THE FOURSQUARE CHURCH

Financial Reporting

What are financial statements?
"Financial statements" for a nonprofit organization is a defined set of financial reports that usually include the following:

- **A statement of activities** (also referred to as an income statement or profit and loss statement) provides a summary of the inflows (revenues) and outflows (expenses) of the organization over a given range of time.
- **A financial position statement** (also referred to as a balance sheet) provides an overview of assets, liabilities and net assets as a snapshot (or particular date) in time.

It is standard practice for businesses and nonprofit corporations to present financial statements that adhere to accounting rules called "generally accepted accounting principles (GAAP)" to maintain continuity of information and presentation across international borders. Financial statements are often audited by government agencies, accountants, firms, etc., to ensure accuracy and for tax, financing or investing purposes.

However, in the local church context, it is customary to present financial statements using a non-GAAP format generally called "modified accrual basis." This format incorporates many GAAP principles but does not include capitalization and depreciation of assets and other non-cash accounting entries that can be confusing and irrelevant to church council members. A modified accrual basis is particularly appropriate when no external financial reporting requirement (to banks, creditors etc.) exists. Under this format, church leaders and councils limit their focus to analyzing the financial activities and current financial position (working capital) of the church monthly.

Important financial reporting principles for churches

- **Analyzing variances** - Churches should monitor their financial activities relative to the approved budget. Each month, church councils should review a statement of activities that lists the budgeted income and expenses next to the actual income and expenses, allowing the dollar (and %) variance in each budget category. This process illustrates whether the church is operating at a surplus or deficit for a given period and indicates whether the approved budget is being followed within a reasonable degree of accuracy.
- **Monitoring fund balances -** Federal financial reporting guidelines require churches that receive donations with donor-imposed restrictions to track these activities separately from unrestricted income and expenses. This process generally requires

an added level of sophistication in the accounting system to allow financial activities to be labeled by fund category.

Proper accounting of the donor-restricted funds is important to ensure restricted donations are not spent on church operations, as this represents a serious violation of state and federal laws.

Don't underestimate this aspect of church administration

As you can see, clear and understandable financial reports are absolutely central to the effective stewardship of local church resources. If bookkeeping is not handled with proficiency and financial reports are not accurate and understandable, church leaders cannot make informed decisions.

While senior pastors are not expected to have extensive knowledge of managerial finance and accounting, they must have sufficient training to interpret the financial statements at a basic level and be supported by a person or team that can interpret them professionally. At some point, financial management will intersect with almost every ministry function of the church, so the church finances must be managed with a high level of expertise.