Introduction to Non-Profit Accounting

When congregation council members think about financial recordkeeping, it seems to be either with passion or indifference. The passionate sometimes confuse financial soundness with mission, while the indifferent abrogate their responsibility for sound and responsible management. Neither is appropriate.

A sound financial records and reporting system provides these important contributions:

- Planning – support for mid and long term planning of mission and ministry. This is probably the most neglected use of financial information, particularly for planning for benevolence receipts.
- Monitoring – the ability to reveal trends and risks to the financial health of the organization before a risk becomes a crisis.
- Managing – the ability to provide a partial measure of where our resources are being used, how much, and how wisely so the organization can make short-term adjustments in activities.
- Accounting and Responsibility – the ability to accurately report to the congregation members on the sound and responsible use of funds entrusted to the congregation. Accuracy is not simply a matter of arithmetic, but also is affected by the chart of accounts and the integrity of the financial processes.

Non-profit accounting uses many common-experience words as technical terms. Examples include *fund* and *restricted.* Section 1 reviews some of the terms you will encounter either on reports or in discussions of congregational finances. Once we know what the language means, we then need a basic understanding of how finance reports are produced before we can begin to understand what they mean. Section 2 provides a brief review of these processes. The financial documents or reports reviewed at Congregation Council meetings are described in Section 3. Finally, reports are nice, understood reports are better, but what do we do with them? Section 4 reviews how financial information can be used in support of planning and how planning can help interpret the month by month financial reports.

1. Basic Terms

Congregations are non-profit corporations and must use non-profit accounting rules. These differ significantly from the for-profit world and require the use of different accounting systems and methods. There are several key terms.

1.1 Funds

The most basic technical term is that non-profits have a variety of *funds* that each need distinct accounting. In non-accountant, informal speech, we think of a fund as a pool of money. In non-profit accounting, this word has a particular meaning that is quite different:

> A fund is a fiscal entity with a set of self-balancing accounts that enable it to segregate its resources for specific activities and objectives and that provide a record of the financial activities, budget reports, and financial statements for the entity[1].

[1] C.William Garner, "Accounting and Budgeting in Public and Nonprofit Organizations", San Francisco, Jossey-Bass, 1991 p 21

In less formal language, a fund is a collection of monies with restrictions imposed on its use. Typically, a general or operating fund records the receipt and use of monies that have no restrictions on their use. In principle, for each set of restrictions on monies, a non-profit accounting system has a separate fund. In practice, one or two umbrella funds hold a number of different sub-funds with similar types of restrictions to simplify the reporting.

Because of this technical use of the word *funds*, non-profits are said to do *fund accounting*. In recent years, the Federal Accounting Standards Board has permitted non-profits to provide end-of-year reports that are called *net asset* reports instead of the more traditional fund-based reports. This net asset reporting method is not usually as useful to Congregation Councils as the fund-based reporting method though it is permissible.

1.2 External Asset Accounts

If funds segregate monies according to the nature of restrictions imposed upon the use of those monies or assets, bank accounts or, more generally *external asset accou*nts segregate assets according to their financial nature. (Confusingly, the word *account* also means a category in the financial system into which a similar set of (e.g.) expenses or revenues is gathered for reporting purposes.) For example, a savings account is an external asset that is very safe, reasonably liquid (i.e. it is easy to move money out or in) and provides little interest or returns. Stock accounts hold publicly traded securities, while other asset accounts may hold the value of real property.

The number, and variety of external asset accounts are chosen to manage risk for the organization. External asset accounts are used to manage risk and liquidity, while funds are to administer resources to specific purposes.

> Note: Unless a restriction requires it (e.g. some types of endowments) it is not good practice to require external asset accounts be dedicated to specific funds.

1.3 Accrual and Cash Accounting

The financial system must decide when to record on the books of the congregation a value received or an expenditure made. If the revenue or expense is recorded when it is deposited in the bank or when a check is written, this is called *cash* accounting. Almost all congregations use this method.

