

# Church Budget

Between the Lines



- 
- *“But let all things be done properly and in an orderly manner.”* (1 Cor. 14.40 NASB)

# Introduction

Ask different people about budgets and you will get different answers. To staff members, budgets get in the way of activities. To the budget-review committees, budgets hold staff members accountable. To those compiling and coordinating the budgets of varying ministries, it consumes vast amounts of time and may have questionable benefits. However, budgets are critical to any church's future success.

- Budgets show the allocation of resources
- They are used to authorize action
- Budgets also provide boundaries and benchmarks
- Budgets are tools that help financial leaders



# What budgets cannot do



- Budgets do not motivate the majority of people to give.
- Budgets rarely communicate.  
A surprisingly small percentage of the American population can read and understand budgets, especially line-item budgets. Too many churches distribute copies of the annual budget, believing that they have communicated important information. Upon closer examination, it becomes clear that very little communication has occurred.
- Budgets miss the reason why people give.  
People do not give to budgets. They give less from the head than from the heart. People give to other people, to needs, to causes — to things that make them feel good and happy.

# A budget should reflect the mission



- If you want to know the passion of someone, it's real simple, just look at where they spend their money. If you have spent any time in ministry you have noticed if not studied the spending habits of your congregation. The old statement that says, "if you want to know where my heart is, look at my checkbook" is the clearest indication of my personal mission.
- The same is true with an organization, especially non- profits and even more true of churches.
- As your mission statement should clearly define what is important to your ministry, your budget should be a reflection of your statement and define how you plan to financially support that mission.

## A budget should reflect the mission (cont.)



- Randy Kinnison of Bethany Baptist Church in Portland, Oregon, says, "if you don't put money into it, it's not a goal."
- You must understand the actual values of a congregation before you can effectively influence the budget process. And often the budget is the best indication of what the leadership values.
- At a glance the budget seems to confirm that a church boasts that it is a strong mission's congregation, but a closer look reveals that most items in the mission section of the budget are not really "mission support." It turns out that anything leadership wanted but thought might be difficult to sell to the church was labeled missions.  
(So the mission section of the budget was bulging with children's and preschool ministry activities.)

# Reading the Budget

Between the Lines



# What is more important?

- **Balanced Budget or Positive Cash Flow?**
  - **Many people do not understand that although something is budgeted, that there may not be cash flow to make the expenditure.**
  - **It's the same as having checks, but no money in the bank.**

**Cash Flow is Important, and a well thought out budget can make that happen.**



# Budget Categories and Types

- **Income**
  - **Tithe/Offering**
  - **Investment Earnings**
  - **Rental**
  - **Leases**
  - **Program / Seminars**
  - **Etc.**
    - (What are other sources of income you can get from your facilities?)
- **Expense**
  - **Salaries**
  - **Property/Facilities**
  - **Programs**
  - **Worship**
  - **Missions**
  - **Numerous (etc.)**



# Expenses unplanned



- Churches are labor intensive. Large churches hire professionals to lead and train volunteers to serve the increasing needs of an expanding populace. But if you examine the average church budget, there is little allocated to the development of Bible study leaders, lay leaders and lay and professional administrative leaders.
- These are the people who are on the front lines of providing quality and excellence to attendees who must be assimilated to become contributors.
- Corporations invest 10 percent of their budgets each year in the training of leaders and others who interface with customers. This is a practice that churches should incorporate as well.

# Expenses unplanned



- Likewise, churches should allocate 5 percent of their annual budgets to promotional activities, including broad and specific target direct mailings, billboard advertising, radio and television infomercials and program sponsorships.
- Frequency and reach are the two words describing the impact being purchased, and they begin with a good understanding of attendees presently being attracted, especially those indicating their satisfaction by giving more hours and dollars.

# Budget Types

Between the Lines



# Budget Types

Which kind should I use?



**Zero Based**

**Line Item**

**Program**

**Narrative**

- **Characteristics**
- **Question Asked**
- **Modus Operandi (MO)**
- **Expectation**

# Zero Based Budget Defined

The *zero-based budget* is similar to what's used by the executive branch of the U.S. government. The government annually reduces all budgets to zero, making it necessary for every department to justify all financial needs for the coming year.

The zero-based budget forces a church to evaluate needs every year.



