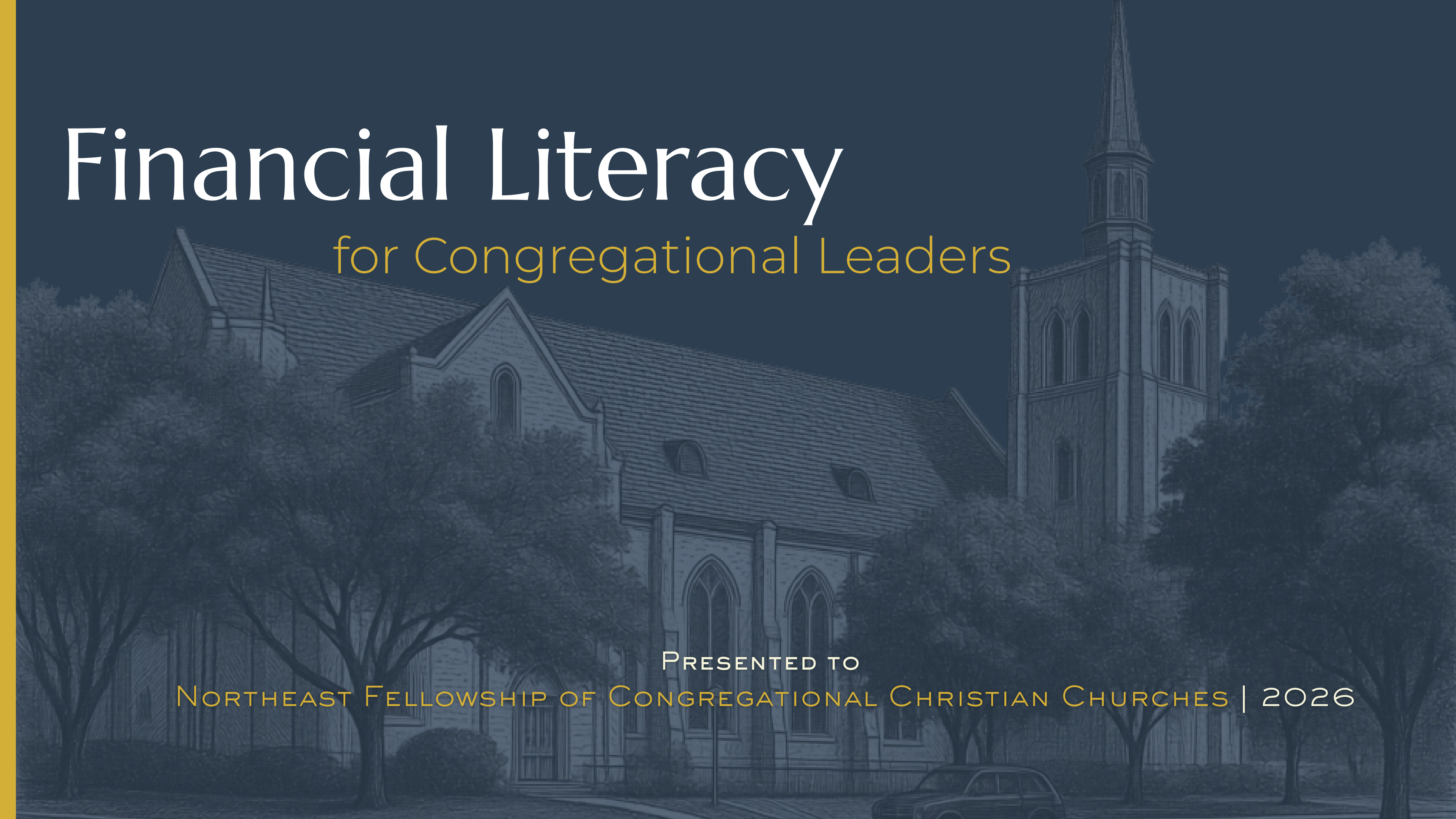




Financial Literacy

for Congregational Leaders

PRESENTED TO
NORTHEAST FELLOWSHIP OF CONGREGATIONAL CHRISTIAN CHURCHES | 2026

Our goal this afternoon

Our goal is fluency: shared language, clearer questions, and confidence at the finance table. This session is education, not legal, tax, or accounting advice.

When you need a professional judgment, call:

- A CPA, for tax, payroll, and financial reporting
- An attorney, for legal, employment, and governance questions
- NACCC, for member resources: a sample housing allowance resolution, church insurance guidance, endowment investing through the Congregational Investment Trust, and grants and assistance funds for churches and ministers
- The CBF Church Benefits Board, for clergy compensation planning, benchmarks, and retirement (open to churches beyond CBF)
- An insurance agent who works with churches, for coverage and bonding

Your resource packet lists the sources behind today's session, plus additional resources to explore on your own.

