What every Church leader needs to know about Church Finances

FCTE 2026



What are your questions?

Resources



A little about me…

- I am not an accountant…I took a semester of accounting (101, 102, and this really cool class on how to do everything in Quick Books by using excel spreadsheets.
- I have been a pastor for almost 15 years.
- I love creating spreadsheets.

The Basic Accounting Equation

- Financial accounting is based upon the accounting equation.

Assets - Liabilities = Owners' Equity

  - This is a mathematical equation which must balance.
  - If assets total $300 and liabilities total $200, then owners' equity must be $100.

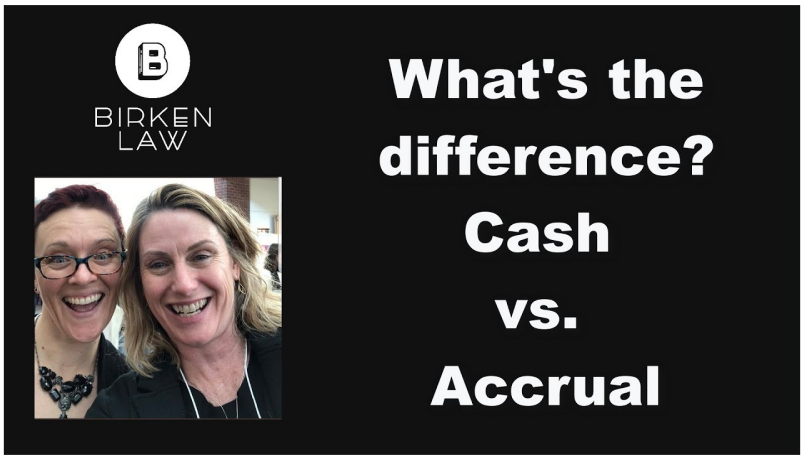
- For Nonprofits: Assets - Liabilities = Net Assets
- Assets
  - Assets are valuable resources that are owned by a firm.
    - They represent probable future economic benefits and arise as the result of past transactions or events.
- Liabilities
  - Liabilities are present obligations of the firm.
    - They are probable future sacrifices of economic benefits which arise as the result of past transactions or events.
- Owners Equity
  - Owners' equity represents the owners' residual interest in the assets of the business.
    - Residual interest is another name for owners' equity.
  - Another name for owners' equity is net assets. (Non profits)
    - Indicates that owners' equity results when liabilities are subtracted from assets.
    - Owners' Equity = Assets – Liabilities
- Both liabilities and owners' equity represent claims on the assets of a business.

In accounting, for everything you do, there is an equal and opposite reaction.

- A transaction may do one of several things:
    - It may increase both the asset side and the liabilities and owners' equity side.
    - It may decrease both the asset side and the liabilities and owners' equity side.
- Regardless of what transaction occurs, the accounting equation must be in balance after the transaction is analyzed.
- Revenues and Expenses
    - Revenues increase owners' equity.
    - Expenses decrease owners' equity.

Cash Basis Vs. Accrual Basis Accounting

	Cash Basis	Accrual Basis
Definition	Accounting method in which income is recorded as cash is received and expenses are recorded when cash is paid	Accounting method in which income is recorded when earned and expenses are recorded when incurred, regardless of cash flow
Compliance with GAAP	Does not meet GAAP requirements	Meets GAAP requirements
Advantages	Generally, an easier method for smaller entities; for entities that conduct business primarily in cash, this method sometimes provides adequate information to monitor financial condition	Provides more information regarding income and expenses of an entity; accounting for outstanding commitments and prepaid cash receipts, this method allows for more accurate measurement of net income/(loss)
Challenges	May offer a misleading financial picture if an organization has unpaid expenses, outstanding receivables and/or cash receipts that are unavailable for immediate use	Generally, more complicated and expensive method; this method still necessitates a process to monitor an entity's cash position and cash flow



Is Cash Basis better for a congregation? Not necessarily. Is Accrual Basis accounting better? No, not necessarily either.

