Chapter 5

Budgeting, Recordkeeping and Reporting

This chapter covers the "nuts and bolts" of the ministry of the treasurer. It includes:

- the process of preparing an annual church budget
- maintaining accurate and complete records
- reporting the financial status of the church to the congregation, the governance authority, and others

These tasks are essential for the running of the church in a God-honoring way. They provide the structures for:

- accountability to God, the congregation, the evangelical community, and civil authorities
- protection of the church's assets
- planning and management of the church's programs and resources

No part of this process needs to be elaborate or complicated. However, certain traits are a part of all good financial records and reports. These include:

- accuracy
- timeliness
- completeness
- clarity

The suggested methods in this chapter provide simple, effective means to accomplish these objectives. All of these methods may be used manually (handwritten or typed) or on a computer (see **Appendix C** for suggested computer programs).

The focus of this chapter is on the church's records. However, the same principles and procedures apply to the church's auxiliary groups that may keep their own records (Sunday school, C&MA Men's Ministry, Alliance Women Ministries, Alliance Youth Group).

Budgeting

General

The annual church budget is a key tool for planning and control. Only God knows the "end from the beginning," but it is wise to have plans for the church's future. Regularly the church leaders will assess where it "has been" and where the Lord intends for it "to go." A budget translates the church's goals into the financial resources needed in order to accomplish these goals. It requires a balance between faith and realistic expectations. Expectations are based on the church's history, size, unique opportunities, major community changes, etc.

The treasurer, with the governance authority (or possibly a finance or budget committee appointed by them), will prepare the church budget for the coming year. It needs to be completed before the church's Annual Meeting. Encourage each department and major ministry to provide his or her input to the budget committee. If the church is accredited and has a governance authority, it will hold an Annual Meeting. At that time, the budget will be presented to the congregation for its approval. If the church is a developing church, the budget will need the approval of the district superintendent or director. This approval should be secured before the budget is presented to the congregation for its approval.

Budgets can cover any twelve-month period—known as the *fiscal year*. The National Office of the C&MA operates on a July 1 to June 30 fiscal year that corresponds with the cycle of sending missionaries. Unless your church has a special need, we suggest that your church operate its budget on the calendar year, January through December.

Once established, the budget will provide you with an important *navigation* tool. It helps the church determine if it is accomplishing its goals within the available resources. It also enables the leadership to take corrective action during the year. The budget lets the leadership monitor how the planned receipts and disbursements compare to what was actually received and spent.

Sunday school and youth ministries sometimes have separate budgets. If they do, the Sunday school or youth ministry may be responsible for raising all of its own support through offerings or fund-raising endeavors. However, it is becoming more frequent for churches to have a Sunday school budget, but not require the Sunday school to raise *all* of its own income. In this case, a portion of the Sunday school (or youth) budget comes from offerings received by these groups. An additional portion comes from the general operating expenses of the church.

If the Sunday school or youth program operates on a self-supporting basis, treat it as a separate fund, with its own set of receipts and disbursements accounts. Give the fund its own line on the **Condensed Monthly** (or **Annual**) **Financial Report**.

A third way of handling auxiliary groups is also possible. The church may not count Sunday school and youth offerings separately. Instead, they are placed in the general fund income as a gift or offering received from the Sunday school or youth group. These expenses are included in the general church budget.

Budget Preparation

To prepare the budget, you need a "framework" for summarizing the anticipated revenues and expenses. This framework, which is also used for recordkeeping and reporting, is called a *chart of accounts*. Usually, a number is assigned to each account in a logical sequence or pattern. Then funds and accounts within those funds can be clearly separated and identified.

There is a sample chart of accounts available. The chart of accounts may be tailored to fit the needs of the church.

A sample of the **Annual Report and Proposed Budget** using sample accounts shown is available. Current Year Actual receipts and disbursements can be a useful tool in projecting the expenses for the next year. However, do not base the budget solely on past experience, but on the future goals and objectives.

In the sample you will see that we budgeted what we expected to receive (receipts) so it is equal to what we expect to spend (disbursements). Do not budget disbursements to exceed receipts. Likewise, do not let *actual* expenses exceed *actual* receipts. The church may, however, plan more receipts than disbursements. The planned excess amount could provide savings for future projects or as a cushion for unexpected expenses.

