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# Financial assessment

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## First Protestant Church Middleville

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## **I. Summary**

Based on a variety of information provided by First Mainline Church of Middleville, I offer an analysis of the church's finances, including the operating budget, the role of invested funds, and member giving. I also offer a few general suggestions about how the church might move in the financial part of its ministry.

## **II. Introduction**

Dr. Gilbert Rendle, senior consultant for the Alban Institute, asked me in June 2004 to prepare a financial assessment for First Mainline Church of Middleville. Gil is assisting the church with self-assessment and leadership education. The purpose of a financial assessment is to help leaders to understand their congregation's finances from a broader perspective in relation both to their own history and to the experience of other congregations. Gil indicated that church leaders would also welcome any ideas about how they might move ahead toward improving the church's annual giving and addressing various capital needs including major maintenance on the church building.

## **III. Sources of information**

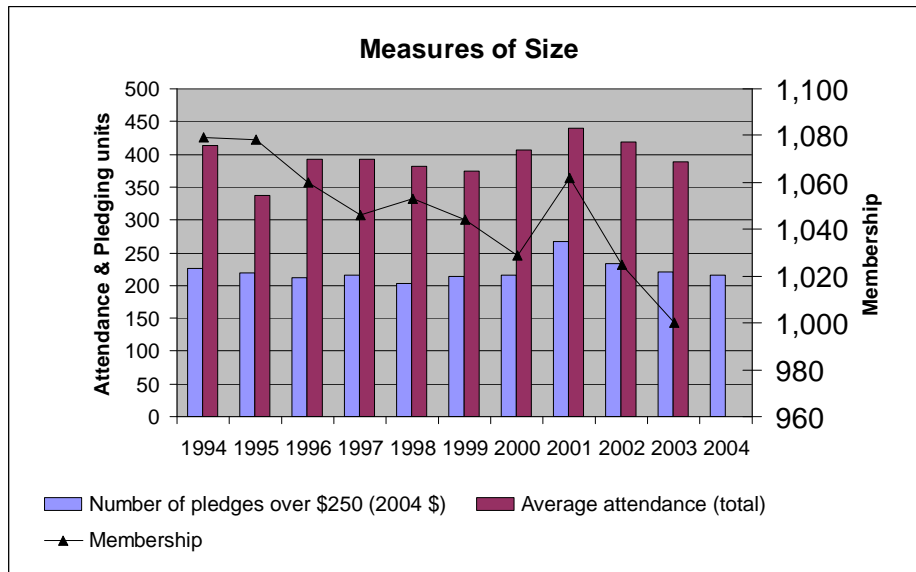
This report is based on information provided by First Mainline Church (FMC), including annual financial reports and pledge and contribution records for 1994 through 2004, and reports from two institutions that manage the church's invested funds. I am grateful to the financial secretary, who was most helpful in translating the church's pledge records into computer-readable form.

I also have Gil Rendle's report of "Descriptive Information," and spoke with the pastors, Reverend Xxxxxx Xxxxxxx and Reverend Xxxxx Xxxxxx, by phone during August. Pastor Xxxxxx gathered a packet of information for me about recent annual stewardship drives.

Other information is drawn from the Percept demographic report on zip code 00000 prepared for the church, from the Center for Economic Development, the U.S. Census, the U.S. Bureau of Economic Analysis, and the *Yearbook* of the National Council of Churches of Christ in the U.S.A.

## **IV. Measures of size**

Those who study churches generally agree that the best measure of size is attendance, followed by the number of pledging units, with membership numbers a distant third. At FMC, these measures track one another quite closely (see Figure 1).



• Figure 1

Given the stability of member participation through attendance and pledging, I am not concerned about the decline in membership. Membership numbers tend to fluctuate because of periodic efforts to “clean the rolls” or sign up active participants who have not joined. Often one of the first signs of health in a church is that the membership drops suddenly as the leadership get their act together! Paying more attention to attendance and the number of pledging units, what stands out at FMC is the stability of active participation, which has varied only slightly in the last decade.

