

# Managing The Church's Financial Resources

How is your church managing its money? Is everything in order? Is the senior pastor unjustly benefiting? What would happen if someone inspected under a microscope what your church is doing?

By [John P. Joseph](#)

Here in module 4 we conclude with Mr. Joseph's article on church finances.

## MANAGING THE BUDGET

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The next step in managing the church's money is how to credit income and debit expenses through a Chart of Accounts. The COA is a breakdown of accounts showing how the money comes in and how it goes out. This is an important document.

### Creating a Chart of Accounts

The process of building your COA begins with an analysis of how much money you expect to collect and how the ministries will spend it. By creating this list, you establish a COA. Each dollar deposited and spent must be charged against this list.

### Setting up a budget

Once the COA is completed and you have estimated the income for your ministry, the next step is assigning the dollars to each ministry. This is commonly called a **spending plan** or **budget**. There is a misconception that a budget is a restraining document. In reality, it brings freedom. Money may be expended without guilt and followed against income to make sure a church's spending is not out of order.

Fill out a personal budget request sheet for each minister on staff. This helps plan how much of the church's budget goes for ministerial salaries and benefits.

### Proper procedure for spending

Once your COA and budget are prepared, a church can control its spending. It is important to know who is requesting money, the purpose, and what account is to be charged. The easiest method to monitor and approve expenditures prior to purchase is by using a check request form. Once the request is approved and the check is written, it is charged against the proper budget account.

Once you have established your accounts and process to approve expenditures, the next step is to keep track of income and expenses. Churches must stay on top of expenditures. The most effective way to do this is through financial reporting.

## **CREATING AND MANAGING FINANCIAL RECORDS**

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### **Reviewing and reconciling bank statements**

The first financial report has already been done through the bank statement. This statement is a record of all deposits, cancelled checks, and fees. Have a person who is not the bookkeeper open the bank statement and review the checks. **Suggestion:** Verify the endorsements on the back of each check to make sure the correct person deposited the church check. This internal control helps prevent employees from writing checks to themselves and endorsing them. This is one control to prevent embezzlement.

Next, give the bookkeeper the bank statement. It is critical to reconcile the monthly bank statement immediately. A church's software should allow it to reconcile the account by checking off the cancelled checks with those in the register. Reconciling the bank statement reveals a church's true bank balance. Failure to do so may cause a church to overdraw its account.

Print a reconciliation report and file it with the bank statement. Place these documents in a three-ring binder with dividers for each month. When a church's books are audited, it will have immediate access to the bank statements and reconciliation reports.

### **Financial reports**

When preparing financial reports, it is important to track them along with the Chart of Accounts. The next most important reports are the monthly

and annual reports. A church's computer software should allow it to break these down in more detail as necessary. The items in this report coincide with the COA. The annual report reflects the church's income and expenses either for the calendar year, January 1 to December 31, or the fiscal year, April 1 through March 31. The annual report is submitted to the congregation for its review, questions, and approval at the annual business meeting. The minutes of the annual church business meeting record the discussion and passage of the financial report. These minutes are placed in the church's permanent records file.

### **Advantages and disadvantages of an audit report**

Although a church's bank statements and financial records are reconciled, church leadership needs to review a monthly and annual financial statement. The media today is alert to any financial mismanagement. This is also true for churches. Churches need to set the standard of ethical conduct and accountability. One way for a church to do this is to have an independent firm review its books. An audit promotes accountability. If a church cannot afford an audit, it may want to consider a review. A review detects irregularities in bookkeeping practices and is less expensive. But an audit brings many benefits to a church's ministry. It often comes with a letter that lists recommendations for management on improving accounting. It reviews the internal controls with suggestions to improve them. An audit report brings integrity to the church leaders who handle the resources of the church. The disadvantages are time involvement and cost. On balance, it is well worth it.

Please note: the following is included here since it is an integral part of Mr. Joseph's article. But as your instructor, I would caution all of us to be very careful about borrowing money as a ministry. It often leads to places we should not have to go as stewards of God's finances. –RZ

## **MANAGING CHURCH LENDING**

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Most churches start in rented facilities, and as the church grows leaders face a new dilemma—build or buy permanent facilities. Building programs involve new areas of business for a church—zoning, relocation, and finances.

This discussion will cover the various options of obtaining the financial resources—within the church, within the denomination, and outside the church.

