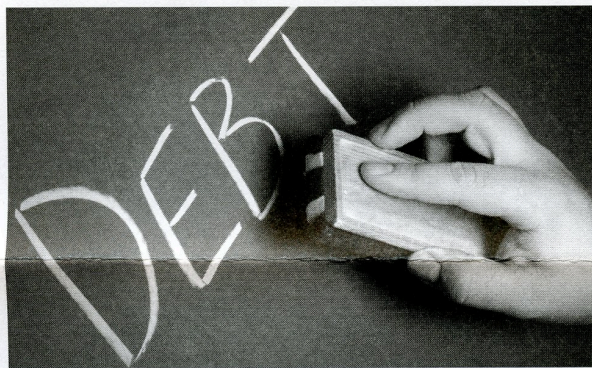


Church Finance

A MONTHLY REVIEW OF ACCOUNTING, FINANCIAL, AND TAX DEVELOPMENTS AFFECTING CHURCHES AND CLERGY SINCE 1993.

TODAY

LAYING YOUR CHURCH'S DEBT BURDEN DOWN

The benefits—and drawbacks—of debt-reduction campaigns.

By Bobby Ross Jr.

On a Sunday morning, two days before the September 11 terrorist attacks, Edmond Church of Christ—my home congregation in a growing, affluent suburb north of Oklahoma City—made a long-awaited pilgrimage.

A thousand fellow Christians and I marched from our old building, hidden behind trees in a quiet residential neighborhood, to a new, \$6.5 million worship center at a high-profile intersection.

Immediately, our red-brick building with a simple, distinctive steeple became a new community landmark, standing right across the street from a busy city park known for its youth baseball fields, walking trails, and picturesque duck pond.

"As we move into our new location, we believe God's light will shine even more and that he will do amazing, incredible things through us," our senior minister, the late Don Vinzant, said that Sunday.

Just two nights later, that belief proved true—for the first of many times—as we opened our sanctuary to a community prayer service to seek God's comfort and guidance in the wake of our national tragedy.

But for all our spiritual hopes and dreams, we also carried something else with us to our sparkling new digs: millions of dollars in debt.

In the years that followed, even as our congregation kept adding members and

giving sacrificially, the escalating debt payments became a burden. As John Trotter, one of our elders, put it, "It was wearing us down."

The payments threatened to hamper the church's ability to minister at home and around the globe.

Five years ago, our leaders decided to take a different approach. They organized four special "Fifth Sunday" contributions a year to eliminate the debt much more quickly than originally planned.

Our congregation—filled with many members who have completed Christian debt-management guru Dave Ramsey's Financial Peace University—responded enthusiastically and generously.

"Our decision to reduce and ultimately eliminate our previous debt earlier than scheduled came down to a strong desire to generate and use more funds for direct ministry and missions—to share the Gospel and make disciples—rather than to pay a bank," says Randy Roper, a preaching minister who has served our congregation in a variety of roles for 20 years.

The national scene

From the Oak Mountain Presbyterian Church in Birmingham, Alabama, to the Cottonwood Church in Los Alamitos, California, a number of churches across the nation have taken steps to reduce debt.

Those churches typically fall into three categories, says Jim Sheppard, CEO of

Generis, a church financial consulting firm based in Atlanta:

- **Churches that borrowed** beyond their means and find themselves in trouble, including facing the possibility of letting staff go.
- **Churches where mortgage** payments are not a burden but do limit financial flexibility, either to expand facilities or focus on other ministry priorities.
- **Churches that simply** want to be debt-free. That was the case, he said, with Oak Mountain Presbyterian.

"What would you do with an extra million dollars a year?" Oak Mountain's senior pastor, Bob Flayhart, asked as he urged his Alabama congregation to pay off its \$7.8 million mortgage, according to Sheppard.

In the wake of the 2008 financial crisis, some churches struggled just to meet payroll and pay utilities, says Joel Mikell, president of RSI Stewardship, a church consultant based in Dallas.

Those churches discovered that reducing or eliminating debt payments could help maintain their staff size and avoid ministry cutbacks. "As a result," Mikell added, "we did see a spike in debt campaigns."

Even with interest rates at an all-time low, it makes sense to attack debt, explains John Kim, the general manager who oversees finances for the Cottonwood Church, which built a new campus in recent years.

"On most church loans, it's usually a three- or four- or five-year fixed rate," Kim says. "If you keep a large loan at a fixed rate for five years, chances are, when it's time to roll it over again, it's going to be higher."

