Balancing Cash Reserves and Investments:
Best Financial Practices for Churches

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Churches, like any organization, require a solid financial foundation to support their mission and long-term sustainability. Managing finances wisely ensures the congregation can thrive, maintain their facilities, provide essential ministry and outreach, and plan for the future. One of the key financial considerations for a church is how to balance cash reserves with investments. Both are important, but the approach to each should be based on the church's mission, risk tolerance, and long-term vision. Below are a few best practices for managing cash reserves and investments.

Understanding Cash Reserves

Cash reserves are funds set aside to cover unexpected expenses or financial shortfalls. For a church, these could include emergency building repairs, an unexpected decline in contributions, or urgent missional needs. Cash reserves are crucial to ensure that the church can continue its operations during challenging financial times without disrupting its services or mission.

Best Practices for Cash Reserves:

- Maintain a sufficient reserve. A general rule of thumb is to have at least three to six months' worth of operating expenses in reserve. However, for churches, six to twelve months may be more appropriate, given that income from contributions can fluctuate seasonally or with broader economic conditions.

- Keep cash accessible. Cash reserves should be liquid and easily accessible, such as our Money Market Investment Account or the Michigan Area Loan Fund. These funds should not be invested in volatile assets that could diminish in value when they are needed the most.

- Separate emergency funds from operating cash. The church should keep emergency reserves separate from regular operating funds. This helps ensure that the funds are available only for true emergencies and are not used for day-to-day expenses.

- Revisit reserves regularly. Over time, the church's financial situation and expenses may change. It is important to revisit the amount of cash reserves annually, ensuring that they are adjusted to reflect any growth in operating costs or new risks.

Understanding Church Investments

While having strong cash reserves is essential for immediate needs, churches should also consider how to steward their resources long-term. The Balanced Fund or an asset allocation between the Stock Fund and Bond Fund are excellent, value-aligned options for these types of assets. By investing a portion of their funds, churches can potentially grow their financial resources over time, supporting future projects, building endowments, and expanding their mission.

Best Practices for Investments:

- Prioritize mission-aligned investments. Churches have a moral obligation to ensure their investments align with their values and mission. United Methodist churches are called to practice socially responsible investing (SRI) and select investment choices aligned with the Social Principles.

- Diversify the investment portfolio. Just like individuals, churches should diversify their investments to reduce risk. A balanced portfolio should include a mix of stocks and bonds, depending on the church's time horizon and risk tolerance. The goal is to achieve steady, long-term growth while protecting the principal.

- Establish a long-term investment strategy. Investments should be part of a long-term financial plan. Churches should work with the Foundation to create a strategy that balances growth with security. Investment decisions should be based on long-term goals, rather than short-term market fluctuations.

- Use endowments for stability. Churches can establish endowment funds, where the principal is invested and only a portion of the earnings are used each year. This provides a steady income stream without depleting the funds, helping to sustain the church for generations to come.

- Monitor and adjust regularly. Regularly reviewing investments ensures they continue to align with the church's financial goals and risk tolerance. This responsibility is especially important as market conditions change or if the church's financial situation or mission evolves.

Striking the Right Balance

One of the key challenges for any church is determining how much to hold in cash reserves versus how much to invest. Striking the right balance depends on several factors, including the church's vitality, financial health, risk tolerance, and long-term vision.

Factors to Consider:

- Income stability: Churches that have consistent, reliable income streams may need fewer cash reserves and can afford to invest a greater portion of their funds. On the other hand, churches with more unpredictable giving patterns should keep larger cash reserves to ensure stability.

- Capital needs: Churches that are planning significant capital projects, such as building renovations or expansions, may need to hold more in cash or low-risk investments to fund these initiatives in the short term.

- Community needs: Churches should also assess the needs of their congregation and community. If the church is actively involved in outreach or community support, maintaining a larger cash reserve may be necessary to respond quickly to urgent needs. On the other hand, this missional work may be funded, in part, through an endowment fund or a special appeal.

Governance and Accountability

Both cash reserves and investments should be managed with transparency and accountability. A church's financial practices must uphold the trust of its congregation and ensure proper stewardship of gifts and assets.

Best Practices in Governance:

- Maintain an active finance committee or equivalent. A finance and endowment committee can help oversee the church's financial planning, including cash reserves and investments.

- Establish clear policies. Clear policies around how much should be held in cash reserves, how funds should be invested, and how investment returns will be used can help ensure consistency and transparency in financial decisions.

- Provide regular reporting. Church financial leaders should regularly report the church's financial status to the church leadership, including the state of their cash reserves and the performance of investments. This practice helps build trust and ensures that the church leadership is collaborative in its financial decisions.

Conclusion

For churches, balancing cash reserves with investments is a critical part of financial stewardship. A well-thought-out approach allows the church to remain financially stable in the short term, while also growing its resources for the future. By maintaining adequate reserves, aligning investments with their mission, and fostering good financial governance, churches can ensure that they are well-equipped to serve their congregation and community both now and in the years to come. For more information, please call or visit us online at www.UMFMichigan.com.

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