

VESTRY PAPERS

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To inspire, affirm and inform Episcopal leaders in their work

The spiritual side of church finances

by Ibbby Whitten

During these tough economic times, it can be a real challenge to think clearly about the parish budget. As vestry members, we often spend so much time worrying over the “deficits” and “losses” and “funding gaps” reported each month that we are unable to see the true abundance that is right before us.

Many of us on the vestry are not familiar with the technicalities of parish financial reporting. We may even be afraid to ask the finance committee and parish administrator questions about the numbers.

To change our thinking about budgets from focusing on deficits to focusing on abundance, we must first learn to understand budgets appreciatively, and to ask the right questions.

Understand the income statement

In tough economic times, the income statement can become the main focus of your vestry meeting. If your vestry is spending all its time talking about the budget, especially budget deficits, then you have hit your first red flag. While it is important to reduce losses

and overages, it is equally as important to recognize the considerable abundance that has been given. A good rule of thumb to reduce worrying about deficits: if the deficit gets to be greater than 10 percent of the total annual revenue sources, it is time to begin curtailing spending.

After assessing the income statement, it is time to begin assigning meaning to the numbers. Start at the top — not the bottom line — when reviewing your numbers. Determine how much of your parish revenue is variable. Most parishes get a significant portion of their revenue (65 percent or more) from weekly pledges and offerings of parishioners.

This portion of your revenue stream will vary with the number of parishioners, the number who attend and the number who pledge. Another red flag: if your parish weekly service attendance is declining, you should also anticipate a decline in monthly revenue. Once you understand how much revenue is at risk based on attendance variation, then you can concentrate on the other

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*This Issue:
Financial Planning
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Vestry members serve with a wide range of experience, and that is how it should be. Some may know more about finance, others music or liturgy. And yet all are responsible for the financial well-being of the congregation, especially when crucial decisions are on the table. This issue, therefore, provides a look at budgets and long-term planning in the context of faith and mission.

*Inside:
Ten Commandments
for Vestries*





The spiritual side of church finances

components of revenue (endowments, grants, etc.) that are not tied to attendance.

Consider the real questions

After you've reviewed revenue percentages and understand how revenue behaves, turn to your expenses. While traditional expense categories like "salaries, wages, benefits" or "repairs & maintenance" are tools of financial accounting, they tell us very little about the church's ministry. Here is what we really want to know:

- What is the impact of our church on the community?
- Who are the people we help directly or indirectly?

triggers into our budgets to help us respond to difficult financial situations and we find the strength we need by working together in Christian community.

To the extent that we engage in spiritual growth and Christian living that has both integrity and impact as vestry members, we are called to engagement with our budget numbers, not withdrawal. This means looking at the budget with a spirituality that presses ever more deeply into all the places of parish life in search of God's presence and God's gifts.

While it is important to reduce losses and overages, it is equally as important to recognize the considerable abundance that has been given.

A good way to begin to review expenses is to develop a functional income statement — one that categorizes expenses by ministry, activities or goals. Four common groupings are: worship/pastoral care; service to others; Christian formation and evangelism. Direct expenses like supplies can be traced to each of these categories. Indirect expenses like salaries can be distributed or "allocated" across each of the functional areas.

When vestries see a functional budget for the first time, it usually creates a stir. One vestry we worked with recently found it was spending three times as much on worship services as it was on outreach ministry—deemed a crucial priority for the fiscal year.

One senior warden we know says, "Once you understand of the impact of your budget dollars on parishioners and people in the community you begin asking the more important question — not just why are we spending so much, but instead, who benefits from this spending?"

From deficit to abundance

This realization provides us a great opportunity as Christians. It takes us away from the deficit and towards a place of abundance. While we still have to deal with deficits, we are not locked in by them. We can build



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A member of St. James Episcopal Church in Hendersonville, North Carolina, Elizabeth (Ibby) Whitten (pictured above) holds a MBA from Wake Forest University and has worked with a number of Episcopal congregations and agencies in the areas of financial development and strategic planning.

