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# **Budgeting & Managing Cash Reserves**

The presentation will begin shortly...



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(Only available for those attending live)

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All CPE codes are provided in the presentation via polls



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# Budgeting & Managing Cash Reserves

October 13, 2021

By: Pete Blum & Rick Battershell

# Definitions

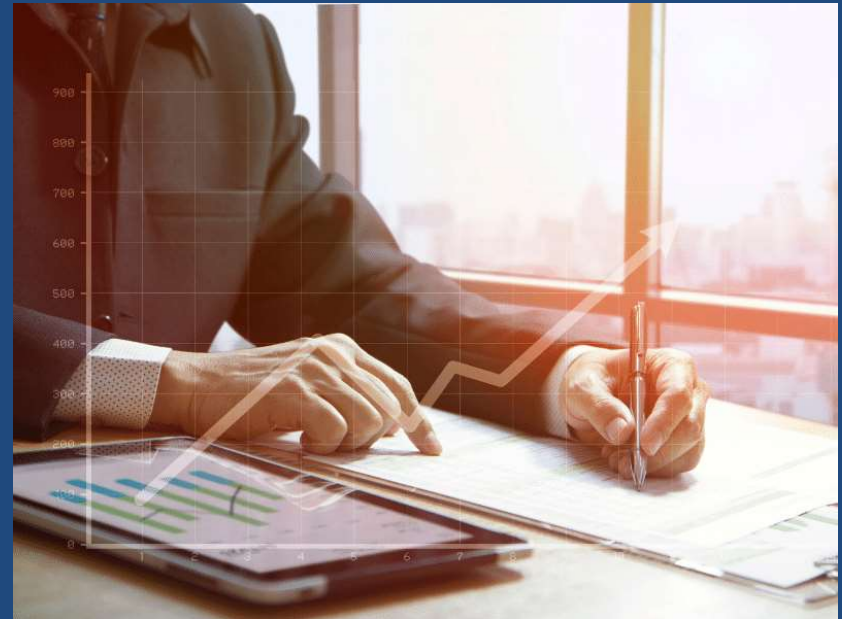
- **Budget** – A strategic plan that dispenses available resources to various areas of the organization
- **Managing Cash Reserves** – Managing financial resources in a way that allows organizations to meet their financial obligations and accomplish their mission
- **Cash Flow Projection** – A comprehensive plan that brings the budget from operations plus all other sources and uses of cash together to provide an outlook of cash flow for the organization

## Poll Question

- **Does your organization currently:**
  - **a) prepare and follow a budget**
  - **b) prepare a budget but not follow it**
  - **c) not have a budget in place**

# Budget Framework

- **Purpose** – A guide that influences the actions of the people responsible for spending the funds of the organization
- **Principles** – Universal values that provide the culture, context, and expectations for the budget to serve its intended purpose
- **Process** – Includes the steps from beginning to end of the budget cycle



# Purpose of a Budget



- Sets priorities for every activity of the organization
- It is both a compass and a map to help achieve the goals of the organization
- Reflects the values and vision of the organization



# Creating a Missional Budget

- The number one reason people give is a belief in the mission of the organization
- Most donors want to know how funds are used to carry out the mission
- A missional budget organizes funds spent by vision and/or goals
- This helps to see if the resources are following the vision of the organization
- It doesn't need to replace the line item budget by account, but a tool to help donors and staff see where money is spent



# Missional Budget Example

## SAMPLE MISSIONAL BUDGET

First Church 2011 Budget  
"Changing Lives for Christ"

Your church leadership has constructed a bold plan of ministry to continue our mission of changing lives for Christ. We celebrate a wonderful past year but commit ourselves to even more lives coming to Christ in the new one. Join us in this journey of being God's people in Cityville.