Session Topics

Shared Language

Terms to help us understand financial language

The Church Budget

Structure, governance, and how to read and interpret a budget and its variances

Who does what

The typical roles in the financial process of a church or non-profit

Contributions

Contributions, bill paying and record keeping

Financial Assets

Funds, reserves and liquidity of financial assets

Compensation

The unique features of pastoral compensation

Oversight

Transparency, audits and protective coverage

What's a problem

Identifying red flags, trends, and forecasting

Q&R

Questions and responses

Shared Language

Budget

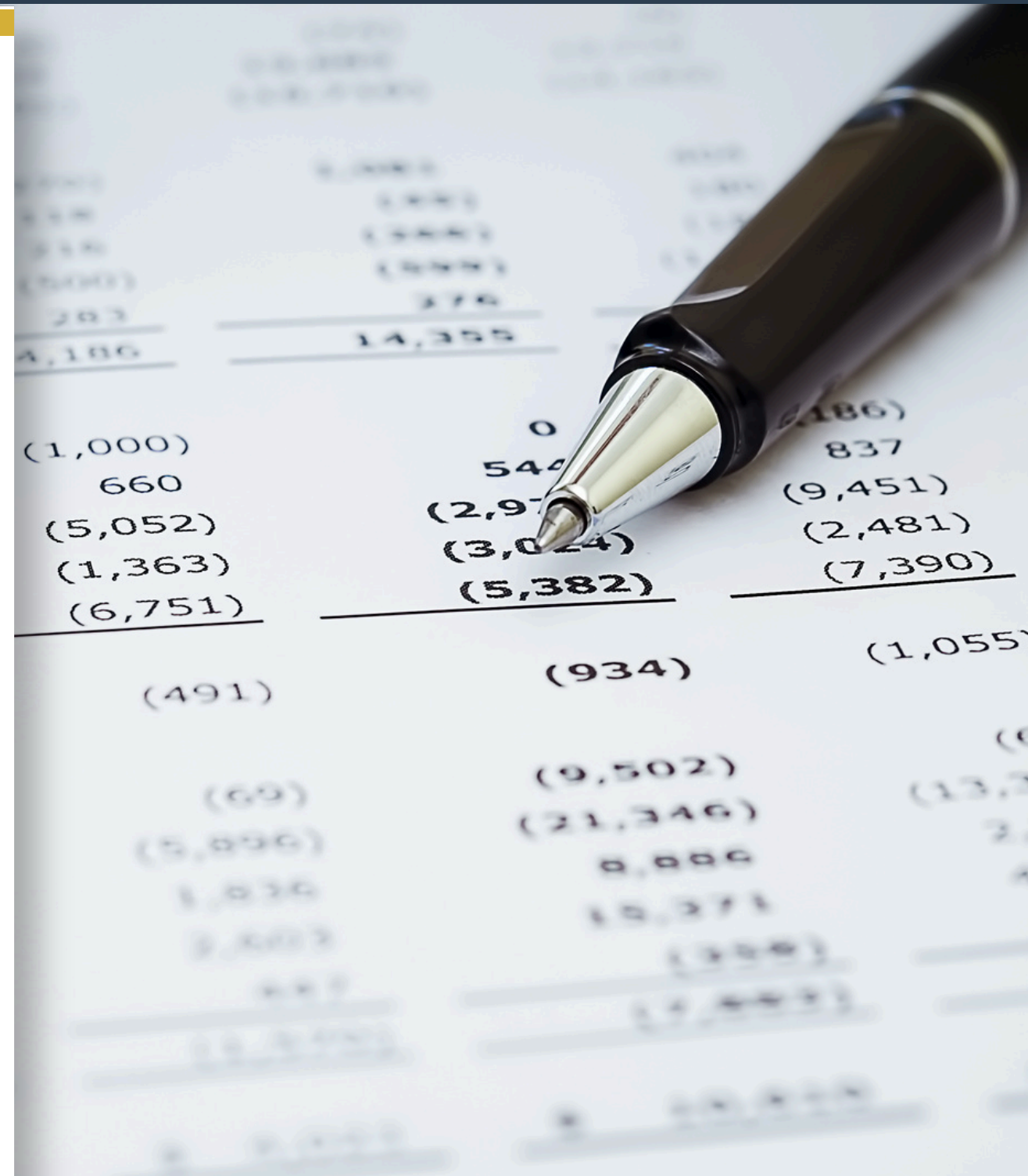
The approved plan for expected income and expenses over a period, usually a fiscal year. The budget is a guide, not a mandate.

Budget Area/Line Item

An area is a major category of the budget (personnel, building, program, operations); a line item is a single named entry beneath it, such as “electricity” or “youth ministry supplies”.

Budget Variance

A variance is the difference between what the budget planned for a period and what actually happened, shown in dollars or as a percentage.



Generally Accepted Accounting Principles

GAAP

General Ledger (GL)

The master accounting record everything is recorded in and used for reports, statements, budgets and forecasting.

Chart of Accounts

The organized list of every account on a congregation's books used to record income, expenses, assets, and funds. Budget lines are tied to lines in the chart of accounts.

Accounts Payable (AP)

What the church owes others.

Accounts Receivable (AR)

What others owe the church.

Unrelated Business Income Tax (UBIT)

Taxes owed on income from sources not aligned with the nonprofit or ministry work of the church.

The Church Budget

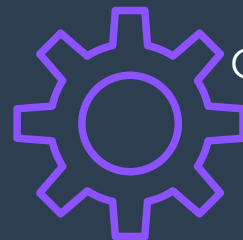
Four Primary Areas of Expense

Everything the church spends on the physical plant: utilities, maintenance and repairs, cleaning, insurance, building debt, and maintenance reserve allocations.



Building and Facilities
30%

Overhead not easy to place in other categories such as technology and software, subscriptions, office supplies, professional fees, bank fees, and general insurance.



