

## **FINANCIAL PLANNING**

This memorandum discusses:

1. Background to the financial condition of All Saints Church ("ASC");
2. Information that may assist the Finance Committee in evaluating alternatives to address the financial condition of ASC; and
3. Sources of funds other than annual pledge and non-pledge payments to finance budget shortfalls.

### **Background**

ASC is striving to become a Kingdom Church. In November 2017, the Vestry voted unanimously to go forward with a Kingdom Capital Campaign. The goal of the Campaign was to raise funds to (i) grow our ministries, (ii) improve and sustain our building and grounds and (iii) secure the future for those who come after us.

In January 2018, ASC received a \$975,000 bequest. Under the Endowment and Investment Fund Policies and Guidelines (the "Guidelines"), that bequest was to be transferred to the Investment Fund unless the Vestry determined that there an exception to the policy was necessary to meet an urgent need. The Vestry determined that the Kingdom Campaign was a once in a generation capital campaign and that it faced a cash flow problem. There were current campaign expenses and pressing needs to be addressed; but pledges were just being solicited and were payable over four year period. Therefore, the Vestry decided that the bequest funds should be transferred to the Kingdom Account and, although it did not wish to bind a future Vestry, it also stated that it was the sense of the Vestry that an amount equal to the bequest amount be transferred, at an appropriate time, from the Kingdom account to the Investment Account. The \$975,000 and other funds have been used by the Campaign to pay for significant improvements to our building. These funds were also used to pay the salaries of additional staff that are important to ASC growing its ministry and becoming a Kingdom Church.

In 2017-2018 the Vestry faced a classic chicken and egg problem: Do you expand staff which is needed to grow the ministry or do you first try to further grow the ministry and only then expand the staff? In choosing to expand the staff first, the Vestry was taking into account several consecutive years of increasing membership and increasing pledges. It was expected that, with these increases, at the end of the Campaign, the annual pledging would be able to support a budget which included the additional staff salaries currently being funded by the Campaign.

ASC has achieved the goal of creating the staff needed to grow its mission and become a Kingdom Church. However, with COVID-19, pledge payments, instead of increasing, have fallen by approximately 30% in 2020. In addition, with the building closed for so long, membership is no longer increasing. As a consequence, there is a cash shortfall for 2020 (significantly reduced by a PPP loan which almost certainly will not need to be repaid) and it is expected there also will be a shortfall for 2021 and possibly later periods. ASC is now faced with the question of how to fund these deficits. ASC has to balance its mission of growing its ministry and becoming a Kingdom Church and its financial condition.

Should staff be laid off or should staff hours be reduced? Should funds other than annual pledge and non-pledge payments be used to fund the deficits? Or should a combination of compensation reductions and additional funding sources be used? In facing these questions, ASC must use its best judgment as to how long the COVID-19 crisis will continue and as to what portion of the decline in pledge revenue, if any, will be permanent.

At its October 20, 2020 meeting, the Vestry expressed a strong desire to support its mission and it directed that \$250,000 be made available from the Kingdom Campaign to address the 2020 shortfall which is currently estimated to be in the range of \$74,000 to \$254,000.

Some background concerning the Preschool may also be helpful. The 2019-2020 school year was a successful year for the Preschool even though it was required to switch to virtual learning for much of the second semester. Following extensive consultation between the Preschool and ASC management, it was decided to offer in-person learning for the 2020-2021 school year. In doing so, it was recognized that the Preschool likely would operate at a loss of \$100,000 or more; but it was decided to go forward as the parents showed no interest whatsoever in virtual learning and most of the preschools in the area were offering in-person learning. There was a concern that if the All Saints Preschool closed, there would be significant difficulties in rebuilding enrollment when it reopened that would lead to the Preschool operating at a significant loss for periods after it reopened. There was also a desire, if possible, to avoid laying off teachers.

The loss for the 2020-2021 school year reflects a combination of things:

- Many parents simply did not want to enroll their children without there being a vaccine. In 2019-2020 there were 77 students; now there are 49.
- Despite the fall in enrollment, the Preschool had to continue to offer basically the same classes and staff costs were not reduced proportionately to the fall in enrollment. The staff members that were not rehired were staff who had decided that they did not want to teach without there being a vaccine.
- Expenses associated with cleaning increased significantly. In addition, to assure that the health requirements were being properly applied we hired a parishioner as the Chief Compliance Officer. That hiring has been very successful; but it costs \$500 a week.