Accural Basis Accounting is all about preparing and preparing for what is coming next. Which can be helpful but it can also be unnecessarily more complicated. Most average people do not know how to do accrual basis accounting the right way.

Revenues

- **Revenues** are inflows of assets (or reductions in liabilities) in exchange for providing goods and services to customers.
  - A retail store such as Wal-Mart earns revenues by selling goods to customers.
  - A CPA firm earns revenues by providing services such as tax return preparation or auditing.

Revenues

- Critically important point:
  - Cash need not be received in order for revenue to be recorded.
  - Revenues are earned when a company does what it is supposed to do according to a contract.

This involves accrual basis accounting. If you are expecting revenue, you still need to record that. An example in Church would be pledged. Pledges would be consider an accounts receivable. (Move to the next slide)

Revenues

- **Accounts receivable** are promises by a customer or client to pay cash in the future.

Expenses

- Expenses occur when resources are consumed in order to generate revenue.
- They are the cost of doing business.
  - Examples include rent, salaries and wages, insurance, electricity, utilities, and the like.

Expenses

- A critically important point similar to that for revenues holds true for expenses.
  - A business need not pay out cash in order to have to record that an expense has occurred.

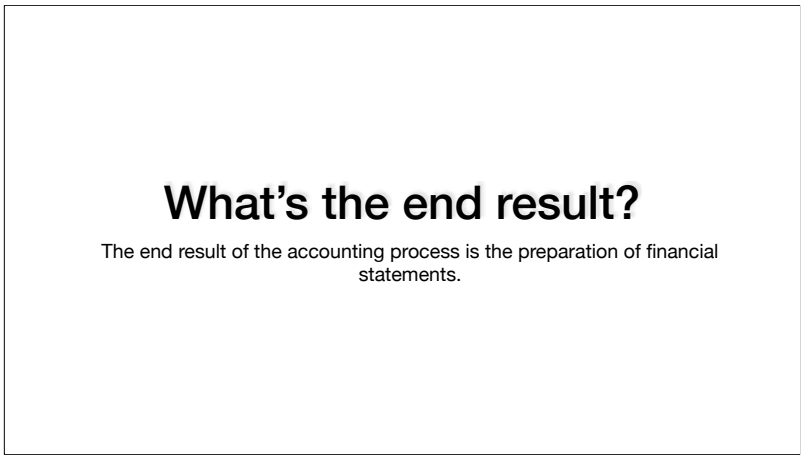
Again, accrual basis accounting.

Expenses

- A critically important point similar to that for revenues holds true for expenses.
  - If a repairman comes to the business to work on the air conditioning system, then the business has a repair expense even though that work may be charged to its account.

Expenses

- A critically important point similar to that for revenues holds true for expenses.
  - The company will have a liability which it will settle later with the payment of cash.



Financial Statements are what we are going to talk about next.

Do not make a motion to accept the treasurer's report at the council meeting. You do an audit. If you accept the treasurer report, you say you accept everything that report to be true. What if there is a mistake? What if the treasurer snuck something into the report. Don't do it. In fact, don't accept any report at a council meeting except for the minutes.

The Balance Sheet

- The balance sheet shows a firm's assets, liabilities, and owner's equity (Net Assets) at one point in time.
    - The date on the balance sheet will be a single date, such as December 31 or June 30.

Balance Sheet
January 31, 2000

Assets		Liabilities and Owners' Equity	
Cash	$ 32,500	Liabilities	
Accounts receivable	4,400	Accounts payable	$ 30,000
Prepaid rent	11,000	Unearned revenue	50
Inventory	27,800	Utilities payable	120
Equipment	27,792	Interest payable	133
Total assets	$100,492	Notes payable	20,000
		Total liabilities	50,303
		H.Jacobs, capital	50,189
		Total liabilities and owners' equity	$100,492

A balance sheet is a snap shot in time. So let's look at an example of this snap shot

Evolution of a Balance Sheet

Assets		Liabilities and Equity	
Cash	$10,000	Paid-in Capital	$10,000
Total	$10,000	Total	$10,000