Operations
5%

Program & Ministry



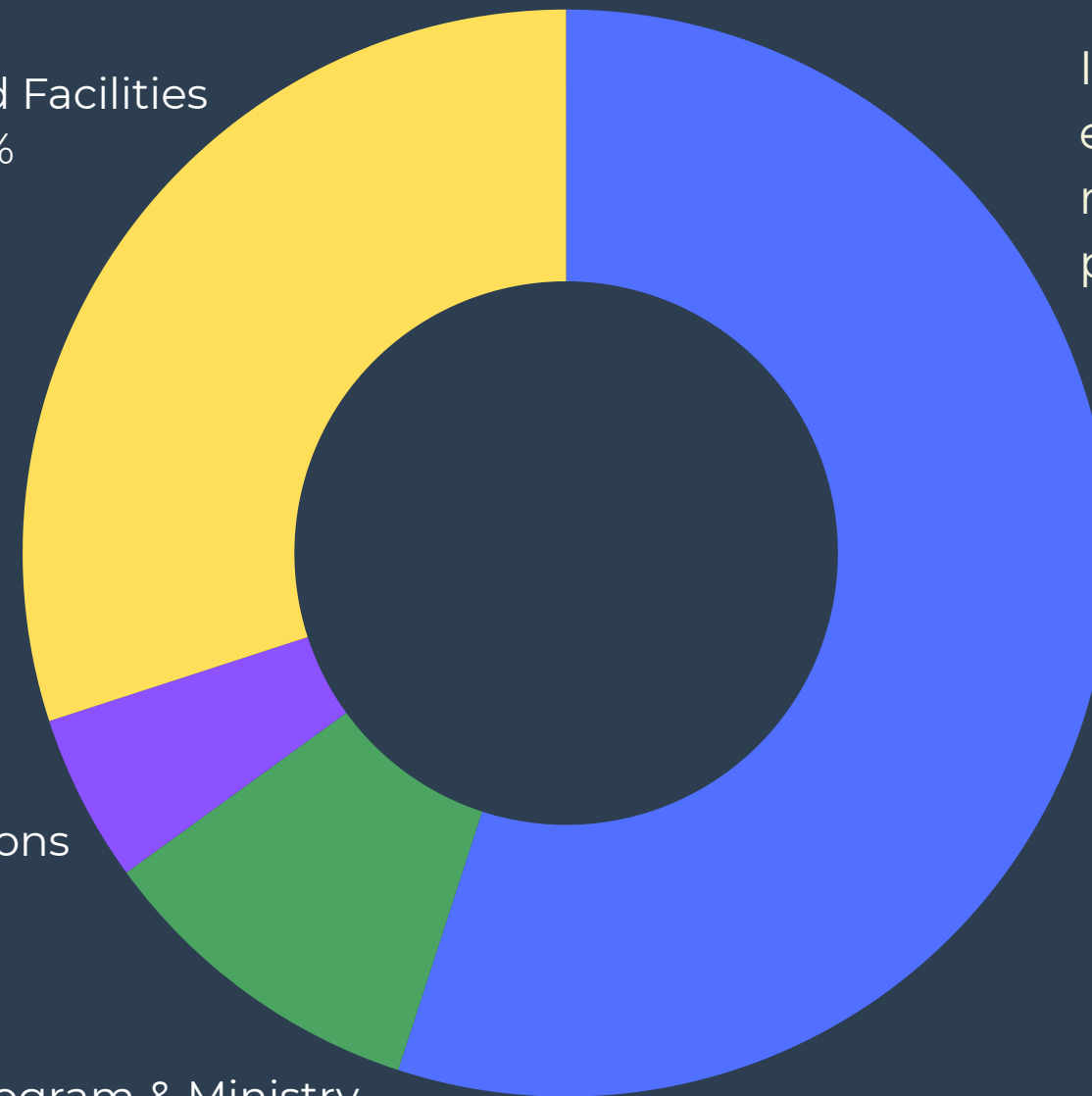
10%

Funds that support worship, fellowship, education, and mission giving that is budgeted. Also reimbursement funds for clergy and staff resources named in compensation packages.

Income that the church spends on the people it employs: salaries, wages, payroll tax, health and retirement, clergy housing. Usually the largest percentage of a church budget.



Personnel
55%



The Church Budget

The Board or Finance Committee may determine the budget area total and committees determine the annual line allocations. Those who created or requested the budget allocations should be updated on progress through the budget year.

Giving may be earmarked for a budget line such as flowers.

Program & Ministry 25,000

Worship 6,600

Guest Musicians and Accompanist	2,500
Music Licensing	300
Worship Supplies	50
Communion Supplies	750
Paraments, Vestments & Banners	500
Altar Flowers	2,500

Expense Areas and Lines

Building & Facilities 25,000

Housekeeping 5,900

Cleaning Supplies	1,500
Contracted Cleaning Services	1,700
Pest Control	500
Trash & Recycling Service	1,200
Restroom & Paper Supplies	1,000

The further you move into a budget plan, the more flexibility you may have. Budgets are a best guess at anticipated income and expenses. There may be greater variance in line items than in area budgets. Too many line items can make accounting complicated. Only create and track line items that have real data value to overall spending trends.

Some General Ledger lines may be for in/out funds such as retreats, meals, or other activities where members pay a fee to participate.

The Church Budget

Cash Flow

All Souls Church

Cash Flow | October 2026

OPERATING FUND	October	Year to Date
Beginning cash balance	\$41,500	\$38,000
Budget giving (pledge & plate)	32,600	318,000
Building use receipts	2,200	21,000
Endowment draw (per spending policy)	1,100	11,000
Operating reserve used	-	6,000
Personnel expenses (salaries, taxes, benefits)	(24,800)	(248,000)
Non-personnel expenses (utilities, supplies, insurance, mission)	(11,900)	(105,300)
Ending cash balance	\$40,700	\$40,700
DESIGNATED, RESTRICTED & RESERVE FUNDS	October	Year to Date
Beginning cash balance	\$96,300	\$108,000
Designated gifts received	4,200	41,000
Restricted gifts received (memorials)	1,500	9,500
Endowment income to designated (missions)	-	3,000
Designated & restricted spending	(7,400)	(43,900)
Operating reserve transferred to operating	-	(6,000)
Maintenance reserve used (boiler repair)	-	(17,000)
Ending cash balance	\$94,600	\$94,600

Ending balance includes Designated \$52,300 · Restricted \$24,300 · Reserves \$18,000. Endowment (\$240,000) is held and reported separately.

The Church Budget

Who has authority to implement the budget?

CONGREGATION

- Approves the budget, typically at the annual meeting
- Elects the governing board, treasurer, and other financial persons
- Approves commitments that go beyond one year such as a new position, a loan, or contract service.
- Approves governing documents for the congregation.

