



9 ESSENTIALS OF
CHURCH
CASH RESERVES



Introduction

Introduction

The topic of cash reserves for churches is age-old. One church leader observes that setting aside little or no reserves ignores the biblical admonition to plan and set aside resources for lean times (for example, Joseph planning for a famine). Yet another says that establishing church cash reserves shows a lack of faith—“God is sovereign, and He will provide.” A healthy tension exists between these positions.

Still, most church leaders recognize the wisdom of having some cash reserves. So, if it is wise for a church to have cash reserves the questions are: how much is enough, how can a church build cash reserves, when should a church use cash reserves, and more? A key challenge is demonstrating wise stewardship without hoarding.

Why do churches need cash reserves? Consider these four reasons:

- 1. Cash reserves enable a church to honor God.** One of the primary reasons for a church to have adequate cash reserves is to honor God. John Wesley is attributed with the statement: “Our primary responsibility is to give the world the right impression of God.” Cash reserves allow a church to meet its obligations in a timely manner. Otherwise, a church will not give the world the right impression of God.
- 2. Cash reserves level out the ebb and flow of revenue and expenses.** Recurring digital gifts help minimize revenue fluctuations. Still, some months will reflect higher giving than others. Some expenses will be consistent from month-to-month, like mortgage payments and rent, while most other expenses will fluctuate. Cash reserves level out the ebb and flow of cash and allow the church to operate with integrity.
- 3. Cash reserves provide a financial buffer for unplanned events.** Consider these examples: A church was hoping to get another few years from the HVAC system, but it quit functioning in the middle of a hot summer. At another church, a lawsuit against the church is settled out-of-court, but the settlement and the associated legal fees are significant. Adequate cash reserves help a church weather these and many other types of unplanned events.
- 4. Cash reserves provide the financial platform to take advantage of potential opportunities.** Consider some opportunities that may be presented to a church. An outstanding leader inquires about employment at a church. The church does not have a budgeted position for the application, but the person would be an outstanding addition to the staff. For another church, a parcel of land that the church needs for expansion suddenly goes on the market and other buyers will soon snap it up unless the church can present a cash offer.

Since the church could not predict that the land would go on the market, the purchase of the land is not in the budget. Even though the budget did not provide for these opportunities, they might be considered if the church has sufficient cash reserves.

Go to the ant, you sluggard; consider its ways and be wise! It has no commander, no overseer or ruler, yet it stores its provisions in summer and gathers its food at harvest.

Proverbs 6:6–8

Various biblical texts illustrate that while God's provision often comes bountifully, it can fluctuate greatly during any given year. Diligent administrators exercise care to have adequate stored provision to help the community make it through the seasons. This requires both an understanding of the annual ebbs and flows and careful stewardship of all that God provides.

Creating and maintaining cash reserves is not as easy as it seems. It requires thoughtful planning and faithful administration. There may be pressure to pay down debt early, pressure to increase the compensation of staff, pressure for a new program—but these pressures do not discount the importance of creating and maintaining cash reserves.

The manner in which a church balances these cash liquidity opportunities will speak volumes about how that church demonstrates its financial stewardship.

1

Understand cash
reserves
philosophies

Understand cash reserves philosophies

There is a broad spectrum of church cash reserves philosophies. On one end of the spectrum, some say churches should have few reserves because “God will provide.” On the other end of the scale, some take the position that 12 months of operating reserves should be maintained. Most churches find neither extreme to be ideal for them.



Setting the cash reserves philosophy for a church generally is the responsibility of the church governing board. In churches where the operating budget must be approved by the congregation, the budget approval process may express the church’s cash reserves philosophy based on the reserves built in or not built into the annual budget.

Regardless of how the philosophy is determined, the question must be answered as to why the church should have cash reserves. Financial liquidity is one obvious reason. Other reasons can include debt service reserves, capital replacement reserves, restricted gift reserves, and church planting reserves.

Here are some observations on certain cash reserves philosophies:

- **Low cash reserves.** Some churches operate with few reserves, depending on the weekly cash flow of offerings and other revenue to cover expenses. While this approach demonstrates high faith in God’s provision, it also runs the risk of unexpected variances in cash flow resulting in cash shortfalls.
- **Adequate cash reserves.** Some churches have a few months of reserves—perhaps some capital replacement and mortgage reserves. These churches are reasonably protected from unanticipated spikes in revenues and expenses.
- **Excessive cash reserves.** In a few instances, churches pile reserves upon reserves, building balances that, at least in part, may have been provided by God to expand His work.

