

The Community Church of Chapel Hill

UNITARIAN UNIVERSALIST

106 Purefoy Road, Chapel Hill, NC 27514 • 919-942-2050 • c3huu.org

BOARD OF TRUSTEES

Meeting Minutes

November 14, 2017

Members:	Lilie Bonzani Barb Chapman Andy Hencke (absent)	Dan Hill Dave Klibanow Bill Poteat	Bill Rote Jenny Warnasch Steve Warshaw, chair
Ex Officio:	Thom Belote	Bonnie Nelson	Andrew Wright
Guests:	Russ Bowen	Cathy Cole	Paige Smith

Welcome

S. Warshaw called the meeting to order.

Chalice Lighting/Reading – T. Belote lit the chalice and D. Klibanow opened the Board of Trustees (BoT) meeting by sharing a reading.

Check-in

Consent Agenda

Approval of Tonight's Agenda – S. Warshaw sent out an agenda in advance of the meeting. New issues necessitated a revised version and he provided copies to attendees.

Building Project Team (aka the Task Force) Report

C. Cole requested that the BoT move to a closed session. She explained that the Task Force had sensitive information on fundraising that they wanted to share.

B. Rote made a motion to move to a closed session.

D. Klibanow seconded the motion.

All in favor with none opposing.

D. Klibanow made a motion to return to an open meeting.

B. Rote seconded the motion.

All in favor with none opposing.

Consent Agenda (continued)

S. Warshaw asked if there were any questions about the Consent Agenda. He noted the addition of the Endowment Grant Proposal. B. Poteat requested that the BoT address the Endowment requirements to the BoT at the December BoT meeting.

- B. Chapman made a motion to approve the Consent Agenda.
 - J. Warnasch seconded the motion.
 - S. Warshaw asked if there was any discussion. There being none, he called for a vote.
- All in favor with none opposing.

Planning Documents

Strategic Management Plan (SMP) – T. Belote shared the Strategic Management Plan in advance of the meeting. He added that the Strategic Management Ministry was in agreement with the plan and believed that the church's activities were in line with the plan.

[Note: from T. Belote's November 8, 2017 message to the Board related to the SMC's review of the Strat Plan:

Finally, earlier this month I met with Dan Hill and Dawn Adams of the Strategic Management Team. Here is a report from our meeting with the Annual Report attached.

The Strategy Management Team (Dan Hill, Dawn Adams, Thom Belote) met on Thursday, October 19. At the meeting we reviewed the draft of the annual report compiled by Steve Warshaw and Thom Belote in light of the strategic plan document for 2016-2019. It was our feeling that our ministries, programs, and committees are making good progress towards the goals outlined in the strategic plan. We also discussed the strategic plan and whether we felt it was still setting a good direction for our ministries and groups. We felt that the strategic plan continued to be relevant and that no changes to it are required at this time.]

- D. Hill made a motion to approve the agenda SMP as presented.
 - B. Poteat seconded the motion.
- All in favor with none opposing.

Annual Report – T. Belote shared the proposed Annual Report in advance of the meeting. A discussion of distribution and placement occurred. S. Warshaw called for a motion to approve the Annual Report as presented.

- J. Warnasch made a motion to approve.
 - D. Hill seconded the motion.
 - S. Warshaw asked if there was any further discussion. There being none, he called for a vote.
- All in favor with none opposing.

Maintenance Needs

Expected Maintenance Needs 2016-2030 – T. Belote shared the latest developments with the sewer line to the Manse. The current plan calls for the line to go through UNC property. UNC has instructed the Church to request easement permission from the state of North Carolina. This development extends the timeline to July/August of 2018. B. Poteat noted that the delay in payment is better for the budget. T. Belote said that the \$25K is needed now for more pressing needs, including the Jones Building roof. In addition, the current budget is \$40K short. A. Wright indicated that operating reserves are in the negative, although the Church has \$200K-\$300K in cash liquidity. T. Belote said that there are several options to cover the shortfall: include the amount in the Capital Campaign, take it out of liquidity, request it from the Endowment, or

some mix of those strategies. B. Poteat informed the BoT that the Finance Committee believes the shortfall to be negative and serious news. B. Chapman asked about the definition of large and small capital expenses. T. Belote indicated that B. Kosiba includes maintenance under \$10K as small expenses and large capital are larger Building expenses. It was clarified that the term “Small Capital” is not a header but a grouping of several lower cost maintenance items.

B. Poteat returned to the topic of the sewer line and suggested that B. Kosiba consult with the engineering firm engaged by the Building Task Force, as they are familiar with working with UNC. Another suggestion was to talk with our North Carolina legislators for assistance. S. Warshaw requested an update on the the Manse sewer line for the December BoT meeting.

Maintenance Plan – S. Warshaw called for a motion to approve the Long Range Maintenance Plan.

B. Poteat make a motion to approve the plan.

L. Bonzani seconded the motion.

All in favor with none opposing.

Building Project Loan

Building Project Financial Plan – A. Wright distributed the plan in advance of the meeting. He noted that there is a change on #8 and he would resend the plan.

[Note: information sent by A. Wright and included below.

The major changes from the draft are:

- Addition of a section called Maintenance Reserves on page 6 which describes what they are and the activity we saw during the year.

- The restricted fund expenditures for Beyond These Walls in Table 4 on page 13, and the corresponding amounts in figure 6 on page 6 have been revised from \$55k to \$44k. In the draft I had erroneously double counted some amounts as expenditures where share the plate transferred money to other funds to spend. A few other funds had immaterial changes for the same reason.

- Some footnotes added to explain things further, and other text edits to make things more clear.]

D. Hill made a motion to approve the revised Building Project Financial Plan.

B. Poteat seconded the motion.

All in favor with none opposing.

Building Project Construction Budget & Forecast – A. Wright distributed the documents in advance of the meeting.

Proposal on Limiting Any New Loan [and January Congregational Meeting] – B. Poteat initiated a discussion on limiting any new loans. He pointed out the issues resulting from doing so during the last building project. He outlined some of the financially important dates forthcoming, including: 1/19 - loss of preschool income and there will still be \$10K difference between the loan payments and preschool income (even after cutting out the payments on debt there will still be a 10k shortfall from loss of preschool income); and 1/22 - at this point all pledges will have been collected and any remaining balance of the bridge loan have to become a

long term debt. A question was raised as to the costs and debt after the last Capital Campaign.

T. Belote said that the January Congregational Meeting needs to be a pep rally and not a time of debate. The Church needs to go into the Capital Campaign with positive energy and not a fight about what should be included. It was generally agreed that any adjustments to the planned construction amount can be done at the June Congregational Meeting.

T. Belote returned to B. Poteat's comments on limiting any new loans and agreed that the Church should not take on a post-building loan.

R. Bowen asked about how earlier decisions were made. B. Chapman replied that the New Board Member Orientation will cover the history of certain BoT issues.

B. Rote circled back to T. Belote's concept of a pep rally and that a positive meeting will limit dissenting issues. B. Poteat noted that the BoT will come to the June Congregational Meeting asking the congregation to vote on a bridge loan and what is going to be built. The issue of a long-term loan can be dealt with later.

T. Belote indicated that the only other item on the meeting agenda is the Endowment Committee grant request, and that can be done at the end of the meeting. He suggested that the June Congregational Meeting can be used to present about the larger loan. B. Poteat asked if the BoT could approve the Endowment request, in lieu of the congregation. T. Belote advised that their charter seems to indicate that congregation approval is needed for spending any Endowment funds. B. Poteat suggested that the Board ask the Endowment Committee to fulfill the requirements of its "Plan of Operations" including its computation of the value of current principal. T. Belote said that this issue is specific to money being spent.

Building Project Construction Budget & Forecast [Sidebar to Treasurer's Report] – A. Wright brought up the Treasurer's Report, which he distributed in advance of the meeting. He noted that there was an addition to be made regarding the maintenance reserves and how they work. There was also an issue which resulted in funds being double-counted in the STP money which will be corrected in the final version to be distributed.

Stella Lyons Estate Gift

A. Wright shared that a check was received from S. Lyons estate and was sent to the Endowment Fund per the policy at the time. Subsequently, C. Cole contacted Andrew and asked if a gift was received from S. Lyons estate for the Capital Campaign. S. Warshaw acknowledged a letter to the BoT from C. Cole requesting that the BoT request for the Endowment Committee to forward the funds to the Capital Campaign. A. Wright noted that the congregational administrator and he followed the policy in place at the time that the gift was received. T. Belote noted the close relationship between S. Lyons and C. Cole and that there was no record of the Endowment Committee having contacted S. Lyons. D. Klibanow asked about the old policy and if there was a precedent for this issue. B. Rote wondered what issues might be raised if the BoT was involved in this request. After additional discussion, S. Warshaw said that he did not hear anyone voicing support for requesting the Endowment Committee to forward the funds to the Capital Campaign and he would notify C. Cole that the gift will remain with the Endowment Fund.

Naming Church Facilities

This topic was previously discussed at the September BoT meeting. J. Warnasch asked B.

Chapman to discuss the difference between purpose of the BoT Bylaws and the BoT Policy Book, and the issues in amending either. J. Warnasch indicated that she would prefer the naming of church facilities be a bylaws issue or to wait until there is an actual request to address this issue. T. Belote noted upon discussion with his peers, he did not find any with such a policy.

Therefore, J. Warnasch requested that no action be taken on this issue at this time.

Policy Discussion

Hotchkiss Summary – In advance of the meeting, B. Chapman distributed several pages from D. Hotchkiss’s book, “Governance and Ministry: Rethinking Board Leadership.” She noted the need to move from quantitative to qualitative. S. Warshaw found the chart on “Board Time Analysis Form” to be important and called for a BoT member to volunteer to monitor the BoT meetings and complete the chart. B. Chapman volunteered to do so. B. Nelson volunteered to return to adding times to the BoT minute notes. S. Warshaw noted that in reviewing the BoT agenda, he was questioning the allocation of time and topics, especially with regards to the Building Project.

[Following the meeting, B. Nelson provided B. Chapman with copies of the minutes from April, May, June, and August BoT meetings as they contain time notations. B. Chapman will use the minutes to provide a historical view of BoT meeting time spent on the categories on the Hotchkiss chart.]

Board Policy Objectives Checklist

B. Poteat developed and shared an “Annual Objectives Checkoff List” with accompanying notes. He indicated that it was not meant to be prescriptive. S. Warshaw commended B. Poteat for his work on the document and stated that he wished he had had it when he became BoT President. He noted that it will be very useful for J. Warnasch, BoT president-elect, and R. Bowen, BoT vice-president candidate.

Possible Implementation of Actions to Enhance Linkages with Congregation

Due to time constraints, S. Warshaw requested to move this agenda item to the December meeting.

Closing

Process Observations - D. Klibanow noted that there were no major process issues. However, he noted that there were several last minute agenda changes and wondered if instead the agenda could have time built-in for new items.

Action Items - B. Nelson listed the action items from the minutes taken: B. Chapman to follow-up regarding the Endowment charter and reporting; T. Belote’s report on the Manse sewer line; A. Wright’s amendments to the Treasurer’s Report [Note: incorporated within these minutes]; S. Warshaw’s pending conversation with C. Cole; and the deferral of the linkage agenda item to the next meeting.

Closing Words - D. Klibanow closed the meeting with a reading and T. Belote extinguished the chalice.

ATTACHMENTS:

Board Agenda (proposed, final revised)

October 2017 Minutes

Minister's Monthly Report

Grant Proposal to the Endowment Committee

Preschool Lease Amendment

Annual Report

Expected Maintenance Needs 2018-2030

Building Project Financial Plan

Building Project Budget & Forecast

Memo on Limiting Any New Loan

Excerpt from "Governance and Ministry: Rethinking Board Leadership" by D.

Hotchkiss BoT Time Analysis Worksheet

BoT Annual Objectives, with notes

Treasurer's Annual Report

**BOARD AGENDA (Proposed, Revised, Final)
November 14, 2017, Straley Room**

<u>ITEM</u>	<u>RESPONSIBLE PERSON</u>	<u>END TIME</u>
<u>Welcome</u>		
Chalice Lighting/Reading	Dave	7:04
Check-in	Steve	7:10
<u>Building Project Team Report Including Report on Leadership Phase</u>		
General Report Including Basketball Parking Receipts for Capital Fund Leadership Phase – Closed Session	Paige	7:35
<u>Consent Agenda</u>		
Approval of Agenda	Steve	7:40
Approval of Minutes from 10/10 Meeting	Steve	
Minister's Monthly Report	Thom	
Endowment Grant Proposal	Steve	
Preschool Lease Amendment	Steve	
<u>Planning Documents</u>		
<u>Strategic Mgmt Plan – Approval Needed</u>	Thom	7:50
<u>Annual Report -= Approval Needed</u>		
<u>Maintenance Needs</u>		
<u>Expected Maintenance Needs 2016-2030</u>	Thom	8:00
<u>Building Project Loan</u>		
<u>Bldg Pjt Financial Plan – Approval Needed</u>	Andrew	8:25
Bldg Pjt Construction Budget & Forecast	Andrew	
Proposal on Limiting Any New Loan	Bill P.	
<u>Stella Lyons' Estate Gift – Approval Needed</u>		
	Andrew	8:35
<u>Naming Church Facilities – Approval Needed</u>		
	Jenny	8:40
<u>Policy Discussion</u>		
Hotchkiss Summary	Barb	8:55
Board Policy Objectives Checklist	Bill P.	
Possible Implementation of Actions to Enhance Linkage with Congregation	Steve	
Top choices from October meeting:		
○ Keep a “Board Book” for the congregation to leave questions, comments and concerns (or online Q&A online or Comment option on the BoT webpage) – most important to follow up on any comments made		
○ [Monthly WTW announcement during services]		
○ Regular evaluation of our own performance		
<u>Closing</u>		
Process Observations	Dave	9:00
Action Items	Bonnie	
Closing Words	Dave	

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Unitarian Universalist

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BOARD OF TRUSTEES

Meeting Minutes

October 10, 2017

Members: Lillie Bonzani, Dan Hill, Bill Rote, Barb Chapman, Dave Klibanow, Jenny Warnasch, Andy Hencke, Bill Poteat, Steve Warshaw - chair

Ex Officio: Thom Belote, Bonnie Nelson (absent), Andrew Wright

Guests: Paige Smith, Russ Bowen, Gail McKinley

Welcome

Chalice Lighting – Lillie opened with a reading by Cheryl Strayed about not giving up

Check-in

Consent Agenda

Steve sent the agenda out, Bonnie sent out minutes, Thom sent out Monthly report, Steve passed out a list of ideas from the last board meeting on how to enhance linkages. He asked us to check three of them that we thought were best while Thom gave his monthly report briefing and highlighted one issue on sanctuary.

Thom mentioned that the refugee support ministry feels there should be a cong vote to become a sanctuary. Discussion.

Main points:

- not the January meeting, a later one
- not until the Manse is fixed up, cannot house someone while preschool still here
- in the meantime, we will turn away people seeking sanctuary

Andy moved to approve the consent agenda, Dave seconded. All Aye.

Steve introduced Gail M who will discuss building project and Russ Bowen, a potential board candidate, who is observing.

New Building Spaces Relative To Board

Gail said she has been making the rounds to ask groups to think about the proposed building space and how it will affect their group/ministry. She's asked them if they have ideas to submit them by the end of October. She asked the board about meeting space requirements for the board. Discussion.

Building Project update

Paige gave updates on the task force meeting, including that the building task forces voted that we would not take donations specific to anything except for paying off debt as it is one project. She gave an update on the leadership phase, with the update that some meetings will happen in the fall, earlier than originally planned.

Andy gave an update on ongoing contingency planning by the building task forces. Discussion.

Names Of Board Candidates

Steve said we covered names of board candidates when he introduced our one candidate.

Preschool Request For Extension

Steve updated the board on what he has communicated to the preschool. The board reiterated that extension past Dec 2018 is not feasible. **Action: Steve will get back to the preschool.**

Naming Facilities

Jenny gave an update of information gathered. Thom gave an update from other ministers on their experience. No action taken.

Steve said he'll probably put in on the agenda in November for the board to vote on suggesting a change in the bylaws to cover honorary naming.

Comment Box

Jenny gave an update on the online comment box. The board decided to make it live and see how it goes (no official motion or vote). **Action: Jenny will update us how it goes over the next months.**

Policy Discussion: How Do We Measure Our Effectiveness As A Board

Steve opened the discussion. Discussion. Barb said there is a process in Hotchkiss book for this. It relates to growth. **Action: Barb to summarize the process for the November meeting, and suggested we all read the section of the book too.** Additional discussion. Bill P said we have goals and objectives but we don't really document them. We pass a budget, we try to hit the maintenance and operating reserve amounts, etc. **Action: Bill P to pull the implicit board goals he referred to out for us and list them at the next meeting.**

Maintenance

Steve postponed maintenance discussion. **Action: Thom will get with Brad to provide an update at November meeting.**

Process Observations

Lilie said we had thoughtful discussion. Steve asked what we could have done better and Lilie said be careful to listen and make sure not to talk over anyone.

