

Constituent Lodge Financial Management

In order for any institution to be strong and survive it must have its financial house in order. Whether we like it or not, in the management of our Lodges, we must have financial stability and it is the responsibility of the Officers of the Lodge to insure that their Lodge is financially stable.

In the by-laws of Lodges any mention of financial matters is usually limited to dealing with the duties of the Secretary and the Treasurer. However, this should not be taken as an indication that the other Officers have no responsibility for the financial well being of the Lodge.

The Treasurer of a Lodge has the primary responsibility for its financial affairs. But all the Officers of a Lodge, as the leaders of the Lodge, must also accept responsibility for the financial soundness of the Lodge.

In the Ceremony of Installation of Lodge Officers, the charge to the Treasurer states that it is the duty of the Treasurer of a Lodge to receive all moneys from hands of the Secretary; keep just and regular accounts of the same and pay them out by the order of the Worshipful Master and the consent of the Lodge.

To insure the financial stability of the Lodge the Treasurer must do more than receive the funds from the Secretary, deposit these funds in the bank, pay them out as directed, and make the appropriate entries in the financial records of the Lodge.

In addition to completing these important duties, the Treasurer also needs to be monitoring the Lodge finances on a regular month to month basis and to be looking ahead and planning for the future financial requirements of the Lodge, to insure that the Lodge does not become financially embarrassed.

How does the Treasurer do this?

The financial statements of the Lodge are the vehicle to be used to monitor the financial operations and the financial position of the Lodge and for reporting to the members.

The first question that must be answered is "what format is the most appropriate to permit a proper monitoring to take place and to present the financial information to the officers and members of the Lodge".

Having decided on the format that is to be used, one then needs to design a "Chart of Accounts" that will enable the financial information to be assembled in a way that will facilitate the production of the financial statements.

Appendix "A" presents a sample balance sheet and Appendix "B" a sample operating statement. Appendix "C" is a sample Chart of Accounts to enable such a statements to be produced . These can be modified to accommodate situations which may be present in a Lodge's affairs which has not been contemplated in this sample.

Lodge accounts should be maintained on the "accrual" basis. The accrual basis requires that revenue be recorded when it is earned and expenses recorded when they are incurred. This differs from the "cash" basis which simply records cash received and cash paid out. While the cash basis will give an accurate record of the cash transactions during a period it does not give an accurate picture of the Lodge finances. It does not record amounts which may be owing to, or payable by the Lodge.

The "accrual" method while requiring extra effort does give the most accurate picture. The principal difference between the "cash" and the "accrual" methods will be the setting up of the accounts receivable from the members and insuring that any financial obligations incurred, whether paid or not, are included in the accounting for the operations.

This method will also require certain entries to be made at year end to write off any dues which will not be collected as a result of deaths or suspensions.

After the basic decisions have been made on the form of financial reporting to be utilized by the Lodge the next important task is to prepare financial projections which will help to chart the financial course of the Lodge. Proper forward planning will enable the Lodge to manage its financial affairs rather than be managed by them.

The financial projections should preferably look out for a five year period. Projecting the finances out for five years will help to avoid unpleasant surprises and provide the management of the Lodge with information which will enable them to better manage the financial challenges of the future.

The projections will of necessity require the preparer to make assumptions on the many matters which will impact the finances of the Lodge. Such as the impact of inflation on the expenses of the Lodge; if the Lodge owns its Lodge building, the probable level of major maintenance and repairs; and the likely level of membership in the future.

Preparing financial projections will not guarantee that the actual results will be exactly the same as the projections, but they will help to highlight potential problems and enable the leadership of the Lodge to make plans to deal with the future impact in an orderly fashion.

Treasurers who are not trained accountants might say that they do not have the skills necessary to prepare the projections. To this I would reply that the preparation of the projections is not nearly as difficult as one might think.

Common sense and an adding machine are the essential elements to undertake this task. If one is computer literate the projections could be prepared on a spread sheet (Lotus 123 or Microsoft Excel) thereby removing much of the mathematical calculations and helping to simplify the task.

The projections should be prepared well in advance of the start of a new years operations in order that any by-law amendments which may be required to alter the level of annual dues can be dealt with on a timely basis.

The first step in preparing projections is to examine the financial records of the Lodge for the past several years. These will provide a very solid indication of the types of expenses that are incurred by the Lodge in its operations and will serve as the basis for projecting expenses into the future.

Appendix "C" presents a sample five year projection. This projection assumes an increase in expenses at an inflation rate of 2.5% a year.

In projecting the expenses it will be necessary to consider, in addition to the inflationary impact on the normal expenses, any unusual items which may arise during the five year period.

Once the expenses are projected it will necessary to determine the source of the funds which will be required to cover the expenses.

The principal source of revenue will be membership dues, however, there may be other sources such as investment income or rental income. These revenues would then be deducted from the expenses to determine the level of revenue required from members dues in order to balance the budget. By dividing the revenue required from dues, by the projected membership numbers, the minimum amount of annual dues from each member is evident.

The projections should be prepared annually, with the first year in the five year plan being adopted as the budget for the next fiscal year. Each year, as the next five year projection is prepared, the actual results to the date of the projections should be reviewed to insure that variations from the plan are taken into account in projecting the future.