### **Capital fund-raising**

Before seeking a lender, a church may want to first tap the resources within its congregation. The best way to do this is through a capital fund-raising campaign. Hiring a professional capital fund-raising organization will assist a church in raising money within the church to finance its project or debt, instead of going to the bank. One such organization is MasterPlan Stewardship Services.<sup>1</sup> Church leadership can conduct the campaign themselves, but there are advantages in using a professional:

1. An unbiased evaluation of the congregation based on statistical factors.
2. Hands-on assistance through the capital campaign's representative to oversee the process.
3. Access to brochures and other materials to assist the church.
4. Oversight of lay-leadership training.
5. Assistance with church follow-up.

The cost of such assistance can be substantial, but it is common for an excellent capital fund-raising organization to produce pledges of two to three times a church's annual income. A capital fund-raising campaign can be a great way to access the necessary funds.

### **Line of credit**

Another way to seek additional finances is through a line of credit—a loan that makes cash available on the spur-of-the-moment. A line of credit is usually given to a church by its lending institution. Once this line of credit is established, a church will receive either a checkbook to draw on its line or it

may simply fax a request for a transfer from the line into its operating account.

A line of credit is usually set up as a 5-year note. Often the interest rate is a point over the current prime rate. It is also common to have a note tied to a floating loan rate for this type of financing.

How does a church receive a line of credit? Contact the commercial account representative at the bank where the church's operating account is located and fill out a line of credit application.

A line of credit has certain benefits, including immediate access to cash should a need arise. The drawbacks are closing costs and other bank fees. It is usually prudent to have a line of credit even if a church never draws on it.

### **Denominational loans**

An often overlooked method of financing is the resources within a church's denomination. Many denominations offer financing options for small and large churches. Assemblies of God Loan Services can provide information concerning its various loan options.<sup>2</sup>

### **Conventional bank lending**

This is the most common method of church financing. The convenience of the local bank is a big benefit.

However, bank loans to churches are generally different from residential loans. Most 30-year residential loans have a fixed interest rate throughout the life of the loan. Most church loans will probably contain a balloon or renewal feature after 5 years. When a loan balloons, the principal loan amount becomes due and payable. Usually the bank renews the loan and adjusts the interest rate to the market. Some banks are now extending the loans to 10 years before they balloon.

### **Bond issues**

How a church goes about this method is unlike simple bank financing. Instead of going to a bank for money, the church contacts a bond company that specializes in not-for-profit corporations or churches. Bond companies

are different from local banks in that their money comes from individual investors or bondholders. The bonds are usually sold to investors in \$1,000 increments. The size of the bond issue is equal to the amount of money needed by the borrower, plus costs and expenses (audit fees, attorney fees, title insurance, etc.). The bond company adds these costs into the loan. Similar to a bank loan, a church must have adequate collateral or property to cover the bonds.

The church makes its principal and interest payments to the bondholders through the corporate trustee or bonding company. The trustee handles recordkeeping and payment functions. The church's payments are deposited in a special account called a **sinking fund** where the church's payments are held and withdrawn when the bondholders' interest or principal payments are necessary. **Suggestion:** Ask for a healthy interest rate in the sinking fund. Trustees fees may be paid from the interest accrued in the sinking fund.

Not all bond issues are the same. There are two types of bond issues: best efforts and firm underwriting. It is important to understand each type to choose which best suits your congregation.

### **Best efforts**

This type of issue requires the church to sell the bonds itself, often with the help of the bonding company. The bonding company's representative explains the benefits to church members and asks them to buy bonds. The advantage is lower costs for the church versus a firm underwriting campaign. The disadvantage is that people sometimes consider such investments as donations. As a result, this confusion may detrimentally lower a church's capital campaign contributions from donations, gifts, and pledges.

### **Firm underwriting**

Another type of bond issue is firm underwriting. With firm underwriting, no bonds are sold to the congregation. The bond company underwrites a church's loan by purchasing a church's bonds and selling them to its investors. By agreeing to buy all of a church's bonds, the church is guaranteed to receive the funds at closing. The investors who buy the

bonds are pension funds or individual investors. These bonds are secured by church property.

Unlike commercial bank balloon loans, bond issues are fully amortized over a 15- to 20-year period providing a level debt service. This aids in budgeting and ensures that the loan can eventually be retired without the hassle of refinancing.

Make sure the bond company includes a prepayment provision that allows the church to prepay its bonds without premium or penalty. Usually this is agreeable if it is paid through the church's operating account.

