

Treasurer's Report Fiscal 2023

to the Members of
Community Church of Chapel Hill, Unitarian Universalist

Andrew Wright, CPA, Treasurer
Chris Speh, Assistant Treasurer
November 2023

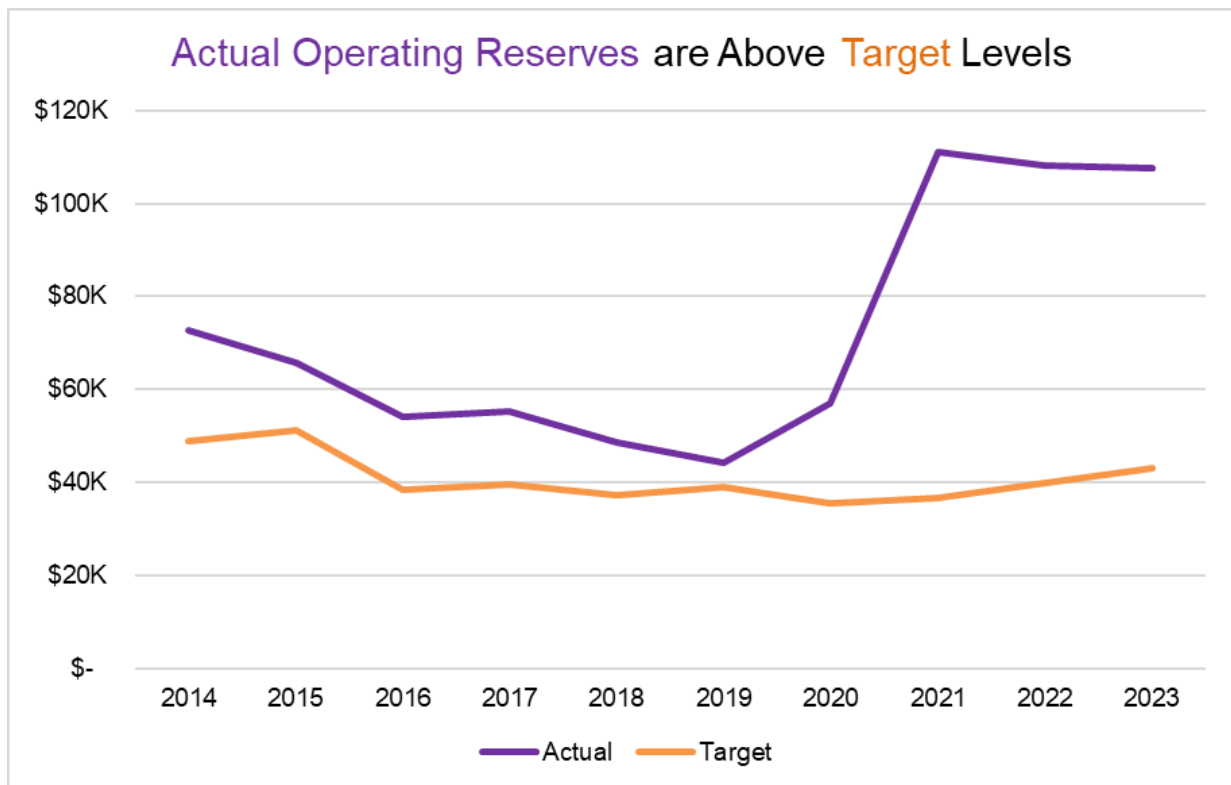


Executive Summary

The financial health of the Community Church of Chapel Hill Unitarian Universalist (CCCHUU) remained strong during the year ended June 30, 2023 ("FY2023"). Income is increasing at a pace that allows us to keep staff salaries competitive as well as keep up with inflation in other operating costs.

One measure of financial health over the long term is to look at the trend in operating reserves. The church maintains operating reserves of funds on the balance sheet that help to smooth out uneven cash flows, and as a reserve to pay for a large surprise in expenses. The Board of Trustees ("BOT" or "The Board") requires the church to maintain these operating reserves at or above 6% of annual expenses. At the end of FY2023, operating reserves were 15.0% of FY2023 actual expenses. We will be drawing down excess operating reserves over the next few fiscal years, as discussed in the risks section of this report. Figure 1 shows actual operating reserves compared to target operating reserves for the past ten years.