On the other hand, investing surplus cash reserves might bring a higher return than paying off low-interest loans, adds Mike Batts, managing partner for Batts Morrison Wales & Lee, an Orlando, Florida-based accounting firm that serves churches and ministries, and an Editorial Advisor for CHURCH FINANCE TODAY.

"Paying off or reducing debt is obviously a worthy goal," Batts explains. "But having adequate liquidity and cash reserves are also a worthy goal. ... So I would caution a church that wants to reduce its debt to be careful not to impair its liquidity situation so that it has little or no flexibility in operations."

At Willow Creek Community Church in South Barrington, Illinois, leaders realized in the last quarter of 2013 that paying off the remaining \$5.5 million on the church's auditorium built in 2004 was within reach, Chief Financial Officer Matt Sundstedt recalls.

Willow Creek Senior Pastor Bill Hybels shared with the congregation the vision that if members stayed consistent with their tithes and offerings, the church could be debt-free more than five years early, Sundstedt said.

The church responded positively, and Willow Creek made its last mortgage payment in January 2014.

"When financial debt is addressed in Scripture, it is not positive," Sundstedt says. "So many people, businesses, nonprofit organizations, and churches carry significant debt and operate dangerously close to a line of financial distress. At Willow, retiring the debt has allowed us to think and dream bigger about what God can do when money goes into ministry instead of toward a mortgage payment."

In the spring of 2013, Willow Creek opened a new, 60,000-square-foot care center that enabled the church to expand services for the needy: food, clothing, car repairs, legal assistance, dental work, and vision care.

The church paid for that building before ground was broken, so no debt repayment was needed.

BURIED BY DEBT?

Maybe your church isn't thinking about debt-reduction campaigns because it's just struggling to make debt payments. We asked Henry Chi and J. Scott Reitsma from the Evangelical Christian Credit Union, Ken Philip from Ark Builders, and Dan Mikes from Bank of the West to advise what churches should do if they can't meet debt obligations.

Philip: The very first thing you should do when you see a financial problem is to do *something*. The natural human tendency is to avoid things and think it'll get better. You've got to face the problem head on.

Chi: After you've done that, evaluate your financial management. Review cash management policies and procedures to be sure funds are being handled best, examining cash flow, liquidity, and stewardship of other ministry assets.

Reitsma: After that, review all expenses and consider reductions in all discretionary line items. Evaluate facilities, land, and other assets. Perhaps you need to consider selling under-used portions of your property.

Mikes: Next, talk to your lenders. Don't wait until you can't make your payments. Share the expense cuts made to date, additional planned cuts, board involvement, and plans to contact key donors. The board should also know, and discuss with the bank, the collateral value of the church property, and the possibility of marketing it to salvage equity prior to a foreclosure. This assures the lender that the church leadership is looking at all scenarios. Lenders will be more willing to work with a borrower when they can see a good management team is fully engaged and communicating.

Along with this, implement monthly board meetings for the foreseeable future to primarily focus on year-to-date actual contributions and budget performance.

Reitsma: And finally, talk to your congregation. Why not allow your congregation to make a "fully informed" decision about their participation in resolving the financial situation of the church? There is nothing more heartening than watching God's Spirit miraculously move within a congregation in situations like these. ■

—Compiled by Ashley Moore, assistant editor

"If the church is following biblical principles around money, it sets a good example for the congregation to do the same," Sundstedt adds. "Just as it's difficult for people to give generously if they are encumbered by debt, it's difficult for a church to grow their ministries if they are encumbered by debt."

Not far from Willow Creek, Wheaton Bible Church in West Chicago is in the middle of a 25-month "All In" campaign to reduce its debt to less than its annual budget of \$11 million.

Wheaton's church loans to build new facilities, starting in 2005, originally totaled \$22.5 million. But the debt payments became an obstacle to ministries that leaders believed God was calling the church to pursue, such as partnering with community resource centers in low-income areas, says Scott Landon, the congregation's executive director.

"We just felt an urgency to reach more people with the gospel," Landon explains, noting that the church's debt campaign has resulted in a 37-percent increase in overall giving.

Debt campaign or not?

Local church leaders, financial consultants, and national lenders elaborated on the pros and cons for churches considering a debt-elimination campaign:

Pros:

- **It can teach the congregation sound biblical principles.** Proverbs 22:7 says: "The rich rule over the poor, and the borrower is slave to the lender."
- **It can allow money to go into ministry rather than to a creditor.** "You no longer have to pay interest or debt service against a loan," says Scott Rolfs, who works with not-for-profit religious clients as a

managing director for Ziegler investment banking, based in Milwaukee, Wisconsin.

