



# Church Budgeting Manual



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# The Church's Annual Spending Plan

## Budgeting for the Local Church

(2024 Edition)

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# The Church's Annual Spending Plan

## Budgeting for the Local Church

### INTRODUCTION

No task is less appreciated and more difficult than establishing a budget for a local church. Even the word “budget” causes many church members to hyperventilate. Just as with individuals, some churches have dropped the word budget from their vocabulary and instead call such document their “annual spending plan.” Regardless of what you call the document, every church needs a plan – a plan that estimates income, as well as expenditures, for the year. No matter if your local church has annual income of \$10,000 or \$10 million, your church should have a budget.

In this manual, the church budgeting process will be broken down into steps that can be followed by any congregation, regardless of size. No secret recipe will be provided that makes the process easy. However, simplistic steps will be discussed so that the decision makers in the local congregation can assemble a budget or annual spending plan that meets the needs of that church. It has been said that a carpenter that only has a hammer sees everything as a nail. The goal of this manual is to give you more than a hammer – the goal is to give you a toolbox filled with tools to meet the task of budgeting for the local church.

### Vision of the Church

Too often, budgeting for a church is simply an exercise “in making the numbers work.” Church budgeting should be much more. It is imperative that those working on the budget must be fully aware of the *vision* of the church. What will be the focus of the ministry of the church during the budget cycle? What new ministries need to be funded to carry out the vision of the church?

Vision casting is not something that is done simply by the pastor. To truly cast a vision for a church there must be total church involvement. Once the church is committed to the vision, then the resources to carry out that vision must also be committed. For example, a local congregation can talk about their “vision” to reach the elderly, shut-ins in their community. Without doubt, such is a worthy ministry vision. However, until resources are committed to conduct such a ministry, the “vision” is nothing more than a dream. Financial resources, along with talented and committed personnel, are needed to implement the heart of the vision.



The scripture (Proverbs 29:18) clearly points out that “where there is no vision, the people perish.” Those responsible for establishing the church budget must have a clear vision of the ministries of the church or the church will perish. Before the numbers are crunched, the vision must be clear.

In addition, the budget process requires a great leap of faith. Without adding faith into the mix, the budget becomes meaningless for the church. There must be faith that God will help the church reach the projected income and there must be faith that God will help the staff keep the expenditures in line. Faith is a key ingredient to any budgeting process.

## The Budget Team

The *2022 International General Assembly Minutes* of the Church of God clearly sets out the structure for a finance committee in the Supplement to the Minutes at S54. The *Minutes* make it clear that “each church is to have a Finance Committee,” which is to consist of the church treasurer and at least two other members. The qualifications of finance committee members are also set out. The *Minutes* go on to list the duties and responsibilities of the finance committee as being the right to (1) receive and count all monies and (2) prepare funds for deposit. While no specific authority is given the finance committee to draft the annual budget, it seems the finance committee would be the logical body to assume this responsibility.

The *Minutes* are silent as to the creation of a separate “budget committee” – and as a matter of fact, they are silent to the creation of an annual budget. In S52 of the *Minutes*, the Church and Pastor’s Council, under the direction of the pastor, is given the authority to approve the disbursement of church funds. In addition, the church treasurer in S53 of the *Minutes* is given direct authority to (1) prepare a financial report for quarterly church conferences, (2) furnish an itemized list of all receipts and disbursements to the pastor each week, and (3) disburse money from the church treasury under the direction of the pastor. Again, though, as to budgeting, the *Minutes* are silent.

Since the *Minutes* do not provide specific direction on budgeting, as previously noted it is suggested that the local finance committee should be the most knowledgeable about the financial needs and habits of the congregation. An additional benefit of having the finance committee draft the budget is that they assume an ownership interest in the needs of the church – and the financial direction the church should take in the future. For nine or ten months out of the year, the finance committee should work to make sure that all their duties and responsibilities are carried out. The other two or three months, besides doing those duties, they should work on the spending plan for the upcoming fiscal year.

However the pastor and the church council decide to proceed, a budget committee should be formed to plan for the upcoming fiscal year. Every church must have a budget. If not, it is like taking a cross-country trip without a road map and without a dime in your pocket when you start the trip.

## Fiscal Year or Calendar Year

Most Church of God congregations use the “church fiscal year” that begins on September 1 and ends on August 31 of the next year. There is no historical reason behind this “church fiscal year.” Interestingly enough, there is only a one line mention of the beginning of this fiscal year



period in the *Minutes* of the 52<sup>nd</sup> General Assembly (1968). Those *Minutes* reflect that the “fiscal year ending officially changed to August 31 in 1967.” Prior to that change in 1967, the “church fiscal year” had ended on June 30, July 31, and in many years, it ended at the time the General Assembly was held. The changes of the “church fiscal year” by the General Assembly solely reflect the fiscal year of the denomination, not necessarily a local church. Nowhere in the *Minutes* or By-Laws of the denomination is there a requirement that a local church must follow the “church fiscal year” of the denomination.

For ease of bookkeeping, some churches have begun to move towards a calendar year budget – i.e. January 1 through December 31. As just noted, a prohibition against a local church moving from the “church fiscal year” cannot be found.

The selection or change of a church’s fiscal year should receive much thought. While a minister may feel comfortable with the “church fiscal year” because he or she has worked under that system, the church’s treasurer may be more comfortable with a calendar year system. Generally, most people are more comfortable with a calendar year budget because their personal budget and tax liability is based on the calendar year. However, after much consideration, the church council and/or the entire congregation should make the decision to select or change fiscal years.

