

Managing Our Money – 2011

Bulletin Schedule

<u>Sunday</u>	<u>Topic</u>
July 17 th	Our Sources of Income
July 24 th	Plate Offerings
July 31 st	Suggested Donations
August 7 th	Planned Giving and Our Endowment
August 14 th	Every Member Canvass – On Course
August 21 st	Our Expenses – Where the Money Goes
August 28 th	Diocesan and Administrative Expenses
September 4 th	Building and Grounds
September 11 th	Clergy and Staff
September 18 th	Giving Stocks to the Church
September 25 th	What's Deductable?

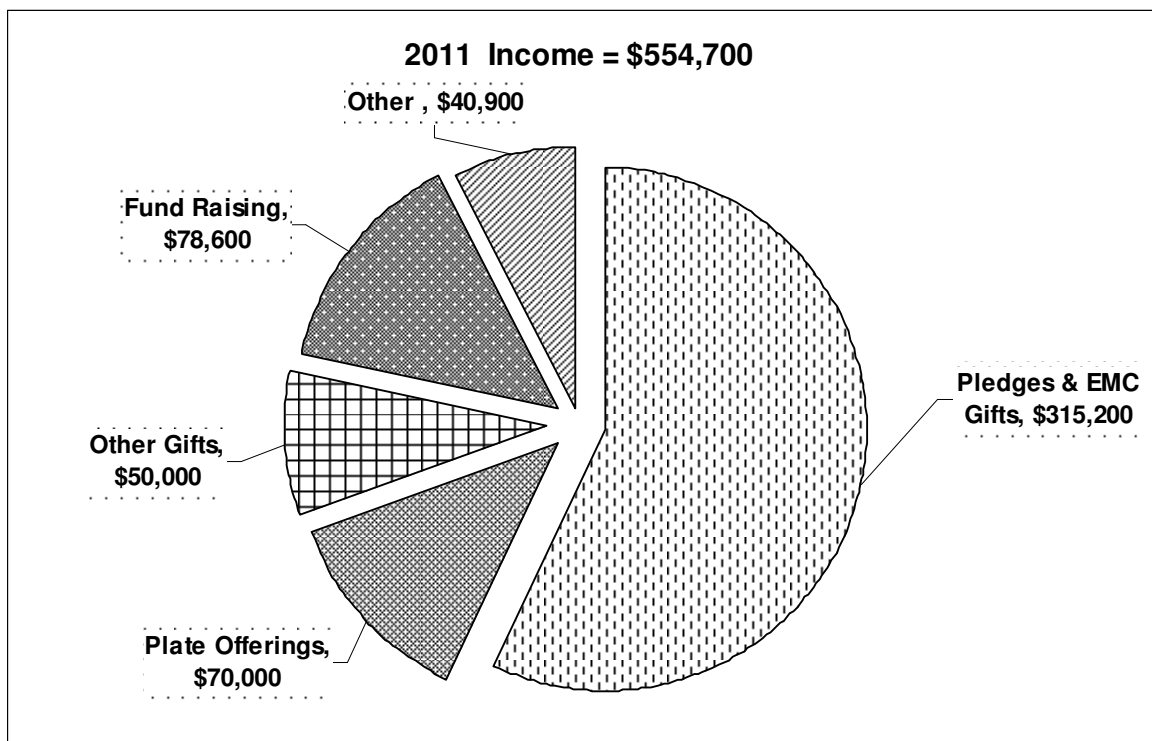
Managing Our Money – 2011

by Dual Macintyre, Treasurer

Our Sources of Income

For the past two years, we have printed a series of articles in the weekly bulletins on topics related to the finances of St. Paul's church. This year, I plan to update the articles, publish them each week in the bulletins, and also post them on our web site, www.stpaulschurchnantucket.org. My goal is to make the financial workings of the church as understandable and transparent as possible. This is your church and your contributions make it work; everyone needs to understand where the money comes from, where it goes and how it is managed.