Andrew reviewed action items.

Steve said Susan and Don Blanchard asked that the board participate greatly in the auction.

Lilie made another reading from Brave Enough by Cheryl Strayed about moving forward.

Andy moved to adjourn, Jenny seconded. Everyone voted with their feet.

November Minister's Report
Rev. Thom Belote
11/14/17

Big Upcoming Events

We have a big event happening in the life of our church every single weekend between now and Christmas. I would like to invite the leaders on the Board to attend as many of these big events as they can.

Saturday, November 11	Service Auction
Friday-Sunday, Nov. 17-19	Oliver! Musical
Sunday, November 25	Special Guest Preacher, Rev. Mary Ann Macklin
Saturday, December 2	The Greening, Chili Supper, and Carol Sing.
Sunday, December 10	Children's Pageant
Sunday, December 17	Choir Sunday, Bach's Christmas Cantata
Sunday, December 24	Christmas Eve services at 5 and 10. No morning services on 12/24!

Since Last Time (10/10/17)

- Preached and led worship on 10/15 and 11/5. Designed and led multigenerational "Day of Remembrance" service on 10/29. Will preach and lead worship on 11/12. Charlie Kast, Minister Emeritus, preached on 10/22.
- Worship attendance continues to be very strong

10/8	211 in worship
10/15	240
10/22	282
10/29	285
11/5	182
- Marion reports very strong attendance in Religious Education programming. "[RE attendance] is better than last year, both in real numbers and percentage. Much stronger. I expect the average to dip as the year goes forward because that is typical but it is much higher than last year at this time. That is very encouraging."
- With Rachel Rose, I held a New Member Recognition Ceremony during the worship services on 10/15 and hosted a New Member reception in my home that afternoon.
- Co-taught, with Rachel Rose, an Exploring Membership class on 11/2 and 11/9.
- Our current membership is 404 (389 adult members and 15 youth members.)
- While Marion enjoyed a scheduled vacation the last week of October, I led Campus Ministry (10/25) and High School Youth Group (10/29.)
- I attended the benefit concert / CD release party featured church member Eric Bannan on 11/3.
- The Sanctuary and Refugee Support Ministry hosted two showings of the movie Out of Reach in October.
- Meetings led or attended: Caring (x2), Worship, Executive, Council, Committee on Ministry, Strategic Management.
- Made my pledge to the Building Campaign. In case the Board is interested, my Building Campaign pledge is for \$7,000. (My annual pledge to the operating account is \$6,600.)

Organizing Against Racism Training Grant

The Endowment Committee is recommending congregational approval of an Endowment Fund Grant of \$4425.00 to provide *Organizing Against Racism* training for an additional 25-27 church leaders, youth and young adults in 2018. A limited number of church staff and members have already participated in this excellent training. Expanding this learning opportunity for other leaders and future leaders will better inform our efforts to meet our Mission to “effect change through our love for the world” by promoting racial equity. The grant will be led by Marion Hirsch, Director of Lifespan Religious Education, in collaboration with the Youth Ministry Team and Rev Thom Belote. Training will be provided through the Racial Equity Institute (www.racialequityinstitute.org) with other participants and leaders from across our local community to support genuine engagement and reflection with a diverse group to further understand how we all have a role to play in dismantling racism.

NOTE: The congregation will be asked to approve this grant at the January 7, 2018 Congregational Meeting.

NORTH CAROLINA
ORANGE COUNTY

AMENDED LEASE AGREEMENT

THIS AMENDMENT ("Amendment") is to that certain LEASE AGREEMENT ("Agreement") effective as of the 26 day of September, 2009, by and between THE COMMUNITY CHURCH OF CHAPEL HILL, UNITARIAN UNIVERSALIST ("Landlord;" also sometimes referred to herein as the "Church") and CHAPEL HILL COOPERATIVE PRESCHOOL ("Tenant;" also sometimes referred to herein as the "Preschool").

The Landlord and the Tenant hereby agree to amend the Agreement effective as of the ___th day of October, 2017 as follows:

3. LEASE TERM

3.1 The term of the lease (the "Lease Term") shall commence on October 1, 2009, ("Commencement Date") and shall terminate at 11:59 p.m. on December 31, 2018.

4. RENT

4.1 Through September 30, 2010, Tenant shall pay Landlord \$3,250.00 per month for the use of the Leased Premises (the "Rent"). Rent for October, 2009 shall be due on or before October 20, 2009 and the rent for each subsequent month of the Lease Term shall be due on or before the 20th day of such month. The Rent includes charges for cleaning of the Leased Premises as well as utilities and dumpster fees. Beginning October 1 of the year 2010 and subsequent Tenant shall pay Landlord monthly rent according to the following schedule:

2017	\$5766.00
2018	\$5961.00

Except as so amended, all other terms of the Agreement between the Church and the Preschool remain in full force and effect.

IN WITNESS WHEREOF, Landlord and Tenant have caused this Amendment to the Lease to be executed under seal as the day and year first written above.

LANDLORD:

THE COMMUNITY CHURCH OF CHAPEL HILL,
UNITARIAN UNIVERSALISTS

BY: _____
Name:
Its: Board President

TENANT:

CHAPEL HILL COOPERATIVE PRESCHOOL

BY: _____
Name:
Its: Director

Annual Report for 2016-2017 Church Year
Rev. Thom Belote & Steve Warshaw, Board President

Our minister, Rev. Thom Belote, led 35 services during the 2016-2017 church year. Two services were led by Glenn Mehrbach, Music Director, and four services were led by Marion Hirsch, Director of Religious Education. Minister Emeritus Rev. Charlie Kast led one service and two services were led by guest ministers: Rev. Jim Magaw and Rev. Holly Lux-Sullivan. Seven services were led by lay members of the congregation; each of those services was led by a graduate of Rev. Thom's Preaching Practicum class. The worship ministry included two youth who were Sara Insch Leadership Associates. Members of the worship ministry served as Worship Associates for all services, constructed an altar for the Day of Remembrance service, and organized the Greening.

The Music Team contributed moving, beautiful, and thematically-relevant music to all services and was featured in two all-music services held during the church year: Benjamin Britten's A Ceremony of Carols and Leonard Bernstein's Mass. Musicians during the year included the Choir, the Community Church Singers, the Children's Choir, the house band, and a broad variety of soloists and musicians in the congregation. The music ministry held a successful Gala in February with the theme of ConfUUoco: Playing with Fire. The funds earned from the Gala were used to produce a CD of the music of Community Church that will be available for sale during the next church year. The music ministry honored long-time choir member and actor Harvey Sage with a plaque dedicated to him. The Music Team works to include our multi-generational and diverse community, to be a community of care and compassion, and to utilize music for justice and activism.

The Membership Team and Membership Director Rachel Rose created a welcoming environment on Sunday morning by providing Greeters for all services and by training Welcoming Associates. A new welcoming banner and new name tag rack were added to the Commons area that had been redesigned and decorated the previous year. New members to the church were welcomed with two new member receptions and a newly updated "Connections in a Nutshell" document. 55 New Members signed the membership book during the church year.

Our Covenant Group program supported and improved programs that fostered fellowship and connection, warmly welcomed new people, and helped to develop congregational leadership. 110 people participated in Covenant Groups. They were supported by a strengthened orientation session and a revamped leader training. Tweaks were made to the program, including adding an extra session at the beginning of the year and an ice cream social at the end of the year.

Our Children's Ministry had a successful year in many areas including strengthening the pre-k program, introducing new procedures for integrating new families and starting a Nifty Gifty holiday gift program. Additionally, the Children's Ministry continued strong programs including Our Whole Lives Sexuality Education, Special bUUddies, Shelter Neck Family Retreat, family dinners and engaging Sunday morning programs.

The Youth Ministry program had a strong year offering a wide diversity of programs and activities including middle school religious education, middle school youth group, high school youth group, Coming of Age, Our Whole Lives, Shelter Neck retreats, the New Orleans spring break social justice/service trip, a large class of Inch Fellows, and family dinners. New initiatives this year included holding a lock-in for high schoolers, piloting a Bridging Class for high school seniors, and sending an especially large contingent of youth to this year's General Assembly.

Our Campus Ministry program had a banner year. With more than 20 participants and an average attendance of more than a dozen college students, we can boast of one of the largest and most active UU campus ministry programs in the country. The Campus Ministry led a service in the winter, held a retreat at Shelter Neck, and sent a number of members to an anti-racism training with Organizing Against Racism.

The Spiritual Exploration for Adults (SEA) program served more than 200 people in our congregation during this church year. They broadened participation by offering courses at times other than Thursday night including Wednesday evenings and Sunday afternoons. The SEA Program continues to develop programming that meets the need for communal connections and spiritual development. Lasting, supportive friendships have been realized through SEA programming, new church members become part of a loving community and expand their awareness of the possible connections realized via vibrant adult religious education experience at Community Church. Along with Covenant Groups, SEA is often one of the first places for connection for visitors and new members. SEA realized a long held goal by sending a member of the committee to the Unitarian Universalist Association General Assembly.

In 2016-2017 our Share the Plate program raised \$36,411 to support our partners in the community.

The Community Service Ministry (CSM) facilitated involvement in numerous organizations in our community. In the past year they collected over 300lbs of food for TABLE through a Bountiful Bag drive, worked with our partner churches on our 21st Habitat for Humanity build, distributed 168 school backpacks to kids in Orange and Chatham counties, and participated in preparing and serving lunch and dinner meals at the IFC homeless shelter.

The Peace & Justice Committee (P+J), besides promoting a host of activities in the community, provided support to a local organization called Movement to End Islamophobia and Racism (MERI) and helped to host Palestinian scientist and activist Mazin Qumsiyeh.

The Standing on the Side of Love (SOSL) team led our participation in the Pride March in Durham, the annual Historic Thousands on Jones Street assembly in February, and cosponsored two benefit concerts, one for Syrian refugees and another with Brother Sun. Standing on the Side of Love also arranged for two buses to transport members of the congregation and wider community to Washington D.C. for the Women's March on January 21.

A new initiative composed of members of CSM, P+J, SOSL, and others in the congregation formed in the spring. The Sanctuary and Refugee Support Ministry provides ways for members

of the congregation to get involved in direct service to and relationship building with refugees and immigrants and also is exploring what is necessary for our congregation to become a Sanctuary Church.

The Church, in support of the Strategic Plan objective to provide a “meaningful way to memorialize members’ lives and connect legacy to church,” offers members a process to contribute through estate and other end-of-life gifts. This process occurs under the guidance of the Endowment Committee. This year information regarding the Endowment Fund and how to contribute were updated on our C3HUU webpage and added to the newly created Meditation Corner in the Commons. During this time period, the Endowment Fund received notification of a gift of over \$4000 from estate settlement and memorial gifts. All Endowment Committee members made commitments to C3HUU in their estate planning! The Endowment also provided seed money to establish a mechanism by which congregants could develop the ability to engage in dialogue on difficult issues, both within the church and in the broader community. An initial grant in 2015-16 from the Endowment Fund to support training for a select number of congregants to facilitate small group discussions as part of the Sanctuary for Dialogue Ministry became the seed for training a broader group of congregants who facilitated several discussions on “difficult issues” during 2016-17.

The Buildings and Grounds Team cited its biggest accomplishment for last year as achieving a stable membership of committee members who now know how to do many of the routine C3HUU campus maintenance tasks and who enjoy the fellowship of doing it together. Monthly WorkPARTYs consist of a few hours of work followed by lunch at Breadmens or other similar venue. This combination of manual labor followed by a shared meal seems to appeal to a group of UU's who prefer a format different from the usual discussion-only format for committee meetings. This effort has allowed the team to make more progress than in the past on the Strategic Plan objective of having a building and grounds that “support our programs and activities by being clean, accessible, responsibly maintained and adequate in size.” Two of the Church’s Eagle Scouts built improvements at Memorial Rock amphitheater. One built a new platform, and the other built several new benches. We also purchased a new portable sound system for services at Memorial Rock. These projects supported the Strategic Plan objective regarding sacred grounds to provide a “meaningful way to memorialize members’ lives and connect legacy to church.”

Environmental stewardship is the primary focus of the ECO team, in service of the Strategic Plan objective: "We strive for environmental sustainability and stewardship in our church, in our individual lives, and in the wider world." ECO worked particularly to engage with the “wider world,” by initiating and holding the first ever Environmental Collaboratory for NC UUs last fall; and by initiating and co-hosting a Multi-Faith Earth Vigil with 6 local faith groups in January. "They also continued their efforts to increase awareness and provide opportunities for better care for the earth within our church, for example, by publicizing environmentally friendly practices and by composting at most church events."

During the past year the key achievement for the Communications Committee was to enhance the communication features of the Commons. It worked with the Commons Committee to install and develop two large screens, one featuring slides for upcoming events and one highlighting

past church activities, committees, etc., that reflect the Church's mission. This project also included developing slides for and providing ongoing budget funds for the screens. The screens helped accomplish three objectives in the Strategic Plan: "Improve communication within congregation about church activities, improve communication within the congregation about service and justice activities and opportunities and opportunities for learning, action and volunteerism, and support programs that foster fellowship." A second accomplishment was to enhance church Internet communications by managing the church's private Facebook group and public Facebook page on an ongoing basis. This, plus compiling a report on the usability of the Church's website and doing a review of it by section to make it more current and accurate, served to support the three Strategic Plan objectives above plus a fourth one:

- "Implement coordinated program of public communication and promotion of CCHUUU and Unitarian Universalism."

In the past year the church embarked on a project, originally named Our Space Our Future, and more recently renamed Building on Our Legacy, addressing the following objectives of the Strategic Plan, to maintain, improve, and expand our physical plant and grounds by "undertaking a capital campaign for facility renovation and expansion, and adding additional space for Religious Education Programs and church groups." Building on Our Legacy was overseen by four component task force groups of the Building Project Team: Capital Campaign, Communication, Construction and Finance.

The Capital Campaign Task Force led both the Annual Pledge Drive and the planning for the Capital Campaign. The 2017 Annual Pledge Drive originally was to be held concurrently with the Capital Campaign, but a Financial Feasibility Study showed that we should postpone the Capital Campaign until next year. Because of success with the cottage meeting model for the 2016 Annual Pledge Drive, the CCTF decided to use this model again. The key message throughout the campaign was that *we know you will be as generous as you can be*. As of May 11, 2017, 269 households pledged a total of \$483,644, which is \$7,464 ahead of where we finished last year in August 2016. Of the 269 households that pledged:

- 107 increased their pledge (40%)
- 97 maintained their pledge (36%)
- 34 decreased their pledge (13%)
- 31 were new pledges (11%)

The generosity message works well for our congregation. Assuring members that we know that they will be as generous as possible has produced an increase in pledging of more than \$50,000 over the past two years. The cottage meeting model has been successful as a social event for members, associates, and newcomers to get to know each other better. More importantly, these meetings stimulate people to really think about what our church means to them and provides an opportunity for them to hear what the church means to others which, in turn, helps them hear the message about being generous in their giving because of the role that the church plays in their lives, this community, and the wider world.

With regard to the planned Capital Campaign, during 2017 The CCTF met on a regular basis with other Building Task Forces in coordinating the Building Project. Based on the Financial Feasibility Study that the Board of Trustees (BOT) authorized and a resolution that was passed by the BOT on February 6, 2017, the churchwide portion of the Capital Campaign will be conducted concurrently with the 2018 Annual Pledge Drive. The Campaign was given a head start when five households each contributed \$50,000 towards reducing the legacy loan from our prior renovation project.

During the latter part of 2016, the Communications Task Force put together a communications plan to support the work of the Capital Campaign Task Force to launch a building campaign which would provide additional space for religious education (for all ages), community meeting space and the music program. This plan, to be implemented in the latter half of 2017, included tabling in the Jones Building to provide an opportunity for members to look at conceptual drawings, ask questions, make suggestions, and in general begin to engage more thoroughly in the proposed plans to provide much needed accessible meeting space for congregants of all ages; weekly focused discussion groups on twelve elements of the proposed addition to the Jones Building and renovation of existing space; and other meetings, events and activities to educate and engage as many people in the congregation as possible before the capital campaign is launched.

The Construction Task Force worked to obtain conceptual floor plans for new space and renovations that will fully meet the needs of the RE program and provide needed enhancements of meeting spaces for large events and smaller activities, all of which will be fully accessible. They arrived at a plan that is consistent with these goals and with the estimated financial resources expected from the capital campaign. They also listened to feedback from congregation members on various details that can be adjusted in the next design phase, and were beginning to gather ideas from other places of worship that have similar needs and spaces. They expected to have an architectural design proposal ready this winter.

