

# Treasurer's Annual Report

to the Board of Trustees

Community Church of Chapel Hill Unitarian Universalist

Andrew Wright, CPA, Treasurer

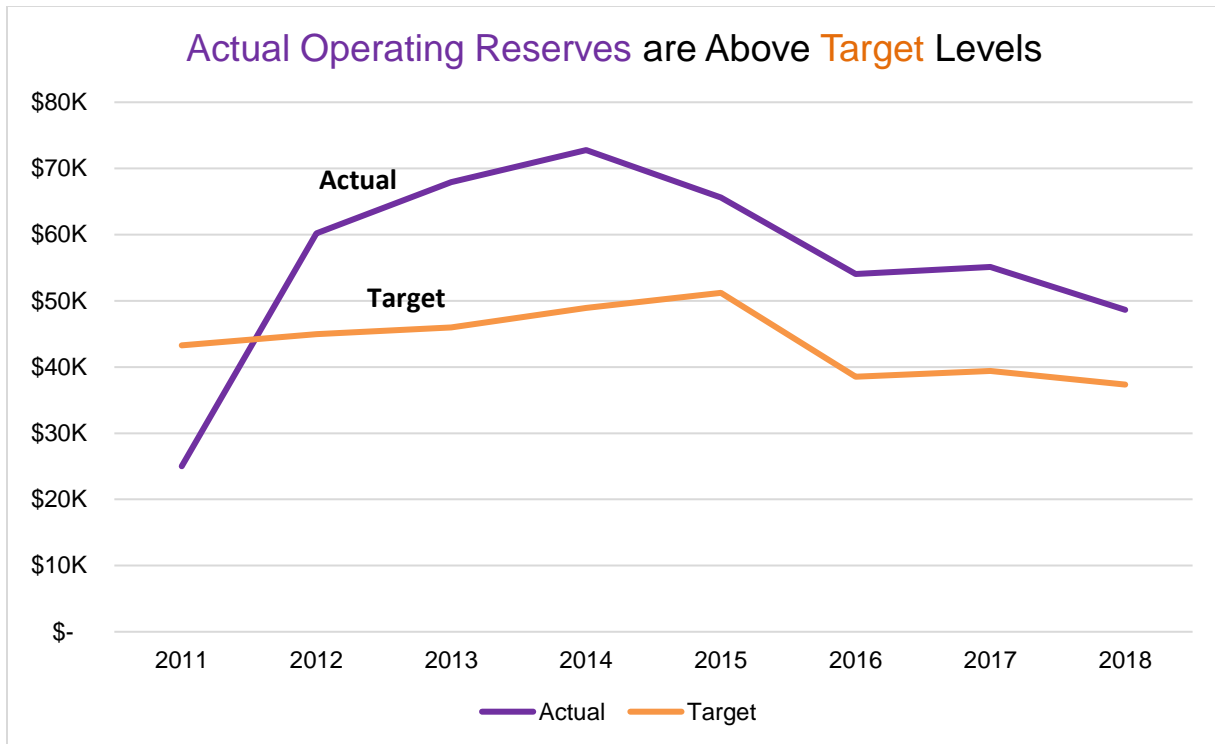
December 2018



## Executive Summary

The financial health of the Community Church of Chapel Hill Unitarian Universalist (CCCHUU) was very strong during the fiscal year ending June 30, 2018 (FY2018). The Board of Trustees (BOT) considers a budget to be balanced if ending operating reserves are at or above the target set by the BOT, currently 6% of annual expenses. At the end of FY2018 actual operating reserves were 7.9% of FY2018 actual expenses and 7.8% of FY2019 budgeted expenses. Figure 1 shows actual operating reserves compared to target operating reserves for the past eight years.

Figure 1 – Actual Operating Reserves and Target Operating Reserve Amounts for the Last Eight Years



Income was up 3% as a result of new members and expenses were under budget.

