

# **Lutheran Church of the Resurrection**

## **Reserve and Line of Credit Policy**

The purpose of this policy is to support the long term financial sustainability of the church. The intent is to support the goals and strategies of our church while having a financial health that attempts to protect against unexpected expenses, declines in giving, building maintenance and repair costs, periods of transition and cash flow risks. The Finance Committee and the Executive Council has the combined responsibility for the financial health and sustainability of the church and therefore must partner for the best decisions to insure the longevity of our church. Changes and amendments to this policy should be approved by both the Finance Committee and the Executive Council. Approval, for changes or amendments to this policy, requires a vote of 75% or greater, of the voting members, from both the Finance Committee and the Executive Council individually.

In support of meeting these goals, separate reserves have been set up to meet specific needs.

### **1. Operating Reserve (027-98-00-18):**

#### **A. Purpose:**

The Operating Reserve is a restricted fund intended to cover times when the operating expense exceeds income. This can be the result of lower than planned giving, unfavorable cash flow, or when expenses have been unmanaged (unmanaged meaning did not follow the approved budget). The use of this reserve is to cover salaries, taxes, insurance, utilities, and any line of credit or mortgage payments. This reserve is intended to solve temporary problems and not structural financial problems. Operating Reserves are not intended to replace a permanent (on-going) loss of funds or eliminate an ongoing budget gap.

#### **B. Approval:**

Use of reserves should be recommended and approved by the Executive Council and the Finance Committee together in accordance with section 1-D of this policy. As the need for the use of fund will tend to be for unexpected and or emergency situations, approval, for the use of funds, requires a minimum of a unanimous vote of the Council President, Treasurer, Finance Committee Lead and one other Finance Committee member. Communication to all other Executive Council and Finance Committee members should happen quickly after the decision. If possible, a vote of greater than 50% of the voting members from both the Finance Committee and the Executive Council individually is preferred.

#### **C. Replenishment of Funds:**

Upon approval to use a portion of the reserve funds, an agreed replenishment plan should be established and aligned with both teams. It is the intention of this reserve to be used and replenished within a reasonably short period to time (no longer than 24 months). In addition, the Finance Committee should be removing all unnecessary expenses from the current year budget (and future budgets) to reflect the current situation and the on-going replenishment plan for this reserve.

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## **D. Reserve Goal Amount:**

As a general rule, non-profit reserves recommendations range anywhere from a low end of one full payroll, including taxes, to a high end of no more than two year expense budget. Research suggests that 3-12 months of operating expenses is most acceptable. Given the purpose of this fund and the current anticipated financial situation for our church (small number of "big givers" being above 75 years old), 3 months of operating expenses should be a high priority with 6 months being a longer term goal. The calculation of the average monthly expenses can exclude some expenses such as pass-through programs, one-time or unusual expenses, and capital purchases. The amount of the Operating Reserve Fund target minimum will be calculated each year by the Finance Committee after approval of the annual budget. The Finance Committee will report this to the Executive Council.

In years, where the church budget is declining, the fund may be over the 6 month goal amount. In that case, any overage above the 6 months calculation can be used for Operating or Capital expenses or moved to another reserve. This overage use will be recommended by the Finance Committee with approval from the Executive Council.

Given the 2019 Budget, this would result in a level of \$125,000 - \$250,000 for the Operating Reserve. Current Balance in this fund (Sept 2019) is \$25,502.66

## **E. Reporting and Monitoring:**

The Finance Committee, with oversight from the Executive Council, is responsible for ensuring that the Operating Reserve Fund is maintained and used only as described in this policy. Upon approval for the use of the Operating Reserve funds, the Finance Committee will maintain records of the use of the funds and the plan (including timing) for replenishment.

The Operating Reserve will be recorded in the financial records separately from all other funds. This reserve will be invested in accordance with church investment policies.

## **2. Insurance Reserve (027-98-00-26):**

### **A. Purpose:**

The Insurance Reserve is a restricted fund intended to cover unforeseen Medical and Dental changes for the ministry staff. This fund is for qualifying plan changes only. It is important to note that a current staff member could have a qualifying event during the year. Examples of qualifying events during a plan year could be a current staff covered under insurance moves from single to family coverage, or was covered under a spouse and that spouse retires or loses their job and now needs coverage from the church. This is not intended to cover new staff members as new staff members should be budgeted appropriately. The intent of the reserve is to be a cushion for unplanned qualifying event plan changes for those existing staff that qualify for insurance coverage per the ELCA guidelines.

