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

Laurence D. Kirsch, Treasurer

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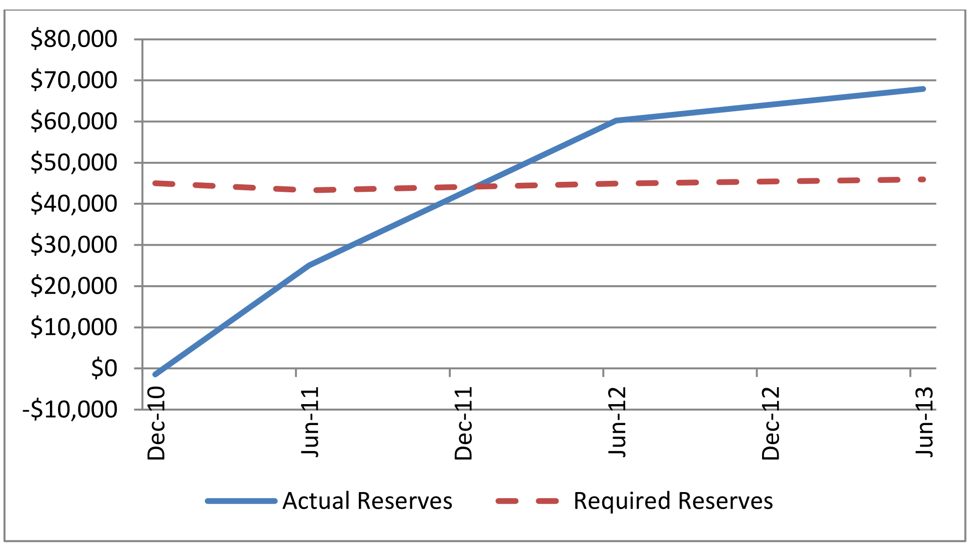
Treasurer's Annual Report to the Board of Trustees

The Community Church of Chapel Hill continues to be in excellent financial condition. We have about $3 million in equity, with current assets of $194,988 and current liabilities of $33,185 (excluding the current portion of mortgage debt). The general picture is that our debt-to-equity ratio is consistently low (presently 0.20), and our ratio of current assets to current liabilities is consistently high (presently 5.88, or 3.58 including the current portion of mortgage debt). After running deficits during the depths of the recession in 2009 and 2010, we turned things around and have run surpluses ever since. The key factors in the turnaround were changes in the budget process that helped to better focus the church's leadership on financial issues.

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

Figure 1
Operating Reserves, 2010-2013



The Income Picture

Figure 2 shows the church's sources of income for the recently completed fiscal year ending June 30, 2013. The figure shows that the lion's share of income (78%) comes from collections, which are basically pledges supplemented by other contributions from members (like the Sunday plate). Smaller but still significant amounts of income (9% each) come from the pre-school lease and parking lot rentals.