### Our Plan of Ministry

A. To provide meaningful, life changing worship every week of the year.

Last year we held 112 worship services where, on an average week, 190 persons gathered to praise God and hear His Word. Fourteen persons gave their life to Christ for the first time in those services and nine rededicated themselves to serving the Master. The Special Music events of Easter and Christmas Eve had over 100 persons in attendance who were unchurched. One young man joined the church after one of these special services and was baptized. He said it was only the second time he'd been in a church in his life. Today he's volunteering time with our high school students.

Next year we plan to add a junior choir with at least twelve 3rd through 6th graders. Already, we're planning on their singing on Palm Sunday. A new praise team is being trained and a second service is tentatively planned to begin in September. We want to increase our attendance to 220 and double the number of first time commitments of faith.

Budget Total - \$80,000

(% of pastor's salary, pastor's utilities, pastor's expenses, pastor's insurance, secretary, music director, continuing education, janitor, children's ministry, music, janitor supplies, telephone, copier, insurance maintenance, utilities)

B. To nurture persons in their faith journey.....  
.....

Budget Total - \$37,000

C. To witness to our faith in service beyond ourselves.....  
.....

Budget Total - \$83,000

Total needed to fulfill our mission of "Changing Lives for Christ" - \$200,000

- A detailed line item budget is available in the church office for any who wish to review it.

# Missional Budget Example

## SAMPLE LINE ITEM BUDGET

First Church 2011 Budget  
"Changing Lives for Christ"

### Income

|                           |                |
|---------------------------|----------------|
| Pledges                   | 150,000        |
| Non-Pledged contributions | 30,000         |
| Sunday school offering    | 5,000          |
| Christmas Eve             | 5,000          |
| Interest                  | 10,000         |
| <b>Total</b>              | <b>200,000</b> |

### Expenses

|                    |               |
|--------------------|---------------|
| <u>Operations:</u> |               |
| Utilities          | 8,000         |
| Maintenance        | 5,000         |
| Postage            | 5,000         |
| Office Supplies    | 3,000         |
| Insurance          | 8,000         |
| Copier             | 2,000         |
| Telephone          | 2,500         |
| Janitor Supplies   | 2,000         |
| <b>Total</b>       | <b>35,500</b> |

### Programs:

|                     |              |
|---------------------|--------------|
| Music               | 1,500        |
| Stewardship         | 100          |
| Missions            | 500          |
| Children's Ministry | 1,000        |
| Youth Ministry      | 1,000        |
| Adult Ministry      | 500          |
| Boy Scouts          | 500          |
| Archives            | 400          |
| <b>Total</b>        | <b>5,500</b> |

### Conference - Cooperative Giving:

|                     |               |
|---------------------|---------------|
| Support Services    | 12,000        |
| World Missions      | 10,000        |
| Russian Initiative  | 5,000         |
| Retired Pastor Fund | 5,000         |
| <b>Total</b>        | <b>32,000</b> |

### Staff:

|                      |                |
|----------------------|----------------|
| Pastor               | 50,000         |
| Pastor Utilities     | 4,000          |
| Pastor Expense       | 10,000         |
| Pastor Insurance     | 10,000         |
| Secretary            | 20,000         |
| Music Director (PT)  | 10,000         |
| Youth Director (PT)  | 6,000          |
| Pulpit Supply        | 2,000          |
| Continuing Education | 5,000          |
| Janitor              | 10,000         |
| <b>Total</b>         | <b>127,000</b> |

**Total Budget 200,000**

# Principles of Budgeting

1. Develop positive stewardship culture
2. Establish ground rules
3. Have a realistic and “stretch” goal for projected revenue
4. Calculate the “Big Number”
5. Budget for surplus
6. Accountability - who is ultimately responsible



# Process of Budgeting



# Managing Cash Reserves



- Income seldom equals expenses- meaning cash flow fluctuates
  - Must have stewardship to properly manage
- Two ends of the same rope:
  - **Faith** – God is sovereign and will provide
    - Extreme cases leads to irresponsibility
  - **Stewardship** – plan and set aside reserves for lean times
    - Extreme cases leads to trusting resources, not God
  - There should be a healthy tension between these two



