

Updated Edition

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Keeping Your Parish Financially Healthy

An Easy-To-Read Guide
To Parish Finances for People
Without Financial Backgrounds

Harold B. Averkamp

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INTRODUCTION

While serving as a parish finance committee chairperson, I quickly realized that people without financial backgrounds were providing excellent solutions to financial problems. Often they were better able to focus in on the real problems (and hence the real solutions) than were the people with formal financial training.

For this reason, I feel that our parishes need more input from non-financial people. We can get this input if we make people feel more comfortable with financial information. Plain-English explanations of financial concepts are what is needed—this book is an attempt to meet that need.

Although an accountant may have an edge in understanding a financial report, you may be the one that has the edge in understanding the structure, the politics, and the mission of your parish. Once equipped with the basic financial concepts that are presented in this book, you will become sufficiently confident in your own God-given abilities to help your parish work toward better financial health.

Finally, although this book reflects my experiences within the traditions and structure of the Catholic church, my suggestions are clearly applicable to other faith traditions as well.

1

THE FINANCIAL PROBLEMS: A SCENARIO

Imagine the following: You are at a parish council meeting and you've just been told that the parish's preliminary cash operating budget for next year shows expenditures exceeding receipts by \$40,000. Expenses are going up, but contributions from parishioners are not. The parish savings account is almost depleted and it's only a matter of time before the parish will have to borrow money just to keep things going.

You look at the financial reports and the projections for next year. You are duly impressed with these reports and with the person who prepared them, but to be perfectly honest, the numbers and the columns don't communicate a thing to you—except, that is, for the number at the bottom of the page which reads: “Deficit...\$40,000.”

Someone makes a suggestion. “Can we ask each committee to review its budget and find some areas to cut expenses?” Good idea. At the next meeting, however, the committee chairpeople admit that nothing was cut because their budgets were already at the bare minimum when they were submitted. Someone then suggests that each and every committee budget be cut by the same percentage. This sounds fair and reasonable until it is learned that most of the parish expenses are for personnel. Priests, teachers, program directors, and others are under contracts for specified salaries—contracts that were signed two months ago and don't expire until the end of the next fiscal year.

And then someone says, “We ought to have some fundraising events like the bingo nights we had in the past. Other parishes have such events, and with a \$40,000 deficit I don't think we can make it without fundraising!”

There's a silence in the room. The people who believe that bingo-type events are the wrong solution are politely sighing to themselves and thinking, “We shouldn't be spending our energies on fundraising activities.” Another group is thinking, “Fundraising events will provide a chance to eliminate the deficit. The profits we made on bingo were good at one time. In addition, fundraising events will get parish members working together and strengthen our sense of community.”

The chairperson speaks up and says, “Before we decide on whether or not to do fundraising, I think our first duty is to communicate the deficit problem to our parishioners.” It is agreed to do so and a few individuals offer to prepare a letter to be

mailed to each parishioner. The priest states his hope to the council that parishioners will increase their giving after receiving the letter. He points out that without more donations, some programs and services now being provided by the parish will have to be cut.

A trustee has scratched out a few calculations during this discussion and states, “Although \$40,000 is a lot of money, it breaks down to \$40 per year for each of our 1,000 families, or about 80 cents per week per family. Perhaps we ought to mention in the letter to the parishioners that if each family gave just \$1 more per week, the problem would be eliminated. The parishioners may not relate to tens of thousands of dollars of receipts and disbursements, but they’ll understand \$1 per week.” After a prayer for God’s guidance in choosing the proper direction for solving this problem, the meeting is adjourned.

Several weeks later the letter is mailed to parishioners. It references the \$40,000 deficit and asks parishioners to increase their giving by \$1 per week. During the weeks after the mailing, contributions are monitored and show an increase of \$400 per week. If this increase is sustained, half of the deficit will be eliminated by the year-end, but the other half (\$20,000) still remains.

Is fundraising the only way to cover this remaining deficit? Certainly not. Let’s start by taking a fresh look at your parish’s finances.

2

WHERE DO WE START

The cash operating budget mentioned in Chapter 1 should be viewed as a plan, a prediction, a forecast of receipts and disbursements for the next year. In other words, a cash operating budget is a projection of the money coming in and going out. Ideally, it is prepared by asking each committee to list its estimated expenses for the upcoming year as well as any money it expects to receive. For programs or activities of the parish that are not controlled by a committee, an administrator will provide similar information. The finance committee is designated to receive all of these projections, to review them for completeness, and to compile them into a total parish budget.

The largest single number in the whole budget is the estimate of parishioner contributions. How is that number determined? Does someone project it by analyzing past trends of contributions? Is it adjusted for current economic information? Is it adjusted for special appeals planned for next year? Unfortunately, the parishioner contribution amount is often not an estimate at all; rather, it is simply the figure needed to force total receipts to equal total disbursements. In other words, the amount is a contrived “plug figure” and as such does not give a true estimate of contributions.

Let’s assume that at your parish, the contribution amount is not a plug figure but is an estimate that has been reasonably calculated, and the resulting budget shows a deficit (disbursements exceed receipts). To eliminate the deficit, you must increase receipts or decrease spending, or do a combination of both. It may sound trite, but the solution has to be either on the receipts side or the spending side of the budget.

In my opinion, the greatest potential for eliminating deficits is by increasing receipts—more specifically, by increasing receipts through parishioner contributions. The spending side holds some potential for reduction, but nowhere near the potential for increase that exists on the receipts side.

Let me illustrate the receipts potential. If your parishioners are giving an average of \$500 per year and if their gross household income is \$40,000, the *average* giving is 1.25% of gross income. (Gross income is the amount earned before deductions are made for taxes and other withholdings.) By any standard, 1.25% of gross income is a meager amount. If you can move your parishioners to increase their contributions from an average of 1.25% to an average of 1.5% of their gross incomes (or \$600 per year), then your parish receipts would increase by \$100,000 per year (an additional

\$100 times 1,000 households). This can change a \$40,000 deficit problem into the more pleasant problem of deciding how a \$60,000 excess would be best used.

I must caution you that we have been discussing *averages*. Averages conceal the fact that some parishioners are giving significantly more than 1.25% of their incomes while others are giving nothing. The figures from all of those people taken together give us the 1.25% or 1.5% average that we are discussing.

Because parishioner contributions is the largest single number in the budget and because it offers a great potential for increase, the next chapter will focus on how to analyze parishioner contributions.

3

ANALYZING PARISHIONER GIVING

When analyzing your parishioners' giving, you will want to look at both their contributions and their income levels. Since it is nearly impossible to do such an analysis for each individual parishioner or family, we look to averages.

Analyzing Parishioner Contributions

You can calculate the simple arithmetic average of parishioner contributions by dividing the most recent year's total of envelope contributions (available from the parish bookkeeper) by the number of envelope holders. For example, if your parish collected \$500,000 in contributions from envelopes and your parish has 1,000 envelope holders, the average contribution for the year is \$500. Keep in mind that this is an *average* and as such it includes parishioners giving \$3,000 per year as well as those giving \$1 per year. (You may want to limit your communication of this "average" since you don't want parishioners to think that \$500 is the accepted or expected norm.)

We can get more insight into parishioner giving by doing a further analysis of envelope contributions. The software you use to record parishioner contributions probably contains a feature that will sort contributions into various dollar ranges. If you do not have this feature available, enter each parishioner's total contribution amount for the most recent year into an electronic spreadsheet such as Microsoft Excel™. Once entered (without names, of course), the contribution amounts can be sorted into descending (or ascending) order and can be tabulated as shown in Exhibit 3-1.

Exhibit 3-1
Analysis of Annual Contributions from Weekly Envelopes

| Contribution Range | # of Members | # as % of Total | Total \$ Contributed | \$ as % of Total \$ | Cumulative Amounts | | | |
|--------------------|--------------|-----------------|----------------------|---------------------|--------------------|-----------------|----------------------|---------------------|
| | | | | | # of Members | # as % of Total | Total \$ Contributed | \$ as % of Total \$ |
| \$ 4,000 + | 5 | 0.5% | \$ 43,000 | 8.6% | 5 | 0.5% | \$ 43,000 | 8.6% |
| 3,000 - 3,999 | 5 | 0.5% | 18,000 | 3.6% | 10 | 1.0% | 61,000 | 12.2% |
| 2,000 - 2,999 | 30 | 3.0% | 85,000 | 17.0% | 40 | 4.0% | 146,000 | 29.2% |
| 1,500 - 1,999 | 30 | 3.0% | 48,000 | 9.6% | 70 | 7.0% | 194,000 | 38.8% |
| 1,200 - 1,499 | 50 | 5.0% | 70,000 | 14.0% | 120 | 12.0% | 264,000 | 52.8% |
| 1,000 - 1,199 | 40 | 4.0% | 45,000 | 9.0% | 160 | 16.0% | 309,000 | 61.8% |
| 800 - 999 | 50 | 5.0% | 45,000 | 9.0% | 210 | 21.0% | 354,000 | 70.8% |
| 600 - 799 | 80 | 8.0% | 55,000 | 11.0% | 290 | 29.0% | 409,000 | 81.8% |
| 400 - 599 | 90 | 9.0% | 45,000 | 9.0% | 380 | 38.0% | 454,000 | 90.8% |
| 300 - 399 | 40 | 4.0% | 15,000 | 3.0% | 420 | 42.0% | 469,000 | 93.8% |
| 200 - 299 | 70 | 7.0% | 15,000 | 3.0% | 490 | 49.0% | 484,000 | 96.8% |
| 100 - 199 | 60 | 6.0% | 10,000 | 2.0% | 550 | 55.0% | 494,000 | 98.8% |
| 50 - 99 | 50 | 5.0% | 3,800 | 0.8% | 600 | 60.0% | 497,800 | 99.6% |
| 25 - 49 | 40 | 4.0% | 1,400 | 0.3% | 640 | 64.0% | 499,200 | 99.8% |
| 1 - 24 | 60 | 6.0% | 800 | 0.2% | 700 | 70.0% | 500,000 | 100.0% |
| | 0 | | | | 1,000 | 100.0% | 500,000 | 100.0% |
| | <u>300</u> | <u>30.0%</u> | <u>-</u> | <u>0.0%</u> | | | | |
| | <u>1,000</u> | <u>100.0%</u> | <u>\$ 500,000</u> | <u>100.0%</u> | | | | |

For people who enjoy reading tables of numbers, Exhibit 3-1 is very interesting. For people who prefer reading text, below are some statistics that were derived from the table:

- Fact 1* 400 envelope holders, or 40% of the registered parishioners, gave less than \$50 per year.
- Fact 2* 21% of the envelope holders contributed 70.8% of the dollars.
- Fact 3* The arithmetic mean (average) of contributions from weekly envelopes is \$500 (\$500,000 divided by 1,000 parishioners). At this parish the household income is approximately \$40,000 per year. This means that on average an envelope holder is giving 1.25% (\$500 divided by \$40,000) of average gross income.
- Fact 4* The median amount contributed is between \$1,200 and \$1,499. (If the median is \$1,300 this means that half of the envelope holders gave more than \$1,300 and half of the envelope holders gave less than \$1,300.)
- Fact 5* The mode (the amount that occurs most frequently) is \$0.