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### **B. Approval:**

Use of reserves should be recommended and approved by the Executive Council and the Finance Committee together in accordance with section 2-D of this policy. Approval, for the use of funds, requires a vote of greater than 50%, of the voting members, from both the Finance Committee and the Executive Council individually.

### **C. Replenishment of Funds:**

Upon approval to use a portion of the reserve funds, an agreed replenishment plan should be established. It is the intention of this reserve to be used and replenished within a reasonably short period to time (no longer than 24 months). The next year budget should reflect the changes accordingly and the on-going replenishment plan for this fund.

### **D. Reserve Goal Amount:**

The calculation of the minimum Insurance Reserve should be one half (1/2) of the difference between the current paid insurance dollars for all staff covered and the same staff coverage at family level. The amount of the Insurance Reserve Fund target minimum will be calculated each year by the Finance Committee after approval of the annual budget. The Finance Committee will report this to the Executive Council.

In years where this minimum is calculated to be less than the current reserve level, any overage can be used for Operating or Capital expenses or moved to another reserve. This overage use will be recommended by the Finance Committee with approval from the Executive Council.

Given the 2019 Budget, this would result in a level of \$10,000 - \$15,000 for the Insurance Reserve. Current Balance in this fund (Sept 2019) is \$12,000.

### **E. Reporting and Monitoring:**

The Finance Committee, with oversight from the Executive Council, is responsible for ensuring that the Insurance Reserve Fund is maintained and used only as described in this Policy. Upon approval for the use of the Insurance Reserve funds, the Finance Committee will maintain records of the use of the funds and the plan (including timing) for replenishment.

The Insurance Reserve will be recorded in the financial records separately from all other funds. This reserve will be invested in accordance with church investment policies.

## **3. Facilities Project Reserve - previously called the Facilities Reserve (027-98-00-22):**

### **A. Purpose:**

The Facilities Project Reserve is a restricted fund intended to prepare the church for planned, large building and grounds needs to insure the needed up-keep of our facilities on an on-going basis. This reserve can include funds generated from

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Capital Campaigns/Appeals or other means. This is not intended to cover unexpected or emergency breakdowns of existing facilities.

### B. Approval:

If the use of funds is included on the detailed multi-year (5 year, for example) planned capital expenditures and/or on the Capital Campaign/Appeal plan AND there are ample available funding in the reserve for that expenditure, then the use of these funds requires only the Executive Council approval. No other use of funds from this reserve can be approved by Executive Council alone. If a capital plan needs to be revised, approval by the Executive Council and the Finance Committee together should be attained. This is needed to insure that the church has appropriate alignment and funding capability without jeopardizing the financial stability of the church. Approval, for capital plan changes, requires a vote of greater than 50%, of the voting members, from both the Finance Committee and the Executive Council individually. Timely communication to the congregation is required. This type of change should be minimized. Instead, once the capital plan has been established, a rolling capital plan should be maintained with approval by Executive Council and the Finance Committee and then finalized with approval by the congregation at the annual meeting each year.

### C. Accumulation of needed Funds:

This Facility Project Reserve works differently than other reserves in this policy. In this case, it is not a replenishment of a fund, but instead, an accumulation of the needed funds to meet the planned capital goals. The accumulation of the needed reserve will follow the greater of the commitments for the capital campaign/appeal or and annualized total (\$300,000 total plan/# year plan). If the needed funds required are not available in any one year, then spending cannot take place according to the plan until such time the funds are available. A revision of the multi-year capital plan should be considered, with appropriate approvals.