## 4 Factors That Affect Cash Reserves



1. Cash flow fluctuation
2. Unplanned events
3. Planned future costs
4. Potential opportunities

## Poll Question

- **Does your organization currently:**
  - **a) have a plan to fund reserves and follows the plan**
  - **b) have a plan to fund reserves but does not follow it**
  - **c) not have a plan to fund reserves**



# Cash Flow Fluctuation

- Look back three years to chart monthly cash balances
  - This should identify some trends in your cash flow
- Apply your operational income and expenses for the whole year
  - A net increase of income increases cash
  - A net loss from operations decreases cash



# Unplanned Events



- Look back to prior years to see what unplanned events occurred:
  - How much were cash reserves affected?
  - When did it happen?
  - Could the negative impact been avoided?
  - Examples: COVID pandemic, equipment failure, loss of rental income, a key donor leaving or giving less
- Brainstorm possible responses to prepare a contingency plan

# Planned Future Costs

- Itemize Fixed Assets to determine the time and cost to replace or improve them over 5, 10, 15, 20 years
  - Includes building, equipment, furniture, etc.
- Enter assets on a fixed asset program to calculate depreciation
  - Excellent resource to help plan for future costs



# Potential Opportunities



- Future cash outlays that respond to growth and demand:
  - Additional staff to hire
  - New programs
  - Assets to purchase
- Often forged in vision casting, something donors will give to over the course of months or years
- Contributions received are reserved in separate funds

# Operational Cash Reserves

## How Do You Measure It?



- Generally measured in days
- Often characterized as Unrestricted Cash or Cash for Operations

- Days of Cash = 
$$\frac{\text{Budgeted Annual Operating Expenses}}{365}$$
  - Multiply by the number of days to determine target reserve amount

# Operational Cash Reserves

## How Much is Enough?

- **Churches** = 60 - 90 days
  - Donors tend to be more aware of day to day needs, so they respond quickly to shortfalls
- **Nonprofits** = 90-180 days
  - Donors are generally not aware of daily cash flow
  - Likely a lag in response to donation requests
  - Also, donors may give to many nonprofits
- **Private Schools** = 90-120 days
  - Most funds are from tuition
  - An unplanned event can take longer to replenish





# Unplanned Events- How Much is Enough?

- Can be different for organizations:
  - History of organization's unplanned events
  - The nature, probability, and cost of such events
- Recommend having a separate fund
  - Emergency Reserve or Savings Account
- Periodically transfer funds to this separate fund:
  - **Contingent transfer** – a percentage of increase in operational net revenue
  - **Board designation** – based on surplus of operational reserves



# Planned Future Costs- How Much is Enough?



- Fixed Assets – replaced or improved
  - Depreciation Expense is a good benchmark
  - Fixed Asset Replacement Schedule provides estimated future annual costs
  - Capital Fund or Campaign Fund
    - **Capital Fund** – board designated
    - **Campaign Fund** – donor restricted
  
- Debt Reduction
  - Pay extra principal each month
  - Place in a separate board designated fund
    - i.e. sinking fund