Determining Annual Gross Incomes of Parishioners

Since we cannot expect all individuals to readily reveal their income figures, we again use averages. But we need something better than the national income averages which occasionally appear in our newspapers and magazines. Using our Milwaukee-area parish as an example, I found two sources which allowed us to calculate the approximate household income in our parish.

The first source was the local newspaper's survey on consumer buying habits. The survey results included a table entitled, "Yearly Family Income Before Taxes." This table showed income brackets for each of forty areas in metropolitan Milwaukee. By locating our parish's geographical area on the table we were able to approximate the household income in our parish. (Approximations are fine for our purposes—whether we divide annual contributions of \$500 by \$38,000 or \$40,000 or \$42,000 is not significant.)

A second source of household income information is your city government. I found that our city planner had already collected household income figures as part of his work with housing projects. Again, it is not critical to get incomes to the nearest dollar. If you can estimate annual income figures to the nearest two or three thousand dollars, you have figures adequate for our purposes.

Once you have completed the analyses of parishioner contributions and income levels for your parish, you will be able to focus in on those areas where action can be taken. Chapter 4 discusses steps taken by our parish after analyzing parishioner contributions.

4

INCREASING WEEKLY CONTRIBUTIONS FROM PRESENT MEMBERS

As pointed out in the statistics following Exhibit 3-1, the levels of parishioner contributions for our parish were disappointing—many people gave almost nothing. Here are the steps we took toward solving our contributions problem.

Minimum Annual Contributions

First, the parish established a minimum annual contribution of \$24 per year for parishioners who wished to remain on the mailing list. This minimum was computed as follows: the cost to the parish of mailing envelopes to parishioners via a monthly mailing service, plus the cost of mailing statements and other correspondence, plus the cost of maintaining office records, added up to \$24 per year.

Next, the parish made a rigorous effort to delete from its parishioner mailing list the names of those people who made no financial contributions to the parish. We did this by sending a series of letters to non-givers only, informing them that if they wished to continue to receive parish mailings they must help cover the costs of the mailings by paying a minimum of \$24 per year. If we did not receive the \$24 (or a call or letter saying that the \$24 was a financial hardship) we removed their names from the mailing list. As it turned out, a large number of people that were receiving envelopes no longer considered themselves parish members—they had just never notified the parish of their status.

Not only did we get a more realistic list of members, we also encouraged many people to contribute at least \$24 per year. I estimate that this effort yielded several thousand dollars in increased donations (some began giving more than \$24). And, by removing nonmember names from the parish mailing list, we reduced the recurring costs of the envelope service and parishioner mailings. With annual reminders, these \$24 contributions should continue year after year. For this to work, however, you must *continuously* review, analyze, and update your parishioner list. *Don't think that because your envelope service gives you address corrections you've got a current list of members.* Know who the non-givers in your parish are and communicate with them. Set a minimum annual contribution to find out if they really intend to remain parish members. (Be sure to provide exceptions for families with financial hardships.) *Do the review, analysis and updating every year.*

Stewardship Program

The second thing our parish did was begin a stewardship program. This idea came as a result of having our priest serve as a member of the finance committee. His motives stemmed from his belief that we are indeed stewards of the resources entrusted to us and that we will be held accountable to God for how we have used God's gifts. This priest was willing to work hard to create a stewardship program, but he insisted that the finance committee view stewardship as a Christian responsibility and not just a fundraising gimmick.

He saw parishioner education as the first step and obtained the necessary diocesan clearances to allow the scripture readings and the homilies of three consecutive Sundays to focus on stewardship. Between the second and third Sundays of this stewardship focus the finance committee prepared a mailing to parishioners. In addition to a letter, the mailing included a card on which parishioners were asked to write down the amount that they—as responsible stewards—were intending to give to their parish. (We avoided using the word “pledge” and instead called it an “intention” card. A copy is provided in Appendix A.)

This took place in September. Each parishioner's actual contributions from January to August were recorded on the card. They were asked to write in the amount that they planned to give for the remainder of the calendar year as well as the amount that they would give for the next full year. The intention cards were part of the offertory collection during the Sunday Mass, and follow-up letters were sent to those people whose intention cards were not received. Additional cards were distributed at Mass to those who forgot to bring them to church. Nonmembers sitting in the pews also had the opportunity to complete and submit cards, knowing that this would serve to register them as members of the parish.

By sending the card and letter into each home, we were hoping that each family would make the time to *discuss* stewardship in a prayerful way. Oftentimes a husband and wife do not discuss with each other their family's annual financial obligation to their parish—their routine is for one of them to make a last-minute decision as to how much money to put in the envelope based on the week's other expenses. For those households made up of a single adult, we were hoping that they would put more thought into their decisions on giving as well.

The intent of the stewardship focus in the scripture readings, homilies, and mailings was to generate thought, discussion, and prayer regarding financial responsibility to the parish. We wanted to encourage people first to *plan* what their giving level would be, and then to put church giving at the top of their list of financial obligations.

It is especially important that a discussion be generated in those households that give very little or nothing at all. In these situations, it is not necessarily the *percentage* of income given that is of immediate concern. The important point is that they thoughtfully and prayerfully decide together on an amount—any amount to start

with—and then be *consistent* with their giving of this amount. Getting people into the habit of faithfully giving a set amount to the church is the hard part. Once they are already in the routine, it is easier for them to increase this amount at a later date if they so choose.

In the weeks that followed our stewardship program we saw a 20% increase in parishioner contributions. This increase never eroded, and all future increases were built upon this elevated level. The 20% increase resulting from our stewardship effort was approximately \$100,000 per year (20% times \$500,000 from Exhibit 3-1.) In addition to that, we realized a cost savings from pruning our mailing list.

It is interesting to note that in past years, several organizations in our parish were hosting bingo games every Friday evening and their exhausting efforts could not generate \$70,000 of profits in a year. It is also noteworthy that the 20% increase in giving did not significantly increase the percentage of household income given—\$500,000 divided by \$40,000 is 1.25%; \$600,000 divided by \$40,000 is 1.5%. Think of it—this parish collected an additional \$100,000 by moving the average percentage of household income given by just a fraction of a percent—from 1.25% to 1.5%.

I know of another parish that was facing a huge deficit. At that parish the priest demanded immediate tithing. He said, “I currently give 10% of my income to the church and so should you.” He mailed a letter to parishioners, which discussed tithing and provided them with the scriptural basis for it. The financial results were disappointing. While it is important to get parishioners to move up from disgracefully low giving percentages, I think we must be realistic as to what can be accomplished in step one. After all, is a family with an annual income of \$52,000 per year going to increase its weekly contribution from \$20 to \$100? Expecting a family’s envelope contributions to jump from 2% of household income to 10% of household income within one year is not realistic. Expecting an increase to 3% of household income over a span of several years is.

Quarterly Report on Individual Giving

A third action taken by our parish was to begin mailing an individualized quarterly report to each parishioner household. This report listed the financial contributions of that one household for the past three months and for the year-to-date.

This mailing has two purposes. First, the report serves as a crosscheck between the parish records and the individual parishioner’s records. If the parishioner looks at the quarterly report and realizes that he or she has contributed more than the parish’s records indicate, it sends up a signal that the parish may need to review its money counting and recording procedures. (See Chapter 9, Controls over Cash.) Second, the report enables our parishioners to see at a glance if they are keeping up with the

amount that they planned to give, since the amount that they wrote on their intention card is recorded on the quarterly report.

In the three weeks following the quarterly report mailing we saw contributions jump by over \$1,000 per week. We believe this increase would not have been as high if we had used annual or semi-annual mailings. With quarterly mailings, people are nudged more gently and more frequently into keeping up with their planned giving. It is easier, after all, for a person to write a check for one or two months of neglected giving than for a ten-month span. The additional postage for a quarterly mailing looked insignificant compared to the increase in contributions that it generated.

5

INCREASING CONTRIBUTIONS BY ADDING NEW MEMBERS

The most obvious way to increase parish receipts is to add more members to your parish. If you add 2 families per month and each of those families donates \$20 per week, you will increase future receipts by \$24,960 per year.

My experience indicates that we do a poor job of recruiting new members. In many cases, the potential new member is already attending our church on a regular basis, but we neglect to ask that person to formally sign up as a member. We need to take the initiative to find out who these people are, and then we need to encourage them to join the parish. Everyone likes a personal invitation and responds to a bit of encouragement.

Compute the number of people attending your weekend Masses and then compare that to the number of people using envelopes each week. You will be surprised at the potential that exists for increasing contributions. For example, perhaps you have estimated the attendance at a particular Mass to be 150 families. You count the offering envelopes for that Mass and find that only 50 envelopes were collected. What about the other 100 families? Some, of course, are registered members who may contribute on a monthly rather than weekly basis, and some may be out-of-town visitors. But some are nonmembers who are attending your church regularly. Your parish should formulate a procedure which will first identify these regular attendees and then extend an invitation to them to join your parish.

6

UNIQUE SOURCES OF FUNDS

In addition to increasing contributions from parishioners using weekly envelopes, there are two other potential sources of funds that parishes can tap into.

Endowment Funds

The first source is an endowment fund. An endowment fund is a large amount of money (called the “principal”) that is invested. Usually the principal is never withdrawn—only the income earned on the investments is used. For example, \$800,000 of principal earning 4% will generate \$32,000 per year indefinitely.

In Wisconsin we have many parishes that have established endowment funds for their schools. The interest and dividends earned on the school endowment fund’s principal are used to help pay the costs of operating the parish school and/or to provide tuition assistance.

I believe endowment funds provide a unique vehicle for obtaining donations from alumni of your parish grade school. Many of us have fond memories of our grade school years and we appreciate the fine academic and religious education we were given. If we received a letter saying that the parish school needed support, I’m sure that many of us would contribute. Since many alumni have moved and belong to other parishes now, these contributions would be new money. I mention “new money” because if the endowment is funded only by current members of the parish, you may see a decrease in the Sunday envelope donations at the expense of building up the endowment fund. In other words, you build up an endowment fund, but in the process create a larger operating deficit for the current year. Further, if you put the burden of the endowment fund on current parishioners, you are limiting its growth by neglecting potential funds solicited from foundations, businesses, alumni, student fundraisers, wills and bequests, etc.

At one parish we modified the endowment fund to state that the interest and dividends plus one-half of the current year’s donations to the fund would be used for tuition assistance. We felt we could encourage annual donations if the donors knew that school children would be receiving benefits immediately as well as in future years. (Of course, the endowment fund grew at a slower rate because of this.)

Matching Funds

I suspect that you may have one or two wealthy parishioners who have done very well in the stock market. Perhaps one of these people can be encouraged to contribute some stock that has appreciated in value. This contribution of stock provides the donor with a tax deduction of the fair market value and enables him or her to avoid paying income tax on the appreciation. (The donor should review current federal and state laws for details.) This donor might be motivated further if you suggest that he or she donate stock equal to an amount of new donations raised. For example, the donor might give one share of XYZ Company stock for every \$25 of donations for a specific cause, such as the endowment fund.

