FREEDOM PLAINS UNITED PREBYTERIAN CHURCH

2022 ANNUAL MEETING OF THE CONGREGTION AND CORPORATION

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The financial reports are, unfortunately, not as simple as we would like them to be. But a lot has been going on at FPUPC over the past few years and we're trying to provide a complete financial picture of this activity to the congregation. We hope that you find the following information helpful in understanding the pages and pages of numbers in the accompanying financial reports!

GENERAL BACKGROUND

It is general knowledge that the accounting procedures that must be used by a non-profit entity are considerably more complex than the accounting procedures used by a for-profit entity (somebody should have told me this before I offered to do this job). In a for-profit, all of the money "goes into one big pot" and it's entirely management's decision as to how this money gets spent.

On the contrary, non-profits (like FPUPC) receive most of their income in the form of donations, and most of these donations are intended to be used for a specific purpose. The accounting procedures used by a non-profit must account for these donations in a manner that ensures that they will only be used for their intended purpose. While a for-profit effectively has only has to maintain one ledger for its entire business, a non-profit has to maintain multiple independent ledgers to account for donations that are intended to be used for different purposes.

Fund accounting principles (or an equivalent) are used by non-profits to help ensure that all donations they receive are only used only for their intended purposes. The basic building block of fund accounting is a "fund", which is effectively an independent ledger that that accounts for donations intended to be used for some specific purpose. FPUPC currently has about 60 separate funds to account for money that have been donated to the Church for different purposes.

With the exceptions of the General Operating Fund, the School of Sacred Music Operating Fund, the Nursery School Operating Fund, and the Universal Pre-Kindergarten Operating Fund, FPUPC's funds are "permanent" funds. Income to a permanent fund remains in that fund until it is spent for its intended purpose, however long that may take. If a permanent fund has unspent funds in it at the end of a fiscal year, these funds simply "roll over" to the next fiscal year.

FPUPC's permanent funds come in two flavors: operating, and invested.

Operating funds are those which support the ongoing day-to-day programs of the church, the School of Sacred Music, the nursery school, and the universal pre-kindergarten class. The assets of the operating funds are maintained in one or more bank accounts. The Consolidated Fund Activity report provides a summary of the 2021 starting and ending balances and the 2021 cash flow for each of these funds.

Invested funds are those which support the long-term viability of the church. They consist primarily of bequests from former members of the church who are now at peace with their Lord. The assets of the invested funds are maintained in a combination of a legacy bond account, a managed investment account that includes both bonds and equities, and a promissory note on the associate pastor's residence. The Invested Funds report provides a summary of 2021 invested fund activity and balances.

The General Operating Fund is a budgeted fund that supports the day-to-day operations of the Church and is managed by a more stringent set of rules. The Session approves a detailed budget for the General Operating Fund at the beginning of each year which includes planned expenses and anticipated income for the year. Actual expenditures are then managed based on the approved budget and actual income as it is received during the year.

Unlike permanent funds, budgeted funds must end each fiscal year with a zero balance. If we spend more from a budgeted fund than we receive during a fiscal year, the difference must be transferred from other funds to cover any shortfall in the budgeted fund at the end of the fiscal year.

The "church operating budget" is another name for the General Operating Fund; the two names are synonymous and will be used interchangeably in this document. The 2021 Results and 2022 Budget report provides both the year-end actual vs. budget status of the church operating budget for 2019 and 2021, and the approved church operating budget for 2022.

At this point, you might be asking "what happened to 2020?" and that's a fair question. 2020 was far from a typical year for FPUPC with our programs being suspended and our buildings closed for a substantial portion of the year. The church also received substantial financial support from the federal Payroll Protection Program. It's very difficult to make meaningful comparisons of the church's 2020 financials with other years, so we didn't attempt to do this.

The income portion of the church operating budget consists of "External Operating Income" and "Internal Asset Transfers". External Operating Income is new income received by the Church and consists of income from donations and income from payments. The Church receives payments from the company that operates the used clothing drop, people and organizations who use the Church's facilities, and students who purchase parking permits. Another way to think of external operating income is that it's the money the Church receives and deposits in its bank account each week.