Ann's Mini Mart

September 1, 2009

An Investor gives me $10,000 to start up my Mini-Mart

Evolution of a Balance Sheet

Assets		Liabilities and Equity	
Cash	$15,000	Note Payable	$5,000
		Paid-in Capital	$10,000
Total	$15,000	Total	$15,000

Ann's Mini Mart

September 2, 2009

On top of this, I borrow $5,000

Evolution of a Balance Sheet

Assets		Liabilities and Equity	
Cash	$13,000	Note Payable	$5,000
Inventory	$2,000	Paid-in Capital	$10,000
Total	$15,000	Total	$15,000

Ann's Mini Mart

September 3, 2009

I buy $2000 worth of stuff to sell

Evolution of a Balance Sheet

Assets		Liabilities and Equity	
Cash	$14,100	Note Payable	$5,000
Inventory	$1,300	Paid-in Capital	$10,000
Total	$15,400	Retained Earnings	$400
		Total	$15,400

Ann's Mini Mart

September 4, 2009

I sell merchandise for $1100 that had cost $700.

Evolution of a Balance Sheet

Assets		Liabilities and Equity	
Cash	$14,100	Accounts Payable	$2,000
Inventory	$3,300	Note Payable	$5,000
Total	$17,400	Paid-in Capital	$10,000
		Retained Earnings	$400
		Total	$17,400

Ann's Mini Mart

September 5, 2009

I buy $2000 more of inventory and agree to pay the vendor within 30 days

Evolution of a Balance Sheet

Assets		Liabilities and Equity	
Cash	$14,100	Accounts Payable	$2,000
Accounts Receivable	$900	Note Payable	$5,000
Inventory	$2,700	Paid-in Capital	$10,000
		Retained Earnings	$700
Total	$17,700	Total	$17,700

Ann's Mini Mart

September 6, 2009

I sell stuff worth $600 for $900 but the customer won't pay me for 30 days.

Evolution of a Balance Sheet

Assets		Liabilities and Equity	
Cash	$13,900	Accounts Payable	$2,000
Accounts Receivable	$900	Note Payable	$5,000
Inventory	$2,700	Paid-in Capital	$10,000
Pre-paid insurance	$200	Retained Earnings	$700
Total	$17,700	Total	$17,700

Ann's Mini Mart

September 7, 2009

I buy prepaid insurance (an asset)

Evolution of a Balance Sheet

Assets		Liabilities and Equity	
Cash	$11,900	Accounts Payable	$2,000
Accounts Receivable	$900	Note Payable	$5,000
Inventory	$2,700	Mortgage Payable	$8,000
Pre-paid insurance	$200	Paid-in Capital	$10,000
Land	$10,000	Retained Earnings	$700
Total	$25,700	Total	$25,700

Ann's Mini Mart

September 8, 2009

I buy land for a total of $10k. I pay $2k up front and have a 10 year mortgage for $8k

Evolution of a Balance Sheet

Assets		Liabilities and Equity	
Cash	$12,900	Accounts Payable	$2,000
Accounts Receivable	$900	Note Payable	$5,000
Inventory	$2,700	Mortgage Payable	$4,000
Pre-paid insurance	$200	Paid-in Capital	$10,000
Land	$5,000	Retained Earnings	$700
Total	$21,700	Total	$21,700

Ann's Mini Mart

September 9, 2009

I sell half of the land for $5k. I get $1k in cash and they take $4k of my mortgage

