**All Things Bright and Beautiful, All Creatures Great and Small,**

**All Things Monetary and Financial, the Lord God Made Them All:**

**Fiduciary Exegesis for Clergy**

**How to Build a Budget**

1. Expenditure- based operating budget building
2. Zero-based operating budget building
3. Either form of building a budget must end with expenditures and revenue in balance. Ending the year with one penny in the bank is okay.

Typically budgets are built from anticipated expenditures first.

Personnel expenditures are calculated – salaries, benefits – medical and pension

Fixed expenses are calculated – eg, electricity, water, gas/oil, insurance

Diocesan assessment

Worship expenses

Mission expenses

Outreach expenses

If any funds are left over, they go to maintenance or other long-term expenditures

If the first-pass number is negative, congregations tend to go back and cut wherever possible – but where the cuts start and end says volumes about the beliefs of the congregation. Almost no one cuts salaries first. Fixed expenses usually cannot be reduced. That leaves things like outreach or mission or maintenance or diocesan assessment as next cuts.

If such anticipated cuts are too great to accept, then congregations turn to increasing income and sometimes produce a balanced budget by raiding savings or endowments.

Revenue projections are often formed by the first expenditure budget – that is, given this expenditure budget, we need to raise $XXX this year.

Most congregations live or die by pledges – that is, the annual promise of funds from members, typically received weekly or monthly. Then comes plate – non-pledged funds from visitors or occasional members or those who can’t or won’t pledge. Then comes returns on investment funds held by the parish gifts received during the year and then gifts received during the year. Generally, pledge income accounts for 75-80% of the total operating income. Well-endowed congregations may have higher revenue from investments but the average congregation in the Diocese of Olympia gets about 6% of its revenue from investments in the past dozen years.

While pledges are not legally enforceable, they are the steadiest form of income for most congregations. Plate income typically has a normal range – based on experience – but it is both small in total and can be uncertain. Return on investment is also variable but since church funds are generally conservatively invested, those returns are less volatile than some. However, when congregations use endowment or quasi-endowment funds for operating budgets,that is “eating one’s seed corn.” Each year of withdrawals means less income produced the next year and so forth. Depending on gifts to balance one’s operating budget is possible but highly risky. Prudent organizations use all gifts for capital or durable goods purchases or add such funds to longer term capital funds.

Examining one’s pledge base is also important. Depending on a small number of highly generous members is dangerous – the Elizabeth Gamble problem. Looking at the ages of one’s largest pledgers will also give a picture of the longer term viability of the congregation. The best pledge bases are wider than they are tall.

Some congregations pass “faith-based” budgets where dollar gaps are “plugged” by faux numbers – eg, an unusually successful fund-raiser or a future “second ask” campaign. Other congregations simply pass unbalanced budget and pray. In some of those cases, the unspoken understanding is that some bills won’t be paid – often the diocesan assessment.

Typically, the budget needs to be settled by December so the congregation can start the new year with a known budget. That, in turn, means the annual stewardship campaign or whatever means the congregation has developed to predict its revenue for the coming year needs to be completed before the final budget can be adopted.

Few congregations start their budget building with mission. That is, starting the process by deciding what activities are essential to life of the congregation – outreach, social justice, feeding programs, extending the congregational threshold – and then calculating how much money it would take to do that. The order in which we budget says volumes about our priorities. What we cut from our budgets first shouts our priorities.