

FY 2010 Budgets—Lessons Learned

Three quarters of fiscal year (FY) 2009-2010 are now history, and parishes are deeply involved in the preparation of budgets for FY 2010-2011. Now is the perfect time to reflect upon common problems and lessons learned from the current FY budget.

Declining Contributions. From our experiences with many parishes, it appears that several have overestimated Sunday contributions — some to quite a large degree. We have found this to be true even for parishes that budgeted no increase in offertory revenue. Yes, some of the declines in offertory levels can be attributed to our national economic problems, and we hope that the recent appearance of somewhat brighter economic news may signal a reversal of this condition. However, too often the assumed cause is the easiest, but an incorrect, answer.

If you are experiencing a decline in giving, examine the situation closely in order to identify the real source of the problem. Once you have identified the root cause, you can design and incorporate appropriate countermeasures into your plan. We also highly recommend applying the “gold standard” of budgeting best practices: budget for actual offertory receipts to be only 90% of the amount you truly believe can be achieved. Then, if you do meet or exceed the amount you felt you could raise, you will have a surplus of ten percent or more that can be used to establish or increase reserves, to fund capital projects, to prepay debt, or to be available for other non-recurring expenditures.

Declining Enrollments. Some parish schools are experiencing great difficulty in achieving what turned out to be overly optimistic enrollment projections. This problem can compound budget stress, since lower-than-expected enrollment translates almost immediately into lower-than-expected revenues and an operating expense burden that cannot be met without the revenue that was expected from the budgeted

enrollment level. Institutions that have limited or no reserve funds to draw upon may find that the combination of reduced revenue and higher-than-necessary operating expense has moved them into a serious financial predicament in only a year or less.

Increased Need for Aid. Another difficulty observed this past year revolves around student aid. A number of schools have told us that although their enrollment is equal to or greater than projected, parents are experiencing a growing need for financial aid. This leaves the school facing a serious revenue shortfall, as much as tens of thousands of dollars, and begs the question of how best to respond to this situation.

Responses to the growing financial need of parents have been diverse. Some schools have chosen to increase their financial aid budgets, while others have limited the enrollment of those requiring financial aid. Still others have decided to increase allowances in the budget for uncollectible tuition payments. Whatever the choice may be, the best approach is one that is well-studied and deliberate. A researched, considered decision requires analysis of trends in enrollment, parental disposable income, tuition assistance requests, and the amount and timing of tuition collections. Taking these factors into account will help to gauge better the financial needs of your potential students. Here, the old adage about an ounce of prevention proves true.

Inappropriate Use of One-Time Revenue. We still observe some institutions budgeting bequests as ordinary operating income. We urge you to classify non-recurring, and frequently variable, revenue sources as “extraordinary” and avoid using it to plug holes in operating budgets. Even if an institution has a solid history of receiving bequests, it is imprudent to rely on the passing of parishioners or donors as a source of operating revenue. To use an uncertain, often fluctuating income source to fund a certain and

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ongoing operating expense is unwise. A better practice would be to use extraordinary revenue for extraordinary expenses or capital items, or to establish or increase capital reserves. At the very least, these revenues should be used to establish operating reserves that can be used to fund shortfalls in subsequent years, after the revenues are in-hand.

Lack of Reserves. Speaking of reserves, we have also noticed during this past year that only a few parishes built reserves into their budgets. In many cases, a failure to build reserves results in deferment of much needed improvements to capital infrastructure. We have seen instances where accumulated deferred maintenance has resulted in the discovery of an expensive repair that needs to be tended to immediately. Due to a lack of planning there was little or no money available to deal with the situation, causing severe financial hardship. Both short- and long-term items (such as routine repairs and larger improvement projects) can and must be anticipated and accounted for in the budget.

While the process of actually crafting the budget is usually confined to a few months of the year, we have learned that every day is budget day. Learning from the past, thoughtfully planning for the future, faithfully executing a good budget/plan, monitoring daily, and recognizing that the future implications of today’s decisions can have a profound effect on ministry constraints, are all key elements to successful budgeting.

CFC Welcomes Renee Sherman

Renee Sherman recently joined CFC as an Associate Financial Consultant. She will assist clients with financial planning as well as financial reporting issues. She has 19 years of experience in the fields of accounting and financial management, working for a variety of firms including KPMG, Motorola, Inc., and Certes Financial Pros. Renee’s particular expertise is in the areas of accounting software implementation, financial reporting and internal financial controls. For the past three years, she has been involved with performing parish merger and financial system consulting work in the Archdiocese of St. Paul and Minneapolis. Renee lives with her family in St. Paul, and enjoys reading and travel.

In Memoriam

Cheryl L. Thompson

It is with great sadness that we report the recent passing of CFC’s Manager of Office Operations, Cheryl Thompson. Cheryl lost her long and courageous battle with cancer earlier this year. A Requiem mass and celebration of her life was held at All Saints Catholic Church in Lakeville, Minnesota, on February 25, 2010. We will always remember Cheryl’s indomitable spirit and the courage and dignity she displayed in her everyday life. She was dedicated to CFC and always insisted on attending to her duties, even when she wasn’t feeling particularly well. We are grateful that Cheryl so generously shared a part of her too-short life with us. God rest her soul, and may perpetual light shine upon her.

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