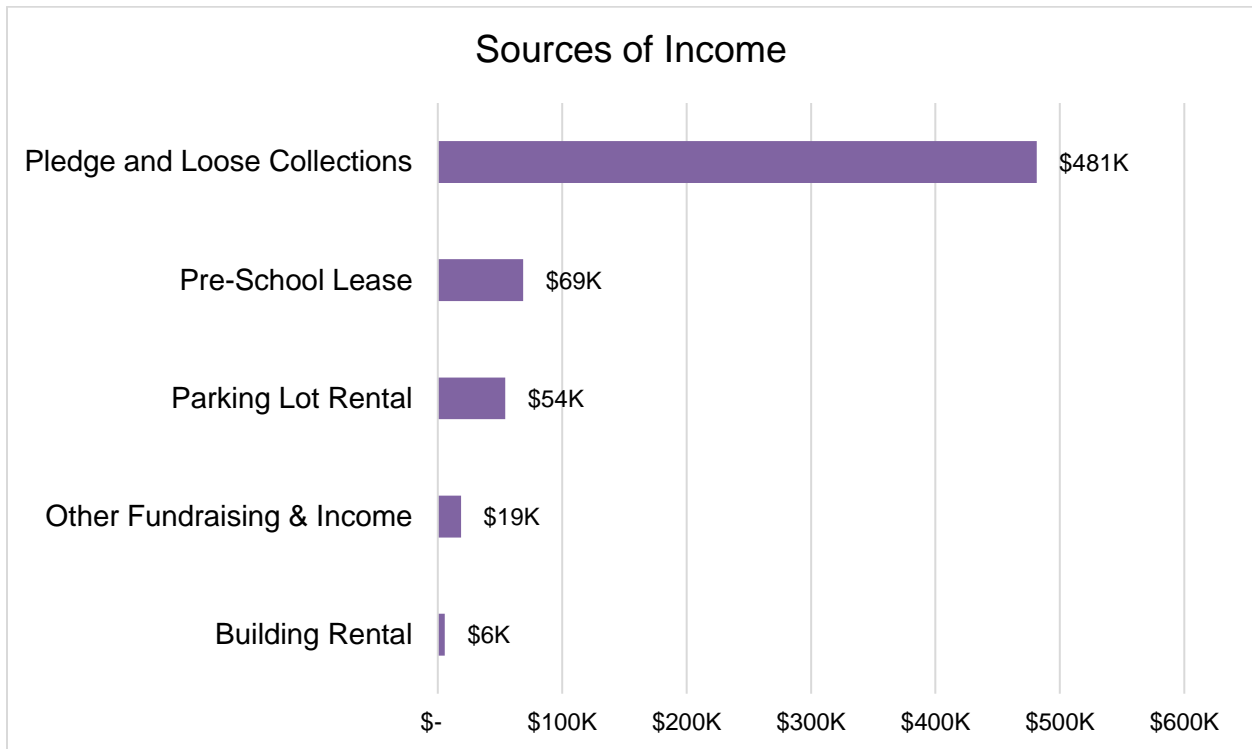
The building project is moving ahead and has put some pressure on operating pledges. During the time that members are fulfilling both capital and operating pledges, the BOT and Minister may need to rely on operating reserves if there are unexpected increases in expenses.

While we are entering a time of greater financial strain for the next several years due to the building project, we are entering with a strong financial position.

## Income

The primary source of income for CCCHUU is member pledges and loose collections, making up 77% of total income. Total income for FY2018 was \$629k as compared to \$610k in FY2017, a 3% increase. Figure 2 shows all sources of income.

