

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

**Laurence D. Kirsch, Treasurer**

**September 2016**

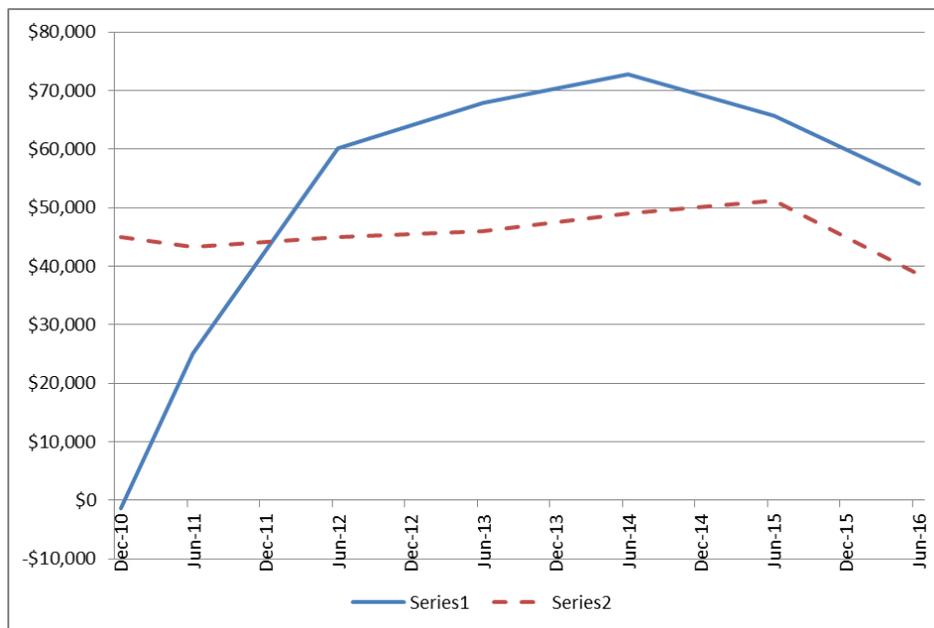


# Treasurer's Annual Report to the Board of Trustees<sup>1</sup>

The Community Church of Chapel Hill continues to be in excellent financial condition, though there are some clouds on the horizon. We have \$2.96 million in equity, with current assets of \$0.26 million and current liabilities of \$0.08 million (excluding the current portion of mortgage debt). Our debt-to-equity ratio is consistently low (presently 0.17), and our ratio of current assets to current liabilities is consistently high (presently 3.41, or 2.53 including the current portion of mortgage debt).

As an operational matter, we regard a budget as “balanced” if it allows us to reach our Operating Reserve target. This target was 8.33% of annual expenditures through fiscal year 2016; but in light of our continuing financial stability, the Board reduced this requirement to 6% beginning in fiscal year 2016. Figure 1 shows the target as a dashed magenta line while our actual reserves are the solid blue line. The blue line shows that, although we were below target during the last recession, we have built Operating Reserves so that they have exceeded the target since 2011.

**Figure 1**  
**Operating Reserves, 2010-2016**



<sup>1</sup> The information in this report is largely based upon data provided by our Congregational Administrator, Andrea Sordean-Mintzer, who is not responsible for my errors of interpretation.

The Operating Reserves surpluses, sometimes in the tens of thousands of dollars, have occurred primarily because our *actual* expenses have consistently been less than our *budgeted* expenses. For example, in the fiscal year ending June 30, 2015, the budget called for an Operating Reserves drawdown of \$24,349, but we instead used up only \$7,146 of reserves; and in the fiscal year ending June 30, 2016, the budget called for an Operating Reserves drawdown of \$27,103, but we instead used up only \$11,590 of reserves.

The clouds on the horizon arise from three sources: a trend by which expenses are growing faster than income; the forthcoming loss of substantial rental income; and a prospective building project. These are described below.