Figure 1 – Actual Operating Reserves and Target Operating Reserves for the Last Ten Years

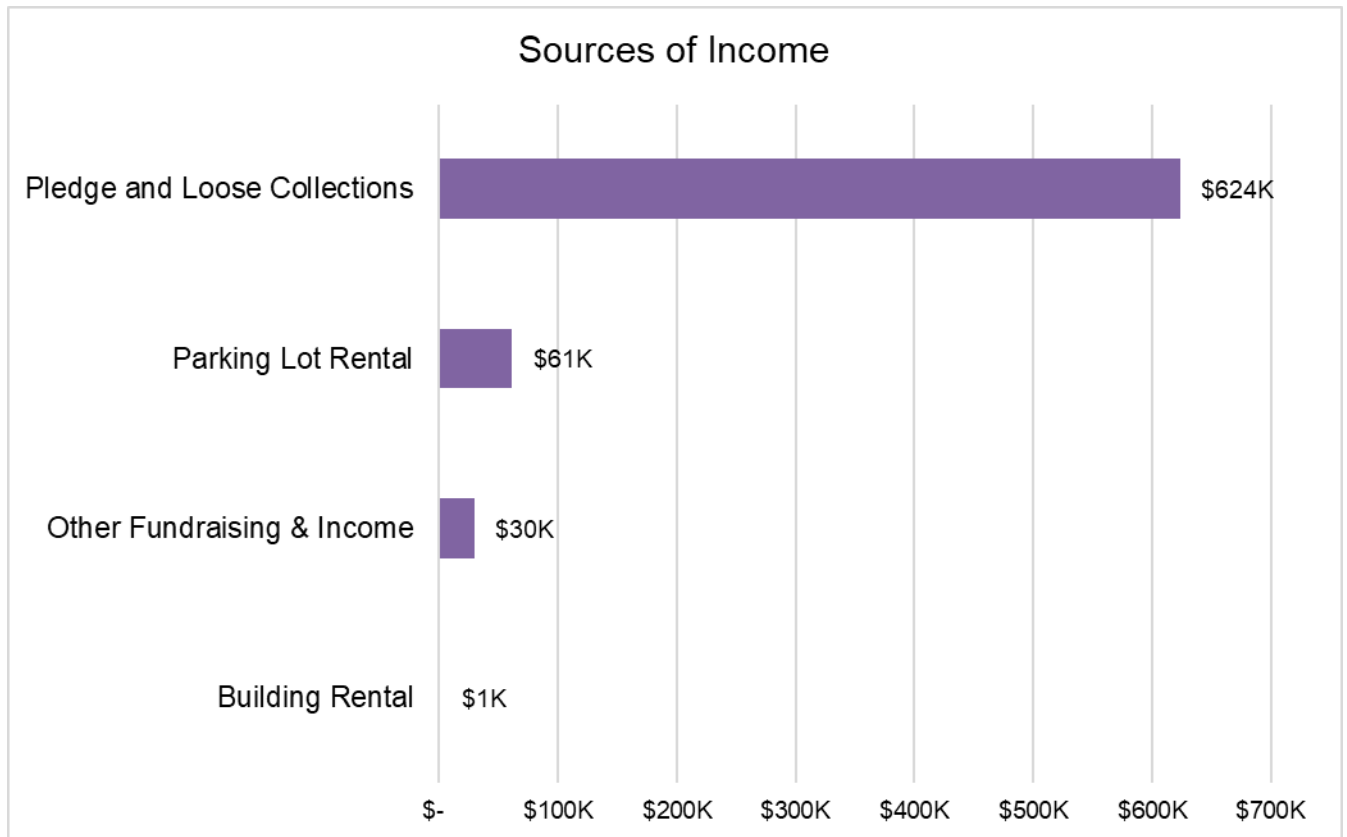


Operating reserves have remained above the BOT target, even during the building project to expand the Jones building and COVID-19 pandemic. The church has been using the new space since July 2021, which involves increased costs for cleaning and operating the new space. These increased costs have also been covered by the operating budget, keeping operating reserves above target.