Pledges, endowments and grants are not just dollars on a spreadsheet; they are gifts from the people of God. Likewise, expenses are not just dollars going out for payroll, benefits, or the mortgage, but dollars working in the service of the people of God for the building of Christian community.

Ibby Whitten

Create a sound parish budget

by Craig A. Bossi

Effective budgeting is *not* the result of the stressful days and nights of budget preparation, or the reams of financial spreadsheets produced, or even the many hard choices required to finalize a budget.

Creating a sound budget is the result of two ongoing disciplines: clear visioning, discernment and articulation of your congregation's mission and ministry; and routine, year-round internal monitoring of financial results and regular reporting within the vestry and to your congregation on its financial status. These two disciplines establish a foundation for creating an annual budget.

on track. Larger churches with greater resources will be able to develop a more decentralized process, one where program staff plays a greater role in budget development and priorities. In either case, the process must be sufficiently inclusive — involving as many constituents as is practical — so that there is true ownership of the final budget.

The rector and the vestry should create a one-page summary of the key budget premises and priorities, for this will serve as a valuable guide in many of your budgeting decisions. By sharing these with the congregation, you will enhance transparency



How, then, to begin?

- Set up a formal budgeting process that makes sense for your congregation;
- Establish written budget premises and priorities;
- Set a time line for creating your budget with clear milestones;
- Build flexibility into your budget assumptions to account for the uncertainties of the current environment;
- Remember to incorporate your anticipated capital requirements (monitor & repair).

Start by constructing a thoughtful, practical budgeting process. Smaller congregations with limited resources to call upon (e.g., no full-time staff) will need to develop a more “top down” process, one led by the rector or vestry treasurer who will keep the process

about the decision-making process and minimize some of the personality dynamics that can naturally occur when people are passionate about their programs and ministries.

Begin four to five months in advance

Give yourself plenty of time. Begin the budgeting process four to five months before the start of the new budget year. Make clear who has what responsibilities, and set realistic milestone dates for internal progress review meetings.

Create a baseline budget that captures your best sense of what is attainable for the current environment. Anticipate a few scenarios, and be honest about your expectations: the worst case, the most likely case, and the best case. Identify (ahead of time) expenses that can be reduced or



According to a survey with over 800 Episcopalians in the Diocese of Minnesota, Episcopalians who engage in outreach are much more hopeful about the state of the church, more likely to know their spiritual gifts, more likely to use them, and more confident in proclaiming the good news of God in Christ.



Create a sound parish budget

eliminated, as needed, if income falls short of budget through the first quarter of the year.

Unless you are planning major capital improvements, you will not need to develop a separate capital budget projections. But remember to incorporate baseline maintenance and repair into your operating budget (even if you intend to capitalize these costs on your books). Too many parishes fail to budget for basic capital needs – and this is key, especially in tough times.

baseline budget can find itself seriously short of cash. Setting up a basic cash flow forecast can help identify when to anticipate cash shortfalls and what steps to take to address them. For example, this year some persons or families may not be able to make pledge payments as regularly as in the past. Determine a strategy to meet cash flow needs if pledge income is more delayed than in the past.

Affirm that your congregation has the necessary safety measures in place and enforced

In these hard economic times, leasing out part of a building may seem like a quick solution. But be sure to consider the issue from all sides and consult with other congregations or diocesan representatives to see what their experience has been. Such a partnership with an outside group is rarely simple or problem-free.

Begin the budgeting process four to five months before the start of the new budget year.

Issues to remember

Avoid expenditure budgeting that simply takes the results of the prior year (or years) and applies some percentage for growth or contraction. *Rather, build your expense line items from the ground up.* If a certain program costs \$X thousand dollars, the accuracy of that assumption should be tested and proven by back-up detail that describes the components' costs.

Bear in mind that *cash flow* – the timing of cash inflows and outflows over the course of the year – can be a source of great strain on a congregation. Even a readily attainable

to prevent mismanagement of funds. The budgeting process provides an opportune time to review what checks and balances are (and aren't) in place.