- **It can model good stewardship.** "Some people really realize what they're here for, that God has entrusted them with certain resources and maybe they shouldn't be holding on to so many," Landon says.

Cons:

- **It can be a difficult sale.** "It's a lot easier to raise funds for ongoing construction or a building project, for something new and exciting," explains Vonna Laue, partner and California-based regional director with Capin Crouse LLP, editorial advisor for *CHURCH FINANCE TODAY*, and co-author of the *Essential Guide to Church Finances* (Christianity Today, 2009). "It's harder to get people excited about paying down for something we already have."
- **It can result in prepayment penalties.** "Some lenders do include prepayment penalties in their loans that they make to churches, and yes, that's definitely going to be a consideration," says Dan Mikes, executive vice president and national division manager of religious institution banking for Bank of the West, based in San Francisco, California.
- **It can hurt operational funding.** "Periodically, folks just shift their (normal) giving toward a campaign ... and some of their operating giving goes down," says Mike Boblit, vice president of ministry relationship banking for the Evangelical Christian Credit Union, based in Brea, California.

Practical steps

Some churches hire consulting firms, such as Generis and RSI, to lead debt-elimination campaigns.

Others, such as Willow Creek, make the pitch to their congregations on their own.

My home church in Oklahoma used RSI for its initial building campaign in 2001 and again on a later follow-up drive, but not for the debt-elimination effort.

Regardless of which approach a congregation takes, experts stress that communication is key. Generis's Sheppard says he always recommends that church leaders meet individually with three impor-

tant constituencies: major donors, key leaders, and the congregation itself.

RSI's Mikell adds "total openness and transparency" are essential and that six questions must be answered clearly and concisely:

- Why does the church have debt?
- How much does the church owe?
- How much is being spent to service the debt?
- How much interest would be paid over the life of the loan?
- How long would it take to retire the current debt if the church maintained the status quo?
- How will the money currently being spent on debt service be re-appropriated for ministry?

By their nature, debt campaigns focus on something that happened in the past—such as new building construction, Mikell points out. But many churches balance that by including something tangible in the debt campaign, such as a specific mission project or a low-cost facility enhancement that can be visibly seen and points to the future.

But Mikell stresses that any add-ons should not interfere with the debt campaign, reduce the potential for maximum results, or disguise the main objective.

While honesty is important, so is keeping the message simple, Sheppard says.

"If you have multiple notes with multiple mature dates ... if you have a prepayment penalty with the bank and you're going to put the money off to the side and pay it at a certain later date in the future ... don't talk about that," Sheppard adds. "That's not for the church to know. Keep it really simple."

What if somebody asks about such matters? "Get that person in the business administrator's office and tell them everything they want to know because they've inquired," he says. "So be very transparent if someone asks the additional questions, but if there are three people in the life of the church that want to know that, apart from the financial committee, I'll be surprised."

New priorities

At my home congregation in Oklahoma, average Sunday attendance has jumped from about 800 people when our new building opened to roughly 1,300 people.

We have tripled spending on local benevolence and initiated a new program by which the church covers 80 percent of the cost for members to go on short-term mission trips to places such as Haiti, Mexico, and upstate New York.

Last summer, my 17-year-old son, Keaton, my 15-year-old daughter, Kendall, and I paid \$150 each to join a group on a week-long mission trip to Nicaragua. We helped with construction projects, organized Vacation Bible Schools, and encouraged native missionary families that our church supports.

Our leaders believe that when members go on mission trips, they return home energized and eager to serve—making the financial investment well worth the cost.

The lack of debt certainly hasn't hurt the church's ability to devote resources to such priorities and even store up funds for a planned expansion of our increasingly cramped Sunday school classrooms.

"The big deal to us," concludes Mark Coleman, one of our elders, "was not allowing the debt to control what we do in terms of ministry." ■

Bobby Ross Jr., a veteran journalist, is a longtime member of the Edmond Church of Christ in Oklahoma.



Tax Calendar

Important Tax Deadlines in August 2014

In addition to the regular semiweekly and monthly withholding requirements, churches should note the following dates for this month. If the regular due date falls on a Saturday, Sunday, or legal holiday, file by the next business day.

August 10

- Churches having nonminister employees (or one or more ministers who report their federal income taxes as employees and who have elected voluntary withholding) may file their employer's quarterly federal tax return (Form 941) by this date instead of July 31 if all taxes for the second calendar quarter have been deposited in full and on time. ■

FINANCIAL Q&A



IS A PASTOR'S HOLY LAND TRIP TAX DEDUCTIBLE?

It's essential to know the difference between vacation and business expenses.