The Finance Task Force set up Capital Campaign bank account and accounting, managed initial pre-construction costs and budgets, and worked with the Church Administrator to apply the \$250,000.00 in debt paydown donations to reduce church debt. Several Church committees and ministries routinely incorporated leadership development into their regularly held meetings. The Caring Ministry provided training to new members and welcomed Nancy Hudspeth to lead a training on visiting. Rev. Thom Belote led sessions with the Worship Ministry on how to compose calls to worship, prayers, and meditations. A record seven congregants participated in the Preaching Practicum class offered by Rev. Thom Belote, in which they learned how to write a sermon and went on to lead a summer worship service.

The Inch Leadership Program is a project of the Youth Ministry Team and focuses on fostering church leadership among our youth. Last year's Inch Leadership class was the largest class in the history of the program, plus several youth continued from past classes. Youth served on Worship Ministry, Youth Ministry, Children's Ministry and Standing on the Side of Love. The Youth and Young Adult Staff Program is a project of the Children's and Youth Ministry Teams and gives high school youth, college youth and young adults opportunities for paid work in the Religious Education Program, providing needed staff and continuity to those programs. But

equally or even more importantly it provides our young people meaningful opportunities for leadership in Unitarian Universalism as they teach and are role models, and provides positive visibility to young people in the congregation, giving them opportunities to connect with many people in the congregation of all ages. This past year our youth staff included twelve high school and young adults and continues to strengthen. These two programs are responsive to these Strategic Plan goals: “Maintain and increase the integration of our children and youth into the life of the church, support and improve programs that foster fellowship and connection among members, and support and develop leadership in the church.”

Covenant Groups provide an important fellowship and spiritual connection to the congregation. In addition to that important role, Covenant Groups also provide important leadership development for the leaders of covenant groups. Covenant group leaders must be adept facilitators and the deep listening model is excellent training for church leaders. The program also develops self confidence in leaders. Each year we recruit and train new leaders and participating in process is important leadership development. This program is responsive to these Strategic Plan goals: “Support and improve programs that foster fellowship and connection among members, and support and develop leadership in the church.”

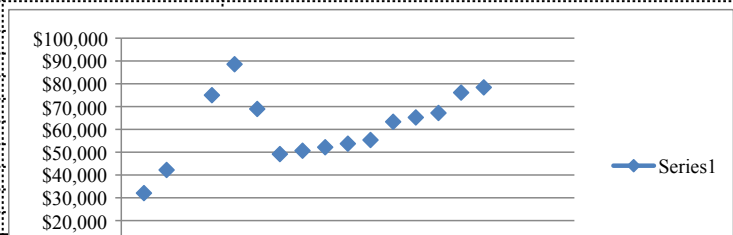
The Sanctuary for Dialogue (SfD) team held three dialogues in 2016-17, on: Privacy and Security, the Palestinian-Israeli Conflict, and our first youth dialogue on Free Speech on College Campuses. Participants included 38 adults and six youths. SfD maintained its relationship with Essential Partners (formerly Public Conversations Project) in Boston, who had trained the Church’s dialogue facilitators. In addition, SfD is in the initial stages of working with a second organization, Better Angels, who are doing work similar in a number of ways to that of Essential Partners, but focused on helping participants reach across the red-blue divide in the American culture. SfD also continued to meet regularly to refine its dialogue process and wrestle with how best to take its dialogue tools into the broader community. SfD’s accomplishments align with the Church’s strategic plan goal to “develop and expand our ability to facilitate dialogue on difficult issues, both within the church and the broader community.”

Expected Maintenance Needs, 2018-2030
 (forecast revised 9/13/16, real 2016 dollars)

FY Year	Location	Description	Periodicity (years)	Cost Estimate	Total Cost	3% Inflation from 2018	Notes
2015	Jones	Install exterior lighting for grounds between Jones and sheds		\$ 1,000	\$ 32,055	\$ 32,055	
2015	Jones	Replace HVAC Compressor		\$ 6,000			
2015	Jones	Replace broken air handler drain pan above fireplace lounge area		\$ 2,000			
2015	Jones	Replace burned out hot water heater in Janitor mop sink		\$ 2,000			
2015	Manse	Manse Roof		\$ 5,319			
2015	Paving	Pave Rear Entry Drive & Parking Lot		\$ 15,736			
2016	Paving	Paving Main Parking Approach + Sidewalk		\$ 23,500	\$ 42,200	\$ 42,200	
2016	Manse	Replace hotwater heater		\$ 4,700			
2016	Jones	Repair HVAC units: condensate plumbing		\$ 4,000			
2016	Sanctuary & Jones	Repairs to roofs (includes ladder install)		\$ 10,000			
2017	Manse	Surveys in support of Sewer project		\$ 1,808	\$ 1,808	\$ 1,808	
2018	various	Small Capital		\$ -	\$ 75,000	\$ 75,000	\$45,434 added to MR 2018
2018	Grounds	Install upgraded exterior lighting for main walkways		\$ 12,000			
2018	Jones	Replace roof (not under solar array)	20	\$ 25,000	Awaiting quote		
2018	Main	Repair roof leak and west exterior sanctuary wall		\$ 10,000			
2018	Main	Paint Sanctuary/Commons & Trim Repairs Exterior	10	\$ 13,000			
2018	Main	Paint Sanctuary Interior	10	\$ 10,000			
2018	Manse	Mold remediation		\$ 5,000			
2019	various	Small Capital		\$ 5,000	\$ 86,000	\$ 88,580	
2019	Jones	Paint Office wing Interior	10	\$ 3,000			
2019	Manse	Sewer line installation		\$ 45,000			
2019	Manse	Replace Front Door/Window assembly		\$ 10,000			
2019	Manse	HVAC replacement	15	\$ 8,000			
2019	Manse	Paint Manse Interior & Exterior & Trim Repairs	10	\$ 10,000			
2019	Manse	Interior and appliance upgrades		\$ 3,000			
2019	Manse	Replace porch/steps		\$ 2,000			
2020	various	Small Capital		\$ 5,000	\$ 65,000	\$ 68,959	Construction Project
2020	All	Building Equipment Replacement		\$ 10,000			
2020	Paving	Repave Main Parking Lot	30	\$ 50,000			
2021	various	Small Capital		\$ 5,000	\$ 45,000	\$ 49,173	
2021	Sanctuary	Replace Stage flooring with stronger wood product & remediate		\$ 20,000			
2021	Main	Replace Sanctuary & Commons Carpet	15	\$ 10,000			

Expected Maintenance Needs, 2018-2030
(forecast revised 9/13/16, real 2016 dollars)

FY Year	Location	Description	Periodicity (years)	Cost Estimate	Total Cost	3% Inflation from 2018	Notes
2021	All	Building Equipment Replacement		\$ 10,000			
<i>Line of pure speculation</i>							
2022	various	Small Capital		\$ 5,000	\$ 45,000	\$ 50,648	
2022	All	Building Equipment Replacement		\$ 40,000			
2023	various	Small Capital		\$ 5,000	\$ 45,000	\$ 52,167	
2023	All	Building Equipment Replacement		\$ 40,000			
2024	various	Small Capital		\$ 5,000	\$ 45,000	\$ 53,732	
2024	All	Building Equipment Replacement		\$ 40,000			
2025	various	Small Capital		\$ 5,000	\$ 45,000	\$ 55,344	
2025	All	Building Equipment Replacement		\$ 40,000			
2026	various	Small Capital		\$ 5,000	\$ 50,000	\$ 63,339	
2026	All	Building Equipment Replacement		\$ 15,000			
2026	Main	Main Roof Membranes		\$ 30,000			
2027	various	Small Capital		\$ 5,000	\$ 50,000	\$ 65,239	
2027	All	Building Equipment Replacement		\$ 45,000			
2028	various	Small Capital		\$ 5,000	\$ 50,000	\$ 67,196	
2028	Main	Paint Sanctuary/Commons Exterior & Interior	10	\$ 25,000			
2028	All	Building Equipment Replacement		\$ 20,000			
2029	various	Small Capital		\$ 5,000	\$ 55,000	\$ 76,133	
2029	All	Building Equipment Replacement		\$ 10,000			
2029	Manse	Paint Manse Exterior & Interior	10	\$ 10,000			
2029	Jones	Paint Jones & Administrative Exterior & Interior	10	\$ 30,000			
2030	various	Small Capital		\$ 5,000	\$ 55,000	\$ 78,417	
2030	All	Building Equipment Replacement		\$ 50,000			



BUILDING PROJECT FINANCIAL PLAN

**Laurence Kirsch, Dan Hill, Larry Ross, & Andrew Wright
The Building Project Finance Task Force**

November 6, 2017

BACKGROUND

The Community Church of Chapel Hill needs new and improved spaces for its Religious Education programs for both children and adults, for regular meetings by twenty-three ministries and committees and six different choirs, for irregular meetings by an additional twenty-eight ministries and committees, and to accommodate substantial growth in various programs. Since 2013, our space needs and ways of addressing those needs have been identified by a Space Assessment Team (later evolving into the Space Exploration Team) and most recently by a Space Reassessment Task Force. The Space Reassessment Task Force held eight group listening sessions in July and August 2016 involving seventy-two members representing all the constituencies of our church community. Following the reassessment, members of the team met with the architect to develop design options to meet our needs. The results of the space reassessment and the design options were presented to the congregation in October 2016.

A building renovation and expansion will be funded by a capital campaign that is intended to also pay off the existing commercial loan, which we refer to as the “existing loan.” Although the capital campaign has not yet been initiated, the Board of Trustees has established a Capital Fund that had a present balance of \$27,562 at June 27, 2017.

The building campaign raises some financial issues, including how the church will determine the reasonableness of construction expenditures, pay construction bills in a timely fashion, manage debt, account for transactions, and involve the congregation in decisions and outcomes. Because funds from the capital campaign will likely be received by the church over a period that partly occurs after the expenditure of funds for construction, there will likely be temporary funding shortfalls that require the church to obtain a construction (bridge) loan.

PURPOSE

The purpose of the financial plan is to facilitate the building project and its associated decisions by providing two things: a) a list of the nuts-and-bolts activities that are needed to implement project financing; and b) financial information that will assist the congregation and the Board of Trustees in making their decisions. This plan is a living document that will evolve over time with improving information, advancing ideas, congregational decisions, and other events.

FINANCIAL FEASIBILITY AND PRUDENCE

The Building Project Finance Task Force (FTF), which reports to the Board of Trustees, is concerned with the financial feasibility and prudence of the manner in which the building project's finances are handled. We have two sets of concerns.

First, the receipts of the capital campaign need to be large enough to pay for the costs of the building project as well as any for any concurrent reduction in the principal of the existing loan.

Second, the church's operating budget should continue to be related to the ongoing operations of the church, and not bear a burden from the financial impacts of the building project itself. Otherwise, there would be some risk that the church's programs and staff compensation could be adversely affected by the financial impacts. Once the building project is complete, some change in the operating budget is expected.

ROLE OF THE CONGREGATION

The Board of Trustees in a Resolution dated February 6, 2017, called for a Capital Campaign beginning in April 2017, to be completed in April 2018. The congregation will decide through individual donations, how much money will be raised by the campaign.

When the results of the capital campaign are known, the congregation will make two key interrelated decisions:

- It will decide the scope of the building project, particularly including its design and cost; and
- In accordance with our Bylaws, it will decide whether to "approve any new debt secured by the real property of the congregation" necessary to complete the building project and deal with the existing Loan. Such debt will surely include a temporary construction loan and may include a new longer-term loan.

DETAILS OF THE FINANCIAL PLAN

Appendix A describes the steps that the FTF and others will take to enable the church to handle receipts and disbursements associated with the building project. These include establishing a project budget, contracting policy, a dedicated bank account, a construction loan line of credit, and accounting procedures; working with the Communications Task Force; and obtaining congregational support.

When the congregation makes its decisions on the scope and cost of the building project and on the disposition of the existing loan, we will easily be able to reasonably analyze and forecast the flows of money over time through the Capital Fund and the operating budget. Prior to these decisions, however, we do have the following information and expectations concerning some key aspects of these flows:

- When the preschool leaves, the church will lose about \$54,000 per year in net rental income.¹ For a building project that expands our building space, this loss of preschool rental income will need to be addressed either through increased operating budget pledges or reduced operating budget expenditures.²
- The existing loan payments are \$47,784 per year. The principal balance owned at June 30, 2017 was \$220,571. In the absence of any early payment of this principal, a balloon payment of approximately \$164,500 will be due when the loan matures on December 25, 2018.
- A construction loan will be needed to cover any amount by which construction costs exceed capital campaign funds received by the time of construction.

¹ The preschool's lease expires on August 31, 2018. The \$54,000 figure, which is in 2016 dollars, approximates our annual receipts of \$64,045 from the preschool minus our payments of \$10,200 for cleaning up after the preschool.

² Note that payments on the existing loan are part of the operating budget expenditures through FY 2018. Donations of \$250,000 to pay down the existing loan were received in June 2017 and substantially reduced the existing loan to the \$220,571 figure mentioned in the text.

APPENDIX A
STEPS FOR HANDLING RECEIPTS AND DISBURSEMENTS

This appendix describes the steps that the Building Project Finance Task Force (FTF) and others will take to enable the church to handle receipts and disbursements associated with the building project.

1. ESTABLISH A PROJECT BUDGET

The FTF will collaborate with the architect, the Building Construction Task Force, the Capital Campaign Task Force, and the Communications Task Force in developing a project budget, which will be subject to Board review and approval. The budget will evolve over time. It will initially depend upon the projected costs of the task forces associated with the building project. It will eventually include construction costs, including the soft costs associated with construction, as consistent with plans approved by the congregation. The FTF will present proposed budgets to the Board for approval.

2. OBTAIN CONGREGATIONAL SUPPORT FOR THE PLAN

Section 2 of the church's Bylaws states, "The congregation must approve any new debt secured by the real property of the congregation. The congregation cedes to the Board the authority to manage the financing of such approved debt."

The Board of Trustees intends to involve the congregation in decision steps beyond the requirement of the Bylaws. In June 2018, after the capital campaign is completed and before detailed planning or construction is initiated, the congregation will be asked to reconcile their design priorities with the amount of money raised, as well as to choose from among the financing options.

2.1. Develop Communication Materials

The FTF will work with the other three task forces to develop materials that inform the congregation of both the physical and financial aspects of the building project.

2.2. Obtain Formal Congregational Approval

The FTF will participate in the process by which the congregation will formally approve, revise, or reject:

- a. the scope of the building project, particularly including design and dollars;
- b. the application of funds to repayment of the existing loan; and
- c. authority for the Board to secure new debt for the purpose of bridge financing.

3. ESTABLISH CONTRACTING POLICY

Consistent with Section 4.3.10 of the Board Policy Book, all construction contracts that have values greater than or equal to five thousand dollars (\$5,000) must be specifically approved by the Board. Contracts with values less than five thousand dollars (\$5,000) may also be specifically approved by the Board, but may also be authorized by the Board through its approval of a general resolution covering smaller contracts.

All contracts must be signed by an officer of the church, namely the Board President, Vice President, Past President, or Board Member at Large. All signed contracts must be consistent with Board approvals and the architect's plans.

4. ESTABLISH A CAPITAL FUND BANK ACCOUNT

To separate building project funds from other church funds, the FTF has established a Capital Fund Bank Account that is separate from the main church bank accounts. All funds associated with the building project will run through the Capital Fund Bank Account except for such funds as may be directly paid by a lender to building contractors. The FTF will work with the Congregational Administrator in establishing the deposit and disbursement procedures associated with this account, and will monitor the implementation of those procedures.

4.1. Establish Signatory Requirements

The persons who are authorized to sign checks disbursing money from the Capital Fund Bank Account are Dan Hill, Laurence Kirsch, Larry Ross, and Andrew Wright. For checks in amounts less than ten thousand dollars (\$10,000), any one signature of the foregoing persons shall be sufficient. For checks in amounts greater than or equal to ten thousand dollars (\$10,000), two signatures of the foregoing persons shall be required.

The signers shall sign checks and authorize other disbursements only when such disbursements are consistent with the Board-approved project budget as per Section 1, the contracting policy of Section 3, and the disbursement procedures of Section 4.3.

4.2. Establish Procedures for Depositing Funds into the Capital Fund Bank Account

The Capital Fund Bank Account was established on December 16, 2016, with funds, from the main church bank accounts, in an amount equal to the balance of the Capital Fund in the church's accounting records.

The Congregational Administrator or her designee(s) is authorized to deposit funds into the Capital Fund Bank Account. As capital campaign or other contributions to the building project are received, the Congregational Administrator shall deposit these contributions to the Capital Fund Bank Account. If funds are received for multiple purposes, such as a check that the donor intends will partly go the church operating budget and partly to the building project, the Congregational Administrator shall deposit the check to the BB&T Checking account and then, generally within a period of no more than five (5) business days thereafter, shall transfer the building project portion from the BB&T Checking account to the Capital Fund Bank Account.