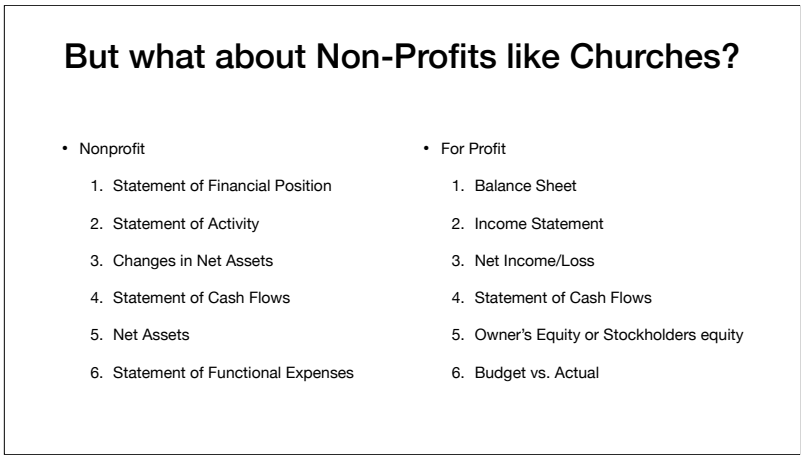
Debt is balance sheet problem. You can have all the assets in the world, but if you have debt, it affects what truly matters: your equity.

The Income Statement

- The income statement summarizes a firm's revenues and expenses for a period of time.
    - The date on the income statement will be a phrase such as, "For the month ended July 31," or "For the year ended December 31."
- If revenues exceed expenses, then the result is net income.
- If expenses exceed revenues, then the result is a net loss.
- Only revenues and expenses appear on the income statement.
    - Students sometimes think that cash is a good thing and should appear on the income statement. You don't put the cash you have in your account on a Income Statement.
        - Cash is an asset and so will appear on the balance sheet.

Income Statement
For the Month Ended January 31, 2000

Revenues		
Sales	$ 4,000	
Service	650	
Total revenue		4,650
Expenses		
Cost of goods sold	2,200	
Rent	1,000	
Salary	700	
Depreciation	208	
Interest	133	
Utilities	120	
Total expenses		4,361
Net income		$ 289



Accountants love to make and give reports. That is what they are trained to do.
Ultimately, as a leader, you need to figure out what is needed in a financial report. The financial report should not be overwhelming

- If it is overwhelming, I usually find it is for one of four reasons
    1. The treasurer is trying to hid something
    2. The past treasurer hid something so therefore the new one wants to be transparent
    3. They are an accountant and want to show off their accounting skills
    4. Are completely incompetent and just hit "print all the things" in quickbooks.

The thing that I am most interested in as a leader are:

1. Budget vs. Actual that include both Current Month and YTD for both budget and actual
2. Funds report of designated savings and restricted savings
3. Weekly offering average to meet budget Vs. Actual Average

Weekly, I also like receiving a report of the offering.

Financial Reports

Which reports are necessary? Some constitutions require certain reports…
What are you trying to accomplish with the financial reports?

What are Net Assets of a Nonprofit?

The *net assets* section of a nonprofit's statement of financial position reports totals for each of the following classifications:

1) Unrestricted net assets
2) Temporarily restricted net assets
3) Permanently restricted net assets

These classifications are based on the restrictions made *by the donors* at the time of their contributions.