The same technique could be used with organizations' donations to the parish. If the members of the Christian Women's Organization want to donate \$1,000 to the parish, perhaps they should say, "We'll donate \$1,000 if \$1,000 is raised from a new source." This motivates the parish to find another \$1,000 that it wouldn't otherwise seek.

Lastly, some employers will match donations made to a parish's school. Encourage parishioners to inquire of their employers whether or not such a matching program exists and if your parish school qualifies.

7

THE WRONG BANK ACCOUNT COULD BE COSTING YOU MONEY

One of the easiest ways to add \$500 or more to your receipts each and every year is to put the parish's cash in the right bank accounts. In years of high interest rates, a large parish can earn an additional \$1,000 or more by actively managing its bank account balances. This management is simple to do since banks, credit unions, and other financial institutions offer interest-bearing checking accounts.

Let me illustrate how significant the differences can be between parishes that manage their cash and those that don't. The following are four real-life examples.

Parish A is struggling financially after a difficult summer. Its fiscal budget year (July 1 to June 30) projects a large deficit by June 30. However, in each of the months from September through December, its receipts exceed payments. As a result the parish's checking account balance is growing and it now has a check stub balance of \$9,000. Compare this to the bank statement balance which ranges from \$18,000 to \$40,000. The difference between the balance on the check stubs and the balance on the bank statement is the amount of checks written but not yet clearing the bank (outstanding checks). Parish A could have transferred up to \$18,000 from its checking account to its interest-bearing savings account, since the bank statement revealed that the checking account balance never dropped below that amount. Or, the parish could replace its regular checking account with an interest-bearing checking account which allows them to write checks and earn interest on the bank balance. Unfortunately, this parish did neither. As a result, it is earning no interest on the \$18,000 to \$40,000 that appears on the statement.

Parish B moved its accounts from a bank to another financial institution that offered the parish an interest-bearing checking account with *no charge for processing the checks and deposits*. The account earned interest on the average *bank* balance. (The interest rate changes as market rates change.) If Parish A had such an account, it could have earned interest on its average bank balance. Recall that Parish A's bank statement showed a range of \$18,000 to \$40,000. Its average bank balance was \$26,000. At 2% interest, Parish A could have earned \$43 in one month—that's \$520 in one year with no additional work involved. It's a matter of selecting the right account and asking the financial institution to waive processing charges. Parish B has such an arrangement and therefore pays only for check printing and return item charges (usually a \$10 fee for insufficient funds checks instead of the \$25 fee charged to other customers).

Parish C has a banking arrangement similar to Parish B's, except that Parish C moves large balances out of its interest-bearing checking account and into a savings account or certificate of deposit (CD). Savings accounts and CD's earn higher rates of interest than the checking account. If the CD earns one percentage point of interest greater than the checking account rate, the parish will earn an additional \$100 by moving \$20,000 into a CD for six months—not bad for a few minutes of work. Since the money in the CD cannot be accessed without incurring a penalty, the parish must be certain that the \$20,000 will not be needed until six months have elapsed.

Parish D approached its bank about waiving the processing charge on its existing interest-bearing checking account. The bank was obviously reluctant to do so, since the parish was already paying those charges and the bank was actually incurring them. However, after reviewing the many accounts held by the parish and the parish's organizations (athletic, scouts, Christian Women, Men's Club, etc.) the bank acknowledged that the parish was a valued customer and agreed to waive the processing charges.

It may be distasteful to some to press a bank into waiving processing charges, but remember that we have to be good stewards of the parish resources. We have to compare the total advantages of banking at one place with the total advantages of banking somewhere else. Although we should not forget past favors or good working relationships that may have developed with a particular bank over the years, neither should we be financially naïve about profitable alternatives.

In short, look at the balances on the parish's *bank* statement and see how much interest your parish is earning on those balances. You might add \$50 per month to your parish's receipts by doing one or all of the following: putting your parish's money into a different type of account, convincing your bank to drop the processing charges on your interest-bearing checking account, or changing the place where you bank.

8

MANAGE YOUR CASH BALANCE BY DELAYING YOUR PAYMENTS

If you followed the advice in Chapter 7, your parish is now earning acceptable interest on its bank balances. Now it is to the parish's benefit to keep its money in the bank for as long as it can. Let's explore the ways in which you can do that.

If your parish is in the habit of paying bills as soon as they are received, the parish is losing interest because the money is being disbursed too soon. Most bills require payment in 30 days and offer no discount for paying sooner—this means that you should wait the full 30 days before paying.

Delaying payment for 30 days (until it is actually due) can easily be handled in a non-computerized office by setting up a file folder for each of the next six weeks. As a bill is received, simply place it in the folder for the week in which you will be paying it. For example, bills received on May 1 should be put in the folder for the week of May 30. When the week of May 30 rolls around, the file is pulled and all the bills in it are paid.

Note: If a bill offers a discount of 1% or more for paying before 30 days, you will be better off paying during the discount period. On an annual basis, a 1% discount for paying within 10 days equates to 18%. A 2% discount provides savings at an annual rate of 36%. But remember—if no discount is offered, pay the bill no sooner than when it is due—often 30 days from the date of the invoice.

You can further improve your cash position by establishing a policy of paying bills only twice per month instead of once per week. For example, you might pay on the 10th and the 25th of each month. Or, you might choose to pay only on the second and fourth Thursday of each month. There are two benefits to this schedule. First, you will be delaying some payments for a few more days (thereby keeping more of the parish money in the bank earning interest). Second, you will minimize the hassles of preparing, signing, and mailing checks. Everyone, including the check signers, will know and appreciate that there are only two days per month set aside for the majority of the bill paying drudgery.

To further conserve the parish bank balance, you should mail the checks on Friday. Checks mailed on Friday will not be clearing the parish bank account until the following Monday or Tuesday at the earliest. By the time those checks clear the bank account, you will have made your deposit of the weekend collections. This means

you will be paying your bills with new money rather than disturbing the average of your bank balances which will continue to earn interest.

I'm not suggesting that the parish become delinquent or past due in paying its bills. Rather, I'm saying that the parish should not pay bills *before* the date they are due. Why give up the parish's cash before you have to? Let the parish's cash earn interest for the parish, instead of earning interest for its suppliers.

9

CONTROLS OVER CASH

Accountants define cash as currency, coins, checks received but not yet deposited, and the balances in unrestricted checking and savings accounts. Setting up controls on this cash does not imply that parishioners or parish employees cannot be trusted—it's just good sense to set up a formal cash-handling system that discourages dishonesty. In fact, it would be irresponsible for you not to do so. Just as your parishioners have a financial obligation to support the parish, so too the parish has an obligation to the parishioners to see that their contributions are secure and are used only for church purposes.

Currency, Coins and Checks Received

At each Mass, significant amounts of currency, coins, and checks are collected. Although it may never happen in your parish, the potential does exist for this cash to be stolen by those who have contact with it. To minimize this potential, follow these steps:

1. Require a two-person team to transport and count the money. If the money is not counted immediately after the Mass, it should be put in a secured place such as a safe. People should be rotated each month so that the same two people are not always on the same team.
2. The currency, coins, and checks from the envelope collection are to be kept separate from the currency, coins, and checks from other collections, such as the plate collection.
3. In counting the envelope money, one member of the two-person team opens an envelope, counts the money, and writes that amount on the outside of the envelope that it came from. All this is done in full view of the second person. The second person then counts the same money in front of the first person and thereby verifies the amount written on the envelope. Double count one envelope at a time in this manner until all envelopes have been opened and counted.
4. All checks are immediately endorsed on the back with a rubber stamp that reads:

Pay to the order of ABC Bank
For Deposit Only
St. Whatever Parish

5. Add up the amounts written on the outside of all of the envelopes on an adding machine tape.
6. Add up all of the actual coins, currency, and checks from the envelopes on an adding machine tape. This total should equal the total in step 5.
7. Prepare a bank deposit slip.
8. Give the empty envelopes and the two adding machine tapes to the person who is responsible for recording (posting) contributions onto the parishioner records. The person who does this posting should *not* be one of the money counters, nor should it be the person who prepares the bank deposit slip.
9. All of the currency, coins, and checks, along with the deposit slip, should be deposited immediately at the bank.
10. All other types of collections, such as plate collections or special collections, are to be handled in the same manner: the money is counted by two people and a deposit slip is prepared.

Every three months a copy of each parishioner's contribution record is mailed out. The parishioner is asked to review this quarterly report and to notify a designated person at the parish if any contribution that he or she made does not appear on the report. The designated person should not be a money counter or the person posting amounts onto the parishioners' contribution records. The reported problem should be investigated and resolved.

Segregation of duties is central to good internal control. For instance, if the activities of money counting and bank depositing are not separated from the posting on the parishioner records, embezzlement could more easily occur. If parishioners are not sent their contribution record to review, the embezzlement may never be detected.

As noted in Chapter 4, the mailing of quarterly contribution reports triggers an increase in contributions for several weeks after they are received by parishioners. It does require a little extra time and postage to send these out, but mailing quarterly reports benefits the parish in two ways: (1) contributions are increased and (2) internal control is improved.

Checking and Savings Accounts

Once the money is deposited into the bank account, the next step is to ensure that only authorized amounts get out of the account. Any disbursement request must include proper documentation that includes: (1) an invoice from the party to be paid,

(2) an authorization or signature by someone in the parish which certifies that the invoice is proper and payable and (3) an account number to which the amount should be charged. (A check request form is included in Appendix A.)

Once the check is prepared, it needs to be signed. Many parishes require two signatures on each check. The pastor/administrator signs the check along with one of the parish trustees. Before signing the check, of course, the signers review the three pieces of documentation. Because good internal control requires the segregation of duties, the parish bookkeeper should not be one of the check signers.

Another important part of internal control is reconciling the bank statement. The segregation of duties dictates that the bank reconciliation is to be done by someone other than the checkwriter or bookkeeper—perhaps a retired accountant in the parish would donate a few hours per month to reconcile the statement.

Reconciling the bank statement reconciliation is also a major topic discussed in www.AccountingCoach.com.

Petty Cash

As mentioned above, it is expected that every disbursement have a supporting invoice, an approval of the invoice, and a check prepared by one person and signed by two others. However, for small amounts of money, this procedure isn't efficient, nor is it necessary. Paying \$0.23 to the mail carrier for postage due shouldn't require a chain of paper work. This is where a petty cash fund comes in handy. It should be administered as follows:

- One person is responsible for handling the money. This person is called the petty cash custodian.
- The amount of money in the petty cash fund is set at an amount large enough so that you won't run out of money every few days but small enough so that theft is not encouraged. The amount can be \$25, \$50, \$100, or \$200 depending on the size of the parish.
- To start a petty cash fund of \$100, the parish writes a regular check payable to Petty Cash for \$100. The check is cashed and the money is now the responsibility of the petty cash custodian.
- Any disbursements of the petty cash must be substantiated by a receipt signed by the person who received payment. This receipt is called a petty cash receipt or a petty cash voucher. (A sample is included in Appendix A.) At any given time, the amount of petty cash on hand plus the receipts on hand should equal the amount of the petty cash fund. For example, if the petty cash custodian gave out a total of \$43.27 to several people, there

should be petty cash receipts or voucher forms totaling \$43.27 in the petty cash box. In this example, the petty cash fund was established at \$100; therefore, there should be \$43.27 in receipts and \$56.73 in cash in the box.