GOVERNING BODY

- Sets financial policy: spending limits, approval rules
- Adopts the annual budget
- Approves moving money between budget areas, or above the finance committee's set limit
- Holds ultimate fiduciary responsibility

FINANCE COMMITTEE

- Builds the proposed budget from what each ministry area requests
- Recommends how money is allocated across budget areas
- Reviews budget-to-actual reports before they reach the board
- Approves moving money between lines within an area, up to a set dollar limit

TREASURER/BOOKKEEPER*

- Oversees spending and disburses approved payments
- Reports actual spending against budget to the committee and board
- Disburses what's already approved — doesn't set the amounts or approve/deny payments.

**Note: whether an elected officer or a hired bookkeeper, this role should not chair the board or finance committee, and should never reconcile their own work*

The Church Budget

What is a variance?

A budget variance is simply the gap between what the budget planned for a period and what actually happened. A budget to actual should often show budget variances throughout the year. Budgets that are customized per month are more accurate than a budget split into twelfths.

Income Variance

-  Income is highly over budget
-  Income is at or slightly under budget
-  Income is significantly under budget

Expense Variance

-  Expense is highly over budget
-  Expense is at or slightly over budget
-  Expense is significantly under budget

The Church Budget

Reading a variance - what to ask

01 Is it timing?

An annual premium paid in January makes one month look over budget and the rest look under. The year is fine.

02 Is it seasonal?

Giving dips in summer and surges in December. A budget spread to match the calendar reads honestly.

03 Event or trend?

One repair is an event. Giving several percent under budget three months running is a pattern.

Variances in budget areas should be considered more seriously than in budget lines.

The Finance Committee should look at all lines and the board should look at larger budget areas in their reviews and reporting.

The Church Budget

Reading a variance

Grace Community Church

Budget to Actual | Year to Date through June 30

	Annual Budget	YTD Budget	YTD Actual	Variance \$	Variance %
Income					
Pledged Giving	330,000	165,000	158,400	(6,600)	-4.0%
Plate & Online Giving	60,000	30,000	23,700	(6,300)	-21.0%
Building Use	18,000	9,000	9,000	0	0.0%
Endowment Draw	12,000	6,000	6,000	0	0.0%
Total Income	420,000	210,000	197,100	(12,900)	-6.1%
Expenses					
Personnel	252,000	126,000	126,800	800	+0.6%
Building & Facilities	72,000	36,000	44,100	8,100	+22.5%
Program & Ministry	42,000	21,000	15,900	(5,100)	-24.3%
Operations	30,000	15,000	14,700	(300)	-2.0%
Mission & Denominational Support	24,000	12,000	12,000	0	0.0%
Total Expenses	420,000	210,000	213,500	3,500	+1.7%
Net Income (Deficit)	0	0	(16,400)	(16,400)	

Grace Community Church

Budget to Actual | June and Year to Date, with Prior Year

	Annual Budget	THIS MONTH			YEAR TO DATE				PRIOR YEAR	
		June Budget	June Actual		YTD Budget	YTD Actual	YTD Variance \$	YTD Var %	Last Year YTD	Change vs. Last Year
Income										
Pledged Giving	330,000	27,500	24,100		165,000	158,400	(6,600)	-4.0%	161,200	-1.7%
Plate & Online Giving	60,000	5,000	3,300		30,000	23,700	(6,300)	-21.0%	29,500	-19.7%
Building Use	18,000	1,500	1,500		9,000	9,000	0	0.0%	8,400	+7.1%
Endowment Draw	12,000	1,000	1,000		6,000	6,000	0	0.0%	6,000	0.0%
Total Income	420,000	35,000	29,900		210,000	197,100	(12,900)	-6.1%	205,100	-3.9%
Expenses										
Personnel	252,000	21,000	21,100		126,000	126,800	800	+0.6%	122,500	+3.5%
Building & Facilities	72,000	6,000	5,200		36,000	44,100	8,100	+22.5%	43,000	+2.6%
Program & Ministry	42,000	3,500	2,900		21,000	15,900	(5,100)	-24.3%	15,200	+4.6%
Operations	30,000	2,500	2,400		15,000	14,700	(300)	-2.0%	14,100	+4.3%
Mission & Denominational Support	24,000	2,000	2,000		12,000	12,000	0	0.0%	12,000	0.0%
Total Expenses	420,000	35,000	33,600		210,000	213,500	3,500	+1.7%	206,800	+3.2%
Net Income (Deficit)										
	0	0	(3,700)		0	(16,400)	(16,400)		(1,700)	

Who does what

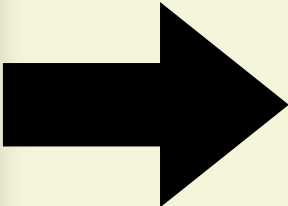
Roles in the financial process

Four Functions to Keep Separate



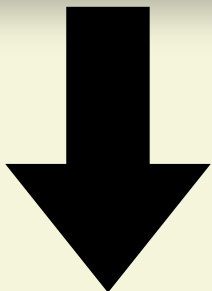
Receive & Record

Money comes in and is recorded and logged.



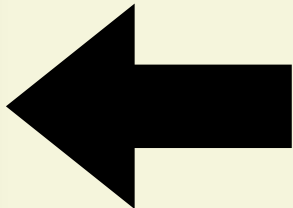
Approve

Someone authorizes spending before it is processed.



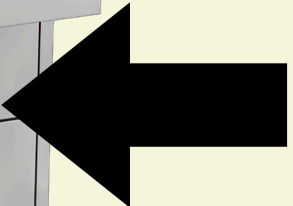
Disburse

The payment or transfer happens and is processed in the GL.



Reconcile & Review

An independent check against the bank statement(s).



Financial Controls

Who should manage and execute.