Income

The primary source of income for CCCHUU is member pledges and loose collections, making up 87% of total income. Total income for FY2023 was \$715k, compared to \$661k in the prior year. Figure 2 shows all sources of income.

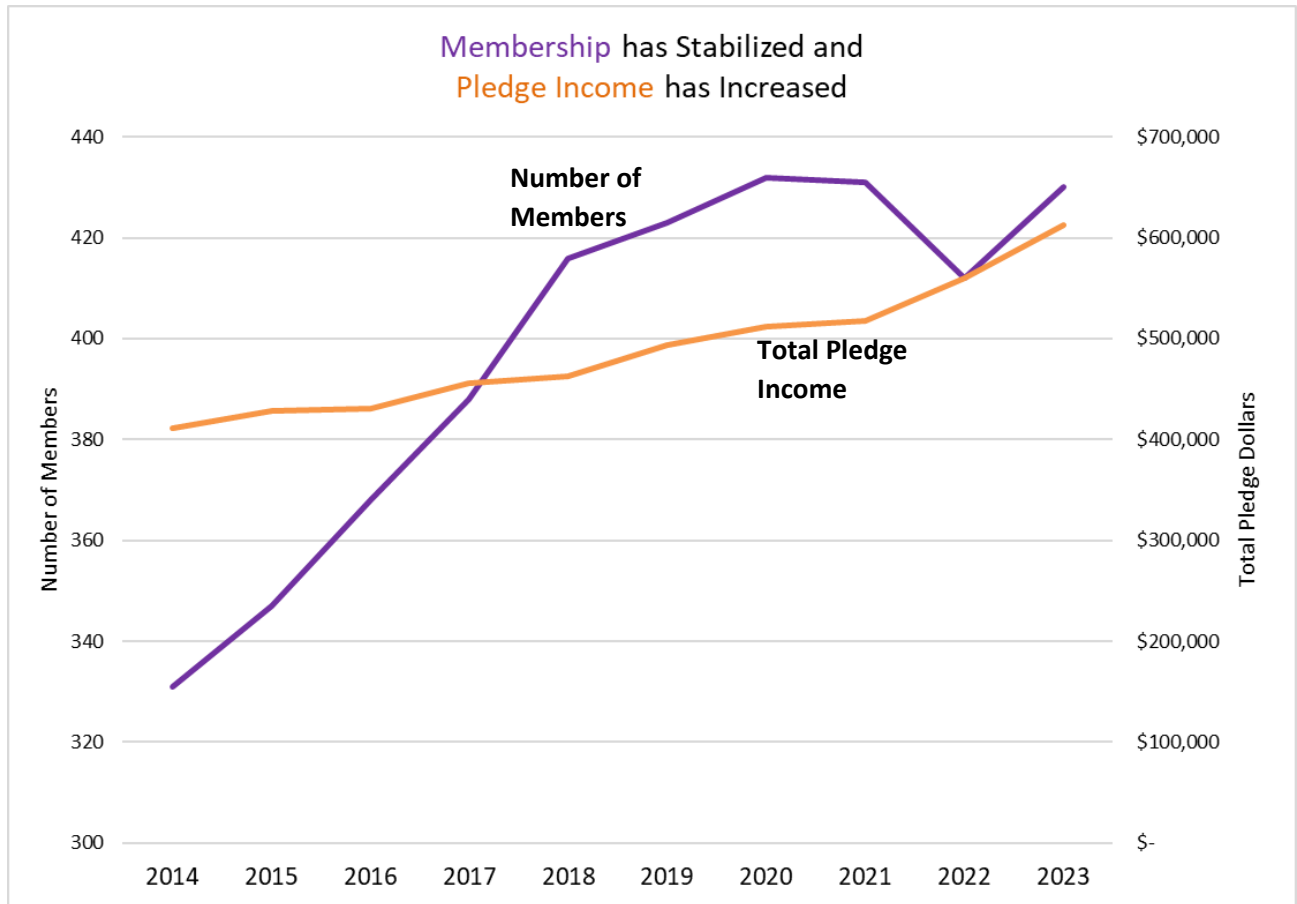
Figure 2 – FY2023 Sources of Income



Pledges and Loose Collections (primarily pledges) was \$624k, up quite a bit from \$561k in the prior year. This was a result of a successful pledge drive.