- When the amount of cash is getting low (and also at the end of every month) the petty cash fund is replenished. This means a check drawn on the regular checking account is written out for the amount needed to bring the cash in the petty cash box up to the original amount. For instance, if there is \$56.73 of cash in the petty cash box, then a check for \$43.27 is written to the order of petty cash. The petty cash custodian cashes the check and adds the \$43.27 of cash to the money already in the petty cash box to bring the amount back up to \$100.
- The petty cash receipt forms show which church accounts (postage, supplies, etc.) are to be charged. The petty cash receipts are attached to the check request form used to initiate the replenishing of the petty cash. The check request form and the attached receipts are filed in the same manner as other invoices.
- If for some reason the petty cash receipts and the cash do not add up to the original amount (\$100 in our example), an account called “Petty cash short and over” is charged with the difference when the replenishment check is written. Significant or chronic differences should be discussed with the petty cash custodian.
- It is important to emphasize that you do not charge the petty cash account when the replenishment check is written. Rather, charge the accounts noted on the petty cash receipts, such as postage or supplies. The petty cash account is charged *only* when it is started or increased/decreased from the original amount.
- Control over the petty cash fund occurs in the replenishment process. Check signers are expected to review the petty cash documentation before they sign the check that replenishes the fund.
- It may happen that the petty cash custodian “borrows” some of the parish’s petty cash for his or her personal use. To keep the custodian “honest,” periodically audit the petty cash box to confirm that, at any given time, there is a combination of cash and receipts equal to \$100 (or whatever amount your fund is set at).

Conclusion

Internal control is improved by the segregation of duties. An embezzlement can occur under any circumstances, but it is more likely to occur when one person is entrusted

with too many tasks. This one person could manipulate several areas of record keeping and thus prevent the embezzlement from being detected. It may require extra effort to separate duties in a small office, but it should be done. As mentioned before, you have a responsibility to see that all money is handled properly. The parish should document its procedures for handling cash. It should also make clear what the consequences will be if the procedures are not followed.

10

CONTROLLING EXPENDITURES

In earlier chapters we focused on increasing the receipts side of the budget as a way to eliminate parish operating deficits. As explained in those chapters, the potential for increasing receipts is very high because parishioners' giving is typically very low. In this chapter we will examine decreasing the disbursement side of the parish budget (cutting expenses).

Personnel

The majority of disbursements are for salaries, wages, and benefits. As such, this category becomes an easy target: cut a large category and you save a large amount of money. While this may be an easy way out, it is neither fair nor just to the parish employees. Let me illustrate my point by using the following numbers for a hypothetical employee:

| | <u>Church</u> | <u>Non-Church Businesses</u> |
|--------------------------|------------------|----------------------------------|
| Salary | \$ 24,000 | \$ 36,000 |
| Social security matching | 1,800 | 2,700 |
| Health insurance | 2,400 | 5,000 |
| Pension contribution | 1,200 | 2,160 |
| Annual Totals | <u>\$ 29,400</u> | <u>\$ 45,860</u> |

The numbers show that each parish employee is actually subsidizing the parish by \$16,460 per year because each is receiving less compensation than he or she would receive in a similar position outside the church. To ask these employees to further increase their subsidy by offering them a minimal pay raise, freezing their salary level, or reducing their pay, is unreasonable and unfair.

This is not to say that personnel expenses are off-limits to budget considerations. On the contrary, I encourage you to examine your personnel structure to see if some positions could be consolidated or to see if some salaries are out of line with what the parish is receiving or can realistically afford. Perhaps two neighboring parishes could share a youth minister and thereby cut each parish's cost in half. Perhaps a computer programmer/operator could work one day per week at each of five parishes. Perhaps

the parish should use an outside service for payroll and accounting tasks and eliminate a bookkeeper's position.

Rethinking and reorganizing your parish personnel structure is not an easy task nor is it a pleasant one, since you are dealing directly with the employment status of fellow parishioners. It is better, however, to pay only for the positions that you really need—and pay adequately and fairly for them—than it is to ask all employees to continually increase their subsidy to the parish.

If restructuring your personnel leaves you just a little shorthanded, don't overlook the possibility of using a parish volunteer to help out with some of the general paperwork. Retired people, part-time workers, or full-time homemakers may be willing to schedule in one morning per month in the parish office.

Programs

If you are hoping to reduce your parish's operating deficit by cutting back on parish program expenses, you will be disappointed. Consider that for the last several years, cost-conscious committees have probably been going over those budgets with a fine-tooth comb, and they have already pared the expenses down to their absolute minimal levels. My experience says that you won't find anything more to cut without damaging the integrity of the programs themselves.

If your parish's programs are already operating on a bare minimum level of funding, the only way to cut program expenses may be to cut entire programs. If your parish finds itself in this difficult position, it should prayerfully rethink its mission, and then reprioritize all of the parish programs in terms of how each works to fulfill that mission. Your parish may then decide to cut one or more programs out of the budget completely and focus its limited finances on building up the remaining ones.

11

OUTSIDE ACCOUNTING SERVICES

Payroll Services

Literally millions of people in the United States receive paychecks that are processed outside of their employers' companies. Businesses such as ADP, Paychex, and others are payroll processing specialists whose services eliminate much of the time and drudgery involved in preparing paychecks. In addition, their computers are set up to easily generate the reports required by state and federal governments, such as year-end W-2 forms.

These payroll service companies have grown in size and popularity because the value of their services outweighs the fees they charge. These fees vary from one company to the next, and are usually dependent upon the number of employees you have, the frequency of your pay dates, and whether or not paychecks are electronically deposited. You will, of course, want to contact several firms to compare costs for your specific situation.

Payroll service fees are not very high when you consider the following two points: (1) the cost of your office personnel performing the same service is probably higher than you think when you consider that they must understand and comply with changing government rules, prepare and file the necessary reports, recheck figures for the small errors that make their way into manual records, etc., and (2) the penalties assessed by the Internal Revenue Service for less-than-precise handling of withholdings can be quite significant.

Other Accounting Services

Another service provided by outsiders is that which records parishioners' weekly contributions. This service generates a mechanically prepared quarterly report of parishioner giving. With efficient manual systems available from church envelope companies, however, I don't see any real savings in taking this posting job away from the parish staff.

The service that I provided to parishes is another type of outside accounting service referred to as "write-up work." I entered into specific general ledger accounts the amounts shown on checks written by the parish and the amounts received by the parish. The parish instructed its bank to mail the monthly bank statement directly to me. That allowed me to (1) reconcile the bank statement and (2), ensure that the

transactions provided to me by the parish were complete. My computer generated schedules of receipts and disbursements for each committee, a summary statement for the entire parish, and a balance sheet listing the assets and liabilities. I also gave the parish a list of items that appeared to me to be out of the ordinary. Perhaps the most important report I prepared for them was a weekly comparison of contributions which allowed them to see changes in the giving patterns. Sometimes these trends are more important than the amounts.

Summary

For parishes with small staffs that work under very little supervision, outside services allow for some separation of duties and can be a real bargain. The parish can be confident that the payroll and other accounting tasks are computationally accurate and that required reports are being filed in a timely manner. When parish personnel avoid spending huge blocks of time on such tasks as balancing accounts, they can spend more time on other concerns of the parish.

12

FINANCE COMMITTEE RESPONSIBILITIES

I believe that the finance committee should be a subgroup of the parish council and be charged with the following responsibilities:

1. Advises the parish council on the financial consequences of potential parish council decisions.
2. Initiates and coordinates the annual budgeting process. (Chapter 2)
3. Reviews the periodic (preferably monthly) financial statements of the parish. (Chapter 14)
4. Analyzes any differences between actual and budgeted receipts and disbursements.
5. Periodically reviews the parish's cash management in order to maximize the interest earned on its cash balances (Chapter 7) and minimize the interest paid on loans.
6. Reviews controls over cash and other assets. (Chapter 9)
7. Reviews insurance coverage. (Chapter 18)
8. Ensures that church and government reports and related remittances are filed on a timely basis.
9. Develops guidelines for salary and wage levels.

13

FINANCE COMMITTEE MEMBERSHIP

In my opinion the parish finance committee should be a subgroup of the parish council and not vice versa. Sometimes we get confused about who reports to whom. It is also important to keep in mind that the church's mission is far greater than getting receipts to equal disbursements. With these two things in mind, my experience indicates that the ideal finance committee is composed of five to eight members from a variety of backgrounds. I would prefer no more than two accountants serving on the finance committee. Two other members I would include are a parish priest and a retiree who has a good rapport with other parishioners and insight into past problems and politics. As for the qualifications of additional members, I would require nothing more of them than a sincere desire to serve the parish. As I pointed out in other chapters, many of the truly helpful suggestions come from people without financial backgrounds. Don't stack your finance committee with financial people; you'll be missing out on the valuable input.

If and when the finance committee needs special technical expertise, it can call upon professionals to present information at a committee meeting. For example, our finance committee wanted to review the parish's insurance coverage. None of the finance committee members was an expert on insurance, but one person knew of an insurance company that specialized in insuring churches. That person agreed to contact the company to arrange for one of its agents to address the committee. The insurance agent provided us with an analysis of our present coverage as well as a coverage plan that he proposed and a cost comparison of both coverages. He also gave us a copy of an independent company's rating of insurance companies so that we could compare the financial strength of his company against others. With this information, our committee was better educated and better equipped to improve the parish's insurance coverage and reduce the insurance premiums paid. (For additional information read Chapter 18.)

Perhaps the most important thing that the finance committee can do is to remain objective and unbiased. The numbers that the finance committee works with are impartial little markings and it is important that they stay that way. Appointing powerful people with potential conflicts of interest to the finance committee could be harmful. It is better to appoint uncomplicated people who only want the best for their parish.

If the finance committee feels that it needs some "in-house" experts to fall back on, I suggest setting up a parish business advisory council. The advisory council would

consist of busy executives who are not able or willing to meet every month. With an advisory council, you can persuade executives to say “yes” to sharing their talent and experience by guaranteeing that they will meet only as needed and not more than two times in one year.

Lastly, if your parish’s financial reports and finance committee meetings are so complicated or technical that only the accountants understand what is going on, it is time to change your reports and perhaps the chairperson of the committee. Don’t drive good people away from your finance committee or parish council because of intimidating reports, confusing jargon, or poor leadership.

14

PARISH FINANCIAL STATEMENTS

To diagnose the financial health of your parish, you'll want to examine its financial statements. In this chapter we'll look at two types of financial statements to learn what they tell us and what they don't tell us.

Statement of Receipts and Disbursements

The Statement of Receipts and Disbursements is similar to (yet different from) the Statement of Activities and the Income Statement. I use the Statement of Receipts and Disbursements because I find that reporting parish activities on a cash basis—rather than on an accrual basis—makes it easier for nonaccountants to understand.

