

THE ESSENTIALS OF FINANCIAL REPORTS ©

by
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December 2013

Reflections On Congregational Life is a service of the Southern Ohio Synod, ELCA

What does a pastor need to know about the financial reports submitted by the treasurer and financial secretary? What information is essential and what is peripheral? The answer to these questions is there are five pieces of information in these reports which a pastor needs to know.

#1 Giving and expenditure patterns

Every congregation has a predictable pattern of receipts and expenditures. No congregation receives and spends 8.33% of its budget every month. Rather, there is an established giving and expenditure pattern as defined by an average of receipts and expenditures over the previous five years. For example, January receipts are 7.75% of the annual receipts. February has 8%, and March has 8.5% if Easter is celebrated and 7.5% if Easter is celebrated in April. Note that no matter when Easter is celebrated, the first quarter income does not equal 25% of annual receipts. If financial information is not based on a historical pattern of giving and expenditures, most congregations believe that they are behind in receipts for the first 11 months of the year because many congregations receive between 15% and 20% of their budget in December.

#2 What are the expected receipts?

There are at least six categories of expected receipts: 1. receipts that were pledged during the annual stewardship campaign. (Congregations that have an annual campaign receive 23% more than those that do not have a campaign.)

2. Not all members of a congregation pledge. For most of those who do not pledge, there is a normal pattern of giving. The financial secretary can estimate annual receipts from this group.

3. Every congregation receives receipts from "the plate offerings" every Sunday. These receipts come from members who do not want their giving pattern to be known, from visitors throughout the year, and family members of those being baptized or confirmed.

4. Many congregations have a fee schedule for

the use of their building for weddings, funerals, rentals by individuals, and rentals by outside groups. If these funds support any part of the general budget, they are counted as part of the annual receipts.

5. Many congregations have investments and endowments for a variety of purposes including yearly contributions to the annual budget. Financial advisors can be fairly accurate on the dividends a congregation can expect to receive.

6. Finally, it is not abnormal for a member to give a special financial gift to the church. The reason is the baptism of a grandchild, the celebration of an anniversary, or the stock market did well and the member wants to say thank you to God.

The essential information of the financial report on receipts is the amount received from all six sources of income. Using the historical pattern, the essential part of the report is:

- In January, we received \$11,250.00
- Historically, we receive 7.75% of our annual income in January.
- We are tracking at 100% of expected giving.
- Our January offerings indicates we will receive \$150,000 this year.

The above reporting sends a totally different message than if all calculations were based on 8.33% as the expected receipts for the month.

This format for reporting can also be used by pastors in the care of individual members. If receipts are significantly above or below expected levels, the question is, Why? Are lower than expected receipts because one or two individuals, who are large contributors, are behind in their giving or is it because a group of individuals are behind. In either case, the pastor seeks out these individuals or groups and says: "I know that when there is a change in giving patterns something unusual is happening in an individual's life. As your pastor, I am concerned for you. Is there anything that I can do for you?" This conversation can bring about the following responses: "Nothing is wrong and I will meet my pledge in this week's

offering.” Or, “The market is down and I was waiting for a more beneficial time to transfer stock to meet my pledge. If the church does not need my contribution immediately, I would like to wait another month before I transfer stock to meet my pledge.” Or, “I have been troubled by recent decisions made by the governing board. I am glad that you called.”

A word of caution is needed. Receipts patterns vary somewhat month to month; i.e., a particularly strong January followed by a weak February. Quarterly receipt patterns have less variance. Therefore, a quarterly analysis of all financial reports will have more accurate information than a monthly analysis.

#3 What are the expected expenditures?

Expenditures also have historical patterns. Treasurers will see peaks and valleys in the paying of congregational bills. For example, January can be a peak as the heating and electric bill indicate colder weather and the “extras” needed in worship and fellowship events in the celebration of Christmas. The months following Easter and Vacation Bible School will also have extra expenditures. In contrast late spring and summer have a decline in activities thus lowering many bills. Months with the annual or semi-annual insurance bill will be higher than those without this bill. With a historical pattern in mind, the financial report should include an analysis on how expenditures are matching expectations. When expenditures match expectations, financial anxieties are lowered and especially if receipts are also matching expectations.

#4 What unrestricted funds exist?

Many congregations have separate accounts within their financial portfolio. Some of these are what I call “loosely designated funds.” Loosely designated funds are funds that must be used in a designated area but there are no other restrictions. One of these funds might be designated for building maintenance and repairs. These funds can be used for a sudden repair such as the replacement of a boiler in the winter. But the fund can also be used for general maintenance. This fund becomes especially useful when the budget is not completely funded or there is a sudden unexpected decline in receipts.

Another loosely designated fund might be a fund designed to support any program that reaches outside the congregation to introduce non-believers and non-members to Jesus and the con-

gregation. A possible use of this fund might be to fund half of the Vacation Bible School since one-half of those attending the School are not members of the congregation. Each year, four new families join the congregation because of the School and follow-up calls from the pastor or the church staff.

Financial reports should include a brief definition of when loosely designated funds may or may not be used. Without a clear definition, there is likely to be an argument whenever this fund is used.

#5 What restricted funds exist?

It is normal for congregations to have at least one restricted fund. This fund is tightly defined. For example, there is the flower fund that can only be used to purchase altar flowers when members have not filled every space on the flower chart. I know of one congregation that has a Lounge Fund that is to be only used to update the furniture in a designated lounge. The restrictions on these funds must be strictly observed.

Final thought

The above information can be added to current financial reports by adding an executive summary. This section includes only monthly receipts vs expectations, year to date receipts vs expectations, and a projection of annual receipts based on historical giving patterns. The same information is provided for expenditures.

If current financial reports contain every line item in the budget, columns are added for expected receipts and expenditures. This is particularly important in the expenditure area. For example, the line item for Vacation Bible School should have zero expected expenditures for the first six months of the year. In July and August, VBS is expected to spend 95% of its budget. Five percent will be spent in September because small bills were not submitted in a timely fashion.

With a historical perspective on receipts and expenditures, pastors and congregational leaders can more accurately judge the financial health of their congregation.

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