

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

Laurence D. Kirsch, Treasurer

September 2015

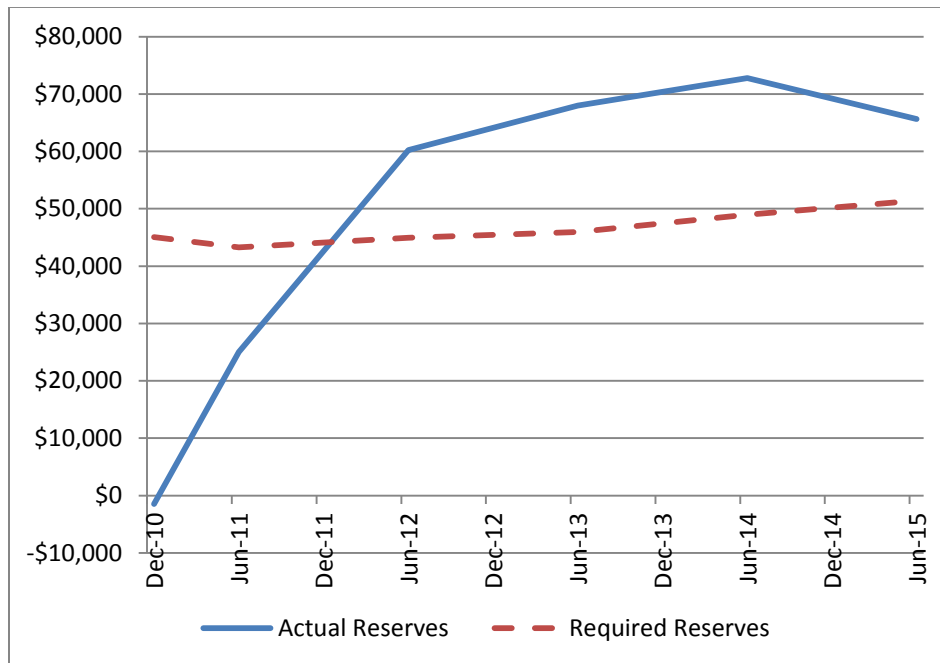


Treasurer's Annual Report to the Board of Trustees¹

The Community Church of Chapel Hill continues to be in excellent financial condition. We have \$2.89 million in equity, with current assets of \$0.21 million and current liabilities of \$0.06 (excluding the current portion of mortgage debt). Our debt-to-equity ratio is consistently low (presently 0.18), and our ratio of current assets to current liabilities is consistently high (presently 3.50, or 2.47 including the current portion of mortgage debt).

As an operational matter, we regard a budget as “balanced” if it allows us to reach our Operating Reserve target, which has been 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 blue line shows that, although we were below target during the last recession, we have built Operating Reserves so that they have exceeded the target since 2011.

Figure 1
Operating Reserves, 2010-2015



The Operating Reserves surpluses, sometimes in the tens of thousands of dollars, have occurred primarily because expenses have consistently been less than budgeted. For example, in the last fiscal year ending June 30, 2015, the budget called for an Operating Reserves drawdown of

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

\$24,349; but we instead used up only \$7,146 of reserves. The unexpectedly low use of reserves was caused by income being \$395 higher than expected while expenditures were \$16,808 lower than expected. In the income category, pledges and other donations were \$3,264 below budget, other fundraisers garnered \$1,321 more than expected, and rentals (particularly parking) were \$2,339 more than expected. The expenditures that came in \$1,000 or more below budget were for the Minister's Benefits & Expenses, a Facility Manager (who we never hired), Denominational Connections, Utilities, Space Assessment Team, Insurance, and Youth Ministry. No expenditure category went over budget by \$1,000 or more.

The Income Picture

Figure 2 shows the church's sources of income for the recently completed fiscal year ending June 30, 2015. 78% of income came from collections, which are basically pledges supplemented by other contributions from members (like the Sunday plate). Smaller but still significant amounts of income come from the pre-school lease (11%) and parking lot rentals (9%).

