

**Treasurer's Annual Report to the Board of Trustees
of The Community Church of Chapel Hill
Unitarian Universalist**

Laurence D. Kirsch, Treasurer

September 2014

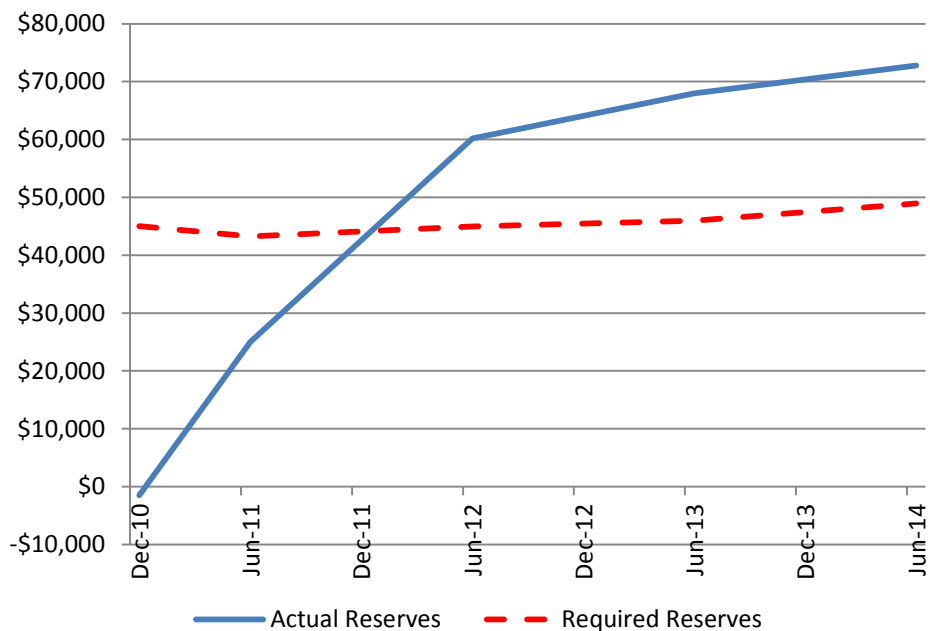


Treasurer's Annual Report to the Board of Trustees

The Community Church of Chapel Hill continues to be in excellent financial condition. We have \$2.89 million in equity, with current assets of \$0.19 million and current liabilities of \$0.03 (excluding the current portion of mortgage debt). The general picture is that our debt-to-equity ratio is consistently low (presently 0.19), and our ratio of current assets to current liabilities is consistently high (presently 5.54, or 3.51 including the current portion of mortgage debt). After running deficits during the depths of the recession in 2009 and 2010, we turned things around and have run surpluses ever since. The key factors in the turnaround were changes in the budget process that helped to better focus the church's leadership on financial issues.

As an operational matter, we regard a budget as "balanced" if it allows us to reach our Operating Reserve target, which is one month of average expenditures. Figure 1 shows the target as a dashed magenta line while our actual reserves are the solid blue line. The rising blue line shows that, although we failed to meet our target in 2010, we have since built Operating Reserves so that they now exceed target.

Figure 1
Operating Reserves, 2010-2014



The Income Picture

Figure 2 shows the church's sources of income for the recently completed fiscal year ending June 30, 2014. The figure shows that the lion's share of income (77%) comes from collections, which are basically pledges supplemented by other contributions from members (like the Sunday plate). Smaller but still significant amounts of income (10% each) come from the pre-school lease and parking lot rentals.

