



# CATHOLIC DIOCESE OF CLEVELAND

## Financial Policy & Procedure Statement C

### PARISH BUDGETING



#### PARISH BUDGETING

The preparation of a budget for the parish or grade school is strongly suggested.

#### DEFINITION OF BUDGETING

A budget is an estimate of income and expenditures for a specific project or period. It is important to note the budget is an estimate. In preparing a budget, it is not essential that each category or line item be exact.

A budget is a detailed plan outlining the receipts and disbursements of the parish over some given time period. It represents a plan for the future expressed in formal terms. Budgets assist in planning and controlling expenditures.

The budget is a planning tool. It can be used to project activity, or to estimate the projected economic impact of offering a particular program or function. The budget should provide a basis of the past to form a foundation for the future.

#### DIFFERENCE BETWEEN PLANNING AND CONTROL

Planning and control are two separate concepts. Planning refers to the development of the future objectives of the parish, and the preparation of the budgets to achieve these objectives. Control refers to the steps taken by the parish to ensure the objectives set in the planning process are attained. To be effective and useful, a budget should provide both planning and control.

A good budget process requires the pastor and finance council to give planning a top priority. Budgeting provides the pastor a method to communicate plans for the future of the parish in an orderly way throughout the parish. All parish projects of a material nature should begin with the establishment of a budget.

#### ADVANTAGE OF BUDGETING

1. It provides the pastor and finance council with a way to formalize their planning efforts.
2. It provides definite goals and objectives.
3. It coordinates the activities of the entire parish by integrating the plans and objectives of the various organizations.

In the planning phase of preparing a budget, capital expenditures should be thoroughly considered. A separate sub-committee of the finance council should be created to handle the capital needs of the parish. Capital expenditures should have a separate budget. This area typically needs a thorough review by persons with knowledge of mechanical systems, building maintenance, and construction. Proper planning in this area will ensure the parish will have funds available when purchases and or improvements are necessary. Without such long-term planning, a parish may suddenly come to the realization that substantial purchases of equipment are necessary, but find no funds are available to make the purchase. Consultation with the parish maintenance staff may be appropriate at this phase of the budget process as they would have a through knowledge

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of the present condition of the buildings and grounds and would likely be able to place a priority on the projects needing consideration.

#### **BUDGET PERIOD**

The Diocese of Cleveland requires all parishes operate on a fiscal year. The fiscal year begins on July 1 st of each year and ends on June 30th of the following year. The normal fiscal year consists of 12 months. The budget year and the fiscal year should be the same.

#### **THE BUDGET COMMITTEE**

A separate sub-committee of the finance council may be established as the budget committee. The committee is responsible for coordinating the preparation of the budget itself. Difficulties between parish organizations and parish functions are resolved by the budget committee. The budget committee should present the balanced budget to the pastor and finance council for approval.

#### **ZERO BASED BUDGETING**

Zero based budgeting is extremely useful in parish administration. The zero base concept is so named because the parish is required to start at zero budget levels every year and justify all costs as if the programs or expenditures are being initiated for the first time. NO costs are assumed to be ongoing in nature. The parish must start at ground level each year and present justification for all costs in the proposed budget, regardless of the type of costs involved.

The process of zero based budgeting differs from traditional budgeting in which budgets are generally initiated on an incremental basis; that is, the parish starts with last year's budget and simply adds to it (or subtracts from it) according to anticipated needs. The parish does not have to start at ground each year and justify ongoing costs (such as salaries) for existing programs. Under the traditional method of budgeting rarely are programs or activities examined to determine if they meet the needs or objectives set, or if the programs were efficient and effective. Once an item or program is included in a budget, it becomes an "automatic" item and the need for this item is never questioned.

Zero based budgeting encourages the parish to look at its operations from a functional basis. The goal of each function is examined, and programs necessary to meet the goal of each function should be considered. The benefits of each program are matched against the costs of achieving the benefits. Zero based budgeting is goal oriented.

The advantages of using zero based budgeting are clear. This method encourages good planning and the establishment of goals by activity. Activities are evaluated and ranked in order of importance to the parish, and the evaluation of results of programs to see if goals are being met.

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#### STEPS TO FOLLOW FOR IMPLEMENTING A ZERO BASED BUDGET

1. Divide the parish into segments
  - Parish
  - School
  - Other activities
2. Establish a mission for each segment Parish mission statement School mission statement Mission statements for parish groups
3. Establish objectives for each segment based on the mission to be accomplished (these objectives should be reviewed annually).
  - Each objective should be listed with the benefit to the parish, school, or other activity.
  - List several alternatives to meeting objective and the pros and cons of each alternative.
  - List what the consequences would be if the objective set forth for the program is not carried out or not met. The mission statement should be considered here; if the program is not done, what is the probable impact on the mission.
4. Prepare a detailed, completely documented schedule of the costs associated with accomplishing the program and any revenue that could be generated to offset the costs. It would be ideal if each program could be self-sustaining and not require parish resources needed for other activities.

Each parish is required, by diocesan policy, to have a finance council. One of the functions of the finance council is the preparation and presentation of an annual budget for both operating and capital expenditures based upon goals and objectives determined by the pastor and the pastoral council. Another function of the finance council is the integration of the goal setting process with the budget preparation to insure that financial resources and goals are in line with each other. It is recommended the parish business manager and/or bookkeeper be present at Finance council meetings.

#### SUMMARY

1. Preparing the budget is a complex task. A financial person should be recruited from the parish to aid the finance council in the preparation of the budget if no one on the committee has experience in budget preparation.
2. Organization is the key to making the budget process as painless as possible. Careful planning is the key to saving time in the long run.
3. The budget process should include the following items:
  - A. Planning (what is to be accomplished)
  - B. Organization (who will coordinate effort)
  - C. Implementation (tasks and programs are efficient and effective)
  - D. Monitoring (compare actual results with a standard or expected result)
4. Review and evaluate results with the finance council and the parish council. At the discretion of the pastor, the annual financial report to the parish could have the budget integrated into the report with variances reported. The finance committee should review all variances and develop an action plan to control the variances.
5. The budget should be a working document, part of the financial administration of the parish. It should not be a document, prepared annually, just to sit on the shelf until next year. Review of the budget at each finance committee meeting is critical.

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