

Financial Foundations

~ Old Money ~
New Opportunities

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Matthew 6:19-21

Concerning Treasures

¹⁹ “Do not store up for yourselves treasures on earth, where moth and rust consume and where thieves break in and steal; ²⁰ but store up for yourselves treasures in heaven, where neither moth nor rust consumes and where thieves do not break in and steal. ²¹ For where your treasure is, there your heart will be also.



The manner in which a church balances its cash liquidity opportunities speaks volumes about how that church demonstrates financial stewardship.



Setting up Reserves

Purpose of Reserves

The Danger of Savings

Step #1 Establish a Clear Purpose

Step #2 Establish a Target Balance

**Step #3 Establish Guidance for
Withdrawals/Contributions**

Step #4 Establish Regular Reporting





Essentials

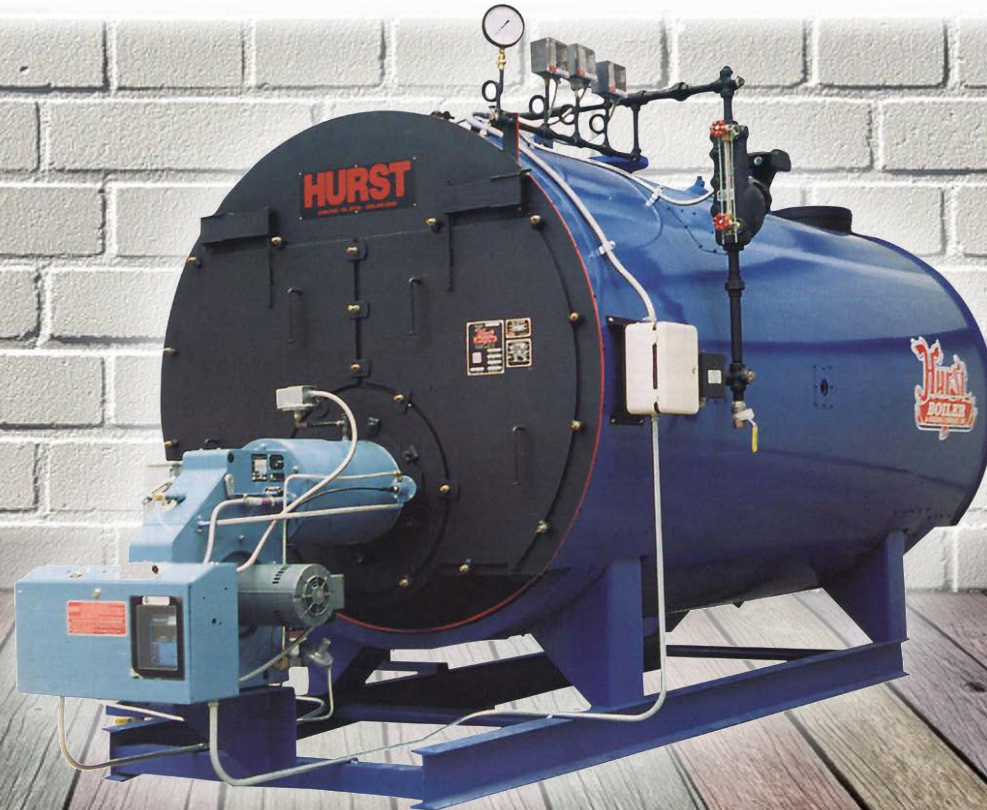
- **Make a plan to generate cash reserves**
- **Measure Cash Reserves**
- **Account for Designated Gifts**
- **Adopt a Cash Reserves Policy**
- **Communicate the Importance of Cash Reserves to the Congregation.**



Setting up reserves

Planned savings

Example – Boiler Replacement Fund



Setting up reserves

Step #1 - Establish a Clear Purpose

Boiler Replacement Fund

- Purpose is to ensure church has enough funds to heating system when boiler dies. May also be used for boiler repairs outside regular maintenance.
- Trustees are responsible for fund.
- Fund will be invested in church's foundation.



Setting up reserves

Step #2 - Establish a Target Balance

Talked to boiler company. Their best guess is that the boiler will cost \$100,000 in 2045.

