Taking Care of Business: Good Stewardship or Spiritual Bankruptcy

During a spirited, although not necessarily Spirit-filled, conversation with a congregational church leader about how to address a sizeable deficit in our congregation's proposed budget for the upcoming year, I advocated for decisions that would assure the strength of the congregation and its ability to carry out our mission into a long future – what I characterized as "financial integrity." My colleague's response caught me off guard. She admonished: Financial Integrity is Spiritual Bankruptcy.

Her response initiated serious reflection about what it means to be a church and how the available resources might be arrayed to best accomplish God's Work with our Hands. Some have written thoughtfully about how churches devote far too much of their resources to maintaining church facilities, including parsonages. And, yet, as Solomon built the magnificent First Temple honoring David and to attract both Jews and non-Jews alike to learn about his God, it seems that we are not ready to have a church without walls. We cling to buildings for presence, worship, and to serve as the locus point for outreach. From that decision, we then are confronted with how to sustain financially the pastors, staff, programs and facilities themselves to which we are committed.

Each August, most congregations emerge from summer malaise into the annual cycle of the stewardship campaign and the development of the annual budget. Congregational evaluation and goal setting often are a part of this cycle as are individual goal setting for and the evaluations of pastoral and lay staff members and the consideration of their compensation and benefits.

My experience would suggest that most congregation councils deal in an ad hoc manner with these events and the other financial and management aspects in the annual cycle of congregational life. After all, our stewardship efforts are about ingathering of time, talents and importantly, treasure, to sustain ministry. A focus on financial principles beyond honest bookkeeping invokes images of the money changers in the Temple – Spiritual bankruptcy. But to enable ministry, it seems axiomatic that each congregation must care for its assets and strive for a positive net income. Such a discipline does not enrich shareholders, as would be the case in a business organization, but it enables the work of the church and accomplishes the essential task of the nonprofit, tax exempt, religious organization that is the church.

Those without experience working with the larger church likely do not appreciate that the ELCA's democratic tradition embodies a network of individually organized congregations, agencies, synods, including the ELCA itself. Each is a separate nonprofit corporation organized under the laws of the state where it is situated, but importantly, each is linked to the ELCA by being rostered – recognized as having doctrinal and organizational connections. Each congregation has organizing documents that conform both to the laws of its state and to the model organizing documents set forth by the ELCA. In turn, each congregation derives its tax exempt and charitable religious organization status by being rostered. Each is relieved of the otherwise burdensome requirements of establishing to the IRS that it meets the requirements for this favorable tax treatment.

Ironically though, while the ELCA assures that the congregations, synods and agencies are organized in a conforming manner, and while the ELCA operates with a large and sophisticated business and administration staff, the individual synods and congregations are left to fend for themselves. Admittedly, the ELCA does publish a plethora of helpful guides for congregations and those who lead them. Synods too offer sample documents and policies and procedures to assist in these matters. But, my observation and experience suggest that there is little "on the ground" guidance and training, and few congregations have pastors or members with professional training in business or finance, or the resources to engage such persons. Finally, there is little apparent interest in financial and management principles among those tapped for congregation councils and their leadership. And, there is no apparent incentive for them to acquire and apply the knowledge necessary to manage effectively the congregation's financial and human resources, including the pastors, lay staff and the congregation's properties and financial assets.

Neglecting sound financial and resource management principles risks squandering the resources ingathered through the annual stewardship effort and the resources acquired from the gifts of the congregation's members through its history. One might contend that Financial Integrity, instead of being Spiritual Bankruptcy is Spiritual Integrity and that Spiritual Bankruptcy occurs most egregiously when sound financial and management principles are ignored rather than when such principles are adopted and applied.

If Financial Integrity, indeed Spiritual Integrity is the goal, then caring for a congregation's resources, including its people, its funds and its properties becomes a priority. One is then prompted to ask: "How might the ELCA and its synods and congregations move toward this goal?" Here are some thoughts:

Congregational Goal Setting and Evaluation:

1. *Annual goal setting*. Prior to the beginning of the annual budget cycle, both the congregation and the pastors and staff individually should establish goals for the ensuing year. These goals would establish targets for congregational development and life, and for the pastors and staff individual goals to accomplish the goals of the congregation and their individual professional development. All goals should be articulated with measurable objectives.

