

Church Financial Statements: The Essentials

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Essential Church Financial Statements

This article is intended to help you start tracking your church financial statements. We'll start by going over the reports your organization needs to operate. Pretty much every type of organization needs two reports, but churches actually need a third report for their accounting.

Balance Sheet, Or The Statement Of Financial Position

Churches call the traditional balance sheet a statement of financial position. It uses the accounting equation "**Assets = Liabilities + Equity**" to show a snapshot of your organization's financial health. It also shows the current balance of each of your funds if you've been implementing fund accounting for your church.

Furthermore, an easy way to illustrate this is by saying the things you own, minus what you owe, equals your overall worth. This report will quickly show if your organization owes more than it owns.

ASSETS = LIABILITY + EQUITY

Sample Balance Sheet
(Statement of Financial Position)

| | | | |
|---------------------|-----------------|-------------------------------------|-----------------|
| Assets | | Liabilities | |
| Cash in Checking | \$10,000 | Accounts payable | \$10,200 |
| Accounts Receivable | \$1,000 | Loan | \$5,000 |
| Grants | \$8,000 | | |
| | | Equity(Net Assets) | |
| | | Retained earnings | |
| | | (program reserves) | \$3,800 |
| Total Assets | \$19,000 | Total Liabilities and Equity | \$19,000 |

Income Statement, Or The Statement Of Activities

The income statement, also known as the statement of activities, shows:

Income – Expense = Net Income (Increase in Net Assets)

Your net income equals the money you receive minus the money you spend. Net income also goes by net assets for churches. When viewing this financial statement, it will quickly show whether your church is making more than it is spending.

INCOME – EXPENSE = NET INCOME
(Increase in net assets)
Sample Income Statement
(Statement of Activities)

| | |
|--------------------------------------------|-----------------|
| Income: | |
| Cash Donations | \$10,000 |
| Grants | \$7,000 |
| Total Income | \$17,000 |
| Expenses: | |
| Rent | \$4,000 |
| Payroll | \$8,500 |
| Utilities | \$800 |
| Office Supplies | \$400 |
| Total Expenses | \$13,700 |
| Net Income (Increase in net assets) | \$3,300 |

Statement Of Functional Expenses

The statement of functional expenses is where you really see where fund accounting differs from traditional accounting. Furthermore, this report shows not only how much money you've spent, but breaks each expense down by fund and category. For instance, it can show the administrative costs across your whole organization. It can also show how much each fund has spent using these accounts. These reports can be very simple to make, assuming you've created an effective chart of accounts for your church and have recorded everything properly in your accounting software or on a spreadsheet.

Check out our [Ultimate Guide On Church Accounting](#) if you'd like to learn more about proper fund accounting for your church. Also, you can [read further on the topic of financial statements](#).