

# Budgeting: Beyond the Basics

By Doug Clay

Whatever size church you lead, you can manage your finances effectively without sacrificing your mission. And managing your budget is one of the keys to balancing finances and mission.

When it comes to church finances, people are usually concerned about the same things. It doesn't matter if they are board members, employees, ministry leaders or attendees, they ask the same questions that reflect the same concern: What is the state of the church's finances?

Here are 7 road signs that can quickly describe the state of your finances:

1. How much did we start with?
2. How much did we receive?
3. What was it intended for?
4. How did we spend it?
5. Where did it go?
6. How much do we have left?
7. How are we doing?

It's important for you to be able to verbalize the answers to these questions. Not only will you be able to communicate the status of your finances, but you'll have a clear understanding of where you've been and where you're going.

*What are your road signs communicating? Destination ahead? Slippery slope? Uphill climb?*

As we wind down 2013, many churches are reviewing current year activity and planning for next year. It can be a complex and time-consuming exercise for any size church. But the principles and

concepts for creating an effective budget transcend size or revenue levels.

## Rule #1:

When it comes to managing the current budget or projecting next year's budget, I try to abide by one rule: Don't let your outgo exceed your income. If you do, your upkeep will be your downfall!



Here's a great proverb to remember: "The wise have wealth and luxury, but fools spend whatever they get" (Proverbs 21:20, NLT).

Let me share a few more points for you to consider as you develop your budget for the upcoming year.

## Crafting the budget

The time and effort you invest in the creation of the budget will directly impact the success of your budget.

- Include the pastor, church board, treasurer, bookkeeper and ministry leaders in the budget process.
- When budgeting revenue, use past history as your guide and be conservative when projecting increases.
- When budgeting expenses, review past history and expect some increases due to inflation, rising supplier costs, etc.
- Require justification for large expenses, and minimize "guesstimates" or "padding."
- Include discretionary or "wish-list" expenses, but clearly identify them in the budget as items that will be approved only if revenues are sufficient to cover them.

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## Budgeting: Beyond the Basics (cont.)

### Managing the budget

Review financial activity regularly to compare actual activity to expected activity.

- Maintain a record of all financial transactions.
- Prepare monthly reports for review, analysis and transparency.
- Establish performance measures to identify what success looks like.
- Analyze trends and make course corrections as needed.

### Controlling the budget

Implement internal controls and accountability measures to make sure funds are protected.

- Segregate financial duties to minimize risk.
- Require appropriate review and approval before disbursing funds.
- Follow established policies and procedures and require appropriate approval when exceptions are needed.
- Hold respective leaders accountable for financial activity they control.

### Restricted funds

Create effective processes to make sure designated funds are used for their intended purpose.

- Segregate restricted funds—separate bank accounts can be used for extra protection.
- Track activity and provide summary reports by fund.
- Adhere to any special donor restrictions.
- Don't borrow from restricted funds to cover operating expenses.

### Reserves

Saving funds for future expenses or projects is

good stewardship—and necessary to protect against normal fluctuations in giving.

- Recommend 3 to 6 months of reserves to cover operating expenses in case of major disruptions in economy, natural disasters or other catastrophic events.
- Additional reserves are needed for capital improvements, major equipment repairs and replacement.
- Create reserves for future ministry projects (planned and yet-to-be-determined) to help guarantee success when launched.

King Solomon knew the importance of budgeting. His sage advice included: “Know the state of your flocks, and put your heart into caring for your herds, for riches don't last forever, and the crown might not be passed to the next generation” (Proverbs 27:23-24, NLT).

When Solomon wrote this, most people had their assets tied up in flocks, sheep, cattle and goats! I think if Solomon wrote this verse in the cultural context of today, he would say, “Know where your money is going, watch your spending and budget!”

As you implement these principles, I believe you'll create an effective budget that will help your ministry manage spending, measure financial performance and ultimately fulfill your ministry goals.

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