## V. Fiscal overview

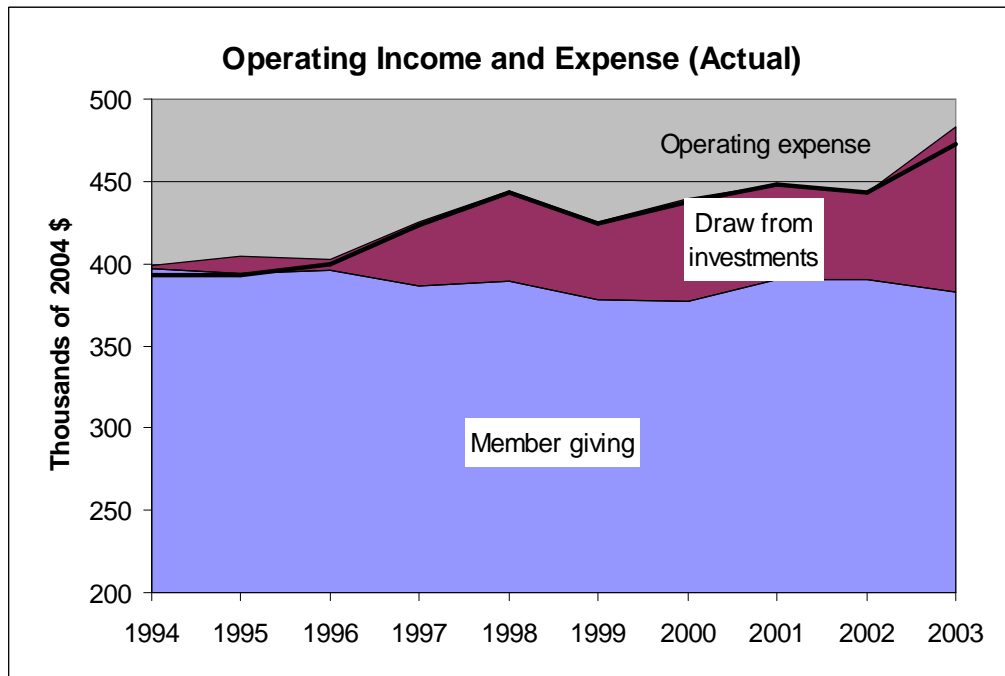
During the 11-year period from 1994 through 2004, member giving at FMC has been remarkably stable—almost exactly keeping up with inflation. Spending, in the meantime, has grown 20% in real (inflation-adjusted) dollars. The difference has been made up by drawing from invested funds. Figure 2 shows how total operating expense, member giving, and other income (mostly from investments) have changed over time.

A simple way of describing the changes of the last decade is that in addition to keeping up with inflation, the church has increased expenses by about \$80,000 without increasing its giving.<sup>1</sup> The invested funds that have taken up the slack were of course given by members as well, and so it is appropriate to use them for church purposes. But the point remains: current member giving has not grown, even as cost of the church’s program has increased by one fifth.

The fastest rate of increase happened between 2002 and 2003, when operating costs rose by \$38,000, representing one third of the increase for the decade. The largest increases

<sup>1</sup> All dollar amounts in this report are rounded to two significant digits. Inflation adjustments are performed using the national Consumer Price Index for all urban consumers. The \$80,000 increase is stated in 2004 dollars. In constant dollars the increase was \$150,000.

are for salaries (\$15,000) and property (\$13,000). The remaining \$10,000 is distributed through the budget.



• Figure 2

A bit of perspective is in order here. There is nothing unusual about a church’s budget growing 20 percent in a decade, even as the active membership remains stable. For churches generally, the operating cost per member has increased steadily since World War II, for two main reasons:

One is that most Americans have enjoyed a rising standard of living. In Middleville County, the average income is \$27,000 per person, up from \$20,000 in 1994. Even allowing for inflation, this is a 15 percent increase in real buying power. People with higher incomes bring higher material expectations to church with them—they want more comfortable pews, fresher paint, tastier coffee, and more convenient parking. Church staff members, including clergy, expect their own standard of living to grow in proportion to the affluence around them.