For a church moving from the “church fiscal year” to a calendar year budget, a transition process will have to be used. The simplest transition will be for the church budget committee to create a four-month budget, covering September through December, and then create a full twelve-month budget to cover the next calendar year.

While the local church must select the budget cycle that best meets their needs, most lay people, including the church treasurer and budget committee members, are going to find a calendar year budget much easier to comprehend. Therefore, those churches that are currently using the “church fiscal year” should consider the possibility of transitioning to a calendar year budget.

## Looking Back

It has been said that those who do not know the past are doomed to repeat it. Understanding the past is important in creating a workable budget for a church. The budget committee should not only have information about past receipts and disbursements of the church, but they should also fully understand any substantial deviations in those numbers. If maintenance expenditures were greatly out of budget for a month two years ago, an explanation needs to be available. Did the air conditioning system have to be overhauled? Whatever the reason, the budget committee needs to be aware of the discrepancy.

The budget committee should ask the church treasurer to prepare a month by month review of the income (or receipts) and the expenditures (or disbursements) for at least three years – and preferably five years. In addition, a summary of each year's income and expenditures should be placed on the same page for analysis. Most computerized financial software, such as QuickBooks, Quicken, and Microsoft Money, will automatically print out such reports for you. If you do not have access to such programs, **Attachment A** (Monthly Financial Report) and **Attachment B** (Past Years Financial Summary) are included in this manual for guidance. A copy of the Excel spreadsheet for these attachments may be requested by e-mailing [info@benefitsboard.com](mailto:info@benefitsboard.com).

The first response that most pastors and churches make to budgeting is that they have no idea where to start. How do you estimate expenses for the next 12 months? How do you know what your tithes will be during the next year? As just pointed out, the starting point is simple – what has the church taken in and what has it spent during the past few years. Once the treasurer has charted out the income and expenditures by month for the past five years, the budget committee should clearly see trends that have developed. Those trends, both in giving and in spending, should provide guidance to the budget committee for the year to come.

Stock market account information often contains a disclaimer that says “past results is not a guarantee of future performance.” The same caveat must also apply to looking at previous giving and spending records of a local church. However, consistent performance generally promotes future consistent performance. Exceptions could apply if there was a church split, pastoral change, major job interruption in the church's locale, or some other major event that might impact the revenue and/or disbursements of the church.

The past financial information of the church should be the historical starting point for the budget committee to begin their deliberations for the upcoming 12 months. The vision and the direction of the church may have substantially changed from previous budget years, and if so, that change must be incorporated into the new budget. Again, past budget performance is simply to provide a frame of reference, not an exact starting point for the new budget. “Zero-based” budgeting will be discussed at length in the pages to follow.

Once the budget committee is familiar with what has happened in the past, they are now ready to move forward with assembling a budget for the new fiscal year. The starting point for the new budget year begins with the church staff and department leaders.

## Involving Church Leadership

Drafting a church budget in a vacuum will not work. Too often the budget committee assumes that they have all the answers and know how to best spend the resources of the church. They wrongfully believe that if they ask for assistance from those actually responsible for spending the money they will only get self-serving projections from the staff or department leaders. By operating in a vacuum with no input, the budget committee creates a document that no one has confidence in because those most responsible for spending the money were not consulted.

There is a much better way. Every person that participates in a ministry of the church should have input into the budgeting process. The finance committee, the church council, and the pastor will make the final decision about what actually ends up in the budget, but everyone involved in spending the funds should have input in the process. The input process is absolutely vital in creating a document that everyone is willing to support once it is adopted.

All of the ministry “team” should be asked to submit a budget for their area of responsibility. If the church has a minister of music, have the director submit a proposed budget. If the church has a janitor, have him or her submit a budget for that work. What the committee will find is that those closest to the spending of funds will be best suited to advise them on what their needs will be in the coming 12 months.



Each “team” member should be asked to submit their proposal in writing with justification for the expenditures they are expecting. This information is not only helpful to the budget committee as they go about their responsibilities, it also serves as a planning tool for the “team” member for the coming year. For instance, if the children’s department requests funding for a back-to-school party, then that department must now start making plans to have such a party if

funding is included in the budget.

Some pastors and budget committees contend that allowing all “team” members to participate in the budgeting process simply bogs it down, with some submitting unreasonable requests for funds. In other words, the team leaders “dream” too much. Isn’t dreaming what it takes to accomplish great things in ministry? Besides, a dream tossed out by a team member may be the confirmation that the pastor needs to explore a new avenue of ministry.

If the pastor with support of the budget committee provides general guidance to the “team” about specific budgetary restraints the church may be facing, it is most likely that the team members will honor those restraints and present a realistic budget proposal. Again, the ministry team should be advised that their budget request is a proposal - the finance committee, the



church council, and the pastor will make the final decision about what actually ends up in the budget. However, each proposal should be given careful consideration by the budget committee.

Once the budget committee has everyone's proposal, then they can incorporate those numbers into the vision of the church leadership. Based upon the budget proposals submitted by the team members, it will often be obvious as to which team members have "bought" into the vision of the church and which have their own separate agenda.

As the budget committee seeks proposals from the different team members, it is important that the team members be encouraged to submit realistic budgetary proposals and not inflated requests. Too often team members inflate their requests assuming that the budget committee will reduce whatever they seek. If all team members submit realistic numbers, the budget committee can immediately get to the business of trying to balance the budget without having to go through the exercise of eliminating the fluff from all the team member's proposals.

Involving the "team" in budgeting pays great dividends. The team members who participate in the budgeting process will most likely be inclined to support, both in words and actions, the budget that is later presented to the church for adoption. By seeking their input, the budget committee allows the team to buy into the budgeting process.

