



PREPARE MODULE #4

EXECUTIVE | EASTSIDE CHRISTIAN CHURCH

COMPETENCY: Create annual budgets that support and align with our strategic plan, then ensure we operate within those budgets.

OBJECTIVE: To understand the role of the executive leader in shaping the annual budget so it is in alignment with leadership's strategic plan and the ensuing responsibility to monitor actual financial performance against the budget.

ASSIGNMENTS:

- Assignment 1 // Read the enclosed article, *Role of the Executive Leader in the Budget Process*. Answer the following questions with a brief paragraph and be prepared to discuss with the group.
- Assignment 2 // Considering a strategy for long-term financial health that conflicts with short-term issues.
- Assignment 3 // Expressing an understanding and knowledge of the principles and criteria to be used when tough decisions need to be made.

ASSIGNMENT 1

After reading, *Role of the Executive Leader in the Budget Process*,

ROLE OF THE EXECUTIVE LEADER IN THE BUDGET PROCESS

As noted in the Department Leader module, the budget process is directly connected to the strategic planning process which needs to be aligned with the church's vision. The vision of Eastside is *"to transform our homes, community and the world by pursuing God, building community, and unleashing compassion, one neighborhood at a time."*

Eastside is very focused in its approach to reach that vision. The budget process and the ongoing tracking of financial performance are significant tools in assisting us to allocate resources in ways that facilitate the desired results.



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In Psalms 50:10-12 God says, “*For every beast of the forest is Mine, the cattle of a thousand hills. I know every bird of the mountains, and everything that moves in the field is Mine. If I were hungry I would not tell you; for the world is Mine, and all it contains.*”

In essence, He is telling us He owns everything and He will do with it as He wills. In His wisdom, He allocates resources to the church based on what He thinks is enough. We need to trust Him with that. As a church we need to work within His provision.

In the book, *Boundaries for Leaders*, by Dr. Henry Cloud, he tells the story of Tony Dungy who accepted the job of head coach for the Tampa Bay Buccaneers in 1996 after 13 losing seasons. He heard lots of excuses why the team had been losing: old stadium, not able to afford better players because of low ticket sales, and the team can't win in cold weather. Tony realized there was nothing he or his players could do about any of that. Rather than resigning to the hopelessness of the situation, he decided to focus on things he could control. He analyzed the statistics of the winning teams and realized they had three things in common:

1. Lower turnovers
2. Fewer penalties
3. High performing special teams (kickoffs, punts, punt returns)

He realized the first two were self-inflicted mistakes that give the ball to the other team or emotional and mental lapses that can stall the offense. The third category, when working well, creates game changing plays. His focus on these three things that he and his players COULD control led to a turnaround for the team.

God provides His church with sufficient finances, and people blessed with gifts and talents, as He sees fit. As an executive leader, it is your role to assess those resources and allocate them in ways that help to accomplish the vision.

Having a formal and organized budget process is a foundation for any successful organization. It requires discipline to focus resources where they will have the



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greatest impact. As a church, we will stay focused on our strategy and plan if we know where we want to spend resources and have a plan to avoid spending in areas that do not line up with the vision. The website <https://thethrivingsmallbusiness.com/budgeting-process> lists 10 Steps to Developing and Managing a Budget.

While these steps are addressed toward a small business, each of them has application to the church as noted below.

1. Strategic Plan – ECC has a formal and regular strategic planning process. The Executive Team meets two times each year and focuses on how we are going to achieve our written vision.
2. Business Goals – At ECC we refer to these as our metrics. We have identified specific metrics indicating progress toward the vision. We set goals for those metrics during the planning process and evaluate progress during the year.
3. Revenue Projections – We base our projections on historical financial performance and we consider economic circumstances. But because God owns and controls everything, we need to allow room for Him to be involved in the planning. When we set our revenue goals for the next year, we need to include a “faith component” that goes beyond what our analysis tells us.
4. Fixed Cost Projections – Costs that typically remain unchanged from month-to-month such as salaries, debt service and rent expense.
5. Variable Cost Projections – These costs vary by month; for example, overtime may increase due to the Christmas performance.
6. Annual Goal Expenses – These are the costs for programs and events that are created to help us reach our metric goals.
7. Target Profit Margin – Profit is essential even to a church. It allows us to set up reserves to retire debt early or save for facility repairs needed in the future.



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8. Board Approval – At ECC, the Board of Elders has delegated the approval process to the Executive Team. The Senior Pastor reviews the budget with the Board who wants to see how the budget advances the church's vision.
9. Budget Review – The Executive Team, with the assistance of the CFO, monitors the financial performance monthly to ensure staff are complying with the budget and that revenue projections are on track.
10. Dealing with Budget Variances – The CFO and his team review variances with responsible department managers. The CFO communicates the reason for variances at the Executive Team's monthly Budget Review meeting.

It should be remembered that the budget is a tool to assist the church in attaining its vision. It should not be inflexible and cast in stone. During the year, opportunities may arise to advance the vision that were not contemplated in the budget. The Executive Team has the authority to reallocate the budget to take advantage of those opportunities.

In the budget process, the CFO and his team will perform an analysis of the Revenue Projections and present it to the Executive Team for their review and approval. After the projected revenues have been determined, the Executive Team will determine how the projected resources will be allocated to each department with a focus toward the desired results. Department Leaders will prepare their budget so it coincides with their Ministry Plans and submit them to the Accounting and Finance Team to be collated with the other departments and reviewed by the CFO and Executive Team. The Executive Team will review the submitted budgets to ensure the total budget is within the projected resources available and they conform with the departmental ministry plans. The Executive Team will make any revisions necessary and communicate them to the Department Leaders and approve the budget. The Senior Pastor will review the budget with the Board of Elders at the next scheduled Board Meeting.



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QUESTIONS:

- 1. The percentage of revenue growth has been dropping 1% per year for the last four years even though attendance has been increasing. Five years ago, the growth was 12% and this last year it was 8%. What would you suggest to reverse this downward trend before it becomes a critical issue?*

- 2. How might your recommendation change if attendance has been declining also?*

ASSIGNMENT 2

As an executive leader, you will need to make decisions based on the long-term health of the church which may be difficult in the short term. Review the following facts and answer the question that follows.

FACTS:

Your church has about \$50 million in assets on its balance sheet and about \$10 million of that amount has a life expectancy of 10 years or less. Each year during the budget process, there never seems to be enough money to set aside for reserves to deal with impending deferred maintenance charges to keep the facilities operating efficiently and yet you know it is only a matter of time before things start to break. Your team has analyzed proposed expenditures and you just cannot see any place to cut, except the church does have significant debt which takes about 15% of the annual budget to service. The bank has said they would be comfortable with 25% of the annual budget going to debt service.



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in the Budget Process, answer the following question.

QUESTION:

1. *What process and criteria would you use for determining staff positions to be terminated?*

What are two LEADERSHIP TAKEAWAYS from this module? Be prepared to discuss with your group.

1.

2.