MONITORING REPORT: FINANCIAL
Executive Limitations Policies #3
From Board Policy document dated 11/27/2016

January 2018

EL #3: FINANCIAL PLANNING AND BUDGETING

Budgeting for any fiscal year or the remaining part of any fiscal year shall comply with the Board's Ends priorities, not risk fiscal jeopardy, and be derived from a plan of at least three (3) years.

The ET interpretation for this policy:

- Budgets will include items which are in compliance with the Board's Ends priorities.
- We will plan our budgets so that expenses are less than or equal to income for each fiscal year.
- We will develop a multi-year budget that covers the current fiscal year plus two additional fiscal years and which includes projections for future income and expenses.

The annual budget presented to the board in April is based on the 3 year multi-year budget presented to the board in January each year. The budget funds programs and activities which support the annual vision of ministry from the strategic plan. The ET uses conservative estimates and projections of income determined in consultation with the Treasurer of First Unitarian Church.

For actual results of FY 17/18 as of December 31, 2017, please refer to our report on EL 4.

Accordingly, the Executive Team shall develop a budget that, at a minimum:

1. **Contains enough detail to enable reasonably accurate projection of revenues and expenses, separation of capital and operational items, cash flow, and disclosure of planning assumptions.**
   We report compliance. The multi-year and annual budget documents contain line items describing in detail categories of income and expenses. Previous year budget, current reality and historical trend information are included. For the annual budget in April, the ET uses actual pledge drive results to project income available for the upcoming year. A comments column is included where the ET makes notes on assumptions, trends and ideas as needed to explain the numbers in the budget. We include details such as health insurance trends and staffing plan strategies (when applicable) in the multi-year budget document which may also provide additional information on planning assumptions. Both budgets include a separate worksheet for capital expenditure budgets.

2. **In any fiscal year, plans for spending that is equal to or lower than projected available funds.**
   We report compliance. The ET provides a multi-year budget and annual budget which use conservative projections for income. We develop those projections in consultation with the church treasurer. For the annual budget we use actual results from the pledge drive to project income. We plan our expenditures so that the total does not exceed the projected income we use for the budget. Both the multi-year and annual operating budgets are presented with income and expenses roughly equal, or where the income exceeds projected expenses. In developing the mulit year budget, however, we may present the budget with a deficit in future years for purposes of discussion.
   The ET will adjust the annual budget to accommodate new circumstances which may arise during the year. The "new reality" budget for FY 17/18 describes our projected income and expenses for the remainder of the fiscal year as of December 30, 2017.
3. **Is based on the pledge income trend, year over year, for the prior three years.**
   We report compliance. The ET uses the trend of the past 3 years, along with other information about individual donors, in consultation with the church treasurer, to project pledge income for the multi-year budget. For the annual budget in April, we adjust our pledge income projection to reflect actual pledge drive results.
   For the multi-year budget presented in January 2018, we are projecting flat pledge income for the next 3 years as we have seen only small variations in past 3 years of pledge income. In addition, membership growth continues to be flat or show small reductions in voting membership. Many key donors are over 80 years of age, so even with membership growth we could see flat pledge income growth.

4. **Provides expected case, worst case and best-case scenarios, taking into account the membership growth and/or shrinkage trend of the previous three years.**
   - Our best case scenario would be if we meet our pledge goal of $515,000 for FY 17/18 and $525,000 for FY 18/19. Please note pledge income goal includes both pledges and donor advised fund donations, which are tracked separately.
     - We note our wish lists for staffing and projects on separate worksheets in the budget document, so that the board is aware of the ET priorities with regard to the operating and capital expenditure budgets if the pledge drive results are sufficient.
     - For FY 18/19, we would like to be able to give 3% raises to primary staff members, with higher annual increases for childcare and custodial staff to bring them closer to UUA and local pay rates for those positions. However, the multi-year budget uses 2% for FY 18/19. If we meet the pledge drive goal, we may be able to increase primary staff raise to 3%.
   - Our expected case scenario is based on our actual pledge drive results.
     - For FY 17/18, we use our new reality budget which uses the actual pledges plus donor advised fund donations on file, $516,838, and adjusts for trends in expenses, staffing changes and other variables which have occurred since the budget was approved in May 2017.
     - When we finalize the budget for FY 18/19 at the annual meeting, we will use actual pledges plus donor advised fund commitments on file at the end of the pledge drive to project pledge income. This is available for the annual budget presented to the board in April.
   - Our worst case scenario is used in our multi-year budget pledge income projections.

- We use our worst case projection to build the multi-year budget for 3 years into the future. Those projections, developed with our Treasurer, take into consideration past year's income trends and information on the status of major donors. For example, we have many members over the age of 80 and, of those, many are major donors. The projected pledge income in future years in the multi-year budget is flat, even though our church is re-energized. See also Strategic Planning Committee World Café Background Information document for information on local demographics and other trends that may impact our growth. We propose lower salary increases in FY 19/20 and FY 20/21.

5. **Provides for total employee and personnel costs that are below 70% of the annual budget. These costs include: salary (all full-time, part-time and contract employees), housing, health insurance, life insurance, disability insurance, pension, employer FICA/SECA, professional expenses, overtime and custodial fees, and payroll services.**
   We report compliance. As of 12/31/2017, our percentage was 59.36% in the new reality budget. For the multi-year budget, all years are under 70%.