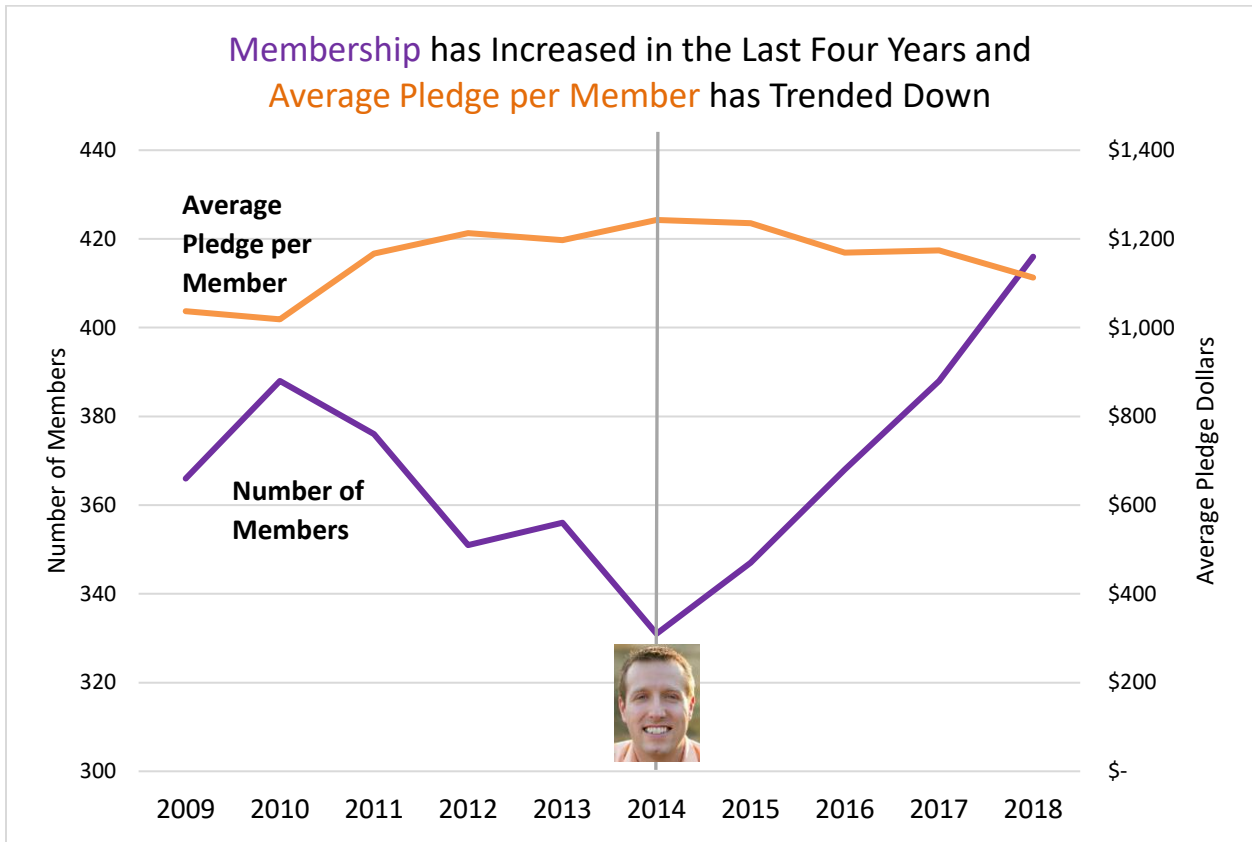
Figure 2 – FY2018 Sources of Income



The Pre-School Lease is scheduled to end in December 2018, with an extension likely to be signed to extend to May 2019, after which a comparable reduction in expenses must be found. The church has planned to offset this loss of income with elimination of the existing debt, whose payments approximately equaled the pre-school income, net of related janitorial expenses. This debt was retired with certain early pledges to the building project in January 2018. The early payment of the debt saved approximately \$25k of interest.

The total income from member pledges is a function of number of members and average pledge per member. There is a great deal of variability in pledges per member, but looking at an average is a valid way to evaluate income. After falling from 2010 to 2014, membership has been increasing in the last four years to above 2010 levels. It should be noted that 2014 is the year that our current minister, Thom Belote, joined the church. Average pledge per member has dropped slightly. Figure 3 shows the trend of these two numbers.

Figure 3 – Membership and Average Pledge for the Last 10 Years



In general, new members pledge at lower rates than older members, so it is not surprising to see downward pressure on the average pledge as there is an increase in net new members. Therefore, I am not worried about this trend as it is a function of growth rather than a sign of financial stress.