Like most other non-profit organizations, external operating income alone is not sufficient to fully pay for all of the Church's current operating expenses, and it is necessary to draw upon other sources of funding to balance the yearly operating budgets. This accomplished by moving money from other funds into to the General Operating Fund, These movements of money from other funds into the General Operating Fund are "Internal Asset Transfers".

While internal asset transfers appear as income in the church operating budget, they aren't really income since the total value of the Church's monetary assets is not increased by this action. As the name implies; internal asset transfers are nothing more than the movement of existing monetary assets from one place to another on the church's books, In accounting jargon, these are "journal entries".

The expense portion of the General Operating Fund budget consists of about 40 individual line items. Since the overall budget has a one-fiscal-year lifetime, so do the individual expense line items in the budget. Amounts budgeted that are not spent during the year "disappear" at the end of the year; the authorization to spend these budgeted funds does not roll over to the following year.

The following information provides an overview of the fund activity, budget, and invested funds reports along with some explanations that may help answer questions that we anticipate might come to your mind as you review these reports.

2021 FUND ACTIVITY REPORT

The fund activity report lists each operating fund currently maintained by FPUPC, the balance of the fund at the beginning of the year, how much new money was received by the fund, how much was disbursed from the fund, how much was transferred into or out of the fund (from or to other funds), and the year-end balance of the fund.

The remainder of this section goes into the details of why the funds are organized the way they are in the report, and the unique characteristics of funds that are used to manage internal operations and to ensure that standard accounting reports do not overstate actual church income and expenses. If this type of accounting nitty-gritty doesn't interest you, feel free to fast-forward to 2021 Operating Budget Year-End Results topic in this document. I won't be hurt if you do!

The ungrouped funds that appear in this report are used to account for the finances of individual church programs or groups that receive donations or payments. These funds are supposed to be managed in accordance with the funds disbursement policy that was proposed by the finance committee and adopted by the Session in 2018. Disbursements from any of these funds must be consistent with the intended purpose of the fund and must be approved by a person who has been designated by the Session as an "authorized requestor" for the fund.

The Passthru Benevolences group consists of funds that receive donations for a specific programs or activities that are provided by organizations other than FPUPC. The only disbursements permitted from these funds are periodic forwarding of donations that have been received to the intended recipient organization; these donations cannot be used by the church for any purpose whatever.

An example of a passthru benevolence fund is the One Great Hour of Sharing (OGHS) fund. Donations received for OGHS accumulate in this fund as they are received. The accumulated donations are then forwarded to Presbytery once donations to OGHS have tapered off and it appears that no more donations for OGHS will be received this year.

The Staging Accounts group consists of funds that receive donations or payments for activities or services that also incur expenses. Once the expenses associated with a particular activity or service have been accounted for, the net proceeds of the activity or service become income for another fund or for the church operating budget. .

An example of a staging fund is Event Rentals. When somebody rents space (usually Fellowship Hall) in the Church buildings for a one-time event, they make a down payment and a security deposit well in advance of the event. The balance due on the rental is due two weeks prior to the event. All events require that a consultant from the church be present at the event, and this consultant gets paid from the rental payments. The security deposit that was previously paid normally gets refunded after the event takes place. Net income from rentals for which all expenses have been accounted for is then periodically transferred to the operating budget.

The Special Events group is effectively a staging group for events and programs. Some of these programs/events are sponsored by the church and others are sponsored by organizations that

FPUPC has close ties with (like the Dutchess County Interfaith Council). Finances for these events were previously accounted for in generic funds like “Fund Ventures” and “Special Events” and a separate process was needed to associate income and expenses with a specific event or program. Individual funds will now be created in the new Special Events group to track income and expenses for each individual event, eliminating the need to use a separate process to perform this function.

The Non-Participating Accounts group consists of funds that are used to implement accounting techniques for moving money from one fund to another without having this fund movement appear to as income and/or an expense that does not really exist. This is one aspect on non-profit accounting that does not exist in for-profit accounting.

The Expense to Income Transfers fund one such fund. It is used when an internal asset transfer must appear as an expense in the originating fund and as income in the receiving fund. Movement of money from one fund to another does not, however, result in actual income or an actual expense; i.e., no money actually came into or left the church. Moving money from one fund to another through the Expense to Income Transfers fund provides offsetting negative expense and income transactions that cancel out the non-existent income and expense that would otherwise appear on the books.