# Zero based Budget (cont.)



- Most churches use a "zero-based" budgeting process. That is they start each year at zero and develop a new budget based on planned ministries of the church for that year.
- There is not carry over of income or expense from the previous year on any specific line item. this process may be adjusted somewhat hereby the new budget would be developed based on
  - **fixed costs**
  - **other additions or variables**

# Review of Budget Types

## Zero Based



**Characteristics**

Expenses and Revenue are related to work loads

**Question Asked**

What is to be done?

**Mode of Operation**

Management



**Expectation**

**Efficiency**

## Zero-based (cont.)



- The time involved in justifying a zero-based budget can be burdensome. Yet with line-item budgets, programs and expenditures that should be modified or eliminated are often carried forward without change. Furthermore, a proportional reduction of budget funding can affect a critical ministry program, rendering it virtually useless as less- important ministry programs move forward.

# Line Item Budget Defined

The *line-item budget* is what the legislative branch of the U.S. government uses. It retains line-item expenditures from year to year, making modifications as needs increase or decrease

line-item budget eliminates the need for detailed analysis



# Review of Budget Types

## Line Item



### Characteristics

Expenditures and Revenue are related to commodities. A simple listing of every line-item. It is not effective in communicating the overall plan of the church.

### Question Asked

What is to be purchased?

### Mode of Operation

Control

Expectation

Economy



# Program Budget Defined



- Costs are identified with the specific programs being carried out by the church.
- Program budgeting operates on the premise that programs operate to achieve certain purposes, and by clearly establishing these purposes the church can improve both the use of its resources and the effectiveness of programs. This approach forces the church to do planning before preparing the budget.
- Program budgeting has several advantages. It provides a better understanding of what each program is attempting to do and directs program leaders to pay attention to program achievement. It also offers a clearer picture of what church members' contributions are supporting. On the negative side, program budgeting takes considerably longer than incremental budgeting. Program budgeting cannot be done properly without planning.

# Program Budget (cont.)

- These are the Steps in Program Budgeting:
  1. Define Program Objectives in terms of output
  2. Delineate activities needed to carry out objectives
  3. Determine the nature and levels of resources needed to support the activities
  4. Determine the budget requirements to provide resources listed in step 3
  5. Prepare a performance budget for each activity
  6. Prepare a program budget by grouping performance budgets by objectives.



# Review of Budget Types Program



**Characteristics**

Expenses and Revenue are related to community and Church goals.

**Question Asked**

What is to be achieved?

**Mode of Operation**

Planning

Expectation

**Economy**

A program budget actually operates mini budgets by dividing expenditures into a certain categories.

- Operations
- Missions
- Salaries
- Evangelism
- Education
- Worship
- Facilities
- Youth



# Narrative Budget Defined



The narrative budget is one way to give people — especially those in leadership positions — an opportunity to experience the mission and ministry that are achieved through the various line items.

It focuses less on the financial numbers and more on what the income accomplishes.

It is a one- to two-page presentation that explains: (1) what the church hopes to accomplish and (2) why the funding is needed to reach and exceed its goals. The following is an example of a narrative budget.

# Narrative Budget Defined (cont.)



- Shows what ministries are to be supported and describes the church's ministries in terms of activities and results made possible by contributions of time, talent, and treasure.
- The focus is on the ministries, not the numbers.
- It shows how the finance committee is budgeting resources to carry out the congregation's mission and helps demonstrate its accountability to the rest of the membership. All expenses, including the so-called "fixed" expenses of utilities and salaries are divided up and seen as parts of "real" areas of ministry of the church.
- A further virtue is that it reminds the congregation that church leaders are managers of ministry resources.

# Review of Budget Types Narrative



**Characteristics**

Expenses and revenues are related to goals and objectives to benefit members

**Question Asked**

What is to be achieved?