In 2014 our current minister, Thom Belote, joined the church, and membership grew considerably from 2014 to 2018. Membership has been hovering just over 400 members since 2018. While membership has been stable, total pledges have been growing which allows the church to keep up with inflation and new expenses. Average pledge per member has also been steadily growing (not shown below). Figure 3 shows the trends of membership and pledge income.

Figure 3 – Membership and Total Pledges for the Last 10 Years



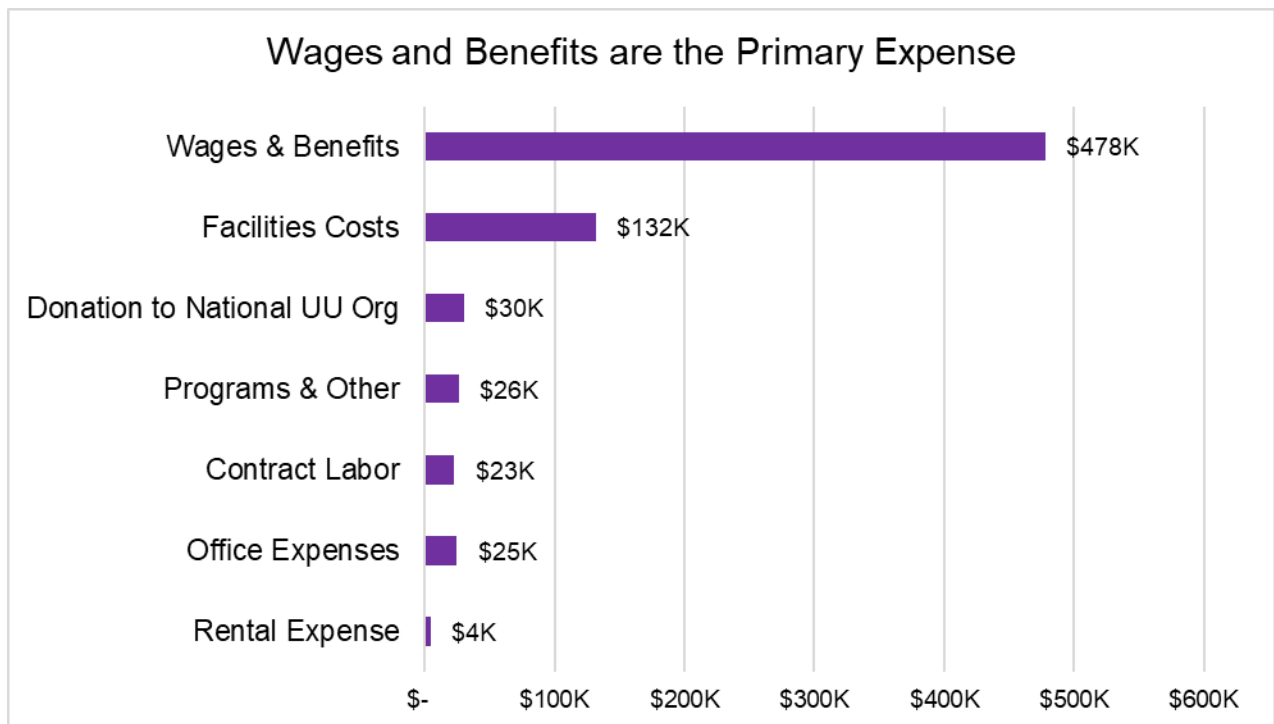
Expenses

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 mostly 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.
 - o 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 Other Restricted Funds in the operating Balance Sheet.
 - o See Table 4 for a full list of Restricted Funds, including their receipts and expenditures.

