Preparing Budgets

Why are Budgets Important?

Budgets are planning tools to know how to allocate church resources and money and gauge spending

Budgets help to align available finances to the vision and goals of the church

Budgeting Best Practices

1. Establish vision for the ensuing year about 4 months in advance
2. Meet with your leaders – set out the vision
3. Ask leaders to submit needs for their areas three months prior to beginning of year
4. Bookkeeper complies these numbers and the operating numbers of the church
5. Church council meets to review the budget and prayerfully consider

Questions to Ask when Budgeting

Does this budget align with your mission and vision?

Is the church meeting the tithe number required to fund this budget?

What percentage increase or decrease is the tithe number over last year?

Wrapping Up the Budget

Communicate approved budgets to ministry leaders

Input and track the budget in accounting software

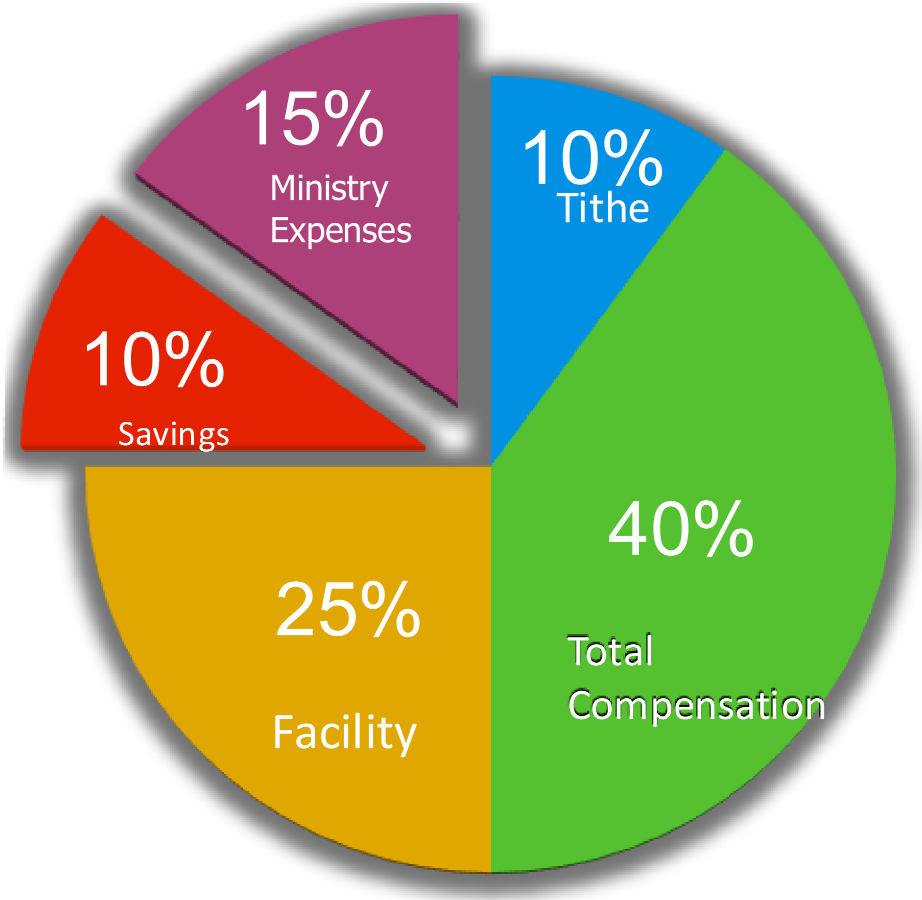
Provide regular budget-to-actual reports to the Church Council