Figure 2
Sources of Income, Fiscal Year 2015

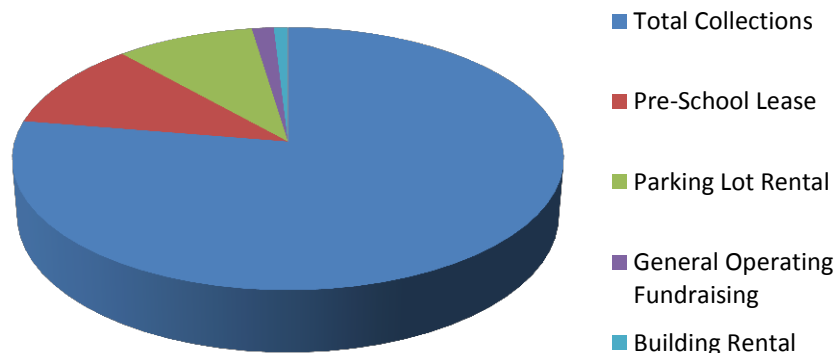
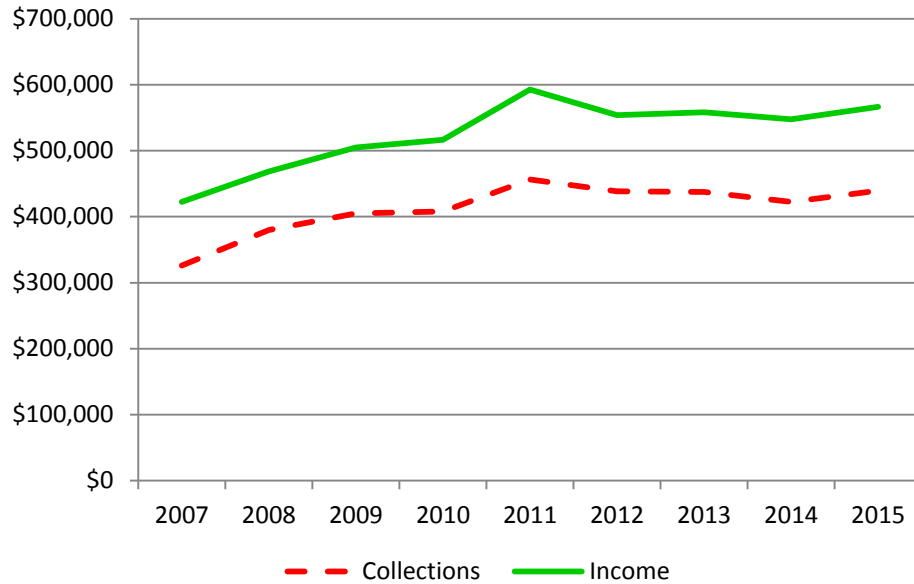


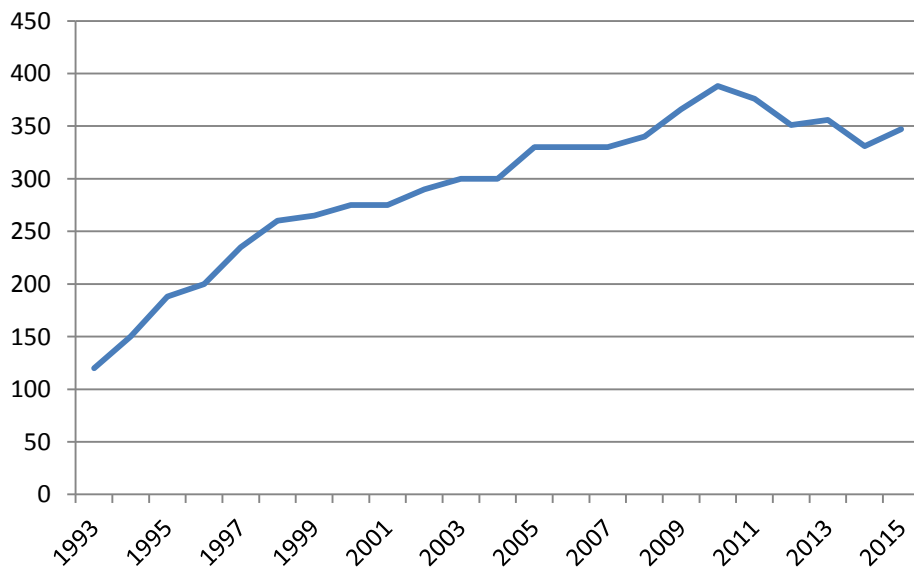
Figure 3 shows that both total collections and total income peaked (at an annualized rate) in 2011, fell by a few percent, and have begun rising again.