2

Make a plan to
generate cash
reserves

Make a plan to generate cash reserves

Perhaps you have heard a church leader say: “We must balance the cash budget and stay within the cash budget.” Staying within the cash budget is certainly preferable to operating outside the cash budget, but if cash inflows consistently equal cash outflows, cash reserves are not being depleted, nor are they being built.

*The wise store up choice food and olive oil,
but fools gulp theirs down.*

Proverbs 21:20

Because the process may take several years, churches need a plan to accumulate cash reserves, and that plan should be reviewed annually to determine viability.

Here are a few ways churches might build cash reserves:

- 1. Project next year’s revenue to be lower than current year expenses.** For example, a church may project the budget for the following year at 90% of the current year revenue. Then, if the ensuing year’s revenue is equal to or greater than the previous year’s revenue, the church does not spend all of the difference—some of the positive variance is added to cash reserves and some is used to fund other ministry opportunities.
- 2. Look for opportunities to reduce corresponding expense budgets to create cash reserves.** Occasionally, an opportunity to significantly reduce expense line items comes along. The savings can be set aside to add to cash reserves.

Example: A church program has run its course. Adhering to the old adage, “When your horse is dead, dismount,” the church discontinues a program, which has a significant budget. While there will be a temptation to simply reallocate the funds to another program, this is an opportunity to save the funds that were being applied to the discontinued program and shore up cash reserves.

- 3. Include a cash reserves line in the budget.** Some churches budget revenue conservatively and include a line-item in the budget for “Additions to Cash Reserves.” Then if revenue and expenses equal the budget, an automatic excess of revenue over expenses is generated and the portion not used for capital items goes directly to cash reserves.

4. **Add legacy gifts to cash reserves.** Churches occasionally receive gifts from wills or matured charitable trusts. These are excellent opportunities to add to cash reserves, if the gifts are not specified for a particular purpose.
5. **Budget depreciation.** If a church is using the accrual basis of accounting and budgets depreciation, this can be a way to build cash reserves—that is, if the depreciation exceeds expenditures for capitalized items.

Here is the bottom line: The *only* way to create cash reserves is when cash inflows exceed cash outflows. It is the “law of cash reserves.” If cash reserves are not planned, they probably won’t happen.

3

Consider the
impact of your
accounting
method

Consider the impact of your accounting method

The church's accounting method has a direct impact on tracking cash reserves:

- 1. Cash basis.** A church using the “cash basis” method of accounting simply reports all cash inflows and outflows when they actually occur. While this accounting method has limitations, it makes the tracking of cash reserves very simple. More inflows than outflows means that cash reserves have been increased; more outflows than inflows indicate that cash reserves have been decreased.

Example: A church started the year with \$100,000 in cash balances. Total cash inflows for the year were \$500,000 and outflows were \$575,000, leaving a cash balance at the end of the year of \$25,000—thus, the cash reserves were depleted by \$75,000.

- 2. Accrual basis.** Using the accrual basis of accounting, property and equipment are capitalized (recorded as assets and not expenses), depreciation of property and equipment is reflected as an operating expense, and mortgage interest payments are shown as an operating expense but principal payments are shown as reductions of liabilities. Therefore, the accrual (or modified cash/accrual) method can make it more challenging initially to determine cash reserves.
- 3. Modified cash/accrual basis.** Using this accounting method, the statement of activities (revenues and expenses) does not reflect the change in cash reserves because certain noncash elements may be included in, or excluded from, the statement.

Therefore, under the accrual or modified cash/accrual basis, the church must look to a statement of cash flows instead of a statement of activities (revenues and expenses) to determine increases or decreases in cash.

4

Account for
restricted gifts

Account for restricted gifts

The first priority for the use of cash reserves is to be sure that reserves are at least equal to unspent restricted gifts. A restricted gift is one that is for a purpose more specific than the broad limits imposed by the church's purpose and nature, such as (1) restricted for a country, (2) restricted for a project, or (3) other time or purpose restrictions.