A method that is generally acknowledged to provide more accurate results, called *accrual* accounting, records revenue when it is 'earned' and expenses when they are committed. For example, in a for-profit business revenue would be recorded when a sale is made, even if it was a credit purchase, and expenses would be recorded when the purchase commitment was made, before delivery and payment for the item.

Though accrual accounting is more accurate, it is more work. If an organization has little revenue that is legally committed but not yet delivered (which is true for most congregations) and if it does not have a lot of unpaid bills, it is rarely worth the extra effort to do accrual accounting.

Though the distinction is important, and though an accounting system should be either *cash* or *accrual* based, it is a rare organization that does 'pure' cash accounting. For example, the value of stocks is usually recorded on the books as the market value even though they were not actually sold. For a purist, this is an accrual method, but most cash–

based systems find it helpful to track the value of a security even though it was not converted to currency. Other assets that may be valued by an accrual method in a primarily cash system are the value of real property.

1.4 Credit and Debit

These technical accounting terms are more necessary for the finance people than for the average reader of reports. The terms will appear on reports however, so we need to understand them. A Credit is a transaction that increases the asset value of a corporation, so a credit to a revenue account raises our bank balance. A debit is the opposite, as a debit transaction decreases our bank balance. There are technical cases (such as for asset accounts) where this simple definition does not hold, so ask your treasurer or accountant if you get confused.

1.5 Chart of accounts

The chart of accounts is the roadmap of the accounting system. It defines the categories for collecting similar assets, revenues, etc. together. (Remember that these categories in the accounting system, i.e. accounts, are distinct from external asset accounts like a bank account.) The chart of accounts should serve the mission and purpose of the organization, so standard or universal charts of accounts should not be used without customization. Too detailed a chart is too much work to use, and too summary does not give the needed insight into the activities of the organization. The design of a chart of accounts will be discussed further in the budgeting and planning section.

There are five basic types of accounts: Asset, Liability, Equity, Income or Revenue, and Expense. Many non-profit accounting systems also provide, for convenience, an account type called Designated. Each type of account except the designated type should be present in almost all funds.

1.5.1. Asset, Liability, Equity Accounts

An asset account records the value of assets like bank accounts, securities, etc. that are to the credit of a specific fund. Remember that a bank account (for example) holds assets from many funds, so that the asset account in a fund labeled “Main Checking Account” will reflect only the portion of that checking account devoted to that fund.

A liability account records the value of monies owed to others. In an accrual system this may include a credit card account, taxes withheld but not yet forwarded to the government, or the balance of a loan owed by the organization.

These accounts are related in an important way by a basic statement of accounting:

> Assets minus Liabilities equals Equity.

Equity is sometimes called Net Assets or Net Worth.

In a cash accounting system that would not record (for example) transient credit card debt, this statement is only approximately true. Therefore, if an organization has substantial debts, they must be recorded as a liability. Particularly if these debts vary significantly (i.e. credit card debts might, loan principles do not) then the organization should use accrual accounting to fairly represent the economic status of the organization. If an organization does use accrual accounting, then there are usually one or more liability accounts called

Payables for debts the organization owes and one or more Receivable accounts (a type of asset account) for monies promised.

> Note: benevolence commitments should not be recorded as Receivables unless there is a legally enforceable requirement upon the giver to provide the promised gift. As this is very rare, benevolence is a Revenue but not a Receivable.

1.5.2. Revenue, Expense, and Transfers

The basic accounting statement of Assets minus Liabilities equals Equity makes no provision for receiving monies or spending it, so we need a slightly better statement. Here it is:

> Assets minus Liabilities plus Revenues minus Expenses equal Equity

Revenue accounts record monies received, and Expense accounts record monies expended. All accounting systems work on a monthly cycle and an annual basis, so this statement really means:

> Assets at the beginning of the month minus
>
> Liabilities at the beginning of the month plus
>
> Revenues received (or accrued) during the month minus
>
> Expenses made (or accrued) during the month equals
>
> Equity at the end of the month.