Figure 2
Sources of Income, Fiscal Year 2014

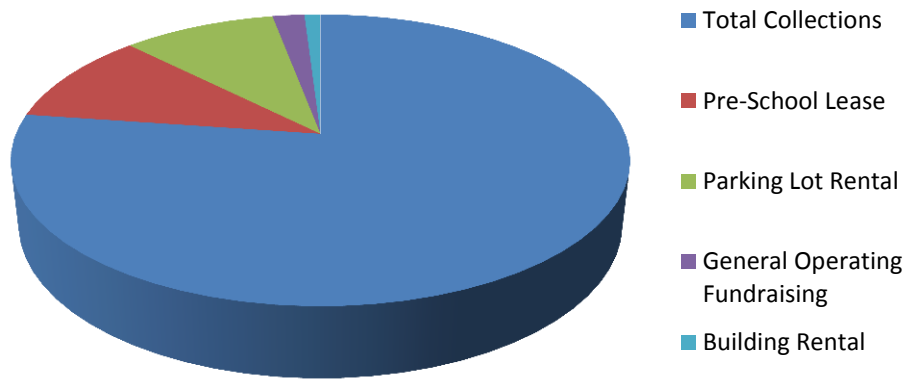
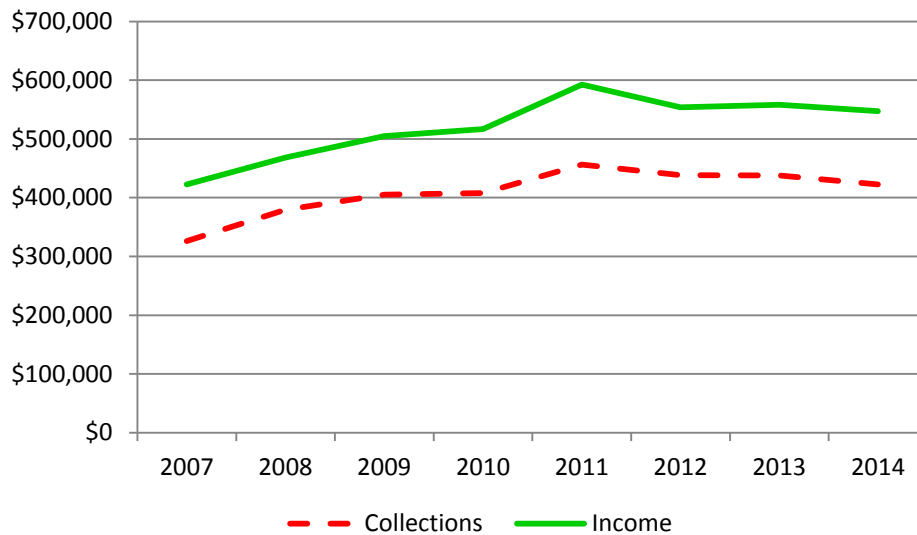


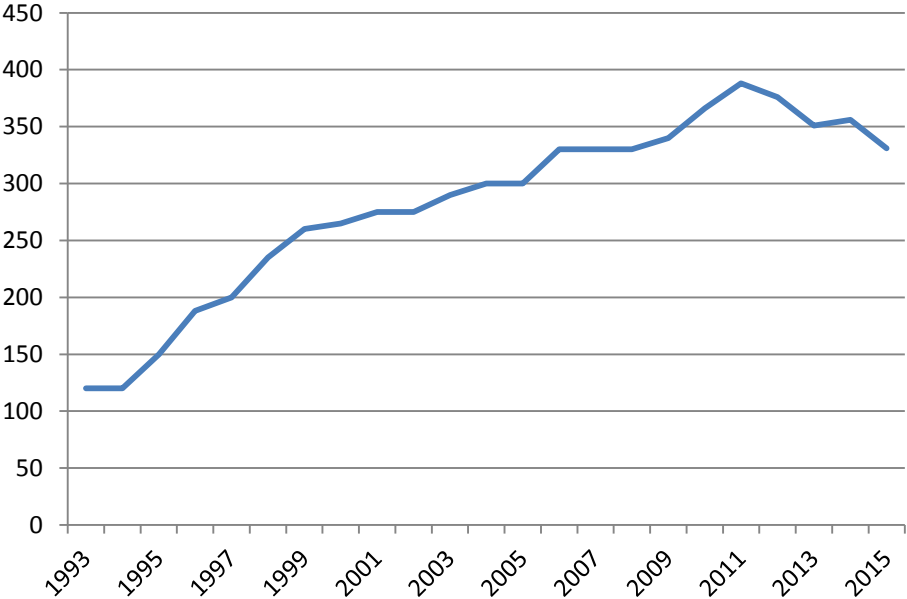
Figure 3 shows that both total collections and total income peaked (at an annualized rate) in 2011, and have fallen a few percent since that time.

