ECFA
Enhancing Trust

10 ESSENTIALS OF

CHURCH BUDGETING

CHURCH ESSENTIALS SERIES

Introduction

Introduction

A budget is a strategic plan for dispensing available resources to various areas of your ministry. One thing is clear right from the start – there is no single perfect way to do church budgeting. Yes, nearly all budgets involve electronic spreadsheets or sophisticated software. But with the 10 essentials that follow, there is no mention of spreadsheets or software – because budgeting is so much more.

In his book, *Basic Budgeting for Churches: A Complete Guide*, Jack Henry says, "The budgeting process includes setting goals, assigning priorities to them, developing a plan for achieving them, operating the plan, evaluating the results, and re-planning."[1] It is not uncommon for churches to concentrate their efforts only on developing the budget, and then failing to focus on carrying that budget out according to the approved plan.

A budget sets priorities for every activity of the church. It reflects your values to ensure that you spend money on the things you believe are most important. It is both a compass and a map to help you achieve the goals of your ministry in a way that is fiscally responsible.

Budgets are a result of reasoned, prayerful decisions, arrived at by faith. Further, budgets provide a rail or a curb for influencing financial activity. It is important to note that budgets do not "control" people – budgets guide people, but people control budgets. As Jack Henry says, "The budget should be a 'guide' and not a 'master' of the church's fate. Budgets influence the actions of the people who are responsible for spending church funds."[2]

Budgets are a great benchmark for financial health and stewardship. When funds are being expended according to plan, you can feel confident that you are on the right track. When you are seeing a shortfall compared to the budget, you can adjust as needed.

Budget choices will guide your actions so that you will not be faced with daily decisions on whether or not to make certain expenditures. As Richard Vargo and Vonna Laue remark in their *Essential Guide to Church Finances*, "A good budget process means that 11 acts of war can be eliminated because one annual battle is substituted for 12 monthly skirmishes."[3]

Budgeting includes evaluating past spending habits and deciding what you are going to do in the future. You must make decisions and establish priorities for all the possible ministries your church may undertake during the coming year. Every aspect of ministry, from salaries and facilities to the senior and youth programs, must be taken into account.

A budget causes a church to decide whether to fund each ministry fully, partially, or not at all. Staffing costs must be considered within those decisions, since some programs carry significant staffing costs while others may be heavily supported by volunteers.

Lastly, and perhaps most importantly, biblical texts provide insight for mapping out budget categories. Galatians is a particularly helpful New Testament letter for budget managers because it was one of Paul's first letters written at a time when the early church was making financial decisions (c.48-49 AD). In Galatians, budget managers learn to be sure to care for the poor (Galatians 2:8-10), to minister to the needs of those who teach, which in modern terms means pastors and other church staff (Galatians 6:6), and to work toward programs that bless the congregation as well as the larger community (Galatians 6:10).

For nearly two millennia, these areas have been the basic components of church budgets, but building and administrating these budgets is a complex process. This eBook aims to assist leaders in today's churches to budget efficiently and effectively, and in accordance with the biblical model.

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[1] 1Jack A. Henry, *Basic Budgeting for Churches: A Complete Guide* (Nashville, TN: Broadman & Holman, 1995), 14.

[2] Ibid., 9.

[3] Richard J. Vargo and Vonna Laue, *Essential Guide to Church Finances* (Carol Stream, IL: Christianity Today International, 2009), 11. .

Evaluate your church's stewardship culture

1

Evaluate your church's stewardship culture

Every church has a culture of stewardship. Some elements of the culture may be written, but much of it is unwritten.

The answers to the following questions will send strong signals about the culture of stewardship in your church:

1. What markers demonstrate that the budget planning process and administration of the overall budget are important to the health of the church?

2. What activities ensure that the church staff respects—rather than runs rough shod over—the budget planning and administration process?

3. How must the church budgeting process reflect the culture of the church? What is the role of the pastor, the role of the church business administrator, and others in the congregation? What measures ensure margin for feedback and flexibility?

4. Whether the budgeting process flows top-down or bottom-up, what processes ensure that the congregation gives input and engages in discussion?

Understanding the culture and discerning whether it is subject to change will save church staff considerable frustration. If a particular stewardship culture is chiseled in stone for a church, few cultural adjustments may be possible until the church pendulum swings.