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

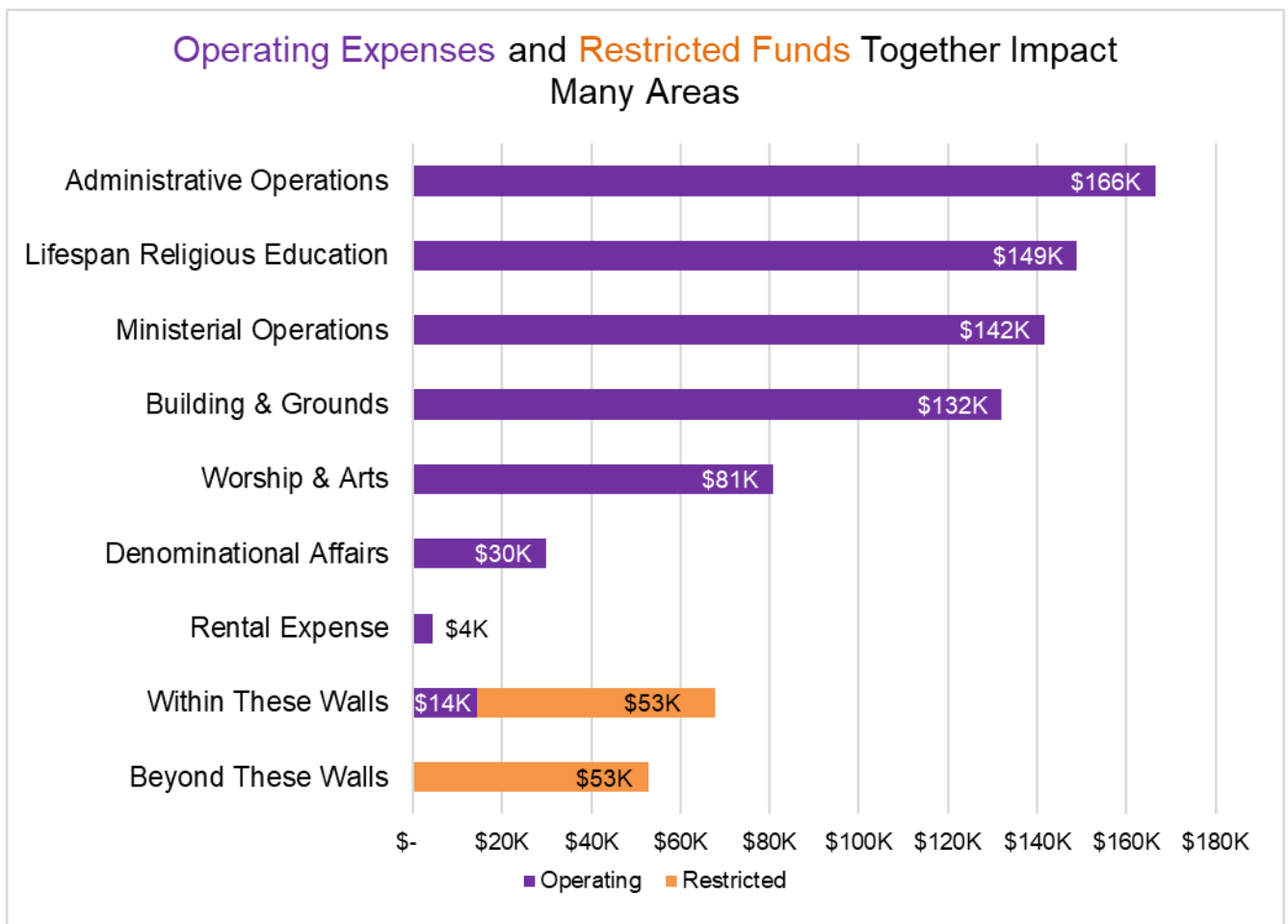
Figure 4 – FY2023 Operating Expenses by Type of Expense



Wages and benefits for our staff made up the majority of our operating expenses, at 67%. Facilities costs consist of putting money away for larger repairs into the Maintenance Reserves, janitorial expense, and other building costs, and made up 18% of operating expenses in FY2023. All other items in the operating budget made up the remaining 15% 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's dollars. The Restricted Fund expenditures have been grouped together into either Within These Walls (e.g., Youth Activity Fund) or Beyond These Walls (e.g., Share the Plate for outside organizations).