Figure 2
Sources of Income, Fiscal Year 2013

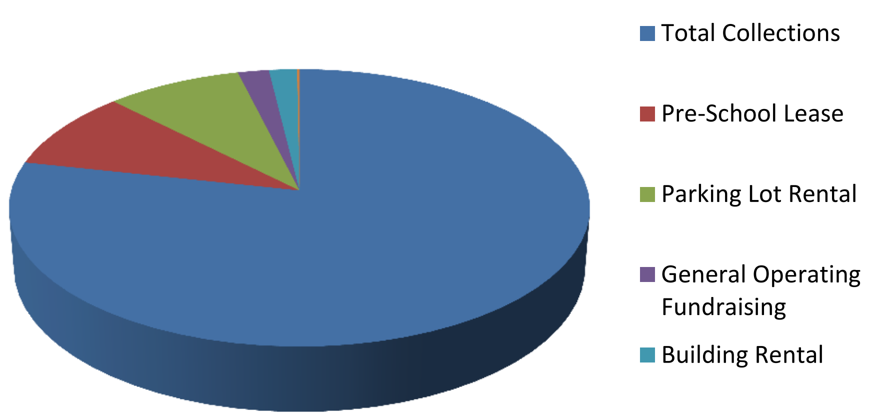
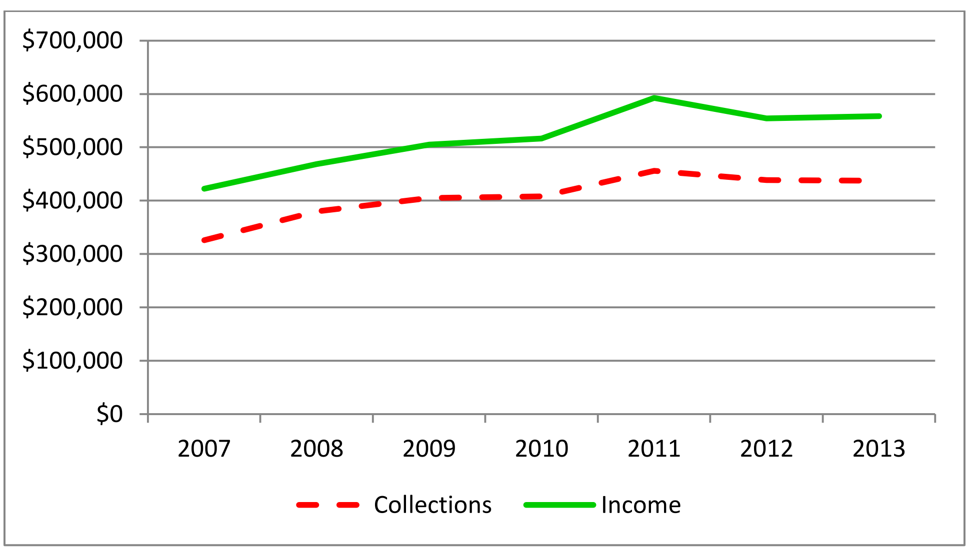


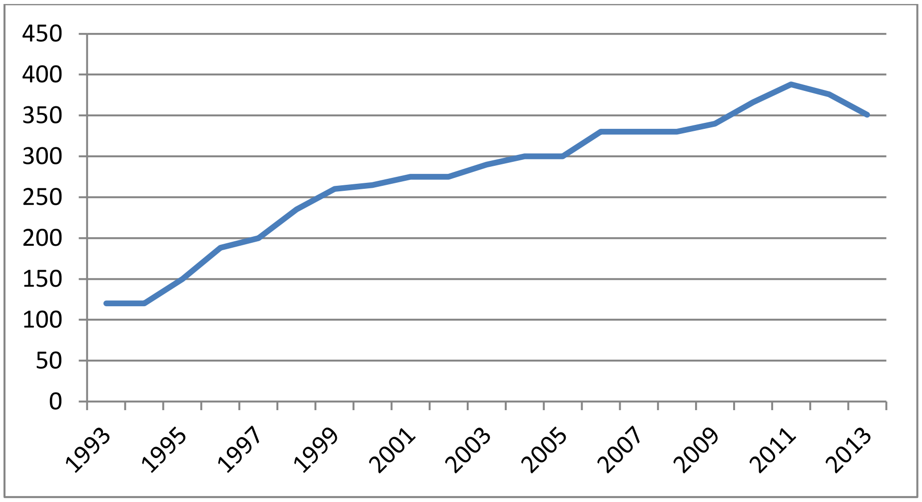
Figure 3 shows that, with a single exception, both total collections and total income have risen every year since 2007, even through the recession. The one year that pledges went down reflects the accounting oddity that 2011 was a short (six-month) fiscal year; so the relatively high figure for that period represents annualized revenues for an unusually short fiscal year.

