

Messiah Budget Dilemma

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Harold Moore, executive pastor of Messiah Church, has to create a new revenue and expense budget for the church. There has just been a new outreach initiative approved called the Refuge and last year the church operated at a loss. There is some uncertainty regarding future finances and fiscal stewardship must be considered.

INTRODUCTION

Harold Moore was the executive pastor for Messiah Church. In addition to multiple pastoral duties, he was also responsible for the overall operation of the church including setting up the annual revenue and expense budget. Harold realized this last year was not good from a financial perspective and he had to consider the ramifications for this upcoming budget. Harold needed to develop the budget for the next year and he realized that some of the decisions could impact those working directly for Messiah Church.

Complicating the decision process facing Harold was the fact that the church had just committed to a ten year lease to support a ministry outreach called the Refuge. Also, all revenue for the church came through tithes and offerings from the church membership. This voluntary giving could fluctuate widely depending on the membership's satisfaction with the mission, vision and overall operation of the church. Church attenders could and often did change their church allegiance for just about any reason, and during these last couple of years there had been a decline in membership. Additionally, many people were struggling financially because of a depressed economy.

MESSIAH CHURCH PASTORS AND STAFF

Messiah Church had five pastors and seven staff personnel. Payroll was essentially a fixed cost and represented a significant portion of the overall budgetary expenses. Each pastor and staff member had specific responsibilities and was essential to the overall operation of the church.

All the pastors had been with the church at least 10 years, with Harold being the newest member at 10 years of service. The senior pastor had been with the

church for 18 years rising from the assistant pastor role when the former senior pastor moved to another church. Harold, the executive pastor, had served as a consultant for the church about 12 years ago as he introduced some operational and marketing strategies for the church. The board had been so impressed with the programs implemented by Harold that he was offered the position as executive pastor put in charge of the operation of the church. Over the years, Harold had also assumed ministerial roles including preaching, presiding in marriage and funeral services, counseling, visiting the sick and needy, and heading up special events. There were also three associate pastors who were responsible for specific groups in the church including adults, young adults and children.

There were seven staff personnel. The senior administrator had been with the church 15 years. She oversaw the computers, web site, and senior and executive pastor's secretary responsibilities as well as managing the other administrative personnel. There was also a part-time accountant and a part-time facilities manager. The church had two office administrators who served as pastor assistants, answered phones and completed general office work. Finally, the church had a maintenance man and a benevolence coordinator. The following table summarizes the positions and responsibilities of the pastors and staff at Messiah Church.

Messiah Church Pastors and Staff

| Position | Responsibilities | Supervisor |
|--------------------------|---|-----------------------------------|
| Senior Pastor | Overall mission and vision of church, Sunday service, other pastoral duties | Board |
| Executive Pastor | Overall operation of church, outreach, other pastoral duties | Senior Pastor |
| Adult Pastor | Adult projects and initiatives | Senior Pastor |
| Young Adult/Youth Pastor | Young Adult/Youth projects and initiatives | Senior Pastor |
| Children's Pastor | Children's projects and initiatives | Senior Pastor |
| Senior Administrator | Church operations, computer systems, senior pastor secretary | Senior Pastor Executive Pastor |
| Accountant | Bookkeeping and payroll | Executive Pastor |
| Facilities Manager | Church assets and maintenance | Executive Pastor |
| Administrator | Phone, administrative duties | Senior Administrator |
| Administrator | Phone, administrative duties | Senior Administrator |
| Maintenance | Upkeep of church | Facilities Manager |

REFUGE

The young adult pastor was responsible for the teenagers and young adult groups in the church. He also felt called to try to reach the unchurched, especially the groups of teenagers and young adults that were neglected by most of society. Since most of these individuals were not interested in attending a church, the pastor wanted to go where these people were. He also wanted to create a venue that might be appealing to these individuals.

Two years ago, a small space was rented through a strip shopping center which served as a coffee house. The facility was open some evenings and on weekends, and sometimes music groups would perform. Because of the size and some zoning regulations, the music groups were generally restricted to maybe one singer, or one or two instruments. Unfortunately, the shopping center was sold and plans were in the works to have the property demolished and a new office complex constructed.

The pastor had spent the last two months looking for alternative locations. He identified a shopping center in a low income neighborhood which was undergoing some urban renewal. The shopping center's major food store had moved out and the space, at least five times larger than the current coffee house, was available at a very reasonable lease rate. The other stores in the shopping center included a pizza restaurant, a tattoo shop, a karate studio, a clothing consignment store and three vacancies.

