

## **HOW DO I BUILD A FIRST-TIME BUDGET FOR THE CHURCH?**

One of the most fundamental elements for a church to have in place is a well-planned budget. How does that come together?

You might say, "I don't even know where to start. We have never had a budget at our church." That's okay. Everyone has to start with their first budget.

**Determine what your income will be for next year.** Don't start with expenses. You might say, "How in the world should I know what our income will be?" Relax! If you follow these simple instructions, you'll be amazed at how much better you can manage your money and how you will be able to reasonably project your income.

Have your bookkeeping/accounting person give you the Statements of Income from the last three years. You might say, "We don't have a Statement of Income." Then have the bookkeeper add up all the deposits that flowed through the church's bank account this past year. It should include all sources of income: tithes, building fund, missions, designated special projects gifts, etc. Then lay each of the sources of income beside each other.

**Look for the pleasant surprise!** For the general fund or operation fund, the only monies you can really budget are the undesignated tithes. For example, you might show that \$200,000 tithes were received in 2007, \$212,000 in 2008, and \$220,000 in 2009. It might be reasonable to create a budget of \$225,000 in 2010. Or if you want to play it safe, then budget \$220,000 in 2010 just as you received tithes in 2009. Never should you plan for an aggressive income in tithes based on some expected growth or based on a potentially abnormally

high giving year just completed. Always project safely and conservatively. It is always a pleasant surprise to receive tithes in excess of your expectation.

By the way, in the example above, one way to do a precise calculation for 2010 is to evaluate the increase from '07 to '08 and '08 to '09.

In '07 to '08 the increase was \$12,000 or a percentage increase of 6.0%  $[(\$212,000 - \$200,000) / \$200,000]$ .

In '08 to '09 the increase was \$8,000 or a percentage increase of 3.8%  $[(\$220,000 - \$212,000) / \$212,000]$ .

Hence, a reasonable budget figure could be an average of those two years of 4.9%  $[(6.0 + 3.8) / 2]$ .

Option 1: For '10 a 4.9% increase over '09 would be \$230,780  $[\$220,000 + \$220,000 \times .049]$ .

Option 2: For '10 a 3.8% increase over '09 would be \$228,360  $[\$220,000 + \$220,000 \times .038]$ .

Option 3: Play it safe & go with \$225,000.

Option 4: If you have the luxury of lower expenses than the 09 income, I would really play it safe with the 09 actual of \$220,000.

You then need to do the same process for other funds. In these cases, however, you have more volatility because the members of the church are giving as needs are presented to them and as the life of the church demands. For example, people may have given heavily to the building fund in 2004, 2005, and 2006 because the church was building an addition to its facility. Then in 2007 the giving dropped off dramatically. Hence, projections should not be used for 2008, 2009, or 2010 on any building fund giving in 2004, 2005, and 2006.

**Be careful with missions budgets.** Missions giving can be more static if the church has regularly scheduled missions conventions or efforts. In this case it is best to error on the conservative side so the church does not over commit to missionaries and/or projects. In all cases with missions, you must budget your expenses lower than your income. If you don't you will have the wonderful joy of calling missionaries and telling them you have to cut their support. I think you know how fun that will be!

The expense side of the ledger is a different story. This is an area where a pastor may say "I am clueless where to start." That's okay. Don't worry. We can walk you through this as well.

**Keep your expectations low.** You may or may not come up with an expense budget that hits the mark in year one or even year two of this process. The important thing is for you to begin to track where the money goes. In year one you have a lot of unknowns because you didn't track prior to that year.

Have your bookkeeper do the following for our fictitious years of 2007, 2008, and 2009. This is all done to create our new budget for the year of 2010. ·

Total all the monies that were spent out of the general fund for those years. In other words, have the bookkeeper tell you all that was spent that was not restricted giving.

Remember, restricted giving is that which is controlled by the donor not the church. You want to minimize restricted giving to the general fund.

Then breakdown the largest list possible of your spending categories. Some simple ones would be: payroll, insurance, building maintenance, office, youth, children, music, adult, utilities, telephone, postage, travel/conferences, debt retirement, etc.

For now, anything that does not fit in any of those categories can go into an "Other" category. This category will probably be very large at the outset. The "Other" category will get smaller and smaller as time goes on because you will identify more and more categories for which you can track expenses.

Total all the expenses in all categories. When added together they should equal the amounts determined in item #1 above. Again, do this for each of the years.

Do the same averaging of expenses per category as you did on the income side described earlier. For example, if your utility expenses for those three years were \$80,000, \$87,000, and \$97,000 then average those increases (not amounts) and place them over the last year (\$97,000) and that will be your utilities budget for 2010. a. 07-08 calculates at  $[(87,000-80,000)/80,000] = 8.8\%$  b. 08-09 calculates at  $[(97,000-87,000)/87,000] = 11.5\%$  c. The average of the two:  $(8.8+11.5)/2 = 10.2\%$  d. However, for utilities, use the higher of the two: 11.5% e. In this case you generally can contact your utility company and find out what they are doing with their rates for the coming year. You may be better advised to actually calculate the amount of usage in each of those years and then multiply it by the new rate the utility company gives you. The same thing will apply in any other expense category where price hikes will affect your next year's budget.

When both the income and the expense projections are complete you should show more income than expenses. If that is not the case, then you need to go back into the expense budgets and start making reductions.

**DO NOT GO INTO THE INCOME PROJECTIONS AND CHANGE THEM UPWARD!** You are only fooling yourself if you play that game. What you established as income is established. Period. At this point you should only maneuver your expense items. You can cut those line items and make it work. In fact, you must do so to be fiscally responsible. Do not set a budget with more expenses than income. NEVER!

If you will follow these guidelines for the next two years you will begin to see an improvement in your ability to control expenses, reduce debt, and improve savings. Your first year will be hit and miss. The second year will start to be predictable. In year three you will be good to go! These are all very good things to happen for your church.

God wants us to manage our money well. Setting a basic well-planned budget does just that.

## **ABOUT THE AUTHOR**

Dick Hardy is the Founder and President of The Hardy Group Ministries, an Executive Consulting ministry for senior pastors of churches. Everything But Preaching is his theme. Dealing with the stuff that keeps you up at night is his focus.

Dick brings a wealth of experience to the table for pastors when dealing with the tough issues of the church relative to growth, organization, leadership, administration, and change. His service as Administrative Pastor at two mega churches and as Vice President at a flagship denominational Bible college makes him a resource your church will want to retain.

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