The Operating Budget Reconciliation fund provides a time buffer for closing out the yearly operating budget. It normally has a negative balance at the end of the year and this balance is the amount that will eventually need to be withdrawn from FPUPC’s invested funds to close out the year’s operating budget.

Any year-end surplus or deficit in the General Operating fund is transferred to the Operating Budget Reconciliation fund at the end of the fiscal year so that the year-end balance of the General Operating fund ends up being zero as required.

It usually takes several weeks into a new year before the previous year’s financial activity finally settles down, and any withdrawals of invested funds that may be required to close out the prior fiscal year must be approved by the Session before they can take place.

The use of the Operating Budget Reconciliation fund allows “paper” journal entries instead of actual fund transfers to be used to deal with the inevitable late-breaking adjustments to the prior year’s operating budget during the somewhat dynamic year-end closing process. Actual transfer of funds then takes place once the prior year activity has stabilized and a year-end closing plan has been approved by Session.

You may also have noticed negative numbers sometimes appear on some lines in the Receipts and Disbursements columns of the Fund Activity report. Negative income and/or negative expense occur when journal entries are used to move funds between fund accounts and budget accounts. Use of this accounting practice is another mechanism that is used to prevent fund-to-fund transfers from appearing as income and expenses that do not really exist.

Part of the reason for what sounds like accounting flim-flam is that the financial reports that the church runs on are specific to their intended audience. As an example, some of the income that the Nursery School receives is periodically transferred to the church operating budget as payment for the services that the Church provides for the Nursery School (e.g., electricity, heat, water, insurance, phones and internet access, etc.).

From Session's point of view, they want to see this fund transfer as income to the church's operating budget. The nursery school co-directors want to see this as an expense in their operating budget. But no money came into or left the church as a result of these transactions and standard financial statements like Balance Sheets and Income and Expense that cover the entire church corporation as an entity must reflect this reality. Hence, we have strange funds like Expense to Income Transfers and negative numbers in the Receipts and Disbursements columns of our financial reports.

2021 OPERATING BUDGET YEAR-END RESULTS **Report**

2021 was another abnormal year for church finances. The need to periodically discontinue in-person worship services began to take its toll on offering income. While income from offerings remained strong during 2020 and ended that year at 96.4% of budget expectations, income from offerings fell to $23,069 or 7% below budget expectations in 2021. December. 2021, was an unusually bad month for offering income due, in large part, to poorly attended Christmas Eve services.

External income from other sources (i.e., payments) in 2020 was $xx,xxx or 56.2% below budget expectations. Fortunately, this situation reversed itself in 2021 and external income from other sources exceeded budget expectations by $12,271 or 64.6%. While this did not completely offset the decrease in 2021 offering income, it helped bring the church operating budget a little closer to being in balance. Total 2021 external income fell short of budget expectations by $10,795 or 3.9%.

The 2021 church operating budget authorized the withdrawal of up to $98,600 from invested funds to support the operating budget. It will be necessary to withdraw $96,841 (98% of the budgeted amount) from invested funds to close out the 2021 operating budget.

In 2019, external operating income amounted to $365,652 and operating expenses amounted to $441,556, leaving us with an operating shortfall of $75,904 at the end of 2019. This shortfall was covered by using $7,000 from Nursery School income, $1,200 from a fund specifically targeted for building upkeep and improvement, and $67,704 from the church's invested funds.

The 2019 budget authorized the withdrawal of up to $81,200 from invested funds to support the operating budget. We were fortunate that the amount that actually needed to be withdrawn from invested funds to close out the 2019 operating budget was $13,496 less than the budgeted amount that we expected to have to withdraw.

Operating Income

The following are the more important income line items that ended the year either over or under budget by more than $500 or by more than 20% of budget in 2021.

Regular Offerings – Fell short of $317,200 budgeted amount by $17,535 or 6%. About 12% to 13% of total annual regular offering income is donated in December and that didn't happen in 2021. The pandemic did start to take its toll on Regular Offering income.

Holiday Offerings – Fell short of $7,000 budgeted amount by $4,878 or 70%, largely due to poorly attended Christmas Eve services. Another victim of Omicron.