Figure 3
Total Collections and Total Income, 2007-2013



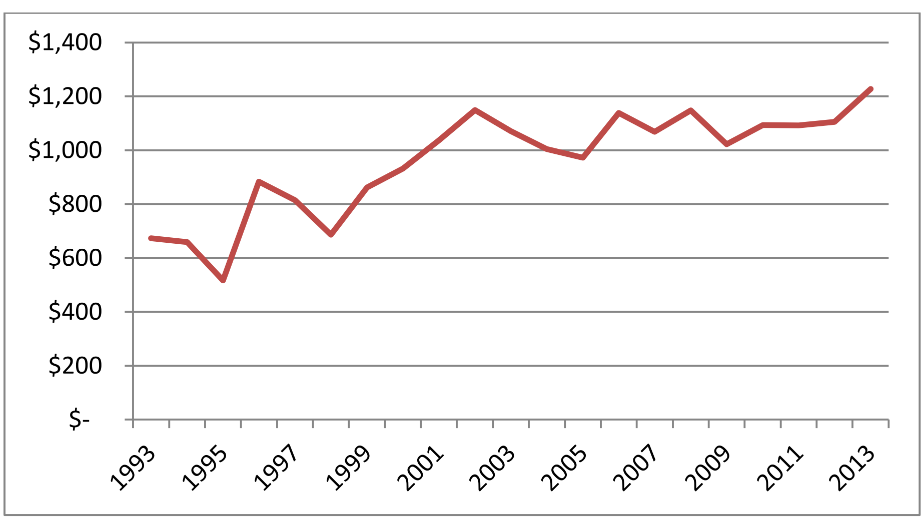
Our only significant financial uncertainty is the level of pledges that we receive each year; so it may be helpful to take a close look at the long-term trends in the two key factors that underlie pledge revenues. The first of these factors is the number of members. Figure 4 shows that membership rose substantially until 2011 and has come down a bit since then.

Figure 4
Number of CCCH Members, 1993-2013



The second factor is the average pledge per member. Figure 5 shows that, in inflation-adjusted terms, the average pledge rose substantially until 2001, since which time it has bounced around the $1,000 to $1,200 range. Given our congregation's age distribution, which is tilted toward an older and wealthier demographic, it seems reasonable to plan on average inflation-adjusted pledges remaining in this range rather than rising above this range, and to expect that any future increases in inflation-adjusted income will depend upon growth in membership.

Figure 5
Inflation-Adjusted Average Pledge per Member, 1993-2013
(2013 dollars)



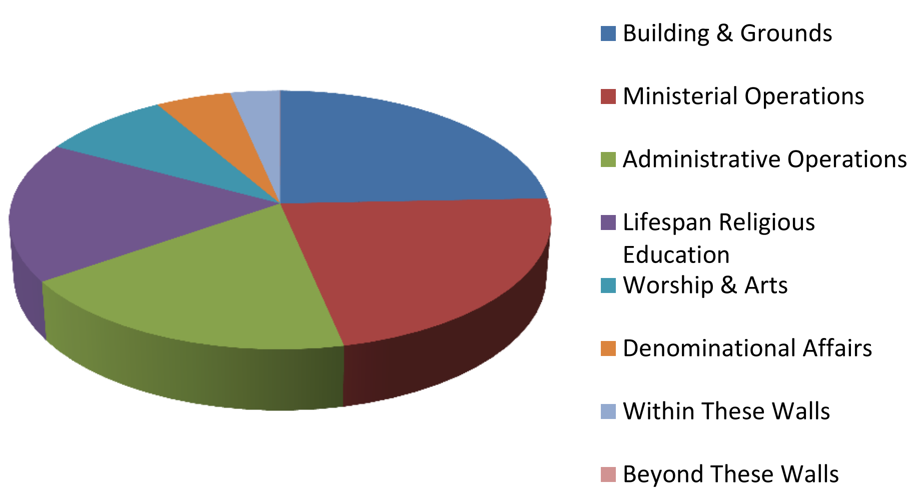
The Expense Picture

The church spends money in two different ways: through the operating budget; and through restricted funds. The operating budget, which is the larger of the two ($550,650 in the recently completed fiscal year, including $20,260 of mortgage principal payments), is devoted primarily to paying staff and maintaining facilities. Restricted funds are devoted to numerous programs, both within and outside of the church.

Figure 6 shows how the operating budget was divided up among the eight major program categories in the recent fiscal year. The largest four categories each get between $96,000 and $135,000:

- *Building & Grounds* covers mortgage payments ($50,400), utilities ($18,092), maintenance reserves ($16,752), janitorial service ($10,400), pre-school cleaning service ($10,200), insurance ($7,436), and a variety of other expenses.
- *Ministerial Operations* covers the salary and benefits of the Minister.
- *Administrative Operations* primarily covers the salaries and benefits of the Congregational Administrator and Office Assistant.
- *Lifespan Religious Education* (LRE) primarily covers the salaries and benefits of the Director of LRE and the LRE Assistant.

Figure 6
Operating Budget Expenses, Fiscal Year 2013, by Program Category
(including mortgage principal payments)



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

- *Worship & Arts* primarily covers the salary and benefits of the Director of Music.
- *Denominational Affairs* covers the payments to the national and regional Unitarian Universalist organizations.