In the usual reports, all figures are as of a specific date, usually the calendrical end of a month, so that the reported Assets plus Liabilities equals Equity as of the end of the month, In contrast, the Revenue and Expenses on a report are really the cumulative for the month or for the year. The Asset, Liability, and Equity accounts as of the end of an accounting period are reported on a Balance Sheet (Section 3.1), while the total of Revenue and Expense that occurred during the accounting period are reported on a Revenue and Expense report (Section 3.2).

It is very common that transfers will be made between funds. These monies are properly revenue to the fund that receives them, but should not be interpreted as 'new' money to the organization. These types of revenue (or expense) are often shown as a separate category, sometimes labeled 'transfers' so they are not misinterpreted.

1.5.3. Account Structure

Each fund has several Asset, Liability, Expense, and Revenue accounts and usually one Equity account. Within each major category (e.g. Asset, Revenue) there are a number of ways to group similar things together. Usually we say there are headings or sub-headings to collect similar accounts together and financial reports provide sub-totals for each heading or sub-heading. Figure 1 shows a typical heading/subheading/account structure (with a lot of eliding to save space).

__Assets__
Current Assets
Checking
First Union Bank
1-100100 - General Checking
1-100200 - Restricted Checking
2-100100 - Building Checking
Investments
General
1-102100 – Bank B - General Savings
1-102200 – Bank C - Restricted Savings
Perm. Restricted Investments
1-102110 – Bank B - Smith Endowment
Building
2-102100 - Building Fund CD#1
Accounts Receivable
1-140100 - Pay Advance
3-140100 - Receivables - Day Care
Fixed Assets
Buildings and Land
1-150100 - Sanctuary
1-150200 - Educational Building
__Liabilities__
Loan Principal Payments
2-200100 - Sanctuary Loan Principal
4-440400 - Family Life Principal
__Fund Principal__
1-299999 - Fund Principal - Church
2-299999 - Fund Principal - Building Fund
__Revenues__
Offerings
Tithes and Offerings
1-400100 - Pledge Offerings
1-400110 - Non-Pledge Offerings
1-400300 - Mid Week Offerings
Building Fund
2-400100 - Building Fund Pledge Gifts
__Expenses__
Personnel
Office Staff
1-500510 - Pastor's Secretary
1-500520 - Assoc. Pastor's Secretary
1-500540 - Financial Secretary
Benevolences
Outreach
1-520100 - World Missions
1-520110 - World Hunger
Building & Maintenance
Utilities
Building Maintenance & Repairs
2-510100 - Sanctuary Maintenance
2-510120 - Administration Building
__Other Revenues__
Non-budgeted Income
1-600100 - Interest Income

Figure 1: Example Account Structure (elided)

More comments about the chart of accounts and account structure will be found in Section 4.

1.5.4. Unrestricted Accounts

A general or operating fund is called unrestricted. Funds received without restrictions may be spent for any item within the legal charter of the non-profit. For example, benevolence (e.g. account 1-0-400100 in Figure 1) is an unrestricted revenue. It is important that all accounts have a clear definition of what should be recorded to an account, that the name of the account fairly represent what is charged to it, and that those definitions be respected.

> Note: Nothing can corrupt the utility of an accounting system faster than the practice of charging an expense to an account 'that has money in it' rather than to its proper account.

1.5.5. Restricted Accounts

Designated giving and expenditure, such as to/for World Hunger, is sometimes recorded using a class of restricted accounts (not shown on the example chart of accounts). In a pure system, every specific kind of restricted revenue would be tracked in a separate fund with its own set of asset, liability, equity, revenue and expense accounts. However, most congregations have a large number of these accounts of very similar nature. To track them all in a comprehensive manner leads to voluminous reports. Therefore many non-profit accounting systems provide a handy reporting simplification called a restricted account that permits us to record Revenues and Expenses to the same account and therefore to 'share' the asset, liability and equity accounts for many similar designated 'funds'. We will see this simplification later in the example Restricted Fund Report (Section 3.3).