Recordkeeping

A central part of the role of the treasurer is to keep up-to-date, accurate records of all receipts and disbursements of the year. There are many ways to set up your accounting records or "books." The method we describe below is easy to use and adequate for most churches. Periodically, the details will need to be summarized into a financial report. This will be discussed later in this chapter.

Cash Receipts

When the people who count the money receive an offering, they record how each donor has designated his/her money on the **Cash Receipts Summary** (as described in Chapter 3). The totals need to be recorded by account from the **Cash Receipts Summary** in the record of transactions known as the **Cash Receipts Journal**. They should be recorded as soon as possible after depositing the offering. Often, other funds will come in, such as checks for the reimbursement of expenses (for example, Bible study books) or miscellaneous gifts. Normally, these will be held until the next deposit is made.

There is a sample **Cash Receipts Journal**, including sample transactions available. The **Cash Receipts Journal** will require several pages for each grouping of accounts. Use the same format as shown on the sample for each group of accounts. The accounting paper has only enough room for six accounts. Group together several pages with the same account numbers to record the entire year's transactions for those accounts. Additional pages may be inserted as needed.

At the end of each month, total all the columns. A year-to-date total should also be made. Calculate this total by taking the year-to-date total from the previous month and adding to it the current month total. For example, suppose your fiscal year is the calendar year (January through December). In January, your year-to-date and monthly totals will be equal. Add February's total to this amount to find the year-to-date amount for that month. Next month, add March's total to the February year-to-date figure. Continue this process throughout the year. It will make it easier to prepare your reports at the end of any period.

In addition to the **Cash Receipts Journal**, the deposits should be recorded in the church's checkbook, so you can keep a *running balance*.

Cash Disbursements

Before we discuss the actual recording of cash disbursements, there are several important guidelines for disbursing funds:

- Except for cash disbursed from a petty cash fund (described below), all payments should be made by check. This provides the best record of payments and is safer than keeping cash on hand.
- Use pre-numbered checks and keep track of how each number is used. This is an important safeguard. If you need to avoid a check, keep it, so that you properly account for each check.
- Support all payments by appropriate documents, such as invoices or governance authority minutes (for salaries). File the supporting documents in a logical way (for example, by date or vendor for invoices).
- Mark paid invoices “paid.” Write the date of the payment, the check number, and the account number(s) you charged the payment to on the invoice.
- Require two (dual) signatures on all checks over a certain dollar amount (for example, $500). You can easily arrange this with your bank.
- Always keep checks in a secure place.
- **Never** pre-sign blank checks.

The treasurer and assistant treasurer (and possibly one other person approved by the governance authority) will have *signing authority* on the church’s bank accounts. Although the treasurer is the primary person to disburse funds, at least one other person should have the same authority, in case of an emergency. Another person also will be necessary if the governance authority requires dual signatures on checks.

Write checks only when proper documentation is received, such as receipts or invoices. Make only those payments that the budget (which the congregation approved) authorizes. The governance authority should approve unbudgeted items or expenses that exceed budgeted amounts.

As with your personal bank account, be careful to record every check. Write the purpose of the check and the account number(s) to which you will charge the amount on the check stub or in the check register. Do it when you write the check. This will make it easier to record the item in the **Cash Disbursements Journal** and avoid questions and confusion later.

There is a sample **Cash Disbursements Journal** with sample transactions available. Just as with the **Cash Receipts Journal**, the **Cash Disbursements Journal** will require several pages for each grouping of accounts. Use the same format as shown in the sample for each group of accounts. The accounting paper only has enough room for six accounts. Group together several pages with the same account numbers to record the entire year’s transactions for those accounts. Additional pages may be inserted as needed.

Once again, total all columns at the end of each month. Carry forward year-to-date amounts. At the end of each month or other period, you can get the total amount spent from a particular account. A summary of these amounts will be reported to the congregation (and others) along with the cash receipts.

The church may choose to keep a small amount of cash (for example, $100) available at the church to cover small, emergency expenses. Since the amount is small, it is referred to as *petty cash*. If the church decides to set up this fund, follow these procedures:

- Keep the cash in a safe place and accessible by only one or two people. They are responsible for the fund.
- Keep the money on an *imprest* basis. This means that the total of the cash and receipts in the fund should always equal the original amount. For example, suppose the original amount in petty cash is $100. The person spending the cash will return a receipt for the purchase to the person responsible for the fund. The total of the actual cash in the fund plus the receipt should always equal $100.
- The person responsible for petty cash should keep a “log” of disbursements. See the sample log on the next page. Have the person receiving the cash sign his/her name in the “Payee” column.
- Eventually the actual cash will fall below a certain amount (for example, $20). The person responsible for the petty cash then totals the disbursements on the log. He or she submits it, along with the corresponding receipts, to the treasurer, who will give the petty cash person an equal amount to replenish the total cash to $100. Usually the treasurer will write a check for the amount needed to reimburse petty cash. Then the person responsible for the petty cash fund cashes the check.
- Then the expenses are recorded in the **Cash Disbursements Journal**, supporting the entries with the receipts.
- Petty Cash should always be reimbursed to its full amount at the end of the church’s fiscal year.