Figure 3
Total Collections and Total Income, 2007-2014



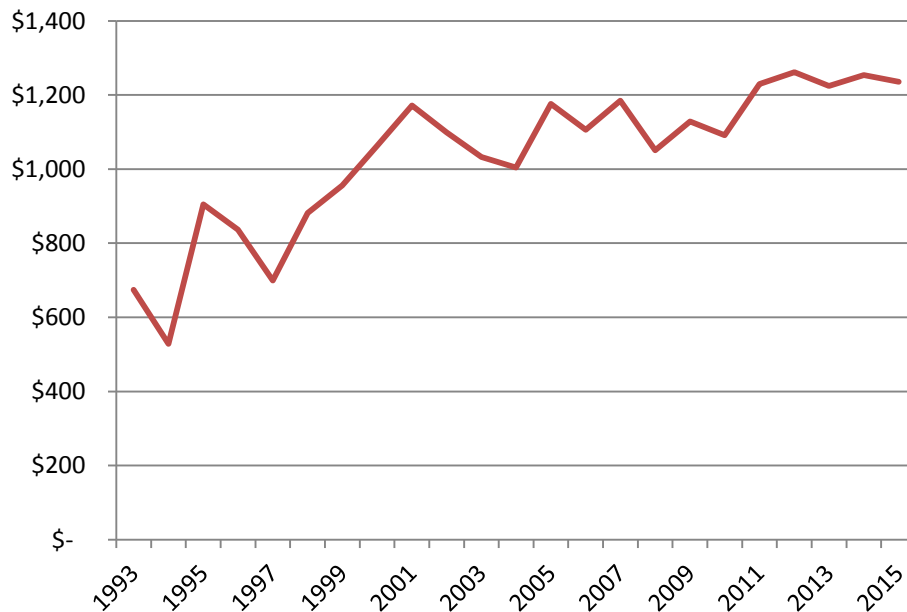
Our main financial uncertainty is the level of pledge revenues, which depend upon two key factors. The first is the number of members. Figure 4 shows that membership rose substantially until 2011, fell by 15%, and has begun rising again.

Figure 4
Number of CCCH Members, 1993-2015



The second factor is the average pledge per member. Figure 5 shows that, in inflation-adjusted terms, the average pledge rose substantially until 2001, bounced around the \$1,000 to \$1,200 range for a decade, and has since climbed and remained above \$1,200.

Figure 5
Inflation-Adjusted Average Pledge per Member, 1993-2015
(2015 dollars)



The Expense Picture

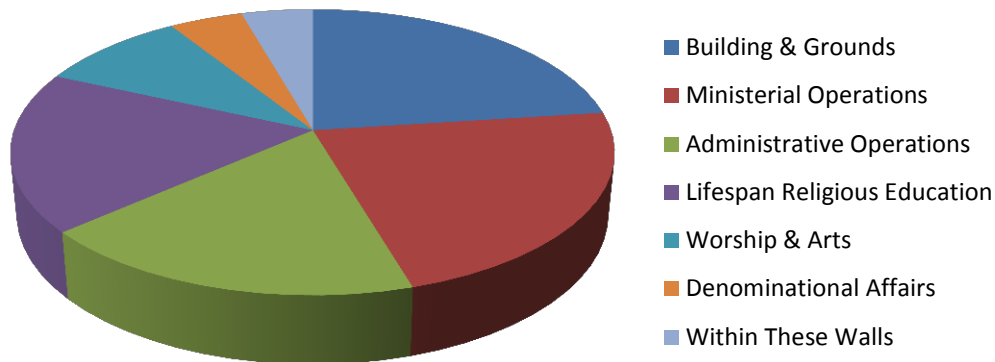
The church spends money in two different ways: through the operating budget; and through restricted funds. The operating budget, which is the larger of the two (\$555,675 in the recently completed fiscal year, including \$22,485 of mortgage principal payments but excluding \$17,779 of expense incurred in support of rental income), 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 seven major program categories in the recent fiscal year. The largest four categories are the following:

- *Building & Grounds* (23% of the pie) covers mortgage payments (\$50,400), utilities (\$17,128), maintenance reserves (\$16,384), contracted maintenance (\$10,261), janitorial service (\$10,200), insurance (\$6,982), and a variety of other expenses.
- *Ministerial Operations* (22% of the pie) covers the compensation of the Minister.
- *Administrative Operations* (18% of the pie) covers the compensation of the Congregational Administrator and Office Assistant, as well office expenses.

- *Lifespan Religious Education* (LRE) (18% of the pie) primarily covers the compensation of the Director of LRE and the LRE Assistant.