There are three main types of restricted accounts. These types of accounts are often also called *Dedicated* accounts or *Designated* accounts. The meaning is similar but the preferred term is *Restricted.*

Board Restricted accounts are those set up by the organization, usually by the board of directors[2], to hold unrestricted funds that the board wishes to reserve for some purpose. For example, the board may elect to set aside 10% of annual surplus revenues for an account to pay for future major repairs. This might be called a capital fund or equipment fund. Note that the common language is relatively imprecise here, where 'fund' does not mean an accounting major entity, but an amount of money with a specific purpose. Because the board imposed this restriction, the board may also release the restrictions whenever it seems wise to do so.

Another type of restricted account is a *Temporarily Restricted* account. These are monies that are given with the understanding that they will be expended for a particular purpose or by a particular time. World Hunger funds are of such a type. When received by the congregation, they are to be forwarded to the World Hunger program, that is they are restricted as to purpose. Monies in such an account are, in principle, expendable to a zero balance according to the purpose. It is possible that there are two sources of monies for the same or similar purposes. The board may restrict some monies and donors may also provide support for that purpose. In a careful system, this will be recorded in two separate accounts with the different restrictions noted because a board cannot remove the restriction

[2] The model constitution C12.05 defines the Congregation Council as the Board of Directors of the congregation.

imposed by a donor unless the donor consents but can remove a restriction that the board itself imposed. Often many board restricted and temporarily restricted accounts are grouped into one umbrella fund called a 'Designated Fund' or a similar title.

Finally there are *Permanently Restricted* accounts, usually informally called endowment funds. These have donor-imposed restrictions that the board cannot change once the funds are accepted. Restrictions typically provide that the revenue and/or capital appreciation from the monies may be used for a particular purpose. If so, the usual practice is for the monies to be transferred on some schedule (usually annually) to a Temporarily Restricted account with a similar name, out of which the purpose is supported. Permanently Restricted accounts are usually grouped into one fund called an 'Endowment Fund' or similar title.

2. Financial processes

The financial reports are a tool to plan, monitor, manage, and report, but the value of the information in these reports depends upon the quality of the financial processes the organization uses. It is very important that these processes be written and followed or the meaning of the financial reports is seriously obscured. A non-profit usually has the following major financial processes.

2.1 Revenue Recognition

The revenue recognition process includes the procedures to receive, deposit, classify, and acknowledge receipts.

> Note: It is very important that the people responsible for this activity, including its reporting, do not have any responsibility for the expenditure processes.

Most congregations have a much more elaborate revenue reporting requirement than other non-profits. In particular this requires a detailed report to each donor of the monies received by specific dates. It is rarely wise to use the main accounting system for this purpose. Instead all monies such as weekly offerings are recorded in a single finance system account and a separate system reports revenues by donor.

Usually, to better support planning, the revenue recognition and reporting process (e.g. envelope giving) is on patterned dates (i.e. on Sundays or on the last day of the month), while the accounting system recognizes revenue according to the date on the deposit ticket.

2.2 Expenses

Expenditures should always involve two different people. One person recommends that an item be purchased or other expense made and maybe places the purchase order. In a non-profit with a simplified financial process, it is the responsibility of this person to determine that the expense is appropriate, affordable and justifiable according to the financial management decisions of the organization.

Once the item is ordered and received, or when an invoice is to be paid, a different person should determine that the item was actually received or that the intended recipient of the payment did actually provide appropriate service to the organization. This person would also review the account to which the payment would be charged to help catch mis-categorization mistakes that are very common.

2.3 Posting and Reconciliation

At the end of an accounting period, all revenues and expenses are posted to the accounting system. Informally, this means they are entered into the system. Formally, an accounting system permits data entry in a temporary or *unposted* manner. Once the person entering the data is satisfied that it is right, it is *posted* and thereafter cannot be changed. This property to permit no changes after posting is essential to support audits, but it also means that entries called *Journal Entries* are necessary to make essential correcting entries because the original entries cannot be changed.

