**Moving from Short-Term to Long-Term Financial Planning**

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(With thanks to The Rev. Dennis Tierney for his generous permission

to make use of materials created by him for earlier workshops)

***Guide to Financial Transactions*** Jim Beckwith

* Refer to copy of Guide from Diocesan website.
* Review well in advance of requested guidance/loan.
  + Multiple layers of approval may be required from bodies that meet only as scheduled.
  + An “emergency” request may be weeks or possibly months in advance of the next-scheduled meeting of a particular governing body.
* Approval process differs for parishes/missions.

***Gifts and Endowments*** Jeff Maxwell

* Congregations may receive gifts or bequests from individuals at any time.
  + Cash Gifts are usually more straightforward, but not infrequently come with restrictions.
    - Those restrictions must be honored ***and remembered*** by the receiving congregation.
    - Restrictions may be so onerous or restrictive that the congregation may feel compelled to decline the gift.
  + Endowments are typically larger, and almost always come with substantial restrictions.
  + Even where a gift is received with no restrictions, it is best used for capital improvements or other expenditures with lasting impact.
    - Paying the light bill with memorial gifts could lead to praying for someone to pass on, so you can light the sanctuary for another season!
  + Gifts of Property (Real or Personal) can be complicated.
    - For Missions, Diocesan approval is required in all cases (varying levels, depending on value, type)
  + Real Property
    - Does the congregation even want to own it?
    - Will it produce income?
    - If not, what will it cost to own?
    - Might that income be taxable or create other unexpected regulatory obligations?
    - Is it readily marketable – if the provisions of the gift even allow it to be sold?
  + Tangible Personal Property
    - Can the congregation use it to further its mission?
      * Betty Sue’s favorite Thomas Kinkade print may not find a happy place in your Parish Hall.
    - Once accepted, the continuing use (or not) of the property may impact the feelings of friends and family for years to come.
    - Can the property be easily sold and might doing so offend the donor?
* Gifts should be accounted for using Fund Accounting Procedures.
* Gifts not immediately needed should be invested to earn some return – your funds should work as hard as any of your members!
  + Income (interest and/or dividends) from Endowment Funds may (but not always) be allowed to be used for operating funds.
  + Capital appreciation and principal will likely be restricted.
    - By the Donor
    - By self-imposed restrictions adopted at the time of receipt of the gift
  + Investment of funds requires an investment policy with clearly defined goals and objectives.
    - Any reputable investment advisor should make such a policy one of the first steps in establishing a relationship.
    - Consider Diocesan Investment Fund as a less complicated alternative.
  + To ensure enduring viability of an Endowment, don’t neglect the effects of compounding of interest (Good!) and inflation (Bad!)

***Depreciation, Property Management and Maintenance***  Jim Beckwith

* Depreciation is a “real” cost, even if though it doesn’t represent current expenditure of funds. At the very least, it approximates a future cost that will need to be incurred when the useful life of the asset to which it applies comes to an end.
* An all-too--often used tool to budget a precarious budget it to defer maintenance.
  + This approach often leads to an even larger cost when the road you’ve been kicking the can down runs into a dead end.
* Better to calculate the depreciation of all major systems or devices in the congregation’s facilities – e.g., roofs, heat pumps, furnaces, carpets.
  + In the best of worlds, the congregation would set aside in a replacement fund, enough each year to replace each system at the end of its estimated useful life.
    - This “pay as you go” approach means that all congregants who enjoy the use of a facility will contribute to its ultimate replacement, not just the unfortunate remnants who might be stuck with huge replacement costs years in the future.
  + Even without the ability to pre-fund replacement, a responsible Vestry or Bishop’s Committee will make plans to fund major replacement costs in advance of emergency replacement, whether through borrowing, capital campaigns or other methods.
* Regular maintenance on buildings and systems is essential.
* Checklists (monthly/annual) or Calendars, with expected dates, estimated costs, and responsible parties, should be maintained.

***Financial Distress/Instability***  Jeff Maxwell

If it’s “hard to talk about money” in your congregation, you're headed for problems. The questions posed and factors described here are to help congregations attend to long-term financial stability. This is not about faithfulness to the Gospel; it is not about competence of congregations, clergy, or lay leaders. It is intended to generate a framework for thoughtful conversations within a congregation about its ability to continue with “business as usual” in light of financial exigencies.

Factors that indicate potential Financial Instability

* Your congregation has failed to raise sufficient funds for your annual operating budget in each of the past three years.
  + The efficacy of “Faith-based” budgets cannot be counted on.
    - Yes, God will provide. But all we can count on is what *He* knows we need, not necessarily what we think we need.
* Your congregation has balanced its operating budget only by holding a second stewardship campaign, an extraordinary fund-raiser (or two), or by receipt of fortuitous memorial gifts for multiple years in a row.
* Your congregation has used substantial amounts of unrestricted reserve funds (more than a third of available funds) to pay for ordinary operating expenses.
  + Stable congregations have two-to-three months of operating funds in reserve to deal with unexpected cash-flow issues or emergency repairs.
* Your congregation has no reserve funds to pay for unexpected issues, e.g., heating failure, uninsured storm damage, etc.
* Your congregation has endowment funds but has been withdrawing for operating purposes such that principal of such funds is being reduced.
* Your congregation has deferred maintenance on significant building systems that have been unaddressed for more than five years:
  + Leaky roof
  + Failing heating systems
  + Persistent plumbing/drainage/sewage issues
  + Inadequate lighting systems
* Your congregation has balanced its budget by not paying its Diocesan Assessment and has no plan for recovery.
* Your congregation is behind or is in technical default on any loan, either with a bank or with the Diocese.
* Your congregation is unable to meet its payroll obligations – salaries, benefits, pension, taxes – more than two months in a row.
* Your congregation’s pledging statistics are in decline:
  + Annual pledge units
    - Decrease of >10% per year for three or more years.
    - Less than 60% of ten-year average
  + Decline in Average Sunday Attendance greater than the decline in the number of pledging units.
  + Base of pledges is narrowing – that is, more of the total funds pledged is coming from a smaller group of pledges.
    - Interestingly, this bad news can be disguised as good news, in the form of an increase in the average pledge made.
  + Demographic of core pledge group (defined as those who contribute more than 50% of the total amounts pledged) is aging – particularly if that group is in the 80-85 range.