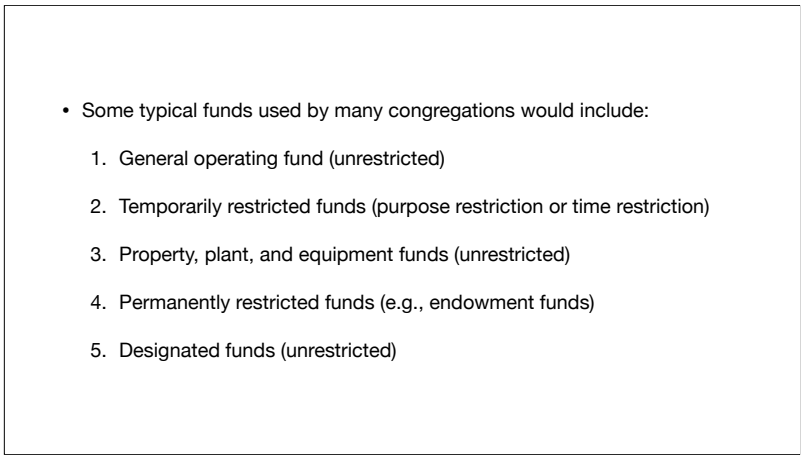
Restricted Vs. Designated

- Restricted donation: when a donor gives with a required intent for his/her donation. In other words, a donor requires that his/her donation must be used for a specific purpose and for that specific purpose only. Restricted Gifts are not tax deductible.
- Designated donation: when a donor gives and notes a desired intent for his/her donation. These are donations given with a suggested use from the donor. Designated Gifts are tax deductible with this being the difference between restricted and designated funds.
- How they are the same – Designated and Restricted Donations are the same in that churches must use the gifts/offerings as the donor intended. And, from the donor's perspective, in that regard, they are the same as well.
- How they are different – There is one difference between Designated and Restricted Donations, per the IRS, that church leadership and givers need to know. This difference has to do with who ultimately controls the use of the funds. As such, this difference impacts the deductibility of the gifts. The key difference is who has control over the donated funds. If the church has control, then they are tax-deductible. If the donor has control, they are not tax-deductible.

Why should a congregation have these kinds of funds?

Is there ever a time to not have these kinds of funds?

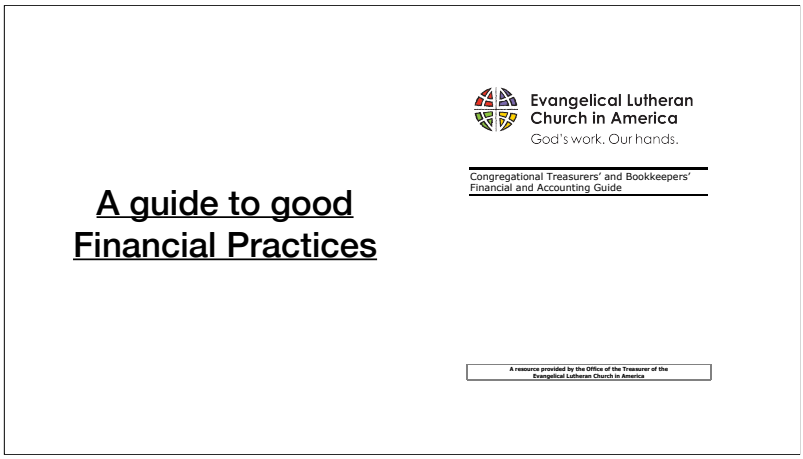
Example, Do you want to pass money from your members to NALC?



Most nonprofit organizations typically use a method of accounting known as fund accounting. Fund accounting separates assets into net asset classes based on whether there are any restrictions on the funds. Assets may be unrestricted, temporarily restricted and permanently restricted. Some organizations also have designated funds. These are designated to a certain purpose or project based on board or council action. (Designated funds may be treated separately as a fund in internal record-keeping, but are considered unrestricted for accounting purposes.) Temporarily restricted funds are those that have a purpose or time restriction. Permanently restricted funds are typically endowments. Each fund is a self-balancing group of accounts that records assets, liabilities and fund balance as well as revenues and expenses.

Types of restricted donations

- Memorial gift
- Will and Trust
- Anything with strings attached…
- Congregations don’t always have to accept all donations…



You really need to have a system in place that has backups…

- Treasurer dies while in office…
    - You still need to get paid and so do the vendors
- Treasurer is arrested
- Treasurer just quits…

