FINANCIAL MANAGEMENT:

A NECESSARY EVIL FOR CONGREGATIONS

By Gary S. Zuckerman
FINANCIAL MANAGEMENT:
A NECESSARY EVIL FOR CONGREGATIONS

Financial management can be described as an "intrinsically logical, albeit sometimes boring, subject." Financial Management is an area of administration that cannot and should not be ignored. It encompasses both day to day and long term management decisions and is an area that the Board of Trustees should take a very active interest in.

Financial management is utilized in many different aspects of Temple or Congregational Management. It can be used in the day to day purchasing of supplies, the long term investment of Endowment funds, the everyday operations of the congregation and several other areas.

How can Financial Management be beneficial to a Congregation? With the proper financial management a congregation can prepare budgets based on its own financial history. "Budgeting does not represent an accounting function but instead is a financial management function."

Budgets can be prepared in several different ways and from several different aspects. A congregation, according to its own needs, may budget according to departments, the basis of service or the object of the expenditure. Most importantly, a budget should be "a complete financial forcast based on available data, which, in part, should be obtained from the results recorded in prior years."
Financial Management: A Necessary Evil for Congregations

The budget process should begin with an examination of the prior year's budget compared with the actual expenses and income. Those items which are out of line with the budget amount need to be closely examined to determine the reason for the item being over or under budget. If an overage was determined to have occurred due to an unbudgeted charge beginning, i.e. paying for a service or product that had been provided in the past at little or no cost to the congregation, then this item will need to be budgeted for in the future. If at the same time, a windfall of donations came into the operating or main budget, you would not want to budget to receive those funds again unless the funds were utilized to provide for or came from an ongoing source. Following the examination of the income and the expenses, the budget committee should request input from other committees or departments of their expected needs. A budget usually is only prepared for one year at a time, although certain items, such as professional contracts, may be for a longer period. When the other departments or committees have submitted their projected income and expenses, the budget committee then has the responsibility of assembling the data into the budget for the next year.

As the budget is being prepared, it should be compared with the cash flow analysis and projection for the next year. A cash flow analysis, also prepared on an historical basis, will tell those responsible for the operation of the congregation how the funds have been received and spent. It will show the period or
periods of the year where expenses exceed income, at which time borrowing may become necessary and it will also show when the opposite occurs, excess income over expenses at which time investments should be made.

The next step in successful financial management goes hand in hand with preparing the budgets. This step consists of setting specific financial management goals utilizing the budget and cash flow analysis.

What type of specific goals should be set? If the budget operates year after year at a deficit, then a major goal should be to raise the additional funds needed to erase the deficit. If the budget is operating at an excess, then plans should be made on how to protect these funds for future use.

Who should be consulted when setting the specific goals to be followed? The President will usually appoint a committee made up of several qualified members from the congregation and the Board of Trustees. This committee should consist of people who are willing to serve and each should have some expertise in the financial or management area. This committee, like all committees, should have a specific goal in mind when it convenes and a specific time frame in which to complete the assigned task. If these committee members feel it is necessary, an outside financial expert may need to be consulted.

Once the committee has established the specific goals, they should be presented to the proper authority, either the Board of Trustees, the Executive Committee, a Past Presidents Council, or whom ever is responsible for approval. Once this approval has been obtained, with changes being approved by the original
committee, it then must be decided who will assume the responsibility for implementation of the goals. This responsibility can be given to the administrator, a designated officer or officers, or a financial committee.

The Administrator or Executive Director, by the very nature of his or her position has a major responsibility for the implementation of all new policy. In overseeing the day to day operations of the congregation, the administrator can implement financial management guidelines to avoid excessive and needless spending. Should the administrator decide not to follow the new or any of the old guidelines, then they must explain their reasons for not doing so.

By utilizing financial management in many areas of the day to day operations of the congregation, the administrator can help to maintain the balanced budget all congregations strive for. An example of the use of financial management would be when the need arises to purchase supplies for the congregation. By obtaining the best price available, the supply dollar can be stretched. In order to obtain the best price available, a supply inventory (or an inventory or any regularly used item) should be maintained. An order should be placed in enough time for delivery or pick up to be made without exhausting the current supply and giving time to shop for the best price. Of course, even with the best system, there will be times that a rush order will be needed and the best price may not be able to be obtained. These instances should be the exception to the rule, not the rule.

Cash flow should be the most closely watched financial
management tool. The administrator, in working with the accountant or bookkeeper (or themselves, if they function as the accountant) must keep a close watch on the cash flow of the congregation. Good cash control should involve the following items:

1. The timely depositing of all cash receipts.
2. Maintenance of a daily cash balance sheet or log.
3. Investment of all excess cash on a short term basis.

