

FUNDS HELD BY PARISH/MISSION TREASURERS

UNDERSTANDING THE TERRITORY

The treasurers of parishes and missions in the Episcopal Diocese of New Hampshire receive and manage a variety of funds and this guide is designed to assist you in understanding how each category is reported, classified, and expended.

It may be useful for the church to purchase an accounting software program to keep track of the various funds held in the custody of the treasurer. Examples include QuickBooks, Excel, and Church Windows.

PLEDGES

Income from pledges is the life blood of most missions and parishes. Unless otherwise specified, pledge money is classified as unrestricted and fully expendable for any purpose directly related to the mission of the parish or mission. Examples include clergy compensation, payment of utilities for the church building, plowing, repairs, etc. In preparing the annual budget the Vestry or Bishop's Committee decides how pledge money is to be expended.

FUNDRAISERS - GENERAL

Churches often hold fundraising activities to enhance the money received from pledges. The specified purpose of the fundraiser dictates how the money can be used. If, for example, the church holds a yard sale and states "all proceeds will be used for the repair of the sanctuary" any money raised at the yard sale must be used for that purpose. In that case the yard sale proceeds are classified as "donor restricted". If, however, the fundraiser specifies no particular use of the money it is classified as unrestricted and may be used in the same manner as pledge income.

FUNDRAISERS – CAPITAL CAMPAIGNS

Capital campaigns constitute a specific type of fundraising activity which raises a significant sum of money over a specified period of time to be used for a capital purchase or a construction project. Capital campaigns are extremely complex and should not be undertaken without first obtaining advice from the Diocese which may then suggest contacting a fundraising consultant depending upon the amount of money to be raised. Donations made to a capital campaign must be used for the specified purpose and are classified as donor restricted. Examples include the expansion of a church building, a major renovation, the purchase of land for future church growth, etc. It is important to note if the fundraising goal is exceeded, the additional money is still restricted to the purpose specified in the promotional materials and may not be used for the general expenses of the parish or mission.

GRANTS

Parishes and missions may apply for and may receive a grant in accordance with the guidelines and criteria adopted by the Diocese.

See the Diocesan Resources page: <https://www.nhepiscopal.org/resources/>

Grants are awarded for specific projects and the funds received must be used for the approved project and for no other purpose. Any money remaining when the project is complete must be returned to the Diocese. For example, if your mission or parish receives a grant from the Our Kids Youth Commission for purposes of providing cultural opportunities to low income and vulnerable youth in your community the grant must be used only for that purpose.

GIFTS, DONATIONS, BEQUESTS

Under New Hampshire law donor intent is paramount so it is important to have something in writing from the original donor that states how the gift, donation, or bequest is to be used.

The church should maintain a permanent file which contains copies of the gift instruments (will, trust, letter of intent, deed, etc.) so future church leaders will

know the purpose of each gift, donation, or bequest and be in a position to carry out the donor's intent.

There are several elements to private gifts including the type of gift (real estate, stocks, bonds, cash, valuable artwork or other items), the purpose of the gift, the length of time the gift must be held (which may be in perpetuity), decision making authority (clergy person, Vestry, Bishop's Committee, Trustees, etc.), and, in some cases, there may be a "reverter clause" which is activated if the mission or parish does not follow the intent of the donor.

Here are some examples of the language a donor might use in making a gift:

- **Enclosed is a check for \$500 in memory of my late mother to be used for the general purposes of the Lilies of the Field Episcopal Church.**
 - In this example the donor's gift is fully expendable for any purpose relating to the mission of the Lilies of the Field Episcopal Church. The funds may be expended immediately or they may accumulate for use at a later time. This gift is classified as unrestricted.
- **Enclosed is a check for \$10,000 to be used for the cleaning and repair of the stained glass windows at the Lilies of the Field Episcopal Church.**
 - In this example the donation is purpose restricted – stained glass windows – but not time restricted. Lilies of the Field may decide to clean and repair some of the windows in 2019 and some in 2020 or in a future year. The donation may be expended in its entirety but, because it is purpose restricted, it is classified as donor restricted and may only be used for the cleaning and repair of the stained glass windows.
- **Bequest example #1: I, Mary Smith, give, devise and bequeath the sum of \$500,000 to the Lilies of the Field Episcopal Church the income to be used for the maintenance and improvement of the sanctuary.**
 - In this example the donor created a permanently restricted trust fund which is also purpose restricted. The income* from the bequest may only be used for the maintenance and improvement of the sanctuary and not for general operating purposes.