> Note: This property of preventing after-the-fact changes is a very important part of any accounting system and a non-profit corporation should not use a system without that property.

At the end of the month, all bank statements and other reports from the custodians of congregational assets are gathered and the accounting system inference as to the balance of each external asset account is verified against the bank statement. Other checks are also made to identify errors and mis-postings. This process is called *reconciliation* and when it is finished the financial reports for the period are issued.

2.4 Audits and the Audit Committee

Every congregation must have an annual audit. Audits are diverse in their scope and the amount of labor they require, but the annual audit has two main purposes:

- To safeguard against fraud and error and
- To ensure that the financial processes and the resulting statements are in accord with accepted principles.

An audit is conducted by an auditor. For a synod an auditor is usually a company with a lead person and a team, but it could be an individual. Auditors for synods should be licensed CPAs. Auditors for congregations are frequently not CPAs and the congregational audit scope is narrower to reduce the cost of the process.

Each congregation should have an Audit Committee. The committee works with the Auditor to define the scope of the Audit. Professional auditors can provide guidance on appropriate scope. Once the audit scope is agreed, the Auditor works with the Treasurer to examine the financial records.

The Auditor's report is usually in two parts. The first part is an audited financial statement that the auditor should certify as fairly representing the financial state of the synod. It is normal that, during the process of examining the records the audit team will identify some errors in the books that will be corrected before the audited financial statement is prepared. A finance system for a congregation is so complex and detailed that some errors are always expected so the mere existence of errors is no cause for concern.

The second part of the Auditor's report is a management letter where the auditor describes any findings that they believe merit attention. This letter is the place where any weakness in the financial processes will be identified and reported. One possible cause for such a report is if the errors identified during the audit have a pattern or frequency that is different than normal good practice. The Audit committee is responsible for receiving this support and, usually with the advice of the auditor's team, developing an action plan for the congregation to make any necessary improvements in the financial management and recordkeeping system. The Audit committee will then report its recommendations for action along with the Auditor's reports to the Congregation Council for its action.

3. Standard reports

All accounting systems must provide at least monthly and annual reports. The layout and format of these reports differ, but the basic information should be the same. The examples below are taken from a demonstration data set for a congregation.

3.1 Balance Sheet

An example is in Figure 2.[3]. (An equivalent report is called the Statement of Financial Position. The differences are minor.) It is important that all assets of a congregation appear on this balance sheet, no matter which person or subsidiary organization manages the asset. This example is a consolidated balance sheet in that the assets, liabilities and equity (Fund Principal) are all grouped together. This is a good report if one wants to know if the organization is, overall, solvent. The example shows that the total net worth of the organization is $4,119,004.23 plus restricted funds totaling 368,699.58. The liabilities or monies owed to others totals only $1346.25. This certainly looks like a very healthy congregation indeed!

The receivables (money owed to the congregation) are $16,032.05, while the payables (money the congregation owes) are only $1346.25[4]. Notice that the total assets include value that would not be readily usable for the operations of the organization. These non-liquid assets include buildings, furniture and vehicles. If this is subtracted, the organization has readily available $1,110,299.79, of which $368.699.58 is restricted as to purpose, so that $741,600.21 is really available for the general operations of the organization. That's rather different than the total worth number!

If the total annual expense of the congregation were (say) $500,000, this means they could go a year and a half with zero revenue and still not be bankrupt. This is comforting if not a comfortable thought. On the other hand, if the congregation's annual expenses were $2,500,000, the balance sheet says that they have only 3 months of 'cushion' in assets. This is acceptable for financial management but certainly not a very comfortable position. To understand further the financial health of the organization, we need to look at the statement of revenue and expense (see Section 3.2.)

From the consolidated balance sheet we can also tell that the organization has three funds, a General or Operating Fund, a Building Fund, and a Day Care fund. Further, the General or Operating Fund has some endowment accounts within it and some temporarily restricted funds as well. This also suggests that the General Fund has both Temporarily Restricted and Permanently restricted monies in the same fund as unrestricted monies. If the system is clear, this is permissible but it's usually much easer to understand if the various restricted accounts are in a separate fund from the General or Operating Fund.