No budget – in good times or in tough times – will work out exactly as you had planned. The challenge is less about precise forecasting, and more about managing your financials so that you stay within the guiding premises of the budget.

Craig A. Bossi is the vice president for finance and administration for the Episcopal Church Foundation.

The Ten Commandments for Vestries

by David A. Williams

Thou shalt accept the fact that you can't fix everything.

Thou shalt accept the fact that if you were not a child of God, you would not be here.

Thou shalt accept the fact that loving each other as Christ loved us is often very difficult – but it works!

Thou shalt accept the fact that church life is sometimes hard, frustrating, and unfair – but always interesting.

Thou shalt expect the best only from yourself – others will follow your example.

Thou shalt trust that your colleagues will be able to work out problems better than you can by yourself.

Thou shalt remember that your feelings will get hurt – learn to forgive and move on.

Thou shalt hurt the feelings of others – seek their forgiveness and move on.

Thou shalt remember that we are all more human than otherwise – so learn to enjoy yourself.

Thou shalt remember that in all things we say, think, and do, God is with us.

David A. Williams, D. Min., is the rector of St. Stephen's Episcopal Church in Charleston, South Carolina.

L.E.A.D.E.R. – The Mission-Driven Budget

By Matthew Freeman

It's no secret. Parish budgets usually aren't dynamic or compelling. They're a series of numbers trapped in straight lines. Context is everything. In the right context, those numbers are the legend to a map: Where did we come from? Where are we going? How far have we come?

What follows are insights into the “narrative budget,” growing in popularity because of its ability to draw members of the congregation into the budget process...and keep them there.



L List your ministries

Appoint a team to create an overview, with as much detail as possible, of the ways your different ministries serve both your congregation and community. List where you came from (longtime and continuing ministries), where you are (What happened last year and this year? What's new?) and where you are going (your “wish list”).

E Elaborate on these ministries

Write a short (50-75 words) paragraph describing each ministry on your list. Make sure these paragraphs include people, dates and specifics.

A Arrange your ministries into a narrative

This is the heart of the process. Determine which of the listed ministries should be included in the Mission-Driven Budget; which coincide most closely with your mission as a parish. Then, take the chosen ministries and arrange them to tell a story: where we were, where we are, where we are going. Include a compelling message, a sense of movement, people in the parish, and describe a happy outcome. Include that which is pressing, immediate and necessary.

D Distribute and communicate these ministries

Publish your document, with images and numbers in support, and get the message out to your congregation. Make sure the information is distributed by hand, by mail, in meetings, via e-mail and available on the church website.

E Engage with the congregation

Once the budget is in people's hands, be sure to speak with members of the congregation, get feedback, make note of comments, and see if the budget is effective. This will take the budget “off the page” and help people think of it as a living, breathing expression of the organization. It will also help to inspire new thoughts for next year's budget.

R Remind the congregation of the continuing ministries

Keep the discussion and updates coming. Use it for reference when discussing the progress of supporting specific ministries; have it mentioned during the announcements. Don't allow it to be a once-read document. Use it as a guide to your year.

Matthew Freeman is the assistant program director for planned giving with the Episcopal Church Foundation.

Cast your nets on the other side of the boat and there you will find some fish.

John 21:6

The thief comes only to steal and kill and destroy. I came that they may have life, and have it abundantly.

John 10:10



A Good Crisis is a Good Opportunity

by Rees Olander

The latest saying making the rounds is, “Never waste a good crisis.” And with good reason, for whether congregations find their budgets funded through pledges or endowment income or both, vestries are facing hard financial decisions.

Parishes often find the number of their programs grow continually. New ideas are

developing a plan to communicate the changes to the parish. After establishing a new endowment value “base” for sustainable spending over time, they reduced the budget by \$750,000 by the start of 2011. The finance committee would monitor the need for further cuts.