Undesignated Offerings – Fell short of $3,000 budgeted amount by $585 or 20%. This income consists primarily of loose cash in the Sunday offering plates. Since attendance at Sunday morning services was considerably below normal in 2021, there was very little loose cash in the offering plates.

Other income treated as Undesignated Offerings include periodic distributions from the Amazon Smile program and donations received through portals such as YourCause and Benevity.

Used Clothing Drop-Off – Exceeded $5,000 budgeted amount by $3,318 or 66%. The "shed" continues to be a "cash cow" for the church.

Use of Facilities – Exceeded $7,500 budgeted amount by $5,480 or 73%. This income is produced by ongoing rentals of Church facilities by various groups.

Event Rentals - Exceeded $1,500 budgeted amount by $472 or 31%. This income is produced by one-time rentals of Church facilities (usually Fellowship Hall) by individuals and groups.

Parking Permits – Exceeded $5,000 budgeted amount by $3,000 or 60%. The resumption of in-person instruction at Arlington High School resulted in this significant uptick of parking permit income.

School of Sacred Music Grant – The School of Sacred Music was separately budgeted in 2021.

Operating Expenses

The following expense items line items came in either over or under budget by more than $500 or 20% of their budget in 2021 or are items that I thought are worthy of bringing to your attention.

Salaries – Almost all salaries were at normal or near-normal levels. The Associate Pastor and other members of the paid staff received a modest 1.3% cost-of-living adjustment. The pastor declined that adjustment and instead requested that his study stipend be increased by $1,000 to help cover the anticipated costs of the Doctor of Ministry program that he is enrolled in.

The Church Music Director's and the School of Sacred Music Director's salaries were slightly less than budgeted since Lorraine chose to terminate her employment with the church in November.

The amount budgeted for the Parish Nurse's salary was reduced in 2021 since the pandemic prevented her from performing many of her normal duties including "office hours" on Sunday mornings and in-person visits to members of the congregation how are hospitalized or who are temporarily or permanently residing in nursing homes.

Both the administrative assistant and the sexton worked fewer hours than they normally would as a result of decreased workload. There were no expenses for child care or activities associated with the School of Sacred Music.

Mandatory Employee Insurance - This is new line item in the Salaries category. It includes the cost of worker' compensation, and New York State mandatory disability, and paid family leave coverage for church employees. The nursery school and universal pre-kindergarten programs reimburse the church for the cost of workers' compensation, mandatory disability, and paid family leave coverage for their employees. Also included in this item is the premium for mandatory group life insurance for our ministers.

The cost of Paid Family Leave coverage increased significantly in 2021. The church is required to pay the full estimated cost of this coverage "up front" in December of the preceding year, and then recovers this cost by payroll deductions during the year that this coverage is provided.

Insurance – This line item now only includes the premium for the church's property, liability, and umbrella insurance coverage. Since this is a predictable expense, the actual expense was very close to the budgeted amount of $14,720. The church's policy also provides coverage for the Associate Pastor's residence.

Electricity – Under its $1,200 budget by $295 (25%). Actual electricity expense was probably much closer the budgeted amount but the Church has not received an electric bill since September and no information about the Church's recent electricity usage is available on Central Hudson's new customer portal.

The Church is a net user of electricity from November through April since the days are shorter and the solar panels aren't able to produce enough electricity to meet the Church's needs. It should also be noted that the solar panels do not produce any electricity at all when they are covered with snow. When the Church finally does receive an electric bill, it's gonna be a big one.

Water – Over its $1,000 budget by $286 (29%). This is primarily the result of a toilet valve failed to shut off and water running continuously for several days before this problem was noticed. The defective valve has been replaced.

Grounds Maintenance – Under its $11,000 budget by $1,603 (15%). Once again, the result of a less snowier that normal winter. One should, however, keep in mind that a single heavy snowstorm can set the church back $1,500. This budget item also includes lawn mowing expense.

Kitchen and Custodial Supplies – Over its $2,000 budget by $1,609 (46%). The custodial supplies that the Church uses seem to be unusually expensive and our efforts to reign in this expense have not been successful.

Furniture, Equipment, and Organ – Over its $3,700 budget by $570 (15%). The Church's aging office computers were finally replaced in 2021. While doing these upgrades, it became obvious that the monitors and other peripheral equipment such as displays also needed to be replaced. Some additional audio/visual equipment was also purchased to improve the quality of the live stream of the Sunday morning services.

