



PARISH BUDGET PROCESS MODULE

“Jesus sat down opposite the treasury and observed how the crowd put money into the treasury. Many rich people put in large sums. A poor widow also came and put in two small coins worth a few cents. Calling his disciples to himself, he said to them, ‘Amen, I say to you, this poor widow put in more than all other contributors to the treasury. For they have all contributed from their surplus wealth, but she, from her poverty has contributed all she had, her whole livelihood.’” (Mark 12: 41-44)

The Foundation of Budgets:

All organizations have a limited amount of resources with which to operate. In the case of a parish, the resources represent funds entrusted to the parish by its parishioners. Parish staff and volunteers have a special fiduciary responsibility to make sure these funds are spent and invested wisely. Spending and investing wisely involves establishing specific, measurable goals and objectives and later evaluating whether the goals and objectives have been reached. This process involves planning.

Planning is a prerequisite and the basis for budgeting. Planning must include a short (one year) and long-term (five to ten years) vision. Proper planning involves:

- Setting an objective or goal.
- Identifying and assessing present and future conditions affecting the goal.
- Developing a systematic approach by which to achieve the goal.

Purpose of Budgeting:

A parish is involved in a variety of activities, i.e.: worship, religious education, fund-raising, etc. These activities are handled by many different committees and leaders. The budget process is a means to serve as a communication tool and a means to coordinate all activities to achieve the church's goals and objectives.

The budgeting process formalizes planning and can be used to evaluate performance. If there are variances from the budget, either under or over, corrective action can be made. Corrective action may be in the form of seeking additional contributions, cutting costs, etc. These steps help the parish keep on target in terms of achieving its original plan.

A budget is also a tool that assists managers in assessing parish operations and thus helps in sound decision making. This is especially important when inflows and outflows of cash are mismatched. Many parishes have a cash flow situation where excess funds are available to the church for several months of the year, but the excess must be retained to cover the fixed costs of operating the church during time when attendance and giving are traditionally low.

Roles and Responsibilities

The Parish Pastoral Council, along with the staff and involvement of all members of the parish community, works with the pastor/parish director to do parish planning. This includes the formulation of a parish mission statement, the annual assessment of needs, and the establishment of parish goals and priorities. In general, the Parish Pastoral Council establishes goals and priorities as well as coordinates the programs and organizations of the parish. The Finance Council is responsible for soliciting funds and managing the parish budget and facilities, thus enabling the parish to carry out its mission. These two bodies work together collaboratively and are consultive to the Pastor/Parish Director. This is facilitated by annual meetings of the Parish Pastoral Council and the Finance Council. All final budget decisions and approvals rest with the Pastor/Parish Director.

The Budget Process – Bottom Up Approach:

A Bottom Up approach needs as many people involved in the budgeting process as possible. Participation is an important step to budgeting. For example:

- Office personnel are asked to submit their requests for new equipment and operating supplies.
- Teachers are asked to think about their classroom needs and submit requests.
- Service organizations are asked to prepare their own budgets.

This approach starts with distribution of general budget guidelines by the Finance Council. Written requests for funds and budgets are prepared by each department, organization, or individual and are submitted to the Finance Council. This group thoroughly reviews the needs for funds and invites the people seeking funds to present their requests. Based on available resources, budgets are accepted, rejected, or modified by this group with the consultation of the pastor/parish director. The rationale for any modifications or rejections is clearly defined by the council and stated in the minutes.

The Budget Preparation – Approaches:

There are two recommended approaches for preparing the annual operating budget: incremental budgeting or program budgeting.

Incremental budgeting is based on the question, how much did it cost last year? This approach takes this year's budget as the basis for next year's budget with adjustments for anticipated cost or activity changes. Example: Religious education served the needs of 100 children this year at a total cost of \$1,000 (\$10 per child). The parish anticipates serving 125 children next year, and because of inflation, the cost per student will rise to \$11. Thus, using the incremental approach, part of next year's budget for the religious education will be \$1,375 (125 X \$11).

The important consideration to note when using this approach is to verify or confirm that prior activities and costs are effective and efficient in their implementation. In addition, costs may behave differently from year to year.

Program budgeting operates with the assumption that the programs need to meet certain purposes. Instead of looking at revenues and expenses in general as increasing or decreasing, program budgeting looks at the heart of a program. This approach uses costs identified with specific programs. Clearly establishing the purposes improves the parish's use of resources and the effectiveness of the programs. This is done by:

- Identifying each program
- Examining the program in terms of how well it is meeting the purpose
- Estimating the resources needed to operate the program

This information is formatted to include: purpose of the program, description of the services provided, program goals and objectives, amount of money needed and the benefits and cost of any program change requested. This approach ensures tying in the program purpose with the parish's goals and objectives. In addition, this approach has the potential to generate a higher level of member support in parish activities.

