

Financial Health and Transparency for Your Church

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Best Practices

- Budgeting
- Accounting System
- Staffing
- Financial Reporting
- Internal Controls



Budgeting

Resource Allocation

- No organization has an infinite supply of resources
- Accounting and accountability are both important
- My soap box... make it yours!

Planning

- Relates to overall objectives of the church
- Should be done before budgeting
- What is the driving goal?
- List the five main goals and objectives of your church in descending priority order

Keys to Proper Planning

- Identify needs
- Stating goals – overall intent and direction
- Stating objectives
- Being specific
- Establishing priorities – what if you can't do it all?
- Being able to evaluate progress
- Consider short-term and long-term

Long-range Planning

- Think beyond one year
- Consider the growth or decline of your neighborhood
- Philosophically, where do you want to go?
- Corporately, do you have what you need?

Master Plan

- Five-year, continuous plan
- Identify...
 - Different needs for the future from now
 - What goals, objectives, and programs might be needed
 - Anticipated sources of income to meet the needs
- Should simplify the budget process

Budgeting Directions

- Top-down
 - Pros – efficient
 - Cons – lack of ownership by others
- Bottom-up
 - Pros – buy-in and more realistic
 - Cons – time-consuming and difficult to administer

Budget Approaches

- Incremental budgeting
- Traditional – last year + expected changes
- Ex: 100 VBS students * \$30 = \$3,000
125 VBS students * \$40 = \$5,000
- Pros – easy
- Cons – doesn't challenge what's been done, focuses on costs – not objectives

Budget Approaches

- Program budgeting
- Budgets by program, not natural expenses
- Requires the church to identify each program/activity and the needs it serves
- Pros – better understand programs, lends to cost/benefit analysis, provides clarity for members
- Cons – time-consuming

Budget Timeline

- Year-round process
- Consider a 6-month process
 - 1st six months of monitoring
 - 2nd six months to plan and budget
- Takes time because of multiple departments and lack of focused time (i.e. volunteers, finance committee meetings)

Other Types of Budgets

- Monthly cash budget
- Capital spending budget
- Debt retirement budget

Budgeting for Churches

Keys to success

- Be flexible
- Be realistic
- Budgets are tools
- Budgets allow the leadership to keep a finger on the pulse



Accounting System

Accounting System Goals

- Accountability
- Accuracy
 - Decisions are made based on this information
 - If you don't have time to do it once, you certainly don't have time to do it twice or more
- Timeliness
 - Late information is the same as no information
 - Your credibility is based as much on timing as accuracy

Goals, continued

- Efficiency
 - Staffing is limited and must be utilized well
 - Efficiency impacts the administrative departments as well as each ministry area
- Support
 - The more the administrative role is seen as a support to the ministry roles, the better information and cooperation you will receive

Software and Reporting

- Learn your software and make it work for you
 - Attend classes
 - Read the manual
 - Ask technical support
- Use the software's capabilities
- Church accounting software verses commercial accounting software (Quickbooks)

Software and Reporting, continued

- Common mistakes
 - Income and expenses through the same accounts
 - Having a significant number of income and expense accounts rather than using departmental features
 - Producing two or three “canned” reports rather than customizing
 - Using liability accounts for funds
 - Using spreadsheets

Software and Reporting, continued

- Suggestions
 - Network with other users
 - Determine the needs and desires of stakeholders
 - Evaluate how thoroughly you are using the software
 - Periodically review the software's effectiveness as it relates to your church



Staffing

Staffing

- Assess the accounting needs
 - Ongoing (contributions, accounts payable, payroll, investments, inventory, fixed assets)
 - Projects (budgets, control documentation)
- Determine if you have the right person on board. (Be careful. Nonprofit accounting is very different from commercial accounting.)
- Determine if you have enough people to accomplish the tasks without burnout

Staffing, continued

- Review if there are additional complexities
 - Multi-site
 - Endowments
 - Investments (alternative investments)
 - Inventories
 - Fixed asset accounting
 - For-profit activities



Financial Reporting

Helpful Board Reports

- Balance Sheet
- Income Statement
 - Actual-to-budget
 - By department
- Cash Projection
- Cash Management Report
- Pledge Status