### The Income Picture

Figure 2 shows the church's sources of income for the recently completed fiscal year ending June 30, 2016. 76% of income came from collections, which are pledges supplemented by other contributions from members (like the Sunday plate). Smaller but still significant amounts of income come from the pre-school lease (11%) and parking lot rentals (9%).

**Figure 2**  
**Sources of Income, Fiscal Year 2016**

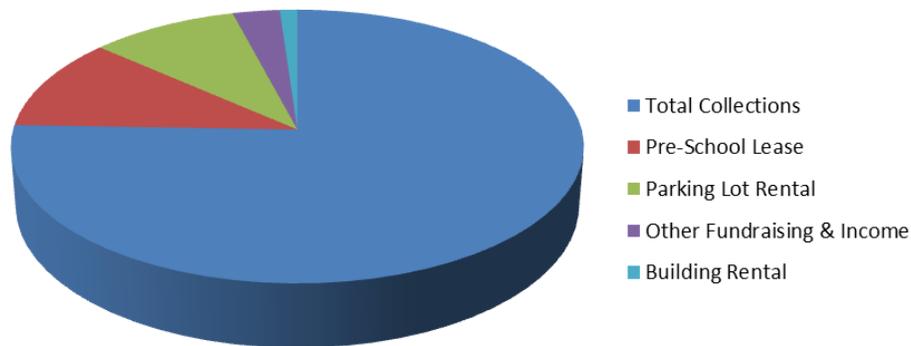
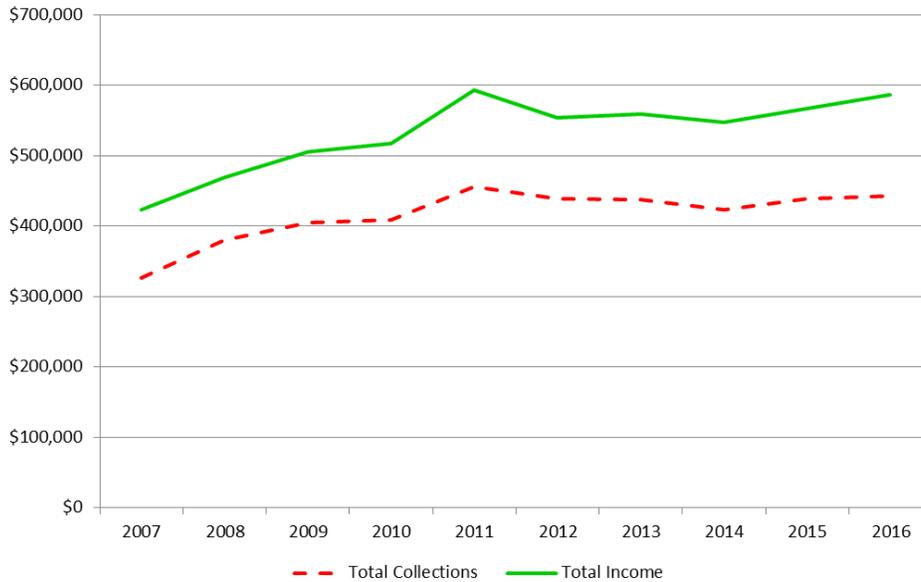


