Church Cash Reserves – **How Much Is Enough?**

by Dan Busby and Michael Martin

FALL HAS ARRIVED. BESIDES THE COOL BREEZE AND BEAUTIFUL CHANGING OF THE LEAVES, THIS ALSO MEANS THE BEGINNING OF BUDGETING SEASON FOR MANY CHURCH ADMINISTRATORS. WE ARE SORRY FOR THAT PAINFUL REMINDER!

One of the most popular budgeting-related questions we receive at ECFA is, "How much cash should our church have set aside in reserve?" (Hint: If you are not asking, you should be!)

Why are cash reserves so important? Cash reserves are the cushion that ensures

- Operating expenses are paid on-time instead of incurring late fees (typically after payables are 30-45 days late);
- The church is in compliance with mortgage covenants, and the financial institution does not foreclose on the property;
- Funds are available to replace worn-out HVAC (can you imagine the air conditioning system becoming history on a Sunday morning in July, there are zero capital replacement reserves, and the only option is to take a special offering to replace the unit?); and
- The church has the necessary funds ready to open a new site or launch a new ministry instead of starting from scratch.

Even scripture emphasizes the critical nature of reserves. Look no further than this pair of examples from the practical wisdom literature of Proverbs:

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, NIV).
The wise store up choice food and olive oil, but fools gulp theirs down (Proverbs 21:20, NIV).

Creating and maintaining cash reserves is not as easy as it seems. It requires thoughtful planning and faithful administration. There may be pressure to pay down debt early, pressure to increase the compensation of staff, pressure for a new program – but these pressures do not discount the importance of creating and maintaining cash reserves.

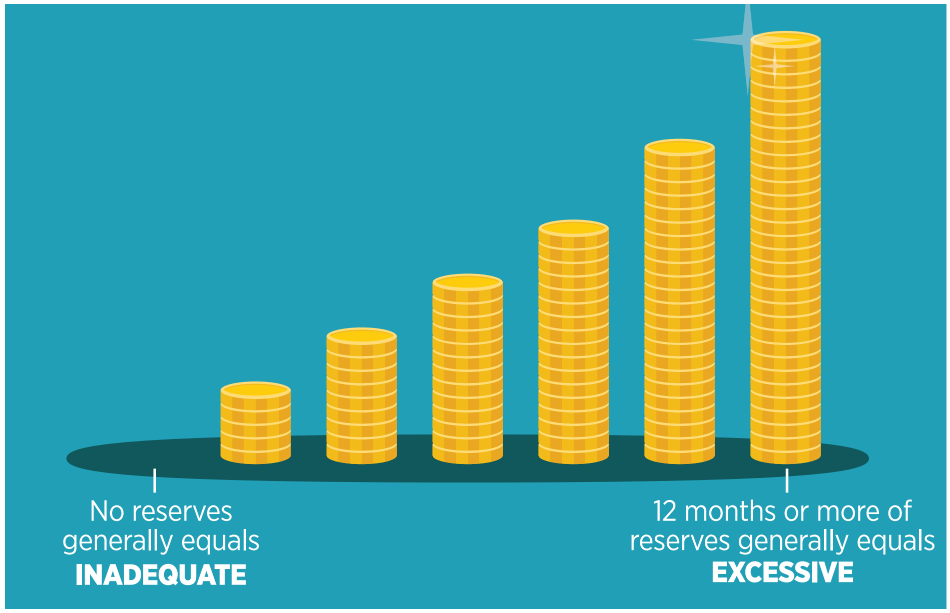
The manner in which a church balances these cash liquidity opportunities will speak volumes about how that church demonstrates its financial stewardship. Back to our question, when determining "how much is enough," the short answer is there is no one-size-fits-all.

There is a broad spectrum of church cash reserves philosophies. On one end of the spectrum, some say churches should have few reserves because "God will provide." On the other end of the scale, some take the position that 12 months of operating reserves should be maintained. Most churches find neither extreme to be ideal for them.

Regardless of where your church happens to fall on the spectrum of cash reserves philosophies, here are a few essentials every church should consider:

1. **Understand how important cash reserves are to faithful administration of church resources.** Appreciating the need for cash reserves starts with an understanding of faithful administration of God's resources.

   Churches must make cash reserves a priority if they desire to honor God in how they manage church finances. Cash reserves play an important part in giving the world the right impression of God!



2. **Build cash reserves in good financial times.** Churches in a growth mode should take advantage of opportunities to build cash reserves. When a church is holding the status quo or is in decline, there are few opportunities to build cash reserves.

   Build cash reserves increases into the budget—otherwise there will be no intentionality in the process. Consider these two approaches:

   - **Project next year's revenue to be lower than current year expenses.** For example, a church may project the budget for the following year as 90% of the current year revenue.
   - **Include a cash reserves line in the budget.** Include a line-item in the budget for "Additions to Cash Reserves." Then, if cash coming in exceeds disbursements, the excess represents an addition to cash reserves.

3. **Segregate cash related to designated funds and mortgage reserves.** An early priority for the use of cash reserves is to be sure that reserves are at least equal to unspent gifts designated (or restricted) for projects. Borrowing from designated balances to pay church operating expenses is a recipe for disaster.

   Example: A church has cash balances of $300,000. The church has unexpended designated balances of $350,000. The difference generally means that the church has borrowed and spent $50,000 of designated gifts for operating purposes. This $50,000 should be restored as soon as possible.

   Capital replacement reserves are important. Reserves for ministry expansion are vital. But without sufficient mortgage reserves, a church may miss a loan payment and be staring at a foreclosure notice. It is a good idea to maintain mortgage reserves over and above the level

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required by the lender because use of lender-required reserves may create a loan default.

4. **Be specific with cash reserve goals.** Churches are well served to adopt policies requiring reserves at least adequate to cover unexpended designated gifts and debt service reserves. Targets may be appropriate for other reserves such as for capital replacements and ministry expansion.

   A cap and a floor may be appropriate for operating reserves (other than the reserves relating to designated gifts, mortgage reserves, capital replacements, and ministry expansion). The adequacy of these operating reserves is often measured in the number of months of cash.

5. **Communicate the importance of cash reserves to the congregation.** Having adequate cash reserves does not exhibit a lack of faith but reflects attentiveness to good stewardship (remember our examples straight from Proverbs!). Proactive church administrators communicate both clear measurements and the rationale for the levels of cash reserves. This can boost congregational confidence for greater giving.

We hope these considerations are a helpful starting point in determining the appropriate level of cash reserves, especially as you enter the next church budgeting season.

For more tips and essentials, check out ECFA's latest eBook, *9 Essentials of Church Cash Reserves*. For a limited-time, FREE download of the eBook, email the authors (Dan@ECFA.org or Michael@ECFA.org).

Authors

Dan Busby, CPA, president, and Michael Martin, JD, vice president, serve churches through the ministry of ECFA (Evangelical Council for Financial Accountability), an organization that certifies churches and ministries for financial integrity and is a leading provider of practical church resources. Learn more at www.ECFA.church.

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