Suggested steps in safeguarding offerings and deposits

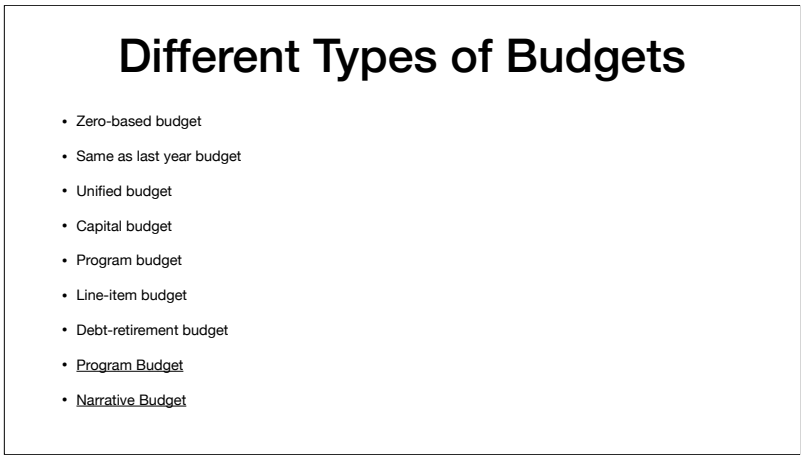
1. Immediately following the service, two people carry the contents of the offering plates to a secure room for counting or placing in an adequate safe for counting the following day. Church funds or offerings should never be taken to a private residence for counting.
2. The envelopes are immediately opened by at least two people. Envelopes are marked as to intent and purpose if for other than undesignated offerings.
3. Balances between envelope totals and cash and check totals are reconciled.
4. A summary report outlining the various accounts income is to be credited to must be prepared and initialed by at least two people.
5. A deposit slip is prepared and the deposit taken to the bank promptly.
6. Copies of the deposit slip and the summary report are given to the treasurer and to the financial secretary.
7. Individuals responsible for handling offerings and deposits should be rotated periodically. It is best if the treasurer and the financial secretary are not personally involved in the process.
8. The term of office served by the treasurer should be limited to a specific period of time. The successor to the treasurer should not be from individuals of the same family nor should this office be rotated between the same individuals serving as financial secretary and treasurer.
9. There should be clear segregation of duties and the people involved in handling income should not be involved in handling of expenditures.
10. Funds collected from other activities (fundraisers, special events, etc.) should be directed to those responsible for recording and making bank deposits of these funds. Copies of the deposit slip and summary report are given to the treasurer and financial secretary.
11. Members should be encouraged to make their offering by check or electronic payments, not cash.
12. Congregations should send out quarterly giving reports.

Click to zoom in



The person who signs off on the Bank Reconciliation does not need to agree with how the money is spent, but needs to say that it was all done correctly and as directed by the council.

This can be the head of the finance committee but they are not typically elected by the congregation. Council members are elected. Most congregations have insurance on Council Members.



The budget may be one of the following types:

Zero-based budget

This budget starts at zero, and every item that is presented for inclusion in the budget must be justified as to its need and the benefit it provides. This type of budget typically requires more effort to produce but also forces an in-depth look at every budget line item.

Same as last year budget

This budget starts with last year's budget and adds percentage increases or makes minor adjustments for the next year. This is the type of budgeting done by most congregations, because it is fairly easy to put together. Unfortunately, using a "Same as last year budget" tends to preserve the status quo and can be an obstacle to vision and development.

Unified budget

A unified budget pulls together all of the congregation's receipts and disbursements into one budget. Included in this one budget would be anticipated receipts and disbursements of each church group which previously may have had their own budget and even their own bank account. These might include the youth group, the women's group and the construction budget.

Capital budget

A capital budget provides for the addition of capital items such as office equipment, furniture and fixtures, land and construction. In the event of a construction project, a capital budget may extend for a period of longer than one year. It normally is developed for the life of the project.

Program budget

A program budget is a way of presenting the budget that puts all expenditures into various

program categories, e.g., worship, learning, outreach, etc. Salaries can also be prorated into each program category. A program budget can be an effective communication and planning tool. It can show ministry emphasis more clearly than a line-item budget.

Line-item budget

A line-item budget groups individual items under categories and further lists each item that makes up that category. An advantage of the line-item budget is that it provides a systemic step by step mechanism for formulating the budget but it should be noted that a listing of every line item is not effective in communicating the overall plan or mission of the congregation.

Debt-retirement budget

A debt-retirement budget is a special budget that lists all of the funds and use of these funds needed to pay off indebtedness.

A Church Credit Card

Not every church needs one or wants one

- But you need to be reimbursed for things you buy on behalf of the congregation.

What do you do?

- Save your receipts and turn them in at the end of the month.
    - Be sure you fill out a expense report and keep a copy for your records.
- You could take out a credit card in your name that you use just for church purchases.
    - You still need to save receipts and turn them in
    - But you are ultimately responsible for the bill being paid.
        - And if your treasurer is a turd…

If you do have a church Credit Card, there should be a written policy about how it is to be used.