Figure 3
Total Collections and Total Income, 2007-2014



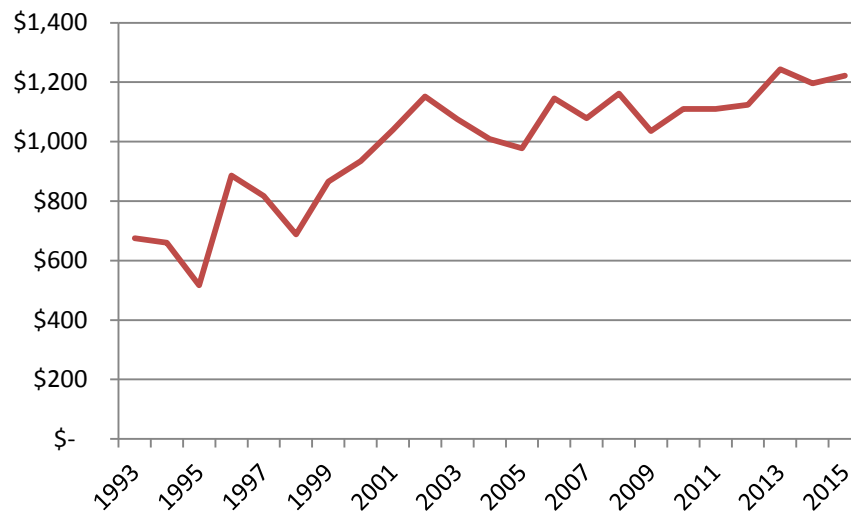
Our main financial uncertainty is the level of pledge revenues, which depend upon two key factors. The first is the number of members. Figure 4 shows that membership rose substantially until 2011 and has since come down by 15%.

Figure 4
Number of CCCH Members, 1993-2014



The second factor is the average pledge per member. Figure 5 shows that, in inflation-adjusted terms, the average pledge rose substantially until 2001, since which time it has bounced around the \$1,000 to \$1,200 range with a generally upward trend.

Figure 5
Inflation-Adjusted Average Pledge per Member, 1993-2014
(2014 dollars)



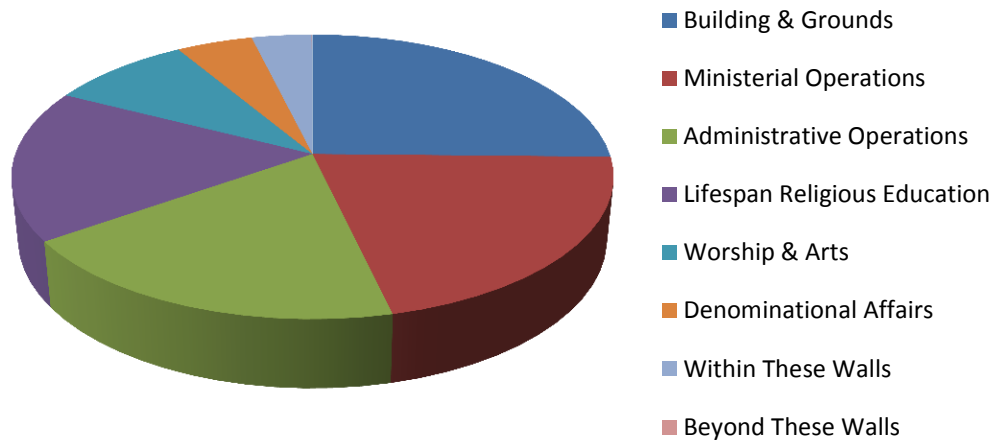
The Expense Picture

The church spends money in two different ways: through the operating budget; and through restricted funds. The operating budget, which is the larger of the two (\$546,233 in the recently completed fiscal year, including \$21,343 of mortgage principal payments), is devoted primarily to paying staff and maintaining facilities. Restricted funds are devoted to numerous programs, both within and outside of the church.