In most charts of accounts, separate funds represent separate components of an organization that are meant to be financially independent. If so, it would be more helpful

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[3] The examples are congregational examples from the ACS Technologies demonstration data set. Some details were elided to preserve a compact example.

[4] This sample congregation is using accrual accounting, but it looks like the Payable and Receivable accounts are so small one could validly question the cost-effectiveness of accrual accounting for this organization.

to see a balance sheet for each fund separately (rather than this consolidated balance sheet). This way one can understand the health of each fund separately as the rules of the organization will probably not permit inter-fund transfers. A healthy fund can mask an unhealthy fund if only the consolidated balance sheet is examined.

Assets		
Current Assets		
First Union Bank		
1-100100 - General Checking	$110,581.76	
1-100200 - Restricted Checking	$3,699.58	
2-100100 - Building Checking	$43,176.43	
4-100400 - Family Life Center Checking	$33,500.00	
Total First Union Bank	**$190,957.77**	
Florence Credit Union		
3-100100 - Day Care Checking	$29,309.97	
Total Florence Credit Union	**$29,309.97**	
Total Checking	**$220,267.74**	
Investments		
General		
1-102100 – Bank B - General Savings	$274,000.00	
1-102200 – Bank C - Restricted Savings	$195,000.00	
Total General	**$469,000.00**	
Perm. Restricted Investments		
1-102110 – Bank B - Smith Endowment	$45,000.00	
1-102120 – Bank B - Branden Endowment	$125,000.00	
Total Perm. Restricted Investments	**$170,000.00**	
Building		
2-102100 - Building Fund CD#1	$5,000.00	
2-102200 - Building Fund CD#2	$30,000.00	
2-102300 - Building Fund CD#3	$200,000.00	
Total Building	**$235,000.00**	
Total Investments	**$874,000.00**	
Total Current Assets		**$1,094,267.74**
Accounts Receivable		
1-140100 - Pay Advance	$300.00	
3-140100 - Receivables - Day Care	$15,932.05	
3-140200 - Receivables Misc. Day Care	($200.00)	
Total Accounts Receivable		**$16,032.05**
Fixed Assets		
Total Buildings and Land	**$2,635,158.27**	
Total Furniture & Equipment	**$608,833.65**	
Total Vehicles	**$134,758.35**	
Total Fixed Assets		**$3,378,750.27**
Total Assets		**$4,489,050.06**
Liabilities, Fund Principal, & Restricted Funds		
Total Other Payroll Deductions	**$1,346.25**	
Total Payroll Withheld		**$1,346.25**
Fund Principal		
1-299999 - Fund Principal - Church	$3,749,585.47	
2-299999 - Fund Principal - Building Fund	$278,376.97	
3-299999 - Fund Principal - Day Care	$61,218.96	
Excess Cash Received	$29,822.83	
Total Fund Principal and Excess Cash Received		**$4,119,004.23**
Restricted Funds		
Total Temporarily Restricted	$198,699.58	
Total Permanently Restricted	$170,000.00	
Total Restricted Funds		**$368,699.58**
Total Liabilities, Fund Principal, & Restricted Funds		**$4,489,050.06**

Figure 2: Sample Balance Sheet

The balance sheet tells us the financial health of an organization at a single point in time, usually the end of a fiscal or calendar month. Just understanding this information is helpful, but not enough. One must also understand the trends for the net worth of the organization. Are we getting more and more frail, or are we getting healthier? To answer this question, one needs information about the state of the balance sheet in several past years at the same time in the fiscal year. Maybe we are getting too healthy, with too many funds 'in the bank' instead of invested in mission. If this is so, then the organization may be financially sound but not missiologically sound. Examining trends several times a year can help identify these issues.

3.2 Revenue and expense

Now let's look at the revenue and expense report for the General Fund. This example report (Figure 3) has some sections omitted for compactness.