- *Within These Walls* primarily covers the salary and benefits of the Volunteer Coordinator.

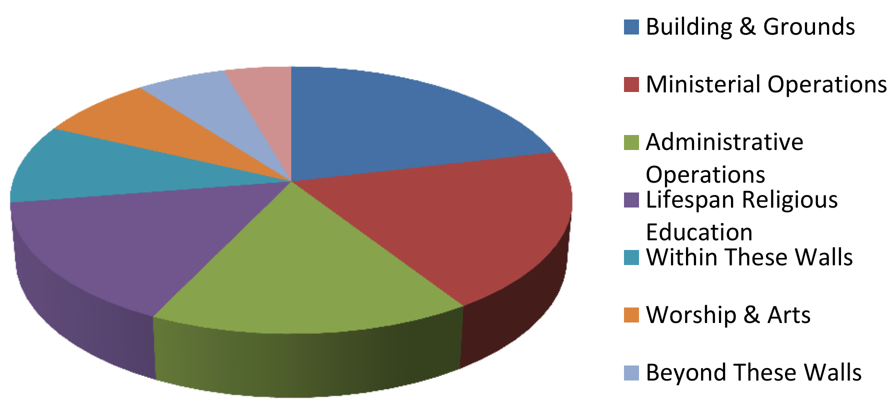
Because every other Sunday's plate goes to a variety of community organizations, virtually none of the operating budget falls into the Beyond These Walls category.

By contrast, the church's expenditures through restricted funds go entirely to programs that are Within These Walls ($41,766) or Beyond These Walls ($37,038).

- *Within These Walls* expenditures primarily cover musical ($20,040) and children and youth ($15,802) activities.
- *Beyond These Walls* expenditures go almost entirely to community organizations.

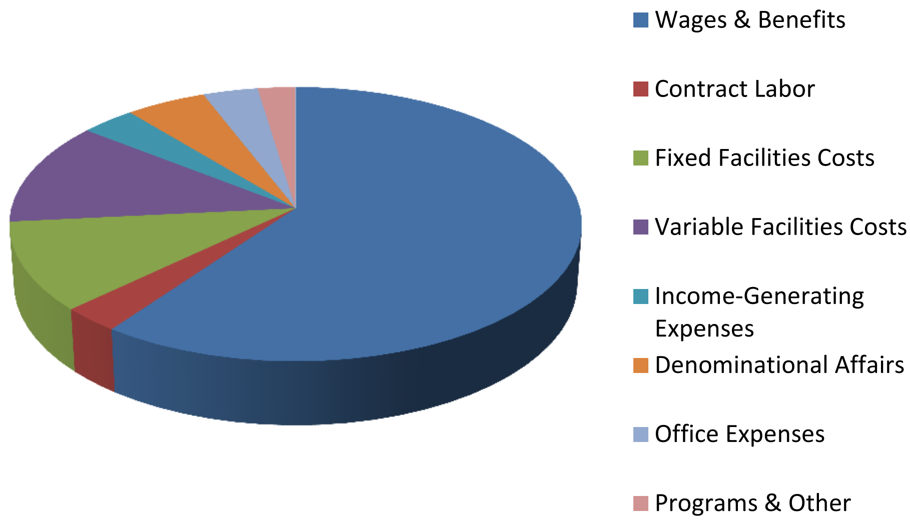
Combining information from the operating budget and restricted funds, Figure 7 gives a fuller picture of where the church's money goes. The four largest categories from Figure 6 are still the four largest categories, with somewhat smaller shares of the total pie. But considering the uses of the restricted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

Figure 7
Operating Budget Expenses and Restricted Fund Expenditures, Fiscal Year 2013, by Program Category (including mortgage principal payments)



Returning once again to the operating budget only, it may be useful to look at that budget in a different way, not by expense category as in Figure 6, but by type of expense. Figure 8 presents this different view. The striking fact is that wages and benefits constitute 60% of the entire budget, with another 3% going to contract labor in support of the Sunday services. Not surprisingly, the size of the church staff is the largest determinant of the size of the church's budgetary needs.