Figure 6 shows how the operating budget was divided up among the eight major program categories in the recent fiscal year. The largest four categories are the following:

- *Building & Grounds* covers mortgage payments (\$50,400), utilities (\$17,128), maintenance reserves (\$16,529), janitorial service (\$10,295), pre-school cleaning service (\$10,200), insurance (\$7,832), and a variety of other expenses.
- *Ministerial Operations* covers the compensation of the Minister.
- *Administrative Operations* covers the compensation of the Congregational Administrator and Office Assistant, as well office expenses (\$18,890), taxes (\$8,075), and other expenses.
- *Lifespan Religious Education (LRE)* primarily covers the compensation of the Director of LRE and the LRE Assistant.

Figure 6
Operating Budget Expenses, Fiscal Year 2014, by Program Category
(including mortgage principal payments)



More modest shares of the operating budget are spent on the next three categories:

- *Worship & Arts* primarily covers the compensation of the Director of Music and the Accompanist.
- *Denominational Affairs* covers the payments to the national and regional Unitarian Universalist organizations.
- *Within These Walls* primarily covers the salary and benefits of the Volunteer Coordinator.

Because every other Sunday's plate goes to a variety of community organizations, virtually none of the operating budget falls into the Beyond These Walls category.

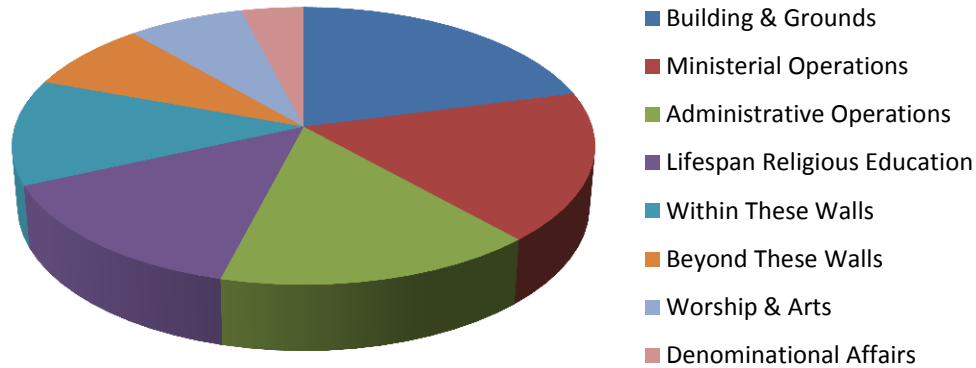
By contrast, the church's expenditures through restricted funds go entirely to programs that are Within These Walls (\$60,720) or Beyond These Walls (\$53,092).¹

- *Within These Walls* expenditures primarily cover children and youth (\$31,736), musical (\$16,760), and Benevolence Fund (\$5,876) activities.
- *Beyond These Walls* expenditures go almost entirely to community organizations.

Combining information from the operating budget and restricted funds, Figure 7 gives a fuller picture of where the church's money goes. The four largest categories from Figure 6 are still the four largest categories, with somewhat smaller shares of the total pie. But considering the uses of the restricted funds, Within These Walls and Beyond These Walls can be seen to receive appreciable shares of the church's money.