The other reason churches cost more to operate than they did ten or twenty years ago is that churches used to depend on a large unpaid (or underpaid) workforce of women who were not employed full-time outside the home. In most communities, this source of volunteers is scarcer than it used to be. Churches have been slow to adjust to the new reality—which is a major reason for many congregations’ failure to appeal to younger adults. But churches that thrive in our time have become more staff-dependent. This does not mean members do not volunteer their services, but it does mean that members expect their volunteer experiences to be well planned, satisfying, time-limited, and of clear benefit both to themselves and others. Meeting these high expectations usually requires a larger number of skilled, effective staff.

All of which is to say that if it costs FMC more now to do a given amount of ministry, it is not alone!

## **VI. Invested funds**

Few subjects elicit a wider range of opinions, emotions, and moral judgments among church people than invested funds. Some people believe the church should never accumulate more than a minimal reserve. Others hope a large endowment will enable the church to expand its ministry beyond the means of its current or future members. Most people stand in one of many places in between.

From the limited information I have, I gather that Middleville has an investment portfolio worth about \$900,000, or about twice the annual operating budget. I understand that the funds date largely from a capital campaign conducted about 20 years ago, and have been supplemented by successful stock investments.

Churches hold permanent funds for two basic reasons: as a “reserve” to provide a cushion against unexpected expenses (e.g., building maintenance), and as an “endowment” to provide income for ongoing ministry.

It is possible to have too large a reserve fund. Some maintenance, repair, and replacement expenses represent fundraising opportunities. It is much easier to raise money to build a building, landscape the grounds, or renovate an organ than for the annual fund. It would be silly to spend hard-raised operating dollars to buy a piano when an announcement in church might well produce enough new dollars for that purpose.

Maintenance reserve funds are best used for unexciting maintenance expenses, like re-pointing the chimney or repainting the furnace room. They should be kept modest levels based on a long-term maintenance plan, and replenished from an operating budget line or an occasional special appeal.

Endowments are a different matter—these funds are restricted (either by the donor or church policy) so that only the income, not the principal, can be used. But what is income? A standard way to decide how much to spend from an endowment fund is to apply a percentage (typically 4-5%) to the average market value for the last three years. Based on historical investment returns, it should be possible to draw at this rate indefinitely. Any spending over that should be treated as a temporary loan to be repaid promptly—if only to build trust among potential donors, who need to know that if they make an endowment gift it will be used as they intend.

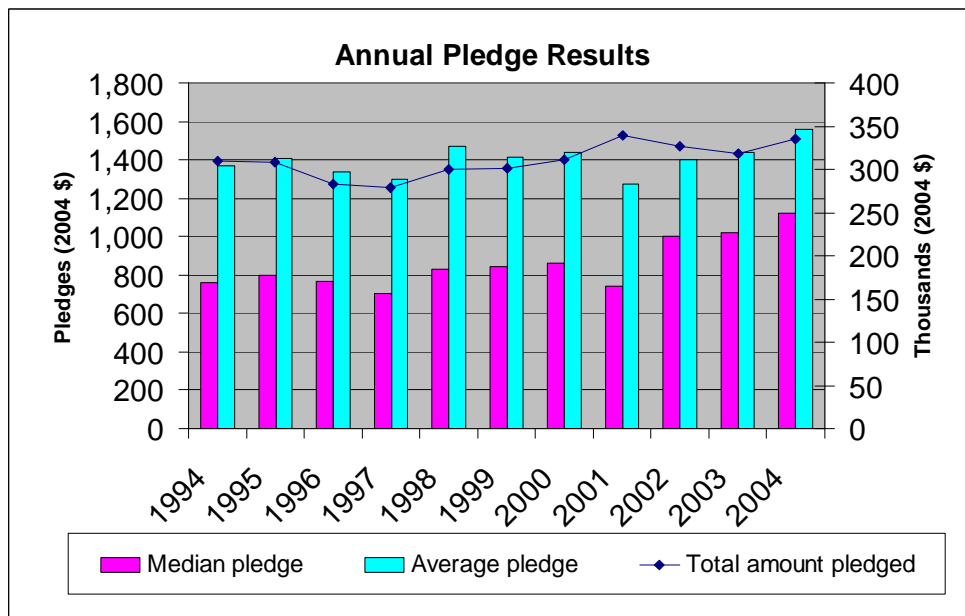
I have limited historical information about FMC’s invested funds. It appears that the draw on investments was kept near or below 4-5% until quite recently. Because of recent increases in expense, it appears that the church has dipped significantly into its capital. In the long run it will be necessary to create a sense of urgency about funding current operations out of current giving, supplemented by a sustainable draw on the invested funds.