Figure 8
Operating Budget Expenses, Fiscal Year 2013, by Type of Expense
(including mortgage principal payments)



Our facilities are the second largest determinant of the size of the church's budgetary needs. Facilities costs constitute 23% of the church budget. 11% of the budget goes to the fixed costs of paying the mortgage and insurance, while 12% goes to the variable costs of maintenance, utilities, and cleaning.

The remaining 14% of the budget is divided among four types of expense. Non-labor expenses that are directly related to the generation of income constitute 3% of the budget. Denominational Affairs takes 5%, office expenses take 4%, and non-labor program and other costs take 2%.

Financial Issues Related to Maintenance of Existing Facilities

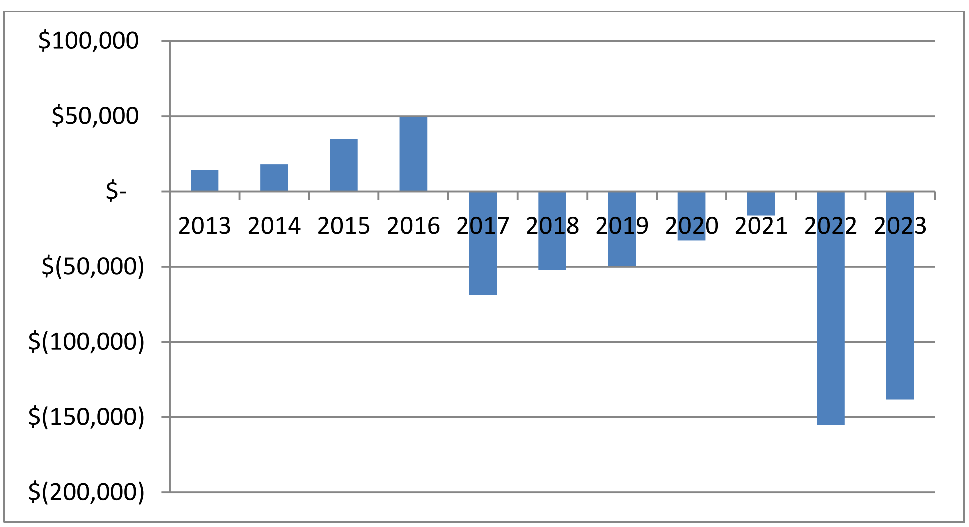
The church has three buildings: the Sanctuary and Commons Building, which has 8,700 square feet and was completed in 2006; the Jones and Administrative Building, which has 9,900 square feet, is partly sixty years old, and was partly built as part of the 2006 expansion; and the Manse, which has 2,100 square feet and is fifty-three years old. These buildings, along with the parking lot, playground, and various other improvements on the church's ten acres, require on-going maintenance as well as occasional major maintenance.

For many years, *minor repairs* have been performed by the Building and Grounds Ministry and have been paid on an as-needed basis from the operating budget. This approach does not appear to be sustainable in the future, however, as the leaders of this Ministry are aging will not long be able to continue in their roles. If our facilities are to remain in good repair, we must soon find new leaders for this Ministry and/or hire a full-time or part-time maintenance person.

For many years, *major repairs* have been performed by professionals specializing in the particular facilities in need of repairs; and the costs of these repairs have been paid on an as-needed basis from the operating budget. As the facilities built during the 2006 expansion age, however, major repairs will predictably involve larger dollars than in the past. To be prepared for these inevitable costs, the Board of Trustees recently adopted a policy by which the budget allocates 3% of each fiscal year's total income to Maintenance Reserves, beginning with the fiscal year ended June 30, 2013. Not only does this policy provide a pool of funds to meet maintenance needs, but it also recognizes that the costs of maintenance are being incurred over time as our facilities are used, rather than at the particular moments that repairs are needed.

Given our projections of when major repairs will be needed, and assuming that our income exactly keeps up with inflation, Figure 9 shows how Maintenance Reserves will accumulate over the next decade. The figure shows that Maintenance Reserves will peak at about $49,000 in 2016, then go $69,000 negative in 2017 as we expend considerable sums repaving the parking lot and repainting buildings (both interior and exterior). These reserves would approach zero in 2021, but then go $155,000 negative in 2022 as we expend considerable sums on our septic system, heating and air conditioning system, and yet more repainting. By skimping on maintenance later this decade, we could make it to 2021 on our present course of accumulating reserves at the rate of 3% of income; but that course will clearly be insufficient early next decade. If our facilities are to remain in good repair, sometime during the next few years we must raise this percentage or undertake a fundraising campaign.