A word about *sign conventions*. In most reporting systems revenue and expense figures are both shown with plus signs and the system knows to subtract expense from revenue to get the net total. In other systems, revenues are shown as positive numbers and expenses as negative numbers so one adds the two to get a net total. Further, some systems use the accounting convention that numbers in parentheses mean a negative number, while other systems use minus signs. Finally, to add to the confusion, some systems show the net of actual versus expected and record the result as positive for a favorable result (i.e. actual revenue is better than plan or actual expense is less than plan) and a negative for an unfavorable result (actual revenue is less than plan and actual expense is greater than plan). This is certainly confusing, so be sure to ask how your accounting system handles the sign conventions.

This relatively simple Revenue and Expense report shows the *year to date* revenue and expenses (usually abbreviated YTD), and the budget or expected amount YTD for each account. It is important to compare *where we are* and *where we expected to be* rather than just how much was received or spent so far. Even more important, as will be mentioned under budgeting, it is important that the plans for revenue and expense by month reflect the seasonality of the expenses. For example, a heating fuel account should expect maximum expenses in the winter and not expect 1/12 of the annual heating bill every month (unless we use a budget plan from the fuel supplier.)

This report shows that our expectations for revenues through May are $251,041.65, which is probably an annual expectation of about $602,500. Comparing this with the balance sheet, we see that the organization has about $741,600 assets compared to an annual expected revenue of $602,500. This is a very healthy ratio.

Looking at expenses, they total so far to $251,041.80 expected versus $201,050.49 actual. Expenses are running low compared to expectations, as is revenue. However, at this point in the year, we had expected to just break even, but we are actually $12,459.55 excess of revenue vs. expense (the Net Total line). Is this healthy or not?

To be sure, one has to ask the Treasurer if there were bills presented but not yet paid so that the low expense on the report is actually not quite true[5]. The same may be true of

[5] If one had used an accrual system (which few churches do), this would explicitly show on the balance sheet report.

revenue in that some funds received were not actually deposited until after the end of the accounting month or maybe some funds were received early and will not be seen in a future month as expected..

St. John's by the Gas Station
Analysis of Revenues & Expenses
Year-to-date, Through May 2003

Accounts		YTD Actual	YTD Budget
Revenues			
Offerings			
Total Tithes and Offerings		$193,910.04	$238,541.65
Miscellaneous Income			
1-420100 - Room Usage		$12,800.00	$10,416.65
1-420200 - Wedding Fees		$6,800.00	$2,083.35
Total Miscellaneous Income		$19,600.00	$12,500.00
Total Offerings		$213,510.04	$251,041.65
Total Revenues		$213,510.04	$251,041.65
Expenses			
1-550200 - Church Auto Expenses		$503.50	$833.35
1-550701 - Church Van Expenses		$790.41	$833.35
1-550710 - Church Bus Expenses		$974.98	$833.35
1-550800 - Equipment Expenses		$623.82	$1,000.00
1-560160 - Miscellaneous		$232.46	$166.65
1-572240 - Literature - Youth		$99.27	$0.00
Personnel			
Pastor		$27,711.05	$29,968.75
Associate Pastor		$23,342.56	$25,458.30
Total Family Counseling Ministry		$400.00	$11,458.30
Total Church Administrator		$14,374.97	$16,541.70
Total Office Staff		$30,919.48	$37,916.65
Maintenance Staff			
1-500610 - Maintenance Personnel		$10,485.00	$11,666.65
1-500620 - Lawn Keeper		$250.00	$2,083.35
Total Maintenance Staff		$10,735.00	$13,750.00
Other Staff		$250.00	$4,166.70
Total Other Personnel Expenses		$13,536.31	$24,083.30
Total Personnel		$121,269.37	$163,343.70
Benevolences			
Outreach			
1-520100 - World Missions		$25,849.98	$21,666.65
1-520110 - World Hunger		$3,000.00	$2,500.00
1-520120 - Good Samaritan		$1,500.00	$1,250.00
Total Outreach		$30,349.98	$25,416.65
Total Community Projects		$3,825.00	$4,166.70
Total Benevolences		$34,174.98	$29,583.35
Building & Maintenance			
(lines omitted for brevity)			
Total Building & Maintenance		$22,138.55	$26,583.45
Office Expense			
(lines omitted for brevity)			
Total Expenses		$201,050.49	$251,041.80
	Net Total:	$12,459.55	($0.15)
Other Revenues			
Non-budgeted Income			
1-600100 - Interest Income		$240.76	$0.00
Total Non-budgeted Income		$240.76	$0.00
Total Other Revenues		$240.76	$0.00
	Net Operating Totals:	$12,700.31	($0.15)