4.3. Establish Procedures for Disbursing Funds from the Capital Fund Bank Account

In each of the first two quarters of calendar 2017, a check shall be drawn, before the end of each calendar quarter, to transfer from the Capital Fund Bank Account to the BB&T Checking account an amount equal to the church's payments of principal on the existing loan during the quarter just ending.³

For the building project's non-construction tasks, an appropriate member of the Building Project Task Force must approve each invoice submitted for payment, on the basis the invoice's consistency with the Board-approved project budget as per Section 1, the contracting policy of Section 3, and the vendor's completion of the invoiced task(s).

For construction tasks, we will work with our architect's numbering system for construction tasks. A co-chair of the Building Construction Task Force must approve each invoice submitted for payment, on the basis of the invoice's consistency with the Board-approved project budget as per Section 1, the contracting policy of Section 3, and the contractor's completion of the invoiced task(s). When the Capital Fund Bank Account has sufficient funds to pay invoices, it will be used for this purpose. When the Capital Fund Bank account does not have sufficient funds, it will be paid by the lender through a construction loan.

5. ESTABLISH A CONSTRUCTION LOAN LINE OF CREDIT

The purpose of the line of credit is to fund the likely temporary shortfalls in capital campaign receipts relative to building project expenditures.

5.1. Establish a Construction Loan Line of Credit

We wish to establish a construction loan line of credit that includes the following characteristics:

- The lender will determine the maximum loan amount as a percentage of the revised project budget as established in Section 1.2 above. The remaining percentage must be provided by capital campaign funds that are received before the start of construction. Authority for the maximum loan amount must be approved by formal vote of the congregation.
- The construction loan could have an interest-only repayment structure for two to three years to allow for disbursement of construction funds and reductions from capital campaign proceeds. If construction expenditures and the outstanding balance of the existing loan exceed capital campaign receipts, a new loan could be undertaken, subject to a formal vote of the members of the congregation.

³ The intention of this policy was: a) to insulate the church's operating budgets for fiscal year (FY) 2018 and FY 2019 from financial impacts of the building project; and b) to leave open the *possibility* that the entire existing loan balance of \$484,039 at 12/31/2016 can be paid by capital campaign receipts. Because of the lengthy delay in the preschool's departure and other developments, this policy was suspended after June 30, 2017.

To provide us with a construction loan, the lender will require evidence of the church's ability to meet its financial obligations in the absence of income from the preschool, and evidence of pledges related to the building project.

Consistent with Section 4.3.10 of the Board Policy Book, the documents establishing the line of credit must be signed by an officer of the church.

5.2. Establish Procedures for Direct Disbursements of Funds from the Lender to Contractors

When the Capital Fund Bank Account does not have sufficient funds to pay invoices, payment shall be made through a draw on the construction loan. The architect must approve each invoice for payment, on the basis of the contractor's completion of the invoiced task. The lender (or its disbursement agent) will also have approval procedures. The FTF will act as liaison between the lending institution and the architect.

6. ESTABLISH ACCOUNTING PROCEDURES

The FTF will work with the Congregational Administrator to establish disbursement and accounting procedures, and to monitor the implementation of those procedures.

6.1. Establish or Continue Ledger Accounts

The Congregational Administrator shall:

- establish a new asset account for the Capital Fund Bank Account;
- establish a new Construction Loan liability account; and
- continue the use of the Capital Fund temporarily restricted fund equity account.

6.2. Record Transactions

The Congregational Administrator shall record building project transactions relevant to accounts as follows:⁴

⁴ A \$10,000 disbursement from pledges is recorded as \$10,000 reductions in the Capital Fund equity account and the Capital Fund Bank Account, and as \$10,000 increases in Real Estate and Illiquid Equity. Payments of construction loan are handled similarly.

Transaction	Debit	Credit
Initial transfer	Capital Fund Bank Account	BB&T Checking or BB&T Investors
Receipts from pledges	Capital Fund Bank Account	Capital Fund equity account
Disbursements from pledges	Capital Fund equity account Real Estate – Church	Illiquid Equity Capital Fund Bank Account
Disbursements from lender	Real Estate – Church	Construction Loan
Payment of construction loan	Capital Fund equity account Construction Loan	Illiquid Equity Capital Fund Bank Account

Note that no project transactions affect income or expense accounts.

The Congregational Administrator shall inform the FTF of building project transactions on a monthly basis.

7. WORK WITH THE COMMUNICATIONS TASK FORCE

The FTF will work with the Building Project Communications Task Force to provide timely financial information to the congregation. This will include supporting documentation for the Capital Campaign, and information on receipts and expenditures and the project progresses.

8. TREATMENT OF EARLY DONATIONS AND EXISTING DEBT

In the fall of 2017 the Finance Task Force drafted the following guidelines for treatment of early donations to the Capital Fund

1. Any amounts by which the balance of the Capital Fund exceeds \$50,000 shall be used to pay down loan principal, to the extent that the principal balance of the existing loan is positive. Otherwise, funds shall remain within the Capital Fund until needed by the building project.
2. Through the later of December 2018 or the departure of the preschool, the operating budget shall continue to include \$3,982 per month that will go to either:
 - a. paying the existing loan as long as the existing loan has a positive balance; or
 - b. the Capital Fund if the existing loan has a zero balance.

The purpose of the first provision is gain an effective return of 4.37% per annum on some capital campaign pledge receipts, while leaving a substantial amount (\$50,000) in the Capital Fund for the building project. The purpose of the second provision is to assure that the Capital Fund is not implicitly used to subsidize the operating budget.

Building Project Budget Summary						
Actual Vs Budget (Remaining Budget)						
Through October 12, 2017	Spent to Date	Open Budget August 8, 2017	Activity Budget		Open Budget October 12, 2017	Notes
				Expenses		
Capital Campaign Task Force						
Generosity Consultant	11,610	2,925		-	2,925	
Meeting Expenses 10/23/16	809	-		-	-	
Meeting Expenses 12/4/16	167	-		-	-	
Meeting Expenses 1/29/17	159	-		-	-	
Space Assessment	242	-		-	-	
Kickoff Party	-	500		-	500	
Celebration June 2018	-	2,000		-	2,000	
Silent Campaign Expenses	-	500		-	500	
Brochure Printing	-	1,000		-	1,000	
Case for Support	-	150		-	150	
Communications Task Force						
Artists' drawings	2,571	5,879		450	5,429	
Generosity Consultant for CTF	-	700	(400)	-	300	Reallocate budget per Gail
Tabling/Display	248	500		192	308	
Other Printing	269	500		-	500	
Jones Open House 9/16/17	-		400	-	400	Reallocate budget per Gail
Finance Task Force						
Loan Principal, FY 2017	13,468	4,513		4,504	9	FY2017 catch-up
Loan Principal, Debt Donations	280,900	-		-	-	
Building Task Force						
Architect's Fees	9,367	-		-	-	
Total	319,810	19,166	-	5,146	14,020	
Cash Balance Remaining	27,456					

CCCH Capital Building Forecast				1,693,482	Raised	1.18M	Construction Costs					
Through October 12, 2017										6.0%		
v 2.2	Existing Loan			Capital Fund					Bridge Loan			
	Date	Interest	Balance	Capital Campaign Receipts	Const. Loan Receipts	Project Payments	Existing Loan Principal	Balance	Advances	Repayments	Balance	Total Debt
Up to	12/25/2016	1,747	484,039	61,366	-	16,190	-	45,175	-	-	-	484,039
	1/25/2017	1,796	481,853	-	-	242	2,186	42,747	-	-	-	481,853
	2/25/2017	1,788	479,659	-	-	6,100	2,194	34,454	-	-	-	479,659
	3/25/2017	1,608	477,285	-	-	90	2,374	31,990	-	-	-	477,285
	4/25/2017	1,771	475,075	-	-	-	2,211	29,779	-	-	-	475,075
	5/25/2017	1,706	272,498	200,301	-	2,121	202,553	25,406	-	-	-	272,498
	6/25/2017	1,011	218,928	50,599	-	56	52,851	23,098	-	-	-	218,928
	7/25/2017	786	215,733	5,000	-	-	-	28,098	-	-	-	215,733
	8/25/2017	801	214,076	-	-	-	-	28,098	-	-	-	214,076
	9/25/2017	795	210,889	-	-	642	-	27,456	-	-	-	210,889
	10/25/2017	757	178,146	30,000	-	-	30,000	27,456	-	-	-	178,146
	11/25/2017	661	174,825	-	-	-	-	27,456	-	-	-	174,825
	12/25/2017	628	171,471	-	-	-	-	27,456	-	-	-	171,471
	1/25/2018	636	168,125	-	-	-	-	27,456	-	-	-	168,125
	2/25/2018	624	164,767	-	-	14,020	-	13,436	-	-	-	164,767
	3/25/2018	552	161,338	-	-	-	-	13,436	-	-	-	161,338
	4/25/2018	599	157,955	36,384	-	-	-	49,820	-	-	-	157,955
	5/25/2018	567	118,336	36,384	-	-	36,204	50,000	-	-	-	118,336
	6/25/2018	439	78,409	36,384	-	-	36,384	50,000	-	-	-	78,409
	7/25/2018	282	38,324	36,384	-	-	36,384	50,000	-	-	-	38,324
	8/25/2018	142	18,168	36,384	-	-	16,316	70,068	-	-	-	18,168
	9/25/2018	67	14,254	36,384	-	-	-	106,452	-	-	-	14,254
	10/25/2018	51	10,323	36,384	-	58,950	-	83,886	-	-	-	10,323
	11/25/2018	38	6,379	53,319	-	58,950	-	78,255	-	-	-	6,379
Psch	12/25/2018	23	-	52,735	-	58,950	2,420	69,620	-	-	-	-
Bld	1/25/2019			35,195	72,034	176,850		-	72,034	-	72,034	72,034
	2/25/2019			35,195	200,965	235,800		-	200,965	360	272,999	272,999
	3/25/2019			35,195	201,970	235,800		-	201,970	1,365	474,968	474,968
	4/25/2019			35,195	202,979	235,800		-	202,979	2,375	677,948	677,948
	5/25/2019			35,195	27,144	58,950		-	27,144	3,390	705,092	705,092
	6/25/2019			35,195	27,280	58,950		-	27,280	3,525	732,372	732,372
	7/25/2019			35,195	-	-		-	-	35,195	700,839	700,839
	8/25/2019			35,195	-	-		-	-	35,195	669,147	669,147
	9/25/2019			35,195	-	-		-	-	35,195	637,298	637,298
	10/25/2019			35,195	-	-		-	-	35,195	605,289	605,289
	11/25/2019			35,195	-	-		-	-	35,195	573,120	573,120
	12/25/2019			52,130	-	-		-	-	52,130	523,855	523,855
	1/25/2020			34,137	-	-		-	-	34,137	492,337	492,337
	2/25/2020			34,137	-	-		-	-	34,137	460,662	460,662
	3/25/2020			34,137	-	-		-	-	34,137	428,828	428,828

CCCH Capital Building Forecast		1,693,482	Raised	1.18M	Construction Costs							
Through October 12, 2017									6.0%			
v 2.2		Existing Loan		Capital Fund				Bridge Loan				
Date	Interest	Balance	Capital Campaign Receipts	Const. Loan Receipts	Project Payments	Existing Loan Principal	Balance	Advances	Repayments	Balance	Total Debt	
4/25/2020			34,137	-			-	-	34,137	396,835	396,835	
5/25/2020			34,137	-			-	-	34,137	364,683	364,683	
6/25/2020			34,137	-			-	-	34,137	332,369	332,369	
7/25/2020			34,137	-			-	-	34,137	299,894	299,894	
8/25/2020			34,137	-			-	-	34,137	267,256	267,256	
9/25/2020			34,137	-			-	-	34,137	234,456	234,456	
10/25/2020			34,137	-			-	-	34,137	201,491	201,491	
11/25/2020			34,137	-			-	-	34,137	168,361	168,361	
12/25/2020			34,137	-			-	-	34,137	135,066	135,066	
1/25/2021			34,137	-			-	-	34,137	101,604	101,604	
2/25/2021			51,072	-			-	-	51,072	51,041	51,041	
3/25/2021			42,604	-			-	-	42,604	8,691	8,691	
4/25/2021			8,735	-			-	-	8,735	0	0	
5/25/2021			-	-			-	-	-	0	0	
6/25/2021			-	-			-	-	-	0	0	
			1,179,000		Construction Costs							
			422,077		Existing Loan Principal							
			39,462		Pre-Construction Costs							
			52,943		Bridge Loan Interest							
			1,693,482		Grand Total							

Let's Not Agree to Debt Beyond What the Capital Campaign Pledges Can Pay

Background:

At a meeting of the Board on February 6, 2017, a resolution was unanimously passed that established a Capital Campaign to begin after the Annual Pledge Drive for the purpose of “expansion and renovation of the Jones Building to meet the space needs of children, youth and adult religious education as well as adult meeting space and to pay off the current church indebtedness when the note comes due in January 2019.” The motion further stated that “When the Capital Campaign is completed, a plan based on these requirements and the funds raised, will be presented for a vote of approval by the Congregation.”

The need to emphasize that the current church indebtedness would be paid off by funds from the Capital Campaign was established first by the Space Reassessment exercise, summer of 2016, and supported during the interviews conducted by Mark Ewert in January 2017. Likely the primary reason for this sentiment was the need to remove loan payments (principal and interest) from the operating budget of the church because of concern that such payments could endanger staff compensation, facilities maintenance and program funding in lean years.

The experience with using a loan to fund expansion of the church has not been good. The decision to endanger the operating budget of the church in exchange for the need of a new sanctuary may have been the right one, but it came at the expense of church vitality, e.g., staff compensation/time and facility maintenance. There were, in fact, lean years that followed the creation of the loan. There were no plans to pay off the loan other than making monthly payments, e.g., no further fund-raising efforts. Instead and worse yet, the church chose to reduce payments in a tradeoff for higher budget priorities as interest rates required by the bank were reduced.

In summary, from January 2011 to June 2017 (when extraordinary, targeted donations were received to specifically reduce the loan principal) the church paid \$318,744 in loan payments. Of that amount only \$131,616 was in reduction of loan principal while the balance, \$187,128, was interest paid. All that time (78 months) the church benefitted from unusually low interest rates (6% for 12 months; 5.15% for 44 months; and 4.31% for the final 22 months), which is unlikely to be the case in the future.

Operating Budget Considerations:

The Operating Budget has recently benefited from an increasing membership, from a robust economy, and from the Chapel Hill Cooperative Preschool (CHCP) rental income, which more than offsets the approximately \$49,000 per year cost of the existing loan.

At the end of the current budget year, June 2018, our operating reserve account should be about \$47,000, which is greater by about \$7,000 than that amount required by Board Policy. Recall that the operating reserves are the “safety net” for unplanned expenses. After the operating reserves are exhausted, there is no “pot of gold” readily available.

The good news is that the CHCP will continue to pay rent until December 2018, when the balloon payment is due on the existing loan. The loan will be paid off in full from the Capital

Fund, so the CHCP rental offset to the loan payments will no longer be important. However, we must make up for the approximately \$6,000 in income that the CHCP rental provides above what is needed for the loan payment.

The bad news is that there is a looming problem in church expenses. The septic system for the manse is unusable and simple replacement will not be approved by the town of CH. So, to continue to use the manse and perhaps rent it for income after the building project is complete, we must connect it to the sewer system. This connection is not an easy fix since the nearest, doable connection is at the northeast corner of our parking lot on UNC property. The cost is likely to exceed \$40,000. Added to that will be the cost of putting the manse in shape to use it (perhaps to rent it). Brad estimates that cost at about \$30,000. These expenses have heretofore not been included in the projected maintenance budget.

We spent little from the maintenance reserves account in FY 2017. The end of year balance sheet shows \$35,071.58 in that account. In the budget for FY 2018 we have, as required by Board Policy, \$45,434 allocated for maintenance reserves. That total, \$80,506, seems a tidy sum until you consider that the long-range maintenance plan FY 2018, totals \$75,000 and the projection for FY 2019, which includes the bulk of the Manse fix expenses is \$86,000. Assuming the same allocation from the operating budget to maintenance reserves in FY 2019 (\$45,434) we will be short in that FY by about \$35,500.

What is at Issue:

When the Capital Campaign is scheduled to end in May 2018, just prior to the Annual Congregational Meeting in June, a proposal will be developed by the Board and its Building Task Forces that asks the congregation to agree at that meeting to a building project plan and to a financing plan. In current discussions we are projecting that the building project plan will be adjusted so that the cost will not exceed those funds raised by the Capital Campaign, i.e., the sum of the pledges made. In the financing plan there will have to be congregational agreement to establish a construction loan to pay for the project until pledges are received (the building project will be completed in the fall of 2019, while pledges may be collected over three years, well into 2020).

But, what are the alternatives if the Capital Campaign does not raise enough to satisfy a reasonable plan for the highest priority needs for expansion and renovation? This would be a regrettable, but highly possible outcome of the Capital Campaign (re: Mark Ewert report of Financial Feasibility).