For more on this topic, see the *10 Essentials of Giver-Restricted Gifts to Churches* Book.

Without sufficient reserves to cover unspent restricted gifts, a church may not have the resources to spend gifts restricted by givers in a timely manner.

Example 1: A church has \$100,000 of unspent funds restricted for missions. The church should have at least \$100,000 of cash on hand related to these gifts. Further, the \$100,000 should be excluded when calculating operating cash reserves.

Example 2: A church has total cash balances of \$200,000. Of this balance, \$75,000 represents unexpended restricted gifts. The \$125,000 difference represents operational cash reserves. See Essential 4 for a discussion measuring cash reserves.

Example 3: A church has total cash balances of \$300,000. At the same time, there are unexpended restricted balances of \$350,000.

The difference between \$350,000 and \$300,000 of \$50,000 means that the church has spent \$50,000 of restricted funds for operating purposes. In other words, the church has borrowed \$50,000 of restricted funds. The church should restore the full \$350,000 balance as soon as possible to ensure the timely use of restricted gifts.

Note: Gifts restricted by givers are different from unrestricted net assets designated by a board. Only givers can restrict gifts. Boards can designate unrestricted net assets and may remove the designation.

On the following page is a simplified Statement of Financial Position which illustrates how to measure cash reserves and determine if any of the reserves relating to gifts with donor restrictions have been borrowed for operating purposes.

YOUR CHURCH
Statement of Financial Position
August 31, 20XX

ASSETS:

Current assets:

Cash and cash equivalents	\$ 181,072 (1)
Deposits	<u>7,400</u>

188,472

Equipment-net	<u>281,916</u>
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Total Assets	<u><u>\$ 470,388</u></u>
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LIABILITIES AND NET ASSETS:

Current Liabilities:

Accounts payable	\$ 51,670
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Accrued expenses	37,857
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Note payable-current portion	<u>50,000</u>
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Total Liabilities	<u>139,527</u>
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Net assets:

Without donor restrictions:

Net investment in equipment	281,916
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Unrestricted, undesignated	<u>(33,071)</u>
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248,845

With donor restrictions – Purpose restricted	<u>82,016 (2)</u>
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330,861

Total Liabilities and Net Assets	<u><u>\$ 470,388</u></u>
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Note:

A. Cash and cash equivalents of \$181,072 (1) is greater than net assets with restrictions of \$82,016 (2).

Thus, no borrowing cash related to net assets with restrictions has occurred.

5

Prioritize cash
reserves needs

Prioritize cash reserves needs

In many situations, it isn't possible to determine precisely how much cash is needed for solid reserves. Some say a church must have three months of operating cash, others say six, but few churches have more than two or three months of operating cash reserves.

Some church administrators base the view of having three months of operating cash reserves in the Parable of the Minas in Luke 19:11-27. In the New Testament world, a mina represented three month's income. It was viewed as the level of start-up capital a steward needed to do fruitful work. While the primary aim of the parable teaches followers of Christ to put to work what God provides, the language instructs us that a mina, which could be equated with three months of operating cash, may serve as a prudent base for fruitful stewardship.

Here are just a few reasons why each church must determine how to prioritize reserves and what level of reserves is right for them:

- 1. Cash reserves are usually built in good financial times.** A church that is seeing revenue grow by 10% each year usually has some ability to generate additional cash reserves—if proper planning is done. Churches in a growth mode should take advantage of the opportunity to build appropriate cash reserves.
- 2. Cash reserves are almost never built in challenging financial times.** When a church is holding the status quo or is in decline, there are few opportunities to build cash reserves. This church is already “doing more with less” each year. Building cash reserves is not a priority—the focus is on survival.
- 3. The age of facilities often impacts the need for maintenance reserves.** A church with aging facilities and/or deferred maintenance needs to prioritize building reserves to replace and maintain facilities over and above the need for operating reserves.

6

Beware of
comingling cash
reserves with
operating cash

Beware of comingling cash reserves with operating cash

In the Scriptures, we find cash reserves and operating funds in separate places. For example, the Levites in the Old Testament had access to storehouses of reserves for their own provision and for the needy or foreigners in the land. In the New Testament, the disciples used a purse or money box that held what might be described as operating funds. Locating resources in separate places can define the purpose of funds.