## **VII. Member giving**

Giving at FMC is very stable. The number of pledgers, the amount of money pledged, and the average pledge have changed hardly at all between 1994 and 2004. Actual revenue

from member giving (including pledged and non-pledged giving) has declined by about 3% in inflation-adjusted dollars.

Figure 3 shows the year-by-year pledge results, adjusted for inflation. While there are some small fluctuations from year to year, the outstanding feature of the history is how *little* the results have changed. One trend worth noting is that the median pledge, which is the amount pledged by the “middle” household (half of the pledges are above, and half below) has risen more quickly than the average pledge. This is a sign that the pledge distribution has become slightly flatter over the years; in other words, the top few pledgers are carrying a smaller fraction of the load.

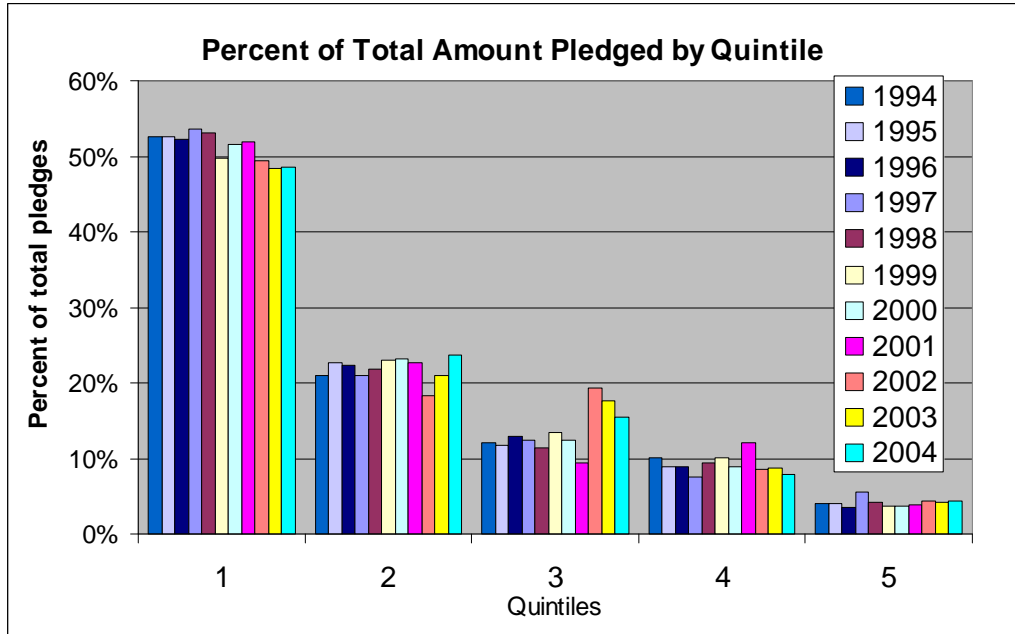


• Figure 3

In 2004, the average pledge at FMC is over \$1500 per pledging family. Member giving totals about \$380,000, or about \$380 per member. According to the *Yearbook* of the National Council of Churches, contributions to Mainline churches in the United States averaged \$470 per member in 2000. All churches in denominations reported in the *Yearbook* averaged \$590 per member. So by these rough measures (and I do mean rough—because they rely on membership statistics) Middleville First Mainline falls short of national norms in member giving.