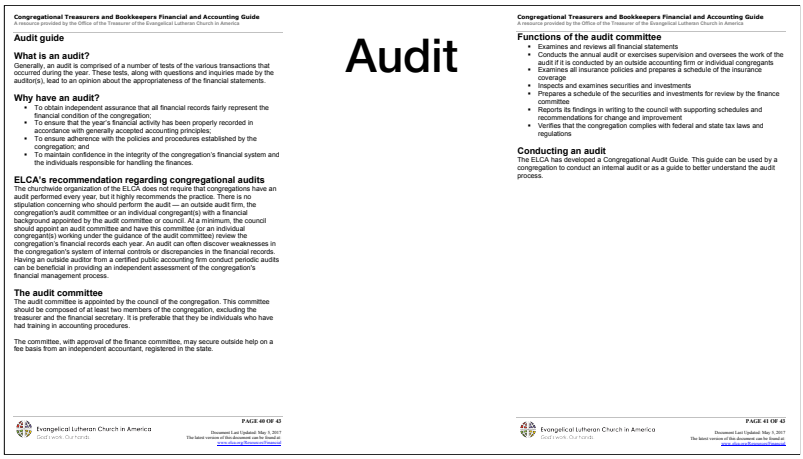
Payroll

You need to get a W2 at the end of the year. I don't care what your treasurer says, its the law.

Quicken can do it, but I suggest getting a payroll company.

This is really easy to screw up.

Payroll companies know what they are doing.



Congregational Treasurers and Bookkeepers Financial and Accounting Guide
A resource provided by the Office of the Treasurer of the Evangelical Lutheran Church in America

Audit guide

What is an audit?

Generally, an audit is comprised of a number of tests of the various transactions that occurred during the year. These tests, along with questions and inquiries made by the auditor(s), lead to an opinion about the appropriateness of the financial statements.

Why have an audit?

- To obtain independent assurance that all financial records fairly represent the financial condition of the congregation;
- To ensure that the year's financial activity has been properly recorded in accordance with generally accepted accounting principles;
- To ensure adherence with the policies and procedures established by the congregation; and
- To maintain confidence in the integrity of the congregation's financial system and the individuals responsible for handling the finances.

ELCA's recommendation regarding congregational audits

The churchwide organization of the ELCA does not require that congregations have an audit performed every year, but it highly recommends the practice. There is no stipulation concerning who should perform the audit — an outside audit firm, the congregation's audit committee or an individual congregant(s) with a financial background appointed by the audit committee or council. At a minimum, the council should appoint an audit committee and have this committee (or an individual congregant(s) working under the guidance of the audit committee) review the congregation's financial records each year. An audit can often discover weaknesses in the congregation's system of internal controls or discrepancies in the financial records. Having an outside auditor from a certified public accounting firm conduct periodic audits can be beneficial in providing an independent assessment of the congregation's financial management process.

The audit committee

The audit committee is appointed by the council of the congregation. This committee should be composed of at least two members of the congregation, excluding the treasurer and the financial secretary. It is preferable that they be individuals who have had training in accounting procedures.

The committee, with approval of the finance committee, may secure outside help on a fee basis from an independent accountant, registered in the state.

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Document Last Updated: May 3, 2017
The latest version of this document can be found at:
www.elca.org/Resources/Financial

Audit

Congregational Treasurers and Bookkeepers Financial and Accounting Guide
A resource provided by the Office of the Treasurer of the Evangelical Lutheran Church in America

Functions of the audit committee

- Examines and reviews all financial statements
- Conducts the annual audit or exercises supervision and oversees the work of the audit if it is conducted by an outside accounting firm or individual congregants
- Examines all insurance policies and prepares a schedule of the insurance coverage
- Inspects and examines securities and investments
- Prepares a schedule of the securities and investments for review by the finance committee
- Reports its findings in writing to the council with supporting schedules and recommendations for change and improvement
- Verifies that the congregation complies with federal and state tax laws and regulations

Conducting an audit

The ELCA has developed a Congregational Audit Guide. This guide can be used by a congregation to conduct an internal audit or as a guide to better understand the audit process.

