting cycle.)

Statement of Activities: Statement that provides information about the revenues and expenses of the government as a whole, as well as other changes in net assets.

Statement of Financial Position: Financial report that indicates the financial position of the organization at a specific point in time; often referred to as the balance sheet.

Statement of Functional Expenses: Detailed statement reporting expenses by functional class (e.g. major groupings of program services and supporting services) and by nature (e.g. salaries, rent, or gas) in a matrix format.

Statement of Net Assets: Balance sheet presented in a format of assets less liabilities equal net assets.

Source Documents: The business documents that provide evidence of the transaction.

Tax-exempt: Organizations that are exempt from federal income taxes.

Temporarily Restricted Net Assets: Donated amounts that have donor-imposed restrictions as to when or how they are to be used.

Unrestricted Funds: Funds whose assets may be used for normal purpose; usually only the general operating fund is unrestricted.

Unrestricted Net Assets: Net assets whose use have not been restricted by donors.

Variance: Difference between the budget and the actual results.

Variance Analysis: Actual results compared with the budget, followed by investigation to determine why the variance occurred.