



## 2 The Budgeting Process

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### **Subsection**

2.1 The Budgeting Process

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## 2.0 The Budgeting Process

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A sound parish budget is the result of parish leadership's vision and detailed financial planning. A pastor should consult with his pastoral council to develop the vision and should involve his finance council with oversight of the financial planning process.

The finance council should assist in developing a well-defined timetable for the budget process and it should be communicated to all participants. Estimates should be used early in the process and then updated as more information becomes available.

While planning for the future often involves more than a one-year horizon, financial budgets are prepared on a fiscal year basis. There are different needs to be considered:

1. Operating
2. Capital
3. Debt service
4. Cash flow

The best budgets are typically "bottoms up" with each program, ministry and organization leader providing input to the process. Not only should they project their needs (i.e., expenses) but they should also be responsible for projecting revenues that they are expected to generate.

Parish organizations should participate in the budgeting process in order to reinforce the fact that they are part of the parish community. These organizations often represent some of the best fundraising potential within the parish and could be challenged to contribute to the general welfare of the parish.

### **Operating Budget**

An operating budget consists of revenue and expense items identified by specific account numbers defined within the Chart of Accounts. Typically, individual line items are budgeted annually and then calendarized after the final combined budget is finished. (See Cash Flow Forecast later.) Some of the larger items that bear special mention are listed below.

#### *Parish Budget*

Offertory Gifts: This is typically the largest source of revenue in a parish, excluding elementary school tuition. It is advisable to budget conservatively, mindful of recent trends, the local economy, stewardship efforts, etc.

Personnel Expense: Each employee should be listed with the appropriate salary, payroll taxes and specific benefits in separate columns. For workers paid by the hour, the total number of hours should be multiplied by the expected hourly wage. If any staff positions are vacant when this process begins, estimates should be used. If the position is filled before the budget is finished, more precise numbers should replace the estimates.

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Assessments: The Archdiocesan Finance Office distributes in January each parish's estimated assessments, property and casualty insurance premiums, priests' health and retirement benefit costs, and other lesser charges for the following fiscal year. Also in January, the Archdiocesan Benefits Office notifies each parish/school of estimated health insurance premium rates.

Repairs & Maintenance: Several parishes have a building committee as a subcommittee of their finance councils. With the appropriate mix of professionals, a building committee can be invaluable for preparing a cyclical schedule of maintenance and repairs.

Utilities: The Archdiocesan Finance Office suggests increasing total utility costs by approximately 5 percentage points higher than normal inflation rates.

### School Budget

A member of the parish finance council should participate in or oversee the preparation of the school budget by the school board. This provides a bridge of communication for what is usually the largest single program within the parish.

Tuition (gross): Gross tuition should be calculated by multiplying the projected total number of students by the tuition rate for each child. (Note: Most schools provide tuition reductions for families with more than one child in school. The calculations should reflect these reductions.)

#### Tuition Discounts:

- Teacher Tuition Discount: All elementary school teachers qualify for tuition-free education for their children. Much of this is funded by the Archdiocesan Catholic Education Assessment (Part 2) in the form of cash grants issued to the schools where the children attend. If the grants are insufficient to cover the tuition costs, then the school is expected to absorb the difference. This parish subsidy should be budgeted also.
- Archdiocesan Need-Based Grants: There are several financial needs-based grants administered by the Archdiocese, such as Catholic Family Tuition Assistance, Mission Advancement, Today & Tomorrow, etc. These grants are awarded in the names of individual families. Each type of grant should be recorded in a separate account as determined by the Parish Support Group in the Archdiocesan Finance Office.
- Parish Needs-Based Grants: Some parishes also provide financial needs-based grants to individual families. These grants should be recorded in a separate account.

The net amount of tuition to be billed to school families should equal the gross tuition less all tuition discounts. Also, an estimate should be provided for uncollectible tuition.

Personnel Expense: See Personnel Expense under Parish Budget. The compensation of each teacher and principal is documented in the form of a contract. These contracts should form the basis for the budgeted salaries. Refer to Section 13.5.