Sample Petty Cash Log				
Date	Payee	Description of Expense	Account Number	Amount

Total				

Other Accounting Records

We have described accounting methods for cash receipts and disbursements. These cover most of the transactions you will need in the simplest method possible. However, there are other types of transactions for which you need to keep records. They are:

Assets are items of value that the church owns. These usually have an "economic life" that continues beyond the current fiscal year, such as buildings, furniture, and equipment. More elaborate accounting methods provide a way to record assets in the accounting records of the church. For our purposes, however, you only need a record of all relevant information on the assets. The record covers the time from when you purchase the assets until you dispose of them (sell or give them away). This information should include:

- description
- date of receipt or purchase (acquisition date)
- the original cost
- insured replacement cost
- invoices and other documents

Present a report containing this information to the congregation once a year (usually when the Annual Report is presented).

Liabilities are debts that the church must settle at a future date, such as mortgages and other types of loans. This information should include:

- description
- date of the amount borrowed (date incurred)
- original amount borrowed
- interest rate
- monthly payment
- remaining balance due

- any other relevant information.

This information should be reported annually. There is a sample **Statement of Assets and Liabilities** available.

`Transfers` include the amounts you transfer between funds or bank accounts. Maintain a record of transfers in either:

- the checkbook
- a savings account record
- a separate record

Again, these should be reported to the congregation regularly.

Other Accounting Duties

Reconciling Bank Accounts

As we noted in Chapter 2, the church should receive statements from the bank for all its accounts each month. These statements need to be reconciled with the church's records according to the date shown on the bank statement.

Reconciling requires you to account for items that the bank has recorded, but you have not yet recorded (for example, bank service charges). You must also account for transactions that you have recorded, but the bank has not yet recorded (for example, outstanding checks). Most banks provide a reconciliation form and instructions on the back of the bank statement. You may use this form, or you may use an adding machine tape. To use the tape, follow these steps:

1. Enter the amount of each outstanding check (not yet recorded by the bank) and total them.

2. Enter the bank balance shown on the statement and:

- subtract the total of outstanding checks
- add any deposits that have been made which do not appear on the bank statement
- add any unrecorded charges (which you must record in your books later)
- subtract any unrecorded bank credits (you must also record these later in your books)
- total the tape

3. This total should equal your checkbook balance. If not, you need to search for errors in the checkbook or in your calculations. For example, suppose you entered the wrong amount in the checkbook for a check or a deposit. Or, suppose you made a mistake in addition in calculating the checkbook balance. Include the amount of the error(s) on the reconciliation. This way the ending total on the reconciliation will agree with the actual

checkbook balance. You will also need to make the appropriate correction(s) for these errors in the checkbook.

4. When you have completed the tape so that it equals the checkbook balance, write the check numbers next to the amounts printed on the adding machine tape. This will help you re-check your reconciliation. It will also help you see the checks that "clear" on later bank statements.

5. If you believe that your bank has made an error, contact them immediately. Some banks will not correct their errors if you do not notify them within a certain period after they issue the statements.

6. Attach the adding machine tape to the bank statement and keep it with the canceled checks.

Be sure to complete the bank reconciliation each month. This provides a check on the bank (**they do make mistakes!**) and it helps insure that your records are accurate and complete.

Closing Accounts at Year End

At the end of the fiscal year, the accounts need to be "closed." This requires you to total the receipt and disbursement accounts to their final year-to-date amounts.

Start all your receipt and disbursement accounts over at zero when you begin the new fiscal year. Then you can start accumulating balances again. Carry the cash and fund balances forward (continue where you left off at the end of the previous year) in the checkbook and reports (**Sample Condensed Annual Financial Report** available).