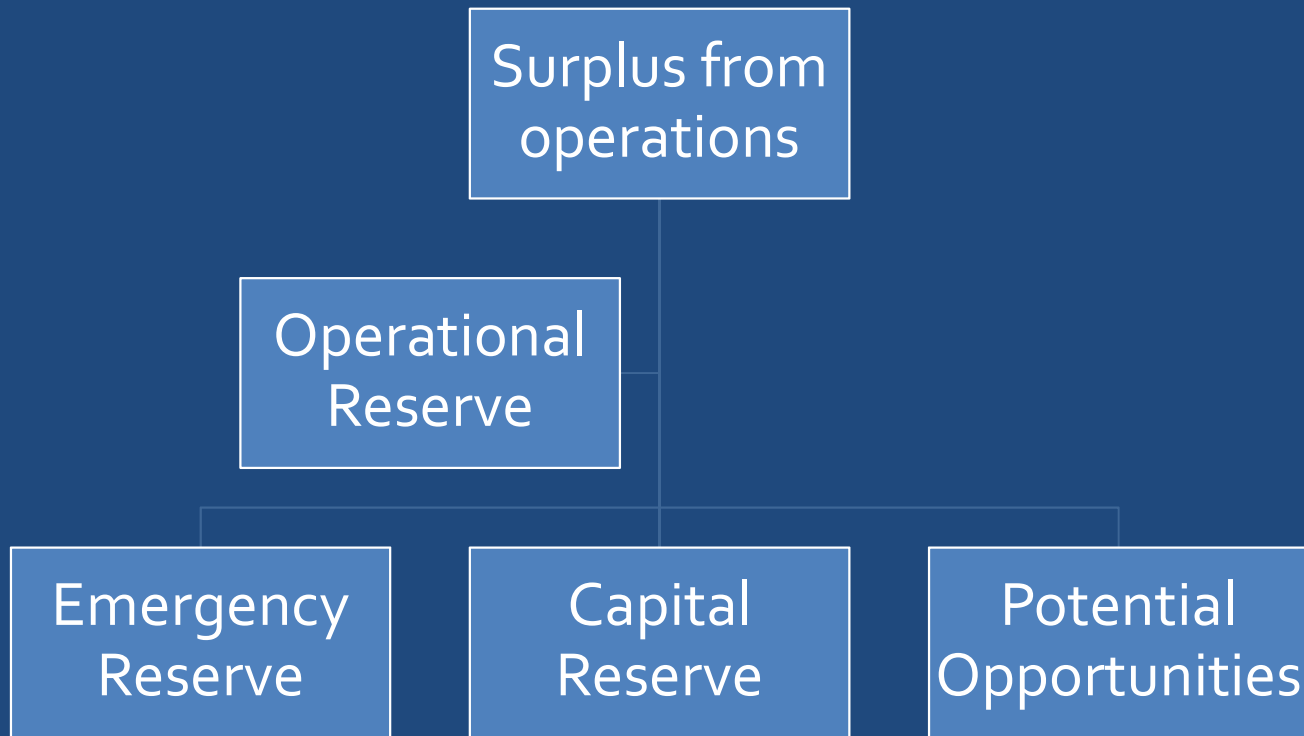


# Potential Opportunity Costs

- The vision of the organization often requires new assets, programs, or staffing
- Often funded from additional donor gifts above normal giving
  - Building campaign
  - Missions or Outreach goal
- The Board can designate funds from surplus above operational reserve, emergency reserve, and capital reserve



# Cash Flow Projection- Putting it All Together



# Sample Cash Flow Projection Summary

| Source of Cash                        | January      | February     | March        | April        | May          | June         | Total         |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Total Revenue                         | \$54,470.00  | \$47,030.00  | \$43,490.00  | \$50,600.00  | \$47,180.00  | \$42,610.00  | \$412,480.00  |
| Total Expenses                        | \$43,255.00  | \$42,345.00  | \$43,595.00  | \$41,975.00  | \$42,315.00  | \$41,165.00  | \$380,385.00  |
| Operating Profit (Loss)               | \$11,215.00  | \$4,685.00   | -\$105.00    | \$8,625.00   | \$4,865.00   | \$1,445.00   | \$32,095.00   |
| Plus: Other Sources of Cash           | \$0.00       | \$0.00       | \$0.00       | \$0.00       | \$50,000.00  | \$15,000.00  | \$140,000.00  |
| Less: Other Uses of Cash              | -\$7,918.00  | -\$12,195.00 | -\$21,870.00 | -\$7,632.00  | -\$17,318.00 | -\$9,888.00  | -\$160,858.00 |
| Beginning balance - unrestricted cash | \$150,000.00 | \$153,297.00 | \$145,787.00 | \$123,812.00 | \$124,805.00 | \$162,352.00 |               |
| Ending balance - unrestricted cash    | \$153,297.00 | \$145,787.00 | \$123,812.00 | \$124,805.00 | \$162,352.00 | \$168,909.00 |               |