Budgets
Best Practices

General Budgeting Practices

Variable Expenses

25%

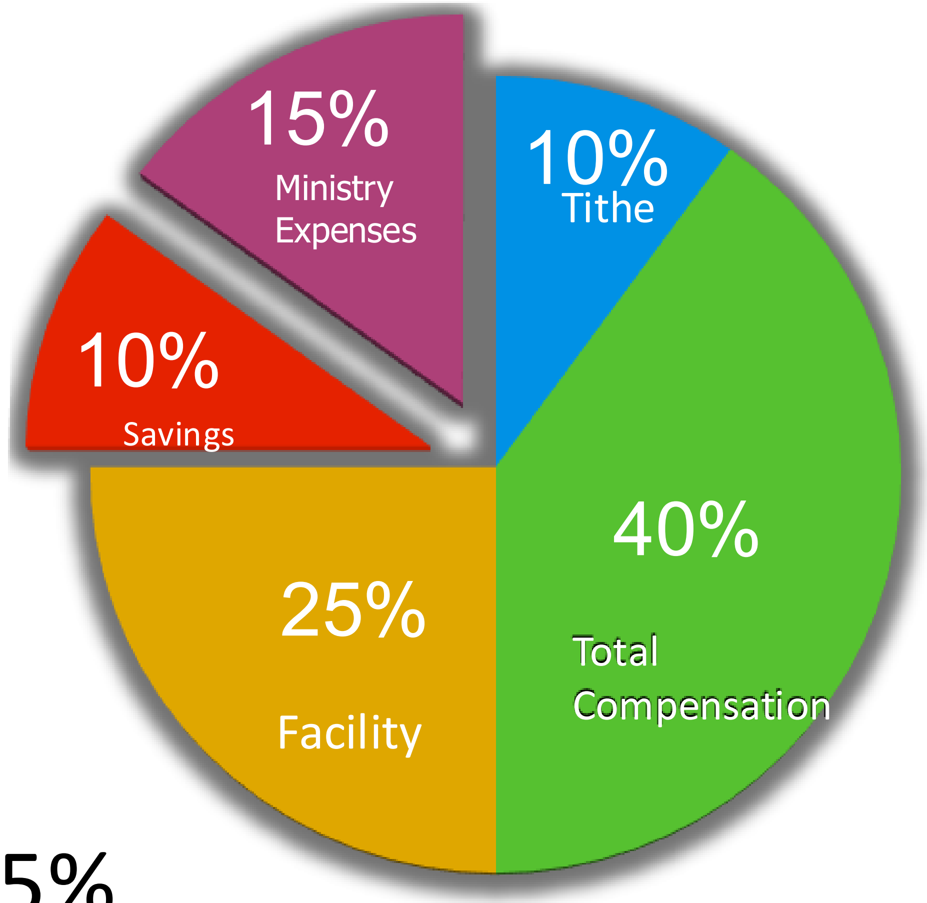


75%

Fixed Expenses

General Budgeting Practices

Variable
Expenses
25%



Personnel Expense 40%

- Compensation
- Benefits
- Contract Labor
- Employee Taxes

75%

Fixed
Expenses

Facility Expense 25%

- Utilities
- Repairs & Maintenance
- Insurance
- Loan Payment/Lease
- Equipment & Furnishing

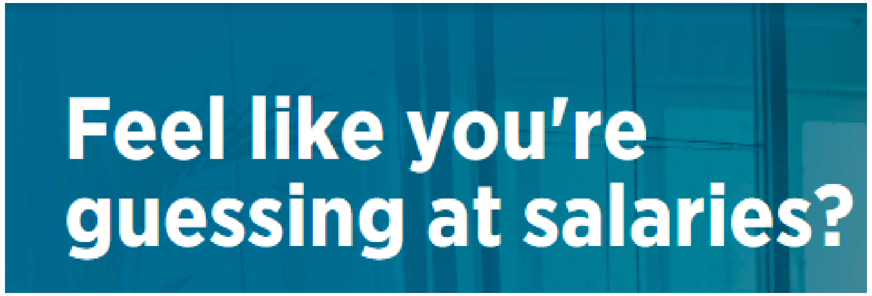
Debt Management Practices

Aim to have net income of at least 10%

Church Compensation Planning

How do I estimate a reasonable salary for a church position?

ChurchSalary
MAKE AN INFORMED DECISION



Based on:

Location
Size of Church
Pastoral Experience
Income

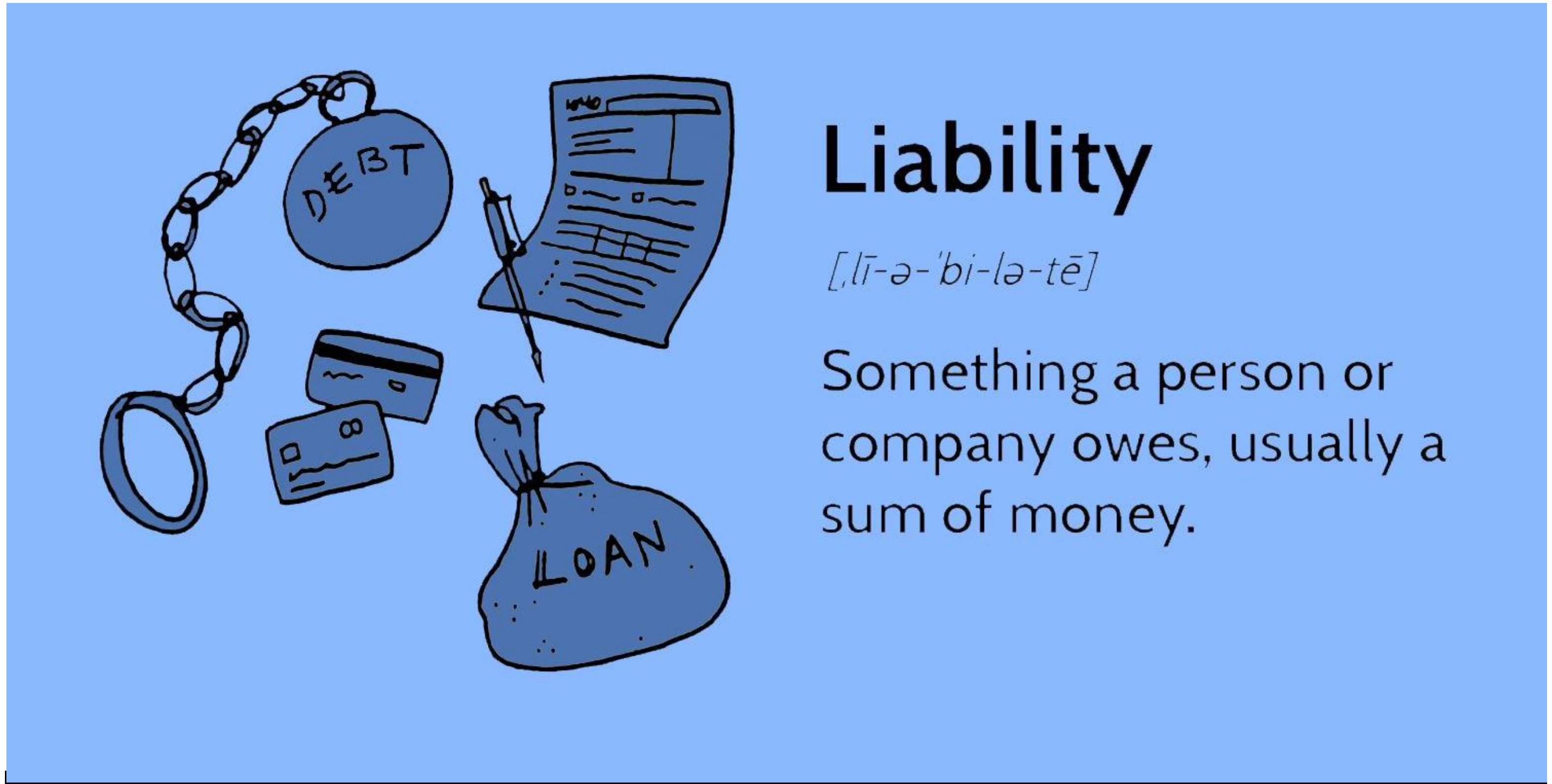
Church Accounting
Understanding Financial Statements

