



TEMPORAL MATTERS POLICIES

Diocese of Great Falls-Billings

DIOCESAN DEPOSIT AND LOAN FUND POLICIES

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Purpose

The Diocese has established a Deposit and Loan Fund (D&L Fund) to provide parishes, schools, and other diocesan entities with a means to save excess revenues and borrow funds for operating capital or capital improvements.

Funds deposited in the D&L Fund remain the funds of the depositing parish, school, or other diocesan entity. The D&L Loan Fund holds funds in trust and administers them according to this policy. At all times, the deposit principal is guaranteed.

Interest is paid to parishes, schools, and other diocesan entities at a rate which begins each year on July 1, established by the board of directors of the Diocese of Great Falls-Billings Juridic Persons Capital Assets Support Corporation (CASC).

The funds on deposit in the D&L Fund may be loaned to diocesan parishes, schools, or other diocesan entities who, in accord with this policy, seek a diocesan loan for particular approved projects/needs. In this manner the Diocese assists parishes, schools, and other diocesan entities when short term operating capital needs arise, new construction, expansion, or renovation is required or when significant maintenance or repair is required. Such financial support is necessary in order to support the parishes, schools, and other diocesan entities in their various needs and to preserve and prolong the usefulness and maintenance of the buildings and grounds of diocesan institutions.

Parishes, schools, and other diocesan entities may borrow only from the D&L Fund and may not borrow from outside financial institutions. Projects of a size that may prompt the use of outside borrowing will be coordinated and administered entirely by the D&L Fund.

Definitions

The definitions below are provided for reference purposes only and are not formally a part of this policy.

Unrestricted Donation An unrestricted donation is any gift that is given for the general use of or for the “greatest needs” of an organization. Unrestricted donations can be spent for any expense associated with operating an organization in the furtherance of its mission.

Designated Fund A designated fund consists of unrestricted donations that have



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been internally allocated to a specific purpose. An example of a designated fund would be when an organization designates some excess revenue to the future replacement of the parking lot. Another example of a designated fund would be a quasi-endowment (see below).

Restricted Donation A restricted donation is any gift that includes a limitation, placed upon the gift by a donor, as to how the gift may be used. Donors making a restricted donation generally specify the limitations placed on the gift in a gifting instrument. Restricted donations are always one of two types: temporarily restricted or permanently restricted. It is important to note that only a third party donor can create any form of legal restriction on a gift or a fund.

Temporarily Restricted Donation A temporarily restricted donation is a gift that is donated subject to a purpose restriction or a time restriction. An example of a purpose restriction would be a gift to be used to repair or replace the roof of the church. An example of a time restriction would be a gift that could only be used in the next budget year.

Permanently Restricted Donation A permanently restricted donation is a gift that contains a limitation on use that is attached to it for perpetuity. A typical example would be an endowment, the original amount of which can never be spent but the earnings from which can be used for general or specific purposes. Another example would be the perpetual care fund of a cemetery that is restricted by either a donor or by law.

Endowment An endowment is one type of permanently restricted donation (see above). The original amount of the endowment is often referred to as the “corpus” and can never be spent. Earnings generated by an endowment can be either unrestricted or temporarily restricted as specified by the donor. It is important to note that no organization can permanently restrict funds into its own endowment. Only a third party/donor can so permanently restrict funds.

Quasi-Endowment A quasi-endowment consists of unrestricted funds of an organization which management chooses to treat as an endowment for internal purposes. It is important to note that quasi-endowments carry no legal restrictions whatsoever and are neither temporarily restricted nor permanently restricted. A quasi-endowment reflects a designation of unrestricted funds only and such designation can be changed at any point in the future by management of an organization.



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Reserves Allowed at Local Level

Parishes, schools, and other diocesan entities are authorized to retain a short term operational reserve in local accounts of an amount equal to twenty five percent (25%) of their respective estimated annual operational expenses.

