



7 Must Haves for Developing & Managing Your Church Budget

CHURCH BUDGETING

Remember all those courses you took on church budgets, capital campaigns and taxes in Bible college or seminary? Probably not, right? While you rightly focused on Theology I and New Testament II and Introduction to Paul's Epistles, you didn't get an opportunity to take courses on some of the more practical, day-to-day activities of a pastor, like developing and managing a church budget.

And, if you pastor a church with less than 300 people, you most likely don't have the extra staff to handle these tasks—leaving you, the senior pastor, to tackle these on your own.

That's why we developed this tip sheet and checklist: to provide you with some best practices for developing and managing a church budget.

Let's get started!



1.

Does your church budget allow for margin? How much?

If not, develop a plan to begin building that margin in the next year.

You may have heard the phrase, “No margin, no mission.” It basically means that a healthy church budget should include some kind of margin or bottom line surplus. Just as we can’t manage our personal budgets well without anything left over, neither can your church.

Planning for a rainy day, capital replacement or expansion is an essential part of a financially healthy church.

2.

What kind of funds does your church have?

Every church has a General Fund, as well as funds for things like missions, building maintenance or a special project fund. You also most likely have funds with donor restrictions or designations. These funds should be tracked separately from other funds.

List out all your funds and ensure they are named and organized appropriately.



3.

How do you budget and project income?

The most common way to project income is by looking for previous years' income and adjusting from the results in those years to set a budget for the upcoming year.

Make sure you consider seasonality; don't just divide the annual budget by 12, which can sometimes result in giving the impression you are behind in your giving at a certain point in the year when in fact you are not. Things like Christmas giving, harvest offerings (more common in rural communities) and giving where a local employer pays bonuses once a year are examples of the types of things for which to watch.

4.

How are you budgeting expenses?

Once income is budgeted/projected, you need to also budget/project your expenses. Using a standard set of accounts year to year makes this process much easier. It also allows for better comparison from one year to the next.



5. Are you incorporating ratios into your budgeting process?

Most churches spend 50-65% of their budget on compensation and benefits for the pastor(s) and staff; usually no more than 25-30% for building costs, including mortgage payments (often less in smaller churches that don't have debt out of necessity); and the rest of the budget pays for everything else.

In addition, if a church does not have a separate mission fund, it is common to see churches set aside 10% of their general income for missions and outreach, however they define those.

Once income and expenses are budgeted, the bottom line is calculated. As noted above, this should be a positive number with something left over.

6. Does your church have cash reserves?

A common rule of thumb for churches regarding cash reserves is to have 60-90 days of ready cash or "rainy day funds."

You should also plan and budget for major capital improvements or replacements. Setting aside a bit each month for things like HVAC, roofing, carpet and other major replacements will help avoid the shock when the time actually arrives.



7. What kind of controls do you employ to ensure accuracy and honesty in your monetary duties?

Internal controls are important for numerous reasons. They protect not only the church but also keep individuals involved in the work from being tempted toward fraud.

A.

Segregation of duties is critical. In an overall sense, being skeptical in a healthy way—or curious—is important. Do not ignore abnormalities or people being unwilling to accept help, for example.

B.

Having at least two people count the offering and keeping those functions separate from cash disbursements (bills, payroll and so forth) is another important tactic.

C.

Having two signers for checks or outgoing transfers is also helpful and common. There is much less likelihood for fraud if two signers are required.

D.

It's important in today's world to consider how to do this for both **traditional payments** like checks, but also for **electronic payments**, which are common and are replacing more traditional payment methods.



E.

Regular financial reports should be prepared and reviewed — certainly by leadership like elders and pastor(s), but also if there is someone in the church with a financial background who can “look over the shoulder” of those doing the work.

F.

These should **include a statement of activities** (income statement) and a statement of financial position (balance sheet). Comparisons to budget and/or last year’s results can also be helpful (comparison to budget more so; comparison to last year is most helpful for churches where things are similar/stable year to year).

G.

Many churches will either **have an annual “internal audit” or “review”** by people in the church with a financial background. Some churches will hire someone to help with this or with the monthly closing, reporting and oversight process.

H.

There is usually reporting to the congregation regularly at business meetings through things published electronically, in newsletters or in bulletins. Generally, the more information available and the more regularly it is reported, the healthier the church and the fewer problems in that church.

I.

Most churches manage on the “cash” basis and not the “accrual” basis. This is simpler to administer and easier to understand; we call it the “what’s in the checkbook” method.



Hopefully these best practices surrounding church budgets and handling money are helpful as you develop more stringent methods at your church, or if you are starting from scratch and need some general ideas for developing healthy strategies.

If you have further questions about church budgets, feel free to email us at **Service@ChristianInvestors.org** or call us at **800.995.8574**.

For additional information, refer to Chapter 6 of the “Church and Nonprofit Tax and Financial Guide.” It provides additional details, checklists, forms, tips and helps.