The principle of the church culture pendulum is not a well understood concept. To the novice observer, every church has the potential to experience the swing of the pendulum at any time. In reality, opportunities for substantial change only occur when the pendulum oscillates in a positive direction. Here are three situations:

- **The status quo.** For many churches, the stewardship culture pendulum is in a resting, equilibrium position. The pendulum has not moved in a long time. And it doesn't appear to be moving any time soon. One might describe the situation as inactive tedium or a state of inertia.

Why is the stewardship culture resting? This is probably because the church is stuck in the status quo and is satisfied to routinely grind through the same process year after year.

- **Negative stewardship culture.** A negative swing of the stewardship culture pendulum may occur when the church has seen a multi-year decline of revenues. Or, it can occur when the individuals who control church stewardship processes are resistant to change. The pendulum will remain in a negative position until significant changes in the church's financial position occur or the composition of the board and/or staff changes.
- **Positive stewardship culture.** Even if the stewardship culture pendulum finally oscillates in a positive direction, there is a limited time for the church to act. This is because the pendulum will eventually return to a resting position. Or worse, the pendulum will swing to a negative position where change is almost hopeless.

The stewardship culture pendulum can have a positive or a negative impact on a church. A negative swing of the pendulum is not a pretty picture. Creating a positive pendulum swing often requires new members on the board, new staff, or a fresh perspective by church members.

When the church stewardship culture pendulum is moving positively, good changes are possible. In fact, this is generally the only time that good changes can be made. Taking advantage of a positive swing in the culture pendulum is essential because the opportunities it presents will not always exist.

For a biblical perspective on church stewardship culture, if you read the letters to the seven churches in Revelation 2-3, you find that they were all over the spectrum from “on fire for God” to “lukewarm” to “on fire for all the wrong things.” If you think your stewardship culture is off track or needs a boost of inspiration, perhaps read those two chapters before starting your budgeting process and take take some time to consider what Christ might say to your church in a letter. Do this to discern how the Spirit may desire to shape your church stewardship culture in the days and years to come.

Determine your optimal year-end

2

Determine your optimal year-end

The accounting year for some churches is a calendar year and for others, it is a fiscal year. Sometimes the accounting year is mandated by denominational polity so a church has no option in choosing its year-end.

For other churches, the question is whether a calendar year or fiscal year works to the advantage of the church. Many churches see a significant uptick, and in some instances, a windfall, of giving during December. If this is true, the church will often benefit from a fiscal year-end—giving the church an opportunity to promote giving at both calendar and fiscal year-end.

A calendar year-end for budgetary purposes can be a real nail-biter in December. If giving is down throughout the calendar year, it often requires pulling back on spending. If the giving goals are reached before December 31, it is a time to celebrate. But, church spending may have been unnecessarily curtailed simply because of the uncertainty caused by the calendar year-end for budget purposes.

A fiscal year produces two year-ends for a church:

1. **One year-end is the calendar year-end for charitable contribution deduction purposes.** This is important for some major givers desiring to make a special gift in December so it will be included for charitable gift deduction purposes.

2. **The other year-end is the fiscal year-end.** If a church uses a fiscal year-end, it is usually best for December to be near the beginning of the fiscal year. For many churches, December can represent the highest gift revenue of any month. With December early in the fiscal year, if revenues drop, there is time to make corresponding adjustments in spending through the fiscal year.

   Example: September 1, October 1, November 1, or December 1 is often an optimal beginning of a fiscal year. With a September 1 to December 1 start, the largest gift revenues will likely be received during the first few months of the fiscal year. This helps the church identify shortfalls very early in the fiscal year with time to make adjustments before the end of the fiscal year. A September 1 start of the fiscal period may create the least conflict with budget planning for key ministry seasons like the ministry launches in September, Christmas, and Easter.

A church can change from a calendar year to fiscal year by budgeting for a short year or a long year to make the conversion. For example, if a church is moving from a December 31 calendar year-end to a April 30 fiscal year-end, it can either have a 16-month budget for the conversion year or a four-month year, then move back to a 12-month year.

Establish a strategic plan

3

Establish a strategic plan

It is important to have a strategic plan for church programs for the new budget year. Perhaps the strategic plan is developed during a leadership retreat or other planning sessions.

Changing the strategic plan after the budgeting process begins will create duplication of effort and frustration for the church staff.

The difference between projected revenue and people and facilities costs is what is available for other church expenses. Too often, there is not enough left to fully fund all of the remaining ministries. Therefore, the strategic plan established at the beginning of the budgeting process will determine how budget allocations are made to some program areas and perhaps less to others.