## Zero Start

For too many years, the church has operated like the federal government – how much did we get last year and how much more do we need on top of that this year? An "add-on" budgeting process is bad for the government and can be devastating for the local church. It is imperative to remember that the government has a huge advantage over an individual or a church – the government can print more money if they run out!!

Since a church cannot print money to meet increased budget requests, the budget committee should insist that each departmental or ministry budget start from zero each year. While previous years will provide insight in what expenditures might likely be for the coming year, a previous budget should not be the starting point for the next budget. As mentioned earlier, the vision and mission of the church may have changed from previous budgets. If so, copying a previous budget and adding a little on to take care of inflation may not be in line with the current vision of the church.

Starting with zero encourages the "team" member to evaluate annually the priorities of their department or ministry. Zero budgeting also prohibits non-recurring expenses from becoming a part of the annual budget for a department. For instance, if the teenagers of the church are normally in teen talent, the budget committee may include travel costs, etc. in the budget during years in which the teen talent competition is held. However, if zero budgeting is not used, those expenditures may be included in a budget year when there is no teen talent competition, thus exaggerating the budget for that department during non-teen talent years.

## Expenditures

From the discussion already, it is obvious that most of the work of the budget committee will be spent on getting the expenditures of the church in line. Why? Simply because expenditures can be controlled. Income (or giving) generally cannot be controlled. Although we will later look at estimating income, the budget committee should be prepared to spend 90%-95% of their time on the expenditures of the church. Expenditures can be broken down into three major categories: personnel costs, operating costs, and “ministry” costs. The detail of your budget will determine the number of sub-categories under each major category. Each major category of expenditures will be discussed here.

## Personnel Costs

There is little doubt that personnel costs will be the most sensitive subject discussed by the budget committee. Most new budget committee members will be surprised to learn that, on average, almost half the church’s expenditures go to personnel costs. That rule of thumb applies to both small and large churches – churches that have only a pastor, as well as churches that have a pastor, assistant pastors, and a stable of support staff. According to Christian Ministry Resources’ data that looks across denominational lines, the average church spends 49% of the church’s budget on compensation. Their definition of compensation includes the total costs to the church of having a pastor and other personnel on staff. After seeing such numbers, some new budget committee members may question the legitimacy of the pastor’s compensation package. Most of these questions are unfounded. The *International General Assembly Minutes* are extremely specific about compensation for pastors. For a detailed review of the minister’s compensation, the budget committee should review the *Minister’s Compensation Manual* – a free publication available on the web site of the Church of God Benefits Board, Inc. at [www.benefitsboard.com](http://www.benefitsboard.com).

While the compensation scale for pastors is clearly set out in the *Minutes*, compensation for other pastoral or support staff is left up to the discretion of the local church. At S70, the *Minutes* simply suggest that the church has a responsibility to pay “one-half of the amount owed by the assistant pastor for participation in the Social Security program.” No other guidance on setting compensation for pastoral staff or support staff is given. While cost-of-living increases automatically impact the Pastor’s Minimum Compensation Scale at S69 of the *Minutes*, additional pastoral staff and support staff are not immediately entitled to such increases unless they are included in the church’s budget.

In determining what increases should be given to staff, the budget committee should work closely with the pastor and seek his or her direction as to what is to be included in the budget for salary increases. The pastor, with ratification by the church council, should have the sole discretion in setting salaries. However, salary increase decisions must be made in sufficient time for the budget committee to incorporate the costs into the budget calculations.

For hiring of new support staff, it is often helpful for the church to develop a salary scale. The scale should group similarly situated staff into the same category. For example, a larger church that has a multitude of staff might have five or six different categories for compensation purposes. In the first category, the church might include the assistant pastor and executive pastor; in the second category, the compensation scale might include the administrator, the youth pastor, minister of music, etc.; the third category might include senior secretarial or support staff; and so on. After the categories are set up, then salary ranges should be attached to each category. The salary range for the first category might be \$70,000 to \$85,000 while category two might be from \$60,000 to \$75,000 – and so on for the other categories.

The benefits of having a compensation scale for church personnel are immense. First, the pastor can go into a hiring decision knowing that he can pay from \$70,000 to \$85,000, for example, to hire a minister of music. Experience and ability will determine at which end of the spectrum the new hire is actually paid. Secondly, a compensation scale for support staff keeps the hiring decisions within a range of moderation. Too often a super qualified person is hired and the church council decides to pay them whatever the person requests just to get them on board. At that point, the council is more interested in hiring the person than staying within the budget. The compensation scale takes some of that emotion out of the decision-making process and puts economic consequences back on the table for discussion. Thirdly, potential applicants know on the front-end of the application process the salary range, allowing them to make a decision whether to submit a resume for consideration or not.

Since a compensation scale is the complete cost to the church of hiring a staff person, including salary, housing, benefits, one-half of Social Security, etc., the budget committee can draft a comprehensive budget even when a staff position is unfilled. If the top range is \$85,000 for the position, the budget committee can use that number and know that they have a workable budget in spite of a vacancy that might be filled in the new fiscal year.

A budget committee in a smaller church may believe that compensation planning is not relevant to them. However, whether a church has 1 employee or 100 employees, the compensation costs will drastically impact the church's budget. It is imperative that the budget committee calculate the total cost of an employee, whether pastoral or support staff, to the church. Often only the salary is calculated. If federal tax withholdings (FICA) or additional benefits are provided for the person, the church could be underestimating their costs by 15-20% per year.

In summary, personnel costs are going to conservatively take from 35% to 50% of the average church's annual budget. To assist the church and the budget committee in long-term planning, a compensation scale for personnel other than the pastor should be adopted by the church or church council. Most importantly, the budget committee should use the total costs to have the person on payroll as their number when calculating the budget for administrative expenditures.