The logical place to start is with the income sources for the church. For the next several weeks, I will discuss our major sources of income and then I will turn to our expenses and other topics. Here is a chart showing our expected sources of income for this year:



There are some positive trends in this year's forecast that should be noted. First and most important, our EMC pledges and gifts have risen to 57% of our budget and have moved us toward the Vestry's goal of reducing our dependence on fund-raising events to balance our budget. Increased EMC pledges and gifts allow us to budget more accurately and to reduce our dependence on large numbers of volunteers to run our events. A second positive sign is that we expect more income from weddings and others who use our facilities than we have had in the past, and these are reflected in the "Other" category. On the negative side, our plate offerings are expected to be lower than last year due, in part to more people pledging than making plate offerings.

If all goes well, we expect to receive \$554,700 in total income this year, up about 5% from last year and closer to the amounts we received before the economic downturn.

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Plate Offerings

Plate offerings are the cash and checks placed in the collection plate at each service. These offerings are usually made by one-time or occasional visitors to St. Paul's – people who would not normally make an EMC pledge or gift to our church. Pledge envelopes are also placed in the plate each Sunday, as are checks from people who have made a pledge to St. Paul's. These pledge envelopes and checks are not counted as part of the "loose" offering, but are credited to the individuals who made the pledge. The loose plate offering is a substantial part of our income each year.... \$70,000 or almost 13% of this year's budget

What happens after you place your offering in the plate or, bluntly, how do we protect your donation? After each service, two trusted counters take *everything* from the plate, separate the offerings into cash, checks and envelopes, place all that into a bank deposit pouch and put it in our safe. The safe is like a bank night-deposit vault ... there is a small slot that accepts the pouch which then drops into the safe. The safe can then be opened only by using a key that is kept under lock and key in the Treasurer's office.

Each Monday morning, two different counters collect the safe key and together open the safe and remove the pouches from the Sunday services. They then return to the Treasurer's office where they open the pouches, count the cash, list and photocopy the checks and prepare a deposit slip for the bank. While this is happening, our bookkeeper posts to each pledge account the amount received from that person or family. The counters then go to the bank where the cash is counted again by the bank teller and the checks totaled to verify the amount of the deposit. The deposit slip is then returned to the bookkeeper, who adds the deposited amount to our books. The Monday counters may work as a team for a week or two, but we make it a point to rotate the counters frequently so that the same two people do not always work together. Each year we also conduct an audit that includes random sampling of the paper trail supporting the deposits. We owe a huge vote of thanks to all the counters because they work, unheralded, behind the scenes to insure that our cash donations are safe.

Occasionally, the Rector may decide to designate the "loose" plate offering from a particular service or services for a specific purpose. For example, when the Bishop visits, the loose plate offering is generally given to the Bishop's fund. On other occasions, the loose plate offering may be designated for a relief fund, such as after the Katrina hurricane or the Haitian earthquake. Usually, the Rector will make an announcement at each service when the loose plate offering will be donated, so that the congregation can adjust its contribution accordingly.

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Suggested Donations

In 2008, the Vestry formalized a list of suggested donations for some of the events at the church and updated this list at its June meeting this year. While most people realize that there are costs associated with weddings, many do not realize that other events such as funerals, memorial services, receptions and Memorial Garden inurnments, also cause costs for the church. If there is music at a wedding or funeral, the Music Director must be paid. The church and/or Gardner Hall also must be cleaned after each event. The Parish Administrator must make all the arrangements for the event and that takes her time. And then we have the utilities, the cost of heating, lights, water and garbage collection – small perhaps for one event, but the cost of many events is considerable.

Other churches on the island have suggested donations for events, as do most churches on the Cape. Almost all make a distinction between members of the congregation and non-members when they determine the level of suggested donations and our Vestry has done that as well. Here is the current list of suggested donations for events:

	<u>Member</u>	<u>Non-Member</u>
Wedding Ceremony	\$ 3,000	\$ 5,000
Funeral/Memorial Service	\$ 500	\$ 500
Memorial Garden Inurnment (includes perpetual care)	\$ 1,500	\$ 2,000
Reception	\$ 500	\$ 1,000

The Vestry also gave the Rector the authority to waive or adjust any of the above if circumstances so warrant. In addition, we have approached all the organizations that use our facilities regularly and asked them to make donations to help offset the cost of our utilities. Those organizations; the Food Pantry, the Nantucket Community Music Center and New Life Ministries, are now making contributions to help offset our rising utility costs. In addition, the Lighthouse school is now using a part of the Parish house that was formerly used by the Cooperative Nursery School, which voted not to reopen last year. We have leased this space to the Lighthouse school and hope to continue this arrangement into the future. All told, we expect to receive about \$27,000 this year for the use of our facilities.