Figure 6
Operating Budget Expenses, Fiscal Year 2015, by Program Category
(including mortgage principal payments)



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

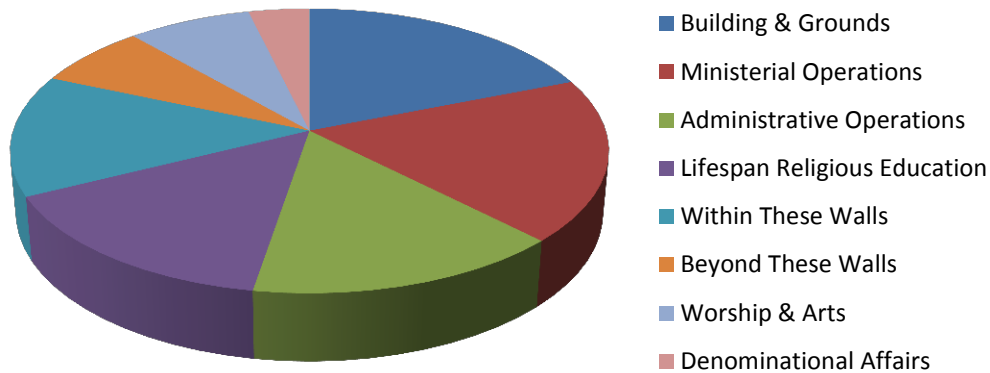
- *Worship & Arts* primarily covers the compensation of the Director of Music and the Accompanist.
- *Denominational Affairs* covers the payments to the national and regional Unitarian Universalist organizations.
- *Within These Walls* primarily covers the salary and benefits of the Membership Director.

By contrast, the church's expenditures through restricted funds go entirely to programs that are Within These Walls (\$68,165) or Beyond These Walls (\$47,383).

- *Within These Walls* expenditures primarily cover children and youth (\$29,924) and musical (\$24,068) activities.
- *Beyond These Walls* expenditures go entirely to community organizations.

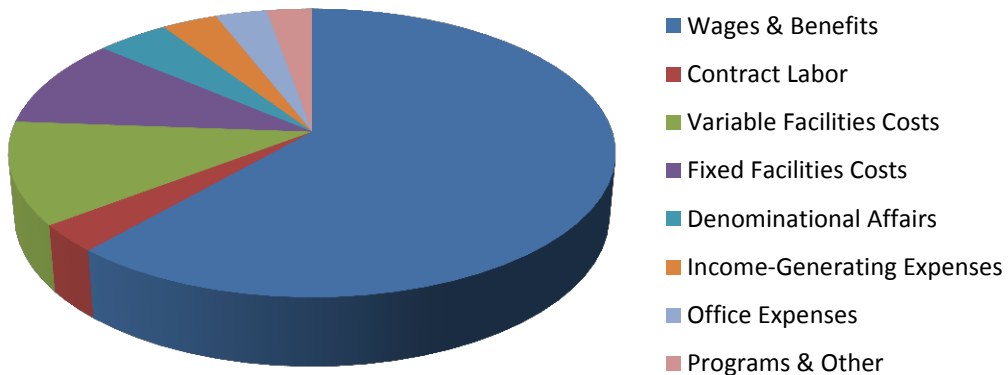
Combining information from the operating budget and restricted funds, Figure 7 gives a fuller picture of where the church's money goes. The four largest categories from Figure 6 are still the four largest categories, with somewhat smaller shares of the total pie. But considering the uses of the restricted 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 2015,
by Program Category (including mortgage principal payments)



Returning once again to the operating budget only, it may be useful to look at that budget in a different way, by *type* of expense rather than by expense *category*. Figure 8 presents this different view. The striking fact is that wages and benefits constitute 62% of the entire budget, with another 3% going to contract labor in support of Sunday services. Not surprisingly, the size of the church staff is the largest determinant of the size of the church’s budgetary needs.

Figure 8
Operating Budget Expenses, Fiscal Year 2015, by Type of Expense
(including mortgage principal payments)



Our facilities are the second largest determinant of the size of the church’s budgetary needs. Facilities costs constitute 22% of the church budget. 11% of the budget goes to the variable

costs of maintenance, utilities, and cleaning, and another 11% goes to the fixed costs of paying the mortgage and insurance.

The remaining 14% of the budget is divided among four types of expense. Denominational Affairs constitutes 4% of the budget, while 3% shares are each taken by non-labor expenses that are directly related to the generation of income, office expenses, and non-labor program and other costs.

