

North Church's Financial Headache¹

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Alexa noticed the crocuses budding along the garden path as she walked to the parsonage. It was an unusually warm spring day in New England. Even the robins were out singing. Alexa would have preferred to be out on a hike but the finance committee had to get the reports ready for the board of trustees (BOT). She entered the parsonage and John, Steve, and Janet were already there. Financial reports and bank statements were spread all over the dining table. Auditing the bank statements took only a few minutes—the committee felt good to get one thing accomplished. Now, the daunting task of making sense of the financial reports began. Hours later, they were still digging through the reports to determine how to present financial data to the board. With declining membership, the church had been running deficits for a few years, and the BOT needed to oversee finances more carefully and frequently. Steve, the treasurer, took notes and he would later create the presentation once the finance committee came to a consensus. This was a time-consuming process and Steve was feeling frustrated. He was the third treasurer in 5 years, and the finance committee did not want to lose another one. Alexa felt that there had to be a better way to set up the accounting system so the automatically generated statements would meet the needs of the board without excessive time spent by the treasurer.

North Church

The North Church was founded 150 years ago in a coastal town in New England. It was a Congregational church with an active social justice mission and took pride in its inclusiveness. Current membership in 2019 consisted of about 130 households, a decline from over 190 households a decade earlier. Though the decline in membership was concerning, it was also not surprising given the regional trend of decreasing church attendance in the northeast United States in general (Bump 2018). The North Church did not have a large endowment and its operating budget was funded primarily from member pledges. Fewer pledging members meant a smaller operating budget. The church had had to make a number of difficult decisions in the past decade, including going from two services to one service on Sundays, reducing the working hours for the director of religious education and the minister of music, eliminating the part-

time sexton² position, and delaying costly building repairs. Currently the church had a full-time minister, a half-time director of religious education, a quarter-time minister of music, and a three-quarter-time office manager. It relied heavily on volunteers for many functions, from teaching Sunday schools, to building maintenance, yardwork, snow removal, and substituting for paid staff when they went on vacation or got sick.

Church Management and Operation

North Church was led by a board of trustees (BOT) whose members were elected by the congregation and served staggered terms. The BOT was supported by a finance committee and a personnel committee for important management decisions. The treasurer, working with the finance committee, prepared monthly financial statements for the BOT meeting. Each year in March, the finance committee and the treasurer prepared a draft budget for the following fiscal year, which ran from July through June. The BOT reviewed the draft budget and made adjustments based on estimated pledge results. The proposed budget would be voted on by the congregation in their June annual meeting. The finance committee also oversaw investment activities of the church's endowments and long-term funds. Currently, investment activities were carried out by the investment subcommittee, which reported to the finance committee.

The treasurer was also a volunteer position and elected by the congregation. Responsibilities of the treasurer included being the signatory of the church in most finance transactions and recipient of bank statements, as well as assisting the office manager and the finance committee in preparing financial reports and annual budgets. The treasurer was a member of the BOT and an ex-officio to the finance committee. Finding a qualified volunteer to serve as treasurer was not easy for the church. This person had to be knowledgeable in finance and accounting, trustworthy, and had time. North Church had had two treasurers in the previous four years and everyone hoped that Steve, the new treasurer, would serve for a longer term.

Church Accounting and Financial Reporting

The goal of the financial reports was to inform the BOT, the minister, and the congregation about the financial performance and health of the church. The main financial statements for nonprofit organizations included the statement of financial positions, the statement of activities, the statement of cash flows, and the statement of functional expenses. However, the North Church purchased a for-profit version of a popular bookkeeping software and did not have time to customize it specifically for a nonprofit organization. This operating practice continued to date. North Church generated a profit & loss statement (Exhibit 1) instead of the statement of activities and a balance sheet (Exhibit 2) in place of the statement of financial position.

² A sexton did general maintenance and custodial tasks for a church.

However, not all church activities were included in the current statement. For example, once each month the church donated its Sunday plate collections to a charity in the community. It was referred to as 'Give Away Sunday'. This amount was not in the budget nor part of the church's operation. It was a contribution from the church to the community and should have been reported back to the congregation. Another example of such self-funding activities was the church's annual retreat. Participants of the retreat paid the actual costs and the church simply did the bookkeeping for the retreat, but no church funds were used. To generate reports to the BOT, the treasurer manually kept track of the Give Away Sunday plate donations. Special reports would need to be created manually when a self-funding program needed an update on their account balances.

In order to reduce the amount of time needed for bookkeeping, the previous treasurer converted the church's accounting policy to be cash basis so that they no longer had to keep track of contributions receivable and late pledges. The North Church owned its buildings and it did not have any long-term debt. However, it did not keep track of the values of any of its fixed assets, which was another reason for using cash accounting. Of course, it was important to report its cash holdings in the bank and market values of its investments in brokerage accounts. Concerned for the long-term viability of the church, a core group of members started an effort to build up an endowment fund. In the past members had designated gifts to the church but the amounts tended to be small, from a few hundred to a few thousand dollars. There was no formal endowment policy and some gifts were restricted while others were not. These funds were comingled with church cash and investment assets in the same accounts managed by the investment subcommittee.