**Mode of Operation**

Planning



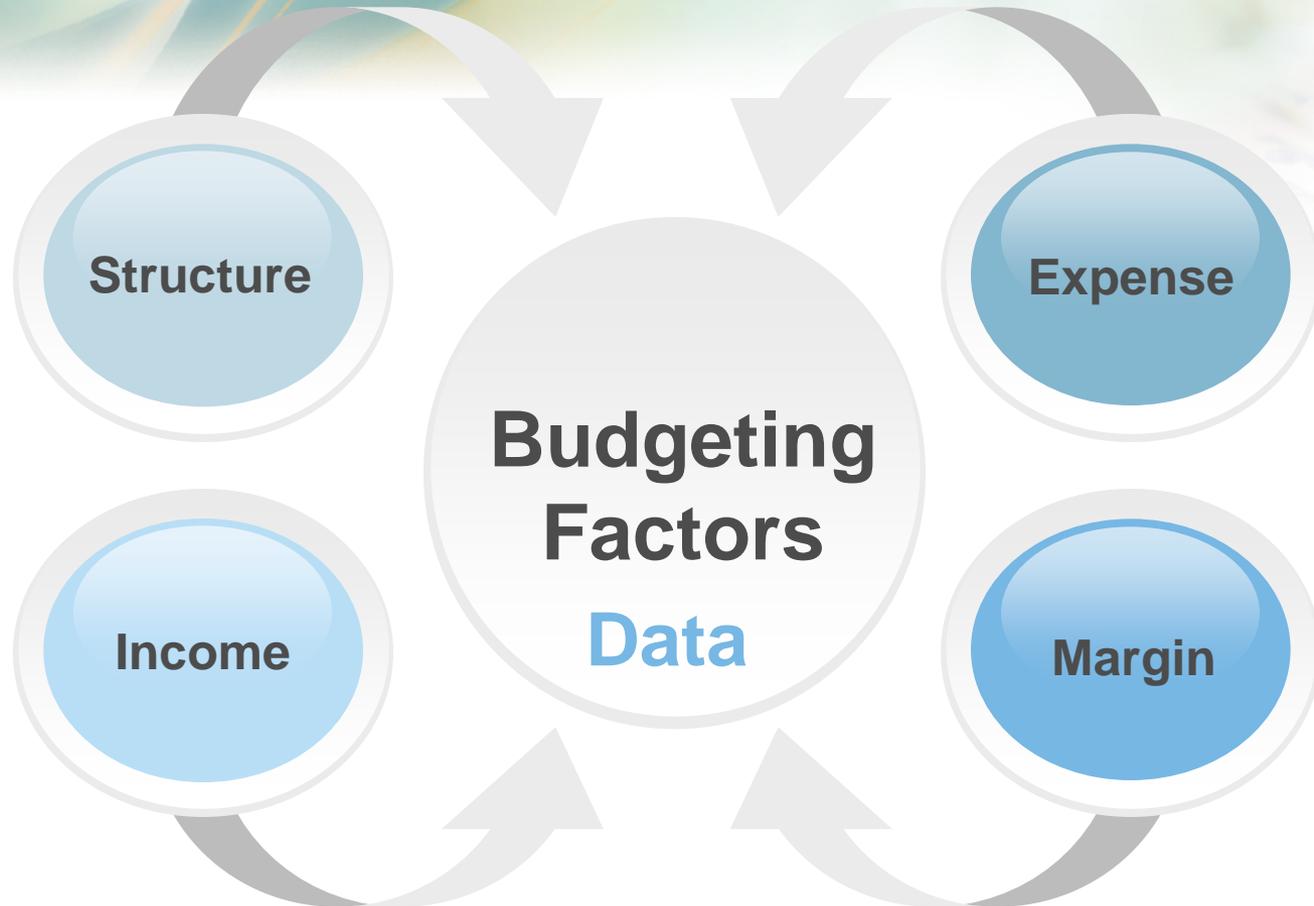
**Expectation**

**Effectiveness**

# Preparing the Budget

Between the Lines





# Structure



**Budgets can be prepared in two directions: top down or bottom up.**  
Each direction has important advantages and disadvantages.

## Top-Down Approach

With the top-down approach virtually all budget development takes place at the upper echelons of the church, usually by a committee hand-picked by church leaders. The congregation may be asked to vote on and approve the budget, but time for discussion is purposely kept short, answers to questions may be sketchy, and the motion and second to adopt the budget are quick. The advantage of sound and efficient budget preparation by the church leadership is overshadowed by the disadvantage of people not involved in the budget process feeling bad because their opinions were not solicited.

# Structure



Church Board

Committee / Pastor / Staff

Departments / Lay Ministers

Congregation



## Bottom-Up Approach

Unlike the top-down approach, bottom-up budgeting centers on the participation of many in the development process. Committees, programs and personnel are asked to prepare their own budgets. The idea in this approach is to get as many people as possible involved in the process. Written budgets from many different sources go to the finance and program evaluation committee for review. The bottom-up approach is not 100 percent bottom-up as there is some direction and coordination from above.