The Statement of Receipts and Disbursements covers a stated time interval. For example, the statement might cover the month of December, or it might cover the six months of July through December, or it may show the month of December in the first column of numbers and the six months of July through December in the second column. (The examples in this chapter assume the parish's accounting year is July 1, 20X1 to June 30, 20X2.) The heading should clearly specify the period of time covered.

This statement tells us how much cash was received and how much cash was spent by the parish during the period indicated. If the statement is for the month ending July 31, any cash received by the parish between July 1 and July 31 must be shown as a receipt. If July 31 is a Sunday, then the parishioners' envelope contributions and offertory collections of July 31 are to be shown on the July Statement. The fact that the cash was deposited in the bank account on Monday, August 1, doesn't change the fact that the cash was *received* in July.

Basically, the Statement of Receipts and Disbursements explains how the cash account on the parish books has changed during the month. As soon as cash is received, the cash account is increased. As soon as a check is written, the cash account on the parish books is decreased. (The parish's book balance of cash will not equal the bank's record of cash in the bank account. One reason is the time lag between the writing of a check and its clearing the bank.)

The Statement of Receipts and Disbursements can be formatted in any of several ways, each of which has its benefits and drawbacks.

Format 1. The “single-step” format is so named because it takes only one step (one subtraction) to get to the bottom line. It is very easy to read, but because it is so highly summarized, it does not convey much information:

St. Example Parish
Statement of Receipts and Disbursements
For the Year Ended June 30, 20XX

| | | |
|-----------------------------|--|------------|
| RECEIPTS | | \$ 800,000 |
| DISBURSEMENTS | | 790,000 |
| RECEIPTS LESS DISBURSEMENTS | | \$ 10,000 |

Format 2. The next format shows how we can provide more details and at the same time maintain the single-step format:

St. Example Parish
Statement of Receipts and Disbursements
For the Year Ended June 30, 20XX

| | | |
|------------------------------|--|------------|
| RECEIPTS | | |
| Weekly envelope collections | | \$ 560,000 |
| Offertory collections | | 60,000 |
| Tuition and fees | | 100,000 |
| Stipends | | 20,000 |
| Festival profit | | 50,000 |
| Investment income | | 10,000 |
| Total receipts | | 800,000 |
| DISBURSEMENTS | | |
| Salaries, wages and benefits | | 550,000 |
| Books and supplies | | 50,000 |
| Utilities | | 60,000 |
| Repairs and maintenance | | 100,000 |
| Interest expense | | 30,000 |
| Total program subsidies | | 790,000 |
| RECEIPTS LESS DISBURSEMENTS | | \$ 10,000 |

Format 3. Some people prefer to trade off the neatness of the single-step format in order to present important subtotals. The introduction of numerous subtotals changes the format from “single-step” to “multiple-step.” It now takes several steps, or subtractions, to get to the bottom line. Here’s an example of the multiple-step format:

St. Example Parish
Statement of Receipts and Disbursements
For the Year Ended June 30, 20XX

| | | |
|------------------------------------|----|----------|
| GENERAL OPERATING RECEIPTS | | |
| Weekly envelope collections | \$ | 560,000 |
| Offertory collections | | 60,000 |
| Tuition and fees | | 100,000 |
| Stipends | | 20,000 |
| Total general operating receipts | | 740,000 |
| OPERATING DISBURSEMENTS | | |
| Salaries, wages and benefits | | 550,000 |
| Books and supplies | | 50,000 |
| Utilities | | 60,000 |
| Repairs and maintenance | | 100,000 |
| Total program subsidies | | 760,000 |
| OPER RECEIPTS - OPER DISBURSE. | | (20,000) |
| OTHER RECEIPTS | | |
| Festival profit | \$ | 50,000 |
| Investment income | | 10,000 |
| | | 60,000 |
| OTHER DISBURSEMENTS | | |
| Interest expense | | (30,000) |
| RECEIPTS LESS DISBURSEMENTS | \$ | 10,000 |

The above format separates *operating* receipts and disbursements from *nonoperating* receipts and disbursements. Operating receipts and disbursements are those items that pertain to the main purpose of the parish. Nonoperating items, such as interest income and interest expense, do not pertain to running a parish. Rather, these items pertain to investing or borrowing money.

This format provides an important subtotal entitled Operating Receipts Less Operating Disbursements, which in this example shows that Operating Receipts are not sufficient to pay the Operating Disbursements—the parish is \$20,000 short. If you look closely, you’ll see that the parish had to rely on its festival to avoid a deficit. This format will beg the question, “What happens if next year’s festival is rained out,

or if the weather is nice on only one of those two days?” Without the festival profit of \$50,000 the parish would have had a \$40,000 deficit.

Format 4. Parish council members may want the multiple-step format to report the cost of each parish program. These people would prefer the following format:

| St. Example Parish | | |
|---|----|-----------|
| Statement of Receipts and Disbursements | | |
| For the Year Ended June 30, 20XX | | |
| GENERAL OPERATING RECEIPTS | | |
| Weekly envelope collections | \$ | 560,000 |
| Offertory collections | | 60,000 |
| Stipends | | 20,000 |
| Total general operating receipts | | 640,000 |
| PROGRAM SUBSIDIES | | |
| Elementary school (Sch A) | | 240,000 |
| Youth program | | 20,000 |
| Adult religious education | | 40,000 |
| Liturgy committee | | 40,000 |
| Human concerns | | 2,000 |
| Maintenance and occupancy | | 120,000 |
| Administration | | 198,000 |
| Total program subsidies | | 660,000 |
| GEN OPER RECEIPTS - SUBSIDIES | | (20,000) |
| OTHER RECEIPTS | | |
| Festival profit | \$ | 50,000 |
| Investment income | | 10,000 |
| | | 60,000 |
| OTHER DISBURSEMENTS | | |
| Interest expense | | (30,000) |
| RECEIPTS LESS DISBURSEMENTS | | \$ 10,000 |

Parish council members can now see at a glance that the amount of subsidy given to the elementary school is \$240,000 and the human concerns committee is subsidized \$2,000 for the year. For each program subsidy listed, there should be a supporting schedule that provides the details. The following is an example of the supporting schedule for the elementary school:

St. Example Parish
Statement of Receipts and Disbursements (Sch A)
For the Year Ended June 30, 20XX

ELEMENTARY SCHOOL

RECEIPTS

| | | |
|----------------|----|---------|
| Tuition | \$ | 80,000 |
| Book fees | | 18,000 |
| Other | | 2,000 |
| Total receipts | | 100,000 |

DISBURSEMENTS

| | | |
|---------------------------|--|---------|
| Salaries - administration | | 40,000 |
| Salaries – teachers | | 208,000 |
| Salaries – other | | 20,000 |
| Social security matching | | 20,000 |
| Health insurance | | 12,000 |
| Other benefits | | 2,000 |
| Textbooks | | 18,000 |
| Supplies – teaching | | 6,000 |
| Supplies - administration | | 2,000 |
| Telephone | | 4,000 |
| In-service training | | 2,000 |
| Library expense | | 6,000 |
| Total disbursements | | 340,000 |

| | | |
|-------------|----|---------|
| NET SUBSIDY | \$ | 240,000 |
|-------------|----|---------|

The bottom line of the school schedule, \$240,000, agrees to the subsidy reported on the Statement of Receipts and Disbursements. Generally, the parish council will see only the Statement of Receipts and Disbursements and none of the supporting schedules, while each committee will only receive a copy of its schedule. The finance committee will receive a complete set of all statements and schedules.

Although the Statement of Receipts and Disbursements reflects cash received and paid, it does not necessarily reflect all revenues and expenses. The distinction can be explained by the following example: In June, the final month of the parish’s current accounting year, the parish hires a contractor to make some necessary repairs to its buildings. The parish technically incurred the expense in June, the month in which the work was done. However, the contractor’s invoice isn’t received and paid until July, the first month of the next accounting year. The Statement of Receipts and Disbursements for the current accounting year will not show a disbursement for the repairs, although that is the accounting year in which the parish incurred the expense. The Statement of Receipts and Disbursements for the next accounting year will show the disbursement.

Similarly, revenue earned does not necessarily mean cash is received. Assume the parish has a certificate of deposit (CD) of \$120,000 earning interest at an annual rate of 4%, and the interest is to be received when the CD matures. The parish is *earning* (has revenue, but not cash of) \$400 per month in interest. The Statement of Receipts and Disbursements will *not* show the \$400 earned each month, because \$400 of cash is not received each month. Rather, the entire amount of interest will appear on the Statement of Receipts and Disbursements when the cash is received on the maturity date of the CD.

Although simple to prepare, Statements of Receipts and Disbursements can be potentially misleading. As illustrated above, such statements are open to manipulation since delaying disbursements can make a particular year's statement look better and will cause the following year's statement (when the payments are made) to look worse. The alternative is to prepare the more complicated accrual basis Income Statement or Statement of Activities. For churches I prefer the Statements of Receipts and Disbursements because it uses the cash basis of accounting, and this is more easily understood than the accrual basis of accounting. I want the readers of the financial statements to understand what they are reading. (A more thorough discussion of accrual accounting is presented in AccountingCoach.com.)

Balance Sheet

The other financial statement that you should be familiar with is the Balance Sheet. This statement lists the parish's assets and liabilities. It is also referred to as the Statement of Financial Position or the Statement of Assets and Liabilities.

The Balance Sheet heading includes a date, such as June 30, 20XX. (Some accountants will list the date "As of June 30, 20XX.") Unlike the Statement of Receipts and Disbursements, the Balance Sheet does not cover a period of time; it only reflects *one point* in time. You can use the following analogy: The Statement of Receipts and Disbursements is similar to a movie (which covers a period of time); the Balance Sheet is similar to a snapshot (which captures only an instant).

The Balance Sheet reports the parish's assets, liabilities, and the difference (or residual) of total assets minus total liabilities. Assets are the things the parish owns, items that were purchased but are not yet used up. Some examples of assets are buildings, desks, photocopiers, etc. Liabilities are the parish's obligations, the amounts the parish owes for services, materials, loans, payroll taxes withheld but not yet remitted, etc. The residual of total assets minus total liabilities is known by different names. People with not-for-profit backgrounds would refer to your residual as "net assets" or "fund balance." People in the business sector are likely to refer to your residual as "parish equity."

Because accountants record assets and liabilities at their historical (original) cost, it is important that the parish equity is not thought of as the “worth” of the parish. Worth carries the connotation of current value or market value. Since assets are shown on the Balance Sheet at their historical cost, not at their market value, they do not reflect the actual worth of the parish.

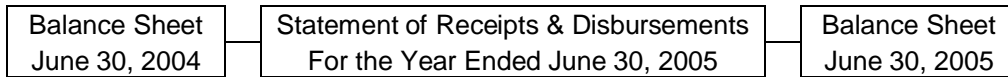
Some parishes dislike using the historical costs of their assets on their Balance Sheet, and will use instead each item’s replacement cost (how much it would cost the parish to replace the item using today’s prices). Although this practice is not an accepted accounting procedure, it may be beneficial to the parish in two ways: (1) it could prevent the situation of being underinsured, and, (2) it would provide a more realistic figure when estimating asset repairs or maintenance costs. What a parish should do in this instance is report the historical cost on the Balance Sheet, and then disclose each item’s replacement cost next to it in parentheses.

