**How To Budget and Explain Your Budget to Your Church**

Many pastors struggle with understanding what a budget is and how it works. Most pastors are not experienced in the business world and bringing this concept to the church setting can be challenging but yet rewarding.

First of all, a budget is only a forecast of the income and expenses of the church. It is planning on how much you plan or wish to spend towards different accounts, such as benevolence, utilities, salaries, etc. Remember, these are not actual dollars you have placed in advance into some type of account or even have to spend if your spending is less than what you have estimated. This is merely a plan to track your income and spending in areas that are important to your church and adjust should be needed.

**NOTE:** It is unfortunate that many pastors and church leaders do not know what their income and expenses are.  They seem to fret and worry about finances and usually only react to when there is a time, usually an emergency time, when there is not enough money to pay the bills.  In many cases, the church may have allocated funds to pay for an unnecessary expenditure when they could have saved it for a future expense that may come along later on in the year or when offerings seem lower.  If your church does not have a budget, at least divide your yearly income by 12 (12 months of the year) and your past yearly expenses by 12 (12 months of the year) to come up with an average.  You can then make an educated assumption that you will need to bring in X amount of dollars to pay for an X amount of expenses each month (on the average).

Each month, most churches prepare some type of **simple** financial statement, such as checking account balance, designated funds, etc. These are **actual** current figures and again, kept simple.

A budget will list each account and expense. It will show their **expected** spending for the year and also reflect the **actual** spending year-to-date. The reason for a budget is to monitor your expenses and plan accordingly. For example, if you notice that you are spending too much in one area, you can either plan a fundraising effort or encourage your membership to give more. Again, the purpose is to have better control and vision for the finances of the church.

Another area of difficulty is when an expected expense, such as maintenance, has already reached the yearly expected figure but the church is midway through the year. What does that mean? The church can either stop any remaining expenses for the year on maintenance items. They could adjust or increase the yearly limit to meet other planned maintenance projects, or again ask the church for donations in this area. If the church income is up to accommodate this area, the pastor and board may agree to adjust the yearly amount for that expense area.

This may all seem difficult to understand especially to someone who has not been experienced in budgeting or a church board member who has not been use to planning in a professional way. I think that you will have a greater understanding on how a budget works by understanding how one can develop a budget.

**How To Start A Budget**

Many pastors say, “I don’t know where to start. I am confused and I know my church may be too because they have never had a budget.” That is okay to think that way because with everything new, there has to be a starting point. Relax! There is no need to be fearful of a budget. I have listed some starting points to make your budget planning easier.

**Determine what your income will be for the next year.** This is easy for most churches because you have a history of past income. Have your accounting person give you the income statement for the last 3 years. If you don’t have an income statement, go to your checking account deposits, which will include tithe, missions, building fund, special projects, etc.

Let’s say that your income for 2010 was $175,000, 2011 was $200,000, and 2012 was $225,000. It might be reasonable to assume that your church will be bringing in at least $225,000 for 2013 but it is more reasonable that you will bring in about $245,000 if the trend continues, especially if your church has not fallen in attendance. If there is a huge increase in attendance, it would be reasonable to go $275,000 or $300,000. You can always adjust midway in the year if income drops dramatically. It is merely a forecast of what you hope to bring into the church.

Another way to estimate a forecast of future income is to look at the increase with each year. The year 2010 may have had an increase of $15,000 ($160,000 in year 2009). Take the 2009 year ($160,000) divide it into the 2010 year ($175,000). You will come up with a 9.1% increase. Do the same for every year. 2010 ($175,000) divide it by 2011 year ($200,000). Your increase was 8.75%. Again for the 2011 year ($200,000) divide it with the 2012 year ($225,000). Your increase was 8.88%. You can look at the percentage of increase and know that over the last 3 years, your church has never been below an 8.75% increase and you may apply that to your 2012 income ($225,000 x 8.75%=$244,687.50) to come up with your income budget for 2013.

This type of projection is true even if you have decrease in income. You can take an average on all years and then project accordingly. There is no stress involved, this is merely good planning. Do this for every income area you have.