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Planned Giving and Our Endowment

One of the long-term goals of the Vestry is to encourage the creation of an unrestricted endowment fund large enough so that the annual income from this fund will be sufficient to restore and preserve all our buildings. Since building costs average about \$100,000 a year, the target level for the fund is \$2,000,000, assuming a 5% return on the endowment each year.

Currently, the church has about \$200,000 in two unrestricted endowment funds and about \$230,000 in restricted endowment funds. An unrestricted fund is one where the proceeds or principle may be used as the Vestry decides. A restricted endowment fund is one in which the donor placed restrictions on how the principle and/or income from the fund may be used. Without getting in to legal details about the bequests, one of the two restricted funds is not available to be used for the operation and maintenance of the buildings and the other produces an annual return of less than 5% and we are not permitted to change the investment direction to try to earn a higher return. When all is said and done, we have the equivalent of \$200,000 in unrestricted endowments the income from which can be used to operate and maintain our buildings.

While our goal seems like a distant mountain to climb, there are many paths to the top and all come under the general heading of planned giving. One path is through gifts of real estate, appreciated property or tangible personal assets. Late last year, Congress extended through 2011, the bill that allows people to donate funds from an IRA to a charitable institution, such as St. Paul's, and avoid the tax liability. This offers people the opportunity to help build up our endowment while avoid paying taxes on the mandatory deductions (for those over age 70½) from your IRA. Another common way to make a planned gift is through your will. A bequest in a will can take the form of a set amount of money, a percentage of an estate or a specific asset such as shares of stock. Life insurance is another way to make a sizeable gift to the church. You can purchase a new policy and make the church the owner and beneficiary or you can make the church the owner and beneficiary of an existing policy. All of these paths are complex and should be undertaken only with sound legal and financial advice. Our purpose here is only to ask you to think about the options and consider your estate planning as one of the steps toward our goal. A gift of any size will help sustain this church and its ministries for generations still to come.....just as we have been the beneficiaries of those who have gone before us.

Several years ago, the Vestry established the Caroline L.W. French Society to provide recognition to all those who have included St. Paul's Church in their estate plans. The Society was named for the wonderful and generous woman who donated the church and its magnificent stained glass windows in honor of her father. There are a number of parishioners who already belong to the Caroline French Society and several more who may qualify but who have not yet been recognized. If you believe you qualify for the Society or would like more information on planned giving, please contact the church office and a knowledgeable person will contact you.

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Every Member Canvass – On Course

Last week, I discussed one of the long-term financial goals the Vestry has established for St. Paul's – to create an endowment large enough so that the annual income from the fund will restore and preserve our historical buildings. While it may take many years to reach the first goal, the second goal can be achieved more quickly. That goal is to increase the amount of pledges and gifts enough so that we do not have to rely on fund-raising events to close the gap in our operating budget. ...and we are making great progress!

Two years ago the results of our EMC campaign covered 55% of our 2010 budget and last year the campaign covered 59% of this year's budget. Our goal for this year's campaign is to cover 67% of next year's budget. The drive will begin shortly and will continue through the fall so that everyone will have the opportunity to participate. Eric Goddard and Lou Gennaro will chair the committee that will run this year's campaign.

I have discussed both EMC gifts and pledges as part of our campaign, so perhaps I should explain the terms. A "pledge" is your estimate of what you plan to give to St. Paul's for a given period, usually a calendar year. It is not an iron-clad promise or a legal commitment for the amount ... it is your *estimate* of what you plan to give. We know there may be unforeseen circumstances that prevent a person from giving the full amount they planned to give. When that happens, we understand fully and will adjust our records accordingly. But your pledge – your *estimate* – is extremely important because it allows us to build a budget based on anticipated income and reduce our dependence on money from fund-raisers.