## Operating Costs

The cost of operations is generally going to be the second largest expenditure in the average church's budget. The cost of operations primarily includes debt service, utilities, maintenance, and upkeep costs. Each of these costs have variables that might make them difficult to project for budgetary purposes. A quick review of each should be helpful.



### Debt Service

In the recent past, calculating the debt service cost for a church was simple. Since most churches had fixed rate mortgages, the cost to the church on a monthly and annual basis were set. However, in the last decade more churches have gravitated towards adjustable rate mortgages. With most adjustable rate mortgages, the payments can change from month to month, usually with no cap on how high they can go. Therefore, it is more of a challenge to budget if the church has an adjustable mortgage.

If a church has an adjustable rate mortgage, the budget committee should request a forward rate projection from the lender, basically asking the lender to predict what the highest interest rate will be in the next fiscal year. That rate should then be used to calculate the annual cost of the mortgage. While the rate may only be at that high-water mark for a short period of time during the year, by using the higher rate for the yearly projection the budget committee hopefully will cover any potential shortfalls.

The budget committee should also make sure that all debts are taken into consideration when calculating the debt service cost. While it is obvious that the mortgage payment on the worship facility or parsonage should be included, often times the debt service costs on a line of credit or a church vehicle are overlooked. All costs, including payment, interest, and any ancillary costs, should be included in the budget committee's calculations.

As a matter of financial necessity, some churches have started using "interest only" financing options. While interest only payments are legitimate during periods of construction and transition into a new facility, the budget committee should insist that payments towards the principal begin once the transition period is over. Interest only financing is becoming a larger part of the individual housing market simply under the assumption that the buyer is only going to be in the property for a short period of time. If the property greatly appreciates in value during his ownership, the interest only payments serve basically as a rental fee on the use of the bank's money until the buyer can sell the house and cash out on his appreciated profit. The overwhelming majority of churches, however, are not using their property for speculative gains. Instead, they plan to be in that property long-term. Therefore, principal reduction payments should begin immediately.

As a rough rule of thumb, most churches are going to spend between 20%-25% of their budget on just servicing their mortgage indebtedness. Once the church's total debt service costs exceed a third of their budget, the church has entered a dangerous area. For individual debt service, most financial institutions use the rule of "28/35" – in other words, no more than 28% of a household budget can be spent on mortgage payments and no more than 35% can be spent to service the household's total debt load. The rule of thumb for churches applies that basic rule in just a slightly more conservative fashion.

## **Utilities**

In the *Church Construction & Financing Manual*, available on the Benefits Board's web site at [www.benefitsboard.com](http://www.benefitsboard.com), there is a detailed discussion about the hidden cost of utilities on a newly constructed or newly-acquired facility. However, making an accurate projection of utility costs even on an existing facility for the next fiscal year may be difficult. Increases in fuel oil and other external factors outside the control of the church may greatly increase the cost of the church's utilities.

While not an exact science, the budget committee should again refer to past data to show what costs have been over the past 3-5 years. If no clear trend is evident, then the budget committee should take the highest year and add an inflation factor of 4%-5% to that amount. The new, inflated amount should be used for budgeting purposes.

To see exactly where potential problems may arise, the utilities budget should have multiple sub-categories. For example, the budget committee should include a category for electricity, gas, heating fuel, telephone service, cellular phone service, internet service, water, etc. Specific tracking of expenditures by line item will assist the budget committee in years to come as they look to draft new budgets.

The budget committee should expect the utility costs to be between 15%-25% of the total budget for the year. While the monthly costs may vary greatly depending upon the season of the year, overall utilities are going to be a large part of any church's budget.

## **Maintenance and Upkeep Costs**

Almost without exception, a newly appointed budget committee member will realize that churches plan for now – and not the future – when it comes to budgeting. Hopefully, this lack of future planning can be corrected. There is no part of the church budgeting process that requires more forward thinking and advance planning than the maintenance and upkeep section. While the committee must budget for the next fiscal year, they must also plan for major maintenance projects that will occur in future years.

### ***Immediate***

Obviously, the budget committee must provide the resources to pay for the immediate maintenance and upkeep needs of the church facilities. The supplies and labor needed for the cleaning of the church will be a major portion of this line item. There will also be other regular maintenance costs, such as on the HVAC units or landscape work in the church yard, which are obvious expenses. Again, these costs are regular and “expected.”

### ***Future Needs – Reserve Accounts***

How many churches budget a reserve amount each year to be used to replace the roof on the facilities, put new carpet in the sanctuary, or replace a large HVAC unit? While there is no independent research, the answer is obviously very few. Without a doubt, though, every building is going to need a roof at some point, carpet is not going to last forever, and the HVAC units have only a limited lifespan. A prudent budget committee will begin to set aside money each year into an operating and/or maintenance reserve account to cover these “unexpected” – but truly expected – costs.

Budgeting for future needs is rather simplistic. The committee should project the costs at the estimated time of purchase, estimate the life expectancy of the current item, and then set aside enough money each year to cover the cost. For example, the carpet in the church will need to be replaced in 3 years at an expected cost of \$12,000. The budget committee should place at least \$4,000 a year for the next three years in the maintenance reserve account to cover the carpeting costs. Then when it is time to replace the carpet, the money is readily available. No special fundraising or offering is needed because the church has planned for the “expected” need.

A church will often truly face “unexpected” cost, such as uninsured damage to the church facilities or some other truly unexpected or early cost. For such times, it is vital that the budget committee plan for such events. A small, but additional, amount set aside in reserve each month to cover truly unexpected costs will provide a true lifeline when the church faces such costs.