The strategic plan should consider the areas of church ministries that God is blessing with growth and those that are not flourishing. Look for opportunities to provide more resources to ministries where the Holy Spirit is providing open doors for the church. Based on this discernment, a church may have an emphasis on small groups for the year or engaging with Millennials, for example.

Strategic planning that positions the Spirit, rather than people, to lead the process often happens on discernment retreats. To plan such a retreat, church leadership teams block an extended period of time, sometimes even a weekend, for prayer and fasting following the example of early church leaders in texts like Acts 13:1-3. This helps the team set aside personal desires as a group to seek God's direction for the church. Such retreats generally include a combination of activities such as Scripture reading, silence, sharing, and prayer. These are spiritual practices that help church leadership teams discern strategic direction, which becomes vital when it comes time for budgeting.

For strategic planning resources, consider the following:

- www.patersoncenter.com
- https://boardsource.org/fundamental-topics-of-nonprofit-board-service/strategic-planning/
- *Money Matters in the Church* by Steve Stroop

Lay the budgeting ground rules

4

Lay the budgeting ground rules

But everything should be done
in a fitting and orderly way.

1 Corinthians 14:40

While the budgeting ground rules will vary from one church to another, it is important to make several decisions *before* fully launching into the budgeting process:

1. **Decide whether to include or exclude designated or giver-restricted gifts from the budget.** The decision to include or exclude designated or giver-restricted gifts from the budget is a fundamental issue because it impacts both the revenue and expense budgets.

   Some churches accept few or no restricted gifts. For those churches, the issue of whether or not to include designated or giver-restricted gifts in the budget is often a moot issue. However, most churches gladly receive designated or restricted gifts that can be used to carry out the church's mission. The decision to include or exclude designated or restricted gifts from the budget is a more important issue for them.

   Some churches only include certain designated or restricted gifts in the budget when the gifts are reasonably predictable and the church expects to spend the gifts in the same church fiscal year. For example, Christmas and Easter offerings are often raised for restricted purposes. These gift amounts may be predictable and, therefore, including these gifts in the budget is feasible.

   Possible reasons to exclude designated or restricted gifts from the budget include:

   - Designated or restricted gifts are often challenging to predict. In one year, they may be significant, and in another year, they may be minimal.

   - In many instances, designated or restricted gifts may be given in one year and expended in the next year. When this happens, the revenue is in one church fiscal year and the expenses in a subsequent year.

- Designated or restricted gifts are often funded by large gifts from major givers. The amounts of these gifts may be very large in a particular church year. If the amounts are included in the budget, it could distort the projections.

2. **Decide whether mid-year budget adjustments will be considered.** When revenues spike or take an unexpected and sharp dip, the two options are to:

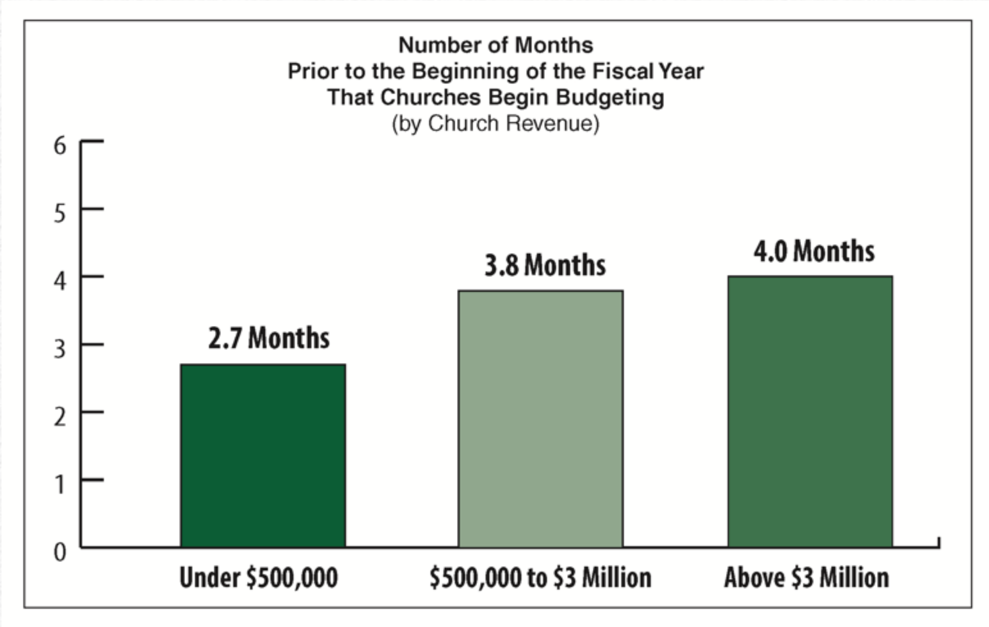
    a. adjust the revenue and expense budget mid-year or

    b. leave the budget unadjusted.