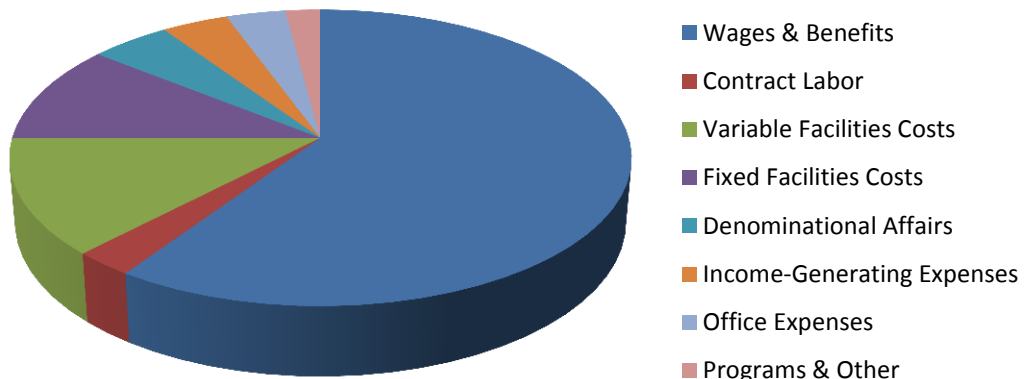
¹ The \$60,720 figure equals: a) the \$73,460 Total Within These Walls Expenditures shown in Table 4; minus b) \$2,740 of Concert Series expenditures plus \$10,000 of Services Auction expenditures that were transfers to the operating budget.

Figure 7
Operating Budget Expenses and Restricted Fund Expenditures, Fiscal Year 2014,
by Program Category (including mortgage principal payments)



Returning once again to the operating budget only, it may be useful to look at that budget in a different way, by *type* of expense rather than by expense *category*. Figure 8 presents this different view. The striking fact is that wages and benefits constitute 59% of the entire budget, with another 3% going to contract labor in support of Sunday services. Not surprisingly, the size of the church staff is the largest determinant of the size of the church’s budgetary needs.

Figure 8
Operating Budget Expenses, Fiscal Year 2014, by Type of Expense
(including mortgage principal payments)



Our facilities are the second largest determinant of the size of the church's budgetary needs. Facilities costs constitute 24% of the church budget. 13% of the budget goes to the variable costs of maintenance, utilities, and cleaning, while 11% goes to the fixed costs of paying the mortgage and insurance.

The remaining 14% of the budget is divided among four types of expense. Denominational Affairs constitutes 5% of the budget, non-labor expenses that are directly related to the generation of income takes 4%, office expenses also take 4%, and non-labor program and other costs take 2%.

Significant Intermediate-Term Financial Issues

The church faces a number of challenges that may or will require significant increases in the church's annual revenues over the next few years.

First, the church aspires to meet the UUA's Fair Compensation Guidelines. Meeting the Guidelines for a Mid-Size II church (with up to 349 members) would require compensation increases of approximately \$7,000 per year (2014 dollars), while meeting the Guidelines for a Mid-Size III church (with over 350 members) would require compensation increases of about \$25,000 per year (2014 dollars). To meet these costs, we would need a commensurate increase in annual revenues.

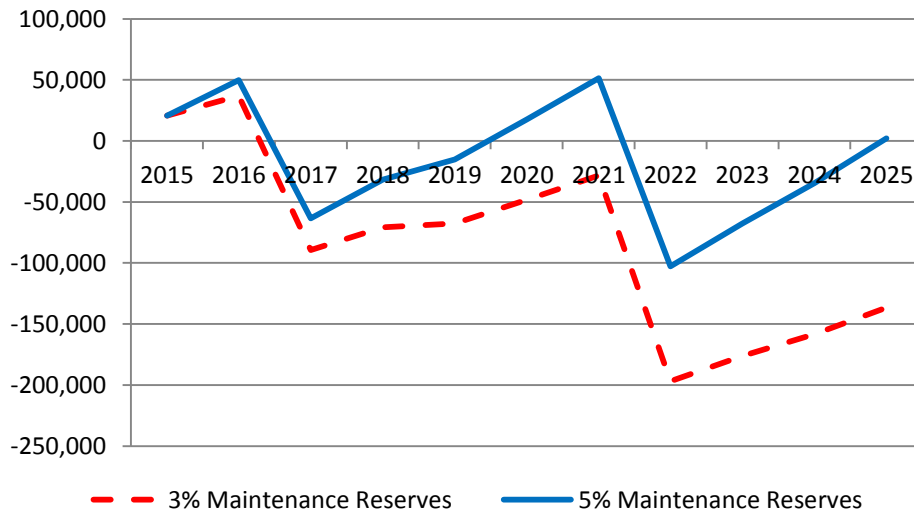
Second, the church aspires to maintain a beautiful campus. For this purpose, the Board of Trustees created a Maintenance Reserves fund that pays for major repairs of \$1,000 or more. This fund presently receives 3% of each fiscal year's total income. The church thus recognizes that the costs of maintenance are incurred over time as our facilities are used, rather than at the particular moments that repairs are needed.