### ***Computers, Copiers, and other Electronic Equipment***

A good quality piano in a church, if regularly tuned and maintained, may last for fifty years or more. However, electronic equipment, particularly computers, have a short lifespan. As fast as technology has been advancing over the last decade, after 3-4 years most computers will have passed their usefulness. To make sure that the church’s technology does not become outdated, the budget committee should put the computers on a regular upgrade schedule. Under such a schedule, each year funding should be provided to replace a few of the computers in the church with the goal of having them all replaced every three to four years. Having an upgrade schedule will save the church countless dollars and lost man-hours caused by incompatibility problems of out-of-date computers.

The same rules apply to copy machines. Most copy machines reach a point at which the cost of maintaining them does not justify keeping them. The costs, as well as the hassle and lost productivity of the down-time, necessitates that they be upgraded.

As previous noted, the church should expect to upgrade each desktop/laptop computer at least every three to four years. Computer servers should generally last four to six years. Copy machines, if regularly serviced, should have a lifespan of five to seven years.

There is an old saying that says “pay me now, or pay me later.” The obvious meaning is that you are going to have to pay either now or later. That logic is so true with preventative maintenance. However, no matter how well the church staff maintains equipment and furnishings, sooner or later they are going to wear out. The budget committee must plan for replacement cost.

As the budget committee reviews the operating cost of the church, it will become apparent that 30%-40% of the entire budget will be spent on operations. If operational costs are more than 50% of the church’s fiscal budget, it may be necessary for the committee (and the church) to institute drastic cost saving efforts.

## **Ministry Costs**

As even a casual observer can tell, the previous discussion of expenditures has focused solely on personnel and operating costs. In all the discussion over the past few pages, not one dollar has been allocated for pure “ministry.” The budget committee should not be dismayed at this point because they have not allocated money to ministry because, simply put, the major costs of ministry are personnel and overhead. Since those areas have been discussed at length, the budget committee can now turn their attention to the additional costs of conducting ministry in the local church.

The true ministry portion of the budget should deal with the specific needs of the different departments of the church. As suggested earlier, each department leader should submit a proposal as to what their expected needs are in the coming year. While the department leaders and other staff are not going to have any (or very limited) input into the personnel and operating portions of the budget because of the fixed nature of those expenditures, their input into the ministry costs is absolutely vital.

The children’s pastor or leader should have a say into what literature is purchased and how much is purchased. The music pastor or choir leader should provide insight into whether the church needs to buy new “red-back” hymnals, convention song books, or the latest praise and worship music. Those with direct line-item authority should be providing first-hand input to the budget committee.

Local church giving to home or international missions should be decided by the pastor and church council. Giving to the local food bank or benevolence fund should also be determined in

advance for incorporation into the ministry portion of the budget. Without insight from those directly involved in the different ministries, the budget committee will be at a loss to determine the level of funding.

The budget committee should expect that the ministry costs are going to make up from 10% to 20% of the total expenditures. While that amount is small in comparison to the personnel costs and operating costs, those costs are only incurred in support of ministry. Without the vital function of ministry, a church would need neither personnel nor operating costs.

*Caveat:* As noted, the above discussion places all personnel cost in a separate line-item from ministry costs. It would certainly be appropriate to place the personnel cost associated with each ministry into that ministry budget. For example, the compensation package of the minister of music could be placed in the ministry budget for music. There is both positives and negatives about assigning personnel cost to separate ministry budgets. The primary positive is that the budget, for example, for music would reflect the total cost of having a music program – all ministry related costs plus personnel costs. The major negative of assigning personnel cost to separate ministry budgets is that very few church staff members clearly fit within only one ministry category. For instance, an associate pastor might be in charge of senior adults, youth, and benevolence. Dividing his or her salary among three different ministry budgets becomes cumbersome. For ease of discussion, the approach followed above seems to be the least confusing.

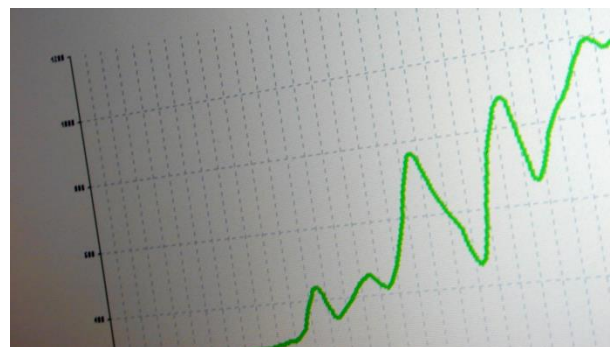
## Income

At the beginning of the discussion on expenditures, it was noted that the budget committee will spend probably 90%-95% of their time working on the expenditures – and the few remaining moments projecting income. The income – or receipts – of the church is difficult, if not impossible, to accurately predict. As with the expenditures, previous patterns of giving over recent years will be enlightening to the budget committee, but not definitive, as they set the projected income numbers for the next budget year.

### Realistic Projections

While it is necessary to accurately project expenditures of the church, it is even more imperative that the income projections are realistic. As just noted, accurate predictions of income are often difficult. However, the budget committee must exercise great caution in

coming up with realistic revenue projections. Since the church has control only over the expenditures and not the income, the budget committee must make sure that expenditures are in order before dealing with the income or revenue. In too many instances, the budget





committee goes through their expenditure calculations, determines the amount of money needed for the coming year, and then makes the revenue projections up to meet the amount of the expected expenditures. Conversely, what should occur is the expenditure numbers should be projected, the revenue numbers should then be projected, and finally, the budgeted expenditures should be reduced to reflect the projected revenue.