Figure 5 – FY2023 Operating Expenses and Restricted Funds by Purpose of Expense



- Building and Grounds - putting money into our maintenance reserves, janitorial services, insurance, utilities and other maintenance
- 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
- Administrative Operations - Congregational Administrator and Director of Communications & Membership, office equipment and technology

- Worship & Arts - Director of Music and the Accompanist, and music expenses
- Denominational Affairs - payments to the national/regional UU organizations
- Rental Expense - expenses needed to generate income from the parking lot (taxes paid on the income and tax filing expenses)
- Within These Walls - the operating budget funds Sunday hospitality and expenses for some programs, while the Restricted Funds spend money primarily on children and youth ministries and musical activities
- Beyond These Walls - distributions by Share the Plate and other restricted funds to outside organizations

Maintenance Reserves

Included in Figure 4 under Facilities Costs, and in Figure 5 under Building & Grounds is an expense for maintenance reserves of \$48k. This is where the operating budget sets aside money to the balance sheet in a line called Maintenance Reserves. BOT policy states that at least 7% of total income be set aside as maintenance reserves each year, which are to be used for maintenance expenses that are more than \$1k, now or in the future. 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 board maintains a 10-year maintenance plan of forecasted expenditures.

During FY2023 the church set aside \$48k for maintenance reserves, the BOT directed a \$100k of an estate gift to maintenance reserves, and spent \$150k repaving the parking lot, \$31k replacing part of the roof on the Jones building, and \$8k on other projects. The ending balance was \$63k. There are several projects that will use the reserves in the next few years, including repairing some damaged walls and ceilings in the sanctuary and repainting the interior of the church in areas not repainted during the building project.

Capital Fund

The Capital Fund is a restricted fund for capital improvements that is funded by specific contributions by members of the congregation to the Capital Fund. Capital improvements are projects that add new functionality to our church. For example, repaving the existing parking lot is a maintenance expense, paid for with maintenance reserves since it is over \$1k. While there are some improvements planned during repaving, we will have essentially the same functionality of the lot before and after the repaving. In contrast, adding acoustic tiles to a room for members to hear each other better during meetings is a capital improvement, since we are gaining functionality we did not have before. The BOT oversees the Capital Fund.

During FY2023 the BOT approved, and the Buildings and Grounds committee executed, adding acoustic tiles to the gathering room in the new space for a cost of \$33k.

Financial Risks and Other Considerations

Future Operating Budgets

FY2023 ended very close to break even, with a deficit of \$3k. This deficit was funded by the excess operating reserves mentioned earlier in this report. The budget for FY2024 is projected to have a deficit as well. Often, actual income and expenses end more favorable than budget, but if FY2024 ends as budgeted, approximately half of the excess operating reserves will be used. While there are ample excess operating reserves for now, if pledge income over the next few years does not rise enough by the time excess operating reserves are used up, we have the risk of not being able to adequately compensate our staff and could have to cut programming expenses. While this is a risk that exists, I feel that our congregation and Board would respond to any serious shortfall and prevent cuts to staff compensation and programming.

Maintenance costs, especially for the aging Manse building, continue to be a concern. Maintenance reserves are predicted to be exhausted in FY2024 after the repairs to the sanctuary and repainting project. The Board has committed to finding additional funding for the maintenance reserves, and I believe they will be successful. However, the risk remains that if we experience more mechanical failures than forecasted, particularly HVAC systems, the deficit will require more money from the operating budget than predicted, driving up expenses. This is the most likely scenario that would cause a deficit in the operating budget and draw down on operating reserves.

Donations to the Church

Our members have remained generous through challenges such as COVID-19, but the risk remains that a major economic downturn could cause a drop in pledges. The BOT is exploring ways to increase rental income to diversify our income sources.

As a reminder, the three main ways to support the church financially are:

- Pledging to the operating budget (short term needs of the church)
- Giving to the capital fund (medium/long term needs of the church)
- Giving to the church endowment, including adding the church to your estate planning (long term needs of the church)

Acknowledgements and Sources

Thanks to our Congregational Administrator, Franklin Hirsch, who provided the data for this report and who manages the day-to-day of our church finances.