Helpful Leadership Reports

- Department Budget-to-Actual
 - Who's accountable and who's responsible for monitoring?
- Overall Budget-to-Actual
- Cash Projection
- Cash Management Report

Helpful Congregation Reports

- Depends on Church Structure
 - Annual Meeting
 - Audit report or annual income and expense statement as well as a balance sheet
 - Budget with explanations
 - Building or pledge campaign update
 - Include donor-restricted activity

Helpful Congregation Reports

- Quarterly Meeting
 - Budget-to-actual report
 - Building/pledge update
- No Meetings – board or management driven
 - Audit report
 - Bulletin update of budget-to-actual
 - Building/pledge campaign update

Communication Tips

- Information provided
 - Timely
 - Relevant
 - Accurate
- Receive and solicit helpful feedback
- Anticipate the needs of the group
- Be receptive to their information desires

Communication Tips

- Use graphics
- Don't overwhelm
- Researching is better than guessing
- Don't assume you know what they want
- Bring solutions, not just problems

Dashboard Reports

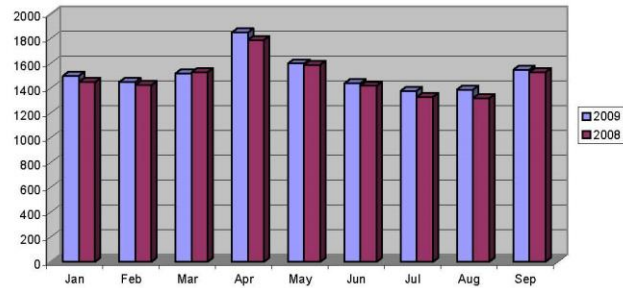
- What are you trying to measure???
- Graphical
- Include trends
- Include benchmarks
- Not cluttered
- Succinct
- Information desired by the board or committee

ABC Church

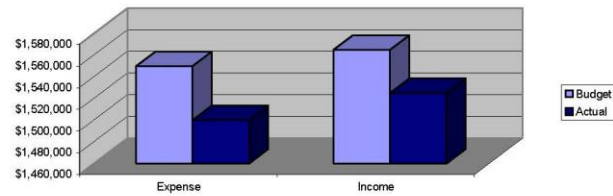
September Dashboard Report

Cash	\$335,000
Less A/P and Other	-75,000
Less Temp Restricted	<u>-150,000</u>
Cash Available	\$110,000

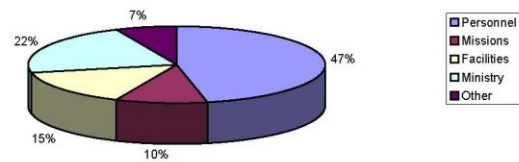
Average Attendance by Month



Income and Expense to Budget



Expenses



Ratios – Income Ratios

- Net income ratio – amount of net income as compared to total unrestricted revenue
- Contributions per attendee – this information is a good trend to watch (or use giving units)
- Unrestricted giving per FTE – when compared to other churches, this provides you an idea of appropriate staffing levels based on the budget

Ratios – Expense Ratios

- Salaries and benefits as a percentage of income and/or expense – good comparison with other churches to determine appropriateness of compensation
- Missions as a percentage of total expense
- Facilities as a percentage of total expense
- Expenses per average attendee – what is the total cost per person in your church?



Internal Control Risks and Responses for Churches

Purpose and Objectives

- Protect employees
- Protect the assets and reputation of the church
- Provide reliable financial information
- Detect dishonest acts
- Detect honest errors