Administrative Expenses – Over its $4,700 budget by $654 (14%). The Church now has to pay for services and software that it used to receive for free.

Per Capita – Over its $15,330 budget by $474 (3%). The amount budgeted for this expense was not computed correctly.

Music – Over its $2,500 budget by $401 (16%). It was necessary to purchase special "singers' masks" for the choir members so that they could resume singing at Sunday morning services. These masks were pricey, but their purchase wasn't optional.

The amounts budgeted for Health Ministry, Special Programs, Coffee Hour, Music, School of Sacred Music Supplies were lower than normal since it was anticipated that these programs would not be able operate at their normal levels due to the pandemic. All of these expenses cam in close to or under budget. It would be nice to be able to spend more money in this part of the budget!

2022 OPERATING BUDGET **Report**

Actual income and expends for several line items in the church operating budget fluctuate significantly from year to year, and only looking at the previous year's actual income and expends does not always provide a realistic projection of what to expect in the coming year. This has been especially true in 2020 and 2021 due to the inability to conduct Sunday services on a normal basis and reduced use of the Church's facilities. The "2016-2019 Average FY Actuals" column provides additional input for determining appropriate budget amounts for line items that don't behave consistently from year to year.

Operating Income

Regular Offerings - The amount budgeted for Regular Offerings is primarily determined by a mathematical model that analyzes individual giving patterns for the past five years and amounts pledged for the coming year to project the income can be expected for regular offerings in the coming year. The model predicts that we can reasonably expect $303,000 in regular offering income in 2022.

As noted previously in this report, regular offering income was significantly less than expected in 2021 and there does not appear to be any reason to expect regular offering income to increase significantly in 2002. The details of the analysis that determined the amount budgeted for 2021 Regular Offerings can be found in the 2022 Pledge / 2021 Giving report.

Holiday Offerings – We are hoping that these offerings will return to close-to-normal levels in 2022.

Undesignated Offerings – Once again, we are hoping that we will be able to regularly conduct in-person worship services in 2022 and that attendance at these services will return to near-normal levels. Admittedly, the year has gotten off to a shaky start, but we remain optimistic for the future.

Use of Facilities – Most groups that use the Church's facilities on an ongoing basis have resumed doing so. The one notable exception is Congregation Shir Chadash, which is continuing to pay 50% of their previous rental fee since they have not yet resumed in-person worship services.

Event Rentals – The amount budgeted for this income is based on the assumption that rentals of Fellowship Hall will gradually increase as the year progresses. The amount budgeted for 2022 is about 60% of what would be budgeted for a "normal" year.

Parking Permits – The amount budgeted for this income is about 80% of what would be budgeted for a "normal" year and may be a bit pessimistic.

Used Clothing Drop-Off – Increased based on income that is actually being received from the shed.

School of Sacred Music Grant – This item is now budgeted separately.

Invested Funds – The amount budgeted for invested funds is what is necessary to bring the budget into balance. It's the difference between total budgeted expenses and all other sources of budgeted income. There is, however, a limit on the amount that can be withdrawn from invested funds each year to support the operating budget. More details about that in the Invested Funds section of this document.

Mary Louise VanWinkle Fund for Social Justice Programs – Session has approved using $1,000 of the income generated by this endowment to subsidize a small part of the Associate Pastor's salary. The Associate Pastor has been given the responsibility of administering the distribution of the income produced by the endowment.

Operating Expenses

Salaries

The Presbytery has recommended a 5.0% cost of living salary increase for our ministers with a minimum increase of $3,200. Both the Pastor and the Associate Pastor have agreed to accept the minimum increase.

The personnel committee has recommended that our support staff (parish nurse, administrative assistant and sexton) receive the same 5.0% cost of living increase that Presbytery recommended for our ministers.

The work schedule for the Administrative Assistant has been reduced from 25 hours per week to 20 hours per week until the second week in September when it will go back to 25 hours per week. The amount budgeted for the Administrative Assistant's salary has been adjusted accordingly.

Operations

Insurance – The premium for the church's property, liability, and umbrella insurance has increased by 8% for 2022. 2021 has been a particularly bad year for insurance companies due to the increase in claims arising directly or indirectly from the pandemic and the dramatic increase in the cost of litigation. Liability insurance premiums have increased as a result.