An "EMC Gift" is a one-time gift made during our annual EMC campaign in lieu of a "pledge". Several of our summer parishioners pledge to their churches back home and they feel uncomfortable pledging to more than one church, so we developed the "EMC Gift" as a way around two pledges to two different churches. Others who come to church regularly may not be Episcopalians or may worship occasionally at churches of other denominations. An EMC Gift allows them to support St. Paul's regularly, but postpone making a more formal commitment. From a financial point of view, however, we view pledges and EMC gifts as one in the same. It is interesting to note that some people pay their pledge once a year; others send in checks monthly or charge their contribution to a credit card; and still others put their payments in envelopes in the plate each Sunday. There is no preferred way ... just do what is most convenient for you. Unless you prefer to make your contribution in cash, there is also no need to have envelopes, although some people use them as reminders or to assure privacy about their donation. When checks are received, the bookkeeper posts the amount to your account based on the name(s) on the check, not the envelope number.

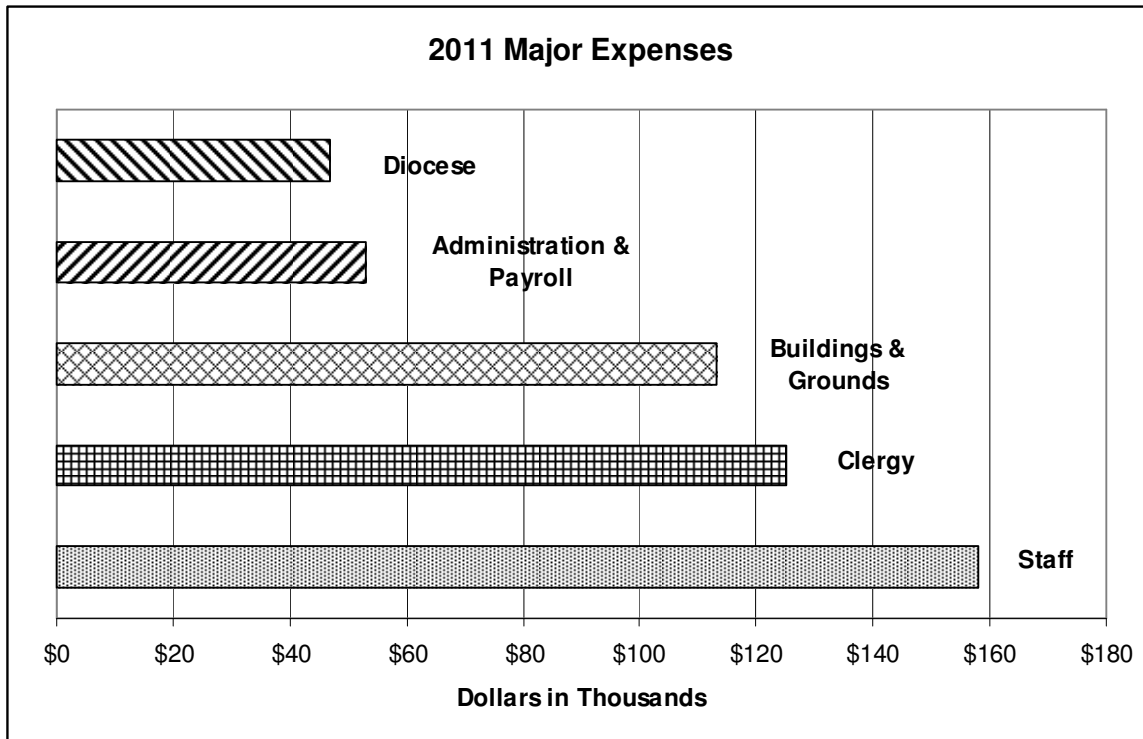
It is the middle of the summer, but we are already planning for next year. Please watch for the EMC letter that will kick-off our EMC campaign for 2012 and respond to it. We need your continued help and support.