Figure 3: Revenue and Expense Report

It is a mistake to expect actual experience to match the plans too closely.

Note: It is not possible for an organization to control revenue or expenses precisely.

Indeed, if an organization ends the year within about 5% of the targeted amounts that is usually acceptable[6]. Ending the year within 2% of targeted amounts is lucky!. In a $500,000 budget, 2% is $10,000 which is a big number for personal finances but not for a corporation. Sometimes people try to manage the financial results so precisely that there is unwarranted stress on the organization and its people. We must remember that the mission of the church is why we are here and the financial measurements are to help us do that well, but not to be the unquestioned arbiter of what can or cannot be attempted. Financial measurements should be accurate, but they are not always precise or clear, so be thoughtful about how the information is used.

In this example, Tithes and Offerings are the revenue line appropriate for a congregation. The finance organization should be careful to estimate these revenues based on actual experience, rather than just using 1/12 of the annual amount for each month. In particular, most congregations experience a very large inflow of revenue in the Christmas and Lent/Easter seasons. This higher than average revenue flow also means that during other months of the year it is acceptable for expenses to exceed revenue because expenses are usually much more even on a month to month basis than are revenues.

Because of the fluctuation in when expenses are made vs. paid, over- and under- spending in categories is not usually a serious concern. However, if a major category (i.e. the sum of many sub-accounts) is significantly different than plan, particularly for two months in a row and without a known cause, it should be cause for further questions. Another cause for questions is a category that shows near zero expenditure when the plans were substantially different from zero. Did plans change, did a program get canceled? If so the congregation may be able to put more emphasis elsewhere.

3.3 Restricted Accounts

The last category of accounts is restricted accounts. In most organizations the temporarily restricted and board restricted accounts are reported on a separate document like Figure 4.

These reports are a bit different from the Revenue and Expense report. In the Revenue and expense report, each account was a Revenue account or an Expense account but not both. In the typical non-profit Restricted Account report, each line records a beginning balance, the total revenue for that account, the total expense, and the ending balance, all on one line[7]. This type of report makes it clear just how much money in each special category flowed in and out of the financial system during the period. Because there is only one line available per account, many systems (like the one in the example), permit internal adjustments to show in a separate column so that the 'real' revenue and expense are clear. Adjustments might include interest, monies transferred in or out to other internal accounts, error correcting entries from previous accounting periods, etc.

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[6] Large corporations are famous for hitting financial targets within small margins of error but first, they have much more extensive finance and management departments to ensure the result and second, they have a much larger financial operation so the inevitable unpredictability of life averages out much better than for smaller organizations like churches.

[7] Remember this is a handy simplification by the accounting system that provides most of the fund accounting functionality in a single reporting account rather than a complete set of asset, liability, equity, revenue, and expense accounts.

For example, in the sample data the Youth Service Retreat begins the year with a negative balance. Presumably expenditures were made before the funds were raised. During the year a debit adjustment of $1000 was made to the Christmas offering because the revenues were incorrectly credited to a different account and a journal entry corrects the error.

It is very common for these types of accounts to be established for a purpose that becomes obsolete. Each year the financial officers should close these accounts that have reached the end of their purpose. Residues can be transferred to the general account (or deficits supplied from the general account) or to whatever account is in accord with the purpose for which the account was established.