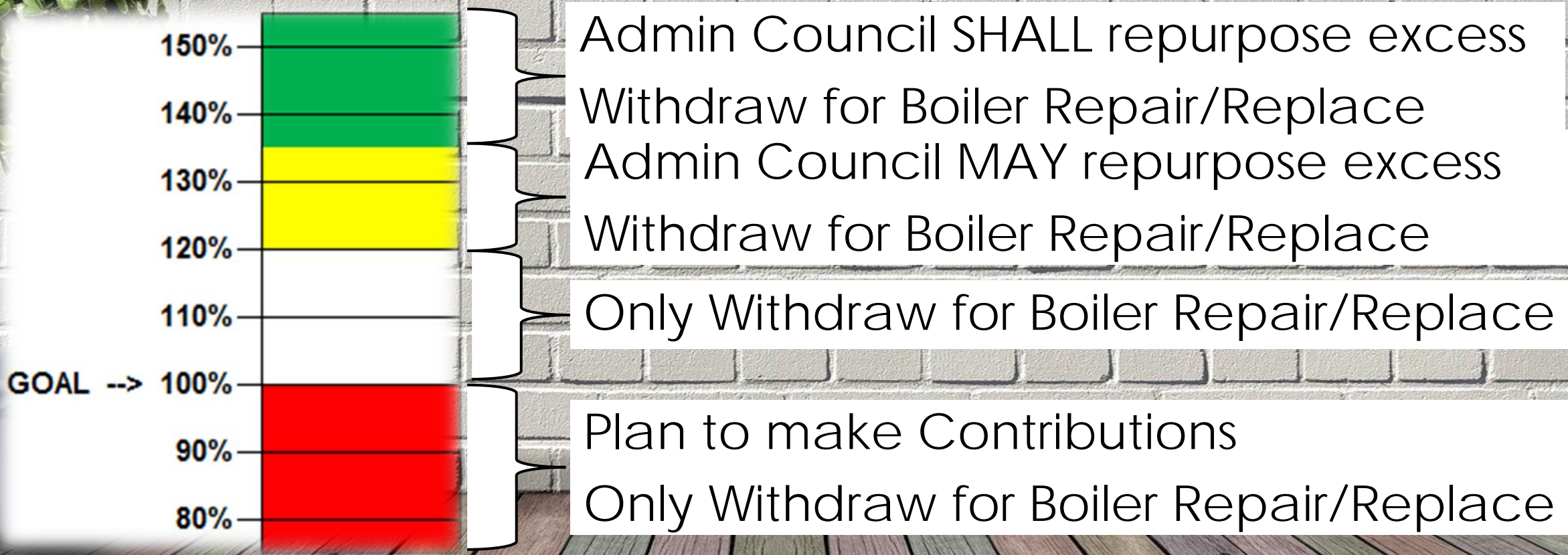
\$100,000 in 2045

\$10,000

A vertical bar chart with a red bar representing \$10,000 and a white bar representing \$90,000, with a red ribbon above it.

Setting up reserves

Step #3 – Withdrawals & Contributions



Setting up reserves

Planned savings

	<u>Boiler Replacement</u>
Balance as of 1/1/16	5,000
Investment Gains/(Losses)	362
Contributions	1,000
Withdrawals	-
Transfers In/(Out)	-
Balance as of 7/31/16	6,362
<i>Percent Funded</i>	6.4%
<i>Amount Over/(Under) 100%</i>	(93,638)

EXCEL FORMULA

=FV(Rate, Years, Contrib, Bal)

=FV(5%, 29, -1000, -6362)

\$88,097.95

Setting up reserves

Step #4 – Regular Reporting

Boiler Replacement -

Purpose is to replace heating system or repairs (not regular maintenance). The target balance is replacement cost in 2045 (\$100,000 updated 1/1/16). Will make contributions if less than 100% funded. May repurpose funds in excess of 120%. Shall repurpose funds in excess of 135%.

Endowments

Endowments are not the same as reserve funds.

An endowment implies that some or all of the use of the endowed assets are restricted in some way. Most endowments are designed to keep the principal corpus intact so it can grow over time, but allows the church to use the annual investment income for programs, or operations, or purposes specified by the donor to the endowment.



Endowments

The principle/corpus (money allocated to the account) of an endowed fund is generally not used to fund annual operating expenses.

The goal of an endowment is to allow the principle to grow without withdrawals so the underlying corpus (or allocated funds) increases over time.

The interest earned from the account is then available every year and should be used to enhance ministry in line with the stated purpose of the endowment.



Endowments

The principle/corpus (money allocated to the account) of an endowed fund is generally not used to fund annual operating expenses.