If the church has a sterling record of not dipping into cash reserves, perhaps having all of the cash in one basket is acceptable—assuming the amount in the basket is covered by FDIC/NCUA¹ insurance by the church's banking institution. If cash reserves exceed insured levels, it is wise to monitor the rating(s) of the financial institutions.

While a church can still manage to borrow from reserves placed in a separate account, it simply requires more intentionality to use the funds. If there is a temptation to reach into reserves, using separate financial institution accounts for the debt service reserves and the capital replacement reserves is generally a prudent solution.

For example, it should be much more difficult to use debt service reserves to comply with mortgage covenants. Perhaps use a separate financial account with multiple approvals and signatures.

¹ Federal Deposit Insurance Corporation/National Credit Union Administration.

7

Adopt a cash
reserves policy

Adopt a cash reserves policy

A church should consider the following in developing its policy on cash reserves:

- a. **Restricted gift reserves.** A sound policy requires the church to maintain cash reserves at least equal to the unexpended balance of designated or restricted gifts.
- b. **Debt service reserves.** If the church has debt, the policy should require maintaining reserves in conformity with mortgage reserve requirements—typically enough to cover several months of mortgage payments. Even without mortgage reserve requirements, a church should maintain sufficient reserves to ensure that revenue fluctuations will not impair the church’s ability to keep the mortgage payments current.
- c. **Capital replacement reserves.** If the church owns its facilities, it is important to consider the life cycle of heating/air conditioning systems, roofing, parking lots, and more. A church with aging facilities and/or deferred maintenance may need to give a high priority to building reserves to replace and maintain facilities over and above the need for operating reserves. As Tim Cool with Cool Solutions says in his ebook, *5 Intentional Steps to Establish a Capital Reserve Account*: “All buildings deteriorate and deferred maintenance accelerates the deterioration.”

A policy guiding the maintenance of capital replacement reserves can be based on projected life cycles.

- d. **Church planting and other ministry reserves.** Whether planting a new campus, a new church, or pursuing other major ministry opportunities, cash is needed to get started. Building these reserves will probably not occur without setting goals, perhaps guided by a policy.
- e. **Operating reserves cap.** A policy establishing a cap on operating reserves communicates that the church is being wise in stewardship rather than hoarding. A cap can be set as a percentage of the budget or as a dollar amount.
- f. **Operating reserves floor.** After setting a policy on reserves for restricted gifts, debt service, and other specific reserves, a church should have a target for an operating reserves floor. The operating reserves floor is the level the church hopes to avoid going below.

Be careful not to set policies that are too restrictive in practice to be helpful.

8

Communicate
the value of
reasonable
cash reserves

Communicate the value of reasonable cash reserves

Building cash reserves in a communication vacuum can create questions, or worse, misunderstandings about why the church is maintaining cash balances instead of expending the funds. Sharing information about cash reserves is often done in a periodic or annual member meeting.

Attentive church administrators communicate both clear measurements and the rationale for certain levels of operating cash and cash reserves. Such clear communication can boost congregational confidence for greater giving. Prudent attention to this facet of stewardship can encourage greater participation in the gospel.

When a church clearly communicates that reasonable cash balances are needed for unexpected contingencies, mortgage reserves, capital replacements, and more, most givers will recognize the wisdom in this approach. Having adequate cash reserves does not exhibit a lack of faith, but reflects attentiveness to good stewardship.

*The plans of the diligent lead to profit
as surely as haste leads to poverty.*

Proverbs 21:5

9

Measure
cash reserves

Measure cash reserves

In Genesis 41, we find an unforgettable story about reserves. Pharaoh had a dream, which Joseph interpreted, that Egypt would have seven good years and seven lean years. This knowledge positioned Joseph to steward the abundance from the good years on reserve in a storehouse to save countless lives through the time of famine.

There are many lessons we can learn from this Old Testament story. Among them, and on the topic of measuring cash reserves, we discover the importance of attentive stewardship. Attentive stewards evaluate the needs of the community alongside God's seasonal provision, to ensure appropriate reserves are available and ministry is not hindered.

Common approaches to measure church cash reserves. There are two basic options for measuring cash reserves:

Some churches set their cash reserve goal based on a specific dollar amount. While this may be a convenient way to set the cash reserve goal, it will require adjusting the cash reserve target amount from time-to-time based on changes in the church's revenue or expense levels.