1. We could decide to proceed with a “make do” plan we can pay for. This is unlikely. A lot of members would be unhappy. It would be a depressing outcome considering all the time and effort that has gone into the project.
2. We could decide to proceed, but with the understanding that we will need to establish a loan beyond the construction loan to complete the payoff of the cost. This solution is fraught with financial risks. Among those, once the commitment that we must only build what we can pay for is relieved, the plan for the building project will likely expand to include many of the lower priority aspects supported by congregational minorities.

3. We could decide to proceed, but with the understanding that fundraising for the project has not concluded, that we must continue until we raise enough to pay off the cost. This solution keeps the focus on “reasonable” when it comes to establishing the plan for what we are going to build. Implied in this pay-for-what-we-build commitment is we keep the pressure on the fundraising. If we don’t commit to paying for the project in the short term, but we acquiesce to long term borrowing, the pressure is off the membership to make sacrifices for the project.

What We Need to Do:

There should be no doubt when we arrive at the June Congregational Meeting that our commitment to alternative number three is unequivocal. This solution should be clearly stated in messages from the Board, in all our Capital Campaign literature and in FAQs on project finance. Stewards who are asking for Capital Campaign pledges should emphasize the commitment to no long-term debt when soliciting for the Capital Campaign.

Conclusion:

If we are “Building on Our Legacy” we should pay for our contribution to that legacy, not “kick the can down the road” to future generations. The specter of unplanned financial challenges for the operating budget is real. We don’t want our legacy to be that we put the church at risk of delivering unacceptable compensation for staff and of shoddy upkeep of our facilities. The responsible thing to do is to fully pay for the building project without passing on new debt to the operating budget.

Bill Poteat – November 8, 2017

Life after Governance Change **by Dan Hotchkiss**

An anthropologist from Pluto might be forgiven for misclassifying “board and committee meetings” among the sacred rites of Earth religion. Meetings, with their arid liturgy of motions, seconds, minutes, and reports, give comfort and security to some, while driving others—particularly those who like results better than extended conversations about pros and cons of possible approaches to activities that might or might not one day issue in results—nuts.

It is not actually meetings that drive people nuts—most leaders expect, even enjoy productive meetings—it is the perpetual unclarity in many congregations about who makes what decision. Lay leaders burn out like old brake pads from the start-and-stop decision-making tempo. People who, at work, carry assigned projects from start to finish find it hard to understand why relatively small decisions require long discussion, often at not one but several meeting tables.

Leaders burn out and disappear, but do not necessarily complain. Good-hearted folk, leaders excuse or even justify tedious decision-making methods, calling them “congregational” or “presbyterian,” “Jewish” or “episcopal.” In many congregations, it is more comfortable to raise doubts about religious doctrine than to question the committee system.

Questioning the unquestionable

This is gradually changing. For a variety of reasons, leaders in congregations of all kinds have begun to question the unquestionable. Sometimes the departure of too many former governing board members triggers the rethinking. Sometimes a strategic planning process launches an imaginative plan that quickly founders in the sandy shoals of governance. Sometimes an exceptionally vital, growing congregation notices that its most innovative programs have emerged only when someone, in despair of working though the formal structure, worked around it.

For whatever reason, growing numbers of churches and synagogues are considering alternatives to their traditional ways of governing themselves. Since 2009, when Alban published my book *Governance and Ministry: Rethinking Board Leadership*, I have enjoyed consulting, coaching, and cheerleading congregations using it to engage in a deliberate governance-change process.

It is not easy work. Institutions naturally resist change—not because the people in them are especially conservative, but because conserving is what institutions do. They codify and repeat patterns of behavior—building trust by repetition, growing in proficiency by practice, building a clear “brand” through consistent and predictable performance.

All institutions resist change; communities of faith resist it for a special reason: almost anything they regularly do, quickly becomes part of somebody’s religion. The oddest things turn sacred—furniture and flower arrangements, calendars of fund-raising events, organization charts. People cling to such symbolic objects, not because they love them, but because they love the congregation and the good they have experienced from its influence, and worry that if surface symbols change too much, they might lose the reality beneath.

Ron Heifetz and Martin Linsky write, “People do not resist change, per se. People resist loss.” Resisting change can be a good thing when it helps people to hang on to what is truly precious. A congregation with no change-resistance worships on a different day and in a different place

each week. That makes it difficult to find it or know whether to support it; in constant motion, it stands nowhere.

Sometimes only innovation—which requires letting go of symbols—lets us hold on to what we truly value. Congregations have begun to realize that comfortable ways no longer produce comfortable outcomes. Change, no longer a threat, becomes our best hope for avoiding deeper loss. When old modes of governance threaten to strangle what is precious in the congregation's life, governance change becomes more thinkable.

A governance road map

Governance and Ministry does not present a model for all congregations to follow. Instead it offers helpful terminology, a “map for thinking about governance,” and a process many congregations have used in shaping their own answers to the governance conundrum. The book draws on the best and most current thinking in nonprofit governance, recognizing that in some ways congregations are distinctive.

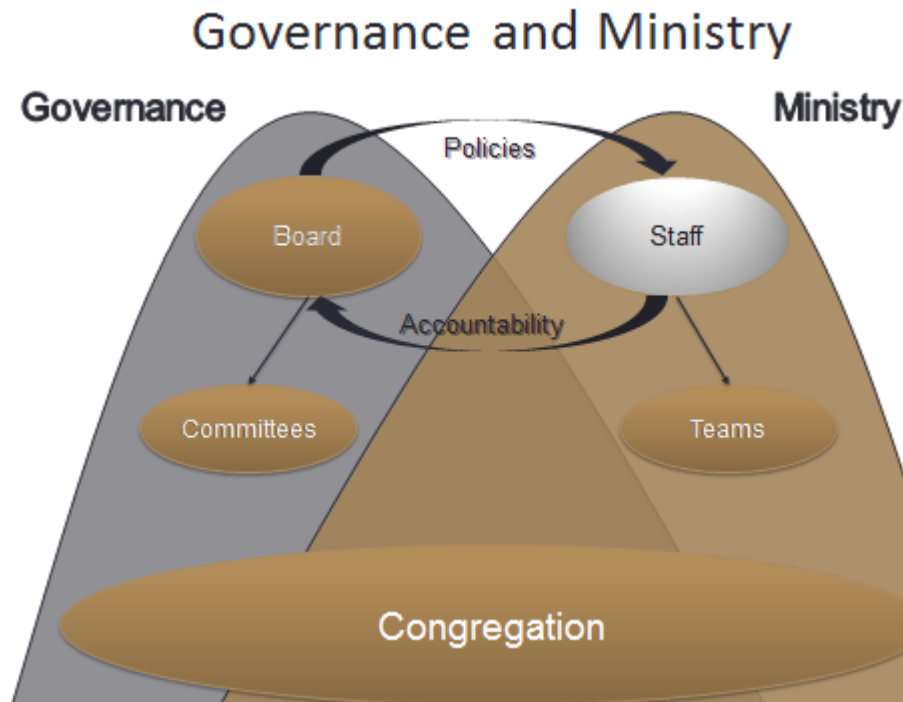
The map shows two overlapping parabolas, one for governance and one for ministry. **Governance** is the job of the board (under whatever name). Governance includes acting as chief steward of the congregation's human and material resources and ensuring that it serves its mission. Governance is “owning the place” in behalf of its true owners, which include its members, its denomination, its community, its God, or—most usefully, I think—its mission. The board governs when it “owns” the congregation in behalf of the mission.

Ministry is the congregation's active work, including managing its workforce (paid and unpaid), spending and receiving money, choosing programs and priorities, and managing the myriad details that must be managed in order to achieve the practical results the congregation exists to achieve.

The board is not concerned primarily with finances or buildings—important as those are. Its primary focus is religious. It aims to spend as much time as it can discerning and interpreting the congregation's mission and translating that into an annual vision of ministry to guide the staff. It spends smaller amounts of time monitoring and evaluating the work as a whole, including money, buildings, and the work of the staff. It does all this in close collaboration with the head of staff, its main partner in fulfilling the congregation's purpose.

The board has only a few standing committees—most of what are typically called committees join the staff structure as ministry teams. The board governs primarily through written policies and holds the head of staff accountable, sometimes along with an executive minister or a small team, for complying with board policies and for achieving hoped-for results of ministry.

I have been delighted to see leaders of congregations across all of the major polity traditions finding Governance and Ministry of use. The results, in terms of the structures, have varied. What they have in common sets “good governance” apart from much of what has become standard across faith groups. Some of the marks of effective governance include:



- A single decision-making structure for governance and one for ministry, with a clear definition of which bucks stop where. Governance bucks stop with the board, and ministry bucks stop with the head of staff. Differences are resolved directly rather than through intermediaries.
- A board that speaks as one. Individual board members have no special authority outside board meetings. Board members may play other leadership roles as well, but remove their board “hat” when they do so.
- Boards speak primarily through written policies. Like any human gathering, a board meeting is a cauldron of informal, nonverbal, and emotional communication. People come away from meetings with a “sense of the board” on any number of topics. Effective boards make it clear that staff and others will not be expected to read the board’s mind, but must treat the board’s formal actions as the final word.
- Whenever authority is delegated, it is balanced with guidance and accountability. Too often, congregations plug people into generic positions or point them in vague directions, and then expect them to come back repeatedly to rehash each decision and appropriate each dollar. It is not fair to hold anyone accountable for results when the results have not been specified, or to blame them for violating an unstated rule. This principle applies whether the board is delegating to the staff or a staff member is delegating to subordinates or volunteers.

The most challenging part of the governance-change process comes after the details of the new structure are worked out. Everyone then needs to learn how to live under the new arrangements. Having taken itself out of day-to-day management, the board must fill its meetings with a rich diet of discernment work, communal learning, and reflection on the “open questions” that sit just past the horizon. The staff must learn to make decisions despite years of experience almost making a decision, and then arguing the case to one or more boards and committees. When clear boundaries take the place of fuzzy ones, everyone must learn to practice a new kind of partnership.

Bumps in the road

Clarifying governance and ministry authority is quite an achievement; I have been awed by the persistence and inventiveness of leaders using Governance and Ministry. At this point, two years publication, I have tracked a number of congregations through the process. Increasingly, I'm working now with congregations that have changed their governance model and are learning to live under the new regime. I'm learning about common "bumps in the road" that follow governance change. Every congregation finds its own points of challenge, but I can point to some friction points to watch for:

Volunteers and paid staff members feel increased accountability and don't always like it. Many congregations are accustomed to a crisscross system of accountability, with one hierarchy of councils and committees reporting to a board and another hierarchy of paid staff, reporting to the head of staff. This worked well in the 1950s, when informal deference hierarchies (rich and poor, clergy and laity, men and women) held more sway, and when churches relied less on paid staff. It still works moderately well in smaller churches. But it was never realistic to expect that a board, meeting once a month for a few hours, could supervise scores of complex program units effectively.

It can be a challenge for volunteers to learn to function under the authority of staff; they may ask, "Shouldn't staff be here to serve the members?" It can be helpful to remember that both volunteers and staff are here to serve the mission. There is nothing democratic about handing control of important pieces of the congregation's work to essentially autonomous committees. Democracy is better served by letting the whole congregation be in conversation with its board about major questions of purpose and direction. When the direction is established, congregants can serve as an empowered workforce under the leadership of an accountable staff team.

A sad fact about life in the nonprofit sector is that many people choose to work there (whether in paid or unpaid roles) because they like not being held accountable. When the board quits trying to "run" the church (a notion that is largely fiction anyway in congregations larger than about 150), some volunteers may chafe when the staff begins to hold them accountable for the results they are expected to produce. Some paid staff may have the same reaction! When this happens it may help to know that it is a normal and predictable result of better governance, and the temporary discomfort is a fair price for an institution capable of setting its own course and sailing true.

Long-standing problems will become more obvious before they are corrected. When authority is parceled out informally, problems can persist for a long time without attracting much attention. Those who try to address chronic problems often will be scoffed at or pushed to the periphery, making it much more pleasant for leaders to accept the status quo.

Effective governance design highlights familiar problems and puts an uncomfortable spotlight on the person responsible for correcting them. Examples of the kind of problem I have in mind include:

- Activities that use church resources simply because they are of long standing, but whose connection to the church's mission is unclear.
- Paid or unpaid workers who perform poorly but remain in place because no one is clearly responsible for addressing the situation.
- Conflicts that simmer because there is no effective forum for deciding issues.

A first step in solving any problem often is to make it feel more pressing and therefore more painful. An effective governance model does this almost automatically. This works, but usually makes long-standing staff and lay leaders sad before it makes them happy.

Volunteer leaders may feel “demoted.” In most congregations, the career track for a volunteer runs through practical church work onto the board. Under more effective governance, the board has its own career track. **A board that focuses on longer-term work like discernment, strategy, and oversight still needs to know and care about practical work, but some board members will not like the new, more abstract focus of board meetings.** It is important to move them from the board into important ministry roles without suggesting that they have failed as board members. Unpaid roles within the staff structure need to be designed with plenty of authority and scope of action, and with titles to match. There is no rule I know of against calling a lay volunteer “Director of”, and more congregations should consider doing it.

Beyond the horizon

Having warned about so many bumps in the road to better governance, I must add that I’ve heard more joy than pain from congregations that have completed their own governance change processes. Congregations have been around for a long time, and have remade and refashioned themselves over and over again. **At a certain point, the awkwardness of future-oriented board meetings gives way to a real excitement about shaping the congregation’s work through big decisions rather than small ones.** The grudging loss of power by program units that have enjoyed de facto autonomy is far outweighed by the net gain in power by the congregation as a whole when it aligns its efforts in support of a shared vision.

As usual when you solve one set of issues, another set comes to the fore. **When the governing board and clergy leader’s roles are clarified, the spotlight shifts to the congregation itself.** Most American congregations give the congregation an important role in governance—with less variation than you might expect from differences in historic polity traditions. But in congregations with attendance larger than about 150 (or adult membership above 250), congregational business meetings make very few significant decisions. In large congregations with attendance of 400 or more (membership 600+), membership meetings are routinized and scripted to the point where it is rare that any real decision-making happens there.

Congregations must vote on some important matters, which may include electing members of the board, approving budgets, calling and discharging clergy, buying and selling real estate, bylaw amendments. **But regardless of the congregation’s size attendance at congregational meetings rarely exceeds 100. Participation typically is skewed toward current officeholders and long-term, older members.** Business items typically are complex packages reflecting hours of preparation by boards and committees.

The budget, for example, may consist of pages of small items carefully prepared by the finance committee and approved by the board. The treasurer explains it all, making it clear, for instance, that no one unfamiliar with the subtle details of the Metzger Trust could possibly intelligently question the “bridge loan from the temporarily-restricted missions holding fund.” In laymen’s terms, he adds, “we’re to borrowing (ha-ha) from ourselves.”

After such an explanation comes lengthy debate over the decline in the postage budget when first-class stamps are rising—is this thrift? A shift to email? A mistake? Nobody knows, but

this does not stop members from expressing their opinions. To be prudent, someone moves to add \$200 to the postage budget, with directions to the finance committee to find a way to rebalance the budget. The motion passes; so does the budget. It is a most unsatisfactorily shallow exercise in pseudo-democracy.

Perhaps the second most important action of the congregation (after approving the selection of the clergy leader) is the choice of board members. For this, the process is not much better. The nominating committee offers either a single slate or a competitive one. The single slate approach suggests that unless someone is angry enough to mount an insurrection, the nominating committee's wisdom is to be preferred to the congregation's. A competitive slate produces an annual crop of losing candidates who swear they never will subject themselves to this embarrassment again. It also makes for the appearance of democracy, but in the absence of real platforms or campaigning, the appearance rings false.

Can congregational meetings become more than empty pantomimes? Many larger congregations, in action if not words, have said no. Accepting that there is no way to make democracy effective in a congregation of 1000 or 2000, it is frankly or covertly dropped. This is a comfortable choice for many people; it reflects the life of larger business corporations, where stockholders' meetings are held largely by proxy, with most of the proxies held by management. This practice frees management to pursue the policies it thinks best, while stockholders vote with their feet, if necessary finding other companies whose plans they think more promising. It works in business (so the thinking goes); why not in church?

But if democracy is hopeless for 2000 people, many of whom meet for worship weekly, what does that say about democracy in city hall or on Capitol Hill? Once upon a time, churches tried to be models for the larger society. I would like to work with some larger congregations interested in experimenting with new modes of congregational democracy that might be useful to our wider civic life.

Readers of *Governance and Ministry* know I urge boards to identify, each year, a short list of "open questions" it plans to reflect on, on its own and with the congregation in town meetings and small groups. This is a good idea, but we need to go farther to find ways large numbers of people can work together on their most important issues. No one knows the answer, which only redoubles the importance of the question.

Take elections, for example. How can a large congregation elect a small board so that the resulting board truly represents the congregation, both as a group of varied individuals and as a covenanted body? Such a board would feel

- accountable both to the congregation and to its mission,
- accountable also to the sub-groups of the congregation who voted for particular board members, so the board hears and includes distinctly different understandings of the mission,
- motivated to bring different visions of the congregation's ministry to the board table, and then to achieve results through dialog and compromise.