Thanks to Chris Speh, Assistant Treasurer, for help and support in many areas.

Data visualization and copy edit assistance by Demia Wright.

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

Financial Statements

The financial statements are on an accrual basis, except for Fixed Assets noted below.

Notes on Table 1 - Balance Sheet

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

Unearned Income is pledges that we have received that are for a future fiscal year, pledges paid in advance. In FY23 we also received a large estate gift that the BOT has not yet decided how to use and is driving most of the increase in Unearned Income. This is also the driver of Total Current Liabilities going up.

Long Term Liabilities consisted of a Paycheck Protection Program loan that we obtained in FY20. It was forgiven in FY21 and became the PPP Grant, and shows up in Other Income on the Income Statement.

Other Restricted Funds is made up of the balances of the restricted funds outside of endowment, and are detailed in Table 4.

Notes on Table 2 – Income Statement

Other Income in FY2023 was up due to \$68k of PPP Grant income used to pay salaries.

Notes on Table 3 – Reconciliation of Operating Reserves

Table 3 shows the beginning balances of operating and maintenance reserves, as well as additions and charges to the reserves. Other Activity in Operating Reserves was a correction of a misclassification on the Balance Sheet.

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 Other Restricted Funds on the Balance Sheet. Each fund is managed by the respective committee or group, or by the minister.

Table 1
Balance Sheets at the End of Each Fiscal Year

(unaudited)

Assets	<u>Jun 30, 23</u>	<u>Jun 30, 22</u>	<u>Jun 30, 21</u>	<u>Jun 30, 20</u>
Current Assets				
Checking/Savings	517,156	446,383	567,243	1,279,737
Other Current Assets	1,526	15,087	30,204	10,214
Total Current Assets	<u>518,681</u>	<u>461,470</u>	<u>597,447</u>	<u>1,289,950</u>
UU Common Endowment Fund	251,534	266,160	286,290	198,905
Fixed Assets	4,634,097	4,634,097	3,112,731	3,112,731
Total Assets	<u><u>5,404,312</u></u>	<u><u>5,361,698</u></u>	<u><u>3,996,468</u></u>	<u><u>4,601,586</u></u>
Liabilities & Equity				
Liabilities				
Current Liabilities				
Payroll Liabilities	14,500	18,214	18,726	19,978
Accrued Payables	3,625	2,616	1,853	2,205
Unearned Income	165,766	64,845	81,687	57,545
Total Current Liabilities	<u>183,891</u>	<u>85,675</u>	<u>102,266</u>	<u>79,729</u>
Long Term Liabilities	0	0	0	68,462
Total Liabilities	<u>183,891</u>	<u>85,675</u>	<u>102,266</u>	<u>148,191</u>
Equity				
Financial Reserves				
Operating Reserves	107,497	108,233	110,978	57,074
Maintenance Reserves	63,073	104,428	94,375	55,625
Ministerial Transition Res.	11,607	11,607	21,865	13,865
Total Financial Reserves	<u>182,177</u>	<u>224,268</u>	<u>227,218</u>	<u>126,563</u>
Illiquid Equity	4,631,887	4,635,313	3,113,947	3,113,947
Endowment	251,534	266,630	287,394	199,808
Other Restricted Funds	154,823	149,810	265,643	1,013,077
Total Equity	<u>5,220,421</u>	<u>5,276,022</u>	<u>3,894,202</u>	<u>4,453,396</u>
Total Liabilities & Equity	<u><u>5,404,312</u></u>	<u><u>5,361,698</u></u>	<u><u>3,996,468</u></u>	<u><u>4,601,586</u></u>