Projecting cash reserve goals based on the number of months of cash is a common practice. The precise number of months of cash reserves target will depend on many factors including: the church's cash reserve philosophy, the church's rate of growth, and any changes in overall giving patterns. It is not enough for a church to simply look at operating expenses when determining cash reserves. Here is the typical calculation:

- Total operating expenses (excluding amounts expended from net assets with donor restrictions)
- $\frac{\text{total operating expenses}}{12} = \text{monthly operating expenses}$
- $\frac{\text{monthly operating expenses}}{\text{available cash}} = \text{The number of months of operating cash}$

(available cash [total cash and cash equivalents plus investments readily convertible to cash less cash equal to unexpended restricted gifts and current liabilities])

A BETTER concept to measure church cash reserves. A more effective approach to measure cash reserves combines the typical months of cash concept with carving out cash

balances that are not available for operating purposes. Use the easy 6-step approach shown on the following worksheet to determine available operating cash and reflect the number of months of operating cash compared to the cash reserves target.

STEP 1—Determine monthly operating expenses based on the church’s annual operating budget. Exclude releases from net assets with donor restrictions. The significant use (releases) of net assets with restrictions could skew the cash reserves calculation.

STEP 2—Determine total available cash. Include cash in bank, cash equivalents plus investments readily convertible to cash.

Subtract unexpended funds with donor restrictions.

Subtract mortgage reserve amounts. Even if a mortgage does not have cash reserve requirements, it may be wise to include mortgage reserve amounts in the calculation.

Subtract major facility maintenance reserves. This is especially important for church facilities with significant deferred maintenance and or aging facilities.

Subtract current liabilities. A church should have enough operating cash to cover current liabilities. This is especially important if some liabilities are not current and/or if there is significant deferred revenue.

STEP 3—Determine net available operating cash by subtracting the cash reserve set-asides from total cash.

STEP 4—Determine number of months of operating cash.

STEP 5—Reflect the number of months cash reserve goal. This goal could vary depending on the month of the year. For example, the goal might be lower for months when cash is typically lower and higher when cash is generally higher.

STEP 6—Calculate the number of months of cash reserves over or under the target.

Cash Reserves Worksheet

	Months			
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
Step 1 – Determine monthly operating expenses				
A. Monthly operating expenses divided by 12 ¹	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Step 2 – Determine total available cash				
B. Cash and cash equivalents plus investments readily convertible to cash	1,140,000	1,100,000	1,025,000	1,150,000
C. Subtract cash to cover unexpended gifts with donor restrictions	70,000	90,000	65,000	85,000
D. Subtract cash needed for any mortgage reserve	380,000	380,000	380,000	380,000
E. Subtract cash needed for major facility maintenance or capital replacement reserves	200,000	200,000	175,000	175,000
F. Subtract cash equal to current liabilities	<u>190,000</u>	<u>220,000</u>	<u>180,000</u>	<u>210,000</u>
Step 3 – Determine net available operating cash				
G. Net available operating cash (B less C, D, E, F)	<u>200,000</u>	<u>210,000</u>	<u>225,000</u>	<u>300,000</u>
Step 4 – Determine number of months of operating cash				
H. Cash (G) divided by monthly operating expenses (A) = Number of months of cash	1.00	1.05	1.12	1.50
Step 5 – Reflect the cash reserve goal				
I. Target number of months of cash reserves	<u>3.00</u>	<u>2.80</u>	<u>2.80</u>	<u>2.70</u>
Step 6 – Calculate the variance between actual and the goal				
J. Over or <under> cash reserves target	<u><2.00></u>	<u><1.75></u>	<u><1.68></u>	<u><1.20></u>

¹ In this example, the annual budget is \$2.4M.

Now what?