# Sample Operations Budget

|                |  | Jan 2020     |              |             |             |                 |
|----------------|--|--------------|--------------|-------------|-------------|-----------------|
| Account number | Operational Income and Expenses        | Actual       | Budget       | over Budget | % of Budget | Jan 2021 Budget |
|                | Income                                 |              |              |             |             |                 |
|                | <b>Tithes and Offerings</b>            | 43,343.16    | 41,000.00    | 2,343.16    | 105.72%     | \$54,180.00     |
|                | <b>Ministry income</b>                 | 200.00       | 200.00       | 0.00        | 100.00%     | \$200.00        |
|                | <b>Other income</b>                    | 86.90        | 80.00        | 6.90        | 108.63%     | \$90.00         |
|                | <b>Total Income</b>                    | \$ 43,630.06 | \$ 41,280.00 | \$ 2,350.06 | 105.69%     | \$54,470.00     |
|                | <b>Gross Profit</b>                    | \$ 43,630.06 | \$ 41,280.00 | \$ 2,350.06 | 105.69%     |                 |
|                | Expenses                               |              |              |             |             |                 |
|                | <b>Personnel Costs</b>                 |              |              | 0.00        |             |                 |
|                | <b>Salaries &amp; wages</b>            | 15,188.66    | 15,188.00    | 0.66        | 100.00%     | \$15,640.00     |
|                | <b>403(B) matching</b>                 | 666.68       | 667.00       | -0.32       | 99.95%      | \$690.00        |
|                | <b>Cell phone allowance</b>            | 450.00       | 450.00       | 0.00        | 100.00%     | \$450.00        |
|                | <b>Other compensation</b>              | 2,920.00     | 2,920.00     | 0.00        | 100.00%     | \$3,000.00      |
|                | <b>Life &amp; disability insurance</b> | 85.75        | 125.00       | -39.25      | 68.60%      | \$120.00        |
|                | <b>Payroll taxes</b>                   | 361.02       | 325.00       | 36.02       | 111.08%     | \$325.00        |
|                | <b>Total Personnel Costs</b>           | \$19,672.11  | \$19,675.00  | -\$2.89     | 99.99%      | \$20,225.00     |

# Sample Tithes Projection

| Tithes and Offerings Projection |             |                    |                 |                    |             |
|---------------------------------|-------------|--------------------|-----------------|--------------------|-------------|
| For 2022                        |             |                    |                 |                    |             |
| Four v Five Sunday Months       |             |                    |                 |                    |             |
| Month                           | 2021 Total  | # Sundays for 2022 | 2021 Avg weekly | # Sundays for 2022 | 2022 Budget |
| January                         | \$43,343.16 | 4                  | \$10,835.79     | 5                  | \$54,180.00 |
| February                        | \$46,703.62 | 4                  | \$11,675.91     | 4                  | \$46,700.00 |
| March                           | \$54,005.83 | 5                  | \$10,801.17     | 4                  | \$43,200.00 |
| April                           | \$50,563.50 | 4                  | \$12,640.88     | 4                  | \$50,560.00 |
| May                             | \$47,162.37 | 5                  | \$9,432.47      | 5                  | \$47,160.00 |
| June                            | \$42,601.56 | 4                  | \$10,650.39     | 4                  | \$42,600.00 |