Unfortunately, allocating 3% of total income to this reserve fund is not enough. Given our projections of when major repairs will be needed, and assuming that our income exactly keeps up with inflation, the dashed red line in Figure 9 shows how Maintenance Reserves will accumulate over the next decade under the present policy. The figure shows that Maintenance Reserves will peak at about \$37,000 in 2016, then go \$89,000 negative in 2017 as we expend considerable sums repaving the parking lot and repainting buildings (both interior and exterior). These reserves rise to a negative \$28,000 in 2021, and then plunge to a negative \$197,000 in 2022 as we expend considerable sums on our septic system, heating and air conditioning system, and yet more repainting. In short, our present course of accumulating Maintenance Reserves at the rate of 3% of income will leave these reserves with a permanent negative balance, and sometimes a large negative balance, beginning in 2017.

The solid blue line in Figure 9 shows how Maintenance Reserves are projected to accumulate over the next decade under an alternative policy of allocating 5% of total income to this fund. At 5%, the fund still goes negative – by as much as \$63,000 in 2017 and \$103,000 in 2022. Nonetheless, the fund gets enough income that it is able to get back into positive territory by the end of the ten-year forecast period. In other words, by putting 5% of total income into Maintenance Reserves, we fully cover our major maintenance expense of these next ten years,

and do so in a manner that evens out the cost over time. The 3% policy, by contrast, would fail to cover \$137,000 (2025 dollars) of the forecast expenditures. Relative to the 3% policy, a 5% policy would require approximately \$13,000 per year (2014 dollars) of additional revenues.

Figure 9
Projected Maintenance Reserve Balances, 2015-2025
(current dollars)



Third, the church aspires to have a part-time Assistant Minister to relieve the Minister of some of his duties and better serve the congregation. A quarter-time Assistant Minister would cost about \$28,000 per year (2014 dollars) and would require a like amount of additional annual revenues.

Fourth, there is the possibility that the church will construct a new building (sometimes called “the RE Pavilion”) that will have additional space for Religious Education, church group meetings, church events, and preschool activities. The annual net cost of this new building would depend upon many future unknowns, including the size of the building, how it is financed, whether it is built to accommodate a preschool, and whether it might accommodate other rental uses. The additional annual revenue required to pay for the new building will be in the tens of thousands of dollars – perhaps in the low tens of thousands or perhaps in the high tens of thousands, depending upon the resolutions of these and other issues.

Discussion of the Financial Tables

Table 1 presents balance sheets for the ends of each of the last four fiscal years. Cash balances have been growing, as has the value of our investment in the UUA Common Endowment Fund. We set the value of our fixed assets (entirely land and buildings, aside from \$75,000 for fixtures and equipment) at some assessed or appraised value a few years back, and have had no practical reasons to update the value in a stable real estate market.

To give a true picture of each fiscal year's pledge income, we accrue as Other Current Assets those pledges for the current fiscal year that are received in the first two months of the next fiscal year; and we accrue as Unearned Pledge Receipts (a liability account) those pledges for the next fiscal year that are received during the current fiscal year. The effect of these accruals is to include nearly all pledge income in the years for which pledges are made, even if members pay late or pay early.

The liability figures represent outstanding payables at the end of each fiscal period, with the exception of Unearned Pledge Receipts. Note that the Long Term Liabilities is the mortgage, the principal balance of which has been falling by over \$20,000 per year.