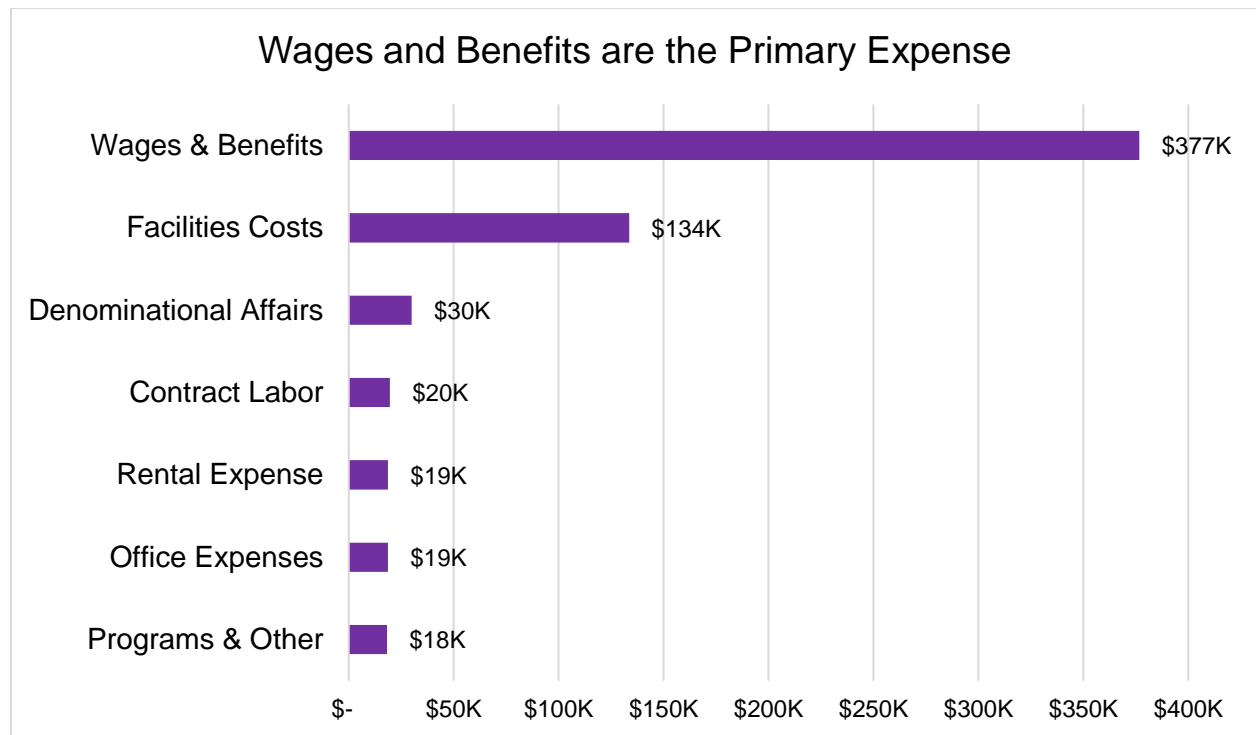
## Expenses

There are two ways the congregation spends money.

1. The Operating Budget is funded from the income described earlier, primarily member pledges. These expenses are primarily paying staff and maintaining the facilities in support of the core mission of the church.
2. Restricted Funds are self-contained categories which have separate sources of income not described above, and their own expenditures. These expenditures are specific to the fund.
  - An example is the Share the Plate (STP) Sunday fund. All collections during a STP Sunday are earmarked for that STP recipient. None of the STP collections are counted in the income described in the earlier section for our operating budget, and the BOT and/or church staff cannot spend those receipts on anything other than the purpose of the fund. This is why neither the income nor the expenditures show up in the operating Income Statement, and any balance left at year end shows as Temporarily Restricted in the operating Balance Sheet.
  - See Table 4 for a full listing of Restricted Funds, including their receipts and expenditures.

Figure 4 shows operating expenses by type of expense for the **operating budget only**.