GOVERNING BODY

Govern and set policy.
Does not handle money and cannot benefit financially from the church's business. Reports to congregation at least annually.

TREASURER

May disburse funds and reports financial results to the committee, board and congregation in accordance with governing documents/bylaws. Does not typically handle cash or day to day accounting.

PASTOR(S)

Ensures processes and persons are in place. Does not participate in day-to-day financial management or processes. May be second signer per bylaws in emergencies and may approve expenses in some areas they lead.
This may also apply to non financial staff and employees.

FINANCE COMMITTEE

Govern and approve finances where the board delegates it.
Does not have bank access or execute payments or contributions management.

COUNTING TEAM(S)

Counts offerings as a team of two unrelated persons. Signs and documents plate income.

INDEPENDENT REVIEWER

Reviews and reconciles bank statements. Reviews cleared payments and spotchecks. Does not record, sign or disburse payments. Does not view individual contributions.

FINANCIAL SECRETARY OR BOOKKEEPER

Receive and record income and expenses. Processes payments but does not authorize or sign checks.

The roles and functions of the church's financial management should be established in the governing documents or financial policies and procedures adopted under the approval process of the governing documents. Those policies should be reviewed annually for compliance and effectiveness.

Financial Controls

Separation Creates Accountability

APPROVING

- Follows financial policies of who can approve expenditures.
- Pastor, Bookkeeper, Committee Chair, Governing Board, or Congregation per governance and area.
- Typically determined by expense area, budget inclusion, vendor, or amount.
- No person can approve a payment to themselves or an entity connected to them.

SIGNING

- Checks should be signed by those authorized to do so by the Governing board and documents.
- Signers must be established and authorized with the bank.
- Two signers is recommended and should be required at certain dollar thresholds or purposes. Determined by governing policies.
- A pastor or staff person should not be the sole check signer for any check.

RECONCILING

- Follows financial policies of who can reconcile accounts.
- Ensures others in the process are following established policies.
- Does not change or manage activities, simply reports back on findings to the appropriate person or group.

Given the role of online and digital bookkeeping and banking, all financial policies and procedures should include guidance on unique login, authentication, and access levels.

Trust is not a financial control.

When the bills are late



FIRST CONGREGATIONAL CHURCH

First Congregational Church has run on the same volunteer bookkeeper for over a decade. Joe has been a member of the church for over 40 years and has many friends and family in the congregation. While everyone calls him the treasurer, there is an official officer position of treasurer of the church board named Susan, but she doesn't get involved in the weeds of the finances. She simply attends occasional meetings of the finance committee and brings simple reports from Joe to the monthly board meetings. This setup works because the office of treasurer changes every year and it would be hard to transfer information so frequently. And it's been working for so many years that everyone trusts Joe and their finances.

Joe comes to the church on Mondays and picks up the offering and takes it to the bank. This is after the ushers count the collection and make a deposit slip. Joe records contributions in a spreadsheet, pays the bills, signs the checks that are budgeted for, and reconciles the bank statements each month. If a payment is over \$1,500 he has the Pastor add their signature to the check. He sends a monthly report to the treasurer of income, cash in the bank, and overall expenditures for that month. Expenditures are always below income on the monthly reports.

Over the past 6 months the church office and Pastor have gotten calls from vendors that they haven't been paid. Then they got a notice from the power company that the electric was at risk of being turned off for nonpayment. The Pastor asks Joe about the vendor payments and he says, "I'm just behind" and "I'll get it taken care of soon."

What would you do next as the Pastor or a board member of this church?

What questions would you ask and to whom?

Contributions

All gifts must be recorded and tracked by individual when possible.

Pledged Giving

An advance commitment to give a set amount over a period of time. The most predictable portion of the budget's income side.

Non-Pledge/Plate/Loose

Unscheduled giving such as cash and checks in the plate or online contributions not committed in advance

Designated Giving

A gift given to a particular purpose or ministry which the church tracks in designated lines and funds. The church has final use decision.

Restricted Giving

A gift given with a donor directive on specific use which may only be used for that purpose without donor approval.

Online Giving

Congregations that use online giving to its full potential average roughly 30% higher per capita contributions than those that do not. This applies across all types of contributions and can significantly increase non-pledge/plate income.

Contributions:

Is every gift tax deductible?

Regular Tithes and Offerings

No goods or services received.

Designated Gift

If the church retains control and discretion over final use.

Toward a person

If the church manages and pays the vendor directly. Such as camp sponsorship.

Non-cash/in-kind

Church records what and the donor records value.

Free-will Offering Meal

Full amount as no price was set.

Ticket for Meal or Event

Only the amount paid over fair value of the meal or event if any.

Altar Flowers

Only if the flowers are not taken home.

Pass-through funds*

Giving that will go to another organization

The IRS requires the church to provide a written acknowledgement of any gift of \$250 or more. One annual statement listing every qualifying gift, with the required language, is the simplest way to satisfy this requirement.

Financial Assets

Undesignated/Unrestricted Fund(s)

Income with no donor or board limits and usable for any legitimate purpose.

Operating Fund

The general fund that pays for the day-to-day budget. It may include funds from an endowment draw.

Designated Fund(s)

Buckets or line items for a chosen purpose but controlled by the board and may be redirected.

Reserves

Funds created and funded for a particular use under the financial policies of the church.

Donor Restricted Fund

Carry a donor imposed condition the church is legally bound to honor.

Endowment

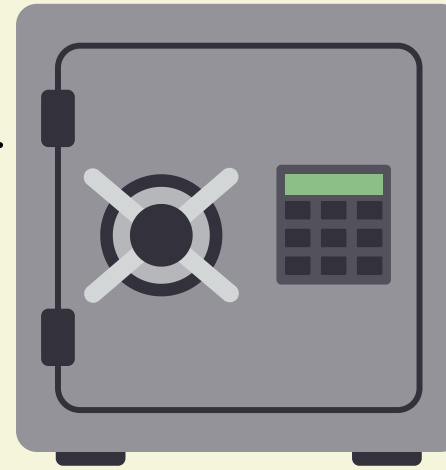
A permanent fund that is governed under state law and only available for the legally described purpose. Held outside the operating funds and reserves.