Let’s take a look now at a generally accepted format for a parish Balance Sheet:

St. Example Parish
Balance Sheet
June 30, 20XX

| | |
|----------------------------------|------------|
| ASSETS | |
| Cash and checking | \$ 10,000 |
| Savings account | 70,000 |
| Certificate of deposit | 100,000 |
| Property | 500,000 |
| Total assets | \$ 680,000 |
| LIABILITIES | |
| Payroll taxes withheld | \$ 2,000 |
| Collections for others | 4,000 |
| Loans payable | 200,000 |
| Total liabilities | 206,000 |
| NET ASSETS | |
| Total Liabilities and Net Assets | 474,000 |
| | \$ 680,000 |

The Statement of Receipts and Disbursements (discussed earlier) can be viewed as a link between two Balance Sheets:



The change in the cash balance from the June 30, 2004 Balance Sheet to the June 30, 2005 Balance Sheet is explained by the Statement of Receipts and Disbursements for the year ended June 30, 2005.

Unfortunately the Balance Sheet or Statement of Financial Position is less complete when prepared under the cash basis instead of the accrual basis of accounting. For example, bills received but not yet paid will be reported as liabilities on a balance sheet prepared under the accrual method of accounting. However, they will not be reported on a balance sheet prepared under the cash method of accounting. (See AccountingCoach.com for a discussion of the accrual method of accounting.)

Restricted and Unrestricted Funds

It is critical to keep separate from unrestricted assets any parish assets that are permanently restricted by the donors. Although some church accounting software will assist in this segregation, other software products are designed for use by small businesses and do not provide for this segregation.

At one small parish using business software, we solved the problem by processing two general ledgers for the parish. In the main general ledger we reported the unrestricted funds and generated the Statement of Receipts and Disbursements and the Statement of Unrestricted Assets and Liabilities. This general ledger was processed monthly and its financial reports were distributed monthly. The second general ledger contained all of the activity involved in the restricted funds. This second general ledger was processed quarterly, since many of the restricted funds were with trust or investment companies that issued only quarterly statements.

While two general ledgers is not the ideal, it did allow us to make improvements over past reporting without incurring any costs of purchasing and learning new software.

Distributing Financial Statements

Photocopying and mailing the monthly financial statements to members of the finance committee and parish council can be time consuming and expensive. In a recent stint as finance chairperson, I entered the monthly and year-to-date financial statement amounts onto Excel™ spreadsheets and emailed the updated spreadsheets to

finance and parish council members as attachments. It was convenient for me, for the parish office staff, and for the committee members.

15

DOES THE PARISH NEED AN AUDIT?

What is an audit?

An audit is a service provided by independent, certified public accountants (CPA's) during which they review the parish's procedures for handling cash and other assets; review the bookkeeping procedures for handling transactions; and verify the amounts reported in the parish financial statements.

The main purpose of an audit is to confirm the "fairness" of the parish's financial statements. For example, if the parish's balance sheet shows assets of \$800,000 and liabilities of \$650,000, the auditors may verify that, based on their examination of the parish records and procedures, these figures fairly represent the financial position of the parish. If the parish's records, procedures, and controls are very poor, the auditor's report is likely to state that the auditors cannot attest to the fairness of the parish's financial position.

In either case, the auditors are likely to provide the parish with a list of internal control weaknesses that were detected during the audit, along with recommendations for correcting these weaknesses. These recommendations can be very valuable to the parish, since, once implemented, they assure the parish that proper and efficient procedures are being used in the financial operations of the parish.

It is important to note that auditors will *not* make a claim that there is no fraud or dishonesty within the parish organization. So while an audit might turn up some weaknesses or an actual abuse, an audit's main focus is to attest to the fairness of the financial statements, not to detect fraud or dishonesty.

How an Audit is Conducted

An audit is a very detailed and thorough type of service that requires a significant amount of time. The auditors will come into the parish office to review the parish's accounting systems and ask questions of the parish staff about accounting and office procedures. They will select a portion (or sample) of the parish's transactions from the past year and trace each of them through the accounting records. By the time they have finished the audit, the auditors must feel confident that the parish's financial statements follow "generally accepted accounting principles" (an accounting term that refers to the rules used in preparing financial statements.)

What Is the Cost of an Audit?

The cost of an audit will vary; it depends on factors such as the accounting system you use, the controls over cash that already exist, the sophistication of your staff, and the number and complexity of the parish's transactions. I would estimate that the auditors' fees (billing rates) range from \$50 per hour to \$250 per hour, depending on the expertise and experience of the auditors. Most firms will attempt to get much of the work done by those auditors with the lower billing rates and limit the number of hours spent by people who charge the higher rates. As a result, the *average* billing rate might be approximately \$100 per hour. Assuming that your parish's audit would require 50 hours of auditors' time, the cost of the audit might be \$5,000. Depending on your parish's assets and internal controls, the cost could be significantly greater. To get a better idea of the cost of an audit for your parish, contact several accounting firms and ask them to provide you with estimates of the cost.

You may find that accountants (auditors) charge less if your parish's accounting year ends on June 30 than if it ends on December 31. The reason is that the months of January through April are extremely busy for accounting firms; the summer months are not so busy. To further reduce the costs, you should check to see if any of your parishioners are influential members of an accounting firm. If so, you may have a chance at being charged less than the standard rate.

Do You Need a Full Audit?

Some nonprofit community organizations find that audits are requested by major funding sources. For example, it may be the written policy of a private foundation to donate money to an organization only if it will provide them with an annual audit report. In this way, the foundation feels assured their sizable donations are not being mishandled. Your parish may not be in this type of situation. In fact, if your parish feels comfortable with the accuracy of its financial statements, it may not need an audit at all.

While an audit may be "nice to have," it could be that the parish merely wants an independent party to examine its internal controls over cash. If this is the case, the parish would save money by limiting the CPA's engagement to a review of the parish's internal controls instead of requesting a complete audit. This, coupled with having the review done in the months when the auditors are not working overtime, could mean getting what you really want at a very reasonable cost.

16

COMMUNICATING FINANCIAL INFORMATION TO PARISHIONERS

At several of the parishes where I served, we mailed to each registered member a copy of the Statement of Receipts and Disbursements from the most recent year. In the column to the right of the actual amounts, we indicated the budgeted amounts projected for the upcoming year. This financial statement was attached to a letter that explained what the numbers meant. We began that letter by thanking each parishioner for the support given to the parish, financially and otherwise. We would affirm that the parish's most valuable assets were the parishioners themselves. We concluded the letter by asking parishioners to provide us with their comments on the budget. These letters were usually signed by the trustee-treasurer and by the finance committee chairperson.

When the quarterly reports of parishioner contributions were mailed out, we included a short note of thanks. At one parish we also enclosed an additional page describing one of the parish committees being supported by the parishioners' general contributions. For instance, one quarter we featured the school committee: we presented the school's approach to Christian education, the enrollment, the number of classes, etc. We also presented a table showing the tuition and book fees paid by each child's family and the estimated total cost of educating each child for one year, along with the annual school subsidy that came from the general parishioner contributions. Over a two-year period we featured all seven of the parish's main committees.

The value of this extra effort is twofold. First, it reminds each committee of its accountability to the parishioners it serves; second, it allows the parishioners to see how they are personally affected by the work that these committees are doing. Not only will the parishioners become more knowledgeable and more interested in the affairs of the parish, but they may also be more willing to increase their level of financial support if they feel assured that their money is well-managed and well-spent.

The following is a copy of a letter that featured the work of our maintenance committee:

January 2005

Dear Parishioner,

At this time the maintenance committee of the parish council would like to share with you information about its work. The maintenance committee at St. ABC is responsible for maintaining and repairing the physical plant, that is, the church, school, office and rectory buildings plus the playground and parking lots. Two full-time and two part-time employees are on the parish payroll to carry out this work.

While our buildings and parking lots receive continuous maintenance, this year we need to do some additional work. For example, the former Acme, Inc. property and our existing property abutted at different heights causing a drainage problem. To correct this problem, our parish spent approximately \$30,000 to regrade and resurface the portion of these properties immediately east of the cafeteria and school. Resurfacing is also being planned for the main parking lot. The resurfacing projects are being coordinated with the pastoral planning committee (St. ABC's long-range planning committee). Another nonroutine project budgeted for this year is the replacement of the gutters on the convent/parish office wing of the building.

In addition to maintenance workers' wages and routine and nonroutine maintenance/repairs, the maintenance committee budget is also charged with all the electricity, gas, sewer, and water expenses incurred by St. ABC. By charging the entire utility cost to one committee the magnitude of these costs is better understood and thus more likely to be controlled.

A summary of the maintenance committee budget for July 1, 2004 to June 30, 2005 follows:

| | |
|--|---------------|
| Wages, payroll taxes and fringe benefits | \$ 90,000 |
| Utilities, excluding telephone | 70,000 |
| Routine maintenance | 30,000 |
| Special projects – resurfacing | 80,000 |
| Special projects – gutter replacement | <u>10,000</u> |
| TOTAL | \$ 280,000 |

The maintenance committee, like most committees, is in need of additional members. We urge you to participate in one of the many committees that need your time and talent.

Sincerely,

The Maintenance Committee

The following are examples of the letters used to describe our annual Statement of Receipts and Disbursements and the projected budget figures.

August 18, 2003

Dear Fellow Parishioner:

Enclosed with this letter are the financial statements for our parish. They include summaries of receipts and disbursements for the year ending June 30, 2003 (actual and budget) and projections for the accounting year of July 1, 2003 through June 30, 2004. Also enclosed is a Balance Sheet that shows the assets and liabilities of our parish at June 30, 2003.

As you review these financial statements, you will see that the \$100,000 deficit projected a year ago was avoided because many parishioners increased their giving. We believe that the Stewardship Program played an important part in this increase, and we are grateful for your responsiveness. Other contributing factors included some very generous special donations, a better than expected Fall Festival profit, and the deferral of major maintenance projects.

As we look ahead to the year ending June 30, 2004 we see another \$100,000 deficit. The reasons for the deficit include (1) beginning those maintenance projects that have been deferred for many years (regrading and resurfacing of parking area, replacing the gutters on convent) and (2) budgeting only \$25,000 of profit from the upcoming parish festival.

While the projected deficit is a somber message, we know that it can be eased if everyone gave just \$1 more per week. We have seen incomes and prices increase dramatically since 1990; yet our giving to St. ABC has increased only slightly. We believe that most parishioners can and will gladly increase their giving in response to the many worthy needs.

Our financial support is necessary to carry out God's work here at St. ABC. We thank you for your generosity and are always available to hear your concerns.

Sincerely,

March 1, 2004

RE: Financial Update and Budget for 2004-05

Dear Parishioner,

As finance chairperson and trustee-treasurer of your parish, I want to provide you with a mid-term report on the financial position of our parish. The committee members and I feel that as stewards of your parish's resources it is our obligation to be accountable to you, the parishioners.

