Catholic Finance
CORPORATION

Financial Advisor to Catholic Institutions

5826 Blackshire Path
Inver Grove Heights, MN 55076
www.catholicfinance.org
Phone: 651-389-1070
Toll Free: 877-232-2250
Fax: 651-389-1071

Major Overhaul of Rules Governing Parish Endowments Approved

Get ready to comply with tough new regulations governing your parish's investments.

New state regulations which govern both educational & religious institutions – including Parish Endowments – are about to change.

A major revision of the current rules for the management of endowment funds was approved by the National Conference of Commissioners on Uniform State Laws. This revision, called "The Uniform Prudent Management of Institutional Funds Act" (UPMIFA) brings the law governing charitable institutions, including Catholic Parishes, in line with modern investment practice.

Spending Rules

The most dramatic change is in the area of endowment spending. Under the new UPMIFA, the rules governing expenditures from endowment funds have been modified and for many Catholic Parishes, spending from Parish Endowments will be more restricted than in the past.

Specifically, the UPMIFA, eliminates the concept of "Historic Dollar Value." Under the current regulations, Historic Dollar Value is the total of all contributions made to an endowment fund, in absolute dollars. Instead of "Historic Dollar Value" the UPMIFA substitutes modern portfolio management theory of the "Total Return Concept."

Effect on Catholic Parishes

First, for those parishes that have not accurately kept track of the Historic Dollar Value of their endowment fund, their job just became a little bit more difficult. While the elimination of the Historic Dollar Value appears to make it easier to adjust spending in any one year, the fiduciary responsibility of the finance council and parish trustees becomes harder.

Under the UPMIFA, parishes may spend or accumulate as much of the endowment fund as it determines to be "prudent." In general, under the Total Return Concept, an institution could be presumed to be acting prudently if the total annual spending from an endowment is limited to 4-6% of the total value of the endowment in any given year.

Each parish must review their individual endowment to determine what would be prudent for their given circumstances and they must be aware of what the annual spending rate is for other similar institutions in order to be prudent.

Secondly, the UPMIFA, includes an optional provision, which each state will consider, that would presume that an institution which spent more than 7% of the total value of their endowment fund in any given year would be acting imprudently. While this provision does not automatically mean that an organization that spends more than 7% is acting in an imprudent manner, it does shift the burden of proof to the organization to show why their actions are prudent.

The problem for Parishes

Some parishes make a spending decision based on a specific dollar amount that is needed to cover a deficit. For example, a parish may find that their school consistency falls short in income and then use the school endowment fund to cover the deficiency. With the adoption of the new UPMIFA, if the dollar amount withdrawn from the endowment is more than 7% of its value, it could be presumed that the parish is acting imprudently. This is especially problematic for those parishes that have used their endowment fund as a de facto reserve fund.

Catholic Community Foundation Role

The Catholic Community Foundation was established, in part, to assist Archdiocesan Parishes in the area of regulatory compliance and oversight of long-term investments and endowment funds. If you would like to learn more about the UPMIFA, or would like the Catholic Community Foundation to review your existing endowment funds to see if your parish is in compliance, please call **651-389-0874**.

Newsletter Issue: April 2007