

The following examples are for illustrative purposes only. It is not meant to depict the actual numbers associated with First Presbyterial Church Ann Arbor.

Fluctuations in membership:

Assume a church has 500 households (~1,000 members) contributing \$3,000 per year. This gives the church an annual operating budget of \$1.5M ($500 \times 3000 = 1,500,000$). In a scenario in which the church membership declined by 20% over say 20 year period, that would represent a loss of 100 households ($.2 \times 500 = 100$), for a new congregation size of 400 households ($500 - 100 = 400$). By most accounts this would still be a very healthy congregation size, but now 400 households (~800 members) contributing \$3,000 per year, would result in a lower annual operating budget of \$1.2M ($400 \times 3000 = 1,200,000$). A decline in the annual operating budget from \$1.5M to \$1.2 would require the Church to cut \$300,000 in costs (programs, external mission, staff, etc) over this time ($1,500,000 - 1,200,000 = 300,000$).

Benefit of an endowment:

Let's assume that 100 households pledge to leave 10% of their estate to the Church, with an average estate is valued at \$500,000. That would be represent a \$50,000 contribution per household ($500,000 \times 10\% = 50,000$), for a total endowment contribution of \$5,000,000 ($50,000 \times 100 = 5,000,000$). Assuming an average annual rate of return of 6%, that would result in a \$300,000 annual contribution to the operating budget ($.06 \times 5,000,000 = 300,000$). **Under the scenario above, this would allow the church to maintain its annual operating budget of \$1.5M ($1,200,000 + 300,000 = 1,500,000$)—hence no need to cut programs, mission, staff, etc!**

Unforeseen Financial Shocks:

Of course, this is just one scenario. It is easy to see how the Church could also use the additional \$300,000 in endowment earnings to help plan for the replacement of large capital expenditures like a new HVAC system, new roof, etc. Without a sufficient endowment, it may be necessary for a church to ask the congregation for emergency special offerings which can put financial stress on current members. **In this way, an endowment also helps insulate the current congregation from unforeseen financial shocks!**