    Few churches make formal mid-year budget adjustments. This is not to say that churches do not make spending adjustments when, for example, revenue projections are not being met. Spending adjustments are not the same as adjustments to the budget.

3. **Determine when the budgeting process will begin for the next year and the timeline for the process.** At a minimum, the budgeting process should begin early enough prior to the new church year to allow adequate input from each ministry area and time for analysis of giving and spending trends. Here is a church budgeting axiom: *The larger the church, the earlier the annual budgeting process should begin.*

    The following graphic reflects general trends in timing for starting the budget process based on an ECFA survey.



4. **Determine the budget period.** Budgets almost always coincide with the church's accounting period—either fiscal or calendar accounting period. In other words, if the church uses a calendar accounting period, the budget will usually be for the same time period.

A few churches use an annual budget but adjust it on a quarterly rolling basis. A quarterly rolling budget:

a. allows for real-time future stewardship planning based on the most recent three-month experience,

b. may be an important approach when a church's revenue is significantly rising or falling, and

c. requires more budget preparation time.

5. **Determine if the church will limit the percentage of overall compensation and fringe benefits to total operating expenses.** While most churches are keenly aware of the percentage of staff costs to the overall operating budget, they generally do not use the percentage to control budget decisions.

   Some churches do establish an upper limit for the percentage of compensation and fringe benefits in relation to total operational expenses. If so, the percentage generally ranges from 35% to 60%. Some questions may arise for churches at the extreme ends of this range, such as:

   - Churches with compensation percentages near or at 35% may raise questions as to whether the church is adequately staffed (unless there is a very strong volunteer culture).

   - Churches with compensation percentages near or at 60% may raise questions concerning the availability of budget dollars for church programs and facilities.

   When calculating the compensation and fringe benefit component, expenses related to restricted gifts are usually excluded from the calculation.

6. **Determine how the budgeting philosophy will impact setting the "big number" for the next year.** Will the church approach the new budget year from a very conservative or very aggressive posture or somewhere in between? For example, a church without debt may be able to take a more aggressive budgeting philosophy than a church with significant debt. A church with significant debt will likely be more cautious in its budgeting philosophy because of the need to protect reserves for mortgage payments.

It sounds simplistic, but fiscal integrity is based on this principle: *Don't spend more than you take in.* Churches rarely plan to spend more than they take in, but it happens when:

a. revenue projections are too aggressive and the projections are not met;

b. there is a major reduction in giving (for example, one or more major givers pass away or leave the church), even with reasonable revenue projections; or

c. there is a significant over-run on expenses.

7. **Decide whether to include or exclude depreciation for budgeting purposes.** Does your church record depreciation? If not, depreciation is excluded from the budget by default.

If a church records depreciation, it may be included in the operating budget even though it is a non-cash item. Or a church may exclude depreciation from the budget perhaps because the removal of this major noncash item makes budgeting simpler.

Whether or not depreciation is included in the budget, it is essential to set aside funds for capital expenditures. HVAC units wear out, parking lots develop cracks, roofs leak, technology equipment becomes outdated, and plumbing breaks down.

Some churches include depreciation in the budget as a way to set aside funds for capital expenditures and raise funds for special purposes such a campus expansion or major refreshing of facilities. However, the depreciation amount may or may not be adequate for routine capital expenditures each year.

On balance, it generally makes sense to include depreciation in the budget. It may be necessary to set aside an additional amount each year in addition to the depreciation amount based on the needs for new equipment and capital replacements.

Calculate your “Big Number”

5

Calculate your "Big Number"

The "Big Number" for the church budget is the total of budgeted expenses for next year. It is often called the "Big Number" because determining this one number is often the starting point in the budgeting process.

The "Big Number" is determined in a variety of ways:

- Some churches arrive at the "Big Number" by applying a formula, setting the number at 95%, 100% or 105%, for example, of the prior year budgeted expenses.
- Other churches do not use a formula but arrive at the "Big Number" based on giving trends, economic indicators, demographics and more.

Regardless of how a church determines the "Big Number," the ultimate goal of the budgeting process is to arrive at the "Big Number" for next year's budget—the total of the expense budget.