Significant Intermediate-Term Financial Issues

The church has a number of desires that would require significant increases in the church's annual pledge revenues over the next few years.

First, there is the possibility that the church will construct a new building (sometimes called "the RE Pavilion") that will have additional space for Religious Education, church group meetings, and church events. The annual net cost to the church of this new building would depend upon many future unknowns, including the size of the building, how it is financed, whether it is built to accommodate a preschool, and whether it might accommodate other rental uses. The additional annual pledge revenue required to pay for the new building will likely be *at least* several tens of thousands of dollars. In the absence of an expansion, we are likely to lose our present \$64,000 per year of income from the preschool within the next few years. It therefore seems likely that, with or without a continuing relationship with the preschool, our annual pledge requirements will rise significantly sometime within the next few years.

Second, the church aspires to maintain a beautiful campus. For this purpose, the Board of Trustees created a Maintenance Reserves fund that pays for major facility repairs and replacements of \$1,000 or more. This fund presently receives 5% of each fiscal year's total income. The church thus recognizes that the costs of maintenance are incurred over time as our facilities are used, rather than at the particular moments that repairs or replacements are needed. Unfortunately, it appears that we will need to raise the maintenance reserves allocation to around 7% to keep up with our projections of when major repairs will be needed over the next ten years. This will increase budgetary needs by around \$12,000 per year.

Third, the church aspires to have a part-time Assistant Minister to relieve the Minister of some of his duties and better serve the congregation. A quarter-time Assistant Minister would cost about \$28,000 per year and would require a like amount of additional annual revenues.

Discussion of the Financial Tables

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

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

The liability figures represent outstanding payables at the end of each fiscal period, with the exception of Unearned Income. Note that the Long Term Liabilities is the mortgage, the principal balance of which has been falling by over \$20,000 per year.

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. Profits and losses automatically flow into Operating Reserves.
 - *Maintenance Reserves* are held for the purpose of repairing or replacing major facilities with costs of at least \$1,000.
 - *Ministerial Transition Reserves* are held for the purposes of paying for substitute staff when regular staff members are on paid sabbatical, and for funding ministerial searches.
- *Illiquid Equity* is the value of our fixed assets net of the mortgage.
- *Permanently Restricted Funds* are those of the Endowment Fund.
- *Temporarily Restricted Funds* are a few dozen funds devoted to various church programs. (These funds and their amounts are listed in Table 4.)

Table 2 summarizes income and expenses for each of the most recent three fiscal years. Pledge income dipped during the recent ministerial transition, and has returned to former levels. Rental income has been marching upward with inflation. Expenses have also risen in line with inflation, at an average rate of 1.9% per annum.

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, \$109,606 flowed into these funds and \$115,548 flowed out of them. Although \$41,876 was contributed to Share the Plate, the figure in the table shows only the \$26,430 that went directly to community organizations; the remaining \$15,446 flowed through

other Temporarily Restricted Funds shown in this table, and appear among the receipts and expenditures for those funds. The largest recipients of the \$26,430 were Interfaith Council for Social Services (\$6,717) and El Futuro (\$2,023). Other recipients of over \$1,000 each were Hispanic Liaison of Chatham County, Farm Labor Organizing Committee, Living Tradition Fund, Charles House, Crop Walk, TABLE, OKAY, and Trees, Water & People.

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

	<u>Jun 30, 12</u>	<u>Jun 30, 13</u>	<u>Jun 30, 14</u>	<u>Jun 30, 15</u>
ASSETS				
Current Assets				
Checking/Savings	144,773	179,371	211,644	196,206
Other Current Assets	27,594	15,617	4,617	15,648
Total Current Assets	172,366	194,988	216,261	211,854
UU Common Endowment Fund	102,960	128,962	144,970	144,818
Fixed Assets	3,112,731	3,112,731	3,112,731	3,112,731
TOTAL ASSETS	<u>3,388,057</u>	<u>3,436,682</u>	<u>3,473,962</u>	<u>3,469,402</u>
LIABILITIES & EQUITY				
Liabilities				
Current Liabilities				
Payroll Liabilities	7,471	5,264	11,171	12,971
Accrued Payables	3,304	4,531	2,323	4,380
Unearned Income	26,835	23,390	25,555	43,133
Total Current Liabilities	37,610	33,185	39,049	60,484
Long Term Liabilities	586,393	566,133	544,790	522,305
Total Liabilities	624,003	599,318	583,839	582,789
Equity				
Financial Reserves				
Operating Reserves	60,200	67,955	72,777	65,631
Maintenance Reserves		14,217	24,798	13,085
Ministerial Transition Res.	3,156	6,008	3,178	5,865
Total Financial Reserves	63,355	88,180	100,753	84,581
Illiquid Equity	2,526,338	2,546,598	2,567,941	2,590,426
Permanently Restricted Funds	102,960	129,762	149,220	145,340
Temporarily Restricted Funds	71,401	72,824	72,210	66,267
Total Equity	2,764,054	2,837,364	2,890,124	2,886,613
TOTAL LIABILITIES & EQUITY	<u>3,388,057</u>	<u>3,436,682</u>	<u>3,473,962</u>	<u>3,469,402</u>