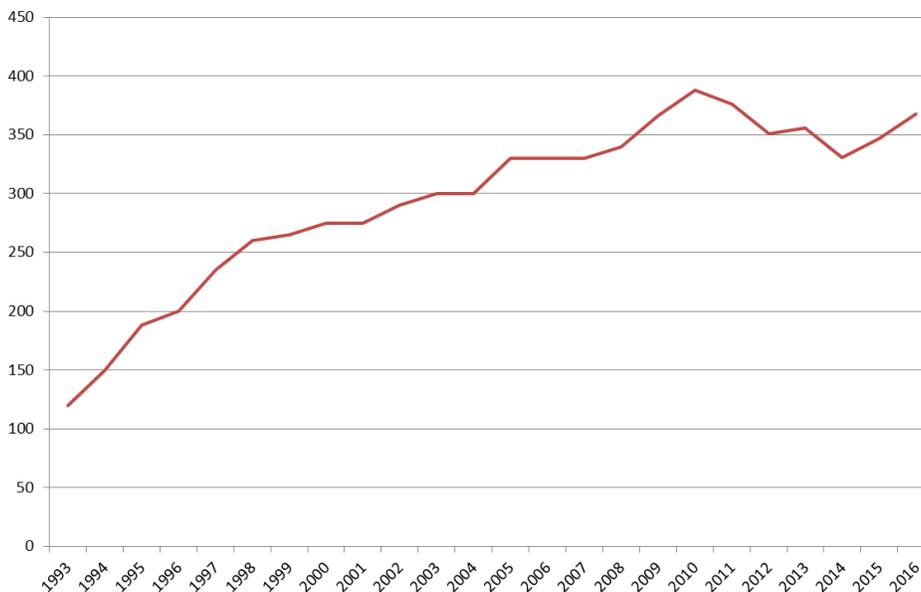
Figure 3 shows that both total collections and total income peaked (at an annualized rate) in 2011, then fell by a few percent, and have recently regained their highs.

**Figure 3**  
**Total Collections and Total Income, 2007-2016**



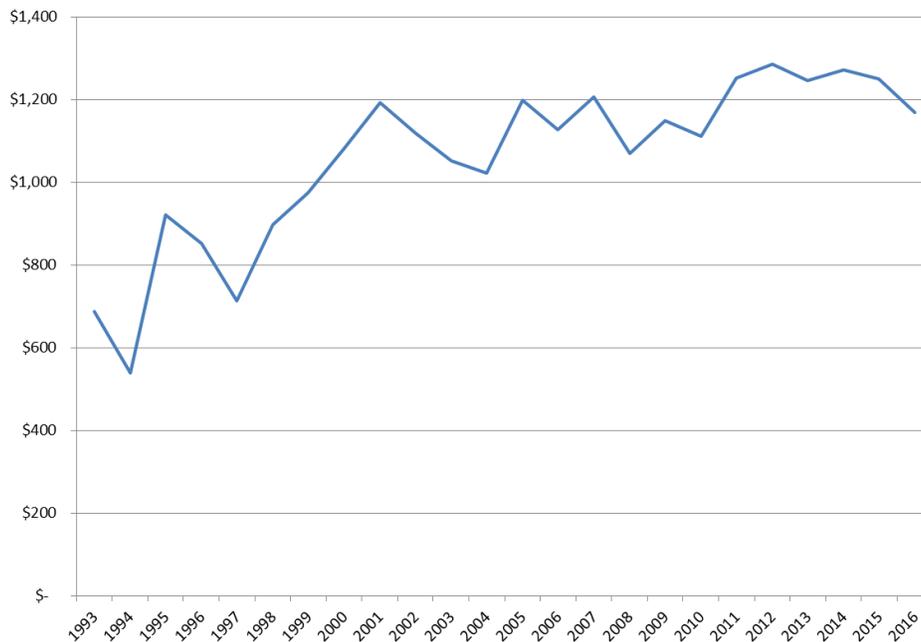
One of our main financial uncertainties is the level of pledge revenues, which depend upon two key factors. The first is the number of members. Figure 4 shows that membership rose substantially until 2011, fell by 15% over the next four years, and has been rising over the past two years.

**Figure 4**  
**Number of CCCH Members, 1993-2016**



The second factor is the average pledge per member. Figure 5 shows that, in inflation-adjusted terms, the average pledge rose substantially through the 1990s, and has bounced around the \$1,000 to \$1,300 range since 2000. The dip during the past two fiscal years reflects the facts that: a) total pledges have not kept up with inflation over the past four years; and b) new members make lower pledges than continuing members make.