Some churches calculate the "Big Number" early in the budgeting process and others a little later. But it is important to determine when the governing board will set the "big" budget number. It is also important to determine how to obtain "buy-in" of the budget with the leaders of each church ministry area.

The "Big Number" for projected expenses may not be the same as the projected total revenue number. This is because planned additions to "reserves" may be budgeted as an excess of revenue over expenses. Therefore, the total revenue projection will often be higher than the total expense budget.

For example, consider this budget data:

Projected revenue	$1,650,000
"Big Number" projected expenses	1,500,000
Projected addition to operational reserves	$150,000

Or, consider this example:

Projected revenue	$2,400,000
"Big Number" projected expenses	2,600,000
Projected use of restricted gifts raised in a prior year	$200,000

See *9 Essentials of Church Cash Reserves* to learn more.

Consider key drivers of projected revenue

6

Determine key drivers of projected revenue

Church revenue projections should be as close to what will actually happen as possible. There are so many variables to consider—so, include all of the variables and then round down.

Some of the key revenue projection variables include:

- Church attendance trends
- Overall giving patterns over the last few years, with very large gifts removed from the data
- Specific giving patterns over the last few years including:
  - Trends in giving by major givers, with very large gifts removed from the data
  - Trends in giving of more modest-size gifts
  - Trends in giving by new givers
  - Trends in giving lost by those who have dropped out of the church or stopped giving in the last three months
  - Trends in online giving. Are improvements necessary to facilitate giving with user-friendly tools and to help reach the 50% point or more in online giving to total giving?
- Estimates of how much expansion is expected in the existing giving-base of the church. Most churches can only depend on a certain level of giving growth by people who are already giving.
- Estimates of how much giving expansion can be anticipated from new givers
- Area economic patterns, including job growth
- National economic patterns, including the stock market (overall giving trends in the U.S. follow the Dow Jones Industrial Average)

Many churches also have non-contribution revenue elements that must be projected. This may include rental income, facility usage fees, investment income, and more.

Recognize which expenses are subject to budget allocation

7

Recognize which expenses are subject to budget allocation

The overall budget can seem like a large amount of money, but then you realize that a major portion, perhaps most, of the church budget is locked in for next year. It usually comes down to expenses for people, facilities, and then everything else.

Here are the budget components that typically offer little allocation flexibility:

- Compensation and fringe benefits
- Facility expenses: mortgage and loan payments, rent, insurance, and utilities
- Denominational contributions, if applicable
- Capital replacements
- Missions and benevolence commitments, if applicable

When churches are preparing budgets and viewing the budget holistically, it is also a good time to look at how to cut costs, especially for a category that makes up a large percentage of the budget, or is increasing. Budget managers can easily identify these trends and determine a plan to reduce costs during the year. For example, it may be time to meet with vendors who supply electrical, HVAC, sewer, Internet, and telephone services. Are there ways to reduce insurance premiums? Perhaps, consider proposals from other brokers. Generate a list from the accounts payable system of the total payments made to each vendor. Contact the vendors receiving the highest aggregate dollars to review their service level and rates for the coming year.

When a church lets its people and facility expenses get out of line, there are usually few funds left for missions and other ministry expenses. So, let's say a church is spending 55% of its operating budget on personnel and 35% on facility expenses, that only leaves 10% of the budget to allocate for other expenses—this is probably not enough.

The small portion of the budget that is subject to annual allocation becomes the critical issue when church revenues take a downturn. In these instances, cuts in the people budget are usually required.

Factor in the need for reserves

8

Factor in the need for reserves

Churches have seasons—seasons of growth, seasons of decline, and seasons of the status quo. There are usually predictors of these seasons. However, an unexpected change in the church's top leader can cause dramatic short-term shifts in revenue. The church budgeting process should give thought to the financial seasons and the unexpected changes.

Building appropriate church operating reserves includes:

- Rounding down on projected revenues and rounding up on estimated expenses.
- Keeping people and facility costs within reasonable limits.
- Providing margin in the people budget to cover the cost of hiring and firing. People come and go. Most churches hire too quickly and fire too slowly. It costs money to hire staff—interview expenses, moving expenses, and more. It costs money when people leave—paying leave time or severance.
- Building flexibility, churches should build money into the budget to cover unanticipated expenses.

Revenue downturns can occur when one or more church leaders depart on short notice. It is important for a church to be prepared for various outcomes.