Table 2
Net Income for Each Fiscal Period
(unaudited)

	Jun 30, 13	Jun 30, 14	Jun 30, 15
Income			
Collections			
Canvass Pledges	426,208	411,344	428,595
ID Contributions	4,400	4,153	3,688
Loose collection	7,059	7,192	7,029
Total Collections	437,667	422,689	439,312
Other Income			
General Operating Fundraising	10,900	10,860	7,705
Other Income - Other	795	3,722	547
Total Other Income	11,695	14,582	8,252
Rental Income			
Building Rental	9,892	5,459	5,328
Parking Lot Rental	47,762	52,144	52,211
Pre-School Lease	51,390	56,188	61,155
Total Rental Income	109,043	113,791	118,694
Total Income	558,405	551,062	566,257
Expense			
Administrative Operations	94,276	94,760	101,045
Beyond These Walls	125	334	
Building & Grounds	103,660	106,699	105,071
Contract Services			
Denominational Affairs	28,080	26,120	25,332
Lifespan Religious Education	96,389	94,133	100,836
Ministerial Operations	122,807	114,875	124,661
Rental Expense	18,758	18,853	17,729
Within These Walls	18,444	20,480	24,663
Worship & Arts	47,852	48,643	51,582
Other			
Total Expense	530,390	524,898	550,919
Net Income	28,015	26,165	15,339

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

	Jun 30, 13	Jun 30, 14	Jun 30, 15
Reconciliation of Operating Reserves:			
Beginning Operating Reserves	60,200	67,955	72,777
Net Income	28,015	26,165	15,339
Payment of Mortgage Principal	(20,260)	(21,343)	(22,485)
Ending Operating Reserves	<u>67,955</u>	<u>72,777</u>	<u>65,631</u>

Table 4
Activity in Temporarily Restricted Funds, FYE 6/30/14
(unaudited)

Fund	Balance at 6/30/14	Receipts	Expenditures	Balance at 6/30/15
Within These Walls:				
Art Resources Fund	1,823	1,150		2,973
Benevolence Fund	3,101	2,107	492	4,716
Campus Ministry Activity Fund	404			404
Children Ministry Activity Fund	6,433	3,464	3,500	6,398
Church Fellowship	(17)	286	366	(97)
Clyde Long Fund	1,450			1,450
Concert Series	6,366	24,215	18,959	11,622
Francis Brewer Flower Fund	1,752	405	105	2,052
Gifts and Memorials Clearing	1,125			1,125
IT Fund	500		471	29
Manse Activity	2,000	204	1,104	1,100
Memorial Rock Fund	7,474			7,474
Minister Discretionary Fund	3,577	1,966	2,759	2,784
Music Activity Fund	702	2,156	5,109	(2,251)
Quilting Group Clearing Fund	733	30	15	748
Sarah Insch Youth Leadership	3,797	711	500	4,008
SEA Activity Fund	948	123		1,071
Services Auction Fund	8,361		8,361	
Youth Ministry Activity Fund	8,584	27,177	26,425	9,336
Total Within These Walls	59,112	63,995	68,165	54,942
Beyond These Walls				
Community Service Ministry	(61)	8,043	8,028	(47)
Faith in Action	(55)			(55)
Habitat Fund	4,267	4,350	4,000	4,617
OCJU (Justice United)	38	2,841	2,879	
Peace & Justice Clearing Fund	2,296	3,100	3,300	2,096
Share the Plate Sunday	-	26,430	26,430	-
SOSL Ministry Team Fund	6,613	846	2,746	4,714
Total Outreach	13,098	45,611	47,383	11,325
Totals	72,210	109,606	115,548	66,267