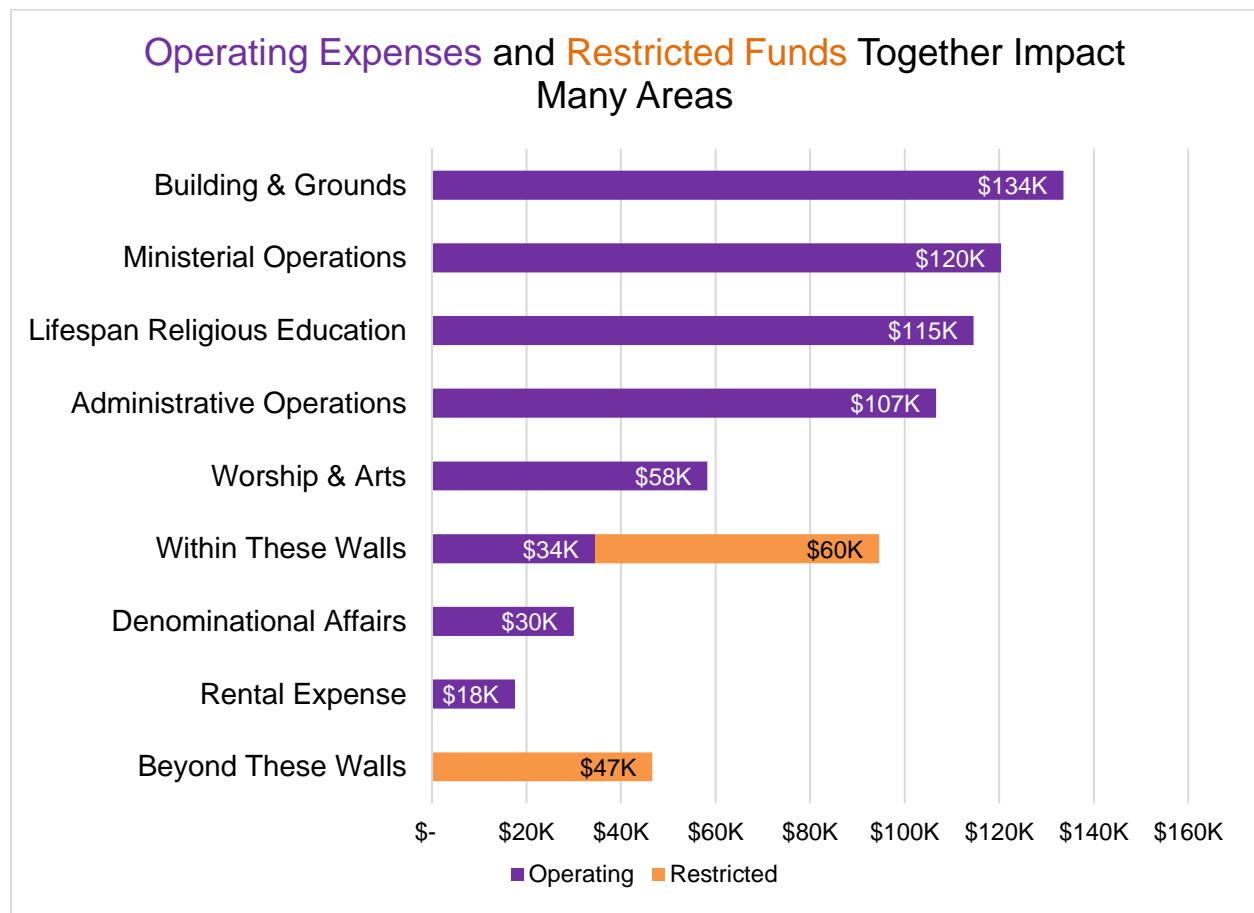
Figure 4 – FY2018 Operating Expenses by Type of Expense



Wages and benefits for our staff make up the majority of our operating expenses, at 61%. Facilities costs consist of putting money away for repairs into the Maintenance Reserves, interest on our existing debt<sup>1</sup> from the last building project, janitorial expense not related to the pre-school, and other building costs. Facilities costs made up 22% of operating expenses in FY2018. All other items in the operating budget made up the remaining 17% of expenses.

Another way to look at how we spend money is to categorize it by what impact it has or what purpose. For this we will add together both the operating budget and expenditures by the restricted funds, to get a complete picture of the impact of our congregation. The Restricted Fund Expenditures have been grouped together into either Within These Walls or Beyond These Walls. Note that we will exclude the Capital Fund as it is discussed later.

Figure 5 – FY2018 Operating Expenses and Restricted Funds by Purpose of Expense (excludes Capital Fund)



- Ministerial Operations - primarily salary and benefits for our minister
- Lifespan Religious Education (LRE) - Director of LRE and the LRE Assistant and expenses for education programs for all ages

<sup>1</sup> The principal portion of debt payments are a balance sheet transaction, are not expensed, and are therefore not included in Figure 5.

