

Part Two of a Five Part Series:

Reserves: what are they, do we have any and how do we fund them?

In the recent Parish Survey, the parish was asked: *As our campus is aging, just like the house you live in, major equipment such as heating and cooling, roof and windows will need to be replaced. As these needs arise are you willing to fund the cost at the time of the need?*

42% of the respondents indicated yes, 51% responded maybe and 7% responded no. 28 responses included comments that ranged from: a contingency fund should be part of the budget; we should have reserves on hand; we should fund a reserve account out of our operating budget; cut non-essential spend; we could do fundraisers.

While all of these are potential sources of funding, the preferred method is to continue to systematically plan and fund our reserve account so that as these expenses occur, we have monies readily available to fund the expenses.

WHAT ARE RESERVES?

In a nutshell, reserves are monies that are set aside for future uses. At Sacred Heart, we have identified three different reserve categories explained below:

- ✓ **Cash Reserves:** Reserves needed to maintain cash flow during times that we may have low funds in our operating account due to cyclical giving.
- ✓ **Operating Reserves:** Reserves needed to pay operating expenses when our operating revenue is not meeting budget requirements over an extended period of time.
- ✓ **Capital Reserves:** Reserves needed to assist our parish in major repair or replacement of certain key items on our campus. Examples include HVAC equipment, roof, windows, asphalt/parking lot repairs, etc.

DO WE HAVE ANY?

YES WE DO! Fortunately, over the past 19 years, we have been able to put aside close to \$1.35 million in a reserve account at the Archdiocese. These monies have been categorized in the 3 buckets explained above:

- ✓ **Cash Reserves:** Amount needed is determined by cash analysis of historical data. Currently, we view our need as \$120,000 that must be maintained in the parish operating account above and beyond what is currently needed on a monthly basis. This is fully funded.
- ✓ **Operating Reserves:** Most non-profits recommend three months' worth of expenses to reside in this reserve account. The Archdiocese recommends six months' worth of expenses. Sacred Heart currently has three months' worth of expenses in this reserve category or appx. \$1,080,000. This is fully funded.
- ✓ **Capital Reserves:** The Archdiocese recommends 0.5% of the building appraised value to be the minimum amount in this type of reserve account. Our 2015 appraised value of our campus was \$20,900,000. Based on the Archdiocesan calculation, this would indicate a minimum capital reserve of \$104,500. While this is a guideline, the Finance Council believes this number should be higher due to the current age and condition of our campus. The current capital reserve amount is \$269,456. The Finance Council is currently working with our Facilities team and Building Committee to develop a robust Capital Reserve strategy to determine the appropriate reserve target for this bucket.

HOW DO WE FUND IT?

Within the 18-19 operating budget, a line item of "Capital Reserves" was added and the goal was to put \$50,000 into our reserve account at the end of this fiscal year. Unfortunately, we have not made our annual tithing goal as of yet, so this most likely will not get funded for the current year. When the annual tithing goal does not meet or exceed the "annual budgeted need" to maintain our operating expenses, we are unable to place any dollars into our reserve account. Without our tithing exceeding budget expectations, there is no way we can increase our reserve funding from tithing dollars.

Bottom line: By systematically saving for the future, it allows the parish to accomplish things in a methodical planned way and prevents the unplanned or frequent additional asks for money to fund unexpected needs. By saving a little today, we can reap huge benefits in the future.

Next week: Our Aging Campus