**Figure 5**  
**Inflation-Adjusted Average Pledge per Member, 1993-2016**  
**(2016 dollars)**



### The Expense Picture

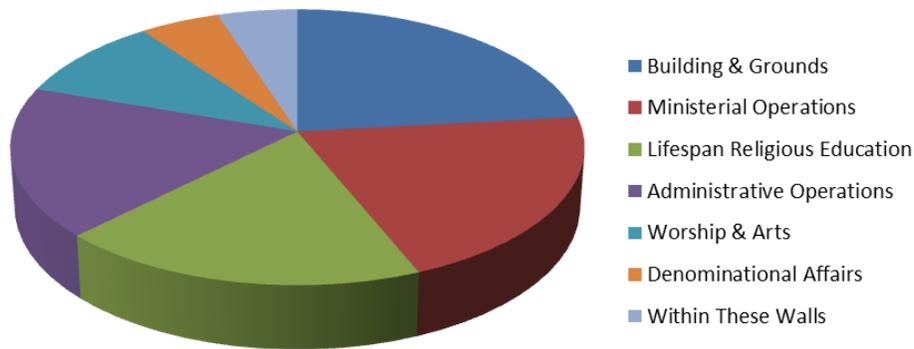
The church spends money in two different ways: through the operating budget; and through restricted funds. The operating budget, which is the larger of the two (\$579,237 in the recently completed fiscal year, including \$25,148 of mortgage principal payments but excluding \$18,463 of expense incurred in support of rental income), is devoted primarily to paying staff and maintaining facilities.<sup>2</sup> 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 seven major program categories in the recent fiscal year. The largest four categories are the following:

<sup>2</sup> The \$18,463 figure appears as Rental Expense in Table 2. The \$18,463 consists primarily of \$7,840 of Parking Business Tax and \$10,200 of Preschool Janitorial Service. Although our net income statements (as in Table 2) include Rental Expense among operating expense, some of the discussion of this section treats Rental Expense as an offset to rental income, which arguably provides a truer picture of expenses.

- *Building & Grounds* (23% of the pie) covers mortgage payments (\$48,220), maintenance (\$38,040), utilities (\$15,879), janitorial service (\$10,400), insurance (\$9,275), and a variety of other expenses.
- *Ministerial Operations* (20% of the pie) covers the compensation of the Minister.
- *Lifespan Religious Education* (LRE) (19% of the pie) primarily covers the compensation of the Director of LRE and the LRE Assistant.
- *Administrative Operations* (18% of the pie) covers the compensation of the Congregational Administrator and Office Assistant, as well office expenses.

**Figure 6**  
**Operating Budget Expenses, Fiscal Year 2016, 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 Membership Director.

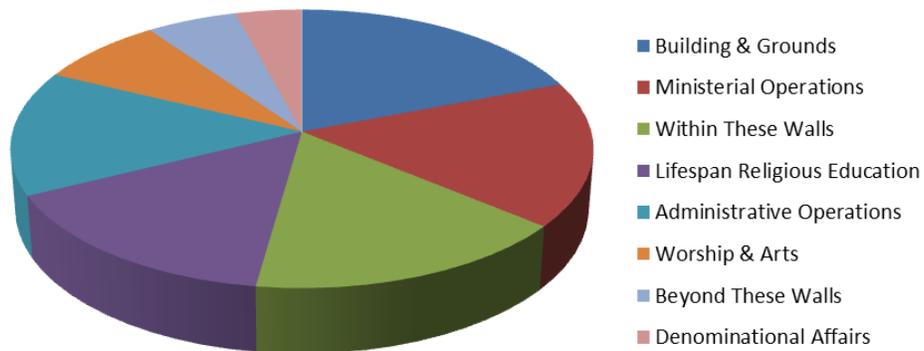
By contrast, the church’s expenditures through restricted funds go entirely to programs that are Within These Walls (\$85,419) or Beyond These Walls (\$39,985).