### Quintiles

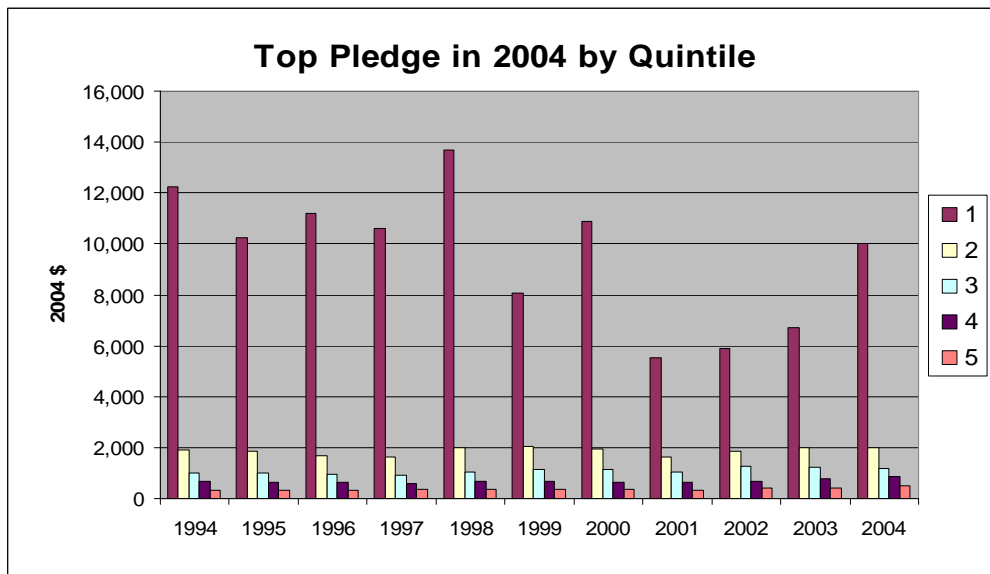
One useful way of looking at pledge results is to divide the pledges into “quintiles,” or fifths, by dollar amount. The first group of bars in Figure 4, represents the top fifth of pledges in each of the last eleven years. The second group represents the second fifth, and so on. Comparing the successive years, one can see a clear trend: the top givers are providing a smaller fraction of the money, and the second and third quintiles have taken up some of the slack.



• Figure 4

A related fact about giving at FMC is that the top pledge has declined significantly in 11 years. In current dollars the top gift was \$10,000 in 1994 and \$10,000 in 2004, but because of inflation, the purchasing power of a \$10,000 gift has declined by about \$2100.

Figure 5 shows the top pledge for each quintile, year by year, adjusted for inflation. What will surprise many people is the size of the gap between the size of the top giver's pledge (\$10,000 in 2004) and the pledge at the top of the second quintile (\$2000). Actually, though, pledging at Middleville is about as flat as it gets—I more often see 55, 60, or even 70 percent of the money coming from the top fifth of givers. In general, the better a church does at fundraising, the higher this percentage becomes.

