

Be It Resolved

By Alan Erickson, CFC Managing Director

My son returned home one evening during the first week of January, after his normal workout at the health club. I asked him how his workout went, and he replied, “The workout was fine, but there were so many people at the health club that I could barely move around.” He then quickly added, “But they’ll all be gone by January 15, and then I’ll have the place back to myself.” I asked why they would all be gone by the 15th, and he said, “They’re all New Year’s resolution people. They flood in right after the 1st, and by mid-month, they’ve all given up on their resolutions. It happens every year.” After the 15th of the month, I made it a point to ask my son how crowded the health club was. “It’s empty,” he replied. “I told you. This happens every year, guaranteed.”

While I wouldn’t want to urge anyone to make resolutions they can’t keep, the new year does give us a chance to look at things in our organizations and our lives that could use a bit more effort. After giving this a little thought, I’ve come up with four things that may hold interest for some of you.

Resolve to move up your budgeting process earlier in the year if you haven’t already done so. Some parishes we have worked with traditionally wait until late spring to begin preparing a budget for the new fiscal year that will start on July 1. Starting the process earlier will allow parish leadership additional time to discuss relevant budget topics and give serious thought to any new initiatives being proposed. Beginning earlier is particularly important for parishes that provide a school ministry. Schools typically need to begin their budget process early so they can decide on certain important information first given to school parents around Catholic Schools week, as they plan for the upcoming school year. For parishes that operate a school, the school is usually the largest ministry offering at that parish. Preparing a budget for such a large and integral ministry at a different time than the budget for the entire parish does neither the parish nor the school any good. They should be

done at the same time so that a full picture of the entire organization can be reviewed by parish leadership in a comprehensive manner.

Resolve to review the covenants contained in your debt agreements, if you have outstanding debt. Most loan agreements contain a number of covenants with which the borrower is required to comply so that they do not default on the loan. Many times, these covenants are as simple as providing financial reports by a particular date. Other times, the covenants require the borrower to meet certain coverage ratios. Whatever those covenants may be, it is important to know what they are and do what is needed to stay in compliance. This is even more important if you happen to have tax-exempt debt outstanding. Failure to comply with the original provisions that permitted the debt to be designated as tax-exempt may cause the debt to be declared taxable on a retroactive basis. This would be a time-consuming and expensive problem no one would want to have.

Resolve to reconnect with someone from your past. My cousin moved from Wisconsin to the east coast about 40 years ago. Not long after he left, we lost contact with him, and the years quickly passed. About a dozen years ago, my daughter wanted to visit some colleges that were in the general area where my cousin had moved. On a chance, I called him up to see if he still remembered me and told him we would be in the area. Not only did he remember me, he insisted we stay with him and his family while on the college search in his area. We accepted his offer, and this has led to us reconnecting in a major way. Since that visit, we talk regularly on the phone and we visit each other in person at least once a year. Reconnecting with my cousin in this manner has led to an incredible richness in my life that I would not otherwise have had, if I had not reached out. I’m really glad that I did it. Find someone in your life to reconnect with this year. I think you’ll be glad, too.

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UPDATE

Resolve to spend more time with your family. This seems like a natural thing to do, but with the speed of life and the demands of our jobs, it is an increasingly difficult thing to achieve. I find that sometimes I have to make myself put down the Blackberry and join in the family room discussions. The window of opportunity for these experiences is short. If you consciously decide to take advantage of as many of them as possible, it can change your life dramatically.

Whether you decide to make resolutions or not, hopefully you will take advantage of chances to constantly improve your home and work life. Happy New Year!

The Four “P”s of Reserve

There are at least four “P”s connected with the issue of cash reserves and how to use them to aid the mission and ministry of your parish or school.

The first “P” is probably an unfamiliar word: **patrimony**. By dictionary definition, patrimony is property inherited from one’s predecessors. However, as often happens in the Church, for Catholics, this term means so much more. The patrimony of the Church represents all her worldly assets - property, building, cash money, and investments. Think of the parable of the talents. The businessman distributed his goods among his servants. The wise among them returned them to their owner with an increase! Under canon law, parishioners and parish leaders have a sacred duty to protect and expand the Church’s patrimony.

What is the **purpose** (the second “P”) of having reserves in the first place? Reserves can mitigate current and future risks. They provide operational flexibility in times of financial distress. Instead of having to liquidate assets in an emergency at “fire sale” prices, the wise administrator can use reserves to deal with the inevitable ups and downs of financial circumstances. Such prudent behavior better protects the permanent patrimony of the parish.

Another “P” is the **predictability** of revenues. In some organizations, there is a certain volatility of expenditures, requiring higher levels of liquidity at certain times of the year, such as when payment of deferred compensation, quarterly insurance or pension bills is due. Reserves can help with this issue for planned future events. Reserves can also mitigate the potential negative impact of unforeseen events on cash flow, such as a snowstorm on Christmas or an inability to use the parish’s physical facilities for a period of time.

The final “P” is **practices**. How do prudent administrators use reserves? Of course, reserves can be used to provide cash flow for operations. They also can be used to level out and deal with projected new revenue growth or, conversely, as a stockpile against operational or construction contingencies. Another form of reserves often used with capital campaigns is a debt service reserve. Money is earmarked for future use at the tail end of a capital campaign, when receipts may be declining but the need for debt service remains. Reserves also can be used to help the parish cope successfully with emergencies or unforeseen events which often seem to happen, but still take leaders by surprise. A random boiler failure or sudden roof leak often leads to frantic pleas for emergency help. It is far better to have something put away for a rainy day.

People often ask how much money an organization should keep in reserve. That answer is as unique and individual as the many organizations which CFC serves. However, CFC often recommends that organizations keep at least the equivalent of 30 to 60 days of cash operations on reserve, at a very minimum. Schools or other organizations with significant deferred liability ought to keep 90 days or more. In addition, if the parish is carrying a debt load, it would be prudent to keep at least six months’ to a year’s worth of debt payments on hand at all times, whether or not one is required to do so by the lender.

For more helpful information on this subject, search online for the Grant Thornton white paper, “Maintaining sufficient reserves to protect your not-for-profit organization.”

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