- *Within These Walls* expenditures primarily cover children and youth (\$40,374) and musical (\$28,785) activities.

- *Beyond These Walls* expenditures go entirely to community organizations, which are identified below.

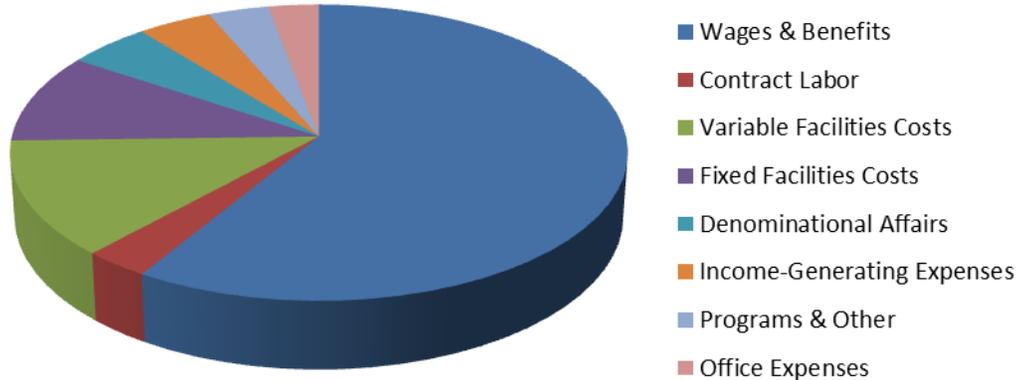
Combining information from the operating budget and restricted funds, Figure 7 gives a fuller picture of where the church’s money goes. The five largest categories in Figure 7 include the four largest categories from Figure 6 plus Within These Walls, which becomes the third largest category when expenditures through restricted funds are considered.

**Figure 7**  
**Operating Budget Expenses and Restricted Fund Expenditures, Fiscal Year 2015,**  
**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 2016, 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 22% of the church budget. 12% of the budget goes to the variable costs of maintenance, utilities, and cleaning, and another 10% goes to the fixed costs of paying the mortgage and insurance.

The remaining 16% of the budget is divided among four types of expense. Denominational Affairs (that is, contributions to Unitarian Universalist organizations) constitutes 5% of the budget, 4% shares are each taken by non-labor expenses that are directly related to the generation of income and to non-labor program and other costs, and 3% is taken by non-labor office expenses.

**Financial Impacts of a Building Project**

For the past three years, the church has been considering and developing plans for a building project that would provide additional classrooms for our Religious Education program, meeting spaces for church groups and committees, and possibly spaces for other events as well. For much of this time, the church collaborated with the Chapel Hill Cooperative Preschool in seeking a building expansion plan that would meet the growing needs of both the church and the Preschool. The church and the Preschool did not find mutually agreeable terms for such a plan, however; so on June 7, 2016, the Preschool informed our Board that it intends “to build a new consolidated preschool facility in Chapel Hill” before the September 30, 2017 expiration of its lease with the church, or soon thereafter. At the time of the Preschool’s departure, the

church will lose net revenue of about \$55,000 per year (in fiscal year 2017 budget dollars). The net loss will consist of \$66,287 of gross rent, minus \$10,500 of janitorial service expense, minus roughly \$1,000 of heating and cooling costs.

By itself, the loss of net income from the Preschool will require that, beginning in fiscal year 2018, there be an on-going \$55,000 per year (or 8.7%) reduction in church expenditures not related to the Preschool, or an equivalent increase in pledge revenues. In addition, the fiscal year 2017 budget relies upon a one-time drawdown of about \$17,000; so again beginning in fiscal year 2018, there will need to be an additional on-going \$17,000 per year (or 2.7%) reduction in church expenditures or an equivalent increase in pledge revenues. On the other hand, a building expansion *may* allow the church to rent the Manse as a residence, which would provide a net fiscal benefit to the church of about \$26,000 per year.<sup>3</sup>

Our last building project, back in 2006, left the church with a mortgage that had a \$497,157 balance on June 30, 2016. Payments on the mortgage are \$47,784 per year, of which \$26,586 will be for reductions in principal in fiscal year 2017. Some congregants and some church leaders have supported the idea of paying off the mortgage as a means of offsetting the loss of Preschool income.