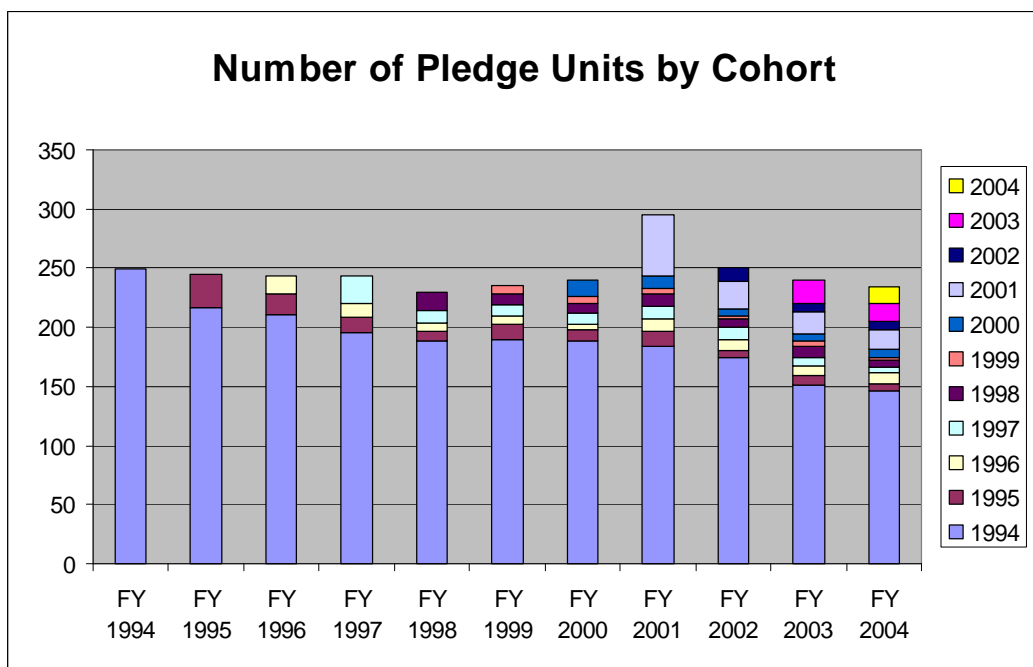


• Figure 5

Experience suggests that in most congregations, the pledge at the top of the second quintile (which at FMC has hovered just under \$2000 for a long time) serves an important function in many churches. The “top of second” pledge functions as a standard-setting pledge for active and committed members. This amount is ordinarily within reach for the majority of member families, so the difference between those who pledge at that level and those who do not is largely a question of commitment. Many of the elected leaders are pledging at this level, or could be. It can be useful to challenge the congregation by proposing to advance the “top of second” pledge to a new level.

**Cohorts**

Another way of “slicing” data about pledging is to consider pledging units by how long they have been part of the congregation. This reflects a common way of thinking in stewardship committees, where one often hears concerns expressed about “the new members” and whether they are “carrying their weight.”