Action Steps to Excellence

Now What? Action Steps to Excellence

- Determine the cash reserve philosophy for your church.
- Make a plan to generate cash reserves and review it annually for viability.
- Consider the church's accounting method and make sure to calculate cash reserve increases or decreases accordingly.
- Account for all unspent restricted gifts and exclude that amount when calculating operating cash reserves.
- Prioritize the need for cash reserves by considering factors such as the current financial climate, the need for mortgage reserves, capital replacement reserves, and more.
- To avoid the temptation to dip into cash reserves, keep separate financial accounts for cash reserves and operating cash.
- Adopt a cash reserves policy which includes discussion of various types of reserves (designated or restricted gifts, debt service, capital replacement, church planting, and more), as well as an operating reserves cap.
- Communicate to staff and givers the value of reasonable cash reserves as a part of good stewardship.
- Calculate and compare actual cash reserves to the cash reserves target using the worksheet in Essential 9.

Resources



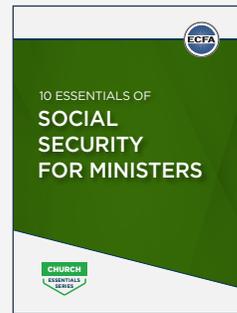
ECFAPress eBooks in the Church Series



10 Essentials of Forming a Church

Churches form to give followers of Christ the opportunity to worship together, grow in faith, and meet the needs of the local community. There are also practical legal and financial consequences that arise when organizing a church. This book provides an overview of the ten most fundamental issues to consider when

starting a new church.



10 Essentials of Social Security for Ministers

Social security tax is one of the most complicated issues for many clergy in the U.S. It all starts with two types of social security—and a minister might be subject to both types of social security in the same tax year. The tax forms do not provide a convenient way to calculate the amount subject to social

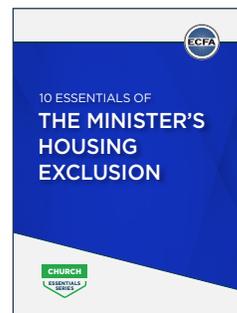
security tax. Understanding these ten fundamentals provides a good grasp of the social security basics that are often puzzling to ministers.



10 Essentials of Taxes for Ministers

This book provides a cogent overview of the ten most basic fundamentals of clergy tax. Clergy who understand these ten fundamentals will have a better understanding of the Federal tax issues impacting them. Some of these crucial issues include the clergy housing allowance, expense reimbursements,

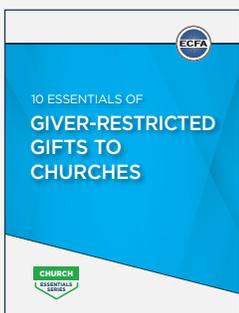
social security tax, and more.



10 Essentials of the Minister's Housing Exclusion

The minister's housing exclusion provides an income tax advantage to nearly every minister—in some instances ministers can save thousands of dollars per year using this tax provision. Maximizing this benefit requires coordination with the church, keeping good records of housing

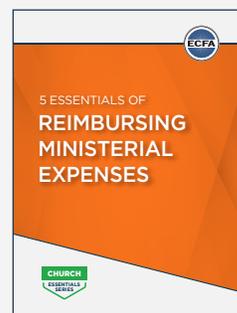
expenses, and applying the housing exclusion limits provided in the tax law. If you understand these essentials, you will have a sound understanding of the housing exclusion basics for ministers.



10 Essentials of Giver-Restricted Gift to Churches

Givers often make gifts to churches for specific purposes and many of these gifts are in response to resource-raising opportunities shared by churches. These gifts, often called “designated” or “restricted,” must be expended consistently with giver intent. This booklet outlines the way churches can handle

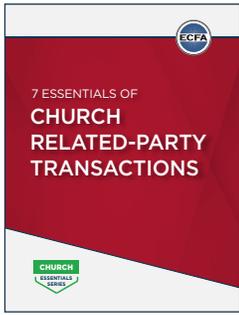
giver-restricted gifts with integrity.



5 Essentials of Reimbursing Ministerial Expenses

How a church handles the payment of business expenses incurred by staff speaks volumes about the integrity of the church. Adequate substantiation is the starting point to qualify business expense reimbursements for tax-free treatment. This booklet covers the steps for churches to maximize stewardship

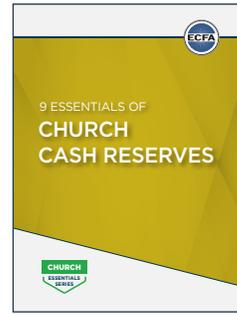
for both the church and staff.