Six months ago, we wrote to inform you that we were projecting a deficit of \$100,000 for the accounting year of July 1, 2003 through June 30, 2004. We also stated that this deficit could be avoided if each parishioner increased his or her giving by just \$1 per week. We are happy to report that most parishioners have responded to this need. We're also happy to report that the parish festival profit was significantly higher than the amount budgeted. As a result, the deficit for the accounting year will be substantially less than the amount we had foreseen. As of today, we estimate that the deficit will be approximately \$25,000. Of course, this amount is dependent upon contributions received between now and June 30.

We are now in the process of preparing the budget for the next fiscal year, which begins on July 1, 2004 and ends on June 30, 2005. The budgeting process must begin now in order for it to be approved before July 1. There are several significant items in the 2004-05 budget. The first is \$50,000 for some of the maintenance that has been deferred for several years. This involves repaving one-third of our parking lots and replacing the office/convent rain gutters. The second item is the inclusion of \$25,000 of festival profit as a parish receipt. This amount is lower than previous years because the parish council has concluded that we should not rely on our festival profit to support the day-to-day operations of our parish. Furthermore, we need to remember that inclement weather could prevent the festival from making any profit at all. The 2004-05 budget also reflects a 2-3% increase for salaries and wages. This percentage was agreed upon by our parish council after considering the already low salary scale and the need for just wages, the inflation rate, and the economic conditions affecting our parishioners.

This budget information is being communicated so you know in advance that if our existing programs are continued, we will see a deficit unless revenues increase again next year. Even after scrutinizing each program's expenditures for any possible reductions, we still expect a deficit of up to \$80,000. Very bluntly, we are saying that we will need to raise our contributions by *another \$1 per week* in order to continue our programs and avoid debt.

Your comments will be appreciated and will be helpful to the parish council in deciding next year's budget. Please send your comments to the Finance Committee at the parish office address. Our parish is blessed, and we thank you for your awareness and response to our stewardship responsibilities.

Sincerely,

August 12, 2004

Dear Parishioner:

The purpose of this letter and its attachments is to provide you with an accounting of your parish's financial position as of June 30, 2004. Enclosed you will find a summary of receipts and disbursements for the past year and a projection of next year's receipts and disbursements.

Before getting to the details, however, we first want to say THANK YOU for all the contributions of time, talent, and treasure that you made to our parish. It is obvious our parish has benefited and we want to let you know it is appreciated.

In the past, our parish has been able to meet its obligations; however, with contributions continuing at current levels and expenses increasing with inflation, we can foresee a deficit of \$100,000 by June 30, 2005. Obviously, we need your help, but we cannot tell you what to give. We simply ask you to examine your stewardship of treasure to see if you have increased your giving in proportion to your own increased wages or other income. If each of our 1,000 parishioners gave just *\$1 more per week* our problem would be gone.

To assist in describing the financial information, we have two attachments (labeled Attachment #1 and Attachment #2) that will be referred to throughout the letter. The financial position of the parish on June 30, 2004 is shown on Attachment #1. This shows the things the parish owns (assets) and the amounts the parish owes (liabilities). Here you can see that the parish held three types of cash totaling \$6,690 and held property appraised at a significant value.

The liabilities show that the parish owes \$41,224, half of which is due on May 1, 2005. You can also see the assets and liabilities as of one year ago in the right hand column. One year ago we had much more cash and we also owed more money. During the year we repaid \$35,000 to parishioners who lent us money to purchase the Acme, Inc. property. The parish also spent \$27,500 to insulate the school windows and \$6,500 for a telephone system. Both of these projects are expected to reduce expenses in future years.

Attachment #2 shows the actual receipts and disbursements for the parish's fiscal year that ended June 30, 2004. These are shown in the first column. As you can see from the bottom line, the parish spent \$75,240 more in cash than it received. By reviewing the line descriptions, you can see where the receipts came from and where the cash was spent. Of concern to many people is the fact that we rely very heavily on the parish festival and special gifts to operate the parish.

In column 2 of Attachment #2 is the parish's estimate, or budget, for the accounting year that just began. As you can see, we will be in trouble. With no unusual items budgeted (except for the debt repayment of \$20,000), we will be \$98,000 worse off one year from now. And we noted in Attachment #1 that we have only \$6,690 in cash. If nothing changes from the budgeted amounts, we will have to borrow money just to carry out normal operations of the parish. We do not feel that this is the proper way to operate.

Obviously, contributions must increase or disbursements must decrease. Looking at the operating receipts, you will note that receipts are budgeted to be about the same as last year's actual, and operating disbursements are budgeted to increase about 7%. This summarizes our problem—even though our finance committee has scrutinized the expenditures, they still go up. Salaries increase, utility bills increase, and supplies increase, but revenues do not increase. As we mentioned earlier in this letter, we need your help.

We are a parish greatly blessed, and our most important assets, our parishioners, are not listed on Attachment #1. We are confident you will respond to your parish's needs.

Sincerely,

Often there is fear of communicating to parishioners any financial information that reveals the amount of cash in the parish savings account. The fear is that parishioners, upon seeing a sizable savings balance, will begin to give less in their

weekly envelope. I believe the parish leaders are accountable to the parishioners both when times are good and when times are lean. In other words, the size of the bank account should not dictate when to be accountable via a communication. Besides, a large sum of money in savings may in reality be relatively small. For example, if you have a \$170,000 home, you might feel that \$6,000 in the bank is a reasonable amount given the cost of home maintenance and repairs. The parish's physical assets are probably 10 to 20 times as great as your home, so a parish's cash balance of \$60,000 is proportionately no greater than your cash balance of \$6,000. To put it another way, it's not unusual for a parish to pay \$30,000 to repave its parking lot.

Another benefit of good financial communication is the effect it has on the parishioner's level of confidence in the parish leadership. I have seen the circulation of damaging rumors within a parish come to a halt upon the distribution of the parish's financial statements. Parishioners want to be reassured that the financial operations of the parish are in control, and once they get the official financial statements, they are reassured.

17

BORROWING MONEY

One advantage of preparing budgets is that it allows you to see the parish's projected cash shortage as much as one year in advance of its actual occurrence. This gives you time to work on increasing the contributions from parishioners, an effort that might eliminate the need to borrow. However, as a safety valve, you will want to meet with the parish's banker to communicate the possible need to borrow cash in the months ahead.

Borrowing from a Bank

Before meeting with the banker, here's what you need to do to prepare:

1. Determine the amount of money that the parish will need to borrow.
2. Specifically identify the reason for borrowing. What will the money be used for?
3. Determine how the parish will repay the loan.
4. Determine whether the parish has collateral for the loan and if it can be pledged to the bank. For example, can the bank have a claim to vacant land owned by the parish? Caution: This means that if the loan cannot be repaid, the bank could take the land and sell it to repay the loan.
5. Arrange to have parish financial statements from recent periods available, as well as next year's budget.

After these five steps have been done, call to arrange for a meeting with the banker. If you do not have an established contact with an *executive* at the bank, attempt to meet with the bank president. Your banker will be impressed that you are choosing to meet months in advance of a potential financial crisis. Explain that the purpose of this meeting is twofold: (1) to provide advance notice to the bank that the parish may need a loan; (2) to have the banker inform you of the required steps in the borrowing process. Be sure to let the bank executive know what actions your parish is now taking to avoid a bank loan.

Borrowing from Parishioners

In addition to taking steps to increase parishioner contributions, you should also consider borrowing from parishioners. Often there is a two to three point spread between the interest rate that savers earn and the interest rate that borrowers pay. For example, you may be earning 3% on your certificate of deposit, but if you were to borrow money the same bank will charge you 6% on the loan balance. (It is reasonable for banks to have such a spread. They need to pay the bank's operating costs and also ensure that they are earning an acceptable profit.)

Your parishioners might be happy to lend to the parish at a rate of 4% (thereby earning 1% more than they could earn on a short-term CD) and at the same time the parish saves 2% (paying 4% instead of the banker's 6% rate). Obviously, both the parishioners and the parish win. Before you commit to this plan of action, however, be sure to get precise rates from your banker. Sometimes the bank will offer the parish a more attractive loan rate, so the spread may be less than my example.

At one of the parishes where I was a trustee, we borrowed from parishioners so that we could purchase an adjacent parcel of land. We offered parishioners an attractive interest rate and a choice of one, two, or three-year maturities. (The interest was paid annually.) Thanks to increased giving, we were able to repay these loans as they came due without borrowing from other sources.

You should consult with an attorney (perhaps one of your parishioners) on the procedures for borrowing from parishioners. We were advised to borrow only from registered members of our parish. Apparently, our state securities laws had restrictions on issuing debt. You should be certain you understand the rules in your state before you announce that the parish wants to borrow money. The securities commissioner of your state will likely inform you of the rules at no cost.

Borrowing from parishioners does not excuse you from doing steps 1 through 5 as mentioned under "Borrowing from a Bank." It would be irresponsible, for example, to borrow from parishioners without knowing how the money would be repaid.

Loan Payments

If the parish borrows money from a bank or other financial institution, the parish is likely to make monthly payments. Exhibit 18-1 shows the monthly payments required to repay various loan amounts at various interest rates over different lengths of time. (A five-year loan means one payment per month for 60 months. Each payment is the total of the interest plus the principal. A "fixed" interest rate means the rate cannot be changed during the loan period. Not all loans have fixed rates. Some loans stipulate that the interest rate will be adjusted periodically.

Exhibit 18-1

| | | Monthly Payment Amount | | | | |
|-----------------|----|--|-----------|-----------|-----------|-----------|
| | | 5 Year Loan with a Fixed Interest Rate | | | | |
| Amount Borrowed | | 4% | 5% | 6% | 7% | 8% |
| \$ 10,000 | \$ | 184.17 | \$ 188.71 | \$ 193.33 | \$ 198.02 | \$ 202.76 |
| 20,000 | | 368.33 | 377.42 | 386.66 | 396.03 | 405.53 |
| 40,000 | | 736.66 | 754.85 | 773.31 | 792.05 | 811.06 |
| 80,000 | | 1,473.32 | 1,509.70 | 1,546.62 | 1,584.10 | 1,622.11 |
| 160,000 | | 2,946.64 | 3,019.40 | 3,093.25 | 3,168.19 | 3,244.22 |
| 320,000 | | 5,893.29 | 6,038.80 | 6,186.50 | 6,336.38 | 6,488.45 |

| | | Monthly Payment Amount | | | | |
|-----------------|----|---|-----------|-----------|-----------|-----------|
| | | 10 Year Loan with a Fixed Interest Rate | | | | |
| Amount Borrowed | | 4% | 5% | 6% | 7% | 8% |
| \$ 10,000 | \$ | 101.25 | \$ 106.07 | \$ 111.02 | \$ 116.11 | \$ 121.33 |
| 20,000 | | 202.49 | 212.13 | 222.04 | 232.22 | 242.66 |
| 40,000 | | 404.98 | 424.26 | 444.08 | 464.44 | 485.31 |
| 80,000 | | 809.96 | 848.52 | 888.16 | 928.87 | 970.62 |
| 160,000 | | 1,619.92 | 1,697.05 | 1,776.33 | 1,857.74 | 1,941.24 |
| 320,000 | | 3,239.84 | 3,394.10 | 3,552.66 | 3,715.47 | 3,882.48 |

| | | Monthly Payment Amount | | | | |
|-----------------|----|---|----------|----------|----------|----------|
| | | 15 Year Loan with a Fixed Interest Rate | | | | |
| Amount Borrowed | | 4% | 5% | 6% | 7% | 8% |
| \$ 10,000 | \$ | 73.97 | \$ 79.08 | \$ 84.39 | \$ 89.89 | \$ 95.57 |
| 20,000 | | 147.94 | 158.16 | 168.77 | 179.77 | 191.13 |
| 40,000 | | 295.88 | 316.32 | 337.54 | 359.53 | 382.26 |
| 80,000 | | 591.75 | 632.63 | 675.09 | 719.06 | 764.52 |
| 160,000 | | 1,183.50 | 1,265.27 | 1,350.17 | 1,438.13 | 1,529.04 |
| 320,000 | | 2,367.00 | 2,530.54 | 2,700.34 | 2,876.25 | 3,058.09 |

Other Costs of Borrowing

In addition to the loan payments shown in Exhibit 18-1, the parish may also incur other costs. These additional costs include “points,” an appraisal fee, recording fees, and perhaps an administrative charge. A “point” is a percentage point of the amount borrowed. If, for example, your loan is \$200,000 the lender might charge one point, or \$2,000. Two points on a \$200,000 loan would be \$4,000. Points are basically additional interest amounts paid to the lender, and thus increase the “true” or “effective” interest rate. A very favorable loan rate may look less favorable if you have to pay two points. To compare loan proposals, ask for the *effective* rate or the APR (annual percentage rate). A higher loan interest rate with no points may be better (have a lower *effective* interest rate) than a lower rate with points.