A new building project will cost somewhere between \$0.3 million (for a minimal renovation of existing space at the south end of the Jones Building) to \$1.7 million (for a project that addresses all the needs identified by Space Assessment Task Force). The actual size of the building project will depend upon the congregation's space priorities, its contributions to a capital campaign, and the manner in which we choose to handle debt. For example, if a capital campaign raised \$1.3 million and we choose to be debt-free at the end of the building project, the building project would have over \$0.8 million (\$1.3 million minus a \$0.5 mortgage payoff) to spend on the highest-priority spaces.

With over a quarter million dollars presently in cash, the church has the financial strength to weather a couple years of the foreseeable hits to the church budget. Nonetheless, the financial issues raised by the Preschool's departure and a building project need to be resolved by the end of fiscal 2018 (that is, June of 2018), as part of the financial planning associated with the building project.

#### **Discussion of the Financial Tables<sup>4</sup>**

Table 1 presents balance sheets for the ends of each of the last four fiscal years. Cash balances have generally 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

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<sup>3</sup> The \$26,000 consists of \$22,000 in rental income plus \$4,000 in reduced utilities and cleaning expense.

<sup>4</sup> The financial tables are unaudited. The church's books have never been formally audited, but have instead been subject to internal reviews conducted in accordance with procedures described by a UUA document entitled *Internal Financial Review for UU Congregations*. In particular, key figures in the balance sheets are backed up by documents from financial institutions and government agencies.

\$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 moderately rising 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<sup>5</sup>; and we accrue as Unearned Income (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 Income. Long Term Liabilities consist solely of the mortgage, the principal balance of which is now falling by \$26,586 per year.<sup>6</sup>

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 include 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 repairing or replacing major facilities with costs of at least \$1,000. The present balance is near zero because these reserves were under-funded for several years, which has resulted in a backlog of maintenance needs and the use of nearly all funds allocated to these reserves.<sup>7</sup>
  - *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.

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<sup>5</sup> Other Current Assets also include prepaid expenses.

<sup>6</sup> The mortgage has a nominal interest rate of 4.31% per annum and actual (compounded) interest rate of 4.46% per annum. A balloon payment of \$432,462 will be due in December 2018. In the past, our bank has simply refinanced the balloons. Our building project will likely change our financing approach, possibly toward paying off the mortgage by the close of the building project capital campaign in 2019 or 2020.

<sup>7</sup> Board Policy Book Section 4.3.5 specifies that "The following percentages of each fiscal year's total income shall be allocated to the maintenance reserve fund: ... in fiscal year 2017, six percent (6.0%); and in fiscal years 2018 and beyond, seven percent (7.0%)." This translates to roughly \$37,000 in fiscal year 2017 and \$43,000 per year thereafter. The Building and Grounds Ministry forecasts major maintenance needs of over \$40,000 per year for the next few years, with major items including re-painting, replacing flooring, and repaving the parking lot.

- *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. From fiscal year 2012 (not shown in the table) to fiscal year 2016, the general inflation rate was 1.5% per annum. During these four years, pledge income rose at 0.2% per annum, other income at 7.4%, rental income at 5.4%, and total income at 1.4%. Total expenses, meanwhile, rose at 3.1% per annum. Our total income has thus risen with inflation while total expenses have risen significantly faster than inflation. These are trends that cannot continue indefinitely. Some good news is that pledges for fiscal year 2017 are 9.5% higher than actual pledge receipts for fiscal year 2016; so we have a basis for hoping that, after dealing with the transitional problems posed by events related to the building project, we will get income growth and expense growth in better balance.