The Operating Budget:

Whichever budget approach or combination of approaches is used, an operating budget for the fiscal year still needs to be completed. The operating budget must contain detail on the revenues as well as the expenses. (The diocesan Uniform Chart of Accounts may be a helpful guide in identifying the revenue and expense areas that need to be considered). It is important to budget for revenues although "The Lord does provide." A parish should not commit itself for expenditures, especially those of a long-term nature, without having a good handle on the anticipated inflow of resources.

As stated above, budget estimates are based on both past performance and future estimates. Historical information is a good starting point for prediction. However, anticipated changes in the church and community members need to be considered. Intentional understatement of contributions and/or overstatement of expenses must be avoided. Administrators need a realistic budget that they can use as a reliable guide to avoid overspending. An understated budget may result in missed opportunities to invest or to channel funds to a program in need. On the other hand, a parish must avoid highly

optimistic estimates of yearly member giving. A budget needs to be attainable under normal operating conditions.

In order to determine the total resources entrusted to the parish by its members, the budget should include estimates of regular offerings, restricted or designated gifts, fund-raising profits, endowment income, etc. There are several methods that parishes can use to estimate the level of member giving. Some of the more common methods are:

- average contribution per contributor,
- average contribution per contributing unit (those that give >\$100/yr),
- average contribution per total membership,
- average contribution per attendance at Mass, and
- average contribution in terms of families.

The method or combination of methods that a parish may use depends on the information available and the parish's particular circumstances.

Once the preliminary budget is put together, the expected expenses may be in excess of expected income. At this point, the parish may need to ask some hard questions, i.e.: the importance of particular programs, the appropriate amount to be added to a building fund, the possibility of deferring some expenses until a later date. This process of reconciling revenues and expenses is important because the parish's operating plan for the coming year is determined during this process. In some instances, a budget may be approved with more expected expenses than expected revenues when a parish decides to take money out of an investment. This decision may be made to honor commitments and to keep the parish moving toward its long-term goals and objectives. In this situation, the parish should, however, attempt to achieve a balanced budget as soon as possible.

Other Budgets:

In addition to the annual operating budget, several other budgets may guide the parish's finances, i.e.: cash budget, capital-spending budget, and debt budget. A cash budget shows the projected ending cash balance and cash position for each month of the

year. It recognizes that cash receipts and cash outflows usually happen at different times during the financial cycle of the parish. Capital-spending budget details the cost of renovation or building projects along with the source of funds need to finance the project. Debt budget shows how the church's long term debt will be paid off.

Budget Calendar

It is important to keep the budget process moving. To do this, a budget time-line is helpful. The following calendar is an example of a time-line that could be used by a parish with a school:

July – Implement current year's budget.

September – Review monthly and year-to-date performance against budget

December – Principal/school board finance committee/finance committee – begin preparation of next year's budget based on the revised long-range plan. Assign responsibility for various sections of the budget.

January – Finalize enrollment and staffing assumptions, including salary schedules and fringe benefits.

February – Develop line-by-line expenditure budget using faculty and departmental requests, as well as assumptions built into the long-range plans. Review building repairs and improvements for the new operating budget.

March – Develop line-by-line income assumptions.

April - Present tentative budget to the school board for approval.

May - Calendarize the budget for control purposes and develop a cash flow calendar.

June - Publish the budget.

When a parish does not have a school the time-line can be a little more flexible:

July – Implement current year's budget.

December/January – Review the current budget and compare it to actual revenues and expenditures for the current year.

February/March – Distribute budget request information to service organizations and committees and accept preliminary budget requests.

April/May – Compile requests received from the service organizations and committees. Review the proposed operating budget with the Pastor/Parish Director. Coordinate any needed adjustments based on projected revenue with the Pastor/Parish Director.

June – Final budget approved and published.

Communicating Financial Information:

Budgeting is not an end to itself. All of this work is done to improve planning, decision making, and communication. Well-prepared financial reports not only assist in the communication, but are required by church law (Canon 1287). The financial reports should summarize the revenues and expenses (in whole numbers), compare the data to the forecasted budget, and state a commentary for significant variances when the reasons are known.

Conclusion:

Plans and budgets are only as effective as the effort that has gone into their preparation. The time and effort put into a parish budget contribute to a parish's effectiveness by:

- helping parish leaders to look ahead and define short and long-term goals,
- contribute to the parish community by working together to make and carry out the plans, and
- comparing the budget with actual results.

The budget comparison provides the opportunity to ask "how did we do?". Were our fund raising projects successful? Did we budget realistically? Did we handle our resources efficiently?

Bishop Robert Morneau shares his view on stewardship by saying that stewardship is a way of life that calls us to receive God's gifts gratefully, to nurture and tend God's gifts responsibly, to share God's gifts justly and charitably, and to return God's gifts abundantly. Budgeting is a tool that helps us look at what we have done with and will do with the garden entrusted to us.