Example: Mrs. Smith gives Best Church UMC a gift of \$100,000 to be used for missions. How much money should the Church expect to use per year for Missions from this gift?

\$4500



Endowments

How to make the most of Mrs. Smith's \$100,000 gift.

- How much money will the church receive from this gift each year? 5%
- What programs can this be used for?
- Missions
- Define Missions....
- Do we need to hand it over to the missions committee?



Endowments

How to make the most of Mrs. Smith's \$100,000 gift.

- Is the missions committee inline with the goals of your church?
- Is the leadership team/administrative board aware of the gift?
- Sometimes we get stuck in our definitions and in our beliefs of how it "should" be. And miss the opportunity of how it "could" be.



Endowments

The goal of an endowment is to allow the principle to grow without withdrawals so the underlying corpus (or allocated funds) increases over time.

In uncertain times, it becomes too tempting to want to “use a little bit of the corpus— just this one time”.

No, you can not! That is not what Mrs. Smith wanted her money used for.

However, have you defined missions?



Endowments

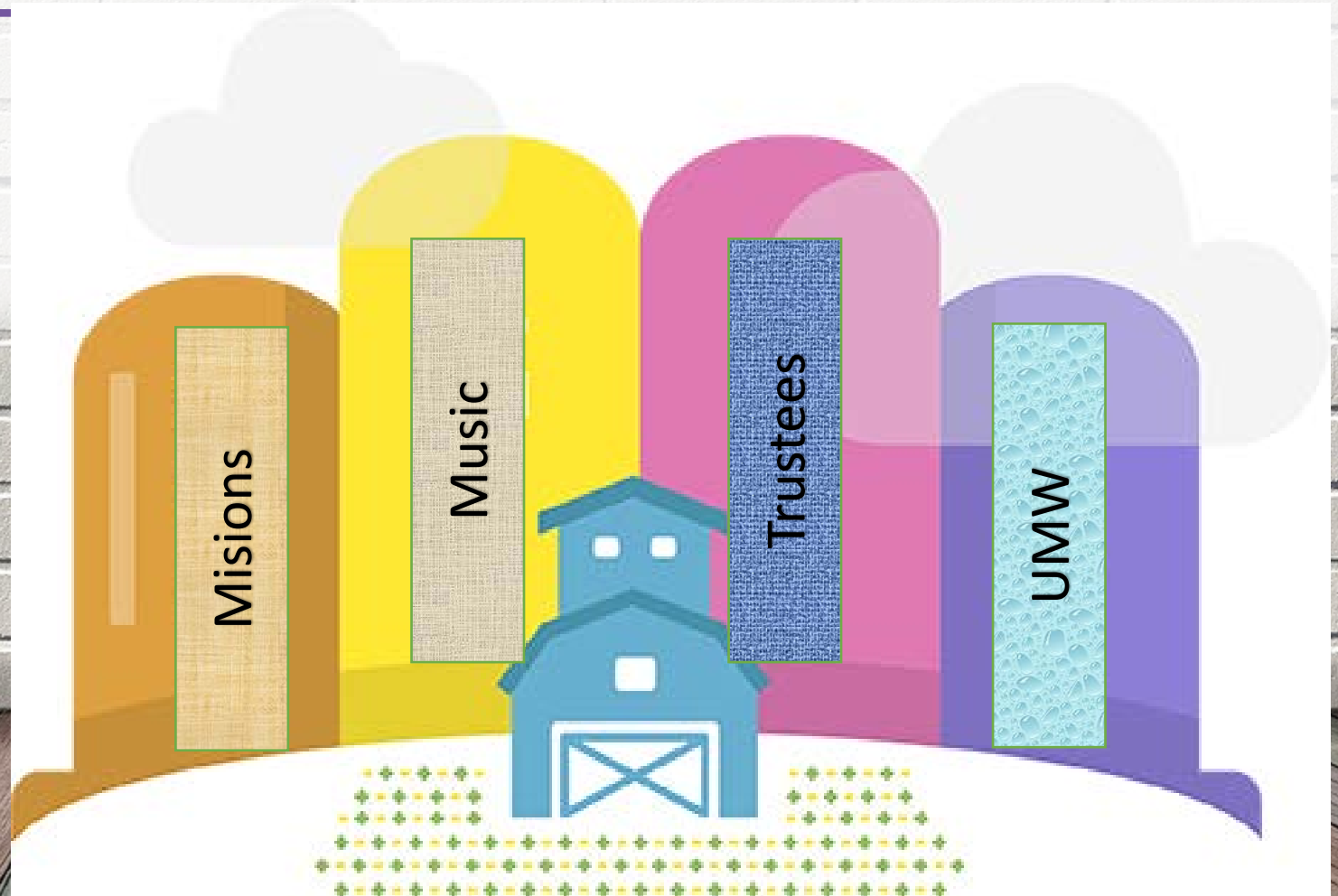
The interest earned from the account is then available every year and should be used to enhance ministry in line with the stated purpose of the endowment and the mission and goals of your church.

