

MANAGING RESERVES/CONTINGENCY FUNDS

Danger of Savings When managing reserve or contingency funds (similar to an emergency savings account), there is a danger in not having a clear idea about what the purpose and desired balance of that fund should be. When this is not clear, usually the mission of the church is put in danger by: 1) Depleting the fund on items that are not critical to the mission but just because we have money; or 2) Refusing to use any of the funds to advance the mission for fear of never having enough money. Below are the steps that can help a church logically think through how decisions on the use of reserve funds will be made before being faced by that decision.

Step #1 Establish a Clear Purpose

This purpose should be established by the head committee of the church which is usually referred to as the Administrative Council. This body should establish the purpose because they have the best view of the overall work and mission of the church. The Administrative Council may have another committee draft the purpose, but the Administrative Council should have final say over the all wording.

The purpose needs to:

1. Accurately represent any donor restrictions,
2. Be detailed enough to be able to assess which expenditures from the fund would be appropriate, and
3. Avoid being overly restrictive when not necessary so as to not tie the hands of future decision makers.

The purpose should be no longer than a couple of sentences and should also specify who can make decisions on using the funds and when those decisions can be made.

Step #2 Establish a Target Balance

Determine an amount that will adequately provide for the purpose just established. Ideally this amount should be a calculated amount that updates automatically and relatively simple to calculate. For example, if a church has a contingency fund to be used if there is a shortfall in giving, they may want three months of expenses in that account. The church's budget is \$100,000. Adopting a target balance equal to \$25,000 is a bad idea as the budget will go up and down and either this amount will need to be updated regularly or it will be inaccurate. It is a better idea to adopt a target balance "equal to 25% of the current operating budget." While the treasurer will have to update the target balance on reports, the definition of the fund will not need to be updated.

Step #3 Establish Guidance for Withdrawals/Contributions

Knowing how the fund is invested and whether the target balance is expected to increase or decreases in the future will help you establish guidance on especially withdrawals. Whenever the fund is below the target balance, there should be plans on contributing to the fund to bring it up to the target balance. There may also be times when the fund is so overfunded, it would be wise to withdraw the excess to be used either for the purpose of the fund or another mission critical purpose.

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Step #4 Establish Regular Reporting

All of this work is for naught if it just ends up in a binder somewhere to be ignored. The purpose, target balance, and guidance for withdrawals/ contributions needs to be incorporated into the regular reports.

EXAMPLE

Background Strasburg UMC has three funds that they've been managing: #1 – Emergency Savings; #2 – Church Property Maintenance; and #3 – Camp Scholarships. While the community of Strasburg has been shrinking in population for the last 75 years (currently under 140), they still have a K-12 school with 140 enrolled, and Strasburg UMC is the last protestant church in town. The church's attendance has been slowly declining, but leadership believes that there is opportunity to grow by addressing some problems and reaching out to the students. The following purposes, target balances, and guidance were officially approved by the Administrative Council following much research and discussion:

Fund Definitions **Emergency Savings:** Purpose is to provide funds for the operating budget in the event that income and the amount in checking is not enough to cover expenses. The Finance Committee shall have authority to approve withdrawals for this purpose. The funds shall be invested by the church's foundation. The target balance is 25% of the current operating budget. At year end, plans will be made to make contributions if less than 100% funded. The Administrative Council may repurpose funds in excess of 120% funded. The Administrative Council shall repurpose funds in excess of 135% funded.

Church Property Maintenance: Purpose is to provide funding for capital projects relating to the church building or parsonage that are not covered by the operating budget. The Trustees shall have authority to approve withdrawals for this purpose. The funds shall be invested by the church's foundation. The target balance is 10% of the insured value of the church building and parsonage. At year end, plans will be made to make contributions if less than 100% funded. The Administrative Council may repurpose funds in excess of 120% funded. The Administrative Council shall repurpose funds in excess of 135% funded.

Camp Scholarships: Purpose is to provide scholarships from the investment earnings to cover up to 50% of the cost of attending camp for children and youth in our church. The Treasurer shall have authority to make withdrawals for this purpose as long as the fund remains at least 100% funded. The Administrative Council shall approve any withdrawals that reduces funded level to below 100%. The funds shall be invested by the church's foundation. The target balance is 20 times the average spent the three previous years. At year end, plans will be made to make contributions if less than 100% funded. The Administrative Council may repurpose funds in excess of 130% funded. The Administrative Council shall repurpose funds in excess of 140% funded.

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Regular
Report

	Emergency Savings	Church Property Maintenance	Camp Scholarships
Balance as of 1/1/16	10,609	99,229	32,045
Investment Gains/(Losses)	770	5,752	2,542
Contributions	1,798	-	5,050
Withdrawals	-	(18,318)	(1,039)
Transfers In/(Out)	-	-	-
Balance as of 7/31/16	13,177	86,664	38,598
<i>Percent Funded</i>	65.9%	115.6%	109.0%
<i>Amount Over/(Under) 100%</i>	(6,823)	11,664	3,198

Emergency Savings -	Purpose is to help cover income and cash shortfall. The target balance is 25% of the current operating budget (\$20,000 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%.
Property Maint. -	Purpose is to help fund unbudgeted capital projects. The target balance is 10% of the insured value (\$75,000 update 11/1/14). Will make contributions if less than 100% funded. May repurpose funds in excess of 120%. Shall repurpose funds in excess of 135%.
Camp Scholarships -	Purpose is to use the earnings to cover up to 50% of the cost of camps for our students. The target balance is 20 times the three-year average. (\$35,400 update 8/1/16). Will make contributions if less than 100% funded. May repurpose funds in excess of 130%. Shall repurpose funds in excess of 140%.