# Has anyone thought about Objectives of the budget?

- **Bad objective:** Have more people in Sunday School next year.
- **Good objective:** Increase our average Sunday School attendance by 10 percent over last year.
- **Bad objective:** Expand Sunday School.
- **Good objective:** Start three new Sunday School classes in the next year, one in January and two in September



# **Budgeting is strategic planning and assessment.** (Questions must be asked)



- **What are the distinctions of our church? Or, to put it another way: If the church were to cease operation tomorrow, what difference would it make?**
- **If the church's budget were cut by 50 per- cent, what are the things you would keep?**
- **What did we do right this year?**
- **What ministry area should we expand, enhance or begin next year?**
- **What did we do wrong this year?**
- **What should we discontinue?**
- **Are there any activities whose time is past and should no longer be funded?**
- **Is this activity or event consistent with our goals?**
- **Do we have sufficient staff to implement our plan?**
- **Who should be involved in the planning process?**

# Income and Expenses



# Income and Expenses

- Everyone wants to know what they should spend and where.
- It is hard to quantify certain numbers because of subjectivity.
  - **Location Influences**
  - **Size of Congregation Influences**
  - **Age of Congregation Influences**
  - **Education Influences**

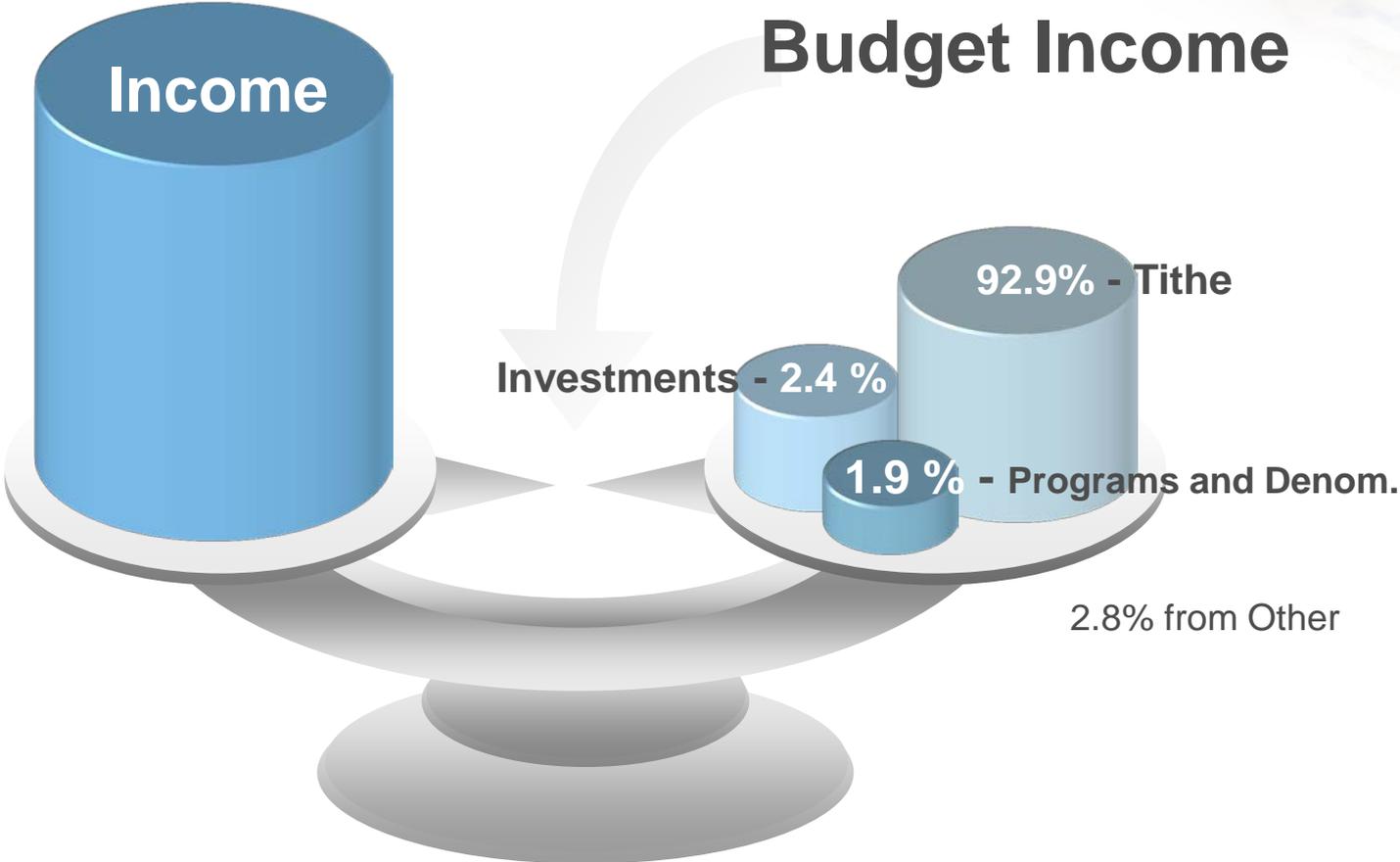


# Telling you a number is impossible

- Budgets are works in progress.
  - **The data must be examined**
    - Things you should examine
      - Percentage of tithers
      - What is the per capita giving in your church
      - What are the highest giving months
      - What are the lowest giving months
      - What is the average income in your city
      - What is the growth rate in your city