This vision of the board would mean, in many churches, making board elections more "political," which many people would regard as negative. But as boards' roles become clearer they will exercise more power and elections should be more political. When congregation

members see that board elections are important points of influence for them, they will enter into the election process more enthusiastically.

For congregations that have reformed governance successfully at the level of the board and staff, the congregation is the next frontier. No one knows all of the answers, but I look forward to working with some congregations that are not willing to give up on democracy. Give me a call!

Means for the sake of ends

Lyle Schaller once observed that liberal churches, which are so often ready to tell the world how it should change, especially resist changes to their own internal workings. Liberals, so this thinking goes, are so open-minded they are not always quite sure what they believe or where they are headed, and so they come to treat “the way we do things here” as if it were the end-all of the church. By contrast, a church with a clear, focused purpose like “bring souls to Christ” will try new worship styles, change its committee structure, or rebalance its staff--whatever works--because the end is more important than the means.

Many of my governance-change clients are comparatively liberal congregations, and I must say that they belie this generalization. If some liberal congregations have been slower to reform their structures of decision-making, One reason may be that they care so much about what Luther called the priesthood of all believers, which makes governance a more complex challenge than it is for congregation that more easily hand power to one person. Building a structure that is serious both about congregational participation in decision-making and enlisting every person in discerning God’s will for the congregation’s makes governance a complicated business. I’m glad congregations of all stripes are now thinking more creatively about their own decision-making practices.

No structure guarantees success or promises a life free of problems. T.S. Eliot wrote that “It is impossible to design a system so perfect no one has to be good.” Luckily congregations are full of people who are good already. The work of governance change can be simply a matter of enabling the congregation to be as good as they are.

Board Time Analysis Form

Time categories	Time in minutes	Percent
Prayer, meditation, ritual, personal check-in, and study of religious texts		
Presenting and discussing minutes, reports, and financial statements		
Responding to requests for permission or approval		
Carrying out scheduled evaluation of clergy, staff, programs, or projects		
Discussing additions or amendments to our written policies		
Choosing financial, program, and staffing priorities for coming years		
Learning together about new ideas and information		
Considering significant changes in the congregation's future ministry or mode of operation		
Other:		
Other:		
Other:		
TOTALS		100%

Board of Trustees Annual Objectives Checkoff List		
Updated:		1-Nov-17
Completed	Activity	Notes
January		
	* Hold a Retreat	#1
	Ratify Any Executive Committee Decisions	#2
	Review Minister's Report	#3
	Appoint	
	Voting and non-voting members of the Board	#4
	Standing Committees	#5
	Task Forces - Limited Time	#6
	Board Activities	#7
	Approve Annual Vision of Ministry	#8
	Approve Preliminary Budget and Budget Narrative	#9
	Approve Board Covenant and Core Values	#10
	Review second quarter financials	#11
February		
	Ratify Any Executive Committee Decisions	#2
	Review Minister's Report	#3
	Review AVM Implementation Report from COS	#3
	Review APD Status Report	#12
	Review Endowment Comm. Quarterly Report	#13
	Approve Changes to Minister's Compensation	#19
March		
	Ratify Any Executive Committee Decisions	#2
	Review Minister's Report	#3
	Review APD Status Report	#12

	Review Gov. Comm. Proposed Bylaws Amendments	#14
	Discuss UUA Relations and Upcoming GA	#15
April		
	Ratify Any Executive Committee Decisions	#2
	Review Minister's Report	#3
	Review third quarter financials	#11
	Review APD Status Report	#12
	Approve COM List of Potential Members from COS	#16
	Review SMT Report on SP Updates & Annual Report	#17
	Affirm Bylaws Amendments for Annual Meeting	#14
May		
	Ratify Any Executive Committee Decisions	#2
	Review Minister's Report	#3
	Review APD Final Report	#12
	Approve Preliminary Budget for Annual Meeting	#18
	Review Fin. Comm. Plans for Budget Town Hall Mtg.	#18
	Review Endowment Comm. Quarterly Report	#13
	Approve Agenda/Assignments for Annual Meeting	#20
June		
	* Conduct Annual Meeting	#20
	Ratify Any Executive Committee Decisions	#2
	Review Minister's Report	#3
	Review Annual Mtg. Minutes. Develop Action Items	#21
	Review Gov. Comm. Proposed Policy Book Changes	#22
	Approve New Nominating Committee Members	#23
	Accredit Delegates for the GA	#15
August		

	Ratify Any Executive Committee Decisions	#2
	Review Minister's Report	#3
	Review SMT Status on SP Updates & Annual Report	#17
	Review Endowment Comm. Quarterly Report	#13
	Monitor Board Election Process	#24
	Review COM Plan for the Minister's Annual Review	#25
	Review Stewardship Comm. "Lessons Learned"	#12
September		
	Ratify Any Executive Committee Decisions	#2
	Review Minister's Report	#3
	Review end of year financials	#11
	Review and Approve Long Range Maintenance Plan	#26
	Review SMT Status on SP Updates & Annual Report	#17
	Monitor Board Election Process	#24
	Receive and Approve the Treasurer's Annual Report	#27
	Approve Current FY Final Budget	#28
October		
	Ratify Any Executive Committee Decisions	#2
	Review Minister's Report	#3
	Review First Quarter Financials	#11
	Approve Gov. Comm. Policy Book Changes (1st cut)	#22
	Approve Annual Report	#17
	Monitor Board Election Process	#24
November		
	Ratify Any Executive Committee Decisions	#2
	Review Minister's Report	#3
	Review Endowment Comm. Quarterly Report	#13
	Approve Gov. Comm. Policy Book Changes (final)	#22
	Approve SP Changes	#17
	Monitor Board Election Process	#24

	Report of Stewardship Committee on Strategy	#12
December		
	Ratify Any Executive Committee Decisions	#2
	Review Minister's Report	#3
	Receive COM Minister's Eval. & Comp. Recs.	#25
	Discuss AVM Preparation with the Minister	#8
	Conduct Annual Board Self Evaluation	#29
	Review Board Retreat Agenda	#1
	Monitor Board Election Process	#24

Board of Trustees Annual Objectives – Notes Accompanying Check Off List

These notes are intended to briefly explain the items found on the “BOT Annual Objectives” checkoff spreadsheet and give a reference to the Bylaws or Board Policy Book (BPB) where applicable. Neither the checkoff list nor these notes are intended to take the place of the Board having a thorough knowledge of Policy Governance, the Bylaws and the Board Policy Book.

More details can sometimes be found in agendas and minutes from Board meetings of recent years. Not everything the Board does on a regular basis is specifically spelled out elsewhere, but has become a custom over the latest several years. It would be a good idea in some cases to update the BPB for these items.

The Board could incorporate some additional items in its regular schedule that are required of it by the BPB. The requirements to monitor various aspects of church life or to engage in regular strategic long-range planning at the Board level are examples of potential Board activities that have been somewhat lacking.

The checkoff spreadsheet and these notes should be “living documents” that are edited every year as the objectives of the Board are modified and improved.

Items marked with a “*” are events outside of regular Board Meetings.

#1 Retreat

There is no Board Policy that requires an annual retreat (perhaps there should be one). A Retreat has been usually held on the first or second weekend of January to be completed before the first Board meeting of the year (second Tuesday in January). This retreat is not an official meeting of the Board and no minutes are kept. The agenda is developed in December by the incoming President with advice from the outgoing President and the Minister.

Along with topics/issues of then, current interest to the Board, the retreat has included sessions on governance learning, on the Board Covenant, on the Core Values of the church, on the budget process, on strategic vision with emphasis on the Annual Vision of Ministry and on a tour of the church with a discussion of the short and long-term maintenance plan. There is also introduction of the requirement for Board standing committee, task force and activity assignments to be made at the January Board meeting.

#2 Ratify Any Executive Committee Decisions (Bylaws Section 6.1)

The Executive Committee meets (in person not specified) to conduct affairs of the church between regular Board meetings. Minutes need not be kept and only actions taken in these meetings need be ratified by the Board.

#3 Review Minister’s Report (BP Section 5.1)

There are Board Policy requirements of the COS, e.g., Annual Insurance Review or Long Range (Ten Year) Maintenance Requirements Plan or AVM Implementation, the status of which should be reported to the Board periodically. And, keeping the Board informed of the status of programs and ministries is a good idea.

Board of Trustees Annual Objectives – Notes Accompanying Check Off List

#4 Appointments – Voting and Non-voting members of the Board (Bylaws Section 4.4 & 5.2)

The “new” Board elects a “Member at Large” from its ranks. It also appoints a recording Secretary, the Treasurer and an Assistant Treasurer.

#5 Appointments – Standing Committees (Bylaws Sections 6.2 & 6.3 & BP Appendix A)

During the year the term of members on various Board standing committees expire. At the January meeting new members are approved by the Board. Several months in advance of the meeting for approval, the Board works with the committees to develop the slate of new members:

January: Strategy Management, HR, Stewardship (Board Seat), Governance, Stewardship and Finance

April: Committee on Ministry

June: Nominating, Stewardship (Non-Board Members)

#6 Appointments – Task Forces – Limited Time (Bylaws 6.3)

At any time during the year the Board may establish or dissolve a Task Force. In January it is a good practice to inventory all active Task Forces to ensure the accuracy of the charters with respect to tasking and termination expectation.

#7 Appointments – Board Activities

Board members are assigned, primarily at the January meeting for the calendar year, to take the lead on important Board activities not covered by standing committees or task forces. These activities have recently included: Development (Financial), UUA Relations/GAA Study Items, Congregational Communications and Leadership Development.

#8 Approve Annual Vision of Ministry (BP Section 3.2.2)

The Strategy Management standing committee and the Minister begin work in the fall to update the AVM. A draft of this document is first presented to the Board at the December meeting for discussion. The document is also discussed at the Board Retreat in January. The finalized document is approved by the Board at the January meeting. The approved document is then available to be used by other standing committees (e.g., Stewardship) and church ministries.

#9 Approve Preliminary Budget and Budget Narrative (BP Section 4.2.2)

The Chief of Staff develops a preliminary budget and a budget narrative explaining significant budget items for the fiscal that will begin the following July. The Finance Committee and the HR Committee receive these documents in December for review and recommendations to the COS. Both documents are presented for information at the Board Retreat. The Board discusses and approves these documents at the January meeting and makes them available for information to the APD.

#10 Approve Board Covenant and Core Values (BP Sections 1.2 & 2.1)

The Board at the January meeting revisits both the existing Board Covenant and the Core Values of the church for affirmation. Should there be a change to the Core Values, which was developed as prescribe in the Bylaws section, the Board will publish such change to the congregation.

#11 Quarterly Review of Church Financials (BP Section 5.1)

Board of Trustees Annual Objectives – Notes Accompanying Check Off List

Each quarter of the fiscal year financial reports, income/expense compared to budget, and the balance sheet, are prepared by the church administrator. The Board should discuss these documents with the COS to ensure that the financial plan for the FY is on track and remains sound e.g., financial reserves are on target. The Board must take corrective action as indicated by these reviews. The Finance Committee should review these documents with the COS and make recommendations to the Board before the Board discussion.

#12 Stewardship and APD (BP Section 4.2.5 and Stewardship Committee Charter)

The Stewardship Charter charges the committee with a year around program to plan, staff and execute the Annual Pledge Drive (APD). The APD delivers the major part of the income necessary to maintain the church facilities and programs. Since the Board has fiduciary responsibility for this upkeep, regular monitoring of the activities of the Stewardship Committee is necessary.

#13 Review Endowment Comm. Quarterly Report (EC Congregational Resolution, June 2014)

The Endowment Committee Plan of Operation requires it to keep the Board informed of its activities, specifically to provide minutes of its meetings and a quarterly report of its financials. In May the Board should coordinate with the EC on the annual presentation of the EC at the Annual Congregational Meeting.

#14 Bylaws Amendments for Annual Meeting (Bylaws Section 12)

The Bylaws of the church are seldom amended. Proposals for amendment, whether generated by the Board or by petition from the membership, are usually presented to the congregation for a vote of approval at the Annual Meeting in June. The Governance Committee, during the year, holds discussions with stakeholders whose interests may be affected by a possible amendment. Board action on the possible amendment(s) is scheduled early enough for the Board to conclude a recommendation about the possible amendment(s) for the congregation.

#15 UUA Relations and Annual General Assembly (GA) Delegates

Usually once a year, but more often as a situation dictates, the Board member assigned to the activity of “UUA Relations/GAA Study Items” briefs the Board on any church interactions with the UUA or the regional UU organization and on the upcoming GA agenda. The only regular Board action is in the June meeting to accredit church delegates to the GA, which is required by the UUA bylaws. Such Board accreditation has not been a directive about how the delegates should vote on matters brought before the GA.

#16 Committee on Ministry (COM) Member Selection (BP – COM Charter)

Annually, or more often if necessary, the Minister brings a list of church members to the Board for approval as potential members of the COM. The Board may approve all or fewer of the members on the list. Subsequently, the Minister will ask for volunteers from the approved list to fill vacancies on the COM.

#17 Strategy Management Team (SMT) – Strategic Plan Updates and Annual Report (BP – Section 3.1 and SMT Charter)

Board of Trustees Annual Objectives – Notes Accompanying Check Off List

The SMT is among other things chartered to maintain the Strategic Plan (SP) of the church. At a minimum the SP must be considered for update every three years. Throughout the year the SMT gathers ideas on how to strengthen the SP. It holds discussions with stakeholders whose interests may be affected by a possible change to the SP. When a change seems worthwhile, the SMT brings the suggestion to the Board for discussion, possibly resulting in approval and recommendation to the congregation for affirmation. An additional duty of the SMT is to assemble and publish the Board's Annual Report to the congregation at the beginning of the new fiscal year.

#18 Approve and Explain the Preliminary Budget for the Annual Meeting

Once the APD results are known the COS makes any necessary adjustments to the preliminary budget. The final budget approval by the Board will come in September, but this milestone establishes the Minister's and staff's compensation since those line items begin July 1st. This budget, once approved by the Board, will be presented to the congregation at the annual meeting for affirmation. Prior to the annual meeting the COS, the Treasurer and the Finance Committee hold a town hall meeting for members who wish to hear and to ask questions about a detailed explanation of the budget.

#19 Approve Changes to Minister's Compensation (BP – COM Charter)

The Committee on Ministry in its annual report (December), after consultation with the Finance Committee, recommends changes to the Minister's compensation. Any change to the Minister's compensation, the details of which are found in the "Letter of Call", must be negotiated with the Minister to achieve mutual consent with the Board.

#20 Approve Agenda/Assignments for and conduct the Annual Meeting (Bylaws Section 7)

The Board develops the agenda for the annual meeting of the congregation. The recurring items are: Budget Affirmation, Endowment Committee Report and new member election, and a Board presentation on "The State of the Church". The Board may decide to present other items of current interest to the congregation or those items where the Board needs or seeks congregational approval or affirmation. Board members are assigned various tasks for the meeting and a volunteer parliamentarian is required.

#21 Review Annual Mtg. Minutes. Develop Action Items

Minutes of the Annual Meeting are kept (Board volunteer, usually the Secretary), affirmed by the Board at its June meeting and subsequently published on the Website. At the June meeting the results of the Annual Meeting are discussed and commitment is made for action items, if any.

#22 Governance Committee (GC) Management of Board Policy (BP) and BP Book Changes (BP – Section 1.3.4 & Governance Committee Charter)

The GC continuously reviews the BP to determine if it is comprehensive and adequate to the Board's role. A BP may be changed at any time by a majority vote of the Board, but customarily BP changes are considered and passed by the Board in the fall. The GC develops or collects from the congregation proposed changes to the BP and introduces the pending list at the June Board meeting. It is important that the GC consults with affected stakeholders in the process of developing the language of a change. The proposed changes are presented to the Board by the GC at the October Board meeting. Those proposed changes not dealt with in October are held over for action to the November meeting.

Board of Trustees Annual Objectives – Notes Accompanying Check Off List

#23 Approve New Nominating Committee Members (Bylaws Section 6.2)

The Nominating Committee and the Board develop a slate of new members for the committee during the spring, usually two new members. The Board elects new members to the committee at the June Board meeting.

#24 Monitor Board Election Process (Bylaws Section 4.3)

The nominating process and the election of new Board Members is detailed in the Bylaws. It is in the Board's self interest to monitor the execution of that process, consulting with the Nominating Committee at each milestone to ensure the satisfactory completion of the election of new members of the Board.

#25 COM Annual Review of the Minister (BP Section 5.2.4 and COM Charter)

At the August Board meeting the COM presents their plan for Board approval for carrying out the Annual Review of the Minister. Guidelines for this plan are found in the BP. The COM delivers a report to the Board of the results of the review in December. An in-person report is usually only necessary if there are concerns for discussion.

