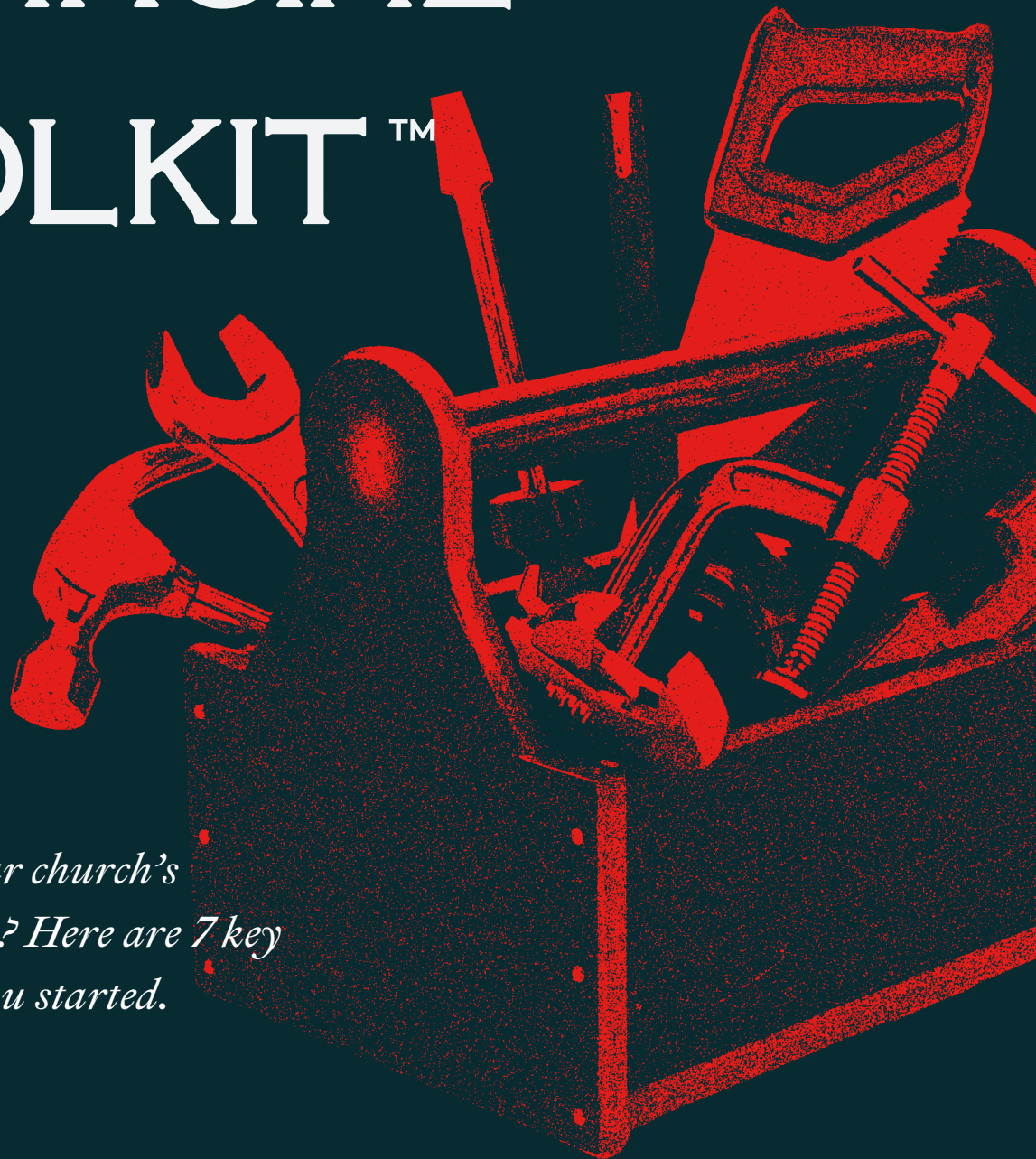




YOUR CHURCH FINANCIAL TOOLKIT™

*Want to rock your church's
financial systems? Here are 7 key
processes to get you started.*



WHAT IS A FINANCIAL OPERATING SYSTEM?

Every church has a financial operating system of some kind, whether they define it or not. It is how they organize, manage, and try to make informed decisions based on their information. From our years of experience working with churches large and small, we have found that there are seven components every church needs to have a healthy and thriving financial operating system. Churches that are weak in any, or all, of these components are often most vulnerable to money mismanagement, cash flow emergencies, and even fraud.



What are the components?

Nº1—BOOK RECONCILIATION

Reconciliation is the process of making sure that the money you think you have matches what your bank account says you have. It is tracking carefully the donations that come in with the expenses that go out. It is making sure that money is accounted for accurately, that reports are timely, and budgeting is actionable. Whoever is doing your weekly bookkeeping should be an expert who also understands the church context.

Why is accurate reconciliation important?