# The Average Church Income



# Average American Church Budget

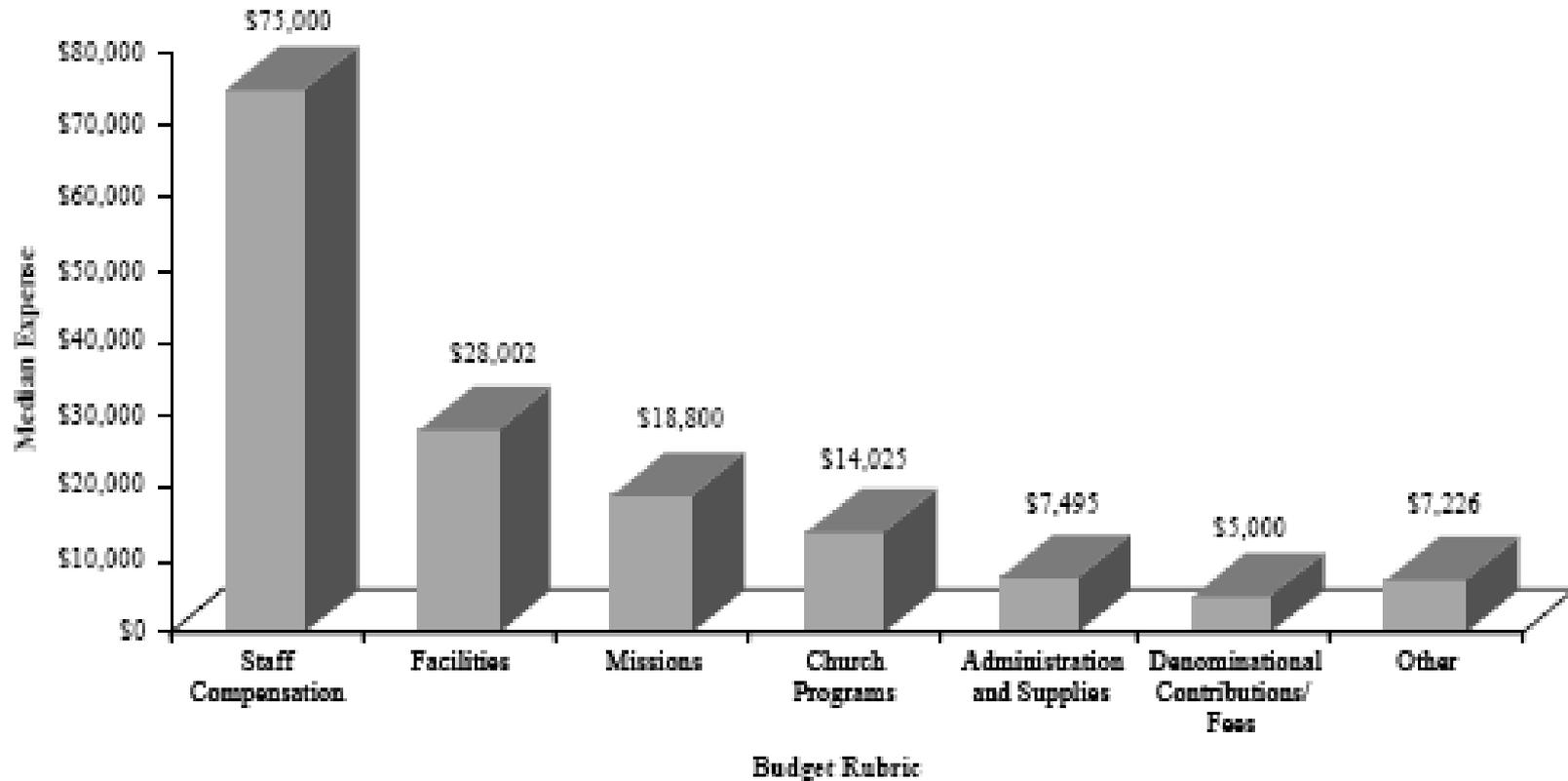


	AVERAGE AMOUNT
<b>STAFF COMPENSATION</b>	<b>118,601</b>
<b>FACILITIES</b>	<b>54,194</b>
Debt Retirement	27,491
Utilities	13,900
Maintenance/Cleaning	12,215
Property/Liability Insurance	4,675
Other	19,336
<b>MISSIONS</b>	<b>45,259</b>
International Missions	28,353
Domestic Missions	22,383
<b>CHURCH PROGRAMS</b>	<b>24,675</b>
<b>ADMINISTRATION AND SUPPLIES</b>	<b>17,853</b>
<b>DENOMINATIONAL CONTRIBUTIONS/FEES</b>	<b>11,539</b>
<b>OTHER</b>	<b>25,430</b>

# Budget Allocations



**MEDIAN BUDGET ALLOCATIONS**



**Margin**



# Margin

One of the largest mistakes in budgeting is simply looking back 3 or 4 years and collecting the data that shows each year the church budget has increased by 4 or 5 or maybe 15% and average those figures out to determine what percentage of growth to expect the next year.

- This isn't the mistake, the data is relevant. The way in which the data is then applied is often where the mistake come in.
- Upon finding the average percentage of growth, we then apply that same percentage to the overall income and expense budget.
- No where in this process is there any determination of the growth allocated to "Margin."
- Developing Margin into your budget is a wise choice that essentially determines that you do not plan to spend all of your income.



# Margin

- Many budgets do include a line called "Contingency;" however that is not the same as margin. "Contingency" is usually allocated from previous years excess in budget; which carries over to the next year.
- It also applies to some budgets as a "Cushion," which implies we have more income allocated that we have planned expenses, so we are just lumping this in to use as we want to. A contingency fund is a real misleading agent to the church who wants to plan its spending toward its goals and objectives for ministry.