2. *Annual assessment*. In conjunction with the annual goal setting, the congregation should evaluate its performance with respect to the prior year's congregational goals. And each pastor and lay staff member should be evaluated individually to measure that person's performance with respect to achieving both congregational work and personal development goals. The pastoral and lay staff evaluations would then become the basis for determining the pastor's and lay staff's compensation for the ensuing year.

3. *Annual Report of Goals and Assessments*. The ELCA would mandate that the annual goals and annual assessment of the congregation, the pastor, and the lay staff members would be

reported through the synod to the ELCA as a condition of continuing the congregation's rostered status. While this might seem to contradict the historical autonomy of the ELCA congregation, when coupled with the existing congregational financial reports, it would provide valuable trending insight into congregational aspirations, strengths and weaknesses, all of which are relevant to the future of the larger church.

4. *ELCA Goal and Assessment Templates*. The ELCA should provide templates for goal setting and for evaluation. But publications are not enough. Each year, the ELCA, perhaps on a regional basis should conduct mandatory formal training for its pastors, lay administration personnel of larger congregations, and the elected lay officers of all congregations to provide instruction and workshops in goal setting and effective evaluation techniques. This training would be critical to the successful implementation of this mandatory process.

5. *New Compensation Guides for Pastoral and Lay Staff*: The current pastoral and lay staff compensation guidelines vary widely. Uniformly, they give the impression of the synods as a pastoral bargaining unit setting levels of compensation and benefits that bear no relationship to the characteristics, resources and non-compensation expenses of the individual congregations.

Congregational leaders need useful guidance as they decide compensation for pastors and lay staff. Published guidance should enable congregational leadership to convert the fully taxable community based compensation of professionals who are similarly trained into the tax-advantaged compensation for pastors and equivalent compensation for lay staff. Perhaps the local school superintendent or high school principal might be an appropriate example. Pastors should be fairly compensated, but that compensation should be stated in a manner that enables those who vote for a congregational budget to make an understandable comparison. Instead of "union scale" guidelines, the ELCA could provide a software application that enables each congregational treasurer to compute a fully taxable community based equivalent from the base compensation, tax sheltered housing allowance and medical and retirement contributions and the ancillary allowances for books, training, professional meetings, etc.

In the alternative, the ELCA or its synods could become the fiscal agent for all called pastors assigned to them and could then assess each congregation for its pastoral staff compensation and expense. Perhaps this consolidation would enable a per member assessment, providing for adequate pastoral compensation and a uniform cost per active confirmed member for each congregation. The ELCA or the synods could then manage and fund on a consolidated basis the present unfunded mandates on the congregations such as those for education loan repayment, retirement severance pay, and sabbatical leaves.

Property:

1. *Schedule of Assets*. Each congregation should develop a detailed listing of its tangible property and equipment and its real property. This listing should include acquisition date, historical cost, renovations and their cost, and replacement cost. These are capital assets and except for land are depreciable – a part of the value diminishes each year due to age and use.

2. *Depreciation Schedule*. For each depreciable asset, there should be a depreciation schedule using straight line depreciation and a useful life based on accepted guidelines applied by the accounting profession and/or the Internal Revenue Service.

3. *Capital Budget*. There should be a capital budget showing the asset, its useful life, its replacement cost, its progression toward replacement – i.e., how many years of its useful life have expired and how many are left, and what sum should be reserved presently to be able to replace the capital asset when it needs replacement. Many congregations have aging buildings whose historical cost may be uncertain. For those situations, the local tax assessor's value of the congregation's buildings might be a suitable substitute that could be depreciated.

4. *Funded Depreciation Reserve*. The congregation should have a funded depreciation reserve that is augmented annually by a contribution included in the annual budget. Ideally, the funded depreciation reserve should equal the total depreciation of all congregational depreciable assets. However, since this amount usually seems staggering and unattainable, an aggregate capital replacement reserve equal to five years of depreciation is a starting objective that can be increased with planning. The goal is to have available funds that enable capital repairs and replacements without a financial crisis when a capital asset wears out or breaks.

5. *Annual Maintenance & Replacement Schedule*. There should be an annual survey of all assets to determine what needs to be repaired or replaced in the next budget cycle. Repairs would be planned in the operating budget; capital replacements would be capital budget items.

6. *Qualified Property Manager*. If the congregation lacks members with expertise in property management or if it has members with expertise who lack time to assist, the congregation should engage and establish an ongoing partnership with a professional property manager or construction management firm who can fulfill this need and should budget accordingly.

