MONITORING REPORT: FINANCIAL

Executive Limitations Policies #3

August 2019

POLICY 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.

There have been no changes in the ET's interpretation of this policy, and we report partial compliance.

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 18/19 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 in the multi-year budget document which 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.
   The ET will adjust the annual budget to accommodate new circumstances which may arise during the year. The new reality budget for FY 19/20 describes our projected income and expenses for the remainder of the fiscal year.

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.

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.**
   We report compliance:
   - Our best case scenario would be if we meet our pledge goal, including Donor Advised Fund Donation (DAF) projections of $505,000. (As of 7/15/2019 pledges plus DAFs equaled $516,969 for FY 19/20.)
     - We note our wish lists for staffing and projects on separate worksheets in the April and multi-year budget documents, 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.
   - Our expected case scenario is based on our actual pledge drive results.
     - This is available for the annual budget presented to the Board in April.
     - We used $505,000 as our projection for the approved budget for FY 18/19 which was our projection as of early April 2019. ($476,000 pledges plus $29,000 Donor Advised Fund donations)
   - 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 years' income trends and information on the status of major donors. For example, 154 pledges out of 240 (64.2%) are attributed to retirees. Those pledges add up to $363.261 out of $507,604 or 71.6% of our pledge income. Retirees are likely to reduce their pledge dollars over time.

- We built our multi-year budget, presented in January 2019, using $505,000 in pledge income (including DAFs) over the next 3 years. New members and new energy in the congregation may compensate for losses in pledges.

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 SECA/FICA, professional expenses, overtime and custodial fees, and payroll services.**
   We report compliance. Our projections throughout the fiscal year were well below 70% and as of June 30, 2019 were 59.50%.

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 compliance. Our Capital Expenditure reserve fund, as of June 30, 2019, is valued at $109,105. We were able to increase the amount of money we planned to transfer from operating budget to the Capital Expenditure Reserve for FY 18/19.

   Our budget for FY 18/19 allocated $12,200 to the reserve, and we were also able to add excess operating income, $34,454, to the reserve at the end of the fiscal year, for a total of $46,654. This exceeds the 3% requirement, $22,236.

   The ET recognizes the Strategic Plan recommendation to fund this line item at $50,000 per year and we hope over time to be able to increase our current plan to that amount in the future. Funds from the new $500K Capital Endowment (estimated at $20K per year) will supplement operating income for future years.

   For the FY 19/20 budget we plan to add $39,400, $20K from endowment income and $19.4K from operating income. If we also have a surplus at the end of FY 19/20, we will allocate additional funds to the reserve.

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 for Board Governance in the budget for FY 18/19 and for FY 19/20 is $750.00. The multi-year budget is funded at $750 for through FY 21/22. The Employer Practice and Liability insurance policy premium is $1900 per year and is paid and up to date for FY 19/20.

8. **Presents separate annual and multi-year capital expenditure budget plans and the means to pay for them.**
   We report partial compliance as we have budget plans and partial means to pay for them. The Capital Expenditure Tab in the multi-year budget lists projects through FY 21/22. Some of these projects have a funding source identified at this time. Some of them do not. Funding sources and timing will be dependent on:
   - Operating income and expenses each year determine level of funding available to replenish the Maintenance and Capital Expenditure Reserve.
   - Many of the projects which indicate TBD would be funded from the Capital Expenditure Reserve as funding allows.
   - We have $13K remaining in the SPBF $179,000. Parking lot issues can be paid from this fund.
   - Some projects are listed because we know they will need to be done in the near future, however, if they can be carried over to a future year, they are carried over.
   - The ET recognizes that we need to continue to work on improving funding so that we are able to identify adequate funding for our building needs.

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 $3,203. We do not project upcoming sabbaticals for ministers in the near future. Both the music director and director of religious education had sabbaticals in the past two years. We budgeted $0 to be transferred to this reserve in FY 19/20. We can increase this amount as needed beginning in FY 20/21 to reach a goal of $6,000 to cover 6 months of guest speakers. Area ministers also trade off sabbatical preaching and pastoral assistance, in which case we can have guest speakers at no cost.

   b) **Future ministerial search processes**
   We report compliance. Current value of the ministerial search reserve is $8,161 and we just completed search for our new minister. A full search and relocation funding requirement is between $15K and $20K, 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 background checks. Beginning in FY 20/21 we plan to begin accruing funds to this reserve with the goal of $15K in 5 years. Our goal is to add at least $3,000 per fiscal year.

   c) **Significant loss of rental income**
   We report partial compliance. We recently renewed our lease with EEC through August 31, 2020 and we begin process of renewing the 3 year lease in September 2019. We are confident that EEC plans to remain our tenant for at least the next 3 years after 2020.

The current value of the income loss reserve is $26,000. This is less than 3 month’s rent, and our goal would be to have 5 or 6 months of rent (at $10,000 per month) in the fund to mitigate the impact to our budget and allow time to find a new daycare tenant or other use for the space. For FY 19/20 we plan to add $500 to this reserve.
Although not as high a priority as the Capital 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
We report compliance. The ET is not aware of any additional risks identified by the Board at this time.

10. Provides 100% funding of JPD and UUA dues
We report compliance. We funded dues at 100% in the multi-year budget for all years. As of June 30, 201 our annual dues were paid up to date for FY 19/20.

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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