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Parish Subsidy: There is no budgeted line item for the parish subsidy of the school. Rather it equals the amount of the deficit resulting from subtracting total school expenses from total school revenues. Many parishes provide a targeted “bottom line” number to the school board as a starting point for developing the school budget.

### Parish Organizations

Each parish organization should develop a realistic budget for the following fiscal year. These budgets may use the natural account descriptions in the Chart of Accounts, the Organization Revenue, and Organization Expense accounts.

If an organization contributes to the general welfare of the parish and/or school, such gifts should be charged to the same revenue account to which the gift is recorded, but in the QuickBooks class assigned to that organization. The gift revenue and gift expense eliminate in consolidation and preclude the revenue from being assessed twice by the Archdiocese.

### Capital Budget

A capital budget differs from an operating budget in that revenue and expense items are generally non-recurring each year. The Archdiocesan Finance Office established the parish Chart of Accounts so that capital campaign revenues are recorded on a cash basis and capital expenditures are not capitalized and depreciated. Essentially, these items flow through the statement of activities similar to those in the operating budget. However, it is essential that the capital budget is prepared separately to insure that donor restricted gifts (e.g., capital campaign revenue) are not used to fund operations.

Every parish should conduct an evaluation of its physical plant at least once a year to identify items of deferred maintenance or need for replacement. Such items should be categorized according to degree of urgency. Items of greatest urgency should be included in the budgeting process. When appropriate, parishes may apply for assistance from the ACA Parish Emergency Fund, or for a distribution from the *Returning God's Gifts* endowments. If capital needs are not addressed, the eventual cost could become more difficult to fund.

### Debt Service Budget

Parishes with outstanding loans from The St. Louis Archdiocesan Fund are expected to repay according to contract terms. The two most common types of loans are construction loans and loans in repayment status.

Construction loans exist to pay contractors during the construction phase of a capital project. A parish may draw on such loans only after it has exhausted all funds specified for the particular project. Interest-only payments are expected to be paid to SLAF on a monthly basis.

Loans in repayment status are those loans for which a fixed total monthly payment of both principal and interest is required.

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While interest expense is recorded on an expense line in the statement of activity, there is no account in the statement of activity for principal repayments, which flow through the balance sheet (i.e., statement of condition) as a reduction of a liability account.

After initial preparation and review of the operating, capital, and debt service budgets, the budgets should be consolidated to determine if the budget is “balanced”. A budget is considered “balanced” if total revenues equal or exceed the sum of total expenses and loan principal repayments. If the budget is not balanced, difficult cost reductions are necessary. On a short-term basis, it may be possible for a budget deficit to be funded from cash reserves if such reserves are adequate, but such a decision should include a consensus of the finance council. Repeated or frequent use of cash reserves to balance budgets may cause a financial crisis where more drastic steps eventually may be needed, resulting in a potential loss of confidence in parish leadership.

### **Cash Flow Forecast**

The cash flow forecast is the last step in the budgeting process and may not be necessary for parishes with adequate cash reserves. Such a forecast is highly recommended for parishes with less than three months of cash reserves. This exercise helps to determine if sufficient cash will be on hand throughout the fiscal year.

Using spreadsheet software, each line item of the annual budget is “calendarized” according to its projected timing. All parishes experience some degree of seasonal cyclicity with larger collections at Christmas and Easter and lower collections during summer months. Also, months with five Sundays normally generate higher revenue than months with four Sundays. Some parishes chart their offertory gifts by month to assist with forecasting the next fiscal year. Similarly, some contract school personnel might choose to be paid over ten months instead of twelve.

If the cash flow forecast identifies a deficit cash position or a narrowly positive cash position, efforts should be made to accelerate cash receipts or defer cash expenditures.

### **Communication**

Approval of the budget should not be construed as approval to spend whatever amounts are in the budget. Each parish should have a well-known process for securing approvals according to amounts and types of expenditure. It would not be prudent to undertake a project if the designated funding is not yet realized.

Each parish and school budget should be submitted to the Archdiocesan Finance Office by the annually designated due date, which is typically the Monday in August following the traditional date for the Feast of the Assumption (August 15).

An important step in the budget process is sharing the plan with the parish community. This should be done at the same time that the prior fiscal year’s financial report is presented. Typically this should occur by than the end of October.