# Sample Sources of Cash

| Type                                     | Description             | January       | February      | March         | April         | May                | June               |
|--|-------------------------|---------------|---------------|---------------|---------------|--------------------|--------------------|
| <b>Other Sources of Cash</b>             |                         |               |               |               |               |                    |                    |
| <b>Unbudgeted Special Offering/Gifts</b> |                         |               |               |               |               |                    |                    |
|  | Summer offering         |               |               |               |               | \$75,000.00        |                    |
|  | Year End Gift           |               |               |               |               |                    |                    |
|  | Total Special Offerings | \$0.00        | \$0.00        | \$0.00        | \$0.00        | \$75,000.00        | \$0.00             |
| <b>Asset Sale</b>                        |                         |               |               |               |               |                    |                    |
|  | Old Van                 |               |               |               |               |                    | \$15,000.00        |
|  | Old Sound system        |               |               |               |               |                    |                    |
|  | Total Asset Sales       | \$0.00        | \$0.00        | \$0.00        | \$0.00        | \$0.00             | \$15,000.00        |
| <b>New Debt</b>                          |                         |               |               |               |               |                    |                    |
|  | New Van                 |               |               |               |               |                    |                    |
|  | Total New Debt          | \$0.00        | \$0.00        | \$0.00        | \$0.00        | \$0.00             | \$0.00             |
| <b>Cash Transfer In</b>                  |                         |               |               |               |               |                    |                    |
|  | From Building Fund      |               |               |               |               |                    | \$5,000.00         |
| <b>Total Sources of Cash</b>             |                         | <b>\$0.00</b> | <b>\$0.00</b> | <b>\$0.00</b> | <b>\$0.00</b> | <b>\$75,000.00</b> | <b>\$15,000.00</b> |

# Sample Uses of Cash

| Type                      | Description                                      | January           | February           | March              | April             | May                | June               |
|---------------------------|--|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|
| <b>Other Uses of Cash</b> |  |                   |                    |                    |                   |                    |                    |
| Major Projects            |  |                   |                    |                    |                   |                    |                    |
|                           | Remodel Foyer                                    |                   |                    |                    |                   |                    | \$5,000.00         |
|                           | Total Major Projects                             |                   |                    |                    |                   |                    | \$5,000.00         |
| Asset Purchases           |  |                   |                    |                    |                   |                    |                    |
|                           | New Van  |                   |                    |                    |                   |                    |                    |
|                           | Sound system                                     |                   | \$5,000.00         | \$15,000.00        |                   |                    |                    |
|                           | Total Asset Purchases                            | \$0.00            | \$5,000.00         | \$15,000.00        | \$0.00            | \$0.00             | \$0.00             |
| Payment of Debt           |  |                   |                    |                    |                   |                    |                    |
|                           | Principle Portion of Building Loan Pymt          | \$2,500.00        | \$2,525.00         | \$2,550.00         | \$2,576.00        | \$2,602.00         | \$2,628.00         |
|                           | Addition Principal Paid                          |                   |                    |                    |                   | \$10,000.00        |                    |
|                           | Total Payment of Debt                            | \$2,500.00        | \$2,525.00         | \$2,550.00         | \$2,576.00        | \$12,602.00        | \$2,628.00         |
| Cash Transfer Out         |  |                   |                    |                    |                   |                    |                    |
|                           | Missions (10% of tithes) - board designated fund | \$5,418.00        | \$4,670.00         | \$4,320.00         | \$5,056.00        | \$4,716.00         | \$4,260.00         |
|                           | To Emergency Fund                                |                   |                    |                    |                   | \$10,000.00        |                    |
|                           | To Capital Reserve Fund                          |                   |                    |                    |                   | \$50,000.00        |                    |
|                           | Total Cash Transfer Out                          | \$5,418.00        | \$4,670.00         | \$4,320.00         | \$5,056.00        | \$64,716.00        | \$4,260.00         |
| <b>Total Uses of Cash</b> |  | <b>\$7,918.00</b> | <b>\$12,195.00</b> | <b>\$21,870.00</b> | <b>\$7,632.00</b> | <b>\$77,318.00</b> | <b>\$11,888.00</b> |