How to address a shortfall

Operating Reserve

- A goal of 3 months but no less than 1 of operating expenses held in a reserve fund for operations.
- Funded by the annual budget allocations per month.
- Requires governing approval to disburse.



Maintenance/Capital Reserve

- Funded by annual budget allocations per month.
- Requires governing approval to disburse.
- May be used for one time capital repairs or replacements not covered by the annual budget or an endowment.

Line of Credit



- An interest incurring account held by your bank to borrow against
- For short term cash slumps that can be made up in the short term
- Not for long term sustainability
- Always available but seldom used



Never move cash in and out of different funds to make up for a shortfall unless it is a fund for that purpose. Robbing Peter to pay Paul seldom repays Peter.

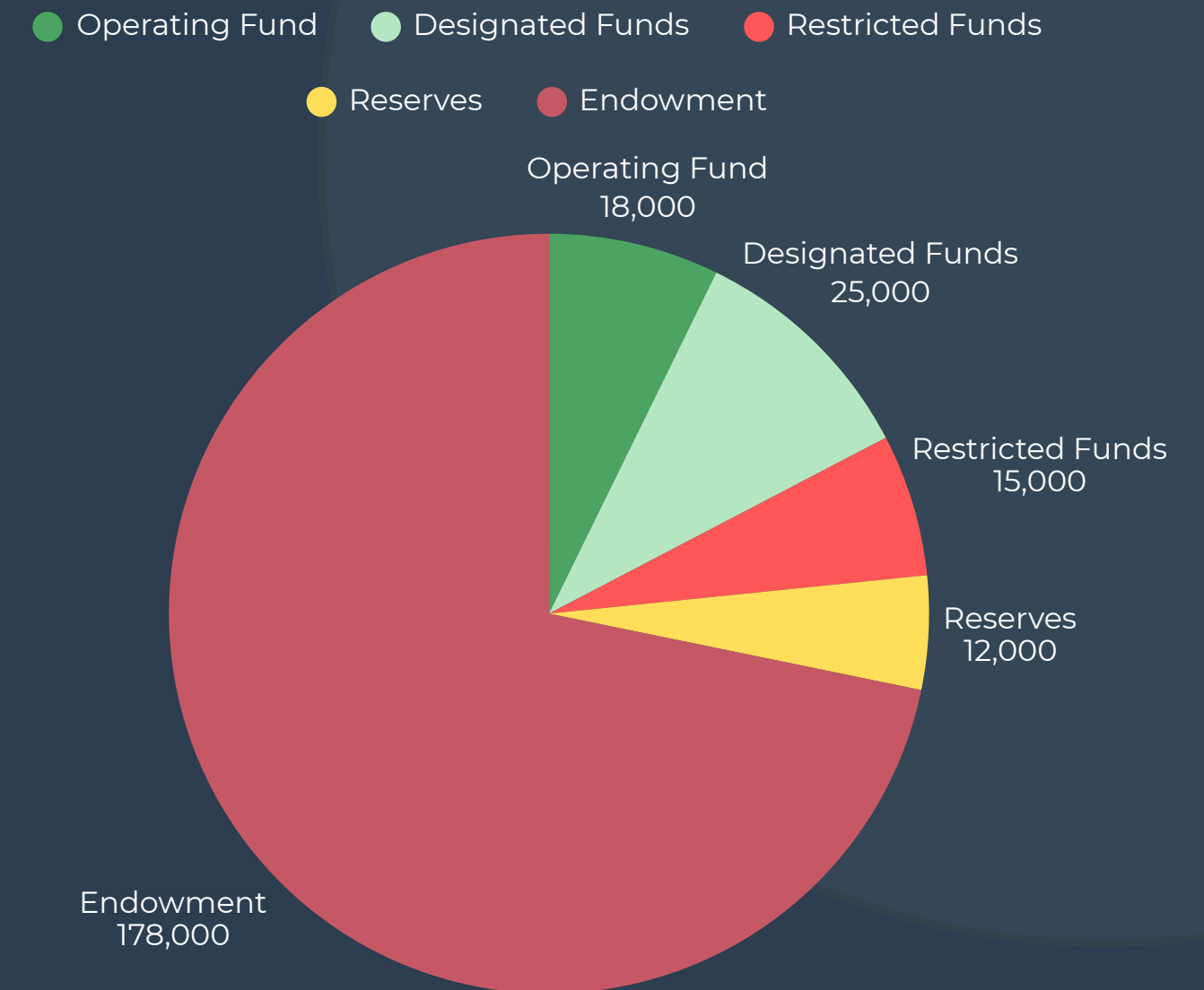
Financial Assets

Can we? Should we?

In the month of November, First Church has payroll obligations of \$26,000 dollars. Weekly income has been about \$8,000 per week with about 10% going to designated funds. Giving this fall is running about 12% below last year. The Operating fund that was \$28,000 on September 1 is now \$18,000 on November 1.