Steps to Take:

- Chart the multiyear impact of reduced endowment value.
- Set a new target for sustainable spending.
- Plan in multiple-year cycles, with quarterly monitoring.
- Take decisive action on where to make reductions.
- Support the collective decision.
- Communicate clearly with the staff and parish about decisions.
- Engage parishioners in implementing ministry evaluation.
- Consult with peer congregations.

Rees Olander

Parishes often find the number of their programs grow continually. New ideas are birthed, but rarely do ministries retract.

birthed, but rarely do ministries retract. Often staff size increases to support them, the active core of members stretches to implement them, and burnout increases. Frequently the most limited resource is not money — but intentional focus.

With the current intense financial pressure from all sides, then, the climate is right to reevaluate ministries across the board:

- Which ministries transform members?
- Which lead to deeper formation in Christ?
- Where can we simplify?
- How are all of these tied together as an expression of stewardship?

Such a situation was faced recently at Christ Church Cathedral, Indianapolis. When Dean Stephen Carlsen watched CNN coverage of the Wall Street crash during a mission visit in Brazil, he knew that his congregational world had shifted overnight.

The Cathedral, a beneficiary of philanthropist Eli Lilly, depends upon endowed funds for most of its operating income. Those funds support a professional staff, significant local outreach, global partnerships and a \$500,000 contribution to the diocese. With a drop in fund values of 28 percent Dean Carlsen knew that the vestry could not wait until 2010 to make adjustments.

As do many philanthropies and endowed parishes, the Cathedral uses a “total return” model, drawing down 5 percent of a rolling, twelve-quarter average. The 2009 draw and budget had already been approved. To delay addressing the dramatically reduced endowment value until 2010 would wreak havoc on future operations. The dean and vestry spent their February retreat focused on making immediate budget changes and

Painful but necessary cuts

Painful but necessary cuts would begin immediately, and the outreach ministry committee was given two-year reduction goals. The most startling realization was that, over the years and with good intent, the budget had grown to provide parishioners with \$280,000 worth of direct benefit not recovered by fundraising or contributions — activities such as outreach and music travel and parish retreats. The endowment had allowed the church to lessen economic barriers within the parish, but had inadvertently fostered a “co-pay” model with not enough regard for true expenses or member ability to cover costs. Here was an opportunity.

The vestry prepared a communication plan and agreed to support collective decisions in private as well as in public. The dean implemented staff reductions within the week and announced them in a letter to the parish before a congregational meeting called for Sunday. At the meeting both the vestry and the dean outlined the challenges and responded to questions.

The Cathedral vestry has also called a task force to assist the parish through the challenge of moving from a “co-pay” to a “parish grants” model, where members and new projects apply for support rather than assuming it. The hope is that the outcome will be focused, sustainable ministry, generating strong congregational financial support.

Canon Rees Olander serves as senior associate of Christ Church Cathedral, Indianapolis, and is on the board of the consortium of Endowed Episcopal Parishes.

Audits: A necessity, not an option

by Tom Patterson

These are real headlines that cause lay and clergy leaders to worry in trying times when pressure on church funding increases:

"Contracted support person over bills church"

"Church financial records in disarray"

"National treasurer admits to misuse of funds"

Especially in these difficult economic times, when every penny counts, an effective church audit is a necessity and no longer an option. Canon law also requires (Canon I.7.1 (f)) that all congregations must have, annually, an external audit performed by outside CPAs or an alternative group approved by their dioceses.

Many years ago a senior IBM executive said his concept of effective financial manage-

- To verify the control of the flow of cash receipts and cash payments.

Internal audits, helpful for making sure all monies are being spent appropriately, are performed by a small team of experienced community members. The team should not include the treasurer, business manager, or administrator, but will need access to all. The objective is to use volunteer expertise to perform the basic audit. Numerous tools and templates are available on the web to facilitate producing standard written documentation on the findings. Frequently, cost effective improvements in procedures and controls are revealed. In today's economy more talent may be available to tap than in more stable times.



ment information for him was to have "the least amount of information which assured him that he is in control of his resources." Likewise, church leadership needs to be able to sleep at night and to be able to focus on living the Gospel, sure of the accuracy and safety of church finances, without such control requiring inordinate expense.