Church budgeting primarily focuses on the revenue and expenses reflected on the Statement of Activities (Income Statement), but the impact on the Statement of Financial Position (Balance Sheet) should also be considered. When "yellow flags" are flying for a church, these flags will appear on the Statement of Activities (Income Statement), but the "red flags" will appear on the Statement of Financial Position (Balance Sheet). This is where cash balances and liabilities are shown.

When a church is constructing its budget, it is important to consider adequate funding for designated or restricted fund balances, mortgage reserves, capital replacement reserves, and operating reserves.

The key for every church is to build a reasonable store of reserves that is neither excessive nor inadequate. Each church must determine this balance.

Plan for significant projects

9

Plan for significant projects

Most churches handle major expenses for church plants and significant facility or program expansion as off-budget matters, separately raising funds for these projects. In other words, expenses of this nature are usually not included in the operating budget. On the other hand, a few churches intentionally wrap these dollars in the annual budget by projecting significantly more revenues than expenses.

Some churches occasionally use an “all-in” or “one-fund” approach. Under this concept, a church often prepares a two-year campaign goal which includes the operating expense projections for the upcoming two years plus a capital need component. When this funding approach is used, cash-flow projections must be made based on the campaign giving projected for each of the two years included in the campaign.

For multi-site churches, expenses are often projected on a per attender basis. Many of the centralized functions are paid by the parent church. The goal for each site is generally to be self-sustaining.

Suppose one of you wants to build a tower.
Won’t you first sit down and estimate the cost
to see if you have enough money to complete it?
For if you lay the foundation and are not able to finish it,
everyone who sees it will ridicule you, saying,
“This person began to build and wasn’t able to finish.”

Luke 14:28–30

Revenue budgeting for the multi-sites generally follows the progression below, from the time a new site is launched until it reaches a point of maturity:

1. Campus covered direct ministry expenses
2. Campus covered direct ministry expenses plus an allocation of shared expenses
3. Campus exceeded direct and shared expenses and contributed to reserves for other campuses or other ministry-wide expenses

Devise a plan for budget administration

10

Devise a plan for budget administration

Keep your eye on the "Big Number"—total expenses. There can be many pluses and minuses in the detailed expense to budget data, but staying within the overall church expense budget is a priority for nearly every church.

Here are some key questions for the church to answer:

- Who is the person who has the ultimate responsibility for budget administration? Sound budget administration always includes accountability.
- Once the "Big Number" is established for each ministry area, does the ministry leader of that area have the responsibility to establish and administer the detailed budget for that area? How far can a ministry area exceed its total budget on a year-to-date basis?
- What is the contingency plan for a possible downturn in finances? You never know when a senior pastor may leave on short notice or other factors may impact revenue. Before each year begins, develop a list of expenses and dollars that can be eliminated without having a major impact on church operations or develop an alternate budget. Some of the usual priorities for expense cuts include out-of-town travel, special events, part-time staff, and consulting. The church will go to this list only in the case of a downturn in giving and other revenue.
- Is there a plan if church revenue is significantly higher than the budget? Without a plan for expenses, the extra funds might just be stockpiled at one extreme or frittered away at the other extreme.
- Is the church generating adequate reports to support the budget administration process? Examples are:
    - Three-to-four year historical reports, by department and account code, which show the fluctuations from one year to the next. This report also shows trends so that it is easier to budget for the coming year based on these trends.
    - A rolling 12-month report is a great way for the budget manager to view the actual expenses for the past year

and estimate how the expenses will occur by month in the coming year. This report starts with the actual costs for each month of the fiscal year by department and account code and fills in the remaining months of the fiscal year with prior year actual expenses.

- At what point do budget exceptions go back to the governing board for approval?

It is not only important to come up with the annual budget for an expenditure, but a budget manager must also allocate the cost accurately by month throughout the year. Too often annual costs are spread evenly throughout the year rendering the monthly budget comparison inaccurate and sometimes useless.

This is also a good time to determine standard costs, such as travel and conference costs by department or speaker or musician honorariums across the organization. Review the Expense Policy and Accountable Plan with the ministry leaders as an annual reminder or training of new staff.

Provide each ministry leader with monthly reports for their area of responsibility and sufficient freedom to administer the funds in their area.

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

Now what?
Action Steps to Excellence

Now what?