FINANCIAL STATEMENTS

Bank Accounts
Property
Investment Accounts

Assets = Things you own or possess that has value

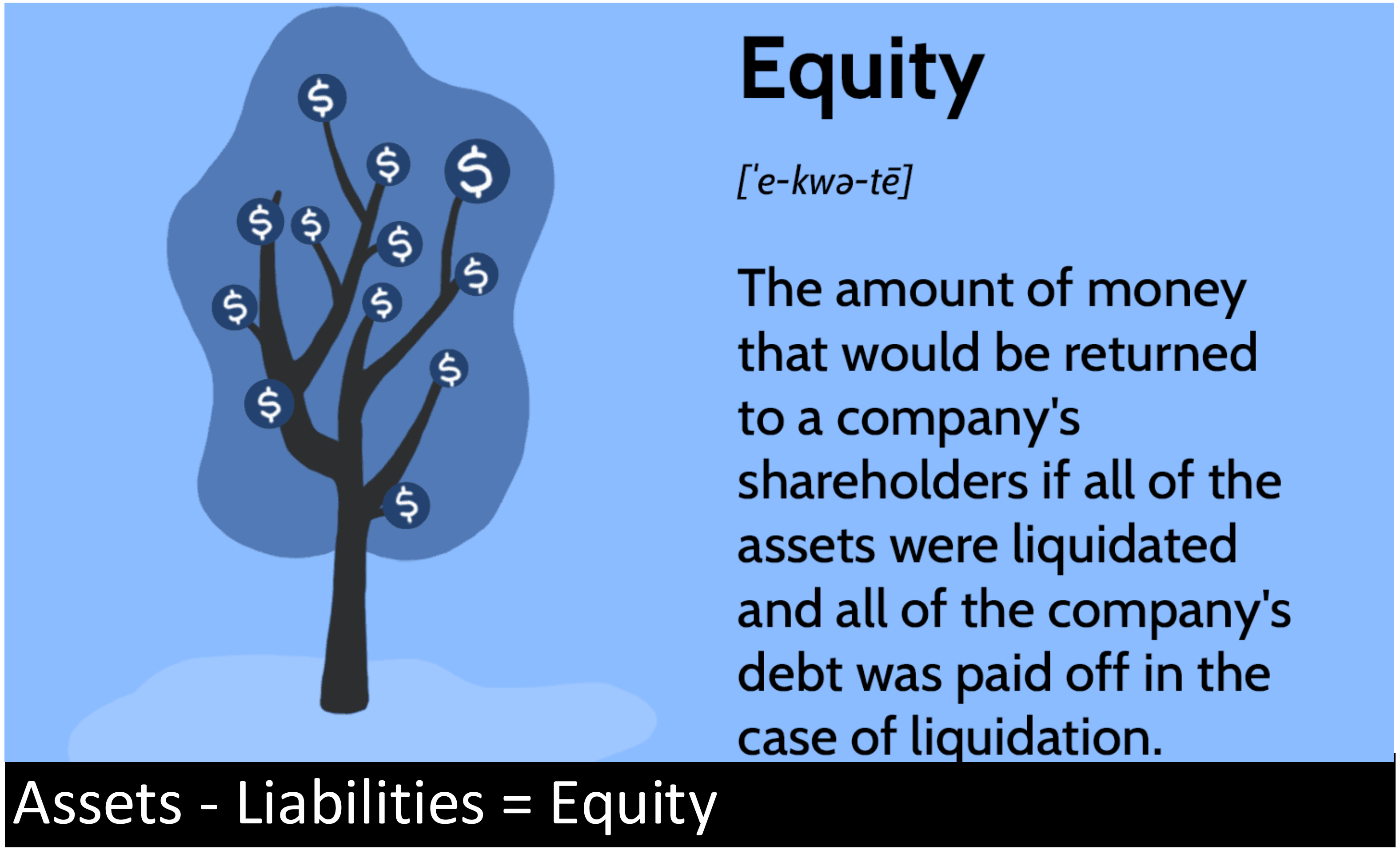
FINANCIAL STATEMENTS



Accounts Payable
Credit Card Payable
Mortgage Payable

Liabilities = Monies owed to others

FINANCIAL STATEMENTS



Equity = The value of assets owned outright

FINANCIAL STATEMENTS

General Fund: Income & Expe	22-Jun
OPERATING INCOME	
Tithes and Offerings	
Tithes and Offerings	20,000
Building Income	5,000
Total Tithes & Offering Incon	**25,000**
Extension Tithes	2000
Personnel Expenses	
Compensation	5,000
Personnel Insurance (health, life, vision, c	100
Retirement	500
Employer Payroll Tax	250
Contract Labor	250
Mortgage Payment	12000
Ministry Expense	5000
Vehicles	250
Equipment & Furnishings	0
Taxes	0
Total Expenses	**25,350**
Net Income	**-350**

Income – Money that the church received from offerings or income from activities

Expense– Money the church paid out to employees, vendors, etc.

Net Income– The difference between income and expenses

FUND TRANSFERS ARE NOT EXPENSES

When money moves from a checking to a savings account, that is a balance sheet transaction.

This is not reported on an income statement.

This is not money earned over a time period, it is just a transfer from one account to another.

FUND TRANSFERS ARE NOT EXPENSES

A church plans to have a net loss, but will use money accumulated from prior years net income to cover the loss.

How is that recorded?

There is no accounting on the income statement to show that the loss is covered from the surplus in the bank account.