By Richard R. Hammar

Q: Our church's CPA says that because a Holy Land trip will serve in the continuing education of our pastor, it would be a tax-deductible expense. Is this correct?

A: The answer is no. Many churches present their minister with an all-expense paid trip to the Holy Land. This benefit constitutes taxable income if either or both of the following statements are true:

- The trip is provided to honor the minister for his or her faithful services on behalf of the church.
- The trip is provided to enhance or

enrich the minister's ministry. While a trip to the Holy Land can benefit one's ministry, such a trip is not a business expense under current law. The tax code provides that "no deduction shall be allowed ... for expenses for travel as a form of education" IRC 274(m)(2).

The church's payment of the cost of such a trip is treated as the payment of personal vacation expenses, and the full amount must be included as taxable income on the minister's Form W-2 (or 1099-MISC if self-employed). This includes transportation, meals, and lodging.

If the primary purpose of the pastor's trip was business related (speaking, teaching, and so on) then his or her expenses may be reimbursable under the church's accountable plan. Such a conclusion depends on several factors, including the length of the trip, and the time devoted to business and personal purposes, respectively. ■

For further help navigating any funding of overseas activities by your church, see Chapter 4 of the 2014 Church & Clergy Tax Guide.

To submit a question for consideration in a future Q&A, e-mail CFTeditor@ChristianityToday.com.

Church Finance Today

FINANCIAL AND TAX DEVELOPMENTS AFFECTING CHURCHES AND CLERGY SINCE 1993.

Volume 22 • Number 7 • July 2014

SENIOR EDITOR
Richard R. Hammar, J.D., LL.M., CPA

EDITOR
Matthew J. C. Branaugh

ART DIRECTOR
Phil Marcelo

ASSISTANT EDITOR
Ashley G. Moore

RESOURCES AND SPECIAL PROJECTS EDITOR
Jim Bolton

EDITORIAL COORDINATOR
Michelle Dowell

EDITORIAL ADVISORS
Richard Hammar (senior advisor)
Michael Batts • Dan Busby • Ann Buwalda
Lynn Buzzard • Gregg Capin • George Gatgounis
Chip Grange • Jim Guinn • Stuart Lark
Vonna Laue • David Middlebrook
Danny Miller • Kevin Miller • Midgett Parker
Judge Enoch Perry • Lisa Runquist
Ken Sande • Robert Showers • Kevin Snider
Elaine Sommerville • Frank Sommerville

PUBLISHED BY:

CHRISTIANITY  TODAY

PO Box 37012
Boone, IA 50037-0012

Church Finance Today is published 12 times a year by Christianity Today, 465 Gundersen Dr. Carol Stream, IL 60188. (800) 222-1840. ©2014 Christianity Today. CFTeditor@christianitytoday.com All rights reserved. This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought. "From a Declaration of Principles jointly adopted by a Committee of the American Bar Association and a Committee of Publishers and Associations." Annual subscription: \$59.95 Subscription correspondence: *Church Finance Today*, PO Box 37012, Boone, IA 50037-0012.

PUBLICATION ASSOCIATION HONORS CHURCH FINANCE TODAY

Christianity Today's Church Law & Tax Group, publisher of *CHURCH FINANCE TODAY*, recently received six awards for its work in 2013 from the Evangelical Press Association, a professional association of Christian publications.

CHURCH FINANCE TODAY, led by Richard Hammar, Marian Liautaud, Phil Marcelo, Ashley Moore, and Michelle Dowell, received an Award of Merit in the Newsletter category.

The Church Law & Tax Group also received these awards:

- First place, website design: *ChurchLawAndTax.com*
- Award of Excellence, Christian Ministry: *CHURCH LAW & TAX REPORT*
- Award of Merit, Christian Ministry (Digital): *ChurchLawAndTax.com*
- Award of Merit, Christian Ministry (Digital): *ManagingYourChurch.com*
- Award of Excellence, Newsletter E-mail: Church Management Update

Learn more about these publications at ChurchLawAndTax.com and ChurchLawAndTaxStore.com.



 [facebook.com/ChurchLawAndTax](https://www.facebook.com/ChurchLawAndTax)
 @RichardHammar
 [linkd.in/187SPcY](https://www.linkedin.com/company/187SPcY)
 CFTeditor@ChristianityToday.com

DOWNLOAD YOUR FREE SkillBuilders!

Download the July/August 2014 SkillBuilders on "Coaching Up Pastors and Staff" for tips on getting compliance with financial rules and policies. Visit CLTStore.com/SkillBuilders by August 31, 2014, and enter coupon code **claacc** at checkout.