Action Steps to Excellence

- Evaluate your church's stewardship culture. Are you in a resting season or in a season of change? Approach your budget process accordingly.
- Determine whether a fiscal year or a calendar year is in the best interest of your church.
- Establish a strategic plan for budgeting by evaluating the opportunities God has provided and setting appropriate priorities.
- Lay the ground rules for budgeting, including issues such as restricted gifts, mid-year adjustments, budget timeline and accounting period, compensation and fringe benefits, budgeting philosophy, and depreciation.
- Calculate the "Big Number" for expenses based on current church trends, economic indicators and other factors specific to your church.
- Consider key drivers that may be of significance when determining projected revenue assumptions.
- Recognize which portions of the budget are subject to annual reallocation and which are not.
- Account for the need to build reasonable reserves and determine how the building of reserves will work into your budget process.
- Plan for significant projects such as church plants and facility or program expansion, and decide how to account for this component in your budget process.
- Devise a plan to structure the ongoing process of budgetary compliance and administration among the various ministries and leaders.

Resources

Other ECFAPress Books 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

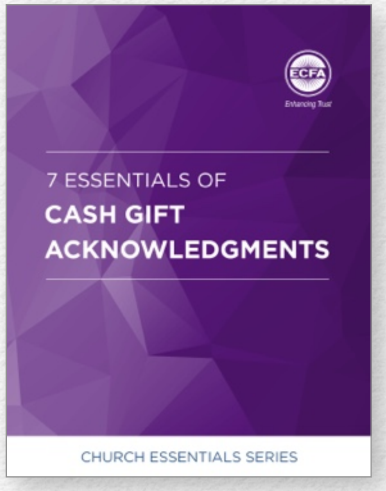
This book provides a cogent overview of the ten most basic fundamentals of clergy tax. Clergy who understand these ten fundamentals will have a better understanding of the Federal tax issues impacting them. Some of these crucial issues include the clergy housing allowance, expense reimbursements, social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



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.

5 Essentials of Reimbursing Ministerial Expenses

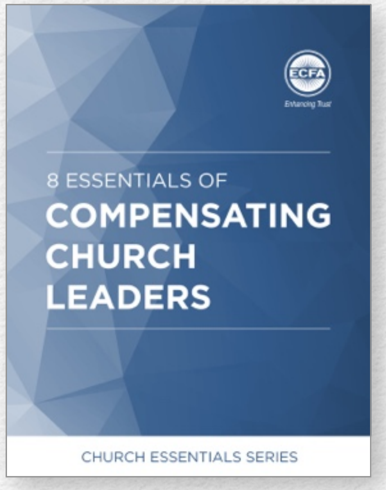
How a church handles the payment of business expenses incurred by staff speaks volumes about the integrity of the church. Adequate substantiation is the starting point to qualify business expense reimbursements for tax-free treatment. This booklet covers the steps for churches to maximize stewardship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

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.

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 Church Leaders

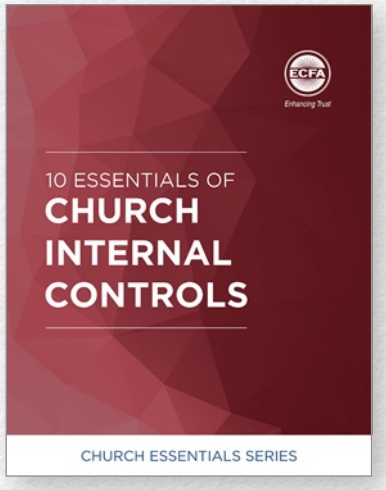
Setting the compensation of church leaders should meet high standards that will enhance our Christian witness. These standards include utilizing comparability data to ensure reasonable compensation, approving compensation independently of the person whose compensation is being set, and properly documenting compensation, including fringe benefits. This booklet covers all of this and much more.

7 Essentials of 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.



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7 Essentials of Church 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.

10 Essentials of Church Fringe Benefits

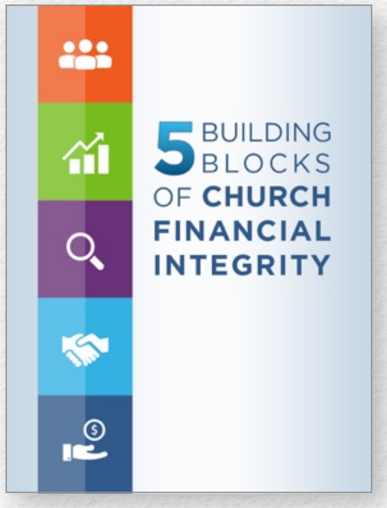
Fringe benefits are taxable and must be included in the recipient's taxable pay except for those the law specifically excludes. Therefore, it is important for churches to design fringe benefit plans to model stewardship for the church and structure fringe benefit plans to allow employees to maximize compensation. This booklet will help you understand how to effectively use fringe benefits.