The devil is in the details. Minor unknown errors can build up into big problems. For example, your church sends monthly support to missionaries. However, without realizing it, the same invoice for one of the missionaries was entered again and paid out the following week. Situations like this happen more often than you think, and it ties up cash the church could be using for other ministry purposes.

Short-term shortcuts may lead to future regret. Most churches are on a tight budget and rely heavily on volunteers to save costs, and it works. However, in financial management, it is crucial that whoever handles the finances is competent and thorough. For example, we talk with pastors all the time who thought their books were clean until they find out they now need to spend thousands of dollars for a company to clean up their books so they can get a bank loan to purchase a building.

What are some practical questions you should be asking yourself?

- Are you confident your books are accurately reconciled monthly?
- Do you have a yearly audit from a third party?
- Do you have a budget and review the monthly activity?
- Is your chart of accounts easy to understand?

Nº2—CONTROLS

Controls are the policies and procedures a church has which aids in functionality, efficiency, and accountability. For controls to be adequate, systems should be followed, and responsibilities should be clearly defined. An example of an essential control is that weekly counting should always have two sets of eyes for both counting and recording. Other examples of healthy controls or dual check signing, dual bill paying, and timesheet approval. Utilizing controls can take the burden of financial accountability off the forefront of your mind so that you can lead with confidence.

Why are healthy controls essential?

Protection from financial predators. It is sad to say, but non-profits today have become prey to theft and embezzlement in the multiple billions of dollars each year. People are posing as faithful followers just to get into the inner workings of a church's finances. Church leaders want to believe the best of others and not be so rigid on rules and policies, but without reasonable controls, they make the church vulnerable to all sorts of attacks.

Alleviate little temptations. Not everyone who embezzles or mismanages church donations sets out to do so. Some of the most common theft stories are good people who fall on hard financial times and have too little oversight. Other situations come from disgruntled ministry leaders who intentionally take funds or do not give access to money out of spite. Either way, a wise church leadership team puts into place a process that protects everyone.

What are some practical questions you should be asking yourself?

- What are your processes and policies for counting and entering donations each week?
Do you feel confident they protect the church from fraud?
- What embezzlement protection plan do you currently have in place?
- Do you have a defined process for paying bills and approving purchases?
- Are you thinking, "My church is too small for me to worry about controls?"

Nº3—PAYROLL

Payroll is the system put in place to make sure everyone is paid on time and accurately. Payroll can be complicated. Employers need to know how to handle W-2's, state taxes, and 1099s. They need to understand how to comply with labor laws unique to their state. They need to understand the taxes and benefit options that are available. Church payroll is especially challenging because of the unique and ever-changing rules for clergy. Do you know what defines a clergy? How much housing allowance can be deducted? Should you pay a part-time person as a contractor or as an employee? Qualified experts manage a healthy payroll component.

Why does an informed Payroll process matter?

Get set up right from the beginning. Pastors have several decisions they have to make that impact them financially. Do they want to opt out of social security and put that money into a Roth IRA? Do they plan to rent or buy a house? Asking the right questions at the beginning will help set up the employees correctly from the start.

Surprises at tax time. Because of the uniqueness of non-profit provisions, many pastors have found themselves paying major tax bills at the end of the year because they were uninformed. One harmful tax law for clergy is that the IRS views them as self-employed regarding social security and medicare, which translates into higher taxes. On the positive side, clergy can take out housing allowance to offset their federal income tax. It is essential to know the distinction or pastors can find themselves paying thousands at the end of the year.

What are some practical questions you should be asking yourself?

- Are you paying your taxes on time?
- Are forms being submitted on time?
- Do you know how much housing allowance can be deducted?
- Are you complying with labor laws for part-time employees?

Nº4—BILL PAY

Bill pay is a process of paying bills that is easy, trackable, and auditable. Bill paying seems simple. You receive a bill; you pay it. However, a healthy bill pay component needs to have checks and balances as part of the process because of the impact large bills can have on the church's bank account.

We suggest having at least two sets of eyes on each bill before it is paid. One person checks to see that the bill is accurate, and the other checks to see that money is in the bank and that there will be no cash flow issues. Platforms like Bill.com can help create automatic approval processes that are automated and trackable.

Why is a healthy bill pay process important?

Embezzlement protection. Unfortunately, polls show that trust in church leadership is at a historic low. One reason for this distrust is the rampant money mismanagement that happens in the local church. A bill pay process that has two eyes on every transaction greatly reduces the chances that money is being used in the wrong way and builds confidence with your donors.

Cash flow protection. Emergencies happen, so unexpected expenses are inevitable. Also, certain times of the year are easier than others. Paying rent at the end of December when offerings are highest is much easier than when everyone is gone on vacation in the middle of August. Having a process where someone approves the bill, and someone else makes sure money is available can help head off any cash flow situations that may make it more difficult than it needs to be.