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Our Expenses – Where The Money Goes

For the past several weeks, we have looked at the income side of our financial picture. Now we will turn to the outgoing side – our expenses. This year, we expect our expenses to total \$554,700 or about \$10,000 more than we spent last year. If our expenses come in as forecast, our budget will be balanced for the year. Here is a look at our major categories of expenses:



The purpose of this chart is just to give you an overview of our major expenses, not to analyze in detail the components of each category. There are a number of other small expense categories that I will not address because they are not major drivers of our expenses. In the coming weeks, I will go into more detail about some of the items in these categories. As you might expect, we have a great deal of information about where your money goes, so the real challenge is to provide enough information for clear comprehension, but not so much that your eyes glaze over.

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Diocesan and Administrative Expenses

Diocesan Assessment (\$47,400 for 2011)

Diocesan assessments are the principal method by which individual churches support the mission and ministry of the Diocese and, in turn, of the Episcopal Church. Assessments are calculated using a formula based on each congregation's ordinary expenses, with larger churches paying proportionately higher rates of assessment. The Diocesan Council, based on recommendations from the Treasurer's office, sets the formula and resulting assessments for the following year which are, in turn, approved at the annual Diocesan Convention. The Diocesan Council, by the way, is the representative governing body of the Diocese which acts on behalf of the Diocesan Convention when it is not in session, roughly equivalent to an Executive Committee that makes decisions when a board is not in session. After approval by the Council, the Treasurer's office then sends out a notice to each congregation containing a detailed calculation of the congregation's annual assessment for the following year. That's the process that has been followed for a number of years, with the formula being changed occasionally, but the variables changing each year.

The assessments for St. Paul's have remained fairly consistent from 2005 through 2009, but then the Diocese changed the formula in recognition of the economic downturn. We have already received our assessment for next year, so I have included it in these data:

2012 = \$52,100	2011 = \$47,400	2010 = \$46,300	2009 = \$75,600
2008 = \$74,600	2007 = \$70,400	2006 = \$73,000	2005 = \$75,000

Administration & Payroll Expenses (\$52,500 for 2011)

Our administrative expenses will be about \$40,000 this year and include most items of office equipment, such as computers, copiers, the folding machine and telephone and internet services. This category also includes some insurance costs (fire and liability), office supplies, postage, printing and advertising expenses. Our Parish Administrator, Deanna McCormack, does a wonderful job watching over these expenses to keep them as low as possible.

We pay and outside firm to administer our payroll and these will be about \$12,500 for the year. We are in the process of changing from our current vendor PayChex, to another firm, Automatic Data Processing, Inc. (ADP). PayChex has done a fine job, but Episcopal Payroll Services, a division of the Episcopal firm that supports all Episcopal churches nationwide, has negotiated a more favorable contract with ADP, so we are making the change. In addition to issuing paychecks to our employees, these firms take care of all deductions from salaries and all federal, state and local tax calculations. It is far better to have experts deal with tax matters than to try to do them ourselves.

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Building and Grounds

Maintaining our campus of four buildings and their surrounding grounds is one of our most volatile expense categories. It includes three categories of costs: building operations; routine maintenance and major repairs. I will deal with each one separately.

Building Operations (\$46,000 for 2011)

Heating costs, water and sewer, electricity, and rubbish removal are the biggest items in this category, but it also includes the alarm system and the cost of maintaining the organ. Our four buildings are heated by three different means. The Parish house and the cottage are heated by electricity; the church is heated with fuel oil and the Rectory is heated by propane. The church, because of the vaulted roof and the large size costs more than \$14,000 each year to heat. The Parish house costs about \$5,100 a year, thanks in large part by the conscientious efforts of the staff to turn the thermostats down when the rooms are not in use. The Rectory and the cottage cost \$4,600 and \$3,500 respectively. There are programmable thermostats in the nave and in Gardner hall which help, but our real worry is the heating system itself, which has been repaired many times, is not as efficient as newer systems and is estimated to last only a few more years, at best. Because we know the replacement is coming, we began in 2009 to place funds in escrow to be used to replace the heating system and the roof of the church, when it becomes necessary.