There are several positives to the firm underwriting method:

1. It guarantees that all bonds will be sold.
2. There is no confusion about donations since they are not sold to the congregation.
3. A church can immediately begin a debt-reduction program after the purchase.

The negatives to firm underwriting are the expenses associated with this method.

To find a bonding company contact the National Association of Church Business Administration at 1-800-898-8085, subscribe to its *Ledger* magazine, or contact the Assemblies of God Church Administration Association at [www.aogcaa.org](http://www.aogcaa.org)

Keep these options in mind when your church is faced with a building project, acquisition of property, or expansion.

## **Finance packet**

Once a church has decided on a financing method, the next step is to create a financing packet. This packet provides the lender with information about the church. It also demonstrates a church's trustworthiness and capacity for financing. Remember, creditors are in the business to assess risk. Informing them of the church's creditworthiness is key. Providing the lender with a packet of information demonstrating the church's capacity to pay a loan goes a long way toward approval.

Here is a list of items to include in this packet:

1. Church biography: a brief history of the church and a description of the senior pastor, especially if the pastor has long tenure that has brought stability.

2. Legal documents:

Constitution (Articles of Incorporation).

By-laws.

IRS 501(c)(3) certificate proving the church is a legitimate not-for-profit corporate entity with the IRS.

A church may fall under a group or umbrella exemption from its denomination. A church with a parent organization can fall under its denominational or group ruling for a 501(c)(3). If the parent church has a group ruling, the IRS may already recognize the church as tax-exempt. The parent organization is then required to submit an annual group exemption update. If you are not sure your church falls under this group or umbrella ruling, ask your parent organization to fax you a copy of its list of affiliated churches or other organizations. Include this document in your finance package.

3. Membership: membership and adherent totals (including youth and children). Include a graph demonstrating growth in attendance.

4. Financial statements:

a. Annual—financial statements for the past 3 years.

b. Property—a balance sheet showing all assets and liabilities. This includes cash and property information and current valuations (appraisals). County tax valuations may be included.

Remember, your first impression is a lasting impression.

## **MANAGING FINANCIAL RECORDS**

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Whether for a future IRS inquiry or an insurance claim, it is important to have all important documents on hand. According to the IRS, all churches are required to maintain records to justify their claim of exemption in case of an audit.

There is no specific format for keeping church records, nor does the IRS specify a length of time records must be kept. Below is a list of what documents should be kept and for how long.

**Place the following documents in permanent files:**

1. IRS exemption letter or umbrella letter.
2. All insurance records: liability, workmen's compensation, and vehicles. Include all records relating to acquisition of real estate.
3. Employee files: employment application, current and past evaluations, I-9 and W-4, and criminal record check.
4. Annual business meeting and board minutes.
5. All IRS documents including, but not limited to, W-4 (employee claiming withholding allowances), W-2 (employee paid wage forms), 941 (report employees amount of Social Security, Medicare, and income taxes).

All correspondence from Federal, State and local governments.

**Place the following documents in temporary files:**

1. Records of expenditures and income for 6 years.
2. Contribution records for 6 years.
3. Check-in sheets for childcare for 1 year.
4. Cancelled checks for 3 years.
5. Policy manual: continual.
6. Vehicle titles until disposed.

There is peace of mind knowing these important documents are organized and in a safe place.

**CONCLUSION**

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The days of collecting offerings and paying bills without thought of outside oversight are long gone. But managing church resources is possible.

The current environment is ripe for scandal; church leaders need to be wise. Correctly completing forms and filing records will go a long way to assist a church in case of an IRS investigation.

Be careful and deliberate in this area. When we manage the Lord's money, we need to remember it is just that—His. We are called to be good stewards of His resources. May the Lord give you wisdom as you faithfully handle the resources He has placed in your hands.

## Endnotes

1. MasterPlan Stewardship Services is a division of the Assemblies of God Financial Services Group. For more information, call 1-800-962-7499, e-mail [masterplan@agfsg.org](mailto:masterplan@agfsg.org), or visit their Web site at [www.agmasterplan.com](http://www.agmasterplan.com).

2. AG Loan Services is a division of the Assemblies of God Financial Services Group. Whether the need is for \$10,000 or \$10 million, AG Loan Services can partner with you in your financing needs. For more information, call 1-800-449-5626, e-mail [loans@agfsg.org](mailto:loans@agfsg.org), or visit their Web site at [www.agloanservices.com](http://www.agloanservices.com).



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