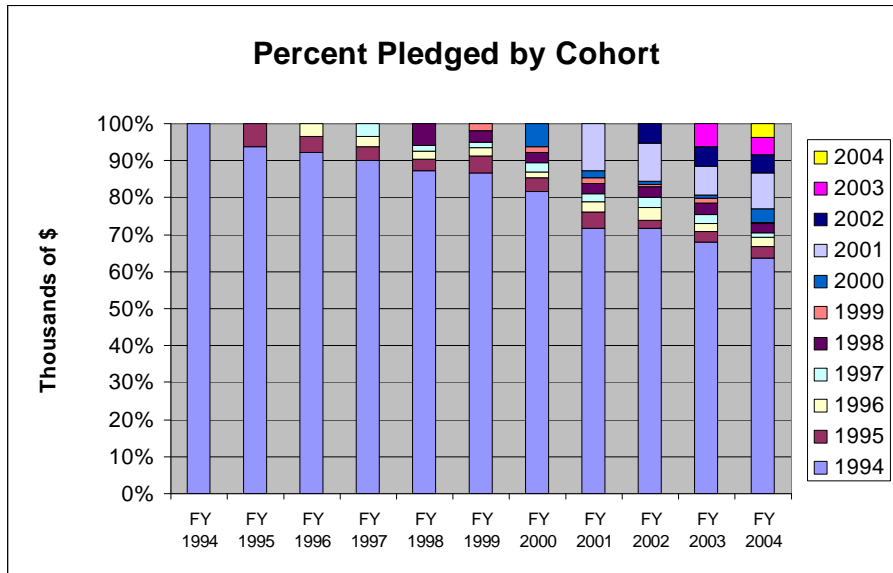
• Figure 6

Figure 6 shows the number of pledging units by the year they first pledged. The first column shows the 249 families that pledged in 1994. The second column shows that this group had dwindled to 217, but had been supplemented by 28 new pledges, for a total of 245. In 1996 the church received pledges from 211 of the original group, plus 17 of those who entered in 1995, and 16 newcomers. And so on.

It appears that the 2001 stewardship drive achieved unusual success at including newcomers, with 52 new families appearing on the rolls. Unfortunately this group diminished by more than half in 2002, and only one-third remain as of the 2004 pledge drive.

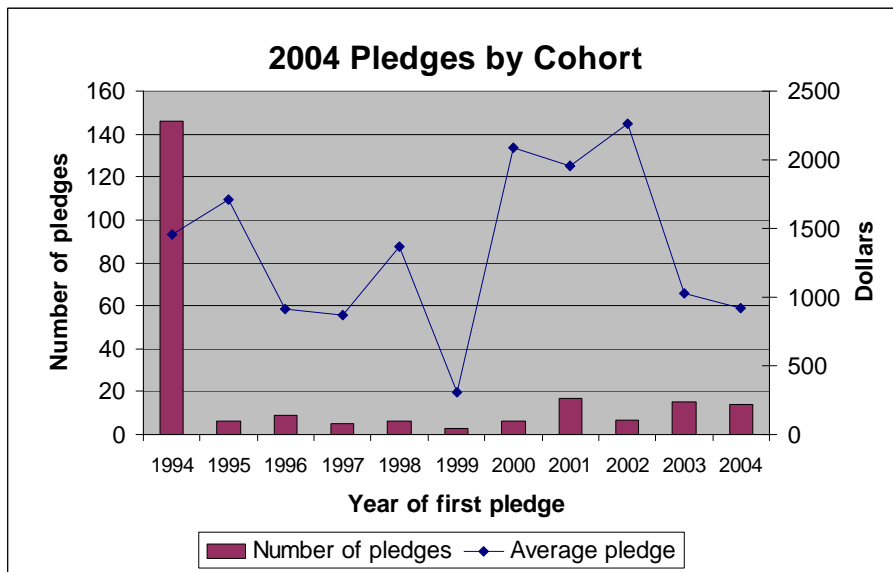
At the present time, just over 60 percent of the pledges come from families that have been pledging for at least eleven years, and these families provide about 63 percent of the pledged dollars. Figure 7 shows the percent pledged by each cohort year by year. We can see

that FMC has done a good job of persuading new generations of members to do their proportionate share—to pledge, in other words, in about the same way their elders have pledged in the past. This has not funded any increases in the church’s ministry (that has been accomplished through the use of invested funds), but it contributes to the overall impression of stability, solidity, and consistency of member giving in support of FMC.



• Figure 7

A final “cohort” graph focuses on those who pledged in the 2004 campaign. Figure 8 shows that the “1994” group is largest by far, because it includes all of the cohorts before. Their average pledge of about \$1500 has clearly set a standard others have followed. Despite year-to-year fluctuations (to be expected with such small numbers of pledges) the average pledge for all future cohorts is also \$1500. If this number is to grow in the future, the leadership of the “long-timers” will be crucial.



• Figure 8

One cautionary note is that the last two cohorts (those who first pledged in 2003 and 2004) average only \$1000 per family. While there may be good reasons for this—struggling young families, people still new to Christian commitment, etc.—it might be worth examining how new members are told what the church expects of them. At one time, this expectation was communicated informally: a new member would ask an older one or a parent for guidance. But today it is necessary for communication to be more explicit and intentional. Churches that raise pledge money effectively now take care to appoint exemplary givers to let newcomers know quite clearly—in dollar or percentage terms—what the norms of this congregation are regarding giving.