Audits must provide verification and transparency. Key functions of a church audit are:

- To verify the accuracy of accounting and the treasurer's reporting;
- To assure that funds are safe and allocated correctly to specific uses if designated;
- To document and enforce financial policies, procedures and record keeping, and;

A challenge in this approach is to obtain year to year consistency. I once asked a team of MBA candidates from the University of Chicago to design and develop a pioneer online church accounting system only to realize that the resulting system could only be operated by those MBA's.

Operational financial system changes are not beneficial unless they can be implemented within your church environment.

Increasingly volunteers seem to be interested in defined tasks over a relative short time period. An internal audit may be just the right opportunity for those with appropriate skills and experience to demonstrate needed stewardship.

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Canon law stipulates that the vestry "shall be agents and legal representatives of the parish in all matters concerning its corporate properties..." and that "all standard business practices be observed."



ECF's Mission

To strengthen the leadership and financial capabilities of Episcopal congregations, dioceses and related organizations to pursue their mission and ministry.



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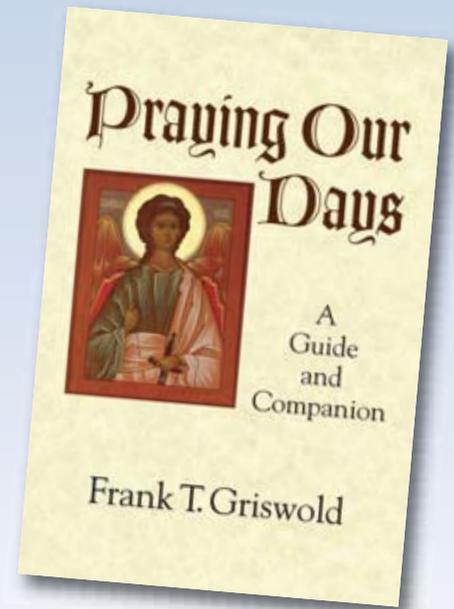
Reader's Corner

Praying Our Days: A Guide and Companion

by Frank T. Griswold

Hebrew tradition speaks of black fire and white fire in books. Black fire is the printed word, the letters on the page. White fire is the space between the words, where the reader has room to think, to breathe, to imagine, to fill in the blanks.

Both black and white fire are abundant in *Praying Our Days*. Comforting to hold with a handy ribbon and a hard cover, the book is a teacher and companion, a guide and friend. Its author, the former Presiding Bishop Frank T. Griswold, shares his expertise and fondness for prayer — ancient, modern and original — in an ordered and helpful way, one that encourages a robust and reflective life of prayer.



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Audits: A necessity, not an option

External audits are performed by firms of CPA's. These firms, large or small perform a structured examination of your church financial operations and produce a "qualified" or "unqualified" audit Letter. Unqualified audits are invaluable in pursuing most financial grants. They can be costly.

Utilizing firms experienced with church audits can reduce costs as they recognize the unique areas of church accounting and often are familiar with church accounting software packages. Do not hesitate to explore firm's willingness to do pro bono or reduced charge nonprofit work. Many will. Always include in any negotiation a commitment of the experience level of staff who will take part in the audit. Auditors in training, "green beaners," are often assigned. Remember that they, like all audits, need to be managed. Many

congregations are developing alternative methods to conduct audits, such as sharing teams, or qualified individuals, from small parishes with one another.

Internal or external audits should be seen as supportive and protective of the staff doing the day to day, month to month financial operations. The objective is not to "catch" people, but rather to allow them to sleep as well.

The former senior warden and investment committee chair of St. James Cathedral in Chicago, Illinois, Tom Patterson is also the former acting business manager and development manager at St. James and has served as the treasurer and audit committee chair for the Consortium of Endowed Parishes.