7. *No Deferred Maintenance*. Identifying, planning for and funding needed repairs and replacements to capital assets avoid the temptation to balance the budget by deferring maintenance and replacements. Inevitably, if deferral is the choice, the eventual cost is disproportionately higher and perhaps unattainable.

Budgets:

1. *Operating and Capital Budgets*. The annual budget should include both operating and capital budgets. The congregation should use the presentation of the annual budget as an opportunity to acquaint the members with the financial principles on which at the budget is premised and by which the congregation is managing and deploying the resources that the members committed. Congregational understanding engenders confidence that the pastors and lay leadership are exercising good stewardship over the gifts and other resources and encourages generosity.

2. *Reliable Income Projections with Trends Noted.* The annual budget should be premised on sound financial projections. The financial secretary and treasurer should provide detailed projections of pledged income, gifts from regular attendees/members who do not make pledges, gifts by occasional attendees who are identified within the giving records, and truly loose offerings. Endowment income and income from rents, and other occasional uses, must be included in these projections. Year over year changes should be noted as should changes due to gaining and losing members during the year. Trends in congregational income are valuable information. While the Spirit might always improve the financial outlook, the congregation should plan with its best information and reasonable projections and resist the temptation to balance its budget by hopeful prospects not related to past experience.

3. *Classify Core and Discretionary Expenses*. If the proposed budgeted expenses exceed projected income, the congregation, led by its church council must identify core expenses, both fixed and variable, and those that are contingent expenses that can be reduced or eliminated if there are inadequate resources.

4. *Balancing the Out-of-Balance Budget*. When a proposed budget is out of balance, the congregation and its council should consider its options for balancing the budget with all expenses open for debate and discussion. While there may be a false assumption that neither the apportionment to the larger church nor adhering to a synod's published standard for the pastor's compensation are subject to amendment, to allow those expenses to take precedence over the core programs and proper maintenance of church properties leads to weakened congregations in poorly maintained facilities that in the long term cannot enhance the strength of the ELCA and its mission. If there is a shortfall to be addressed, all must be willing and volunteer to compromise to meet the overall and long term goals of the congregation and church at large..

Reserves:

1. *Endowment Funds and Other Permanently Restricted Assets.* If a congregation is fortunate to have received endowment gifts, or has created endowments from its prior surplus gifts or sales of assets no longer needed for its mission, such funds should be reserved, fully funded, preferably professionally managed and used only for the purpose for which they have been created. These funds should not be used for operational cash flow.

2. *Temporarily Restricted Assets for Special Purposes*. Gifts that are denoted for a specific purpose or project should be reserved, fully funded and used only for the designated purpose or project at the appropriate time. These funds also should not be used for operational cash flow.

3. *Operating Cash Account*. Each congregation should have an Operating Cash Account that is funded with an amount that would be necessary to pay salaries and otherwise defray ongoing expenses. An Operating Cash Account with cash sufficient for 60 days generally is recognized as sufficient.

4. *Operating Reserve Account.* There should be an Operating Reserve Account that is funded with cash sufficient to operate the congregation for an extended period when income might be disrupted. Generally, a reserve of cash sufficient for 12 months of operating expenses is recognized as sufficient.

6. *Mortgage Debt Reserve Account*. If the congregation has a mortgage on its properties or has granted security agreements in its tangible assets, it should have a mortgage reserve/debt service reserve that will be enough to pay the principal and interest for 12 months.

No list can exhaust the principles that should guide a congregation. But with leadership from the ELCA and its synods, with appropriate training and templates, and with mandatory accountability through reporting of their goals, objectives, and performance as well as their annual financial positions, congregations will become better stewards of their assets – human and financial – and become principled managers and leaders of a church that moves with strength into its future – a future in which principled Financial Integrity constitutes Spiritual Integrity.

Author: Roger E. Bloomfield
roger.e.bloomfield@gmail.com
802-291-1300

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Author Bio Statement

Roger E. Bloomfield is an active Lutheran and for over 40 years, he has been a council member, an officer and an organizer of endowment funds in four congregations. He is and has been a board member of Lutheran and other community organizations. Bloomfield is a graduate of Wittenberg University and a practicing lawyer who served as counsel to Wittenberg during the historic merger creating Trinity Lutheran Seminary, the first LCA – ALC seminary that helped set the stage for the ELCA. He is interested in the "business of church" and strengthening those organizations that enable mission.

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