18

PROPERTY INSURANCE: TWO APPROACHES

Compare and Learn

At two parishes where I served on the finance committee, we arranged for a presentation by an insurance company specializing in insuring churches. This presentation taught us a lot about insurance coverage. The agent compared our existing insurance coverage to his recommended coverage. In each case we were able to improve the coverage while significantly reducing the cost, apparently because the risks due to losses associated with churches are less than the risks associated with general commercial property.

I highly recommend that your parish finance committee devote one of its meetings to insurance. Have your current agent explain the present coverage and have an agent from an insurance company specializing in insuring churches explain his or her company's coverage and costs. An independent company named "A. M. Best" provides ratings on insurance companies. Be sure you know the A. M. Best rating for each company that you're considering—after all, you want a financially strong company insuring your parish. It's no bargain to have low cost premiums from a company whose ability to pay large claims is suspect.

While there may be many insurance companies specializing in insuring churches, we had agents from the following two national companies give presentations to our finance committees:

Church Mutual Insurance Company
3000 Schuster Lane
P.O. Box 357
Merrill, WI 54452
(715) 536-5577

Acuity, a Mutual Insurance Company
2800 South Taylor Drive
Sheboygan, WI 53081
(920) 458-9131

Diocese-Wide Self-Insurance

A number of years ago our diocese (Archdiocese of Milwaukee) initiated a program wherein all the parishes would participate in a “Protected Self-Insurance Program” for property and casualty insurance. Each individual parish would no longer obtain coverage from insurance companies. Rather, each parish would pay premiums into this diocese-wide program. Smaller claims would be paid by the program administrator from the premiums collected. Larger claims would be paid by an insurance company that provided coverage from claims over a specified dollar amount in exchange for a premium paid to it by the program administrator. In other words, this group of parishes self-insures for smaller claims, but buys an insurance policy from an insurance company to pay the larger claims.

I presume that there would be some administrative cost savings realized with such an arrangement. I also believe that individual parishes in higher-risk neighborhoods would receive the most benefit. On their own, those parishes might not be able to purchase insurance coverage at reasonable rates. Under the diocese-wide program, they can get the coverage they need at a reasonable cost since the claims are shared among all the parishes in the diocese.

Appendix A

SAMPLE FORMS

Check request form

CHECK REQUEST

Pay to: _____ Amount: \$ _____

Pay by: _____
date

For: _____

Please attach supporting document.

Charge the following accounts:

| <u>Acct. No.</u> | <u>Amount</u> |
|------------------|---------------|
| _____ | \$ _____ |
| _____ | \$ _____ |
| _____ | \$ _____ |

Requested by: _____

| | | | |
|-----------|------|-------|----------|
| Signature | Date | _____ | \$ _____ |
|-----------|------|-------|----------|

Approved by: _____

| | | | |
|-----------|------|-------|----------|
| Signature | Date | _____ | \$ _____ |
|-----------|------|-------|----------|

Petty Cash Receipt/Voucher

PETTY CASH VOUCHER

Paid to: _____ \$ _____

For: _____

Account Number to be Charged: _____

Signature _____ Date: _____

Stewardship Intention Card

INTENTION CARD

St. ABC Parish

Recommended giving ranges

| <u>Annual</u> <u>Income</u> | <u>%</u> <u>Range</u> | <u>Annual</u> <u>Contribution</u> |
|--------------------------------|--------------------------|--------------------------------------|
| \$20,000 | 2% - 4% | \$ 400 - \$ 800 |
| \$30,000 | 2% - 4% | \$ 600 - \$ 1,200 |
| \$40,000 | 2% - 4% | \$ 800 - \$ 1,600 |
| \$50,000 | 2% - 4% | \$ 1,000 - \$ 2,000 |
| \$60,000 | 2% - 4% | \$ 1,200 - \$ 2,400 |
| \$80,000 | 2% - 4% | \$ 1,600 - \$ 3,200 |

Actual contributions for this year (through Aug. 1, 2005): \$ _____

Amount I intend to contribute...

Remainder of this year (Aug. 1 to Dec. 31, 2005): \$ _____

Next year (January 1 through December 31, 2006):

(Select one)

For the year: \$ _____

For the month: \$ _____

For the week: \$ _____

Name: _____

Address: _____

Envelope No.: _____

For parishioner's records:

Amount I intend to contribute...

Remainder of this year (Aug. 1 to Dec. 31, 2005): \$ _____

Next year (January 1 through December 31, 2006):

(Select one)

For the year: \$ _____

For the month: \$ _____

For the week: \$ _____

Appendix B

GLOSSARY OF ACCOUNTING TERMINOLOGY

For a more thorough glossary plus in-depth explanations and drills, visit www.AccountingCoach.com.

Accountant

Generally a person with a four-year college degree with a major in accounting. This person analyzes accounting information after it has been recorded by a bookkeeper.

Accounting

The process of collecting, analyzing, presenting, and interpreting financial information.

Accrue/accrual method of accounting:

The accounting method whereby expenses are recognized when incurred rather than when cash is paid out. Similarly, revenue is recognized when it is earned rather than when cash is received. (See cash method as an alternative to the accrual method.) For example, assume that on July 1 the parish borrowed \$10,000 for three months at an annual interest rate of 12%. The interest is due on October 1. Under the accrual method, the parish would record \$100 of interest expense in each of the months of July, August, and September. Under the cash method, the interest expense of \$300 is recorded when it is paid on October 1.

Allocate

The assigning of costs or revenues according to a formula or on a percentage basis, typically done because the costs or revenues are not directly traceable to a committee, department, or function. For example, property insurance includes a premium (expense or cost) for liability coverage which covers the church, school, rectory, offices, parking lots, etc. However, the premium is not detailed by each of these areas. In order to arrive at the total cost of operating the school, for example, one would allocate a portion of the insurance cost to the school. It is important to realize that any allocation is done on an arbitrary basis and that the allocation process does not change the total of the cost; it merely divides the one total cost among many committees or departments. As a result, many people do not allocate costs that are common to several areas; rather, the costs are kept as one total and one committee is responsible for controlling it.

Amortize

The allocation of a cost of an intangible asset to expense over the asset's lifetime. (Also see loan amortization.)

Assets

Resources owned by a parish that have future benefit. Examples are cash, buildings, and prepaid insurance.

Balance Sheet

The financial statement that lists the assets, liabilities, and equity of the parish at a specified point in time. This statement is sometimes referred to as the Statement of Financial Position.

Bookkeeper

Generally a person who has less than a four-year degree in accounting. This person does the detailed recording of transactions.

Capital expenditures

Money paid for long-term assets such as buildings, furnishings, and equipment.

Cash method

The accounting method whereby an expense is recognized when it is paid rather than when the expense is incurred. Similarly, revenues are recognized when cash is received rather than when revenues are earned. (See accrue/accrual method as an alternative to the cash method.)

Chart of accounts

A listing of the accounts in the general ledger to which transactions can be posted or recorded. Ideally, the chart of accounts is designed according to the parish's organization chart. For example, the first digit of the account number of an expense item designates the person or committee responsible for that account. Hence, all the accounts pertaining to one committee are grouped and financial statements can be prepared in an efficient manner from the account balances.

Credit

The accounting term which means "right-side." When an account is credited, it means an amount is recorded on the right-hand side of the account. A credit increases revenue, liability, and equity accounts; it decreases asset and expense accounts.

Debit

The accounting term which means "left-side." When an account is debited, it means that an amount is recorded on the left-hand side of the account. A debit increases asset and expense accounts; it decreases revenue, liability, and equity accounts.

Deferred revenue

The receipt of cash in advance of its being earned. For example, tuition is collected in the last month of the current year for classes to be offered in the second month of the subsequent year. The cash is recorded but the revenue is deferred until the subsequent year by showing the amount as a liability on the balance sheet of the current year. In the subsequent year, the revenue is recognized as earned by removing the liability on the balance sheet and showing the revenues in the normal revenue account.

Depreciation

The systematic allocation of an asset's cost to expense. For example, if a church building costs \$500,000 (exclusive of land) and its useful life is 25 years (and there is no expected value at the end of 25 years) then the straight-line method of depreciation results in depreciation of \$20,000 per year. Accounting rules require that depreciation expense should be recorded for churches; however, many churches ignore the rule when preparing the monthly operating reports.

Double entry system

The accounting procedure whereby every transaction is recorded by having at least one debit amount and at least one credit amount. The total dollars of debits must equal the total dollars of credits. For example, the payment of the telephone bill would include a debit to telephone expense and a credit to cash.

Financial statements

Reports that represent financial information. Examples are the Balance Sheet, Statement of Receipts and Disbursements, Income Statement, and Statement of Cash Flows.

Fiscal year

An accounting year that does not necessarily end on December 31. For example, many schools and churches have an accounting year that runs from July 1 through June 30; accordingly, we say they have a "fiscal year ending June 30."

Fixed assets

A term used to describe long-term assets such as buildings, furnishings, and equipment.

General ledger

What is referred to as "your books." It contains all of the accounts in which transactions are posted.

Generally accepted accounting principles

The established accounting rules that define accepted accounting methods for presenting financial information.

Journal

Referred to as the “book of original entry” because under manual accounting systems, transactions are first recorded in journals before being posted to the accounts in the general ledger.

Liabilities

The obligations of the parish. Examples include loans payable, accounts payable, and deferred revenue.

Loan amortization schedule

A listing of the interest and principal payments required each period (often monthly) in order to pay off the amount borrowed over a specified period at a specified interest rate.

Outstanding checks

Checks that have been written but have not yet cleared the bank on which they are drawn or written.

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