Two years ago the finance committee developed a formal endowment policy which was approved by the congregation. As a result of the newly adopted policy, the finance committee instructed the investment subcommittee to open separate investment accounts for endowments and other church operations. There would be two accounts for the endowment: Endowment-Vanguard Money Market Fund and Endowment-Vanguard Group Fund; and two accounts for the other church operations: General Purpose Investment-Vanguard Group Fund and General Purpose Investment-Vanguard Money Market Fund. These changes should be implemented in the coming year. In addition to investment accounts, the church had two checking accounts at North Bank: one for regular church business and one dedicated to the recently completed capital campaign. The church also had a PayPal account that enabled it to accept credit card transactions at fund raising events. The balances at the General Purpose investment accounts and at the North Bank included balances for self-funded programs such as the Robotics Team and Retreat; reserves for committed future expenses such as minister's discretionary fund, minister's sabbatical, future capital improvement, future office equipment purchases; and a prudent reserve of \$40,000, approximately two month's expenses.

Financial Challenges

After experiencing operating deficits for a number of years, the BOT asked the finance committee and the treasurer for suggestions to improve financial oversight. Financial reporting had been a significant burden for a while. In order to be able to present the true financial status of the church to the BOT each month, the treasurer had to go through the books with the office manager, corrected misclassifications manually, and added transactions not included in automatically generated reports from the software. The finance committee and the treasurer were aware of several shortcomings of the current chart of accounts, especially after the conversion to cash accounting. While the church no longer kept track of late pledges and pledges receivables, it continued to put aside reserves for future expenses such as minister's sabbatical, building maintenance, etc. Steve and Alexa believed that updating the chart of accounts would improve quality of bookkeeping and reduce the amount of time needed to generate financial reports. After another marathon meeting in early spring, the finance committee, Steve, and Alexa decided to seek outside help. The minister agreed and enrolled the members of the finance committee in a webinar on church finance. From the webinar, they learned that they should follow not-for-profit accounting principles, especially classifying funds into donor-restricted and donor-unrestricted categories under current FASB ASU 2016-15 (Topic 958). Alexa had connections with a nearby state university and they decided to recruit an accounting student intern to review the church's current statements and to implement necessary changes to the chart of accounts in order to follow not-for-profit accounting principles.

References

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Exhibit 1: Current Profit and Loss Statement

	<u>TOTAL</u>
	<u>Jul - Jun</u>
Ordinary Income/Expense	
Income	
Fund Raising Activities	16,637
Offertory Plate Contributions	10,429
Other Income	
Facilities Usage Contributions	4,061
Interest Income- Checking Acct	8
Miscellaneous Income	3,022
Property Capital Transfer	0
Total Other Income	<u>7,091</u>
Pledge Income	
Pledge - Current	193,301
Pledge - Early	16,423
Pledge - Late	3,794
Total Pledge Income	<u>213,519</u>
Total Income	<u>247,676</u>
Gross Profit	247,676
Expense	
CHURCH OPERATION	
Annual Pledge Drive	0
Board of Trustees	942
Insurance - Worker's Comp	1,885
Payroll Taxes	0
Total CHURCH OPERATION	<u>2,828</u>
DENOMINATIONAL SUPPORT	
Regional association support	3,960
National association support	3,960
Total DENOMINATIONAL SUPPORT	<u>7,920</u>
FACILITIES	
Custodial Services	8,217
Electricity	2,600
Insurance - Liability	2,767
Insurance - Property	2,241
Maintenance - Property Committee	4,173
Oil	15,209
Sexton's Expenses	616
Water & Sewer	1,028
Total FACILITIES	<u>36,850</u>
MINISTRY	
Minister	
Salary - Minister	46,937
Housing Allowance	23,756

