



FINANCIAL ASSESSMENT REVIEW QUESTIONS

for Budget Planning or/Church Councils/ Charge Conferences

The following steps may be helpful during budget development and the Charge Conference to educate congregations about their responsibility to budget faithfully and to remind Finance Committees and Church Council/Administrative Board's of their responsibility to "ensure adequate provision for the financial needs of the church", Book of Discipline.

GOAL: To create a realistic budget where approved expenses are supported by a realistic income projection or a plan to generate sufficient resources to fund the ministry of the local church.

BUILDING A BUDGET PROPOSAL

Budgetary Review by Finance Committee, prior to Charge Conference or Church Council

- 1) **INCOME PROJECTION:** Review the Income Projection typically provided by the Financial Secretary. If an Income Projection is not included in the budget planning or Charge Conference Report, note the previous year's Income records. **Recommendation:** Create an Income Projection for future use as a tool for informed and realistic budget development. (*Resource: Demystifying the Congregational Budget, H. Morris, \$6.95, Alban's Institute 1-800-486-1318*)
- 2) **EXPENSE BUDGET:** Expense budgets are created by gathering budget requests from ministry areas
 - a) based on previous years allocations (bottom up),
 - b) by assessing income and distributing over ministry areas (top down),
 - c) with no guarantees based on previous year's funding (zero based), or
 - d) some combination of these methods.

Identifying missional needs and striving to meet those goals is encouraged and prevents finances from limiting congregational vision. Money follows mission, especially when it is clearly communicated.

- 3) **CARRY OVER:** Identify End of Year account balances for Operating Expense funds, sometimes identified as Carry Over. Carry Over funds create a cash flow cushion and should be disclosed during the budget setting process.
- 4) **BUDGET PROPOSAL**

Compare the proposed expense budget to the current or previous year's actual income. Determine if the proposed expense budget is equal to, or greater or less than the previous year's income history.

REFLECTION: Are we comfortable, challenged or overwhelmed by this budget proposal?

FOR SURPLUS BUDGET (*previous or projected income greater than proposed budget*)

- Is a reduction in income likely?
- Recommend creating a Supplemental Budget with an Other/Mission list so additional income can be expended according to an approved spending plan
- Recommend an Endowment Line to invest additional income to support future ministry
- Increase the Expense Budget so that it is equal to or greater than the income projection

FOR BALANCED BUDGET (*proposed expense budget equals income projection*)

- Is income estimate realistic? Any major changes in income or expenses likely?
- Does expense budget include all anticipated expenses?
- Are we comfortable or challenged this budget?

FOR DEFICIT BUDGET (*proposed expense budget greater than previous income*)

- Do not adopt a deficit budget without a plan to monitor and adjust the budget during the year. Many deficit budgets are balanced with end of year giving or use of assets. If this is not disclosed to donors, trust will eventually erode.
- What types of giving opportunities are offered? (*See Giving Opportunities*)
- Does Finance Committee have a proposal to generate sufficient income to fund the ministry of the church described in the proposed budget?

If **YES**, present and approve the plan before adopting the Expense budget

If **NO**, ask the Finance Committee to create a plan before adopting the budget. Charge Conferences should not adopt a budget without a plan for funding the approved expenses. The plan should include consideration of giving opportunities currently offered and what new income opportunities will be explored before considering cutting expenses.

DESIGNATED GIVING: *Has Church Council approved designated funds?*

Donors may make restricted gifts only to designated funds approved by the Church Council/Board. Donors cannot create funds for specific projects without Council approval. Annually, designated fund guidelines and procedures should be reviewed. *For example, Responsible UMC has a Memorial Fund and gifts to this fund may be used for worship supplies or resources.*

EDUCATION: *Is a Stewardship plan in place for the current year?*

Take the whole year to educate and plan a year round stewardship ministry. If the same campaign model has been used for several years, what new ideas are being explored?

See Resources located in the Year Round Stewardship Workshop.

CASH FLOW DIALOGUE: *When we have a cash flow problem, who panics?*

The Treasurer reports to the Finance Committee and/or Church Council/Board any real or anticipated cash flow shortages. The Finance Committee and Ad Board/Council are responsible for deciding what to pay and negotiating deferrals or payment plans. If a church cannot fund Mission Shares in full, the Church Council/Board instructs the Finance Committee and the Treasurer to pay the approved amounts. The Treasurer makes payments as instructed.

This information is intended to be informative and educational only.

Prepared by B. Marden, 97/06/10