# CAPITAL COST SCHEDULE

| Asset Type               |                        | 2022            | 2023            | 2024            | 2025            | 2030            | 2040            |
|--------------------------|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Building</b>          |                        |                 |                 |                 |                 |                 |                 |
|                          | Roof Replacement       |                 |                 |                 |                 |                 | \$75,000        |
|                          | Carpet replacement     |                 |                 |                 |                 | \$40,000        |                 |
|                          | Replace HVAC           |                 |                 |                 | \$50,000        |                 |                 |
| <b>Land Improvements</b> |                        |                 |                 |                 |                 |                 |                 |
|                          | Resurface parking lot  |                 |                 | \$40,000        |                 |                 |                 |
| <b>Equipment</b>         |                        |                 |                 |                 |                 |                 |                 |
|                          | Replace Sound Board    | \$20,000        |                 |                 |                 |                 |                 |
|                          | New wireless mics      | \$7,500         |                 |                 |                 |                 |                 |
| <b>Furniture</b>         |                        |                 |                 |                 |                 |                 |                 |
|                          | new chairs - sanctuary |                 | \$30,000        |                 |                 |                 |                 |
|                          | Computers              | \$3,000         | \$3,000         | \$3,000         | \$3,000         | \$3,000         | \$3,000         |
|                          | Office Furniture       |                 |                 | \$20,000        |                 |                 |                 |
| <b>Totals</b>            |                        | <b>\$30,500</b> | <b>\$33,000</b> | <b>\$63,000</b> | <b>\$53,000</b> | <b>\$43,000</b> | <b>\$78,000</b> |



# Sample Cash Flow Projection Summary

| Source of Cash                        | January      | February     | March        | April        | May          | June         | Total         |
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| Plus: Other Sources of Cash           | \$0.00       | \$0.00       | \$0.00       | \$0.00       | \$50,000.00  | \$15,000.00  | \$140,000.00  |
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| Ending balance- unrestricted cash     | \$153,297.00 | \$145,787.00 | \$123,812.00 | \$124,805.00 | \$162,352.00 | \$168,909.00 |               |

## Poll Question

- **Does your organization currently:**
  - **a) have a cash flow projection and follow it**
  - **b) have a cash flow projection but not follow it**
  - **c) not have a cash flow projection**

# Financial Health Assessment

## (according to a bank)

- Income: on a per attendee basis. National average is \$1000/person/year. If it's more, it's a measure of commitment.
- Operational Reserves: 20% of operational expenses (1/5 of a year, or about 73 days)
- Capital Reserves
- Attendance – growing, steady, declining?
- Donor Concentration: If 20% of giving is from the top 5 donors, that's a concentration of donors and generally considered a risk for the lender.
- Staff Expense as percentage of total revenue: 30-35% for church, 65% or less for schools and nonprofits.
- Debt Service Coverage Ratio (DSCR)– measures the ability to make the loan payments. Total loan payments divided by net profit before loan payment. 100%, or 1:1, says you have the exact amount to pay your payment, 120%, or 1.2:1 says you have 20% more of what's needed to make payments. Most banks want a 1.2:1 ratio.
- Loan To Value: An organization with 80% LTV is 30% more likely to default than one at 70%. If it's 86% or more, it's more difficult to protect equity and a higher probability that they will walk away from property.
- Debt Service Ratio: total debt costs as a percentage of total income, 35% for churches, for schools and nonprofits, 18%.
- Salary and Debt to total income (combined): 65-70% for church, 75-80% for nonprofits and schools.

# Resources

- **ECFA** – [ecfa.org](http://ecfa.org)
  - Provides accreditation that demonstrates compliance with established standards for financial accountability. They also have many resources available to help with financial management.
- **Church Law & Tax** – [churchlawandtax.com](http://churchlawandtax.com)
  - Founded by Richard Hammer, Attorney, CPA. Provides resources for legal and tax issues for clergy and churches.

# CPE needed?

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(Only available for those attending live)

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All CPE codes were provided in the presentation via polls



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# Next Webinar



**Wednesday, November 17, 2021:**

**Watch for future emails to register**



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# Thank you for joining us

Please reach out with any questions:  
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(253) 839-1620



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