While each of the areas of cash flow is an independent area, they all must function together to be successful. It can be up to several different people to ensure the timely depositing of cash receipts and by the process of cross training, if one fails to do their job, the whole system will not and should not come to a stop. They all have to work together to get all the steps followed. Timely depositing should include the recording of cash receipts properly, no matter what their source. A cash receipt can be cash, check, coupons from bonds, stock or a credit that appears on a bank statement such as interest and can be applied to any of the congregation's income or asset areas. Once recorded, all checks should be stamped "For Deposit Only" and the correct account name and number placed on the check. A ready made rubber stamp is the fastest and most convenient way to do this. Cash should be counted and all checks and cash listed on the deposit slip, made out in duplicate. Receipts can also be in the form of non-cash items such as stock, merchandise, personal property or real property such as land. These items should have an appraisal made of them and the decision made as to their disposition. In all cases, the credit to the Congregant's
account needs to be made. Needless to say, some donations are graciosly accepted only to be disposed of for the cash value. If a non-cash item is disposed of, the recording of the cash receipt would be the same as any other. The non-cash donations would not require a deposit slip (can you imagine trying to deposit a Torah at the bank?) and another asset account would be debited in lieu of the cash account. If a congregation is having cash flow problems, then non-cash donations usually do not help unless they can be sold immediately. If a non-cash item is to be sold, then it should be placed in a holding account until the item has been sold and the funds received.

The second step in effective cash management is the maintainence of a daily cash balance log. This can be done manually or by checking the computer (if so equipped) cash account. A recommended procedure is a manual balance which would be reconciled monthly with the bank balance and general ledger. The computer account can only be relied upon if all data is entered and updated on a daily basis. The balance does not have to be detailed, for instance you can list the total daily cash disbursement and cash receipts as opposed to listing each one, but one must be sure to record intrabank transfers (from one account to another account in the same bank with no check or deposit slip to write) and any bank charges which appear on the bank statement. This log will tell you, at a glance, if there is sufficient funds to cover disbursements or if short term borrowing may become necessary. Remember when doing the next year’s cash analysis to include this short term borrowing as an income and expense item.
Financial Management: A Necessary Evil for Congregations

The last step of effective cash management an administrator deals directly with is the investment of idle funds. This decision, as all financial decisions, should not be made by the administrator alone unless he or she is empowered to do so but instead should consult with the Treasurer and or the Financial Secretary for guidance. Idle funds are funds not currently needed to meet today’s cash demands, but may be needed to take the place of short term borrowing. These funds should be placed in an easily accessible fund, such as a money market, and the interest should also be accounted for.

While it may seem that the administrator is totally responsible for cash and financial management, this is not and should not be the case. The administrator must maintain close personal and phone contact with the designated officer or officers who are responsible for the financial affairs of the congregation. This usually will be the Treasurer, but may be the financial secretary or a committee of officers and other financial oriented congregational members. Regardless of who is ultimately responsible for the financial management of a congregation, communication should be an open link and a vital part.

What areas of congregational operation should Financial Management be used in? Financial management can and should be considered in areas other than finance because all areas of congregational life require some sort of financial information. If the planners of a new building did not plan on future growth and manage the funds to build the biggest building they could
accomodate at that time, they may have to always be asking for more money to expand. Management of Endowment and Building Funds, because they provide for the future, tend to require more financial planning than does the purchase of prayer books due to their availability from only one or two sources (although the funds do need to be available to pay for them!).

Are there special considerations a congregation, as a non-profit corporation, should be aware of? The answer is yes. It is easy to say during the budget process that we will raise dues by a certain dollar figure next year and proceed to do so. But, what happens when dues, after being raised to the limit, do not meet the goal? The budget committee then has three choices:

1. Operate at a deficit, a solution not acceptable to most board members and congregants.

2. Cut the budget, if possible, to make up the short fall.

3. Look for other sources of income, such as a major fundraiser. This is the best alternative if possible.

A non-profit concern, such as a congregation should have very good financial management policies. These policies should be written and understood by everyone who has any access to funds. If the policy is not in effect or not be followed, then the administrator or whomever is in charge of financial affairs should take the proper steps to see that they are reinstated.

If, in conclusion, financial management policies are not being utilized by a congregation, they should very closely and very quickly re-examine their financial thinking. If they are being utilized, and the congregation feels it is financially successful, that is, they can offer increased programing and
staffing without yearly dues increases, then their financial management is working well. If, on the other hand, financial management policies are being followed, but there has had to be a decrease in programing or staffing and several increases in income sources the financial management policies should be re-examined.
FOOTNOTES


LIST OF REFERENCES