Routine Maintenance \$38,000 for 2011)

This category includes the cost of a sexton, or general repairman, for all our buildings and our landscaping work. We also contract out the cleaning of all our buildings and that costs about \$1,000 a month or \$12,000 for the year. Cleaning supplies, including soap, paper towels, toilet paper and the paper goods for our coffee hours cost an additional \$500 each year. And yes, we shop at Costco or BJ's to keep the costs down.

Major Repairs and Replacements (\$22,000 for 2011)

This year, we have undertaken two major projects. The first was the restoration and preservation of the stained glass windows in the nave of the church. Before the restoration could begin, we needed to fix the leak in the bell tower or the leaking water would rapidly destroy the restoration work. The tower leak was repaired in late spring and the restoration and preservation work on the windows was completed in July. Both the tower leak and the window restoration were paid for by grants from the Community Preservation Committee. The second project was the installation of fans in the vaulted ceiling of the church. These were paid for by donations and from church funds and will insure more circulation of air in both the summer and winter. We do have another project looming on the horizon – the replacement of the roof on the Parish house. The south-facing portion of the roof adjacent to the neighbor's driveway is in bad shape and will cost approximately \$4,200 to replace. The remainder of the roof, which will also need to be replaced before long, will cost about \$32,000. To do the whole roof at one time would cost \$36,000. While it makes sense to do the entire roof at the same time, we do not have the funds available to cover it.

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Clergy and Staff

More than half our annual budget (51%) goes to pay the salaries and other expenses for our clergy and staff members. Several of the church's employees, including our Rector, are employed under contracts, which are reviewed and adjusted each year. The others are part-time employees who work for us when we need them. Our contract with the Rector follows the guidelines established by the Diocese and the Vestry just reviewed and approved his contract for the coming year. I will discuss his contract first and then cover the rest of the staff.

Clergy Compensation The compensation process begins in Boston with the Compensation and Benefits Committee of our diocese. The committee, which was established in 1980, collects and reviews compensation and benefits data from other Episcopal dioceses, other denominations and also from the business, government, and academic communities. From this data, the committee has developed several formulae designed to provide a common basis for churches to develop compensation for their clergy. The factors in the formulae are adjusted annually to reflect changes in the cost-of-living in the Boston area. "Compensation" includes the *cash stipend*, or salary, *Social Security tax reimbursements*, *utilities* and a *housing equity allowance* if the priest lives in housing provided by the parish. This last payment is designed to compensate priests for the lost equity they would have realized if they had actually purchased homes and is calculated based on mainland real estate markets, not the Nantucket market. Other benefits paid by the church, such as health insurance and pensions, are not included as part of the "compensation" calculation, but are included in our annual budget. The formula that determines total clergy compensation is based on three factors that are common to every church in the diocese: total current operating revenues; the number of current adult pledging units; and the average current Sunday attendance. This information is gathered and reported each year by every church and is weighted to produce the points used in the formula. The 2011 formula is:

$$\text{Clergy compensation} = \$57,758 + (118.73 \times \text{Points})$$

As I mentioned above, the Vestry has just approved Gene's contract for the coming year and his compensation and benefits were derived by using the numbers from St. Paul's to develop the points in the above formula, which was then adjusted further for other factors.

Staff Compensation All staff members report to our Rector, who is the CEO, if you will, of our operation. Three of the staff members, including the Rector, are considered professionals and are compensated based on the terms of their contracts. These contracts are reviewed each year and adjusted based on performance, cost of living and other factors. Any benefits paid are also subject to negotiation and are included in the contracts. The remaining four employees are part-time employees, who are paid an hourly rate. This makes the most sense for the church because we do not need their services on a full-time basis and this arrangement allows them to work for others. We use an outside firm, currently PayChex, to pay all our employees and to calculate withholdings and tax matters. Since payroll tax matters are complex, it is better to rely on outside expertise than to attempt to do it ourselves.