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Document Last Updated: May 3, 2017
The latest version of this document can be found at:
www.elca.org/Resources/Financial

Two different kinds of audit:

• Continuous Audit (or Full-Scope Audit): This approach looks at every consecutive month or period throughout the entire year. The auditor reviews records on an ongoing, unbroken basis to ensure complete and seamless oversight.

- Periodic Audit (or Block / Sampling Audit): This method selects random or specific months to test. Instead of looking at the whole year line-by-line, the auditor uses statistical sampling to pull random data blocks (like auditing just March, August, and October) to draw an accurate conclusion about the organization's overall financial health.

Does your congregation need to use an outside firm?

The ELCA recommends any congregation/ministry with receipts over 400,000 a year to get an outside audit….

That is expensive. Consider a Financial Review instead…

What if there were a group of financial people from local lutheran congregations that traveled around to do audits?

Audit Resources

- Synod Form
- ELCA Guide to an Audit
- Congregational Treasurers' and Bookkeepers' Financial and Accounting Guide

To Recap…

https://cdn.elca.org/cdn/wp-content/uploads/Financial_Best_Practices_For_Congregations.pdf

Separation of Financial Duties

- Keep **written policies and procedures** for key responsibilities (not person-specific, but duty-specific)
- Avoid **conflicts of interest**
- Responsibilities for **handling/recording church income** should be separated from handling disbursements
- An individual not otherwise directly involved in banking activities should **reconcile the bank account**
- Suggested responsibilities for a person other than the treasurer:
  - Overseeing counting and recording offerings
  - Depositing receipts
  - Reporting income/gifts from individuals

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Handling expenditures

- **Avoid sales tax** by requiring use of exemption letter
- Use standard **vouchers** or expense forms
- Require **written approval/support** for payment (including original invoices, receipts, etc.)
- **Checks should be prepared by someone other** than those with authority to approve expenditures
- Keep **authorized check signatures** on file at the bank; dual signatures recommended
- **Secure blank checks** at the church
- **Consider electronic billing and payments** if have appropriate security and access
- **Credit cards** might be appropriate for a limited number of individuals
- **Petty cash** should be safeguarded and counted regularly

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Designated and restricted gifts

- Acknowledge gift purpose on **gift receipt**
- **Separate accounting** and/or tracking in the accounting system from undesignated gifts
- Maintain a **sufficient bank balance** to cover designated/restricted funds
- **Honor donor intent**
  - Congregation has the right to refuse any gift, including if it believes donor intent cannot be honored
  - Create and communicate a general policy for circumstances when purpose can't be fulfilled
- **Grant** accountability and reporting; unused or misused funds might be subject to return of funds to grantor

Accounting System/ Financial Reporting

- Choose the **basis for accounting**: cash basis, accrual basis, modified accrual
- **Utilize accounting software** whenever possible
  - Dual entry bookkeeping
  - Fund accounting
- Provide **regular reporting** to church council
  - Balance Sheet
  - Statement of Revenue and Expenses
  - Statement of Cash Flows (sometimes excluded)
  - Other Management Reports, as requested
- Establish a **records retention** policy and process
- Conduct internal **audits** annually and external audits, if desired

Interpreting your Stewardship Data

Servant Keeper is great but a lot of these databases tell data in real time. Historical data can be skewed. How do you know how far you have come and where you going? Sometimes, you need to pull these reports and save the data.

Trends in giving. Sometimes some one stops giving because:

- They lost their job
- They are upset
- Etc

Is there something in place to let you know when these things happen?

- Does the financial recording secretary tell you when they notice something?
- Is there a way to automatically generate a notification if giving changes?

Trend reports are better indicators and predictors of income than pledge drives.

Pledge drives help encourage people to give but rarely help a congregation plan a budget.

Should the pastor know what people are giving?

Stewardship is often driven by the heart and not by the data.

Questions about your current church's practices?