How could this gift best enhance the ministries of Best UMC?



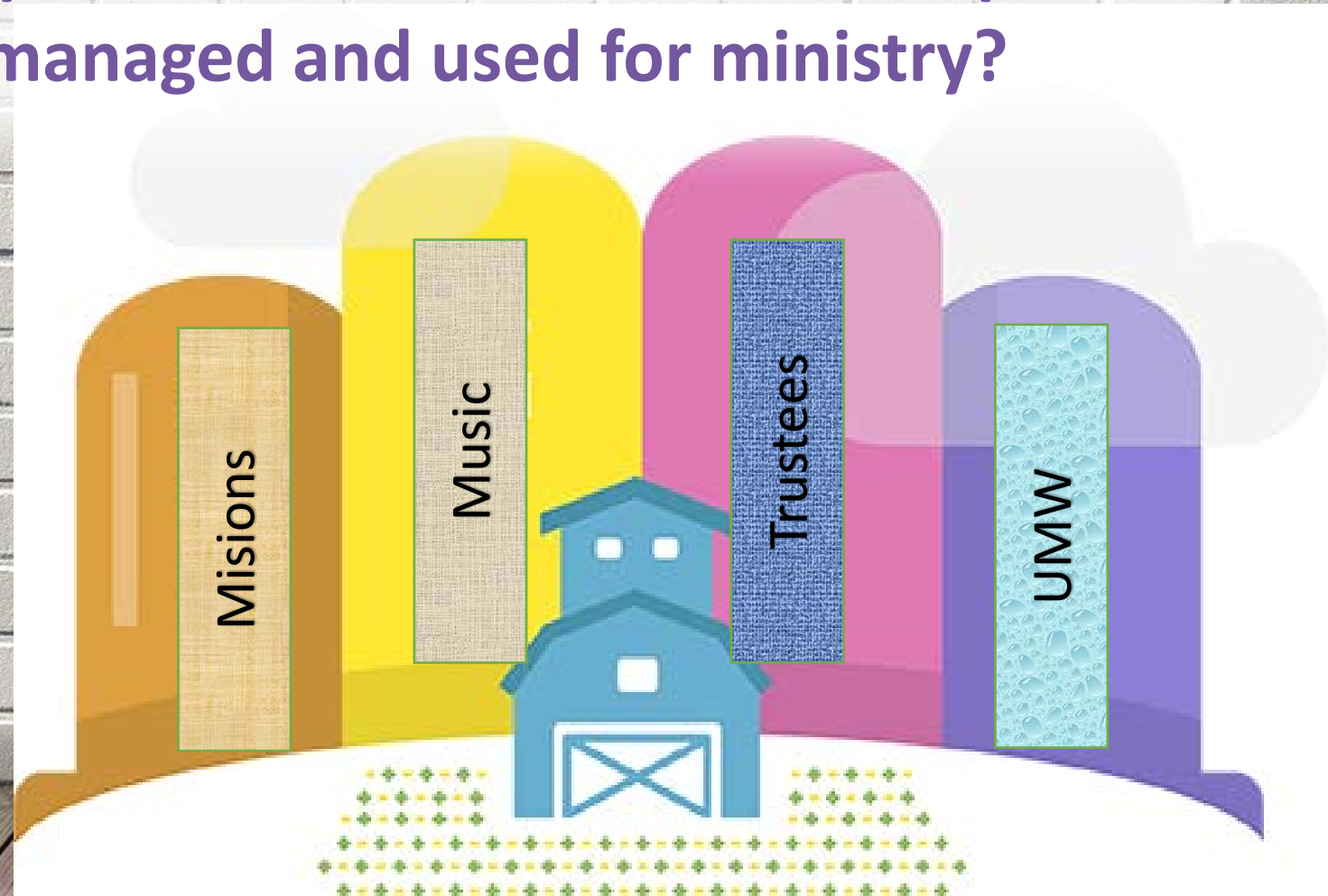
Endowments

Do an inventory of endowment and investment accounts in your church –



Endowments

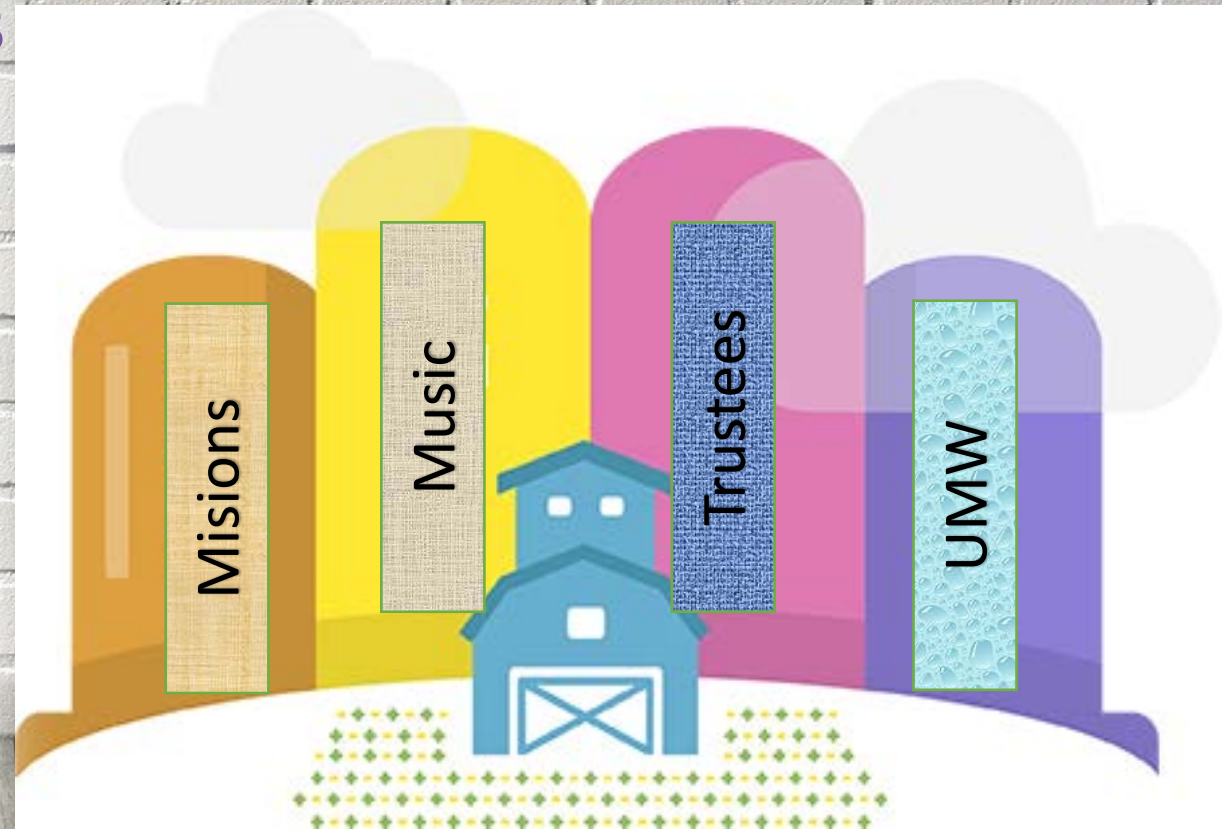
Are there places where monies could be pooled or better managed and used for ministry?



Endowments

Are the monies being used to enhance the ministries of your church?

Are you being true to the wishes of the donor? Or are you interpreting the wishes of the donor to meet the needs of your pet projects?



Endowments

Is your documentation on each endowment fund up to date?

As ministry changes, is the intent of the endowment for current needs? Or, is it dated? Do you need to revisit the intent and work with the donor, or the donor's family about providing language to make it current to meet the needs, goals and mission of your church.

Are the funds aligned with the mission of your church?



Endowments

- Do you have a gift acceptance policy?
- Do you have a spending policy?



Resources



P&B ONLINE

Pensions and Benefits USA

ECCU

Your ministry banking resource

Four Good Questions for Churches and Cash Reserves

Michael E. Batts

National Council of NONPROFITS

Contact us anytime...



Dakotas Conference

The United Methodist Church



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