

7 must haves for developing & managing a church budget



Christian Investors Financial

Financial Services on a Mission



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Church Budgeting

If you are a pastor, you may 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, like developing and managing a church budget.

And, if you're a pastor or volunteer in a church with less than 300 people, you most likely don't have paid staff to handle these tasks—leaving you, the senior pastor or lay leader, 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 to examine previous years' income and adjust from the results in those years to set a budget for the upcoming year. What percentage of funds are given in-person or online? Are there additional sources, such as interest income, facility rentals or even a cell tower lease?

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 end-of-the-year giving, and giving where a local employer pays bonuses once a year are examples of the types of things for which to watch.

4. **How is your church budgeting expenses?**

Once income is budgeted/projected, you need to also budget/project your expenses. There are salary and employee benefits costs, program expenses, contributions to missions and grounds maintenance. 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 ratios incorporated into the budgeting process?

As a general rule, church expenses for employee salaries and benefits should not exceed 50%. Most often, when they exceed this amount, it can cause strain on other ministry areas. Ideally, building costs, including mortgage payments, should be no higher than 25 to 30% of the overall budget. Many churches that plan to expand in the future establish a line item in the budget for future debt.

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 3 to 6 months 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 having to borrow when the time actually arrives.

7.

What kind of internal controls do you employ to ensure accuracy and honesty for monetary duties?

Internal controls are important for numerous reasons. They protect not only the church but also establish checks and balances for those involved individuals.

A.

Segregation of duties is critical. Splitting up functions for key processes is crucial to deterring fraud and assuring a sound operation. Once these processes are identified, determine how the tasks can be completed by assigning the steps to more than one person.

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 practice.

C.

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

D.

It's important in today's world to consider how to do this for both **electronic payments** through online giving and **traditional payments** like checks and cash.

E.

Regular financial reports should be prepared and reviewed — certainly by leadership such as elders and pastor(s), but also if possible by 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.

As a good practice that may be required by church bylaws, many congregations will either **have an annual “internal or external audit” or “review”** by people with a financial background. Some churches will hire someone to help with this or with the monthly closing, reporting and oversight/audit process.

H.

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

Hopefully these best practices surrounding church budgets and handling money are helpful as you develop more comprehensive 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 info@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.

We’ve been providing financial solutions for churches since 1959. Check out a few of our client stories by clicking on **Case Studies** at christianinvestors.org.



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