Electricity - The amount budgeted for Electricity has been slightly decreased based on our experience with the solar panels, and the expectation that building use will continue to be somewhat less than normal for most of 2022.

Heating – The amount budgeted for Heating has been increased based on the increased cost of natural gas. Our usage of natural gas is expected to be about the same as it was in previous years.

Water – The amount budgeted for water remains at previous levels. Water expense was over budget in 2021 as a result of a situation that we do not expect to re-occur.

Environmental Services (garbage, additional cleaning, exterminating, fire alarm system monitoring, inspection, and servicing) – The amount budgeted for these services has significantly increased from what it was in 2021 based on the assumption that the Church will resume using the service of The ARC of Dutchess for additional weekly cleaning services.

Grounds Maintenance – This is always the great unknown in our budget, as this expense is a big one and depends very heavily on how much snow, sleet, and freezing rain falls in any given winter. FPUPC has gotten off reasonably cheaply for the past few years but the old adage about past performance not being a guarantee of future results definitely applies here. The amount budgeted assumes a normal winter in terms of snowfall.

The cost of mowing the Church's lawns has increased but we're hoping to contain that increase within the amount budgeted.

Kitchen and Custodial Supplies – Budgeted amount reluctantly increased based on our inability to reign in this expense.

Furniture / Equipment / Organ – Budgeted amount decreased since no major expenses in this category are anticipated in 2022.

Postage – Budgeted amount increased based on actual expends in recent years.

Benevolences

The amount budgeted for all items in this category is the same as it was for 2022.

Programs

Most items in this category have resumed being budgeted at near-normal levels.

Maintenance / Repairs

No major expenses in this category are anticipated in 2022. A separate fund that receives a yearly grant of $1,200 exists and building upkeep expenses are charged to that fund before being charged to the church operating budget. A separate fund has also been established for the Crown Restoration Project.

INVESTED FUNDS Report

FPUPC's investment portfolio consists of 13 individual invested fund accounts, each of which represents money donated to the church either for a specific purpose or for general use. The first page of the invested funds report shows how the church's total investment portfolio is distributed across the individual invested fund accounts.

The combined assets of the 13 invested fund accounts are pooled and invested in three investment asset accounts: a stable income "Legacy Bond" account at Merrill Lynch, a "Managed Account" account at BlackRock / Merrill Lynch, and a promissory note on the associate pastor's residence. The total value of FPUPC's investment portfolio was approximately $3.19M at the end of 2021, as compared to $2.43M at the end of 2020.

The Legacy Bond account is self-managed; we tell Merrill Lynch when to buy and sell bonds and what bonds to buy and sell. The Managed Account is professionally managed for a fee. It was decided by session in 2020 year that we should move toward having all of our bond and equity assets professionally managed.

This decision is being implemented on a staged basis. Bonds that are providing a good return on investment (i.e., > 3%) will remain in the Legacy Bond account until they mature or are called. There is one $40,000 bond remaining in this account and it will mature in February. The resulting cash will then be transferred to the Managed Account to be invested in bonds.

Our investment advisors at Merrill Lynch recommend that an investment mix of 25% stable income and 75% equities remains appropriate for FPUPC's investment portfolio. Their recommendation has been accepted by the finance committee and session.

The stable income portion of the investment portfolio consists of cash, bonds, and the promissory note on the associate pastor's residence. Some of the bonds will be in the Legacy Bond account and some will be in the Managed account. The equity portion of the portfolio includes both individual stocks and exchange-traded funds (ETFs).

The Invested Funds report new includes a table that summarizes the ending balance of the three investment asset accounts as of 12/31/2021 and their time-weighted rate of return in 2021. It also provides similar information for the Dow and the S&P 500 as a basis for comparison.

FPUPC's investment portfolio did better than the Dow and came close to matching the S&P 500 in 2021. From all outward appearances, the portfolio contains the right mix of assets and is being well managed.

As with any loan, the asset value of the promissory note decreased by $9.7K in 2021 as principal payments were made on it. These principal payments and the interest earned on the note were distributed to the individual invested funds based on their current balances. In effect, part of what was an accounts payable asset was converted into a cash equivalent asset with no net change in total asset value.