**Determine your expenses for the next year in the same way.** You can create as many different accounts as you wish. Most will start out with salaries, utilities, \*mortgage payments, \*van payments, insurance, maintenance, benevolence, etc. Use the same equations as above to gain an estimate in what you plan to spend in these areas. Maintenance is an area that sometimes causes problems during the year for a church, due to air conditioning going out or a roof needing repair so it might be wise to build in an extra amount in this area, especially if your church is an older one.

\*Mortgage and other note payments will probably not be increased by any percentage from the previous year. Just add the totals the church has spent during the year previous as your forecast for this new fiscal year.

This is a good time to introduce benevolence or other projects into the equation. Even though the income or expenses may not have been present before, adjust them into the income area as well as the expense area.

**Never set more expenses that income!!!**

**Be careful with Missions budgeting.** It is my opinion that it is better to be conservative in this area and remain faithful to your commitments to missionaries. I have seen churches cut back in their support. I have also seen churches bring the joyful blessing at the end of the year by increasing them with a one-time Christmas gift because their income was greater in this area this year.

**Each month, compare the income to expenses.** Your accounting person will be bringing in a simple financial report of income that month and expenses. Then focus on the budget. The budget will list the estimated amount of income or expense the church is forecasting for this year. Under that amount will be the amount they spent in that area this month as well as a current year-to-date figure. The same will hold true to income.

When comparing the income totals, most churches will agree that there is a fall off in giving during the summer months. It is not a time for panic because you have already reviewed previous years and noticed that the income increased once summer was over. If there is a drastic decrease, then the board will have to take appropriate action to curb spending or seek other income.

When comparing expense totals, it is normal that some accounts may reach their totals early in the year. If there was a budget for kids camp or retreat and the church budgeted that amount and sought fundraising efforts to meet that goal, when the event is over, that area of budgeting has been met.

If totals on utilities are lower than expected, adjust as you go along. Don’t be worried that you under-estimated any area. The only time to worry is if there is not enough money to pay your regular bills. You would be facing this whether you had a budget or not. A budget allows you to plan better, to look out for possible problems ahead of time, and not get caught off guard.

**Keep your expectations low.** This is a process. The first year your church is implementing a budget, it is a learning process. It may take some time for everyone on your board to adjust but in every case (in which we have been involved), every church has never reverted back to their old ways of doing business. It is very important to keep track where the money goes and how we spend it. We owe that obligation to the church and to God.

Many churches are worried about our present financial situation in America. Sometimes there is fear of what will happen and in turn, worry about the financial giving from church members when they are hit hard economically. There are some things that I wish cover in this area.

First of all, America needs the church. Without the church, what hope does America have? I know that this section deals with finances but I am also speaking spiritually and morally. I am a firm believer that we should not measure our resources to the things of this world. The Bible says, “My God shall supply all my needs according to His riches in glory!” The first part is to stand on His promises.

Secondly, preach on the importance of giving. Even during tough times, it is important for our church members to rely upon God for their source of help.

Thirdly, adjust your expenses to your income levels.

Fourthly, do not give our salary increases or look at positions and salaries accordingly. The largest single expense in any church or business is salaries. When things are going good, we add more people and increase salaries. When things are going bad, there may be a time to cut salaries or positions temporarily until the church gets back on track. Keep the focus on keeping the church doors open rather than looking at individuals. This may seem harsh, but we are talking about God’s purpose within that community. We have seen that people who had to be released, obtain even better positions elsewhere with benefits. They realized that it was time for them to go and was blessed accordingly. All things work for good.

Fifth, is to simply pray. Seek wisdom and strength from the Lord. He shall supply all your needs!

Sixth, be sure to thank those who faithfully serve on your board or who helped in the budgeting process. Give them a card or if the funds warrant, take them out for Christmas dinner to say that special thanks on behalf of the church.

Lastly, reflect back on this year and prepare or adjust accordingly. Your next year will be more successful and fulfilling because you will have confidence in your ability to plan and do what is best for the church.

May God bless you in planning your budget!

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