Private Inurement

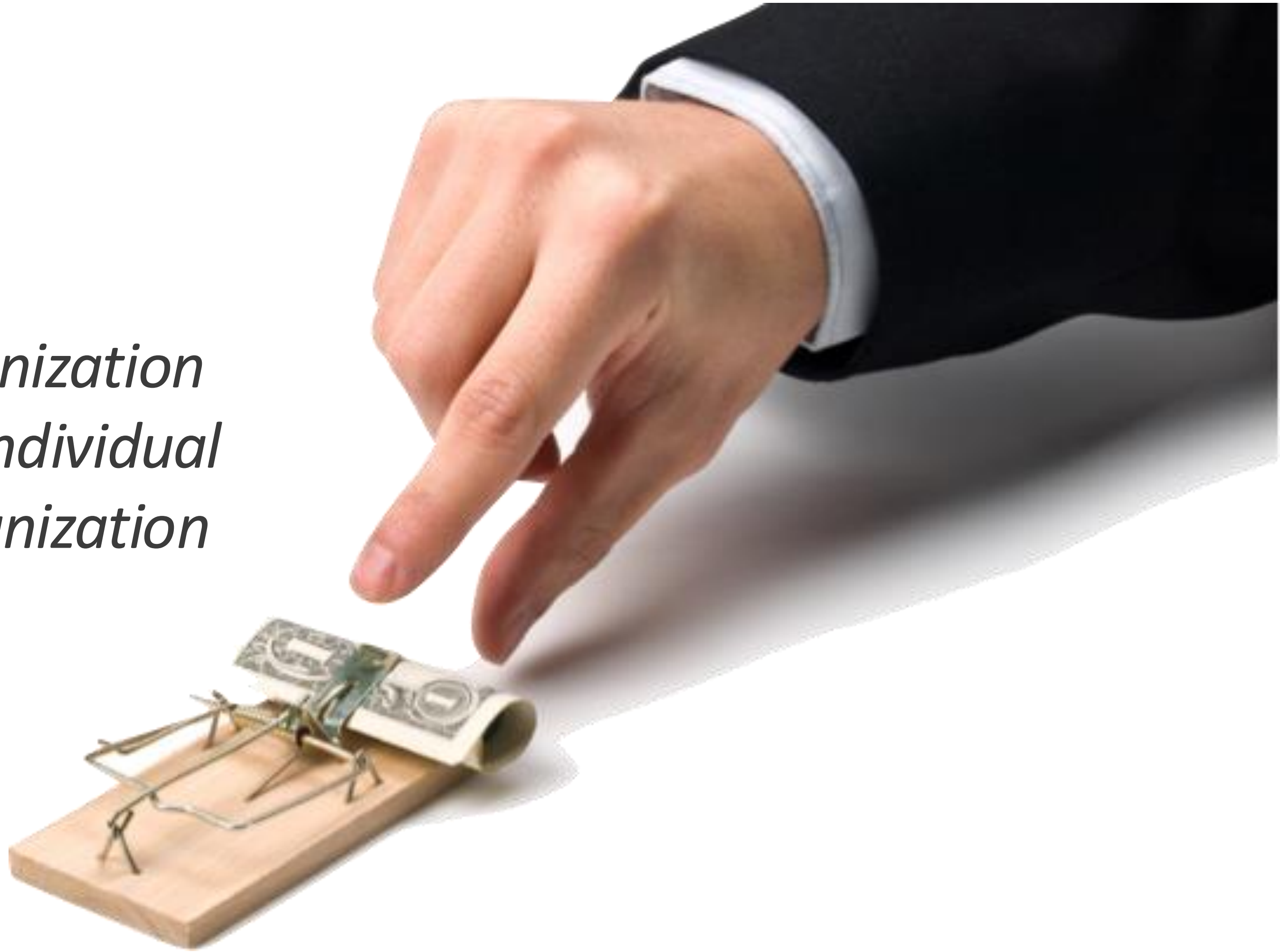
501(c)3 Tax Exemptions

Nonprofits receive tax-exempt status because they promise to spend their resources on helping others and not on individuals with significant influence other than reasonable salaries

Private Inurement

IRS term

Money received by an exempt organization can't be used to unfairly benefit an individual with significant authority in the organization



Examples of Significant Authority:
Pastors, Church Council Members, Elders, etc.

Private Inurement

Amounts paid to employees are not gifts according to the Internal Revenue Code.

This includes any payment of cash or transfer of a non-cash item unless it is a small “de minimis” item

“Private inurement occurs when a person with presumed influence receives a benefit valued above a reasonable range of compensation for his or her position for the services rendered, or when the church fails to report a taxable fringe benefit.”

Examples of Private Inurement

- Paying personal expenses out of the church funds
- Excessive compensation
- Bonuses not reported on W-2
- More than de minimis gifts given to employees unreported on W-2
- Reimbursed business expenses without receipts
- Monetary payments at retirement not included on W-2
- Auto allowances without inclusion on W-2 (auto allowance is not the same as mileage reimbursement)

Sanctions for Private Inurement

Individuals receiving the benefit
25% tax on the amount considered excessive
If not corrected before the IRS send notice, additional fine of 200%

Church
Loss of Tax-Exempt Status

Church Council Who Approves
Tax - Lesser of 10% of the benefit or $20,000