ASK MANY CHURCH LEADERS for their definition of a budget and you will likely receive answers that have a scholarly flair. “The financial quantification of a ministry plan” or “a financial roadmap of our annual mission” or words like them are likely responses. The reality, however, is that for many churches, such “scholarly” responses are misfires on two counts: first, they do not accurately describe how many churches really do budgeting, and second, even if they did, they miss a critically important element. Let me explain.

THE SCHOLARLY DEFINITION VS. REALITY

The actual budgeting exercise in many (if not most) churches involves guessing how much money is going to come in during the next fiscal year and then deciding how to spend every nickel of it. (I know—it would be more polite to use a term that is more euphemistic than “guessing,” such as “estimating,” but based on recent economic developments and my conversations with hundreds of church leaders across the country, I have learned that the process is often more akin to “guessing.”) The process often has little to do with formally incorporating the church’s mission into a financial plan.

Zero-based budgeting

In order to follow genuinely the approach of translating the church’s mission for the year into dollars, a church should apply “zero-based” budgeting—the practice of deciding what specific activities should be conducted in order to carry out the church’s mission and what they will cost. True zero-based budgeting does not involve increasing or decreasing the prior year budget; rather, it starts with a blank sheet and asks the youth minister, for example, to list each activity or program he believes should be conducted during the year and to apply a cost to each one. So, when adjustments are made, they are not in the form of “10% across the board,” they are in the form of “let’s not take them on that whitewater rafting trip this year.” Applied across the entire ministry to every department, true zero-based budgeting has an amazing knack for ferreting out waste and nonessential activity. It also allows church leaders to make specific priority decisions on an activity-by-activity or program-by-program basis, rather than in simple percentages or dollar amounts. It facilitates surgery with a scalpel as opposed to an ax.

THE MISSING ELEMENT

Even if a church applies zero-based budgeting, there is the question of the often-missing critical element—how does the budget fit into the church’s overall financial plan and how does it help the church achieve its financial objectives?
Before a church can answer that question, it must assess whether it has a financial plan and financial objectives. A financial plan and financial objectives include such elements as:

- Establishing an operative reserve of $ (amount) by (date).
- Ensuring that the church is not caught off-guard with expenses exceeding its income.
- Ensuring that the church will have ample time to reduce expenses in the event of a sudden and unexpected downturn in revenues.
- Reducing debt by $ (amount) within a stated period of time.
- Building a maintenance and replacement fund of $ (amount) within (number) years.

**The false comfort of a “balanced budget”**

In order to ensure that the church has adequate financial capacity to carry out its programs and activities, its leaders must ensure that the church’s financial plan is sound. Sound financial management includes development and approval of a responsible operating budget. Many churches operate under the belief that there is something improper about generating a positive bottom line—that is, a surplus of revenues over expenses. In fact, in many churches, a desirable budget is a “balanced budget.” While operating a balanced budget may sound like an admirable goal, it simply means that the church expects to incur expenses equal to its revenues, with no room for error. The term “balanced budget” sounds attractive because we would all give our right arms to see our government operate with a balanced budget! But that is no way to improve a church’s financial condition. What is more, since a balanced budget plan leaves no room for error, an unexpected dip in revenues can cause immediate financial stress for a church and its leaders.

A better approach to budgeting involves determining the church’s desired financial condition (liquidity, reserves, debt levels, etc.) and the desired timetable for achieving it. With a long-term plan for improving financial condition, the church can develop operating budgets that not only provide for carrying out its mission but also contemplate surpluses to contribute toward the desired financial condition.

A church that has not operated following such a plan may need to reduce program or other expenses in order to implement a strategy of producing responsible budget surpluses.

**ARE STRATEGICALLY PLANNED SURPLUSES BIBLICAL?**

I will leave the answer to this question to the church leaders themselves. I do know that ECFA recently asked a Bible scholar to address the question, and he made multiple references in his analysis to the biblical concept of “storehouses.” I also know that balanced budgets do not fill storehouses.

**CONCLUSION**

Recent economic developments have made it clear that strategic budgeting is essential for the sound financial operation of a church. A casual approach to budgeting, with no over-arching financial plan, can lead to great stress and lasting damage to the church; however, with proper diligence, including the use of tools like zero-based budgeting and a responsible financial plan, church leaders can proactively help their church establish a stronger financial foundation that, in the long-run, should help the church be more effective in carrying out its mission.

*Parts of this article were excerpted from the book Board Member Orientation—The Concise and Complete Guide to Nonprofit Board Service by Michael E. Batts (2011, Accountability Press); used by permission.*

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**Summary**

- To follow the approach of translating the church’s mission for the year into dollars, a church should apply “zero-based” budgeting, which does not involve increasing or decreasing the prior year budget.
- Applied across the entire ministry to every department, true zero-based budgeting allows church leaders to make specific priority decisions on an activity-by-activity or program-by-program basis, rather than in simple percentages or dollar amounts.
- Even if a church applies zero-based budgeting, there is the question of the often-missing critical element—how does the budget fit into the church’s overall financial plan and how does it help the church achieve its financial objectives?
- An important element is determining the church’s financial plan and financial objectives.
- In order to ensure that the church has adequate financial capacity to carry out its programs and activities, its leaders must ensure that the church’s financial plan is sound.
- Recent economic developments have made it clear that strategic budgeting is essential for the sound financial operation of a church.
- With proper diligence, church leaders can proactively help their church establish a stronger financial foundation that should help the church be more effective in carrying out its mission.

**Author**

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