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Giving Stocks to the Church

Many people prefer to give stocks to the church as all or part of their pledge or gift, as there are some tax advantages when someone donates in this manner. Briefly, you are able to deduct the full market value of the stock as a tax deduction in the year in which it was given, not the amount you paid for the stock. If the value of the stock has appreciated significantly since it was purchased, the deduction can be considerable.

The usual way these transactions are handled is for the donor to direct his or her broker to make a wire transfer of a certain number of shares to St. Paul's Church. When this is planned, it is most important that the donor notify the Treasurer that X number of shares in Y corporation will be transferred to the church. Current Homeland Security regulations prohibit brokers from revealing the name of the stock owner so, in the past, we have received shares and we did not know who donated them. Waiting until an aggrieved parishioner calls up to find out why their stock donation wasn't acknowledged is not the best way to determine the donor! So please, send us an email or give us a call with the details of your donation.

It is the policy of the church to sell any donated stock immediately and we have a company that performs that service for us. It is called Commonwealth Financial Services and is located in the Nantucket Bank building at 104 Pleasant Street. If you do decide to donate stock, here is the information your broker will need to accomplish the transfer:

Transfer to: Commonwealth Financial Services
Account number for St. Paul's Church: HDS 416860
DTC number: 0226
Name on account: St. Paul's Episcopal Church
P.O. Box 278
20 Fair Street
Nantucket, MA 02554

Once we receive notification from Commonwealth Financial Services that the shares have been received and sold, we will send you a letter of acknowledgement so that you know the transaction has been completed. For tax purposes, the proceeds from the sale of your shares, and any other deductible donations you have made during the year, will be described in the year-end statements we send in January to all who have made donations to the church during the year. These year-end statements are your proof of donations of pledges and gifts for income tax purposes.

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What's Deductable?

Let me begin with a disclaimer – I am not qualified to give tax advice to anyone; only your accountant or tax attorney can do that. However, I can pass on information that the Internal Revenue Service provides in several of its publications that may be useful to you.

The first I.R.S. rule that everyone should know concerns record keeping, because the responsibility is on you, the donor, to keep the records. The I.R.S. states that, “A donor cannot claim a tax deduction for any contribution of cash, a check or other monetary gift unless the donor maintains a record of the contribution in the form of either a bank record (such as a cancelled check) or written communication from the charity (such as a receipt or a letter) showing the name of the charity, the date of contribution, and the amount of the contribution.” At St. Paul’s, we provide that written communication in the form of a year-end statement showing all the pledge payments, gifts or other contributions. In some cases, such as a gift from a charitable foundation or from a one-time donor, we will provide a letter shortly after receiving the gift.

When someone makes a non-cash contribution to the church and provides us with a description of what was donated, we will provide a letter of acknowledgement listing the items donated. However, we do not attempt to give a value to the donated items because it is the donor’s responsibility to determine the fair market value of the items donated. Even if someone provides us with a list with values on it, we will not include the values in the acknowledgement we supply because, in the event of an IRS audit, the responsibility rests with the donor to substantiate the value of the donated items. If you have donated items to the church, you may find I.R.S. Publication 561, *Determining the Value of Donated Property* helpful.

Another form of contribution is called the *Quid Pro Quo* contribution, where the donor makes a payment in excess of \$75 and receives something in return for that contribution. In this case, the donor may only take a contribution deduction for the amount that exceeds the fair market value of the goods or services received. For example, if someone buys a ticket to a church-sponsored dinner for \$100, but the actual cost of the dinner is \$75, then the donor may only deduct \$25 as a charitable contribution. On the other hand, if you pay \$600 for one week’s rental of a cottage and the fair rental value of the property is \$600, then you may not take a deduction at all, even though the check may have been made out to St. Paul’s Church.

You also cannot deduct the value of your time or services but, under certain conditions, you can deduct certain expenses you incurred while doing work for the church. The topic is too complicated to discuss here, but I refer you to I.R.S. Publication 526, *Charitable Contributions*, which is available on the internet. The I.R.S. website, www.irs.gov/, has a great deal of information and it is a user-friendly site.