Once the expenditures are set out in the proposed budget, they should be set aside while the budget committee works on the revenue numbers. The revenue projections should be separate and distinct from the thought of having to come up with a certain amount of money to cover the projected expenditures. Instead, the revenue projections should solely stand on their own as a realistic expectation of what the church should receive in giving over the next fiscal year.

Just as with expenditures, if the revenue projections are not realistic, the budget is an exercise in futility. Based upon the information available, the revenue projections should be conservative but realistic. The budget committee must remember that their abilities will be questioned if either projection is greatly out of line. In budgeting revenue, it is much better to be conservative in projecting what the committee believes the church will reasonable take in during the budget year than it is to over-exaggerate the projection just to cover expected expenditures. If the budget is out of line, the committee has the responsibility of going back and reducing the expenditure side of the budget to fall within the projected revenue.

If the budget is not kept in the “black” during the drafting stage, the church will most likely be faced with the problem of cutting expenditures later in the year to keep from operating in a deficit. Having to reduce operating costs in mid-stream is often much more difficult, and costly, than making the reductions during the budgeting process.

## **Tithes and Offerings**

Pastors are often sensitive about the issue of encouraging tithing and giving. They try to walk a tight rope between sharing the Biblical admonition for tithing and giving as found in Malachi versus the fear of being labeled as “always talking about money.” It is remarkable to note that tithing and giving invariably increase when the pastor preaches or teaches on the subject of Biblical stewardship. If the pastor has not led a series on giving in the past few years, the budget committee should ask him to consider such in the future. The church will be surprised at the results. Not only will the church be blessed by the increased giving but those who give will also be blessed according to the scripture.

Churches that track their giving can readily see trends that have developed over the years. Hopefully the trend shows an upward swing in giving. Those trends should be helpful in projecting tithing and giving in the coming year. The budget committee, however, must be realistic. If growth has averaged 3% each year for the past 5 years, projecting 10% growth during the next 12 months is generally asking for a disaster. Realistic projections are the key to a workable budget.

## **Revivals/Special Events Income**

All income from revivals and special events should be included in the total income amount for the church's budget. However, there must be an off-setting line for expenses for such events. The goal of the budget committee should be to make revivals and special events come out as a "wash" – you spend no more than you take in. Too often such events end up costing the church more than it brings in. That is okay if the budget reflects such a difference.

The budget committee should not look upon revivals or special events, such as concerts, as money making events. They are not. As just noted, they will generally cost the church's general fund money. The goal again should be to reach parity where revivals and special events are self-supporting.

## **Honorarium**

Honorariums are technically an expense item and should be considered under expenditures. However, a short discussion about honorariums is also relevant in a discussion about income. In the past, most church budget committees never had a discussion about paying honorariums. The accepted method of giving to a guest speaker or guest musician was a free-will offering. If the pastor had a special speaker or evangelist, the congregation was given an opportunity to give a love offering to the person as a token of their appreciation. Again, it was a "wash" – what was given in the offering went to the guest speaker or musician.

While this forum does not provide the vehicle for a discussion on the legitimacy of such a practice, many speakers, and particularly many musicians or musical groups, will not come to a church now without a guarantee of a specific honorarium. Often times, the offering taken for the guest is insufficient to cover the requested amount, therefore requiring the church to dip into the budget to cover the additional costs.

A general policy on honorariums should be established by the pastor and the church council. Such will provide the budget committee with insight as the budget is established. If the policy provides for honorarium, even though such may be in addition to the offering received, the budget must be adjusted on the expense side to account for the additional honorarium. If the honorarium policy provides that the speaker only get what comes in through the offerings, then the budget committee does not have to provide for honorarium in the budget.

From a pure budgetary standpoint, the goal of the local church should be to make revivals and other special events purely self-supporting. In other words, the costs of a special musical event, for example, should not exceed the expected giving at that event. Of course, such an idea is not often practical or realistic. Therefore, most church expenditure budgets are going to need to include a line-item to cover the costs of special events and revivals. However, income from those events should also be included on the revenue side of the budget so that the income will reflect an offset of the expenses.

## Reserve Accounts

The need for establishing reserve accounts was mentioned earlier under the expenditure discussion. The importance of having ample reserves is such that they deserve mention again. The previous discussion on reserve accounts can be found above under the topic of *Maintenance and Upkeep Cost, Future Needs-Reserve Accounts*.

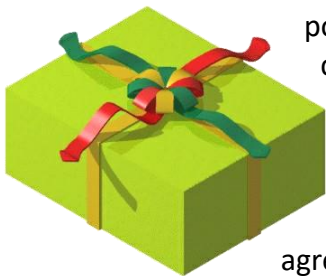
All churches should consider establishing an account solely to deal with future needs. Whether the anticipated need is for new construction, replacement or remodeling of current facilities, or some other planned future expenditure, it is wise planning to begin setting aside funds for that need. By creating a separate income account for those future needs, the church can then accept designated contributions and place them in that account to be used solely for the specific purpose.

Some members will not give to a general fund that can be used any way the church council may decide. However, those same people might be willing to give to a designated fund to buy new musical instruments for the church in the future. Again, planning for future needs will allow contributions to be made now as an additional source of income for the church.

## Designated Funds

As just noted, every church should have income accounts set up for designated giving. The designated giving could be for the building fund, missions, or any other legitimate activity of the church. Unlike general reserve accounts, designated gifts can only be used for their designated purpose. For example, a contribution made to the building fund can only be used for the building fund unless the contributor has given approval to the church to re-designate the funds if so needed. The church should always seek that approval so as to comply with applicable tax regulations.

