**All Things Bright and Beautiful, All Creatures Great and Small,**

**All Things Monetary and Financial, the Lord God Made Them All:**

**Fiduciary Exegesis for Clergy**

**How to Read a Budget**

1. All budgets start with income predictions – because we are optimists
2. Income is typically set out by type of income forms

Current year pledge income

Prior year pledge income

Special pledges

Plate – often divided into Christmas, Easter, General

Operating Investment Income – maybe subdivided by category

Unrestricted gifts

Other income – flowers, fellowship events, concerts, rental

Restricted gifts – depends on the restriction

1. Then expenditures are listed by expense category

Administration

Staff Costs

Salaries

Benefits

Social Security

Medicare

Other staff costs – substitutes

Diocesan Assessment

Worship Expenses

Music Expenses

Vestry or Governance Expenses

Christian Education/ Formation Expenses

Outreach Expenses

Fellowship Expenses

Building and Grounds

Repair and Maintenance - Buildings

Utilities

Grounds Maintenance

Depreciation Contribution

Non-operating Income and Expenses

1. Budget should balance – revenue and expenditures

Funds can be taken from non-operating sources – Endowment funds – to balance budget but such funds will be subject to assessment

1. Congregations sometimes “plug in” numbers to bring revenue up to needed level to balance expenditures – fund-raiser, second ask, miracle, manna from heaven.
2. Budget then transfers to monthly financial report

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**How to Read a Financial Report**

Financial Reports are set up just like budgets – income first then expenses.

What you typically see is the monthly income and expenses by line item – matching the budget for that month – then a column that shows what a 12th of the income or expenditure would be, then a column that shows whether that line item is over or under the expected income or expenditure according to an equalized division of the yearly total. The final column is typically a percentage of budget to show another form of over – under.

The good news is to be over on income and under on expenses.

Timing variances are about not getting funds in nice equal installments and about not spending money in nice equal installments. Some funds come in after the monthly reports are run and some expenses come in after monthly reports are run. Some income and some expenses are quarterly or semi-annual items. Some expenses vary by season – electricity or heating, for example. Some people pre-pay pledges; others pay quarterly or semi-annually and a few people pay at the end of the fiscal year (you pray for very few of those).

Trends are more important than single month changes – typically. By end of first quarter, you will have a clearer sense of how the budget year will unfold. By mid-year, the picture gets clearer and third quarter results are fairly predictive. Which is good because you will be building your next year budget starting in September every year.

Still, it is always useful to look for “spikes” in expenditures (and income for that matter) because such signal events may be about problems.

Major changes in income are often tied to larger parish events – trouble with leadership or loss of confidence in vicar/rector/clergy issues. Sometimes, it is useful to check the parish register to see if Sunday attendance has taken a major change unexpectedly. Episcopalians are notorious for voting with their checkbooks when annoyed or disappointed with events or people at church.

Some changes are peculiar to parish DNA. Some places do have “summer slump” in both income and attendance while for others it can be “snowbirds are gone” slumps. It is also helpful to work with a congregation to encourage pre-pay pledges, automatic pledge payments and other forms of smoothing out pledge income so that cash flow is manageable.

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**How to Read a Balance Sheet**

1. A balance sheet is a financial picture of an organization taken at a particular point.
2. Balance sheets show assets, liabilities, and equity.
3. Balance sheets, in fact, always balance – assets = liabilities + equity.
4. For churches, equity is the value of the ground and buildings plus retained earnings – e.g., endowment funds and other held restricted funds
5. Funds held at the moment of the balance sheet calculation are off-set by expected liabilities – e.g., salaries to be paid, and as yet unpaid but known bills.
6. The purpose of the balance sheet is to look simultaneously at assets, liabilities, and equity to see the whole financial health of the congregation.
7. Typically, a balance sheet will show current month and previous month balance with percentage changes noted – either increases or decreases.
8. As with financial statements, the trends are what matters – some changes are expected although major shifts in a month will need to be examined and explained. When congregations take funds out of equity to pay for capital expenses, some vestry/bishop’s committee notes should be entered into the meeting minutes to clarify such changes.
9. Because all congregation operate on the basis of fund accounting, congregations will have many line items – it keeps the origin of the particular money clear and helps to track the flow of that money through the organization. Imagine a dollar with a tag on it – when it comes in the door, the origin of the dollar is noted and its expected or required usage is noted so that a track record exists of each and every dollar received, invested, and spent.
10. Balance sheets are where you can find the long-term resources – the equity – retained earnings of the congregation. Thus, it is a critical addition to financial reports and budgets which focus on operating income and expenses.