

## **Northpoint Community Church – A Case Study in Evaluating Capital Project Financing Options**

### **Abstract**

Problems related to evaluating/comparing multiple financing options, arise in a variety of organizations, including not-for-profits and small businesses. The basic skills needed for the analysis are also useful in addressing analytical challenges in larger for-profit organizations.

This case study and teaching plan present students with information related to borrowing options for a mid-size church. The church executive and board members must decide between a five year bank loan or borrowing from the organization's endowment over either five or ten years. An additional option is to raise funds from members. However, donor fatigue is a concern, since a five year capital campaign was just completed. A complicating factor is the fact that the church currently receives a draw from its endowment as part of its operating revenues. This draw will be reduced if the church borrows from the endowment and the amount of the reduction is dependent on the amount borrowed. Finally, the church budget is tight, with limited flexibility to cover additional loan payments.

The case study is appropriate for both undergraduate and graduate finance students. It also may be a useful resource for clergy and church administrators who wish to further develop their analytical skills. It can be used in a variety of ways and over either one or multiple class periods. For beginning students, a partially completed spreadsheet may be provided to students, to guide their organization of the analytical problem. For more advanced students, an important part of the assignment may be to develop a framework (in spreadsheet form) to analyze the problem. For all students, the case provides opportunities to apply previous learning on time value of money to the case problem. While financial calculators or formulas are adequate, students have an opportunity to use multiple spreadsheet financial functions. The existence of the endowment draw and its effect on operating cash flows, adds complexity to the analysis. There are opportunities to discuss estimation of the appropriate interest rates and expected return on investment. The case provides ample opportunity for discussion of practical issues such as the impact of financing decisions on the organization's operating budget. Finally, the case provides opportunities for students to practice communicating their financial analysis to a non-financial audience, via memo, powerpoint presentation, and spreadsheet tables and graphs.

This case study is designed to help undergraduate business students develop both critical thinking and communication skills. Students must apply newly learned time value of money concepts to compare available options. In addition, the case provides students with practice using Excel to analyze a financial problem. Students are challenged to develop a powerpoint presentation to communicate their analysis to a non-financial audience.

**Plan** – Part A presents the case study along with assignment questions to guide student analysis. Part B presents a teaching plan. Part C presents a case solution. A spreadsheet solution accompanies the case solution.

## **Part A – Case Study**

### Synopsis and Learning Objectives

Northpoint Community Church, a 450 member nondenominational church in suburban Chicago, needs around \$100,000 of cash by the second half of 2020 to pay off the balance of a short term loan. In addition, the church minister and board have recently discovered that a new roof is needed on the classroom wing of the church. The preliminary estimates for the roof repair are between \$60,000 and \$80,000. Miranda Gordon, the church treasurer, is working with the board members to figure out a way to pay for these items. Options include raising money from the church's members, borrowing from the church endowment, borrowing from a bank, and issuing church bonds to congregants. Borrowing from the endowment is complicated by the fact that the church operating budget receives a draw from the endowment each year. A loan from the endowment will reduce this draw. The church is currently paying on a mortgage. Additional debt payments will put an additional burden on church cash flows. The church constitution requires a majority vote of members in order for the church to borrow from a bank or its own endowment. Thus, Miranda understands that she will need to clearly communicate regarding the options and her recommendation to the board and members of the church.

This case has been developed for undergraduate or graduate finance students.

### **Learning Objectives**

Students will:

1. apply time value of money concepts to evaluate financing options;
2. develop fluency in using financial functions in Excel;
3. identify important questions related to the financing challenge and develop a plan for answering them.
4. communicate, using an Excel model and Powerpoint presentation, the analytical challenge and available options, to an educated but non-financial audience.
5. Recommend a plan for securing the necessary financing.

### **Questions for Case Preparation**

1. Provide an overview of how you believe this analysis should be set up. A diagram may be helpful.
2. What questions need to be addressed in your analysis of multiple financing options?
3. What is the cash flow effect of borrowing from the bank? What is total interest from this loan?
4. What should the analysis of borrowing from the endowment look like?
5. What do you believe are the pros and cons of each financing alternative?