- Building and Grounds - putting money into our maintenance reserves, interest on our existing debt, janitorial services, insurance, utilities and other maintenance
- Administrative Operations - Congregational Administrator and Office Assistant, office equipment and technology
- Worship & Arts - Director of Music and the Accompanist, and music expenses
- Within These Walls - the operating budget funds the Membership Director, Sunday hospitality and expenses for some programs, while the Restricted Funds spend money primarily on children and youth ministries and musical activities
- Denominational Affairs - payments to the national/regional UU organizations
- Rental Expense - expenses needed to generate income from the pre-school (janitorial expense) and parking lot (taxes paid on the income)
- Beyond These Walls - distributions by Share the Plate and other restricted funds

### Maintenance Reserves

Included in Figure 4 under Facilities Costs, and in Figure 5 under Building & Grounds is an expense for maintenance reserves of \$44k. This is where the operating budget sets aside money to the balance sheet in a line called Maintenance Reserves. BOT policy for FY2018 was that 6% of total income be set aside as maintenance reserves, which are to be used for maintenance expenses more than \$1k in any year needed. The idea is to show an expense each year, even if we don't have any major maintenance expenditures, so that when a major issue comes up it does not impact the operating budget all in one year. The minister maintains a 10-year maintenance plan of forecasted expenditures.

During FY2018 the church set aside \$44k for maintenance reserves and spent \$23k on replacing portions of the Jones roof, \$7k on mold remediation at the manse, and \$5k on other projects. The ending balance was \$44k.

### Capital Campaign and Building Project

The history of the building project and associated capital campaign can be found in the FY2017 Treasurer's Report. In June 2018 the capital campaign concluded, and as of October 31, 2018, the congregation has raised \$1.5 million in pledges. The debt from the 2006 building project was \$0.4 million, leaving approximately \$1.1 million in pledges that can be used for the construction of an expansion to the Jones building. The current estimate for construction is \$1.3 million, leaving a gap of \$0.2 million. The Board of Trustees (BOT) and its appointed task forces are exploring several options to close the gap, with an expected presentation at the January congregational meeting. Any gap remaining at the end of pledge fulfillments will be carried as long term debt and require payments from either the operating budget or a new source of operating income.

At the end of FY2018, the Capital Campaign cash account, included in the Checking/Savings amount in the balance sheet had a balance of \$280k. Since fundraising expenses are materially complete, this balance will grow from pledge fulfillments until construction begins, currently estimated for June 2019. The congregational administrator and I are in the process of moving the balance to a money market account to earn interest until it is used for construction.

With regard to the operating budget, during the time that members are fulfilling pledges to a capital campaign a church should not expect average pledges to rise at all. This is normally a three year period but the financial strain on members can be as long as five years. If average pledges do not rise for five years, and/or if there is debt remaining after the project, this will put a strain on the operating budget.

### **Financial Risks and Other Considerations**

In the FY2017 treasurer's report three risks were identified:

The building project will put downward pressure on operating income for the next five years as described previously. If CCCHUU does not continue to attract new members and retain existing members, income may not keep pace with expense inflation. In addition, payments on any long term debt as a result of the building project will require either new sources of operating income or cuts to existing operating expenses.

Medical expenses were a concern of the treasurer in FY2017, as they tend to rise faster than inflation. Fortunately, the rate of growth has been modest. This is not a concern at this time.

Maintenance costs, especially for the aging Manse building, are also a concern that was raised and continues to be a concern. The septic system for the Manse failed during FY2018 and is not replaceable due to updated building codes. Tying the plumbing into the city sewer system is expected to cost approximately \$60k and is underway in December 2018. This will be paid for with the \$44k of Maintenance Reserves carried into FY2019 as well as a portion of the money set aside during FY2019. This risk of being low on Maintenance Reserve funds due to the sewer repair is mitigated by a Letter of Credit dated November 1, 2018 with the Endowment Committee, which would allow us to borrow funds at an interest rate equivalent to what the endowment investments are getting.

### **Acknowledgements and Sources**

The data in this report is from our Congregational Administrator, Andrea Sordean-Mintzer, who is not responsible for any of my errors of interpretation.

Editing and data visualization assistance by Demia Wright.

Thanks to Laurence Kirsch for check signing help.

Thanks to Scott Provan and the Sunday counters for their help in managing the collections.



## **Financial Statements**

The financial statements are on an accrual basis.

### **Notes on Table 1 - Balance Sheet**

Both Checking/Savings and Temporarily Restricted Funds balances are up due to the pledges received for the building project (\$280k).