As just noted, designated giving for missions or the church's building program, for example, is appropriate. The problem arises when the donor tries to use the church as a funnel through which he or she makes a gift to a designated individual, regardless of how needy or worthy the recipient may be. The church treasurer will encounter this issue when the donor approaches him or her and states that they want to help a particular person in the church,



possibly even the pastor. The donor's intention is to make a donation to the church that is in turn passed on to the intended recipient. The donor often wants to make the gift through the church so that he or she can claim a tax deduction for the gift. Unless the donor is fully aware that the church can redirect the "gift" to other needs and accepts that fact, the "gift" should not be accepted. While the church governing body may very well agree to fund the intended need specified by the donor, the church must exercise complete control over the gift to ensure that the gift is properly taken and disbursed.

From a budgeting standpoint, while it may seem that designated giving does not play into the operational costs of the church, such gifts do play a part in the local church's budget. For example, gifts made to the church's building fund can be used to make payments on the church's facilities. If the church's monthly mortgage payments are \$5,000 a month and the church is averaging that much or more in gifts to the building fund, no money has to be allocated out of the operations budget for mortgage payments. However, if the building fund is receiving contributions of \$3,000 a month, the remainder of the monthly payment must be calculated into the operational budget.

Simply stated, the budget committee must be aware of designated giving and how, or if, those funds can be used to satisfy a portion of the church's annual budget. If designated giving is not considered, the budget committee may be potentially overlooking a large source of monthly cash flow into the church.

## **Implementing the Budget**

Months can be spent on drafting and refining a workable budget for a local congregation. Once the budget is complete and adopted by the church council and the congregation as a whole, the real work begins. The implementation of the budget can be as difficult or as time consuming as actually drafting the budget. Once the budget is in place and everyone is aware of its parameters, then safeguards must be put in place to make sure that all responsible parties stay within the confines of the budget.

### **Direct Responsibility**

Every team member in the church, whether the person is the senior pastor or the janitor, must be committed to the budget. As discussed earlier, receiving input from all the team members in the drafting stage will hopefully obtain their allegiance to support the document produced by the budget committee. Once the budget is in place, each team member must be held responsible to keep their portion or section of the budget under control and within the constraints set out in the budget document.

Overruns in the budget will most often occur in areas where no one has direct responsibility over that item. To prohibit such, a staff member, whether a pastoral staff member or a member of the layperson staff, should be assigned to be responsible for every line-item in the budget. Therefore, when a budget item is out of balance, the church council knows who to look to in order to get answers regarding non-compliance with the church-approved budget. The simple act of placing a staff person over a budget item gives them the responsibility of making sure that budget item stays in line. Generally, staff people will take that responsibility seriously.

## **Reward Savings**

Just as in corporate America, those who overspend their budgets are brought on the carpet to explain why while those who stay within and under their budget restraints are not properly thanked or acknowledge. The budget committee should seek to change this response. While those who continuously overspend their budget should be required to explain their actions, those who stay within their budgets should be rewarded. The reward can be as simple as acknowledging those staff members before the church council or the entire congregation. Other rewards could be a small bonus or a night/weekend away for the staff member that kept his or her budget in line. Giving a bonus of \$250 to a staff member who came in under budget by \$1,000 makes economic sense.

In rewarding savings, you have to be careful not to “punish” those who have little to no control over their budget. For example, the director of the church facilities cannot be held responsible for a rapid increase in heating oil that caused his budget to be out of order. In addition, the choir director/music pastor cannot be held responsible for going over his or her budget when the cost for a special musical production requested by the senior pastor was the reason for the cost overruns.

The budget committee should also make sure that the staff person is not consistently over-budgeting his or her department just so that they can show a savings at the end of the year. As noted earlier, the budgeted amount should be a realistic representation of what that department expects to spend during that budget year.

Most importantly, church staff members should not be encouraged to “scrimp and save” when ministry is going undone. All staff or “team” members should be encouraged to complete their ministry in the most economical way – but they should never be encouraged to cut corners in their ministry just to reach a budgetary figure. The budget committee as well as the church must always remember that the prime role of the church is to reach the lost. While we have to be frugal in how we spend our resources, we can never place a price tag on a lost soul.

## **Monitoring the Budget**

Monitoring the church budget is not something that is done once or twice a year. Someone on the church staff – the pastor if there are no other staff persons – should monitor the budget on almost a daily basis. The church council should also review the budget on a monthly basis as they carry out their duty to “approve the disbursement of church funds,” as required by the *Minutes* at S52.

With close monitoring, adjustments or corrections can be made to amend budgetary issues before they get out of line. Staff members should also be given periodic reports to show how they are complying with the church-approved budget. In other words, the budget should not be a document that is developed and put on the shelf. It should serve as a “roadmap” for each department of the church. If the departments of the church have incorporated their ministry goals into their budget calculations, the budget should keep them on track in fulfilling their

ministry commitments. As stated numerous times, the budget should go hand in hand with the ministry goals and opportunities of each department of the church.

### **Straight Line vs. Liquid Budgeting**

In implementing the budget, the budget committee and church staff should not make the mistake of straight-line budgeting. In other words, the budget should not be just equally divided among twelve months. In contrast, a liquid approach should be used. While an annual budget has been determined, each month is not going to be equal in revenue nor in expenditures. Several factors play into the need for a “liquid” budget approach.

The most simple equation in leaning towards a “liquid” approach is the reality that each month does not have the same number of Sundays – some months have five Sundays while others have only four. While your expenditures may not be up in a five Sunday month, your giving hopefully will be. A review of historical giving patterns in four Sunday months and in five Sunday months should help set a realistic monthly revenue budget.