There are several types of equity accounts:

- *Financial Reserves* consist of Operating Reserves, Maintenance Reserves, and Ministerial Transition Reserves.
 - *Operating Reserves* are held for the purpose of dealing with variations over time in cash flow and with contingencies that are not covered by other reserves, and are any part of equity that is not assigned to other equity accounts. Profits and losses automatically flow into Operating Reserves.
 - *Maintenance Reserves* are held for the purpose of replacing major facilities at the ends of their useful lives, where "major facilities" have forecast replacement costs of at least \$1,000.
 - *Ministerial Transition Reserves* are held for the purposes of paying for substitute staff when regular staff members are on paid sabbatical, and for funding ministerial searches.
- *Illiquid Equity* is the value of our fixed assets net of the mortgage.
- *Permanently Restricted Funds* are those of the Endowment Fund.
- *Temporarily Restricted Funds* are a few dozen funds devoted to various church programs. (These funds and their amounts are listed in Table 4.)

Table 2 summarizes income and expenses for each of the most recent three fiscal years. In the most recent fiscal year, pledges and collection dropped about 3%, while rental income rose. Total income fell almost 2%.

Total expenses fell about 1% in the most recent fiscal year. Most categories of expense were stable, with the exception of Ministerial Operations, the costs for which fell 9%. This cost reduction was due to a temporary circumstance, namely that our Interim Minister did not need health insurance because he was covered by his spouse's health plan.

Table 3 confirms the consistency of the balance sheets and the income statements by showing how Operating Reserves have changed over time with net income. Note that, for Operating Reserves to remain stable, net income must be large enough to cover the amount of equity that becomes illiquid as we pay down our mortgage principal.

Table 4 lists the Temporarily Restricted Funds, including their beginning and ending balances for the recently completed fiscal year and the monies flowing into and out of each fund during that year. In the aggregate, \$125,938 flowed into these funds and \$126,552 flowed out of them. These flows were substantially greater than the roughly \$80,000 of flows of the previous fiscal year. Although \$37,980 was contributed to Share the Plate, the figure in the table shows only the \$23,810 that went directly to community organizations; the remaining \$14,170 flowed through other Temporarily Restricted Funds shown in this table, and appear among the receipts for those funds. The largest recipients of the \$23,810 were Interfaith Council for Social Services, Volunteer Med Partners, El Futuro, Crop Hunger Walk, Charles House, Clean Water for North Carolina, and El Centro Hispano.

Table 1
Balance Sheets at the End of Each Fiscal Period
(unaudited)

	<u>Jun 30, 11</u>	<u>Jun 30, 12</u>	<u>Jun 30, 13</u>	<u>Jun 30, 14</u>
ASSETS				
Current Assets				
Checking/Savings	136,523	144,773	179,371	211,644
Other Current Assets	7,369	27,594	15,617	4,617
Total Current Assets	143,892	172,366	194,988	216,261
UU Common Endowment Fund	102,792	102,960	128,962	144,970
Fixed Assets	3,112,731	3,112,731	3,112,731	3,112,731
TOTAL ASSETS	<u>3,359,415</u>	<u>3,388,057</u>	<u>3,436,682</u>	<u>3,473,962</u>
LIABILITIES & EQUITY				
Liabilities				
Current Liabilities				
Payroll Liabilities	9,081	7,471	5,264	11,171
Accrued Payables	20,018	3,304	4,531	2,323
Unearned Pledge Receipts	33,705	26,835	23,390	25,555
Total Current Liabilities	62,805	37,610	33,185	39,049
Long Term Liabilities	598,472	586,393	566,133	544,790
Total Liabilities	661,276	624,003	599,318	583,839
Equity				
Financial Reserves				
Operating Reserves	25,014	60,200	67,955	72,777
Maintenance Reserves			14,217	24,798
Ministerial Transition Res.		3,156	6,008	3,178
Total Financial Reserves	25,014	63,355	88,180	100,753
Illiquid Equity	2,514,259	2,526,338	2,546,598	2,567,941
Permanently Restricted Funds	103,993	102,960	129,762	149,220
Temporarily Restricted Funds	54,873	71,401	72,824	72,210
Total Equity	2,698,139	2,764,054	2,837,364	2,890,124
TOTAL LIABILITIES & EQUITY	<u>3,359,415</u>	<u>3,388,057</u>	<u>3,436,682</u>	<u>3,473,962</u>