1. **Which funds *could* cover November, and which *should*?**
2. **Who has to approve each option?**
3. **What else would you want to know before deciding?**
4. **Is this a November problem or a budget problem?**

First Congregational Church Fund Balances as of November 1, 2026



First Congregational Church, November 2026 Monthly Budget Obligations

Payroll (salaries, taxes, benefits)	\$26,000
Other budgeted bills (utilities, supplies, insurance, mission)	\$9,000

Total November obligations \$35,000

Expected November income to operating \$30,000
Shortfall (\$5,000)

Pastoral Compensation

Annual Review

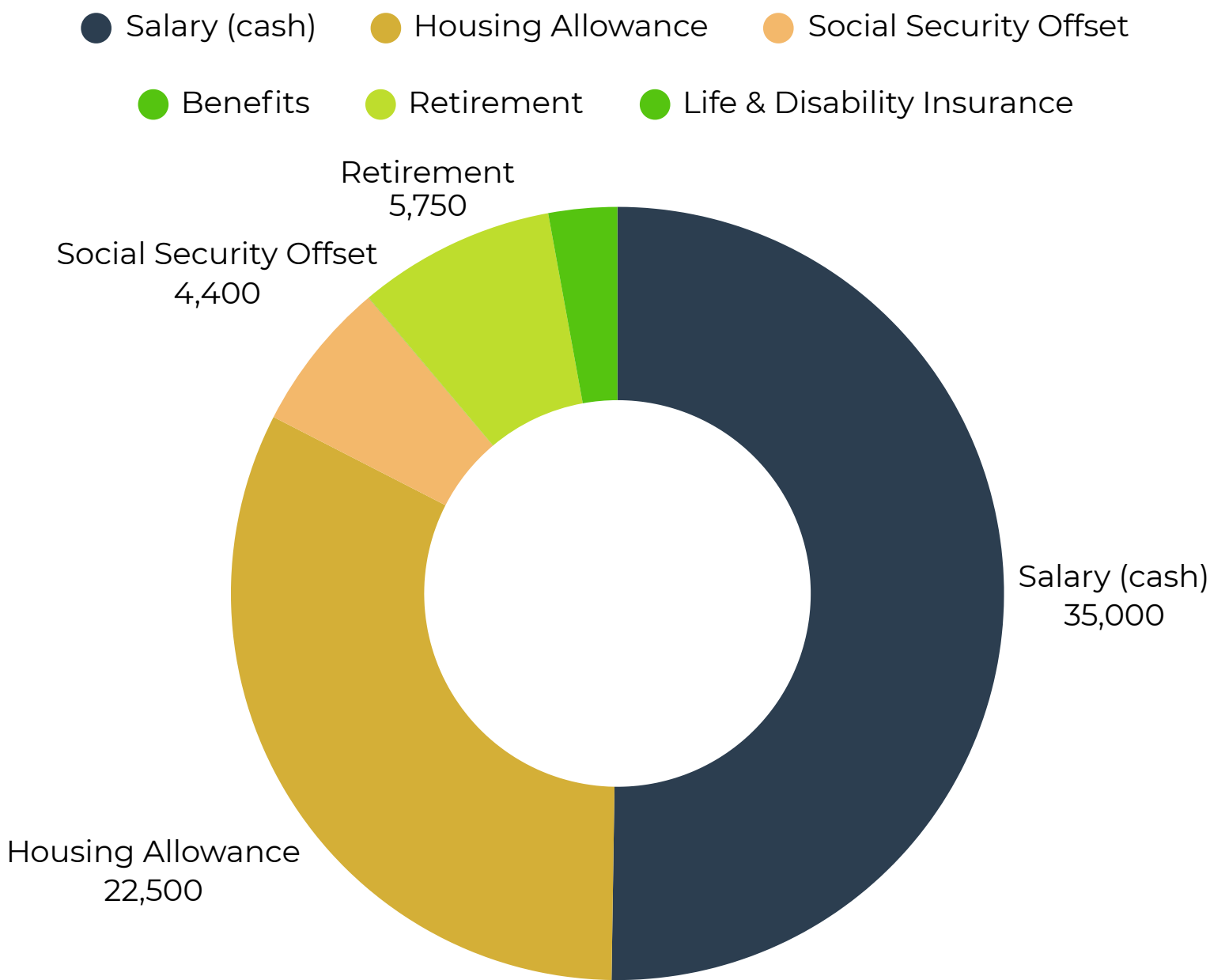
The Finance Committee or Governing Board should review all clergy compensation packages annually with each pastor employed as such. This bilateral conversation and agreement is required to establish salary, housing and benefits that work for both parties for the coming year. The pastor should be notified in writing annually of the housing allowance for tax reporting. This approval and notice must be completed before any funds are paid to be IRS Compliant.

Reimbursement

Reimbursement is the congregation paying back, or directly covering, what the pastor spends on behalf of the ministry: mileage, a conference, books, hospitality. This is not pay and should not be drawn from the Personnel/Compensation area of the budget. Mishandling reimbursement could be a tax liability for the pastor.

It may be listed in the pastor’s compensation package but is managed and tracked in the ministry budget area. Policies should exist to determine who will own items paid for under reimbursement.

Sample \$80,000 Compensation Package



Taxable SECA Compensation - \$61,900
Income Taxable Compensation - \$80,000

Pastoral Taxes

Dual Tax Status



- The pastor owes income tax on compensation, except the housing allowance.
- The pastor owes self-employment tax (SECA) of about 15.3% on salary, housing and the offset combined.
- The church pays no Social Security or Medicare tax on a minister. A Social Security offset is the church's voluntary way to help.
- The church may provide an offset for these taxes as a line item in the compensation package paid as part of the regular cash salary.

Type of Compensation	Income Tax	SECA
Salary	Yes	Yes
Social Security Offset	Yes	Yes
Housing Allowance	No	Yes
Health Benefitis	No	No
Life Insurance	No, on up to \$50,000 of coverage	No, on up to \$50,000 of coverage
Retirement Savings	Yes but deferred.	No
Parsonage Use	No	Yes

How to pay taxes:

Option 1: The pastor asks the church to withhold income tax, plus extra to cover SECA, through payroll.

Option 2: The pastor makes quarterly estimated payments to the IRS.

Either way, SECA is settled on the pastor's own tax return.