6. **Recognizes the importance of funding reserves and work on long term plans to reach ideal funding levels. Building reserve funding will be no less than 3% of total income per year and will increase in each budget year until funding is equal to reserve calculation requirements.**
   We report partial compliance. Based on the Strategic Planning Committee Building Reserve Calculation, our goal is to add $50,000 per year from to the capital expenditure reserve to keep up with anticipated capital needs. 3% of income for FY 18/19 would be $21,625. We are budgeting $13,000, or 1.8% of income, for FY 18/19 (budget document column F) based on projected income; a higher pledge drive result may allow us to increase this line item. Our Capital Expenditure Reserve fund is valued at $74,094. Our new reality budget for FY 2017-2018 includes plans to add $19,000 to the reserve at the end of the fiscal year. This is 2.6% of our income in FY 17/18. The ET views increasing the funding for this line item as a high priority, and has been able to increase funding to this line item over the past several years. In years when we project a surplus at the end of the year, we allocate most of that surplus to the Capital and Maintenance Expenditure Reserve. Our budget in FY 16/17 was to transfer $26,491, but we were actually able to add $44,537. For FY 16/17, we put 6% in the reserve fund. Below is a list of contributions over past several years.

FY 12/13	$2,177
FY 13/14	$3,636
FY 14/15	$13,358
FY 15/16	$31,362
FY 16/17	$44,537

7. **Includes funding of Board of Trustees liability insurance and provides at least $750 in support of GP#6, Cost of Governance.**
   We report compliance. The line item for FY 18/19 through the multi-year budget to FY 20/21 has this line item funded at $750.00. In FY 17/18 it is funded at $1250.00.

8. **Presents separate annual and multi-year capital expenditure budget plans and the means to pay for them.**
We report partial compliance since we have separate budgets for operating and capital expenditures. The Capital and Maintenance Expenditures planned for the next 3 years are noted on a separate tab in the multi-year budget document. The capital expenditure plan provides information on funding for some of the projects, as well as information about each project, project owner and schedule. Funding sources and timing are dependent on:

- Operating Income and expenses each year determine level of funding available to replenish the Maintenance and Capital Expenditure Reserve. (current value = $74,094)
- Many of the projects which indicate TBD would be funded from the Capital Expenditure Reserve as funding allows.
- If projects identified as coming up suddenly become urgent, we would fund from the Capital Expenditure reserve and other, less urgent projects would be delayed to a future year.
- Updates to the FY 17/18 capital expenditure budget:
    - Youth Center Renovation is complete – funded mostly from 150th Anniversary Fundraiser, with remainder funded by Capital and Maintenance Reserve.
    - Organ repairs are complete – funded by Capital and Maintenance Reserve.
    - Brick repointing done on exterior of building - funded by Capital and Maintenance Reserve.
    - Added Plexiglass to doors in church offices - funded by Capital and Maintenance Reserve.
    - Repaired EEC entrance overhang - funded by Capital and Maintenance Reserve.
    - Replaced flat roof over sanctuary/parish hall - funded by Capital and Maintenance Reserve.

9. **Contains a plan of action and/or process to sufficiently fund reserves that cover**:
    a. **Expected ministerial sabbatical expenses as determined by ministerial agreements;**
    We report compliance. Our Sabbatical reserve balance is $2600. We do not project upcoming sabbaticals for ministers in the near future. For FY 17/18, budgeted $1,000 to be transferred to this reserve. Our DRE has a sabbatical in Spring 2018 and our Music Director has a sabbatical in Fall 2018. In FY 18/19 we hope to add $2,000 to replenish this reserve.
    Once we hire a new settled minister (FY 19/20) we can increase the amount so we can accrue a fund of $6,000 to cover 6 months of guest speakers. Area ministers also trade off sabbatical preaching and pastoral assistance, which helps mitigate sabbatical expenses.

b. **Future ministerial search processes;**
We report compliance. Current value of the ministerial search reserve is $14,951. We have a plan to add another $1,500 in FY 17/18. A full search and relocation funding requirement is around $15,000, but could be more depending on relocation and travel expenses. In addition, we use the search reserve for other staff search expenses, such as want ads and employee background checks. For FY 18/19, we plan to add an additional $1,000.

c. **Significant loss of rental income;**

We report partial compliance. EEC recently agreed to renew for an additional 3 years through FY 19/20. If EEC plans to close or move out of our building we will immediately begin a search for a new daycare tenant or explore other options.

The current value of the income loss reserve is $20,500 with plans to add $3,500 in FY 17/18. This is less than 3 month’s rent, and our goal would be to have 5 or 6 months of rent (at $9,000 per month) in the fund to mitigate the impact to our budget. For the multi-year budget, we add $2,000 per year.

Although not as high a priority as the Capital and Maintenance Expenditure Reserve fund, this is another area of high priority for the ET and, if pledge funding allows, we would increase this line item in future years.

d. **Other future liabilities or financial risks as identified by the board.**

No future liabilities identified at this time.

10. Provides 100% funding of JPD and UUA dues.

We report compliance. JPD is now known as CERG. The UUA is in the process of changing how the dues will be calculated, and will focus on operating budget expenses rather than number of members. For FY 17/18 and the multi-year budget, we budget to fund at 100% and we are using current calculation based on membership number as a placeholder until we have more information from UUA on how the dues will be calculated.

11. Provides for shrinkage of pledge income within reasonable historical limits.
We report compliance. We use 6% as our assumed shrinkage rate for all fiscal years.

Respectfully submitted by the Executive Team,

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