



7 Ways to **Avoid** a Financial Train Wreck

by Dan Busby, CPA, and John Pearson

THE CLEAR COMMUNICATION AND UNDERSTANDING OF CHURCH FINANCES IS A KEY TO AVOIDING A FINANCIAL TRAIN WRECK AND HELPING A CHURCH BE A POSITIVE WITNESS FOR JESUS CHRIST.

In church governance, high attention must be given to the spiritual aspects of the church – focusing on the spiritual health of the body.

All too often there is a tension in church governance between spiritual matters and faithful administration of financial resources. It is easy for the financial administration of a church to take a backseat to the spiritual matters. There must be a balance of both the spiritual and material.

When too little attention is paid to faithful administration of church finances, it invites a financial train wreck.

Sometimes, a train wreck is avoided, but a church may endure a very rough stretch of track.

So, how can a church significantly reduce the likelihood of a financial train wreck? Begin by ensuring your board includes members who are highly competent in understanding church financial reports and nonprofit accounting. Then there are the seven “big financial rocks” for church governing boards:

1

KEEP BORROWING UNDER CONTROL

Approve reasonable operating budgets. Every church should have an operating (and perhaps a capital expense) budget that is annually approved by the appropriate oversight body (e.g., congregation, board, or committee).

2

ESTABLISH A STRONG STEWARDSHIP CULTURE

A church governing board must set the tone for a strong stewardship culture for the entire church, including financial integrity and accountability. A sound stewardship culture rarely travels from the bottom of the organization up to the governing board – it almost always travels down the chart.

What does a strong stewardship culture look like? The governing board knows and respects the budgetary and financial reporting processes. The financial staff respect the authority of the governing board. Further, the board oversees the risk assessment and internal control structure for the church.

3

APPROVE REASONABLE OPERATING BUDGETS

Every church should have an operating (and perhaps a capital expense) budget that is annually approved by the appropriate oversight body (e.g., congregation, board, or committee).

The church budget provides a rail or a curb for influencing financial activity. It is important that the

budget process supports the church's strategic plan. Reasonable projections of church revenue and expenses mean the church is not adopting a stretch goal, which is almost impossible to attain. A good budget process means that 11 acts of war can be eliminated because one annual battle is substituted for 12 monthly skirmishes.

4

MAINTAIN ADEQUATE CASH RESERVES

Adequate cash reserves allow obligations to be paid on time, which is a positive witness for Jesus Christ. Cash reserves are the cushion that ensures:

- Operating expenses are paid on time instead of incurring late fees.
- A temporary downturn in giving does not result in a sudden staff layoff.
- The church is in compliance with mortgage covenants, and the financial institution does not enforce negative consequences.
- Funds are available to replace worn-out HVAC, roofs, and more.
- The church has the necessary funds ready to open a new site or launch a new ministry instead of starting from scratch.
- Funds are on hand to cover all donor-restricted or designated gift balances.

In determining the adequacy of church cash reserves, the critical question is whether there is adequate cash at the church's lowest cash point in the year—which is generally during the summer months. This will often be two to four months of operating cash.

5

HONOR GIVER EXPECTATIONS AND INTENT

Most churches receive gifts that have been designated (“restricted” is the technical accounting term) by givers. A gift might be designated for the missions fund, the building fund, the benevolence fund, and so on. Designated gifts must be spent for the giver's intended purpose in a timely manner.

Two more important thoughts:

1. To honor giver expectations and intent, a church must segregate the revenue and expenses relating to designated gifts in the accounting records, and
2. Church governing boards rarely have the authority to overturn a giver's designation.

6

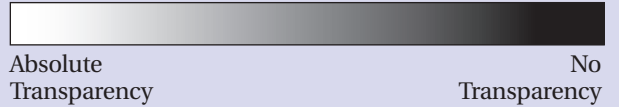
USE APPROPRIATE FINANCIAL TRANSPARENCY

Use appropriate financial transparency. Churches must find the “sweet spot” between absolute financial transparency and no transparency – we call it appropriate transparency – where trust is maximized with minimal disruption or risk to the church.

With absolute financial transparency, NOTHING is confidential. Transparency at this level is rarely practiced. Consider the resulting havoc if a church shared the names of givers and the amounts they gave.

The other side of the continuum is no transparency. Everything is secret. This fuels negative perceptions.

THE TRANSPARENCY CONTINUUM



Nothing will rain on a church’s parade more than the perception that something shady is going on with the finances. If givers do not have high confidence that their gifts are being stewarded with wisdom and in ways that tangibly support the mission of the church, they often dial back their giving. While the complete lack of transparency may work for a while, it is rarely positive in the long term.

7

CREATE A COMPENSATION PROCESS FOR THE SENIOR PASTOR THAT MODELS HIGH INTEGRITY

This very important “big rock” has its own lesson.

BOARD ACTION STEPS

REVIEW

The governing board should periodically review these seven “big rocks” for faithful administration of the church finances.

DETERMINE

Grade your church on a scale of 1-10 (10 is high) to determine strengths and weaknesses in the seven areas.

TAKE ACTION

If the church has a significant weakness in any of the seven areas, take action to strengthen the area or areas that need attention.

ENDNOTES

- ¹ Richard J. Vargo and Vonna Laue, *Essential Guide to Church Finances* (Carol Stream, IL: Christianity Today International, 2009), 11.
- ² ECFA, *10 Essentials of Church Budgeting*, www.ECFA.Church/EBooks.aspx.
- ³ ECFA, *9 Essentials of Church Cash Reserves*, www.ECFA.Church/EBooks.aspx.
- ⁴ ECFA, *10 Essentials of Giver-Designated Gifts to Churches*, www.ECFA.Church/EBooks.aspx.
- ⁵ ECFA, *10 Essentials of Compensating Church Leaders*, www.ECFA.Church/EBooks.aspx.

BOARDROOM LESSON

The faithful administration of church finances is not an easy task. In fact, the Apostle Paul says we should take “pains” to get this right, “not only in the eyes of the Lord but also in the eyes of man.” In so doing, we will “avoid any criticism of the way we administer” the church resources. See 2 Cor. 8:20-21.



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