In addition to the locally held short term operational reserves, parishes, schools, and other diocesan entities are also authorized to hold in local accounts restricted and designated unrestricted funds for special events or projects that are expected to be expended within eighteen (18) months. If such events or projects are expected to occur more than eighteen (18) months in the future, the parish, school, or other diocesan entity must deposit related restricted and/or designated unrestricted funds in a D&L Fund account or accounts.

Custodial funds being held by the parish, school, or other diocesan entity should be regularly remitted to the appropriate intermediary or entity for which they have been collected and should not be included in the calculation of locally held, short term operational reserves.

Since short term operational reserves and other permitted locally held funds are intended to meet short term cash flow needs, they cannot be invested in certificates of deposit, stocks, bonds, mutual funds, or other such instruments.

Funds in excess of short term operational reserves and other permitted locally held funds must be deposited into a D&L account.



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Deposit Accounts

The Diocesan Deposit and Loan Fund offers three types of savings accounts. Interest on savings accounts is calculated as simple interest and is paid annually in mid-July. Interest earned on savings accounts may either be reinvested or forwarded to the parish, school, or other diocesan entity upon request.

Short Term Savings Account The short term savings account offers the greatest liquidity, but provides for a lower rate of return. Funds withdrawal requests that are not related to an unapproved capital project are generally processed and mailed within two to four (2 - 4) business days after receipt by the Diocesan Business Office. Requests for withdrawal from this account type must be submitted in writing and signed/submitted by the Pastor/Pastoral Administrator/Parish Life Coordinator (or his/her designee).

Short term savings accounts should be used for:

1. Operating reserves in excess of amounts in locally held funds in an amount up to one hundred percent (100%) of estimated annual operational expenses (i.e. twelve (12) months of operating cash) ; and/or
2. Restricted and/or Designated unrestricted funds expected to be more than eighteen (18) months in the future; and/or
3. A temporary account to hold a non-recurring and/or stock gift.

Long Term Savings Account The long term savings account offers less liquidity but provides for a higher rate of return. Funds withdrawal requests that are not related to an unapproved capital project are generally processed and mailed within ten to twenty (10 - 20) business days after receipt by the Diocesan Business Office. Requests for withdrawal from this account type must be submitted in writing and signed by the Pastor/Pastoral Administrator/Parish Life Coordinator (or his/her designee), the chair of the parish pastoral council, and the chair of the parish finance council.

Long term savings accounts should be used for:

1. Longer term operating reserves (those in excess of twelve (12) months of operating cash); and/or
2. Building reserve funds; and/or
3. Estate, trust, or similar proceeds that are not needed for current operations or projects.

Quasi-Endowment Savings Account The quasi-endowment savings account offers the highest rate of return, but is intended to be treated as an endowment. Funds withdrawal requests that are not related to an unapproved capital project are generally processed and mailed within sixty to ninety (60 - 90) days after receipt by the Diocesan Business Office. Requests for withdrawal from this account type must



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be submitted in writing and signed by the Pastor/Pastoral Administrator/Parish Life Coordinator (or his/her designee), the chair of the parish pastoral council, and the chair of the parish finance council.

Quasi-endowment savings accounts should be used for reserves in excess of thirty six (36) months of operating cash that a parish, school, or other diocesan entity believes it will not need for the foreseeable future. The account consists of unrestricted funds of an organization which management chooses to treat as an endowment for internal purposes, but that can be accessed in times of significant financial distress.

Transfers Transfers from short term savings accounts to long term savings accounts must be requested and documented in the same manner as a withdrawal from a short term savings account. Transfers from long term savings accounts to short term savings accounts must be requested and documented in the same manner as a withdrawal from a long term savings account.

Endowments and Quasi-endowments

Parishes, schools, and other diocesan entities are authorized to deposit endowed and other permanently restricted funds at the Catholic Foundation of Eastern Montana (CFEM). Parishes, schools, or other diocesan entities are not authorized to “add to” an existing endowment or other permanently restricted fund or create any new endowments or permanently restricted funds with any funds except those so specifically designated by a third party donor. Parishes, schools, and other diocesan entities are not authorized to maintain any accounts other than those that are permanently restricted at the CFEM.