#26 Review and Approve Long Range Maintenance Plan (BP Section 4.3.4)

Each year the COS delivers an update of the Ten-Year Maintenance Plan showing the projection of items and costs associated with the upkeep of the church facility. This plan is critical to the approval process for the final budget.

#27 Receive and Approve the Treasurer's Annual Report

Each year, after the books for the previous fiscal year are closed, the Treasurer delivers a report on the financial state of the church. This report serves as an authoritative reference for the Board in its work and is published on the Website for the interest of the congregation.

#28 Approve Current FY Final Budget (BP Sections 4.2.2 and 5.1)

The COS presents the "final" budget for the current fiscal year for Board approval. Unless the results of the previous fiscal year were unexpected or the final pledge amounts were less than projected there will be few, if any, adjustments from the preliminary budget that was approved in May. The Board should pay particular attention to the previous year's end status of the financial reserves to ensure that the operating reserves met and will meet the Board Policy requirement and that the maintenance reserves are consistent with the Ten-Year Maintenance Plan.

#29 Conduct Annual Board Self Evaluation (BP Section 5.2.2)

There are no guidelines for Board Self Evaluation or the evaluation of the Board by the COS. But, it is customary to hold such an evaluation session.

Treasurer's Annual Report

to the Board of Trustees

Community Church of Chapel Hill Unitarian Universalist

Andrew Wright, CPA, Treasurer

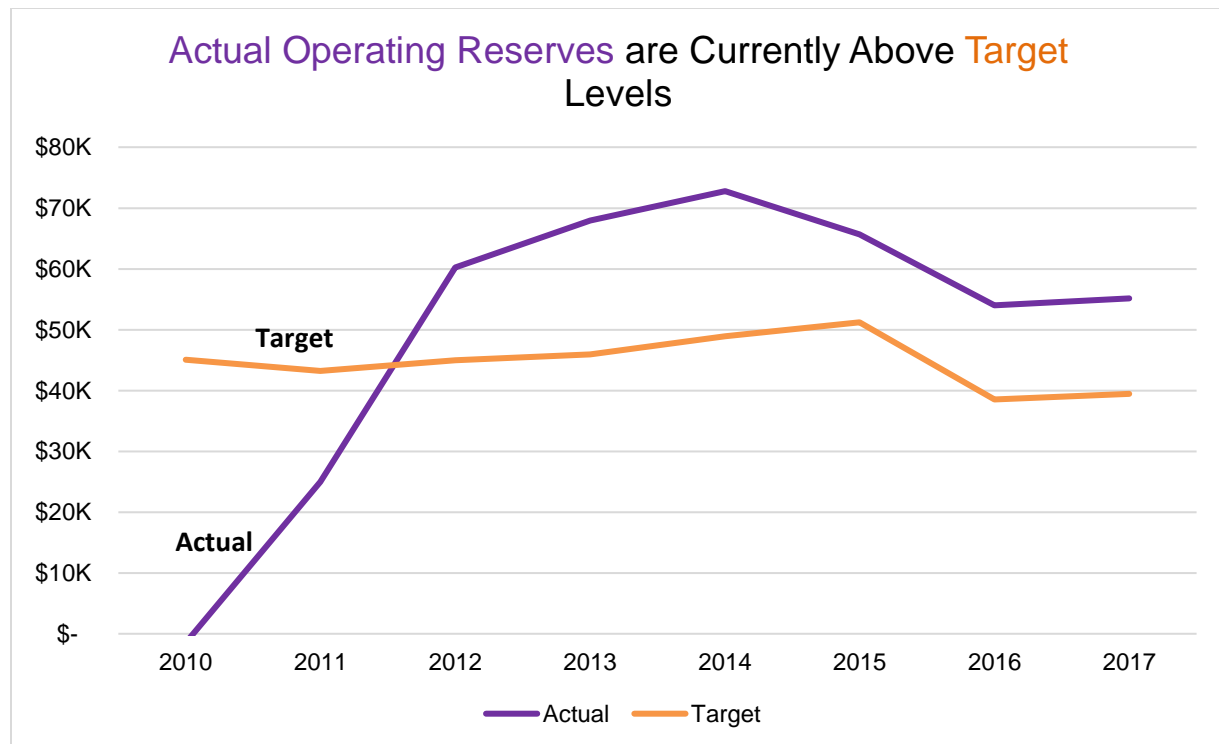
November 2017



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, 2017 (FY2017). 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 FY2017 actual operating reserves were 9.2% of FY2017 actual expenses and 8.4% of FY2018 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 4% as a result of new members and expenses were under budget.

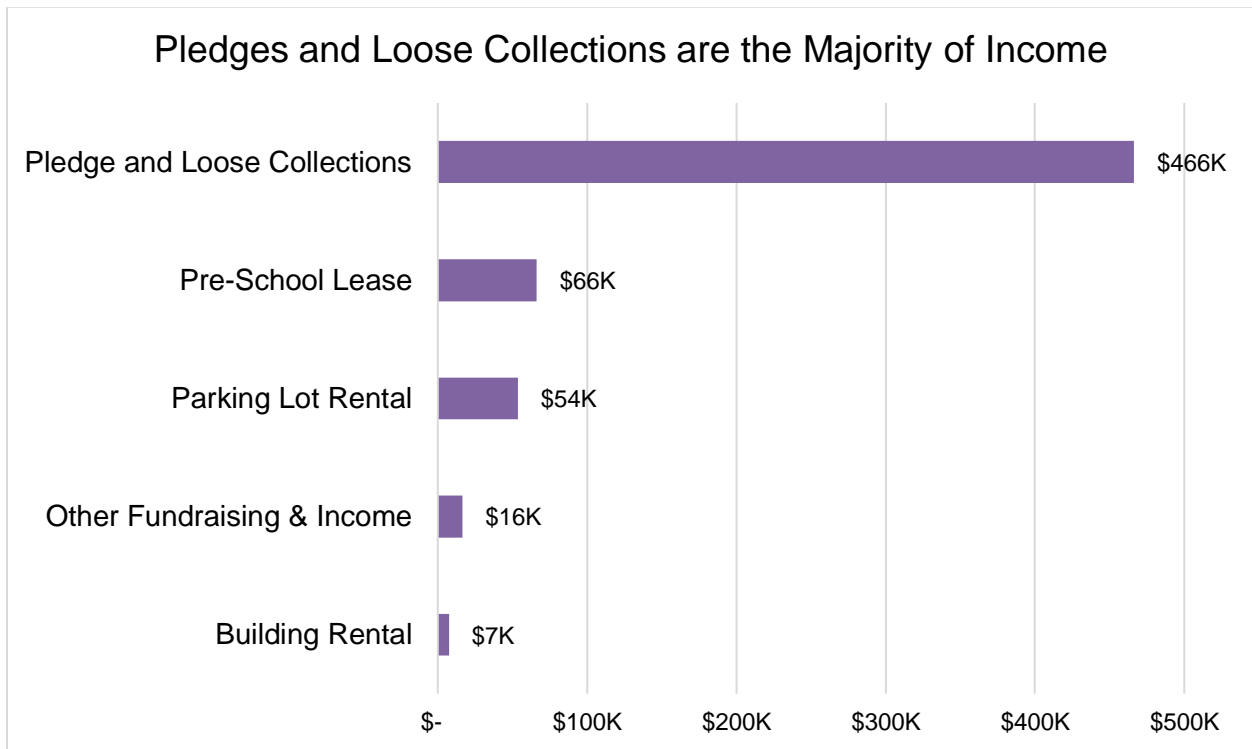
Looking ahead, the building project will put pressure on operating income. During the time that members are fulfilling both capital and operating pledges, if expenses increase it will put a strain on the budget and the BOT and Minister may decide to dip into operating reserves or make cuts to other expenses.

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 picture. We also have the people and processes in place to maintain our financial position during the campaign.

Income

The primary source of income for CCCHUU is member pledges and loose collections, making up 76% of total income. Total income for FY2017 was \$610k as compared to \$586k in FY2016, a 4% increase. Figure 2 shows all sources of income.

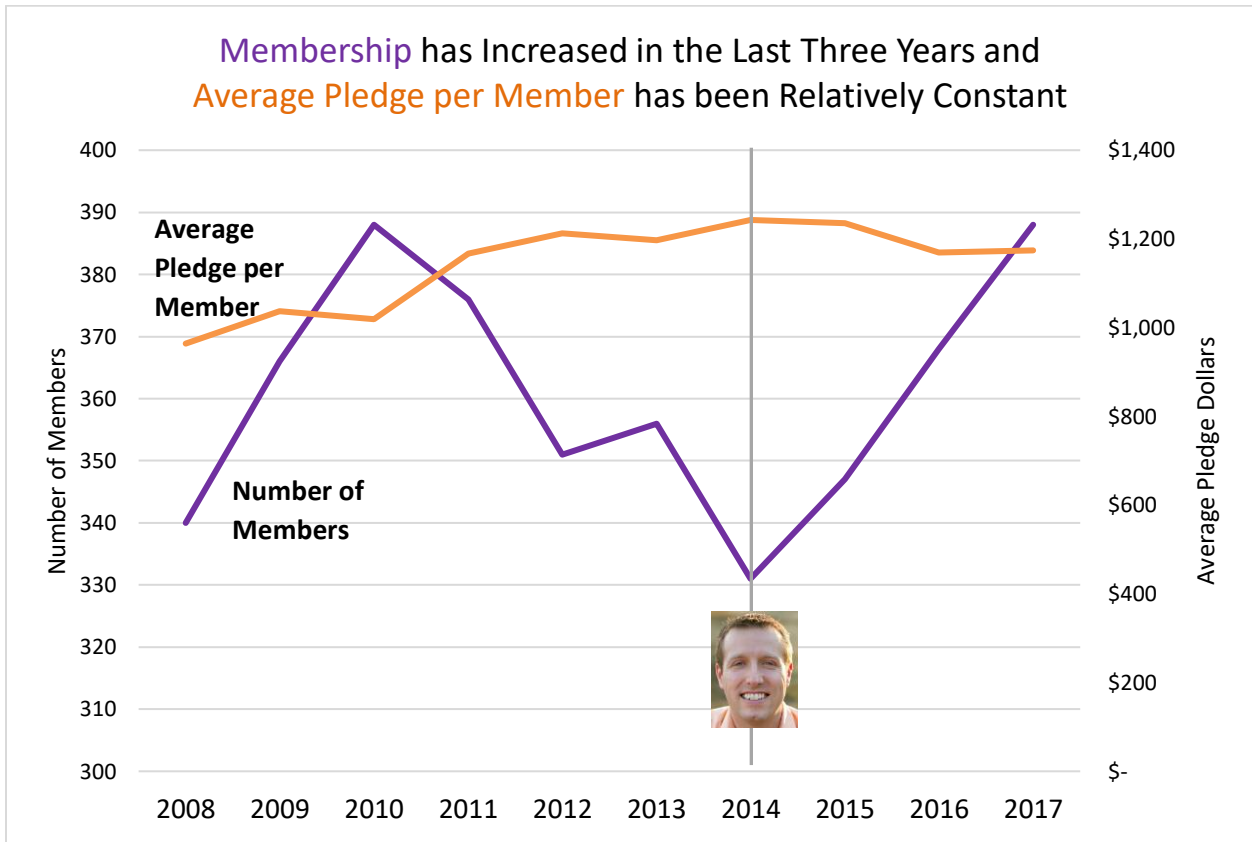
Figure 2 – FY2017 Sources of Income



The Pre-School Lease is scheduled to end in December 2018, after which a comparable reduction in expenses must be found. The church is planning to offset this loss of income with elimination of the existing debt, whose payments approximately equal the pre-school income, net of related janitorial expenses.

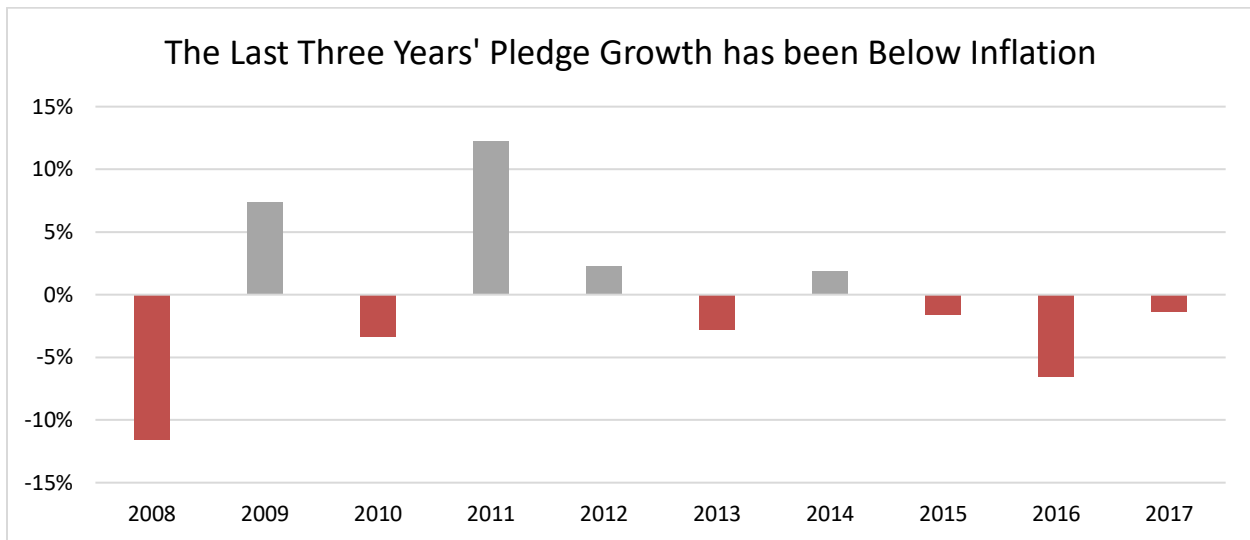
The total income from member pledges is a function of number of members and average pledge per member. There is a great deal of variability in pledges per member, but looking at an average is a valid way to evaluate income. After falling from 2010 to 2014, membership has been increasing in the last three years back to 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 been relatively constant. 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 the growth rate of average pledge per member not keeping pace with inflation. Figure 4 shows the growth rate of average pledges as compared to inflation. Above the 0 line means that average pledges grew more than inflation by that percent, while below the line means that they grew by that percent less than inflation. Over the long term we would like to see more years above the line than below.

Figure 4 – Pledge Growth Rate Compared to Inflation



Again, this is a trend to watch over the long run but I am not worried about it at this time given the increase in net new members.

Expenses

There are two ways the congregation spends money.

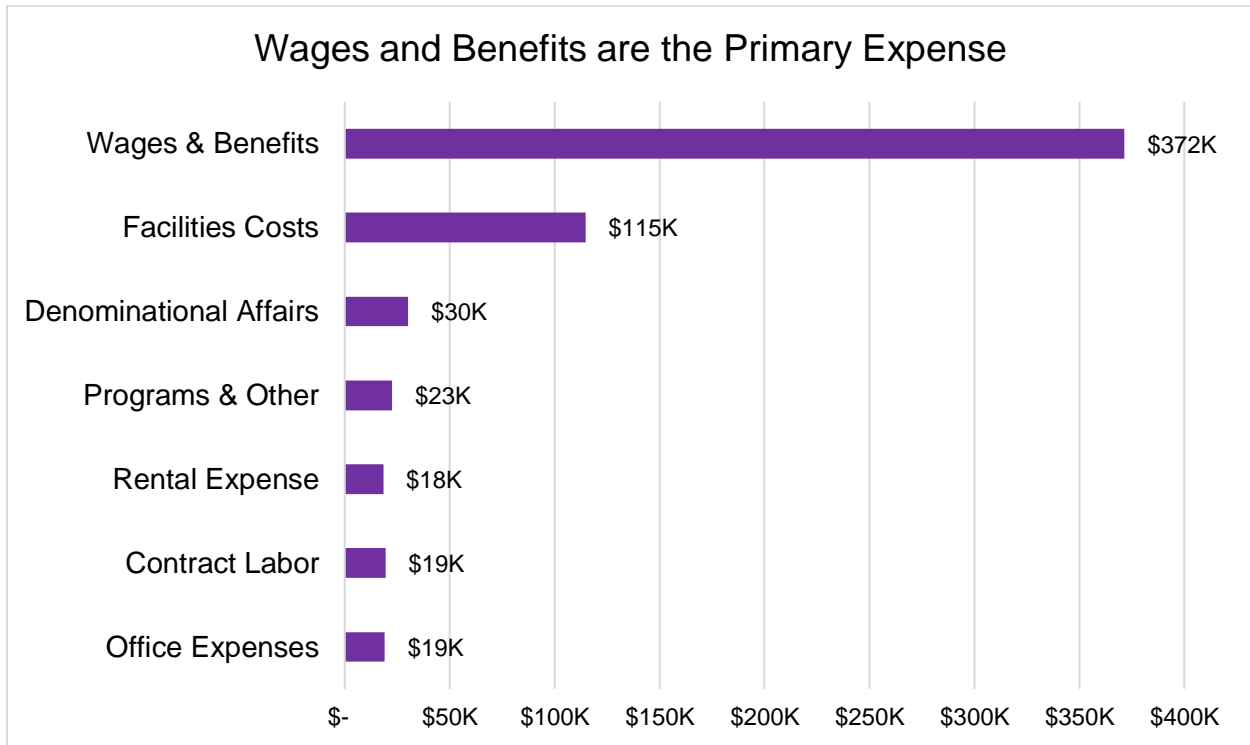
- The Operating Budget is funded from the income described earlier, primarily member pledges. These expenses are primarily paying staff and maintaining the facilities in support of the core mission of the church.
- Restricted Funds are self-contained categories which have separate sources of income not 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 5 shows operating expenses by type of expense for the operating budget only. Wages and benefits for our staff make up the majority of our operating expenses, at 62%. Facilities costs consist of putting money away for repairs into the Maintenance Reserves, interest on our existing debt¹ from the last building project, janitorial expense not related to the pre-school, and

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

other building costs. Facilities costs made up 19% of operating expenses in FY2017. All other items in the operating budget made up the remaining 19% of expenses.