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. These funds began with a total balance of \$66,267 and ended up with a much higher \$118,919 balance because of the inauguration of a new Capital Fund, which at the end of the fiscal year held \$56,837 for the purposes of the upcoming building project. The second largest fund, the Concert Series, had a \$12,939 ending balance, with receipts and expenditures in rough balance at around \$18,000 during the year. All other funds had beginning and ending balances below \$10,000.

Table 4 shows that, in the aggregate, \$192,529 flowed into the Temporarily Restricted Funds and \$125,404 flowed out of them. In addition to the Capital Fund and the Concert Series, one-way flows exceeded \$10,000 each for the Music Activity Fund and the Youth Ministry Activity Fund. Indeed, over half of the expenditures by the Temporarily Restricted Funds were for music and children's activities. Meanwhile, the funds that flowed through the Service Auction were entirely transferred to other funds or, most especially, to the generally operating budget, which received the \$14,473 shown at the bottom of the Transfers column. Similarly, of \$41,464 of receipts for Share the Plate Sunday, \$29,385 went to outside organizations while \$12,069 went to other Temporarily Restricted Funds. The largest recipients of the \$29,385 were Interfaith Council for Social Services (\$7,281), Club Nova (\$4,272), and Rogers-Eubanks Neighborhood Association (\$3,025). Other recipients of over \$1,000 each were Circles Chatham, Charles House, El Centro Hispano, Justice United, NC Commission of Inquiry on Torture, OKAY, Orange County Dept. of Social Services, Sister Communities of San Ramon, and TABLE.

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

	<u>Jun 30, 13</u>	<u>Jun 30, 14</u>	<u>Jun 30, 15</u>	<u>Jun 30, 16</u>
<b>ASSETS</b>				
Current Assets				
Checking/Savings	179,371	211,644	196,206	248,906
Other Current Assets	15,617	4,617	15,648	11,591
Total Current Assets	194,988	216,261	211,854	260,497
UU Common Endowment Fund	128,962	144,970	144,818	159,638
Fixed Assets	3,112,731	3,112,731	3,112,731	3,112,731
<b>TOTAL ASSETS</b>	<u>3,436,682</u>	<u>3,473,962</u>	<u>3,469,402</u>	<u>3,532,866</u>
<b>LIABILITIES &amp; EQUITY</b>				
Liabilities				
Current Liabilities				
Payroll Liabilities	5,264	11,171	12,971	22,706
Accrued Payables	4,531	2,323	4,380	4,605
Unearned Income	23,390	25,555	43,133	49,032
Total Current Liabilities	33,185	39,049	60,484	76,343
Long Term Liabilities	566,133	544,790	522,305	497,157
Total Liabilities	599,318	583,839	582,789	573,500
Equity				
Financial Reserves				
Operating Reserves	67,955	72,777	65,631	54,041
Maintenance Reserves	14,217	24,798	13,085	122
Ministerial Transition Res.	6,008	3,178	5,865	9,865
Total Financial Reserves	88,180	100,753	84,581	64,027
Illiquid Equity	2,546,598	2,567,941	2,590,426	2,615,574
Permanently Restricted Funds	129,762	149,220	145,340	160,846
Temporarily Restricted Funds	72,824	72,210	66,267	118,919
Total Equity	2,837,364	2,890,124	2,886,613	2,959,366
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u>3,436,682</u>	<u>3,473,962</u>	<u>3,469,402</u>	<u>3,532,866</u>