Figure 9
Projected Maintenance Reserve Balances, 2013-2023
(2013 dollars)



The costs of dealing with the Manse are not considered in Figure 9. The Manse was built as the Minister's residence in 1960, but has not been used for that purpose since 1967. There was a time when it was rented and produced a positive cash flow; but over the last few years, it has had a negative cash flow averaging just over $6,000 per year (mostly janitorial expense, secondarily utility expense, with no allocation of mortgage payments). The Manse is in need of some modest repairs, as with the roof; and the plumbing, kitchen, baths, and the electrical and septic systems, which are all original, may need upgrading. In short, the Manse continues to be usable for some church purposes; but it cannot again be rented and provide a positive cash flow without costly remodeling.

Discussion of the Financial Tables

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

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

The liability figures represent outstanding payables at the end of each fiscal period, with the exception of Unearned Pledge Receipts.

There are several types of equity accounts:

- *Financial Reserves* consist of Operating Reserves, Maintenance Reserves, and Ministerial Transition Reserves.
    - *Operating Reserves* are held for the purpose of dealing with variations over time in cash flow and with contingencies that are not covered by other reserves, and are any part of equity that is not assigned to other equity accounts.
    - *Maintenance Reserves* are held for the purpose of replacing major facilities at the ends of their useful lives, where "major facilities" have forecast replacement costs of at least $1,000.
    - *Ministerial Transition Reserves* are held for the purposes of paying for substitute staff when regular staff members are on paid sabbatical, and for funding ministerial searches. Beginning in the present fiscal year ending June 30, 2014, we are accumulating these reserves at the rate of $11,000 per year for the purpose amortizing over three years the cost of the present ministerial search.
- *Illiquid Equity* is the value of our fixed assets net of the mortgage.
- *Permanently Restricted Funds* are those of the Endowment Fund.

- *Temporarily Restricted Funds* are a few dozen funds devoted to various church programs.

Table 2 summarizes income and expenses for each of the most recent three fiscal years. In general, all categories of income have been steady and rising. Expenses have likewise been stable with two exceptions. First, Building & Grounds expense has risen with the initiation of accumulating Maintenance Reserves. Second, Within These Walls expense has risen with the hiring of a Volunteer Coordinator.

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

Table 4 lists the Temporarily Restricted Funds, including their beginning and ending balances for the recently completed fiscal year and the monies flowing into and out of each fund during that year. In the aggregate, $80,227 flowed into these funds and $78,804 flowed out of them. Although $37,794 was contributed to Share the Plate, the figure in the table shows only the $25,995 that went directly to community organizations; the remaining $11,799 flowed through other Temporarily Restricted Funds shown in this table, and appear among the receipts for those funds. The largest recipients of the $25,995 were Interfaith Council for Social Services, Crop Hunger Walk, Volunteer Med Partners, TABLE, Orange County Justice United, The Achievement Academy of Durham, and Interfaith Power & Light.

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

	12/31/10	6/30/11	6/30/12	6/30/13
ASSETS				
Current Assets				
Checking/Savings	89,036	136,523	144,773	179,371
Other Current Assets	2,265	7,369	27,594	15,617
Total Current Assets	91,301	143,892	172,366	194,988
UU Common Endowment Fund	100,000	102,792	102,960	128,962
Fixed Assets	3,112,731	3,112,731	3,112,731	3,112,731
TOTAL ASSETS	3,304,032	3,359,415	3,388,057	3,436,682
LIABILITIES & EQUITY				
Liabilities				
Current Liabilities				
Payroll Liabilities	3,405	9,081	7,471	5,264
Accrued Business Taxes		2,324		
Accrued Payables		17,695	3,304	4,531
Unearned Pledge Receipts	25,930	33,705	26,835	23,390
Total Current Liabilities	29,335	62,805	37,610	33,185
Long Term Liabilities	606,889	598,472	586,393	566,133
Total Liabilities	636,224	661,276	624,003	599,318
Equity				
Financial Reserves				
Operating Reserves	(1,461)	25,014	60,200	67,955
Maintenance Reserves				14,217
Ministerial Transitions Res.			3,156	6,008
Total Financial Reserves	(1,461)	25,014	63,355	88,180
Illiquid Equity	2,505,842	2,514,259	2,526,338	2,546,598
Permanently Restricted Funds	101,201	103,993	102,960	129,762
Temporarily Restricted Funds	62,227	54,873	71,401	72,824
Total Equity	2,667,808	2,698,139	2,764,054	2,837,364
TOTAL LIABILITIES & EQUITY	3,304,032	3,359,415	3,388,057	3,436,682