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

Income	<u>Jun 30, 23</u>	<u>Jun 30, 22</u>	<u>Jun 30, 21</u>
Collections			
Member Pledges	612,210	560,524	517,359
ID Contributions	862	2,673	498
Loose Collection	10,550	6,658	5,125
Total Collections	<u>623,622</u>	<u>569,856</u>	<u>522,982</u>
Other Income			
General Operating Fundraising	28,898	23,930	9,935
Other Income - Other	861	854	70,033
Total Other Income	<u>29,758</u>	<u>24,784</u>	<u>79,968</u>
Rental Income			
Building Rental	500	3,575	500
Parking Lot Rental	61,331	62,354	59,373
Total Rental Income	<u>61,831</u>	<u>65,929</u>	<u>59,873</u>
Total Income	<u>715,212</u>	<u>660,569</u>	<u>662,822</u>
Expenses			
Administrative Operations	166,458	148,374	144,101
Building & Grounds	132,046	118,399	90,766
Denominational Affairs	30,000	30,000	30,000
Lifespan Religious Education	148,953	137,404	129,620
Ministerial Operations	141,616	133,702	133,231
Rental Expense	4,343	5,686	9,472
Within These Walls	14,325	13,148	6,656
Worship & Arts	80,896	76,606	66,260
Total Expenses	<u>718,638</u>	<u>663,320</u>	<u>610,105</u>
Net Income	<u>(3,426)</u>	<u>(2,751)</u>	<u>52,717</u>

Table 3
Reconciliation of Certain Reserves for Fiscal Years Ending June 30
(unaudited)

Operating Reserves	<u>Jun 30, 23</u>	<u>Jun 30, 22</u>	<u>Jun 30, 21</u>
Beginning Reserve	108,233	110,978	57,074
Net Income	(3,426)	(2,751)	52,717
Other Activity	2,690	6	1,187
Ending Reserve	<u>107,497</u>	<u>108,233</u>	<u>110,978</u>
Maintenance Reserves	<u>Jun 30, 23</u>	<u>Jun 30, 22</u>	<u>Jun 30, 21</u>
Beginning Reserve	104,428	94,375	55,625
Additions to Reserve	148,000	48,000	46,398
Expenditures	(189,355)	(37,947)	(7,647)
Ending Reserve	<u>63,073</u>	<u>104,428</u>	<u>94,375</u>

Table 4
Activity in Other Restricted Funds, FY2023
(unaudited)

<u>Fund</u>	<u>Balance at 6/30/22</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Transfers</u>	<u>Balance at 6/30/23</u>
<u>Within These Walls</u>					
Art Resources Fund	5,420	1,794	(34)	-	7,179
Benevolence Fund	-	-	-	-	-
Campus Ministry Activity Fund	369	-	-	-	369
Capital Fund	50,191	10,182	(30,963)	-	29,410
Children Activity Fund	9,778	3,063	(4,851)	-	7,990
Church Fellowship	743	-	(524)	-	219
Concert Series	17,977	46,601	(19,506)	-	45,072
Cookbook	111	-	-	-	111
Frances Brewer Flower Fund	1,241	100	(270)	-	1,071
Services Auction Fund	75	-	-	-	75
Live Streaming Infrastructure	(1,996)	-	-	-	(1,996)
Memorial Rock Fund	5,624	-	-	-	5,624
Minister Discretionary Fund	12,518	1,087	(8,079)	2,390	7,915
Music Activity Fund	16	11,284	(6,258)	-	5,042
Photo Directory	5	10	-	-	15
Quilting Group Clearing Fund	610	200	(444)	-	366
Sanctuary for Dialogue	1,328	-	-	-	1,328
Sarah Insch Youth Leadership	3,899	-	-	710	4,610
SEA Activity Fund	1,155	-	-	-	1,155
Women's Circle	(158)	-	-	-	(158)
Youth Activity Fund	10,812	9,445	(13,530)	210	6,937
Total Within These Walls	119,717	83,766	(84,461)	3,310	122,333
<u>Beyond These Walls</u>					
Community Service Ministry	519	-	(2,178)	1,876	217
Faith in Action	(55)	-	-	-	(55)
Habitat Fund	3,460	-	(4,000)	2,652	2,112
IFC Fund	445	-	-	-	445
Immigrant Justice Initiative	16,553	11,630	(16,521)	2,294	13,956
Share the Plate Sunday	4,355	34,910	(25,761)	(5,427)	8,078
SWL Ministry Team Fund	4,815	11,880	(4,252)	(4,706)	7,738
Total Outreach	30,093	58,420	(52,712)	(3,310)	32,491
 Total Restricted Funds	 149,810	 142,185	 (137,172)	 -	 154,823