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.

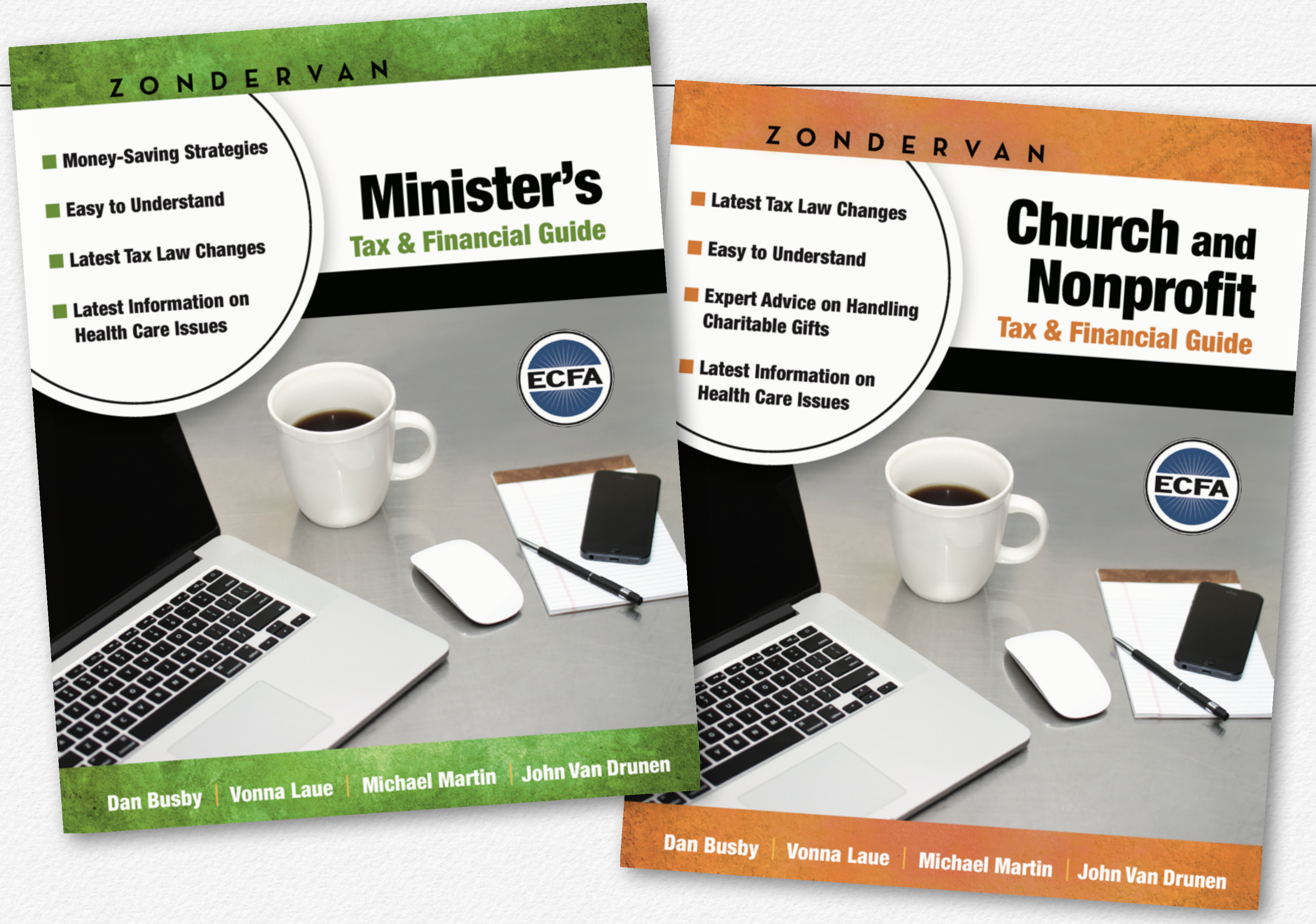
7 Essentials of Retirement Planning for Ministers and Churches

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 over two decades, the *Zondervan Church and Nonprofit Tax & Financial Guide* and the *Zondervan 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, Vonna Laue, Michael Martin, and John Van Drunen 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 www.ECFA.org/Resources

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More Information

- The *Zondervan Church and Nonprofit Tax & Financial Guide* by Dan Busby, Vonna Laue, Michael Martin, and John Van Drunen, revised annually
- 9 Essentials of Church Cash Reserves, ECFA eBook

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