Table 2
Net Income for Each Fiscal Period
(unaudited)

	Fiscal Year Ending		
	6/30/11	6/30/12	6/30/13
Income	(6 month)	(12 month)	(12 month)
Collections			
Canvass Pledges	219,424	425,788	426,208
ID Contributions	4,915	6,335	4,400
Loose collection	3,789	6,515	7,059
Total Collections	228,128	438,637	437,667
Other Income			
General Fundraising	18,179	11,056	10,900
Other Income - Other	411	2,112	795
Total Other Income	18,589	13,168	11,695
Rental Income			
Building Rental	4,792	9,038	9,892
Parking Lot Rental	23,029	46,372	47,762
Pre-School Lease	21,683	46,753	51,390
Total Rental Income	49,503	102,163	109,043
Total Income	296,220	553,968	558,405
Expense			
Administrative Operations	49,496	99,104	102,833
B&G Operations	5,358	13,480	13,407
Beyond These Walls	500		125
Building & Grounds	35,868	94,062	100,453
Contract Services	14,849		
Denominational Affairs	14,387	27,833	28,080
Lifespan Religious Education	49,974	95,633	96,389
Ministerial Operations	60,528	121,853	122,807
Taxes	2,236		
Within These Walls	3,764	8,115	18,444
Worship & Arts	24,368	46,623	47,852
Other			
Total Expense	261,327	506,703	530,390
Net Income	34,893	47,265	28,015

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

	Fiscal Year Ending		
	6/30/11	**6/30/12**	**6/30/13**
Beginning Operating Reserves	(1,461)	25,014	60,200
Net Income	34,893	47,265	28,015
Payment of Mortgage Principal	(8,418)	(12,079)	(20,260)
Ending Operating Reserves	25,014	60,200	67,955

Table 4
Activity in Temporarily Restricted Funds, FYE 6/30/13
(unaudited)

Fund	Balance at 6/30/12	Receipts	Expenditures	Balance at 6/30/13
Within These Walls:				
Art Resources Fund	1,203	955	277	1,881
Benevolence Fund	6,957			6,957
Campus Ministry Activity Fund	525	150		675
Children Ministry Activity Fund	8,379	520	1,151	7,747
Church Camping Trip	0	774	774	0
Clyde Long Fund	1,350	100		1,450
Concert Series	10,241	5,310	7,984	7,568
Flower Donation Fund	1,698	302	395	1,605
Gifts and Memorials Clearing	1,125			1,125
IT Fund	0	500		500
Manse Activity	2,349		342	2,006
Memorial Rock Fund	1,500	650	380	1,770
Minister Discretionary Fund	1,286	1,413	550	2,148
Music Activity Fund	6,547	8,216	12,057	2,707
Quilting Group Clearing Fund	1,097	482	1,044	535
Reimbursable Clearing Fund	200	100	100	200
Sarah Insch Youth Leadership	1,892	1,180		3,072
SEA Activity Fund	212	690	142	761
Services Auction Fund	0	3,056	1,919	1,137
Youth Ministry Activity Fund	16,158	13,661	14,650	15,168
Total Within These Walls	62,718	38,058	41,766	59,011
Beyond These Walls:				
Community Service Ministry	681	2,040	2,495	225
Faith in Action	0	800	1,135	-335
Habitat Fund	2,745	5,074	4,058	3,761
IFC Fund	0	1,102	1,102	0
Mutual Aid Carrboro UU	0	4,000		4,000
OCJU (Justice United)	42	498		540
Peace & Justice Clearing Fund	1,130	1,622	150	2,602
Share the Plate Sunday	572	25,995	26,567	0
SOSL Ministry Team Fund	3,513	1,038	1,531	3,020
Total Beyond These Walls	8,683	42,169	37,038	13,813
Totals	71,401	80,227	78,804	72,824