# Margin



- So what is a ministry to do when they have money left in the budget at the end of the year. Let me suggest an idea which blends a zero-based budget aspect to this scenario. When a church has an excess at year end, do not carry that over to next years budget, keep it available by doing one of the following:
  - **1. Investing it in a short term money market where you can maintain some liquidity for cash flow, this could be very helpful in the summer months when giving declines but usually expenses climb.**
  - **2. Invest in a long term strategy for capital improvements, and strategic planning for future staff. This can also prove helpful in the purchase of large ticket items in the future.**
  - **3. Apply the excess to debt retirement.**

# Rules of Thumb



# Good rules of thumb?



It is advisable that a church look at the following percentages as a rule of thumb in budgeting local receipts and make adjustments to based on their objectives.

- World missions 10%
- Personnel expenses (salaries and housing allowance) 35%
- Education, outreach, local ministries expenses 20%
- Building (rental, purchase, utilities, insurance, etc) 35%

# Rule of Thumb

- Other analyst say:
  - **Personnel and Debt Service should not exceed 60% of total budget. (Those are long-term fixed expenses and therefore only leaves 40% to focus on advancing the growth of the church.)**

When asked "What would you do with an unexpected financial windfall?" 31 percent of Protestant pastors said they would build, expand or update their church buildings and facilities. 7 percent said they would give more to foreign missions and evangelism.
  - **Debt Service should not exceed 36% of total budget.**
  - **Personnel should range between 35% and 55%**



# It's difficult to say what your budget should be, but...

- The lower your administrative costs, the more money you could put to other ministries.
- One church report I recently looked at with a 1 million dollar budget showed the amount of salvations. The number was “1”
- I would never try to quantify the value of a soul, but a million dollar budget should see more souls transformed! This is obviously a church very internalized.