Fixed Assets are not depreciated in the accounting books but the previous repaving of the parking lot is being depreciated for tax purposes. Being tax-exempt, CCCHUU has not depreciated other fixed assets in the past.

Long Term Liabilities, which is our debt, has been paid down to zero during FY2018. Whether we emerge from the current building project in FY2022 with any long term debt is not yet known.

Maintenance Reserves ending FY2018 were \$44k due to the Building and Grounds Committee saving up for the Manse sewer replacement. Groundbreaking began in December 2018 so we expect to spend a significant portion of the maintenance reserves in FY2019.

### **Notes on Table 2 – Income Statement**

Table 2 presents the income and expenses of the operating budget.

### **Notes on Table 3 – Reconciliation of Operating Reserves**

Table 3 connects the income statement to the balance sheet by showing the beginning balance of operating reserves at the end of the prior fiscal year, adding net income from FY2018, subtracting principal paid by the operating budget<sup>2</sup> on the existing debt, and arriving at the operating reserve amount at the end of FY2018.

### **Notes on Table 4 – Restricted Funds**

Table 4 shows activity within the Restricted Funds, which are self-contained and separate from the operating budget. The ending balance matches the Temporarily Restricted Funds on the Balance Sheet.

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<sup>2</sup> This reconciliation is for the operating budget only. Most of the principal paid on the loan was from the Capital Fund in FY2018.

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

<b>ASSETS</b>	<b><u>Jun 30, 18</u></b>	<b><u>Jun 30, 17</u></b>	<b><u>Jun 30, 16</u></b>	<b><u>Jun 30, 15</u></b>
Current Assets				
Checking/Savings	527,547	260,098	248,906	196,206
Other Current Assets	9,444	18,608	11,591	15,648
Total Current Assets	536,991	278,705	260,497	211,854
UU Common Endowment Fund	197,646	181,653	159,638	144,818
Fixed Assets	3,112,731	3,112,731	3,112,731	3,112,731
<b>TOTAL ASSETS</b>	<b><u>3,847,368</u></b>	<b><u>3,573,089</u></b>	<b><u>3,532,866</u></b>	<b><u>3,469,402</u></b>
<b>LIABILITIES &amp; EQUITY</b>				
Liabilities				
Current Liabilities				
Payroll Liabilities	25,997	30,005	22,706	12,971
Accrued Payables	3,235	3,077	4,605	4,380
Unearned Income	59,114	61,605	49,032	43,133
Total Current Liabilities	88,347	94,687	76,343	60,484
Long Term Liabilities	0	225,267	497,157	522,305
Total Liabilities	88,347	319,953	573,500	582,789
Equity				
Financial Reserves				
Operating Reserves	48,658	55,122	54,041	65,631
Maintenance Reserves	44,066	35,072	122	13,085
Ministerial Transition Res.	13,865	13,865	9,865	5,865
Total Financial Reserves	106,588	104,058	64,027	84,581
Illiquid Equity	3,113,947	2,888,556	2,615,574	2,590,426
Permanently Restricted Funds	199,079	182,961	160,846	145,340
Temporarily Restricted Funds	339,407	77,561	118,919	66,267
Total Equity	3,759,021	3,253,136	2,959,366	2,886,613
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b><u>3,847,368</u></b>	<b><u>3,573,089</u></b>	<b><u>3,532,866</u></b>	<b><u>3,469,402</u></b>

**Table 2**  
**Income Statements for Fiscal Years Ending June 30**  
(unaudited)

<b>Income</b>	<u><b>Jun 30, 18</b></u>	<u><b>Jun 30, 17</b></u>	<u><b>Jun 30, 16</b></u>
Collections			
Member Pledges	462,799	455,459	430,207
ID Contributions	9,940	3,266	5,241
Loose Collection	8,610	7,718	7,250
<b>Total Collections</b>	<u>481,348</u>	<u>466,443</u>	<u>442,698</u>
Other Income			
General Operating Fundraising	18,172	16,029	15,979
Other Income - Other	574	432	1,554
<b>Total Other Income</b>	<u>18,746</u>	<u>16,462</u>	<u>17,533</u>
Rental Income			
Building Rental	5,645	7,427	6,566
Parking Lot Rental	54,248	53,546	55,267
Pre-School Lease	68,607	66,287	64,045
<b>Total Rental Income</b>	<u>128,500</u>	<u>127,260</u>	<u>125,878</u>
<b>Total Income</b>	<u>628,594</u>	<u>610,165</u>	<u>586,109</u>
<b>Expense</b>			
Administrative Operations	106,654	104,091	102,240
Building & Grounds	133,598	114,834	109,721
Denominational Affairs	30,000	30,216	29,300
Lifespan Religious Education	114,571	114,971	108,812
Ministerial Operations	120,382	121,899	118,732
Rental Expense	17,530	17,346	18,463
Within These Walls	34,469	32,910	29,097
Worship & Arts	58,268	59,699	56,187
<b>Total Expense</b>	<u>615,473</u>	<u>595,966</u>	<u>572,552</u>
<b>Net Income</b>	<u>13,122</u>	<u>14,199</u>	<u>13,558</u>