Restrictions on the Use of Invested Funds

Restrictions can be placed on how and when funds donated to the church can be used by either the donor or by the session. The first and foremost of these is restricting the purpose for which the donated funds can be used. If a donor specifies that a donation they wish to make is intended to be used for a specific purpose and the church accepts the donation, the church and its treasurer are legally obligated to ensure that the donation will only be used in a manner that is consistent with the donor-imposed restrictions on it.

A donor can also specify that a donation they wish to make is to be an endowment. In this case, the donation is expected to be invested in a manner that will produce a return by generating income such as interest and dividends and/or by increasing in value. The originally donated amount becomes a "permanently restricted" asset of the church and cannot be used for any purpose other than being invested to generate income and/or increase in value. The donor may also restrict the use of the returns on this investment or may allow the returns on the investment to be used by the church in any manner that the session deems appropriate.

Another way the use of a donation can be restricted is by placing limits on how much of the donation can be used by the church in a given time period. For example, a donor could state that only 5% of the donated amount can be used in any 12-month period. Placing restrictions of this type on a donation (or on the returns produced by an endowment) helps ensure that the donation will continue to provide a source of funds for the church for an extended period and not be used to satisfy a short-term need.

The session is also at liberty to place any or all of the above restrictions on donations received by the church, but any such action taken by the session can subsequently be amended or reversed by the session. This is not, however, the case when donor-imposed restrictions are placed on the use of a donation. The session is not at liberty to amend or ignore donor-imposed restrictions on a donation without first having obtained the permission of the donor (or somebody who is legally authorized to act on their behalf) or the Attorney General of New York State to do so (Ref: New York Nonprofit Revitalization Act of 2013).

All of the above restrictions come into play when dealing with FPUPC's invested funds. Some of the funds can be used only for a specific purpose while others can be used as deemed appropriate by the session. Some of the funds are donations while others are endowments. And session has imposed limits on the rate at which the invested funds can be used.

Our investment advisors strongly recommend that not more than 5% of the balance of any invested fund be withdrawn in any given year. The finance committee, church treasurer, and pastor all agree that this is the maximum amount can be safely withdrawn from the investment accounts each year without impacting their ability to produce income that will be needed in future years. This restriction will be referred to as the "5% Rule" for the remainder of this discussion.

A Guided Tour of the Invested Funds Report

The YTD Summary page of the invested funds report attempts to display all of this complexity as clearly as possible, but this isn't an easy task. So here's a guided tour of the report.

The report categorizes each individual invested fund as an endowment or as an unrestricted gift based on the donor's intent. While the permanently restricted amount of endowed funds is not shown on the report, it is factored into the computation of the amounts that can be withdrawn from endowed funds.

The "Value 12/31/2020" column shows the balance of each individual invested fund as of the end of the preceding calendar year (or as of the beginning of the current calendar year if you prefer to think of it that way). The "Available Funds 1/1/2021" column shows the maximum amount that can be withdrawn from each individual invested fund during the 2021 current calendar year based on the 5% Rule. With the exception of the Vocational Scholarships fund (which has its own set of rules), this amount will be the lessor of (1) 5% of the balance of the fund as of the beginning of the year, or (2) the difference between the balance of the fund as of the beginning of the year and the permanently restricted amount (if any) of the fund. Note that permanently restricted amounts apply only to endowments.

The "Available to Operating Budget as of 1/1/2021" column shows the maximum amount that can be withdrawn from each individual fund to support the 2021 operating budget based on the 5% rule. The entry in this column for each fund will either be (1) a non-zero dollar amount, (2) $0, or (3) an empty cell with no value in it.

An empty cell in this column indicates that withdrawals cannot be made from this fund for use in the operating budget. A value of $0 indicates that there are no expenses in the current operating budget that are consistent with the intended use of the fund. A non-zero value specifies the maximum amount that could be withdrawn from the fund to support operating budget expenses that are consistent with the intended use of the fund.

For example, the "Available Funds 1/1/2021" column shows that $27,800 was available for withdrawal from the Vocational Scholarships fund in 2021. There is, however, an empty cell in "Available to Operating Budget as of 1/1/2021" column for this fund. Consequently, any withdrawals from the Vocational Scholarships fund can only be used to provide vocational scholarships and this expense is not normally part of the operating budget.