If the accounting records of the Lodge have been set up to permit the timely preparation of the financial statements it will be possible to monitor the actual results in comparison to the projections on a monthly basis. By doing this any significant deviation from the projections will become evident and decisions can then be made which may help to avoid the financial operations resulting in a deficit for the year.

The form of accounting records maintained by the Treasurer may vary from Lodge to Lodge and this does not matter. The important thing is to know what it is desired to disclose in the financial statements, then design the chart of accounts to permit the financial data to be collected in a way which will permit the easy preparation of the statements.

Depending on the computer skills of the Treasurer it would be possible to computerize the record keeping and thus facilitate the comparison of actual with projections. There are a number of inexpensive computer software programs available on the market. E.G. Quick Books; Simply Accounting; Peachtree; M.Y.O.B.

Appendix "A"

THE ABC LODGE

**Balance Sheet
December 31, 2003**

ASSETS

	<u>Current Year</u>	<u>Prior Year</u>
Cash	xxx.xx	xxx.xx
Dues receivable	xxx.xx	xxx.xx
Investments	xxx.xx	xxx.xx
Lodge Real Estate	xxx.xx	xxx.xx
Lodge Furnishings	<u>xxx.xx</u>	<u>xxx.xx</u>
Total assets	<u>xxx.xx</u>	<u>xxx.xx</u>

LIABILITIES

Prepaid dues	xxx.xx	xxx.xx
Mortgage	xxx.xx	xxx.xx
Restricted funds	xxx.xx	xxx.xx
Members' Equity		
Opening balance	xxx.xx	xxx.xx
Current year's operations	<u>xxx.xx</u>	<u>xxx.xx</u>
Total members' equity	<u>xxx.xx</u>	<u>xxx.xx</u>
Total liabilities	<u>xxx.xx</u>	<u>xxx.xx</u>

Appendix "B"

THE ABC LODGE

Statement of Operations

For the _____ months ended _____, 2003

	<u>Current</u> <u>Budget</u>	<u>Current</u> <u>Year</u>	<u>Prior</u> <u>Year</u>
Revenue:			
Dues	XXX.XX	XXX.XX	XXX.XX
Less written off	<u>XXX.XX</u>	<u>XXX.XX</u>	<u>XXX.XX</u>
Net dues	XXX.XX	XXX.XX	XXX.XX
Fees	XXX.XX	XXX.XX	XXX.XX
Investment income	XXX.XX	XXX.XX	XXX.XX
Rental income	XXX.XX	XXX.XX	XXX.XX
Miscellaneous	<u>XXX.XX</u>	<u>XXX.XX</u>	<u>XXX.XX</u>
Total revenue	<u>XXX.XX</u>	<u>XXX.XX</u>	<u>XXX.XX</u>
Expense:			
Rent	XXX.XX	XXX.XX	XXX.XX
Printing and supplies	XXX.XX	XXX.XX	XXX.XX
Postage	XXX.XX	XXX.XX	XXX.XX
Grand Lodge Per Capita assessment	XXX.XX	XXX.XX	XXX.XX
Installation	XXX.XX	XXX.XX	XXX.XX
Benevolence	XXX.XX	XXX.XX	XXX.XX
Miscellaneous	<u>XXX.XX</u>	<u>XXX.XX</u>	<u>XXX.XX</u>
Total expense	<u>XXX.XX</u>	<u>XXX.XX</u>	<u>XXX.XX</u>
Excess revenue over expense	<u>XXX.XX</u>	<u>XXX.XX</u>	<u>XXX.XX</u>

Appendix "C"

THE ABC LODGE

Chart of Accounts

Account Number	Account Title
100	Petty cash
101	Bank account
110	Dues receivable
120	Investments
130	Land and building
140	Lodge furnishings
200	Prepaid dues
210	Bank loan
211	Mortgage payable
220	Restricted funds
290	Members' equity
300	Annual dues
301	Uncollectible dues
310	Fees for degrees
320	Investment income
330	Rental revenue
390	Miscellaneous
400	Rent
420	Building heat
421	Building taxes
422	Building insurance
423	Building repairs
424	Building electric power
430	Printing and supplies
440	Postage
450	Grand Lodge Per Capita assessment
460	Installation
470	Benevolence
490	Miscellaneous

THE ABC LODGE

Appendix "D"

ACTUAL	ACTUAL	PROJECTED				
<u>2001</u>	<u>2002</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
1,500	1,530	1,560	1,590	1,630	1,670	1,710
750	765	780	800	820	840	860
275	280	285	300	310	320	325
850	865	880	900	925	950	975
600	650	665	675	695	710	730
675	700	715	725	745	765	785
400	410	420	425	435	450	460
1,100	1,125	1,150	1,175	1,200	1,230	1,260
125	125	125	125	130	135	140
100	100	100	100	100	100	100
<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
6,475	6,650	6,780	6,915	7,090	7,270	7,445
175	175	175	175	175	175	175
1,200	1,200	1,200	1,300	1,400	1,500	1,500
<u>100</u>	<u>150</u>	<u>100</u>	<u>150</u>	<u>100</u>	<u>150</u>	<u>100</u>
<u>5,000</u>	<u>5,125</u>	<u>5,305</u>	<u>5,290</u>	<u>5,415</u>	<u>5,445</u>	<u>5670</u>
60	58	56	54	55	56	54
83	88	95	98	98	97	105