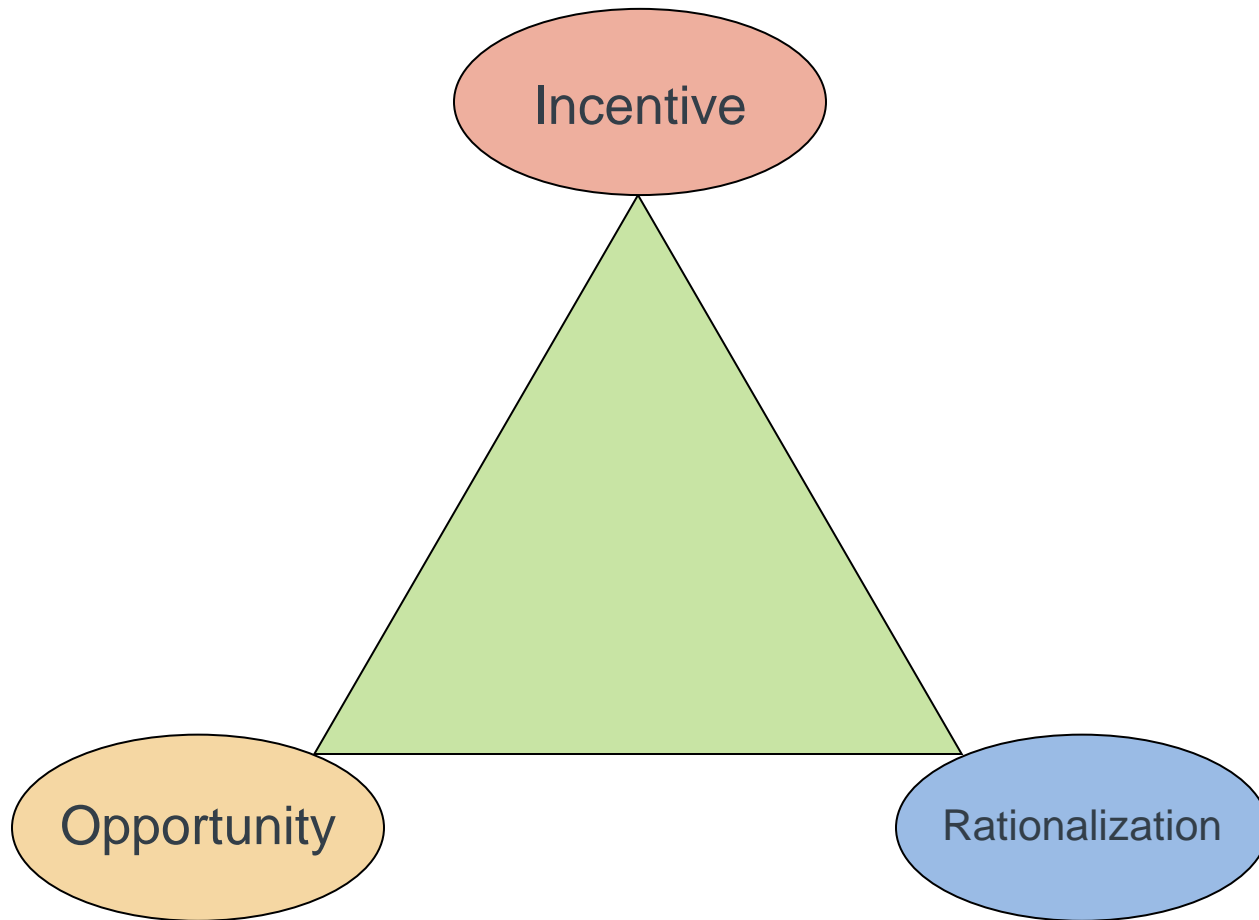
Control Problems in the Church

- Separation of duties
 - Authorization of transactions
 - Recording of transactions
 - Custody of assets
- Organizational structure
 - Job descriptions
 - Volunteers need supervision and structure

Control Problems in the Church, continued

- Qualified Personnel
 - Pity hiring/retention
 - Churches are a different kind of accounting
 - Pay structure
 - Training
- Accounting procedures manual
- Limited time and staff
- Lack of monitoring
- Trust

Fraud Triangle



Control Practices

Cash Receipts



Control Practices

Cash Disbursements



Control Practices

Payroll



Commitment to Change

What one thing will you take away
from here today????


Resources

- *Church and Nonprofit Tax and Financial Guide* published by Zondervan 2015
- *Ministers Tax and Financial Guide* published by Zondervan 2015
- www.ecfa.org
- www.nacba.net
- <http://store.churchlawtodaystore.com>

Thank You for Attending!

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