Figure 5 – FY2017 Operating Expenses by Type of Expense



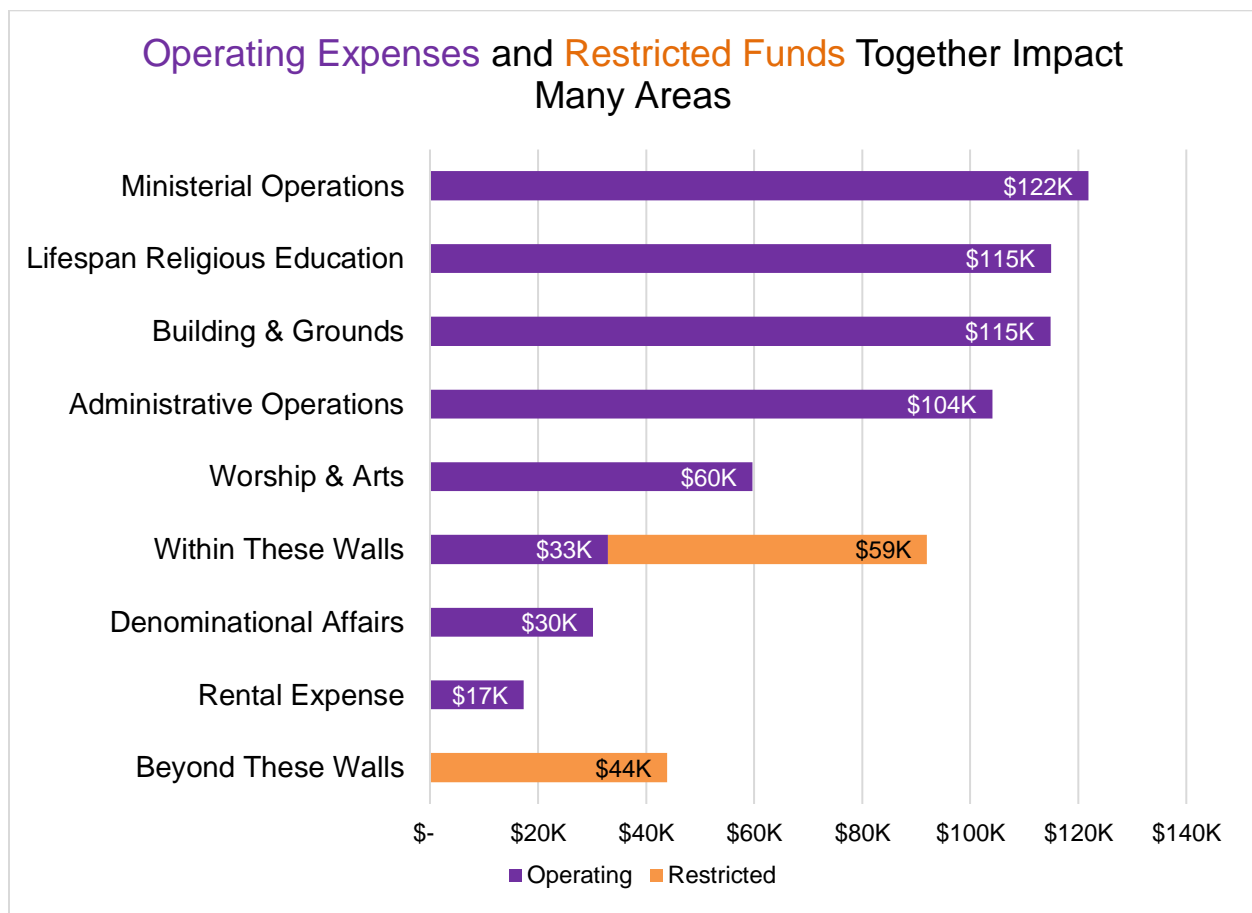
Another way to look at how we spend money is to categorize it by what impact it has or what purpose. For this we will add together both the operating budget and expenditures by the restricted funds, to get a complete picture of the impact of our congregation. The Restricted Fund Expenditures have been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

When looking at the purpose of the expense, we spend money in several ways.

- Ministerial Operations - primarily salary and benefits for our minister
- Lifespan Religious Education (LRE) - expenses for Director of LRE and the LRE Assistant and expenses for education programs for all ages
- Building and Grounds - putting money into our maintenance reserves, interest on our existing debt, janitorial services, insurance, utilities and other maintenance
- Administrative Operations - expenses for Congregational Administrator and Office Assistant, office equipment and technology
- Worship & Arts - compensation for 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 Unitarian Universalist 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

Figure 6 – FY2017 Operating Expenses and Restricted Funds by Purpose of Expense (excludes Capital Fund)



Maintenance Reserves

Included in Figure 5 under Facilities Costs, and in Figure 6 under Building & Grounds is an expense for maintenance reserves of \$37k. This is where the operating budget sets aside money to the balance sheet in a line called Maintenance Reserves. BOT policy for FY2017 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 FY2017 the church set aside \$37k for maintenance reserves and spent only \$2k out of maintenance reserves related to the Manse sewer. The ending balance can be found in Table 1.

Capital Campaign and Building Project

Three events influenced the decision by the BOT and congregation to pursue a capital campaign.

- The pre-school lease is set to expire on December 31, 2018. Income from the preschool, net of related janitorial expense, was \$56k in FY2017.
- When the pre-school leaves CCCHUU there will be the need to refurbish the space it occupied to make it usable for religious education, and there is the opportunity to expand the Jones building to accommodate the needs of various groups to meet in the church.
- After the conclusion of the prior building project to renovate the sanctuary in 2006, the congregation decided to carry debt to fund a portion of that project (referred to as the "existing debt"). Payments on the existing debt are \$48k per year, split between interest and principal. The debt comes due on December 25, 2018, when the church must either pay a balloon payment for the remaining principal of approximately \$130k², or refinance the remaining principal and continue to make payments.

Either an increase in pledges or a reduction of expenses would be needed starting in January 2019 to maintain a balanced budget. Paying off the existing debt was identified as a solution to reducing expenses by a similar amount to the loss of preschool income. A capital campaign that would raise money for the dual purposes of paying off the existing debt and funding the renovation and expansion of the Jones building was explored over the course of the past several years and was approved by the BOT in FY2017.

As part of the capital campaign, the BOT created several task forces including a Finance Task Force (FTF). The FTF is managing the budget, expenses, and financial policies of the capital campaign. Other task forces include the Capital Campaign Task Force, Communications Task Force, and Building Task Force. Capital Fund transactions can be found in Table 4.

In FY2017 the expenditures in the Capital Fund consisted of payments toward our existing debt (\$260k), payments for a financial feasibility study (\$12k), and other pre-construction costs (\$8k).

At the end of FY2017, the Capital Campaign cash account, included in the Checking/Savings amount in the balance sheet had a balance of \$28k. Pre-construction expenses of \$15k have been approved by the BOT and not yet spent, meaning the Capital Campaign is solvent for now.

² This estimate of the remaining principal is as of November 2017 and reflects \$260k of principal paid down by the Capital Fund in FY2017, the estimate assumes the capital campaign does not make any more payments to principal before the debt is due in December 2018.

The campaign is scheduled to conclude in May 2018, after which the task forces will reconcile the pledges with the expected construction costs and remaining debt. The congregation will approve a plan in June 2018 and construction is expected to begin in early 2019.

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, this will put a strain on the operating budget.

Financial Risks and Other Considerations

In December 2016 the current treasurer (at that time assistant treasurer) performed a financial review which looked at controls and financial processes at CCCHUU. In January 2017 we engaged the services of an outside CPA, Mig Sistrom, to also review the financial processes. Those two reviews resulted in a series of recommendations which will benefit the congregation by strengthening controls. The recommendations are in the process of being implemented, with some completed and some underway during FY2017. In general the controls were good prior to the reviews, and these changes will strengthen them.

The capital campaign 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.

Medical expenses are the primary expense concern of the treasurer, as they tend to rise faster than inflation. The UUA announced November 1, 2017 that premiums will not increase at all in 2018, which is a great relief, however what will happen in the years after 2018 is still a concern.

Maintenance costs, especially for the aging Manse building, are also a concern.

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 training and for allowing me to plagiarize parts of last year's Treasurer's Annual Report.

Thanks to Bill Poteat for insights and training.

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

Inflation data from Federal Reserve Bank of St Louis, <https://fred.stlouisfed.org/series/GDPDEF>.

Financial Statements

The financial statements are on an accrual basis.

Notes on Table 1 - Balance Sheet

Fixed Assets are not depreciated currently but that is an area I plan to research. Normally an organization would depreciate fixed assets in order to show the expense as a reduction of net income and reduce their tax liability. Being tax-exempt, CCCHUU has not depreciated fixed assets in the past. I will see if we are able to claim any of the parking lot repaving expense as depreciation specifically against our parking lot business which is considered taxable. If we are able to claim a portion of that expenditure to reduce our net income from the parking lot rental, we could save money on taxes.

Maintenance Reserves ending FY2017 were \$35k due to not spending any material amounts during the year. The Manse will require a sewer replacement in the next year so we expect to spend the maintenance reserves in FY2018.

Long-Term Liabilities consists entirely of the existing loan which remained after the conclusion of the prior building project in 2006. This loan is due in December 2018, so the majority would really be considered a current liability, however for comparative purposes I am presenting the debt consistent with prior years in Long-Term Liabilities so you can see what the true balance of the loan is over time. The large reduction in balance is due to some early donations from the capital campaign.

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 FY2017, subtracting principal paid by the operating budget on the existing debt, and arriving at the operating reserve amount at the end of FY2017.

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.

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

ASSETS	<u>Jun 30, 14</u>	<u>Jun 30, 15</u>	<u>Jun 30, 16</u>	<u>Jun 30, 17</u>
Current Assets				
Checking/Savings	211,644	196,206	248,906	260,098
Other Current Assets	4,617	15,648	11,591	18,608
Total Current Assets	216,261	211,854	260,497	278,705
UU Common Endowment Fund	144,970	144,818	159,638	181,653
Fixed Assets	3,112,731	3,112,731	3,112,731	3,112,731
TOTAL ASSETS	<u>3,473,962</u>	<u>3,469,402</u>	<u>3,532,866</u>	<u>3,573,089</u>
LIABILITIES & EQUITY				
Liabilities				
Current Liabilities				
Payroll Liabilities	11,171	12,971	22,706	30,005
Accrued Payables	2,323	4,380	4,605	3,077
Unearned Income	25,555	43,133	49,032	61,605
Total Current Liabilities	39,049	60,484	76,343	94,687
Long Term Liabilities	544,790	522,305	497,157	225,267
Total Liabilities	583,839	582,789	573,500	319,953
Equity				
Financial Reserves				
Operating Reserves	72,777	65,631	54,041	55,122
Maintenance Reserves	24,798	13,085	122	35,072
Ministerial Transition Res.	3,178	5,865	9,865	13,865
Total Financial Reserves	100,753	84,581	64,027	104,058
Illiquid Equity	2,567,941	2,590,426	2,615,574	2,888,556
Permanently Restricted Funds	149,220	145,340	160,846	182,961
Temporarily Restricted Funds	72,210	66,267	118,919	77,561
Total Equity	2,890,124	2,886,613	2,959,366	3,253,136
TOTAL LIABILITIES & EQUITY	<u>3,473,962</u>	<u>3,469,402</u>	<u>3,532,866</u>	<u>3,573,089</u>

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

Income	<u>Jun 30, 15</u>	<u>Jun 30, 16</u>	<u>Jun 30, 17</u>
Collections			
Member Pledges	428,595	430,207	455,459
ID Contributions	3,688	5,241	3,266
Loose Collection	7,029	7,250	7,718
Total Collections	<u>439,312</u>	<u>442,698</u>	<u>466,443</u>
Other Income			
General Operating Fundraising	7,705	15,979	16,029
Other Income - Other	547	1,554	432
Total Other Income	<u>8,252</u>	<u>17,533</u>	<u>16,462</u>
Rental Income			
Building Rental	5,328	6,566	7,427
Parking Lot Rental	52,211	55,267	53,546
Pre-School Lease	61,155	64,045	66,287
Total Rental Income	<u>118,694</u>	<u>125,878</u>	<u>127,260</u>
Total Income	<u>566,257</u>	<u>586,109</u>	<u>610,165</u>
Expense			
Administrative Operations	101,045	102,240	104,091
Building & Grounds	105,071	109,721	114,834
Denominational Affairs	25,332	29,300	30,216
Lifespan Religious Education	100,836	108,812	114,971
Ministerial Operations	124,661	118,732	121,899
Rental Expense	17,729	18,463	17,346
Within These Walls	24,663	29,097	32,910
Worship & Arts	51,582	56,187	59,699
Total Expense	<u>550,919</u>	<u>572,552</u>	<u>595,966</u>
Net Income	<u>15,339</u>	<u>13,558</u>	<u>14,199</u>

Table 3

Reconciliation of Operating Reserves for Fiscal Years Ending June 30

(unaudited)

Reconciliation of Operating Reserves:	<u>Jun 30, 15</u>	<u>Jun 30, 16</u>	<u>Jun 30, 17</u>
Beginning Operating Reserves	72,777	65,631	54,041
Net Income	15,339	13,558	14,199
Payment of Loan Principal ³	(22,485)	(25,148)	(13,119)
Ending Operating Reserves	<u>65,631</u>	<u>54,041</u>	<u>55,122</u>

³ 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.

Table 4
Activity in Temporarily Restricted Funds, FY2017
(unaudited)

<u>Fund</u>	<u>Balance at 6/30/16</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Other⁴</u>	<u>Balance at 6/30/17</u>
<u>Within These Walls</u>					
Art Resources Fund	3,382	685	0	0	4,067
Benevolence Fund	3,188	0	(800)	862	3,250
Campus Ministry Activity Fund	369	0	(250)	0	119
Capital Fund ⁵	56,837	251,277	(280,421)	(90)	27,602
Children Ministry Activity Fund	2,311	3,018	(3,447)	0	1,882
Church Fellowship	(60)	134	0	0	74
Concert Series	12,939	17,450	(22,988)	0	7,401
Francis Brewer Flower Fund	1,956	0	(223)	0	1,732
IT Fund	29	0	0	0	29
Memorial Rock Fund	6,024	400	(800)	0	5,624
Minister Discretionary Fund	3,805	2,512	(3,246)	952	4,023
Music Activity Fund	(765)	2,126	(3,487)	39	(2,087)
Quilting Group Clearing Fund	877	0	(315)	0	562
Sanctuary for Dialogue	1,205	0	0	0	1,205
Sarah Insch Youth Leadership	3,725	0	(3,470)	524	779
SEA Activity Fund	1,216	0	0	0	1,216
Services Auction Fund	150	80	(50)	0	180
Youth Ministry Activity Fund	7,243	17,634	(20,022)	1,672	6,527
Total Within These Walls	104,431	295,316	(339,520)	3,959	64,186
<u>Beyond These Walls</u>					
Community Service Ministry	14	225	(2,010)	2,251	479
Faith in Action	(55)	0	0	0	(55)
Habitat Fund	5,230	101	(4,000)	4,192	5,523
Peace & Justice Clearing Fund	2,096	0	(475)	0	1,621
Share the Plate Sunday	10	36,472	(25,072)	(11,409)	0
Social Concerns/Special Project	7,194	260	0	0	260
SOSL Ministry Team Fund	7,194	10,632	(12,327)	48	5,547
Total Outreach	14,489	47,689	(43,884)	(4,919)	13,375
 Total Restricted Funds	 118,919	 343,005	 (383,404)	 (960)	 77,561

⁴ Other is primarily transfers, such as Share the Plate transferring its receipts to Habitat Fund.

⁵ See the section titled Capital Campaign and Building Project on pages 6-7 for more details.