	<u>TOTAL</u>
	<u>Jul - Jun</u>
Disability Insurance - Minister	755
Health Insurance - Minister	10,543
Life Insurance - Minister	580
Pension Contribution - Minister	7,535
Professional Expenses - Minister	3,194
Total Minister	<u>93,299</u>
Sabbatical	0
Social Security Paid On Behalf of Minister	5,776
Worship Committee	1,018
MINISTRY - Other	6
Total MINISTRY	<u>100,101</u>
MUSIC	
Minister of Music	
Salary - Music Minister	25,643
Health Insurance	4,003
Music Min. Social Security	1,471
Pension, Music Minister	2,564
Professional Expenses - Music Minister	601
Total Minister of Music	<u>34,282</u>
Music	107
Music Committee	1,768
Piano/Organ Tuning	346
Subst/other	1,458
Total MUSIC	<u>37,960</u>
OFFICE ADMINISTRATION	
Office Administrator Salary	27,093
Bank Service Charge	17
Bookkeeping Services	2,189
Information Technology	735
Office Administrator, Social Security	1,687
Office & Computer Supplies	1,001
Office Equipment Fund	439
Other	0
Payroll Processing Fee	140
Pension Contribution - Office Administrator	2,939
Postage & Mailing	744
Printing & Copying Expense	2,992
Telephone & Communications	1,864
OFFICE ADMINISTRATION - Other	1,797
Total OFFICE ADMINISTRATION	<u>43,636</u>
PROGRAM COUNCIL	
Caring Committee	69

	<u>TOTAL</u>
	<u>Jul - Jun</u>
Green Team	47
Hospitality	638
Program Council	84
Social Justice Committee	13
Total PROGRAM COUNCIL	<u>850</u>
RELIGIOUS EDUCATION	
Child Care Services	3,025
Child Care Soc Security	0
Director of Religious Education (DRE)	
Salary - DRE	32,892
Social Security	3,722
Disability Insurance - DRE	329
Health Insurance - DRE	5,281
Life Insurance - DRE	253
Pension Contribution - DRE	3,289
Professional Expenses - DRE	2,260
Total Director of Religious Education	<u>48,026</u>
Religious Ed - Adult	0
Religious Ed - Children	
Awards & Special Events	104
Background Checks	290
Copies, Printing, Postage	676
Curricula & Books	255
Food	686
Guest Speakers	275
Sex Ed Teaching Training	385
Supplies	1,586
Youth Group	287
Total Religious Ed - Children	<u>4,544</u>
Total RELIGIOUS EDUCATION	<u>55,595</u>
Total Expense	<u>285,740</u>
Net Ordinary Income	-38,064
Other Income/Expense	
Other Income	
Investment Fund Change in Value	29,430
Gift Income	16,298
Total Other Income	<u>45,728</u>
Other Expense	
Commission/Stockholder Fee	8
Total Other Expense	<u>8</u>
Net Other Income	<u>45,720</u>
Net Income	<u><u>7,655</u></u>

Exhibit 2: Current Balance Sheet

	Jun 30 - Current Year	Jul 1 - Previous Year
ASSETS		
Current Assets		
Checking/Savings		
Checking - North Church	43,190	39,618
North Church -Auction Purchases	664	5,063
Total Checking/Savings	43,855	44,681
Other Current Assets		
Investments		
Fidelity Fund Investments	28,195	43,328
Vanguard Investments		
Vanguard Group	333,911	282,808
Vanguard Money Market	6,417	14,467
Total Vanguard Investments	340,328	297,275
Total Investments	368,523	340,603
Total Other Current Assets	412,378	385,284
Total Current Assets	412,378	385,284
TOTAL ASSETS	412,378	385,284
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable		
Accounts Payable	-1,021	403
Total Accounts Payable	-1,021	403
Other Current Liabilities		
Current FY Budgeted Expenses		
Sabatical	1,320	0
Office Equipment Fund	1,100	0
Total Current FY Budgeted Expenses	2,420	0
Other Current Liabilities		
Capital Equipment Fund	6,408	5,500
Sex Ed Program	718	242
Self-funding Programs		
Community Giving	-507	1,326
Junior Youth Group Fund	749	749
Minister's Discretionary Fund	2,034	4,650
Retreat	381	2,131
Senior Youth	266	266
Robotics Team	358	473
Women and Girls Ceremony	1	1
Total Self-funding Programs	3,281	9,595
Short-term Funds		

	Jun 30 - Current Year	Jul 1 - Previous Year
Smith Fund	1,800	2,561
Jones Fund	1,155	1,155
Music Fund	1,617	1,617
Other Memorial Funds		
In Memory of	440	440
Other Memorial Funds - Other	3,433	3,362
Total Other Memorial Funds	3,873	3,802
Brown Fund		
Building Feasibility Fund		6,159
Brown Fund - Other	1,706	-4,453
Total Brown Fund	1,706	1,706
Total Short-term Funds	10,151	10,841
Total Other Current Liabilities	20,558	26,178
Payroll Liabilities	1,163	1,144
Total Other Current Liabilities	24,141	27,322
Total Current Liabilities	23,120	27,724
Total Liabilities	23,120	27,724
Equity		
Change in Invested Funds		
Dividend & Interest	5,796	0
Change in Invested Funds - Other	154,948	0
Total Change in Invested Funds	160,744	0
Retained Earnings	219,452	316,386
Net Income	9,062	41,173
Total Equity	389,258	357,559
TOTAL LIABILITIES & EQUITY	412,378	385,284