7 Essentials of Excellence in Related-Party Transactions

Conflict of interest situations are common with churches—when a person who is responsible for promoting church interests is involved at the same time in a competing personal interest. A church should only enter into related-party transactions if strict guidelines are met. Even then, the risk of misperceptions may

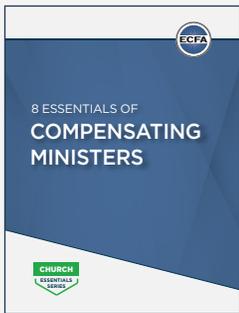
cause church leaders to choose to avoid related-party transactions.



9 Essentials of Church Cash Reserves

Adequate cash reserves are necessary for a church to pay its obligations on time in spite of fluctuations in monthly revenue. Still, developing and maintaining appropriate cash reserves is often one of the most overlooked and misunderstood issues for a church. This booklet provides an overview of

the different types of reserves and how a church may achieve them.



8 Essentials of Compensating Ministers

Setting the compensation of ministers should meet high standards that will enhance our Christian witness. These standards include utilizing comparability data to ensure reasonable compensation, approving compensation independently of the person whose compensation is being set, and properly documenting

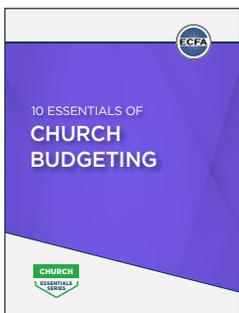
compensation, including fringe benefits. This booklet covers all of this and much more.



10 Essentials of Church Fringe Benefits

Fringe benefits are taxable and must be included in the recipient's taxable pay except for those the law specifically excludes. Therefore, it is important for churches to design fringe benefit plans to model stewardship for the church and structure fringe benefit plans to allow employees to maximize

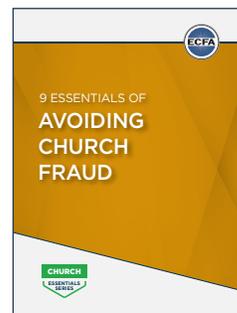
compensation. This booklet will help you understand how to effectively use fringe benefits.



10 Essentials of Church Budgeting

Preparing and utilizing budgets for a church is not as easy as it might seem. There may be several types of budgets: operating, cash, and capital. Budgets provide the guardrails to build cash reserves and keep expenses within certain limits, and assure there is adequate cash to pay operating, mortgage, and capital

expenses. This booklet provides the keys to maximize the benefits from church budgets.



9 Essentials of Avoiding Church Fraud

Fraud and misuse of church resources can create sensational news and cause a diminished witness for Jesus Christ. While it is almost impossible to eliminate all fraud, churches should find a reasonable balance between preventive efforts and risks. This booklet helps churches understand

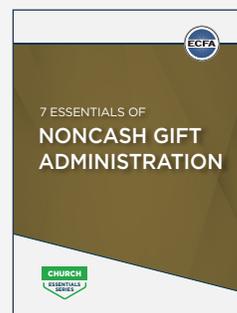
how to identify fraud risks and implement fraud prevention.



7 Essentials of Cash Gift Acknowledgments

It is a privilege for churches to express appreciation to givers for their generosity. Thanking givers for their contributions seems simple. But it is often not so. The complexity comes because U.S. tax law only allows charitable deductions for certain gifts, and charitable gift acknowledgments must meet strict

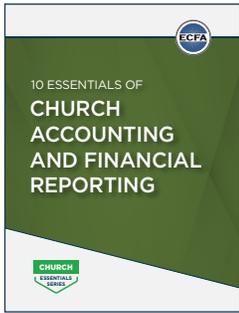
substantiation requirements. This booklet guides a church through these challenging issues.



7 Essentials of Noncash Gift Administration

Most gifts to churches are in an electronic form with some additional gifts coming in the form of checks and currency. Noncash gifts—gifts of stock, real estate, other property, plus gifts of services—are often very helpful to fulfill a church's mission. Most of these gifts are tax-deductible, but some are

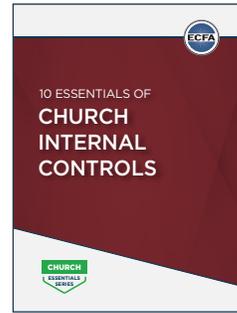
not. This booklet is helpful in addressing accounting and charitable gift receipting of noncash gifts.