*Permanently restricted funds are subject to a New Hampshire law known as the **Uniform Prudent Management of Institutional Funds Act RSA 292-B**. This law is fairly complicated but the important points to keep in mind when managing and investing a permanently restricted fund follow:

- Under UPMIFA permanently restricted funds are invested in common for “total return”. This means the principal, gains on principal, and income generated by the funds are added together in a single unit for investment and expenditure purposes. See the following example:
 - Mary Smith gave \$500,000 in my example above with the income to be used for certain purposes. Under the “total return” methodology if the value of Mary’s gift has appreciated to \$510,000, and the income generated is \$10,000, the total of the Smith fund is \$520,000.00. The Vestry can either allow the fund to accumulate each year or it can vote to appropriate a certain percentage of the total (\$520,000) to be used for the purpose specified in Mary Smith’s will. Even though Mary used the term “income” in her will, under UPMIFA the term “income” includes the total of principal, principal appreciation, and income.
- In setting the percentage to be expended, known as the “spending policy”, the Vestry must be prudent, as that term is defined under RSA 292-B, and must also take into consideration the appreciation and/or losses sustained by the Mary Smith Trust over the previous three year period. This calculation guides the Vestry in making its decision but, more importantly, helps to insure the effects of inflation and any losses will not erode the value of the Smith Trust to the point where it is no longer sustainable.
- UPMIFA states the spending policy can be between 0% and 7% annually. So how does that work? See the following:
 -

	<u>Value of fund</u>	<u>gains/(losses)</u>	<u>Income</u>	<u>net gain or (loss)</u>
2015	\$500,000.00	\$3,000.00	\$2,500.00	\$505,500.00
2016	\$505,500.00	\$2,000.00	\$2,500.00	\$510,000.00
2017	\$510,000.00	\$5,000.00	\$5,000.00	\$520,000.00

In setting the spending policy in 2018 the Vestry would review the growth in the fund and determine a prudent spending policy. The average spending policy for institutions is, generally, between 4.5% and 5%. If the Vestry adopts a 5% spending policy for 2018, it would receive \$26,000 from the Mary Smith Fund to be used for the maintenance and improvement of the sanctuary.

A word of caution: There may be a temptation to set the maximum spending policy of 7% every year but doing so is not prudent if it erodes the value of the Mary Smith Fund to the point where it is no longer a permanent fund. At that point the Vestry may be in breach of its fiduciary responsibilities.

- **Bequest example #2: I, John Jones, give, devise and bequeath the sum of \$200,000 to the Lilies of the Field Episcopal Church, the income to be expended at the discretion of the Rector for the general purposes of the church.**
 - In this example the donor created a permanently restricted trust and delegated to the Rector decision making authority to expend the income. While the purpose of the fund is unrestricted, the bequest itself must exist in perpetuity and is therefore classified as a permanently restricted fund.
- **Bequest example #3: I, Mary Smith, give, devise and bequeath my home located at 25 Elm Street, Graniteville, New Hampshire to the Lilies of the Field Episcopal Church to be used as a parsonage for the clergy person and his/her family. If at any time my real estate ceases to be utilized as a parsonage, this trust will terminate and the real estate will pass to my heirs and assigns.**

- In this example the donor created a permanently restricted trust which is also purpose restricted. In this case, however, the donor has included a “reverter clause” to insure the real estate is used as a parsonage in perpetuity. Should the church decide it no longer needs a parsonage, and the building no longer houses the clergy as a result, it is possible the descendants of Mary Smith will make a legal claim on the real estate. Although the bequest is in the form of real estate, and not cash, it should be reported on the balance sheet as a restricted asset of the church.
- Permanently restricted funds are governed by specific New Hampshire laws. Any questions regarding the administration and investment of particular funds should be directed to the Diocese for response.

Please note, Vestries, Bishop’s Committees, and Trustees serve in a fiduciary capacity and are required to carry out the intent of the donor as stated in the original gift instrument or deed. Purpose restricted and permanently restricted funds cannot be used for general operating expenses unless the donor has included that purpose in his/her gift instrument.

Church and State Issues: While the government may not interfere in the belief system of any religious organization, there is nothing religious about money. Therefore, as fiduciaries, Vestries, Bishop Committees, and Trustees are subject to the laws of the State of New Hampshire which govern the investment and administration of charitable gifts, bequests, and donations. Those laws and donor intent are enforced by the Office of the Attorney General and the Probate Court system.

The New Hampshire Attorney General’s Office has a database of most of the gifts and bequests given to churches and religious organizations in New Hampshire. If you have questions about a fund or funds which your parish or mission has in its custody, please contact Benge Ambrogi or Lauren Tennett and they will obtain whatever information is available on a particular fund.

If you have any questions please feel free to contact Benge Ambrogi or Lauren Tennett . See the Episcopal Church of New Hampshire Website for contact

information.

Terry Knowles

Trustee

February 2019