Churches are not required to withhold any taxes from a minister’s paycheck. They are not allowed to withhold SECA (Social Security and Medicare) taxes. Income tax withholding is optional.

Oversight

Internal Review

A committee inspects records, reconciliations, and cleared checks. This does not involve a CPA or outside service.

Compilation

A CPA organizes financial data into standard statements; checks format, not accuracy. No opinion offered on practices and controls.

Review

An independent CPA uses analytical procedures to catch obvious issues and issues guidance toward best practices.

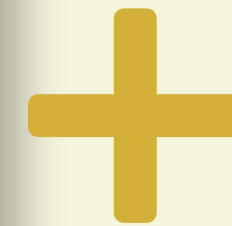
Audit

Full testing of financial controls and processes by a third party and provides a formal assessment on best practices. Highest assurance.

When do we need an audit and what type?

Process Challenges

When processes are not clear, transparent, and known by multiple people. When trust has been questioned or lost by the congregation.



Obvious Mismanagement

When funds have not been managed or allocated correctly by intent or poor internal oversight.

An audit can be a valuable investment to ensure best practices are being used and congregational trust has been secured. An audit or review guide should be laid out in the bylaws.

What is a red flag?

What to look for that could indicate that you need to review or update your policies and procedures or have an outside review of your financial process and accounting.



Giving Flags

Patterns in income that threaten the budget and financial security



Behavioral Flags

Patterns in whoever is handling money: resisting help or share tasks, guarding records, defensiveness about routine questions, a refusal to have a review or audit.



Reporting Flags

Reports that arrive late, incomplete or are only verbal from those in the financial processes.



Control Flags

Missing separation of duties, shared passwords, one with sole access to financial processes or accounts, commingled funds, unreviewed compensation or endowment management.

Take seriously that any person could be tempted to steal or mismanage funds intentionally or unintentionally.

Have a pastoral attitude and never assume ill intent.

Policies and procedures are not to raise suspicion but to protect both people and assets.

What is a giving flag?

Downward giving trends



- Fewer households giving
- Flat or falling average gift per household
- Pledges declining year over year or unfulfilled.
- Deeper summer dips with growing dependence fall/Christmas
- Reliance on one-time money
- Plate giving declining

Concentrated giving



- A small number of households provide a large share of the income.
- When a small group carries the most weight, the loss of one through death, relocation, change in job, or disagreement can open a deep hole in the budget that is immediate. The church may also bend their future to those persons' leadership or preferences.



Overreliance on Endowment

Beginning to use an endowment principal for day to day expenses and payroll can lead to overreliance on an asset meant to remain in perpetuity.

A typical spending policy draws about 4–5% of a multi-year average value, and drawing more than that eats into principal. For donor-restricted endowments, touching principal is a legal issue under UPMIFA, not just a matter of relying on it too much.

Giving and Pastoral Care

Riverside Congregational Church

At Riverside's annual meeting each January, the treasurer gives the same good news: "We balanced the budget again." People applaud, and the meeting moves on.

Total giving has barely changed, about \$412,000 three years ago and \$398,000 this year. The finance committee's worksheets tell a fuller story. The number of giving households has dropped from 210 to 181. The average gift keeps rising, so the totals hold steady. Ten households now give a third of everything the church receives, up from about a fifth. Pledge fulfillment has slipped from 96% to 87%. And to balance the budget, the finance committee has raised the endowment draw from 4% to 9%.

Pastor Ellen has served Riverside for six years. By long-standing policy, she sees no giving information at all, which was meant to protect her from favoritism. She has noticed some familiar families showing up less often, but she assumed they were busy.

This spring, while planning a funeral, she learned that the Carters, members for thirty years, had stopped giving and attending more than a year ago. They had been hurt by a decision about the church's preschool, and no one ever called them. The secretary who inputs contributions had noticed their giving stop. The finance committee is never told who starts or stops giving, just how many do and do not contribute annually. They don't want to know anyone's individual giving habits or amounts.

1. **Is Riverside financially healthy? What do the totals say, and what do the trends say?**
2. **Which trend worries you most?**
3. **What should Pastor Ellen have known, and who should have told her?**
4. **Would an audit have caught any of this? If not, what would?**



Questions for leaders to ask

**Can I have that in writing
or in an email?**

Questions that are helpful to ask at least quarterly in Finance and Governing Board Meetings

- ✓ **Where are we? Really.**
Where are we against the budget year to date, and what explains any variance that isn't simply timing or season?
- ✓ **How much cash do we have?**
How many months of operating funds do we have in unrestricted cash - does the balance reported include unavailable money?
- ✓ **Are current bills paid in full?**
Are we current on all bills including payroll taxes, retirement and required support to any denomination?
- ✓ **Have this month's bank statements been reconciled?**
If yes, by whom and when? If not, when and by whom will it be done?
- ✓ **How many households have given YTD? What is the percentage of pledges fulfilled?**
- ✓ **What is the last revision date of our financial policies and procedures? Are they working?**
- ✓ **What is the status on any designated and restricted funds?**
Are any due to be spent per our policies or moved to another fund area?
- ✓ **Who counts as covered under our insurance for financial claims?**
- ✓ **What big expenses are coming that aren't budgeted for?**
- ✓ **Have we reported to our congregation information that would build transparency and confidence in our leadership?**

Questions & Responses?



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SUSTAINABLE SOLUTIONS FOR FAITHFUL FUTURES

How can we help?

Healthy finances let a congregation talk about money all year, with gratitude, not just when it's time to ask.

- Financial Policy and Procedure Review
- Stewardship Campaign Development
- Giving Analysis and Guidance
- Online Giving Implementation
- Strategic Planning
- Capital Campaign Services

Derek Henson | derekh@pinnservice.com



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SUSTAINABLE SOLUTIONS FOR FAITHFUL FUTURES