**Table 2**  
**Net Income for Each Fiscal Period**  
**(unaudited)**

	Jun 30, 14	Jun 30, 15	Jun 30, 16
<b>Income</b>			
Collections			
Canvass Pledges	411,344	428,595	430,207
ID Contributions	4,153	3,688	5,241
Loose collection	7,192	7,029	7,250
Total Collections	422,689	439,312	442,698
Other Income			
General Operating Fundraising	10,860	7,705	15,979
Other Income - Other	3,722	547	1,554
Total Other Income	14,582	8,252	17,533
Rental Income			
Building Rental	5,459	5,328	6,566
Parking Lot Rental	52,144	52,211	55,267
Pre-School Lease	56,188	61,155	64,045
Total Rental Income	113,791	118,694	125,878
<b>Total Income</b>	<b>551,062</b>	<b>566,257</b>	<b>586,109</b>
<b>Expense</b>			
Administrative Operations	94,760	101,045	102,240
Beyond These Walls	334		
Building & Grounds	106,699	105,071	109,721
Denominational Affairs	26,120	25,332	29,300
Lifespan Religious Education	94,133	100,836	108,812
Ministerial Operations	114,875	124,661	118,732
Rental Expense	18,853	17,729	18,463
Within These Walls	20,480	24,663	29,097
Worship & Arts	48,643	51,582	56,187
<b>Total Expense</b>	<b>524,898</b>	<b>550,919</b>	<b>572,552</b>
<b>Net Income</b>	<b>26,165</b>	<b>15,339</b>	<b>13,558</b>

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

	<b>Jun 30, 14</b>	<b>Jun 30, 15</b>	<b>Jun 30, 16</b>
Beginning Operating Reserves	67,955	72,777	65,631
Net Income	26,165	15,339	13,558
Payment of Mortgage Principal	(21,343)	(22,485)	(25,148)
Ending Operating Reserves	<u>72,777</u>	<u>65,631</u>	<u>54,041</u>

**Table 4**  
**Activity in Temporarily Restricted Funds, FYE 6/30/16**  
**(unaudited)**

<u>Fund</u>	<u>Balance at 6/30/15</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Transfers</u>	<u>Balance at 6/30/16</u>
Within These Walls:					
Art Resources Fund	2,973	418	(9)		3,382
Benevolence Fund	4,716	25	(2,200)	646	3,188
Campus Ministry Activity Fund	404		(34)		369
Capital Fund		60,366	(4,529)	1,000	56,837
Children Ministry Activity Fund	6,398	2,702	(6,788)		2,311
Church Fellowship	(97)	76	(39)		(60)
Clyde Long Fund	1,450			(1,450)	
Concert Series	11,622	18,514	(17,196)		12,939
Francis Brewer Flower Fund	2,052	173	(269)		1,956
Gifts and Memorials Clearing	1,125			(1,125)	
IT Fund	29				29
Manse Activity	1,100		(1,100)		
Memorial Rock Fund	7,474		(1,450)		6,024
Minister Discretionary Fund	2,784	25	(1,713)	2,708	3,805
Music Activity Fund	(2,251)	13,075	(11,589)		(765)
Quilting Group Clearing Fund	748	219	(90)		877
Sanctuary for Dialogue		5,185	(3,980)		1,205
Sarah Insch Youth Leadership	4,008	574	(857)		3,725
SEA Activity Fund	1,071	145			1,216
Services Auction Fund	-	15,044	(883)	(14,011)	150
Youth Ministry Activity Fund	9,336	27,062	(32,694)	3,539	7,243
Total Within These Walls	54,942	143,600	(85,419)	(8,692)	104,431
Beyond These Walls					
Community Service Ministry	(47)		(1,640)	1,700	14
Faith in Action	(55)				(55)
Habitat Fund	4,617	50	(4,025)	4,588	5,230
Peace & Justice Clearing Fund	2,096				2,096
Share the Plate Sunday	-	41,464	(29,385)	(12,069)	10
SOSL Ministry Team Fund	4,714	7,415	(4,935)		7,194
Total Outreach	11,325	48,929	(39,985)	(5,781)	14,489
Totals	66,267	192,529	(125,404)	(14,473)	118,919