The lessor thought that a church related venue in the shopping center could bring in some stability and maybe even enhance the overall area, which was in line with the urban renewal initiative. The pastor also realized that the increased size would make it possible to expand the music aspect of the ministry and groups of virtually all sizes could perform.

The name of this facility was called the Refuge, and it was a safe place where the unwanted teens and young adults could come for fellowship, ministry and music. The facility was alcohol and drug free. The music groups performed primarily Christian or alternative music, and it could be louder because there were not the same zoning restrictions.

The lessor was willing to give the first six months of occupancy free and then require a \$10,000 security deposit. The monthly lease rate would be \$6,000 which would increase about \$200 per year and the lease term was for ten years. Messiah Church would need \$100,000 up front for the renovation of the space and to acquire furniture and facilities for the Refuge. Once operational, there would

not be much in the way of additional expenses beyond those the church was already incurring to support the existing coffee house operation. Also, the youth pastor felt that the concerts could be a revenue generator and anticipated that he would bring in \$2,000 a month to help offset the lease costs.

MESSIAH CHURCH FINANCIAL REPORT

The financial report for 20x5 through 20x8 was a general record approved at the annual business meeting. (See attached Exhibit 1 on the following page.) The church balance sheet as of December 31, 20x5 through December 31, 20x8 indicated over the three year period that cash increased but had shown a decrease in this last year. Net property and equipment had a gradual increase over time and the church bonds have all matured and been cashed in.

The only liabilities were current liabilities primarily credit card balances which were paid on time. The balance in the current liabilities had declined over the three year period. The fund balance was a reflection of the net worth of the church and reflects the excess of revenue or surplus over the years. In 20x8 the church had a loss after two years of surplus.

DECISION

Harold knew he had some difficult decisions to make regarding the revenue and expense budget. Was last year's performance an anomaly or a sign of increased challenges in the future? How could the church support the Refuge and the potential for additional operational costs? What were potential sources of revenue, and what were the revenue opportunities from the Refuge? If costs had to be cut, what areas could be cut? Would people have to be laid off?

Exhibit 1

Messiah Church

Balance Sheet and Income Statement

From December 31, 20x5 through December 31, 20x8

| | <u>12/31/x5</u> | <u>12/31/x6</u> | <u>12/31/x7</u> | <u>12/31/x8</u> |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Cash | 347,118 | 483,770 | 466,765 | 395,531 |
| Net Property and Equipment | 1,378,421 | 1,373,859 | 1,433,387 | 1,430,562 |
| Church Bonds | 101,984 | 36,456 | 3,379 | 0 |
| Total Assets | <u>1,827,523</u> | <u>1,894,085</u> | <u>1,903,531</u> | <u>1,826,093</u> |
| <u>Liabilities & Fund Balance</u> | | | | |
| Current Liabilities | 22,173 | 35,461 | 9,481 | 8,013 |
| Fund Balance | <u>1,805,350</u> | <u>1,858,624</u> | <u>1,894,050</u> | <u>1,818,080</u> |
| Total Liabilities and Fund Balance | <u>1,827,523</u> | <u>1,894,085</u> | <u>1,903,531</u> | <u>1,826,093</u> |
| | | | | |
| | | <u>12/31/x6</u> | <u>12/31/x7</u> | <u>12/31/x8</u> |
| Revenue: | | | | |
| Tithes & Offering | | 1,428,879 | 1,453,630 | 1,382,025 |
| Expenses: | | | | |
| Administrative | | 75,296 | 42,479 | 36,483 |
| Benevolence | | 75,518 | 83,707 | 110,376 |
| Depreciation | | 102,099 | 111,110 | 119,645 |
| Insurance | | 9,870 | 10,009 | 13,085 |
| Maintenance | | 54,471 | 58,002 | 59,423 |
| Ministries | | 328,051 | 292,508 | 224,708 |
| Payroll | | 659,463 | 739,759 | 785,596 |
| Rents/ Leases | | 17,834 | 16,377 | 17,961 |
| Travel | | 0 | 4,157 | 18,881 |
| Utilities | | 53,003 | 60,096 | 71,837 |
| Total Expenses | | <u>1,418,204</u> | <u>1,418,204</u> | <u>1,457,995</u> |
| Excess of Revenue | | 53,274 | 35,426 | (75,970) |
| Beginning Fund Balance | | 1,805,350 | 1,858,624 | 1,894,050 |
| Ending Fund Balance | | 1,858,624 | 1,894,050 | 1,818,080 |