Because tuition payments are front-loaded, the Preschool loss will be mainly reflected in the ASC financials for 2021. In November, December and January, the Preschool will be holding virtual open houses for parents who want to enroll their children for the 2021-2022 school year. Nonrefundable deposits for the 2020-2021 school year will be due in February or March.

## **Information**

The Finance Committee will require information as it evaluates the alternatives for funding shortfalls in 2020 and 2021 and possibly later periods. Additional sources undoubtedly will be added to the list as the Committee undertakes its evaluation. In providing comparative information from multiple years, we should make sure that we are comparing apples to apples. For example, it is particularly important to

note whether the information includes only the basic operating results or those results and the Preschool results. It is also important to know whether the information includes Kingdom income and expenditures. In this regard, it is important to know whether the salary and benefits amounts include the amounts paid by the Campaign or are net of those amounts.

Listed below are sources of information that were discussed at the last Finance Committee meeting.

- ASC 2019 income statement
- ASC 2020 to date income statement
- ASC October 2020-December 2020 budget
- ASC 2021 First Quarter Budget when developed
- List of 2020 ASC staff with cash and benefit amounts for each employee; the Preschool employees should be in a separate list; the list should include employees (choir and nursery workers) who are being paid but are not working because of COVID-19
- Lists of pledge payments received to date from corresponding 2019 and 2020 periods.

### **Existing Sources of Funds Other than Annual Pledge and Non-pledge Payments**

The primary existing sources of funds other than annual pledge and non-pledge payments are discussed below. ASC currently has approximately \$56,000 in its checking account.

#### Line of Credit

Our available line of credit is \$500,000. The current interest rate is 5.5% per annum. The advantage of using the line of credit is that it is easily accessible; the disadvantage is that involves the payment of interest. In addition, ASC may not want to use the line if it is uncertain about the duration of the COVID-19 crisis and whether it will be able to repay the loan.

#### Kingdom Funds

The Kingdom Campaign has approximately \$1.1 million in cash and is expecting approximately \$950,000 in additional pledge payments.

The Kingdom Campaign could loan funds on an interest-free basis to the operating budget. The Kingdom Campaign could also agree to fund budget shortfalls or fund additional specific operating budget activities in 2020 and 2021 and later periods. The Kingdom Campaign was designed in large part to provide vital funding as ASC strives to become a Kingdom Church. COVID-19 is a once every 100 year event that is presenting significant challenges to ASC reaching its goal. The Kingdom Campaign providing funding to address these challenges seems most appropriate. As noted above, the Vestry, on October 20<sup>th</sup> directed that \$250,000 of the Kingdom funds be made available to fund the 2020 shortfall.

The Vestry, of course, has the ultimate say on how Kingdom funds are used. However, there is a Kingdom Campaign Committee and we need to understand whether any of the Kingdom funds are otherwise spoken for (i.e., \$150,000 may have been set aside for organ renovation and other amounts may have been set aside for certain building improvements). We need to get a list of any such set

asides and understand the steps the Vestry would take if it decided to reverse the set asides and/or use a portion of the Kingdom funds to address the future shortfalls. We also need to confirm the period for which Kingdom is paying the salaries and benefits of BJ, Lindsey (the Development Director) and Mark (Youth Minister).

#### Endowment and Investment Fund

In October 2016, the Vestry established a fund to be known as the “Endowment and Investment Fund (“FUND”).” That FUND includes three sub-funds: the All Saints Church Perpetual Memorial Fund (the “Perpetual Fund”), the All Saints Church Investment Fund (the “Investment Fund”) and the All Saints Columbarium Fund (the Columbarium Fund”).

The resolution establishing the FUND provides:

The purpose of the FUND is to enable the Parish to fulfill its mission more completely by developing its ministries beyond what is possible through its annual operating funds. Distributions from the FUND therefore shall be limited to: (i) capital improvements of the Parish; (ii) additional outreach ministries and grants; (iii) seed money for new ministries and special one-time projects; and (iv) such other purposes as are specifically designated by donors to the Parish whose gifts are included in the FUND.

The resolution further provides:

Except as provided in paragraph 14 of the following “Plan of Operation”, the distributions from the FUND shall not be made to the operating budget of the Parish except to fulfill the purposes described above.