Table 2
Net Income for Each Fiscal Period
(unaudited)

	<u>Jun 30, 12</u>	<u>Jun 30, 13</u>	<u>Jun 30, 14</u>
Income			
Collections			
Canvass Pledges	425,788	426,208	411,344
ID Contributions	6,335	4,400	4,153
Loose collection	6,515	7,059	7,192
Total Collections	438,637	437,667	422,689
Other Income			
General Operating Fundraising	11,056	10,900	10,860
Other Income - Other	2,112	795	3,722
Total Other Income	13,168	11,695	14,582
Rental Income			
Building Rental	9,038	9,892	5,459
Parking Lot Rental	46,372	47,762	52,144
Pre-School Lease	46,753	51,390	56,188
Total Rental Income	102,163	109,043	113,791
Total Income	553,968	558,405	551,062
Expense			
Administrative Operations	89,486	95,874	95,338
Beyond These Walls		125	334
Building & Grounds	107,542	113,860	116,899
Denominational Affairs	27,833	28,080	26,120
Lifespan Religious Education	95,633	96,389	94,133
Ministerial Operations	121,853	122,807	114,875
Taxes	9,618	6,960	8,075
Within These Walls	8,115	18,444	20,480
Worship & Arts	46,623	47,852	48,643
Total Expense	506,703	530,390	524,898
Net Income	47,265	28,015	26,165

Table 3
Reconciliation of Operating Reserves for Each Fiscal Period
(unaudited)

	Fiscal Year Ending		
	Jun 30, 12	Jun 30, 13	Jun 30, 14
Beginning Operating Reserves	25,014	60,200	67,955
Net Income	47,265	28,015	26,165
Payment of Mortgage Principal	(12,079)	(20,260)	(21,343)
Ending Operating Reserves	<u>60,200</u>	<u>67,955</u>	<u>72,777</u>

Table 4
Activity in Temporarily Restricted Funds, FYE 6/30/14
(unaudited)

<u>Fund</u>	<u>Balance at 6/30/13</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance at 6/30/14</u>
Within These Walls:				
Art Resources Fund	1,881	10	68	1,823
Benevolence Fund	6,957	2,011	5,867	3,101
Campus Ministry Activity Fund	675		272	404
Children Ministry Activity Fund	7,747	5,822	7,136	6,433
Church Camping Trip	-	276	293	(17)
Clyde Long Fund	1,450			1,450
Concert Series	7,568	6,277	7,479	6,366
Flower Donation Fund	1,605	304	157	1,752
Gifts and Memorials Clearing	1,125			1,125
IT Fund	500			500
Manse Activity	2,006	342	349	2,000
Memorial Rock Fund	1,770	7,700	1,996	7,474
Minister Discretionary Fund	2,148	2,610	1,181	3,577
Music Activity Fund	2,707	10,017	12,021	702
Quilting Group Clearing Fund	535	209	11	733
Reimbursable Clearing Fund	200		200	
Sarah Insch Youth Leadership	3,072	725		3,797
SEA Activity Fund	761	395	208	948
Services Auction Fund	1,137	18,848	11,623	8,361
Youth Ministry Activity Fund	15,168	18,016	24,600	8,584
Total Within These Walls	59,011	73,561	73,460	59,112
Beyond These Walls				
Community Service Ministry	225	1,465	1,751	(61)
Faith in Action	(335)	280		(55)
Habitat Fund	3,761	4,605	4,100	4,267
IFC Fund	-	1,566	1,566	-
Mutual Aid Carrboro UU	4,000	3,200	7,200	-
OCJU (Justice United)	540	1,698	2,200	38
Peace & Justice Clearing Fund	2,602	1,417	1,723	2,296
Share the Plate Sunday	-	23,810	23,810	-
SOSL Ministry Team Fund	3,020	14,335	10,742	6,613
Total Outreach	13,813	52,377	53,092	13,098
Totals	72,824	125,938	126,552	72,210