In addition, if a parish, school, or other diocesan entity has a minimum of thirty six (36) months of unrestricted operating cash reserves on deposit in the D&L in any combination of short term and/or long term savings accounts, it is also authorized to create and/or supplement a quasi-endowment savings account. Parishes, schools, and other diocesan entities interested in establishing or supplementing a quasi-endowment savings account should contact the Diocesan Finance Officer for further information.



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Receipt of Non-recurring Gifts, including Stock Gifts

Should a parish, school, or other diocesan entity be the recipient of a non-recurring gift such as a planned gift of \$10,000 or more (such as proceeds from an estate, a bequest, life insurance proceeds, IRA's, etc.) or any gift of securities (stocks, bonds, mutual funds, etc.), the funds must be temporarily placed in a short term savings account in the D&L Fund.

After consultation with the governing bodies of the parish, school, or other diocesan entity, strong consideration is to be given to distributing the gift on a percentage basis among the following possibilities:

- _____ % to the entity for current use
- _____ % to the entity's short term or long term D&L Fund account(s)
- _____ % to establish or supplement the entity's quasi-endowment savings account
- _____ % to establish or supplement the entity's endowment held at the CFEM (if permanently restricted by the donor)

Any gift that a parish, school, or other diocesan entity elects to receive in which the donor specifies or restricts the use of the gift, must be used or endowed according to the donor's intention.

Stock gifts If a parish, school, or other diocesan entity receives stocks, bonds, or other financial securities from a donor, the securities must be transferred to the CFEM brokerage account for processing and liquidation. After being liquidated, the parish, school, or other diocesan entity will receive a deposit into a short term savings account in the D&L (as noted above) in the amount of the fair market value of the security as of the date of the transfer, less commission cost of the transfer and subsequent sale of the securities.

Exception When non-recurring gifts as described above are specifically restricted by the donor to be used for an active, properly approved capital project or are permanently restricted to a parish/diocesan endowment, the parish, school, or other diocesan entity may bypass the requirement of the gift being deposited into a short term savings D&L account and deposit the funds directly into an account that will fulfill the restriction of the gift.



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Loans

Deposits provide the source of funds for loans to other parishes, schools, and other diocesan entities in need of capital. All borrowing by parishes, schools, and other diocesan entities must be done through the Diocesan Deposit and Loan Fund with the approval of the CASC, the Diocesan Finance Council, and the Diocesan Bishop.

No parish, school, or other diocesan entity is authorized to borrow funds from a commercial or private lending source.

Funds for loans to parishes, schools, and other diocesan entities come from the Diocesan Deposit and Loan Fund, which is funded by excess revenues from parishes, schools, and other diocesan entities. These loans are intended to assist the various parishes, schools, and other diocesan entities in major projects when some financing is needed or operating capital is required. If borrowed funds are intended to finance a construction, renovation or repair project, the parish, school, or other diocesan entity is required to have fifty percent (50%) of the project cost in hand and demonstrate the ability to repay the loan. If the borrowing entity is not debt free at the time of the request for project approval, all outstanding loans must be renegotiated at current interest rates and the entity must demonstrate the ability to service the total debt load.

The application for a loan is in the form of a letter to the Bishop (with copy to the Diocesan Finance Officer and the Diocesan Property Manager), summarizing the project/need, the cost, and the funds available toward the total cost of the project/need; and must be accompanied by a completed Parish Capital Expenditures & Loan Checklist form which can be found on the diocesan website (http://www.diocesegfb.org/Property_Management/Parish_Capital_Expenditures_and_Loans_Checklist.pdf). The letter and/or checklist must be signed by the Pastor/Pastoral Administrator/Parish Life Coordinator and the chairpersons of the Parish Finance Council and the Parish Pastoral Council. A copy of the Parish Finance Council Minutes approving the project and request to borrow funds must accompany the loan request.