Paragraph 14 of the Plan of Operation provides:

In the event that the Parish is in dire circumstances, meaning its viability as a continuing church is in jeopardy in the judgment of the Vestry, the Vestry may use (i) the income of the Fund other than income which was designated by the donor for a specific purpose that is inconsistent with its use for the operating needs of the Parish and (ii) the principal of the Investment Fund and any other quasi endowment fund for the operating needs of the Parish, following a two-thirds vote of the Vestry at two, consecutive, regularly scheduled meetings.

Finally, paragraph 15 of the Plan of Operation provides that any amendment to these provisions “shall be adopted by a vote of at least two-thirds of the membership of the Vestry at two consecutive, regularly scheduled meetings.”

To summarize, in the absence of amendment, funds in the Perpetual, Investment and Columbarium Funds are limited in their use to (i) capital improvements of the Parish; (ii) additional outreach ministries and grants; (iii) seed money for new ministries and special one-time projects; and (iv) such other purposes as are specifically designated by donors to the Parish whose gifts are included in the FUND,

except if the Parish is in dire circumstances which means that its viability as a continuing church is in jeopardy.

Set forth below is additional information concerning the sub-funds.

Columbarium Fund. The Columbarium Fund is invested in stocks and bonds and it is managed by Marshfield Associates. As of September 30, 2020 the value of the Fund was \$329,750. It made a significant gift to the Kingdom Campaign.

Amounts are paid into the fund as parishioners purchase niches (at prices comparable to those charged at other churches) and amounts are paid out of the Fund for maintenance of the Columbarium. When the columbarium was built as part of the Great Hall expansion twenty some years ago, the Columbarium was not “charged” for the cost of its construction and, consequently, over the years the fund, with few expenses, has grown in size as niches are purchased.

In 2016, the Columbarium Committee Bylaws were amended to provide specifically that ASC is responsible for the maintenance of the Columbarium and that the Columbarium funds shall be used for the upkeep of the Columbarium. The Bylaws further provide that:

In addition, at the discretion of the Committee, Vestry, and Rector, expenditures may be made from the Fund for the purchase, repair, refurbishment or addition to any rectory owned or to be owned by the Church or such other purposes as agreed by the Committee, Vestry and Rector.

However, despite this broad language, distributions from this fund continue to be limited by the restrictions previously discussed above which are applicable to all the sub-funds unless amended by the Vestry.

Annual Distributions from the Perpetual and Investment Funds. The Guidelines provide that the Vestry may take annual distributions from each of the Perpetual Fund and the Investment Fund “normally in the range of 3% to 5% of the three-year rolling average of the value of each of the respective Funds. If the distribution is not taken in a current year, it remains available for distribution in future years. These Guidelines address the amounts of possible income distributions. They do not address the restrictions on the use of any distributions previously discussed.

The balance in the Perpetual Fund was approximately \$1.1 million on December 31, 2014, \$1.7 million on December 31, 2017, \$2 million on December 31, 2019 and \$2.4 million on September 30, 2020. The balance in the Investment Fund was approximately \$268,000 on December 31, 2014, \$400,000 on December 31, 2017, \$525,000 On December 31. 2019 and \$567,000 on September 30, 2020.

The Vestry has never taken a distribution from either Fund and, although it would be necessary to perform a precise calculation, it is estimated that the available distributions from the two Funds for 2017-2020 may be in range of approximately \$230,000 to \$390,000. But, again, in the absence of amending the previously passed resolution, the distributions may be used only for the limited purposes described above. Also, withdrawing such a large amount all at one time might raise questions under the

Uniform Prudent Management of Institutional Funds Act, a form of which has been adopted in Maryland.

Corpus Distributions from the Perpetual and Investment Funds. A gift is placed in the Perpetual Fund only when the donor provides that the principal of the gift may not be spent. Consequently, corpus distributions may not be made from the Perpetual Fund. This cannot be changed by amendment, because such an amendment would be contrary to the donor's intent.

Corpus distributions may be made from the Investment Fund subject to the restrictions previously discussed for distributions from the FUND. These restrictions may be amended as also described above.

#### Additional Sources of Funds

There may be additional sources of funds. For example, a Christmas Match Campaign might be considered. The Vestry may also consider whether the Vestry and/or the Rector should reach out individually to parishioners who might be able to make significant gifts to the Church so that ASC can fulfill its mission and become a Kingdom Church.

HTM