What are some practical questions you should be asking yourself?

- Do you know when to classify someone as an employee or contractor?
- What checks and balances do you have in place to pay your bills?
- Are you tracking monthly expenses, and do you know when something is missing?

Nº5—TECHNOLOGY

Technologies, sometimes called a tech stack, are the platforms used to support your financial processes and collect your financial data. Most churches today use some type of technology for their financial process. However, not all technology is created equally and can be frustrating to manage. Financial technology should be easy to use, scalable with growth, and aggressively mobile. Some financial platforms have lots of features but are clunky and difficult to use. Although there are many good cloud-based platforms, we have found Quickbooks Online, Gusto, Expensify, and Bill.com to be some of the best for churches.

Why does good technology matter?

“Difficult to do” means “never to do.” Software platforms are helpful when they make the processes easier. However, many financial platforms out there may be full of features but clunky and not user-friendly. For example, if church staff are asked to upload and code receipts each month, and the technology is challenging to use, those receipts will pile up, and reports will not be accurate.

Remote work is the new normal. The latest pandemic has changed the way people view the world and how they do work. Many churches, small and large, found themselves in a crisis during this last pandemic because the processes and the technologies they used were not mobile-friendly. Not only do mobile technologies make working remotely just as effective as in-person, but they also make mobile teaming with outsourced specialists easier than ever. Another benefit to cloud-based technologies is that there are no computer crashes that cause the loss of data. All your data is stored on the cloud and can be easily retrieved.

What are some practical questions you should be asking yourself?

- Are the current technologies you are using easy to use and train on?
- Are the platforms scalable as your church grows, or will you have to change platforms in the near future?
- Is your tech stack cloud-based and easy to integrate with platforms like Quickbooks Online?

Nº6—DATA

Data is the information that is collected regularly and can guide wise decision-making. Financial data that is accurate, timely, and easily interpreted can bring strategic clarity to any organization. This data is collected and documented using a financial platform such as Quick Books Online. Monthly financial reports organize and interpret the data. However, reports are only as good as the accuracy of the numbers. Monthly reconciliation is crucial to making sure the data you are looking at is right.

Why does accurate financial data matter?

What you don't know, you can't change. For example, a staff meeting was held on Monday to discuss why the giving has steadily gone down even though the church has added ten new families. They haven't analyzed that new attenders don't start regularly giving until six months after attending the church. They also don't know that 50 percent of first-time givers only give twice then stop giving. Without this level of detail, many decisions they make will be a shot in the dark.

A crisis can happen in a quarter. For example, we recommend churches should have anywhere from 3 to 6 months of operational budget in savings as a protective buffer for future unknowns. Churches that only measure weekly giving are looking at numbers that don't accurately reflect the future. A pandemic, an economic change, or a mass exodus of attendees can leave the church in financial ruin.

What are some practical questions you should be asking yourself?

- Do you have confidence that your financial situation is healthy for your size?
- Are the reports you receive timely, accurate, and actionable?
- Do you know how many givers you have, what platform they give on, and how often they give?

Nº7—STRATEGY

A good strategy aligns the story you want to tell with the story your finances are telling. The first step is creating a clear vision. What are your long-term goals? Are you planning to purchase a building in the future? What are realistic revenue projections? Once the vision is set, the next step is deciding what weekly measurables need to be placed. These numbers indicate if your numbers are on track or off in real-time track. How much money do you want to build in an emergency fund? What percent of your budget should go to missions? What percentage of your income should be the employee salary? Finally, you must know what to do with the data you see. At this stage, accurate reporting from regularly reconciled books is crucial. It may be good to get help from trained financial experts either in your church or outside sources to create a plan of action.

Why does a financial strategy matter?

Vision without money alignment is just a dream. Church leaders love to cast a vision for their church. They are often skilled at painting a picture of a hoped-for future. However, the money needs to align with the vision for it to happen. For example, if the disciple-making vision incurs costs for materials, hiring of staff, and conference training, the budget needs to reflect these costs. Your money needs to align with the specifics of this vision.

What are some practical questions you should be asking yourself?

- If your tithes and offering are declining, do you know what to do?
- Are you constantly reacting to the numbers, or do you have a proactive plan?
- Are you reacting late, or did you see this trend go down five weeks ago?
- Are you observing your trends? How do they compare year over year?

WHAT'S YOUR FINANCIAL OPERATING SYSTEM?



As mentioned at the beginning, every church has a financial operating system. If it's healthy, these seven vital components work together seamlessly. As you look at your financial operating system, have you found areas where you could make a greater investment in your church's financial health?

Parable's Financial Operating System is a turnkey suite of solutions you can customize to your unique mission. And it comes with a team of mission-minded experts with superpowers in accounting, bookkeeping, and consulting.

If you want to talk to someone about upgrading your financial operating system, we'd love to talk with you.

Reach out at liveyourparable.com/contact-us.