A liquid budget approach is also helpful on the revenue side because certain times of the year giving is higher than other times of the year. In most churches, giving during the summer months generally drops off while giving in December is generally higher than other times of the year. A clear division of the expected revenue budget by twelve months will not produce a realistic approximation of what the church will take in during that time. More detailed information is needed before setting the revenue projections.

The same rules apply on the expenses side of the budget. A liquid approach is also needed. For example, heating and cooling costs may be astronomical during the dead of winter and the middle of summer while those costs may drop off to nothing during the spring and fall. In addition, specific expenditures, such as money budgeted for Camp Meeting or the General Assembly, should only be included in the budget for the month in which they will be used.

The implementation of the church budget, therefore, requires more work than just an equal division of the projected revenue and expenses over twelve months. If the church follows a straight-line, equal division approach, it will experience real highs and lows – and none of them are realistic based upon the budget. Monitoring of a straight-line budget provides no real insight. One month the budget may look extremely rosy while it may look like the earth has caved in the next month. A “liquid” approach, often called dynamic budgeting, provides a more realistic snapshot of how the church is progressing and staying in line with the projected budget.

## Safeguards

In churches with multiple staff people, one person should be placed in charge of making sure that the staff complies with the budget. The person should be given the authority to talk with and suggest corrective action to staff members whose budgets are out of line. The person should serve as a safeguard to make sure that the staff is following the budget – and should remind the staff that the budget was adopted by the church council and/or the entire congregation.



Additional budgetary safeguards such as a requisition system or a purchase order system may be necessary to ensure that expenditure limits are not exceeded. Under either system, those wanting to purchase items for the church would be required to seek permission from the budget “supervisor” before making the purchase. Both systems work well to reign in unexpected or exorbitant expenses.

Eliminating reimbursement for purchasing items for the church is also an additional safeguard that the church may want to implement. Instead, a purchase order or requisition by the church directly would replace seeking reimbursement. A requisition or purchase order system may save additional dollars because many states do not charge sales tax to non-profit organizations like churches. So if the church purchases the item directly there may be no sales tax charged where if the church reimburses a staff person for their purchases sales tax would be included. In states where there are no sales tax charged to non-profits, such savings could amount into the thousands of dollars a year.

## Unexpected Expenditures

Expenditures that arise unexpectedly are those that generally wreck the most havoc on church budgets. Whether it is the heating broiler going out in the midst of winter or the air conditioning unit going out on the hottest Sunday of the year, an unexpected expenditure is devastating to most church’s budget. A little preventative planning, however, can go a long way towards reducing the impact on the church’s operating budget.

The creation of reserve accounts, for operations, maintenance and replacement, provides a safety net for the unexpected costs. In reality, most expenditures that are labeled as “unexpected” really are not unexpected. Air conditioners and broiler units will most definitely need repair occasionally – and they will also have to be replaced at some point. New roofs and new carpeting are also not unexpected expenditures. Things wear out and must be replaced. Planning to repair or replace the item reduces, if not eliminates, the impact on the church’s budget.

In creating the “dynamic” or liquid budget, the budget committee should carefully analyze when expenses will come due. For example, property and casualty insurance is a large expenditure that should be budgeted to be paid in the month that the premium comes due. Paying the insurance premium is not an unexpected expenditure. Other things, such as salary

expenses in a five Sunday month, are not an unexpected expenditure. With time and experience, the budget committee in conjunction with the church's administrative staff should be able to plan for almost every "unexpected" expenditure. The mark of a good budget committee is when they have taken into consideration all the supposedly "unexpected" events.

## Conclusion

There is nothing more fulfilling for a budget committee to do than create a workable budget and then see that budget implemented – and it work! Management and financial consultants for years have promoted the simple idea that you must "plan your work – and then work your plan." That concept is so simple in thought, but often extremely difficult to implement.

Budgeting for a local church, regardless of the size of the congregation, cannot be done in isolation. The best budget committee in the country cannot draft a workable budget for a church without understanding the vision of the leadership and without input from the ministry team. Further, once a budget is drafted and approved, it is worthless unless there are safeguards in place to make sure that it is used as the financial "road map" for the church.

The financial well-being of the church hinges on the performance of the budget committee. So, again, the advice to the budget committee is to "plan your work – and then work your plan." The church, now and in the future, will be the beneficiary of your efforts.

This manual is not intended to be all-inclusive. There are many areas that have not been addressed and many others that have only been mentioned in passing. If you have any questions regarding church budgeting issues, you may contact the Benefits Board. Our desire is to help each of you succeed in this important labor for the Lord!

The information in this paper is provided as a service by the Church of God Benefits Board, Inc. For more information, you may contact the Benefits Board as follows:

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## Past Years Summary Income

Revenue	FY 20	FY 21	FY 22	FY 23	FY 24	PROPOSED	
	Actual	Actual	Actual	Actual	Est. Actual	FY 25	Budget
Tithes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sunday School Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FTH/Wed. Night	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revival Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special Events	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Media Ministry Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Misc. Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Operating Income</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Bldg. Fund Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Missions Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Benevolence/Gifts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Designated Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Revenue</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

## Expenditures

Expenses	FY 20	FY 21	FY 22	FY 23	FY 24	Proposed	
	Actual	Actual	Actual	Actual	Est. Actual	FY 25	Budget
Administrative Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Maintenance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reserve (Op. and Rep.)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Christian Education	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
College & Career	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Couples Ministry	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Media Ministry	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Men's Ministry	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Middle School Ministry	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Music Ministry	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Senior Adult Ministry	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Single Adult Ministry	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Women's Ministry	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Youth Ministry	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Benevolence	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Missions Giving	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Designated Giving</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Disbursements</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net (Gain/Loss)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>