A loan application package will first be considered by the CASC. If the CASC recommends approval of a loan, it will then be forwarded to the Diocesan Finance Council to recommend approval of the project and loan, then to the Diocesan Worship Commission (if a new or renovated liturgical space is being contemplated), with final approval of the project/need and related loan resting with the Diocesan Bishop.

All loans are provided at an interest rate established by the CASC annually. Loans are simple interest loans with no penalty for early payoff.



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Amortization A loan from the Deposit and Loan Fund will be amortized over a period of fifteen (15) years by default. D&L loans can be amortized for a shorter period of time or extended to twenty (20) years at the discretion of the board of the CASC.

Parishes, schools, and other diocesan entities are encouraged to pay off loans as quickly as possible. Any amount received in excess of the normal monthly payment in a given month is applied to principal.

If payments are not made in a timely manner on amortized loans, such that at least the interest due is not brought current by each December 31 and June 30, the loan will revert to a non-amortized loan and accumulated interest will be added to the principal each December 31 and June 30. With this process, the D&L Fund is not carrying large interest due balances for long periods of time without earning interest on the accrued interest. Such additional debt/principal will be subject to Diocesan Policy regarding debt amortization. Amortized debt payments are to be included in the yearly budget for expenses by parishes, schools, or other diocesan entities.

Outside Borrowing No parish, school, or other diocesan entity is allowed to borrow money from an outside source. All borrowing must be from the Deposit and Loan Fund according to the terms of this Policy.

Accounts Receivable & Short Term Loans Those parishes, schools, or other diocesan entities which have not paid at least the interest due on its' loan(s) and a minimum of ten percent (10%) of their diocesan billing for three consecutive months will be visited by a member of the Diocesan Staff to perform a review of the parish books. Under the direction of an appointed Diocesan Staff person, a capital campaign or other fund raising campaign may be required.

After the second ninety (90) days without substantial payment (minimum 50%), any balance ninety (90) days or older may be charged interest at one half percent (0.5%) per month.

The Diocesan Bishop may appoint a financial administrator for the parish, school, or other diocesan entity if there has been no substantial response/progress by the end of the budget year.

The total balance of all outstanding diocesan bills (not including unpaid interest from the Deposit and Loan Fund) submitted to any parish, school, or other diocesan entity prior to May 1st that remain unpaid on the immediately following June 30th will be funded by the creation of a short term D&L Fund loan to be amortized over the subsequent five (5) year period. The loan will be funded as of that same June 30th and the proceeds of the loan will be used to bring the entity's diocesan account



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current, with interest being charged at the normal D&L Fund rate beginning the next day, July 1st. Such new debt will be subject to the Diocesan Policy regarding debt amortization.

For the purpose of this Policy, diocesan bills include (but are not limited to) all routine bills for items such as employee benefits, insurance, payroll taxes, etc. as well as diocesan assessments such as past due/prior year Cathedraticum/COF and Care & Share assessments.

Transitional Relief *With regard to the above Accounts Receivable/Short Term Loans Policy, the effective date will retroactively be June 30, 2016. However, any such short terms loans that are created as a result will hereby NOT be interest bearing for a period of three years (through June 30, 2019). Any balances remaining as of June 30, 2019 of such short term loans created on June 30, 2016, will begin accruing interest as of July 1, 2019 at the then current D&L Fund borrowing rate.*

Approval

At its meeting on August 4, 2016, the Diocesan Finance Council reviewed the foregoing Policy and recommended that it become the Policy of the Diocese of Great Falls-Billings.

At its meeting on August 17, 2016, the College of Consultors recommended that this become the Policy of the Diocese of Great Falls-Billings.

This Policy for the Diocese of Great Falls-Billings is hereby approved and becomes effective September 1, 2016 for all entities of the Diocese of Great Falls-Billings.

August 22, 2016

Date

Most Reverend Michael Warfel
Bishop of Great Falls-Billings



Darren Eultgen, Chancellor