10 Essentials of Church Accounting and Financial Reporting

The accounting for church financial resources is the basis for accurately documenting revenue and expense. A sound accounting system provides the data to determine if a church is on track in comparison to the budget. It is also important to provide the appropriate

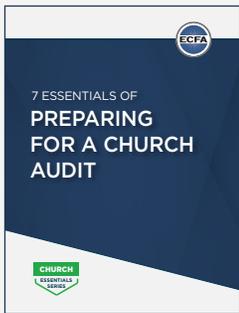
financial reporting to the right audience. This booklet covers the basics for optimizing the church accounting system and providing meaningful reporting.



10 Essentials of Church Internal Controls

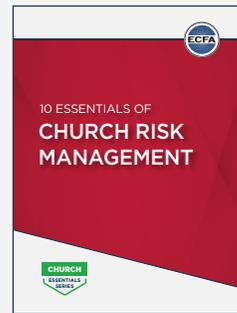
Setting the compensation of church leaders should meet high standards that will enhance our Christian witness. These standards include utilizing comparability data to ensure reasonable compensation, approving compensation independently of the person whose compensation is being

set, and properly documenting compensation, including fringe benefits. This booklet covers all of this and much more.



7 Essentials of Preparing for a Church Audit

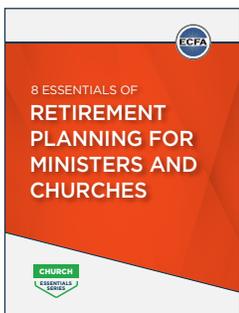
Though the process can be intimidating, there are many ways to maximize the benefits of an audit. Independent reporting offers assurance to donors and in some cases, identifies weaknesses that may otherwise go undetected. Determine what level of CPA engagement is right for your church and prepare with confidence.



10 Essentials of Church Risk Management

There are a variety of risks in a congregation and all of them ultimately can have a financial impact. Risks range from property to people. It is not enough to understand risks exist. Churches must be able to prioritize and mitigate identified risks. This booklet is designed to help you begin to think

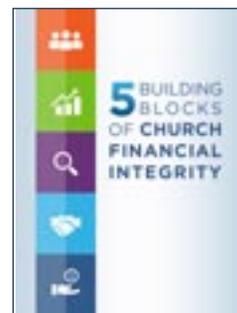
more intentionally about risks in your congregation and where you may need to focus more attention.



8 Essentials of Retirement Planning for Ministers and Churches

Retirement planning is important for ministers. The church should play an active role in the planning process for both ministers and staff. This booklet will assist the church and the minister to better understand the stages of retirement and the resulting financial needs. It will also

provide practical tips on selecting and implementing a plan that encourages participation by ministers and staff to prepare adequately for traditional retirement years.



5 Building Blocks of Church Financial Integrity

When it comes to building a church's financial integrity, many leaders simply don't know where to start. Some think that establishing a strong financial foundation is too difficult, or perhaps only possible for large churches. The good news is building a church's financial integrity is not as complicated

as some might think. It is all about properly adding one building block at a time.



Now in publication for three decades, the *Church and Nonprofit Tax & Financial Guide* and the *Minister's Tax & Financial Guide* are two of the most trusted tax and financial reference guides for leaders of churches and other religious nonprofit organizations. These companion resources written by ECFA staff Dan Busby and Michael Martin are designed to provide up-to-date information in an easy-to-understand format on key issues affecting churches and nonprofits and the ministers serving them.

To order these helpful resources, visit ECFA.org



THE CHURCH KNOWLEDGE CENTER

KNOWLEDGE CENTER

The **Church Knowledge Center** contains hundreds of documents on church finance, governance, stewardship, and more. In addition, check out the ECFA website for special church webinars, newsletters, and other practical learning opportunities.

ECFA-certified churches have full access to these resources as a membership benefit, while ECFA friends are invited to access a basic level of Knowledge Center resources at no cost.



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More Information

- *Church and Nonprofit Tax & Financial Guide* by Dan Busby and Michael Martin, revised annually
- *The Guide to Charitable Giving for Churches and Ministries* by Dan Busby and Michael Martin



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ISBN: 978-1-936233-45-8

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