



Blazing the Paper Trail

How Church Leaders Can Practice Better Documentation

By Stephen Ballas

Not all churches understand the crucial role of detailed financial documentation and the importance of well-created financial statements. Further, some ministries just don't have the in-house expertise to create them.

So, let's examine how to avoid some common problems and pitfalls, and how to understand the procedures that will help make your financial statements more accurate, reliable and useful.

Who's Responsible?

First, we must dispel some misconceptions with regards to who actually creates financial statements. Each organization is different and should be careful and prudent when deciding who will be responsible for its financial reporting. This is the critical first step in better documentation for which there can be no compromise.

Today, many fine accounting programs are available for the computer which, when used by a properly trained individual, meet most requirements. In this case, a committed individual within the church office is a viable choice to create financial statements.

In other instances, a church leader might find a small accounting firm that has experience with nonprofits and therefore can assume the burden of compiling and producing financial statements.

For the larger ministry that needs the most sophisticated financial reports, some CPA firms specialize in non-profit religious organizations.

Finally, "big 3" accounting firms have specific subgroups dedicated to not-for-profit organizations. It's important to note, however, that going to a national CPA firm doesn't guarantee sound work or accurate financial statements.

Better Documentation

As Arizona Baptist Fund found out when it used the same firm as Enron, the critical factor isn't the amount of dollars represented in the statements, but what's required in your individual situation by

those requesting and reviewing the financial statements, as well as their reason for the review. An excellent way to find out the perceived need for a certain level of statement quality is to simply ask those who request the statements.

No financial statement will be of value if it's based on incorrect, erroneous or fraudulent data. The most sophisticated computer program — even the best CPAs — won't be able to provide a reliable compilation of the ministry's financial condition if what they receive is inaccurate. This necessitates reviewing the most basic parts of the church operations in which funds are involved, and creating procedures and accountability for each operation.

One of the major areas in which inaccurate data is generated revolves around various aspects of church income. In times past, errors were generally found within the person or persons who tabulated the tithes and offerings, and they typically made honest counting mistakes.

Today's churches have income flowing in from many profit centers, including cafes, bookstores, travel services, etc. — not simply offerings during church services. If this is the direction your church is heading, you can no longer ask senior saints to count the coins. The increased complexity of income sources necessitates place procedures not only for the physical task of recording the funds, but also for monitoring from which department(s) the revenue stems. It's critical that funds from these different parts of the organization not be commingled if you want to produce financial statements that not only reflect the true condition of the ministry, but will be of more use to those leading decision-making.

Another area of potential financial error by a ministry is the lack of internal tracking of spending. The problems don't arise because of dishonesty, but rather an unwillingness to demand compliance.

The results are seen as cash-flow problems. Because of the lack of documentation, there's inability to provide data from which a reliable set of

financial statements can be created. The reality is that most of those who work in ministry are volunteers. Those who manage them might not feel comfortable demanding a volunteer be held responsible for financial mistakes.

One important thing to remember is that the most successful strategy for cooperation is to keep procedures and paperwork simple. The less demanding the task, the more likely compliance.

Various other documents are critical to accurate compilation of information used in creating financial statements. Items such as leases for equipment, loan documents, insurance policies, previous years' financial statements (especially if you're changing accounting firms) — all are critical to organize.

Then there are the more unusual kinds of documents, such as records of gifts received; agreements with individuals or organizations to provide services or items; and legal settlements or judgments. These, as well as all the others, should be managed under a policy or procedure that protects the documents for the required legal period and, as needed, provides support to the administrative team for the creation of accurate financial statements. Each document should be securely filed — preferably offsite — to prevent accidental destruction.

Also, the church would be wise to implement a review process to eliminate those documents that are no longer needed and may be shredded.

Reaping the Benefits

The following are some of the ways in which better documentation pays off:

- Lenders will have more confidence in your financial statements.
- Ministries can plan for the future using reliable data.
- Leadership will have confidence to make important ministry decisions.
- The documents can be used to evaluate areas within the ministry.
- Potential financial problem areas will be uncovered.
- Financial statements can be used to encourage giving by the congregation.

With proper documentation, church leaders can produce more accurate financial statements, and therefore realize operational efficiencies. This lets them focus on what really matters: ministry. 

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