The "Available Funds 1/1/2021" column shows that $1,500 is available for withdrawal from the Maintenance fund in 2021 and the "Available to Operating Budget as of 1/1/2021" column shows that the same amount can be used to support the operating budget. However, any withdrawal from the Maintenance fund can only be used to offset Maintenance/Repairs items in the operating budget. Consequently, withdrawals cannot be made from the Maintenance invested fund until eligible expenses have been incurred in the operating budget.

And, lastly, both the "Available Funds 1/1/2021" column and the "Available to Operating Budget as of 1/1/2021" column show that $36,020 is available for withdrawal from the General

– Income Only fund in 2021. Since no restrictions have been placed on the use of income produced by this pseudo-endowment, the entire $36,020 can be used for any purpose including general funding for the 2021 operating budget.

The income column shows interest and dividends generated by the investments. The expense column shows the broker's fees for managing the investment asset accounts. The gain/(loss) column shows the change in market value of the investments.

The "Value mm/dd/2021" column shows the value of the invested funds as of the end of the month for which the report was generated. The "Available Funds mm/dd/2021" column shows the amounts that are available for withdrawal from the various funds at the end of the month for which the report was generated. For each fund, it will be the amount that was available for withdrawal at the beginning of the year minus any withdrawals that were made so far this year.

The "Available to Close 2021 Operating Budget" column shows the amounts that still can be withdrawn from the various funds to close the operating budget as of the end of the month for which the report was generated. The meaning of empty cells and $0 values is the same for this column as it is for the "Available to Operating Budget as of 1/1/2021" column.

The "Remaining Planned 2021 Withdrawals" shows amounts that we expect to be withdrawing from the various invested funds for the remainder of the year and to close out the 2021 operating budget early in 2022. This information is used to estimate a balance for each invested fund at the beginning of 2022 on which estimates of amounts available for withdrawal in 2022 can be computed.

And, finally, the "Available Funds 1/1/2022" and "Available to Use in 2022 Operating Budget" columns provide these amounts for 2022.

Major Deposits and Withdrawals

Upon her passing, Dr. Mary Louise VanWinkle made a $250,000 bequest to FPUPC to establish the Mary Louise VanWinkle Fund for Social Justice Programs. This bequest was an endowment so only the income produced by investing this donation can be used for the stated purpose.

Upon her passing, Geraldine (“Gerry”) Williams made a $10,000 bequest to FPUPC. No restrictions were placed on the use of this donation and it was deposited in the Unrestricted Use invested fund.

A total of $44,938 was withdrawn from eligible invested funds in early 2021 to cover the remaining 2020 operating budget shortfall.

$10,000 was withdrawn from the Vocational Scholarship fund to pay our seminarian intern’s salary.

A total of approximately $96,841 will be withdrawn shortly from various invested funds to close out the 2021 operating budget.

A complete list of withdrawals that have been made from the invested funds can be found on the Transactions tab (second page) of the invested funds report.

Some Statistics

The combined balance of the invested funds that can be used to support the 2021 operating budget was $2,077,949 as of January 1, 2021. Based on the “5% rule”, a total of $103,910 was available for withdrawal from eligible invested funds to support the 2021 operating budget. However, the approved 2021 operating budget only required that $98,600 be withdrawn from invested funds in order to achieve a balanced budget. This amount is 4.74% of the combined balance of the eligible invested funds.

At the end of the year, it turned out that it was only necessary to withdraw $96,841 from invested funds to close out the operating budget. This amounted to 4.66% of the combined balance of the eligible invested funds.

The combined balance of the invested funds that can be used to support the 2022 operating budget was $2,403,504 as of January 1, 2022. Based on the 5% Rule, a total of $120,200 can be withdrawn from eligible invested funds to support the 2022 operating budget. However, the approved 2022 operating budget only required that $110,130 be withdrawn from invested funds in order to achieve a balanced budget. This amount is 4.58% of the combined balance of the eligible invested funds.

FPUPC is living within its means!

ANY QUESTIONS?

Please be encouraged to ask them during the financial presentations at the congregational meeting. If you would like answers to your questions before the congregational meeting, you can e-mail them to treasurer@fppchurch.org.