Record Retention

The civil authorities require that records be kept for certain periods of time. The church, too, needs to maintain records. These provide a ready reference for studying the church's history and for analyzing trends. There is a list of recommended retention periods in **Appendix E**. The list does not include every type of record or document that should be kept. It should, however, serve as a guideline for similar records.

Reporting

The congregation and the governance authority need to be informed regularly on the status of the church's finances. This is done by summarizing the transactions that you recorded in the detail accounting records into various financial reports.

Good reports help your church fulfill its mission by keeping everyone well informed. The reports must have the following characteristics to be useful:

- Complete; no important information is missing
- Clear; they need to be understandable by persons who read them

- Consistent; the transactions should be recorded the same way each time they are recorded
- Comparable; the reports should be prepared in the same way so that accurate comparisons can be made with prior and later periods or with the budget
- Accurate; there should be no significant errors
- Timely; reports are presented often enough for them to be useful

We will describe some suggested reports below. Reports will vary from church to church in their detail and frequency.

Weekly Reports

Many congregations find it helpful to receive a brief weekly report, such as the one below. This report could be published in the church bulletin or posted on the bulletin board.

Sample Weekly Financial Report		
General Fund	Last Week	Year to Date
Actual	$900	$21,050
Budget	1,023	20,460
Great Commission Fund		
Actual	$300	$4,500
Faith Promise	225	4,200

This report could be expanded to include columns for other funds (example, Building fund or instrument fund), as needed.

Monthly Reports

At a minimum, reports should be presented of receipts and disbursements to the governance authority and the congregation, every month. Preparing a condensed report is easy using the **Cash Receipts** and **Cash Disbursements Journals**. The amounts in the report are taken from their respective journals. A sample of a brief, condensed report is available.

This same report should be prepared for the entire year as part of the church's **Annual Report** (sample available). Show the balances at the beginning and end of the year, along with the total receipts, disbursements, and transfers for the year. The details of special funds can appear on a separate page, with a single line showing the totals on the summary page.

The bottom portion of the report shows where the church's funds are kept. This serves as a *proof* of the top portion of the report. The total cash **must** equal the total of the balances of all funds.

Suppose the total of the balances in the cash accounts (checkbook, savings account, and petty cash amount) does *not* equal the total ending (or beginning) balance of the funds in the church's records. This would reveal an error that must be resolved.

Most governance authorities will want a *full* report of receipts and disbursements for the previous month (sample available). Prepare a report for each fund based on the totals taken from the **Cash Receipts** and **Cash Disbursements Journals**.

Obviously, a computer would be extremely helpful in preparing these reports. More and more churches are now using them. (See **Appendix C** for a list of some recommended software and guidelines.)

Some of the columns in this report could be left out. However, those we included represent the most useful information. The treasurer and the governance authority (and Finance Committee) will find these reports helpful in preparing next year's budget.

As noted previously, *the treasurer should not spend more than what is approved in the budget.* Suppose this was to happen (for example, an unusually cold winter produces higher than expected fuel bills), the governance authority should approve the excess expenditure, or take some other action. Just as in your personal life, the church must live within its means.

Annual Reports

Article V of the C&MA **Uniform Constitution for Accredited Churches** requires that a detailed financial report be presented to the congregation at the time of the Annual Meeting. At that point, the full year's budget and actual receipts and disbursements are reported. We have a sample available. It uses the same accounts as the detail monthly report to the governance authority sample. Our sample uses three columns to show current year budget amounts, current year actual amounts, and the proposed budget amounts for the following year. As was noted above, you should also prepare a **Condensed Annual Financial Report**.

You should provide the congregation with one other document. This is a report of the assets that the church owns and the liabilities that the church is obligated to pay (sample available). More formal, sophisticated accounting systems provide this information as part of their financial statements. Our goal is to provide, simple, easy-to-prepare reports.

Final Words

The church must keep copies of all financial reports for various lengths of time (see suggested retention periods in **Appendix E**). This provides historical information necessary for future needs and to answer questions that may arise. A bank may also require them if the church ever needs to apply for a loan.

Clearly note any changes in the way you present data in the financial reports so you can compare information with other years. For example, suppose the church reports telephone expenses under “utilities” for several years. Later, you decide to show these costs on a separate line. A comparison of those lines in the financial reports would be misleading without a note explaining the change. It would appear as though the church had no telephone expense in previous years, or that it is “buried” in some unknown category. The cost of utilities would also appear to decrease from previous years. A simple note would clarify the change. It would also provide better information for projecting future costs during the budget process.