## VIII. Observations and suggestions

I have observed that church members of all denominations reliably give barely enough money to support the ministry they have been led to expect. So the first question about fundraising in a church is not “How can we raise more money?” but “Why do we need money at all?” Without a vision of how lives would be transformed through more generous giving to the church, even the most effective fundraising techniques will yield at best modest growth in giving.

Even a sound theology of stewardship no longer is enough, because today’s church shoppers—even those who are committed Christians—no longer assume that they should join or support any particular church. Each congregation needs to make a case for itself actively, explicitly, effectively, and repetitively. How will a dollar invested here yield dividends in terms of lives transformed, suffering eased, and justice achieved?

**My first suggestion is to sharpen the vision-message of each annual stewardship campaign. Talking about the church’s current program may persuade members to continue giving at their current level. If you want to ask them to give more, you have to answer this question: “How will the Middleville First Mainline Church transform lives in new and different ways as a result of our success in this campaign?”**

The charitable marketplace has become far more competitive than ever before. Universities, museums, and other charities employ full-time fundraising staffs who know how to identify potential donors, cultivate them over many years, and ask them for the right gift at the right time for the right cause. Because most churches have continued to seek gifts pretty much the same way they did in the past, they have lost ground—especially among the wealthiest potential donors.

Church members are often uncomfortable about the role of large givers, sometimes even to the point of being relieved when they depart. But secular fundraisers know that without large gifts, no campaign can be called a success. This is because income is highly stratified in our society, and wealth even more so. About half of all household income is held by the top fifth of households, and about 55 percent of wealth. When you eliminate the value of owner-occupied homes, almost 95 percent of wealth is in the hands of only one fifth of households.

The trend at FMC is typical. As the overall pledge result has eroded, so has the role of large givers. The reverse is true as well: if and when the church raises more pledge money, a disproportionate share will come from a few top givers.

**While it may go against some cherished habits, if FMC wants to restore or surpass past levels of success at pledging, it will need to pay more direct attention to its largest potential givers. This will mean special events, individual solicitation, education about planned giving, and public recognition of large gifts.**

It is often said that "Stewardship is not a financial matter." This is undoubtedly true: Christian stewardship involves the care and use of all our "gifts," not only the financial ones. I would go further and say that in a church, fundraising is also not primarily a financial matter. A church member's financial commitment belongs under the heading of discipleship, not finance.

It is a mistake, I believe, to make the annual stewardship drive a subcommittee or sub-function of the Finance Committee. The Finance Committee needs to be populated by people who are comfortable looking at columns of figures. But effective fundraising requires inspirational leadership, communication skills, and a good understanding of how lives are changed by Christian ministry. While there is some overlap between these sets of skills, they are not the same!

**At the risk of offending 93 percent of those who have read this far in a report full of graphs, percentages, and numbers, I suggest that FMC consider relieving the Finance Committee of its stewardship responsibilities and starting a new group to be in charge of the annual pledge campaign. In choosing people for the new group, priority should go to those who have been part of conceiving an enlarged future ministry for FMC, those who know how to get the word out, and those who model strong commitment through their own giving.**

One good way to change the atmosphere and culture of a congregation about giving is to have a special campaign for a clear purpose. Often a capital campaign becomes a turning point in people's annual giving, for several reasons: A capital campaign consultant can teach church leaders sound, up-to-date fundraising practices. Motivated by a clear objective, members raise their sights to levels of giving they have not previously considered. And the successful completion of a major project encourages the church to look more confidently toward other challenges.

The Middleville First Mainline Church will not blow away with the next wind. From my keyhole view of its financial numbers, it seems stable to a fault. The question is not "How will we survive?" but "How will we continue to transform lives in a changing world?" I wish you and Gil Rendle well in your work together seeking to know what new ministries God calls your congregation to in coming days.