**Table 3**

**Reconciliation of Operating Reserves for Fiscal Years Ending June 30**

(unaudited)

<b>Reconciliation of Operating Reserves:</b>	<b><u>Jun 30, 18</u></b>	<b><u>Jun 30, 17</u></b>	<b><u>Jun 30, 16</u></b>
Beginning Operating Reserves	55,122	54,041	65,631
Net Income	13,122	14,199	13,558
Payment of Loan Principal <sup>3</sup>	<u>(19,585)</u>	<u>(13,119)</u>	<u>(25,148)</u>
Ending Operating Reserves	<u>48,658</u>	<u>55,122</u>	<u>54,041</u>

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<sup>3</sup> The Capital Campaign fund paid the principal for the last six months of FY2017, making the amount paid by the operating budget approximately half of what it would have been. This policy was ended on June 30, 2017 when it became clear that the ending date of the pre-school was extending to fall 2018 and the operating budget could support the full debt payments. During FY2018 the Capital Fund paid off the balance of the loan early. This payment does not show in Table 3 but can be seen in Table 4 as part of the total expenditures of the Capital Fund.

**Table 4**  
**Activity in Temporarily Restricted Funds, FY2018**  
(unaudited)

<u>Fund</u>	<u>Balance at 6/30/17</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Other</u>	<u>Balance at 6/30/18</u>
<u>Within These Walls</u>					
Art Resources Fund	4,067	1,340	(33)	0	5,374
Benevolence Fund	3,250	0	(500)	1,148	3,898
Campus Ministry Activity Fund	119	140	0	0	259
Capital Fund	27,602	439,649	(213,730)	30,158	283,679
Children Ministry Activity Fund	1,882	5,150	(5,025)	104	2,111
Church Fellowship	74	0	0	0	74
Concert Series	7,401	16,776	(15,142)	0	9,035
Frances Brewer Flower Fund	1,732	170	(215)	0	1,687
IT Fund	29	0	(29)	0	0
Memorial Rock Fund	5,624	0	0	0	5,624
Minister Discretionary Fund	4,023	15	(3,526)	1,148	1,660
Music Activity Fund	(2,087)	12,947	(9,146)	(0)	1,714
Quilting Group Clearing Fund	562	86	(38)	0	610
Sanctuary for Dialogue	1,205	0	0	0	1,205
Sarah Insch Youth Leadership	779	0	(360)	663	1,082
SEA Activity Fund	1,216	310	(363)	25	1,188
Services Auction Fund	180	0	0	(180)	0
Youth Ministry Activity Fund	6,527	18,159	(25,734)	4,494	3,445
Total Within These Walls	104,431	494,742	(273,842)	37,561	322,646
<u>Beyond These Walls</u>					
Community Service Ministry	479	1,095	(2,508)	1,625	692
Faith in Action	(55)	0	0	0	(55)
Habitat Fund	5,523	0	(4,000)	4,890	6,413
Peace & Justice Clearing Fund	1,621	0	0	0	1,621
Sanctuary & Immigrant Support	0	4,100	(1,250)	0	2,850
Share the Plate Sunday	0	47,536	(36,261)	(11,275)	0
Social Concerns/Special Project	260	0	0	(260)	0
SOSL Ministry Team Fund	5,547	2,257	(2,615)	50	5,239
Total Outreach	14,489	54,988	(46,633)	(4,970)	16,760
Total Restricted Funds	118,919	549,730	(320,475)	32,591	339,407