### Capital Plan Example #1: Total \$300,000 over 3 years

	Year 1	Year 2	Year 3
Planned spendin	\$60,000	\$110,000	\$130,000
<b>Funds needed at year end</b>	<b>\$40,000</b> $\$300,000/3 = \$100,000$ $\$100,000 - \$60,000 = \$40,000$	<b>\$30,000</b> $\$300,000/3 = \$100,000 \times 2 \text{ yrs} = \$200,000$ $\$200,000 - \$60,000 - \$110,000 = \$30,000$	

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### **D. Reserve Goal Amount:**

The calculation of the minimum Facility Project Reserve should follow the multi-year capital plan. It should be a minimum of the needed annual capital spend plan for that coming year or an annualized amount based on the total needs of the plan whichever is greater (see above example). The amount of the Facilities Project Reserve target minimum will be calculated each year by the Finance Committee after approval of the annual budget. The Finance Committee will report this to the Executive Council.

The capital plan must be developed with congregational approval before an accurate estimate can be developed. At this point, \$125,000 is the estimate. Current Balance in this fund (Sept 2019) is \$48,166.53 (\$148,166.53-\$100,000 from the sale of easement rights. The use of the easement monies needs to be determined under a separate policy).

### **E. Reporting and Monitoring:**

The Finance Committee, with oversight from the Executive Council, is responsible for ensuring that the Facility Reserve is maintained and used only as described in this Policy. Upon approval for the use of the Facility Reserve funds, the Finance Committee will maintain records of the use of the funds.

The Facility Project Reserve will be recorded in the financial records separately from all other funds. This reserve will be invested in accordance with church investment policies.

## **4. Facilities Maintenance Reserve (017-99-00-49):**

### **A. Purpose:**

The Facilities Maintenance Reserve is a not a restricted fund. It is intended to cover unexpected emergency type facility needs. These needs are for facility items that have broken, stopped working or have been professionally assessed to be in danger of imminent failure. This reserve should only be used when the Operating expense line item "Building Repairs (016-80-04-07) is not sufficient to cover the unexpected needs for the year.

### **B. Approval:**

Because of the emergency nature of this reserve, the only approval required is the Executive Committee with a greater than 50% vote, of the voting members. Communication to the Finance Committee within a few days is a priority.

### **C. Building of needed Funds:**

Upon approval to use a portion of the reserve funds, an agreed replenishment plan should be established. It is the intention of this reserve to be used and replenished within a very short period of time (no longer than 6-12 months). This is necessary to cover new emergencies.

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### **D. Reserve Goal Amount:**

The calculation of the minimum Facility Maintenance Reserve should be based on a complete review of existing facility and grounds and a determination of potential issues in the coming years. This analysis should be completed by the Building and Grounds committee every year to provide the start of the rolling capital plan and should include a professional review for items that are reaching “end of life” and that have a replacement cost of \$5,000 or greater. Based on the annual analysis, ½ of the total should be the reserve balance in each year. The amount of the Facilities Reserve Fund target minimum will be calculated each year by the Finance Committee after approval of the annual budget. The Finance Committee will report this to the Executive Council.

Given a three year analysis has not been completed, a current need of \$25,000-\$50,000 is a starting point. Current Balance in this fund (Sept 2019) is \$32,248.62.

### **E. Reporting and Monitoring:**

The Finance Committee, with oversight from the Executive Council, is responsible for ensuring that the Facility Maintenance Reserve is maintained and used only as described in this Policy. Upon approval for the use of the Facility Maintenance Reserve funds, the Building and Grounds Committee will maintain records of the use of the funds.

The Facility Maintenance Reserve will be recorded in the financial records separately from all other funds. This reserve will be invested in accordance with church investment policies.

## **5. Line of Credit:**

### **A. Purpose:**

The Line of Credit is available for times when sufficient funds are not available in the Operating Reserve, the Insurance Reserve, or the Facilities Maintenance Reserve. It is the intent of the overall reserve policy to be able to cover most all planned and emergency situations of the church for the on-going future. Given this, it is the intent to use the line of credit as a last resort when reserves cannot cover the need. For example, when one of the mentioned three funds is short of an immediate need. If that is the case, the Line of Credit can be used. It is important to note that the Facilities Reserve is not included in use of the Line of Credit. The use of the Line of Credit should follow the policies of the fund that is short. Repayment of the Line of Credit should be a priority focus to limit interest and let the church get back to a self funding position.

### **B. Approval:**

Because of the important and huge commitment incurred when a line of credit is initiated, approval of this should include the Finance Committee and Executive Committee with a greater than 75% vote, of the voting members. Communication to the Congregation within a few days is a priority.