

Treasurer's Report
Fiscal 2022

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

Andrew Wright, CPA, Treasurer
June 2023

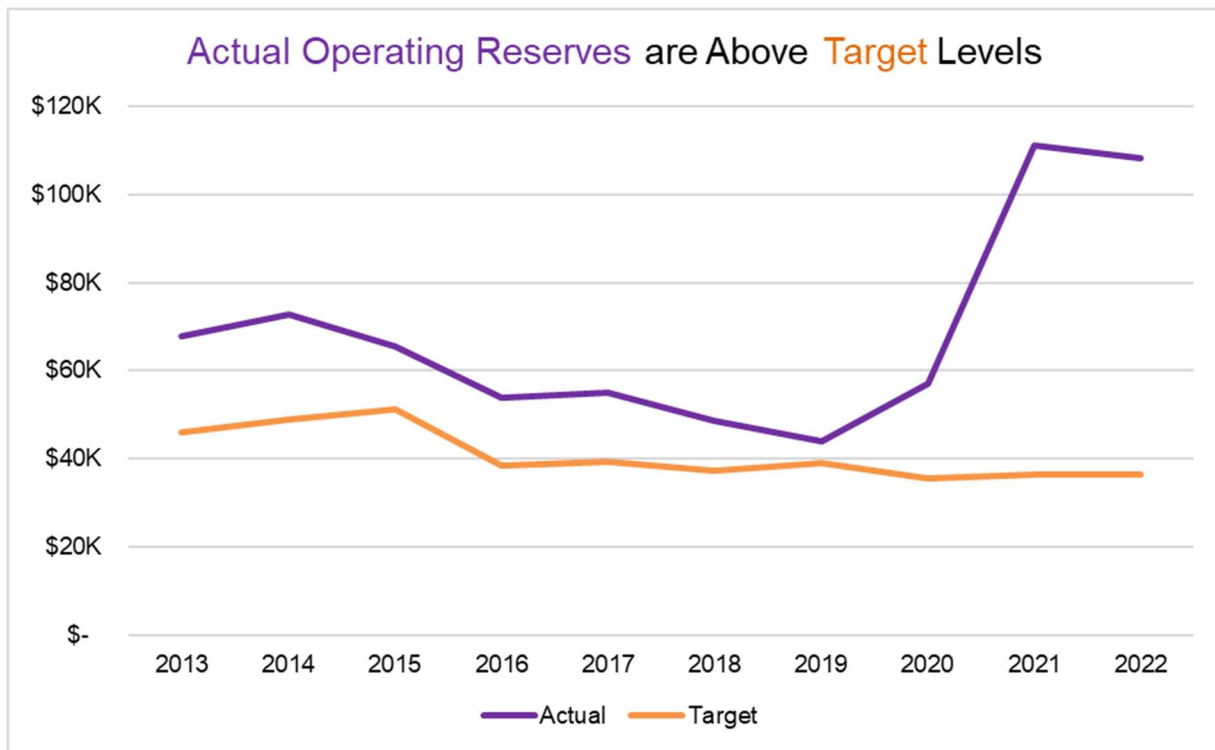


Executive Summary

The financial health of the Community Church of Chapel Hill Unitarian Universalist (CCCHUU) remained strong during the year ended June 30, 2022 ("FY2022"). This was our first year of being primarily back in person and using the new building space.

The church maintains operating reserves of funds on the balance sheet that help to smooth out uneven cash flows. The Board of Trustees (BOT) requires the church to maintain these operating reserves at or above 6% of annual expenses. At the end of FY2022, operating reserves were 16% of FY2022 actual expenses. We will be using up excess operating reserves over the next few fiscal years, as discussed in the risks section of this report. Figure 1 shows actual operating reserves compared to target operating reserves for the past ten years.

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

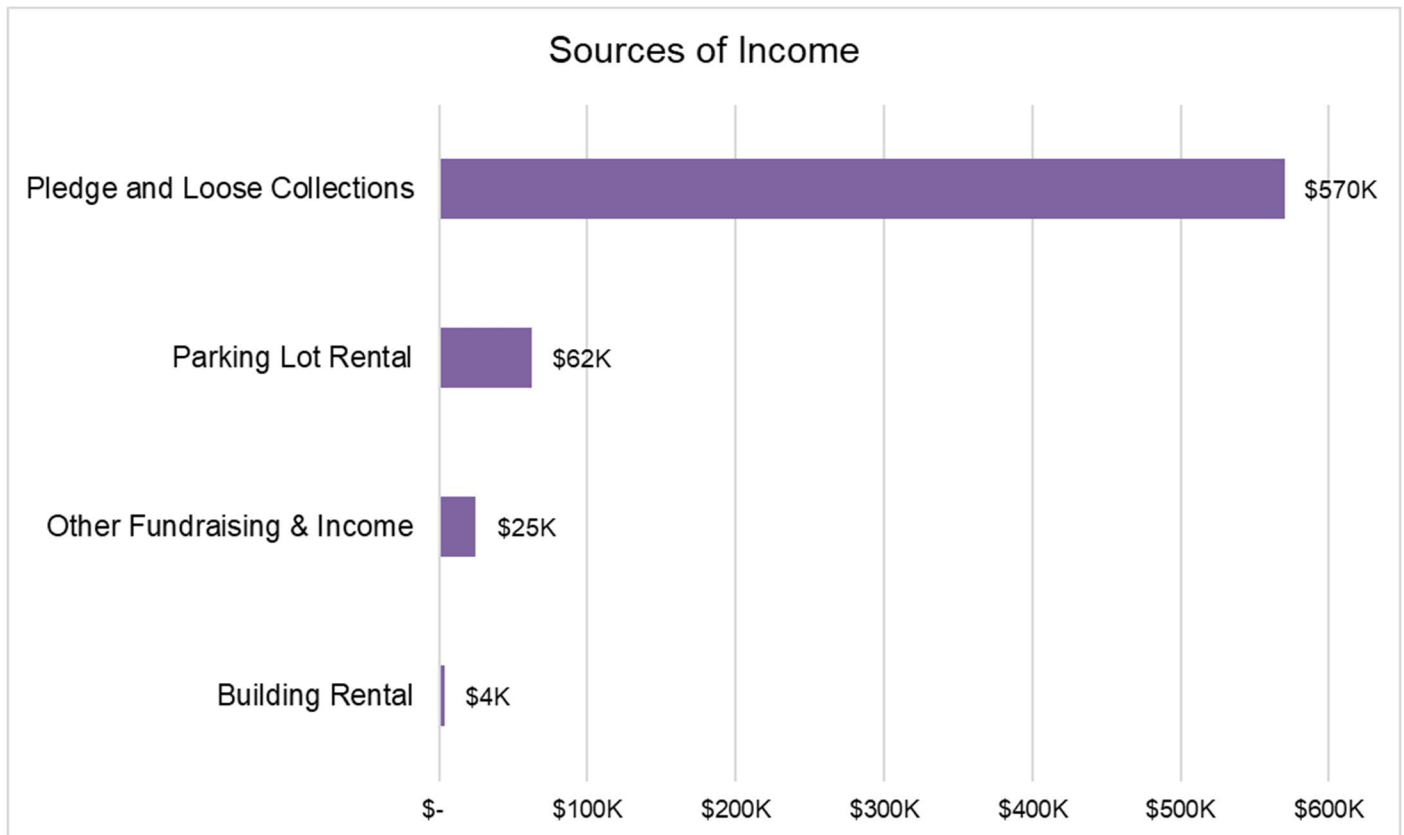


The building project received enough pledges to cover all of the building costs, meaning that the operating budget will not be impacted by the construction. The operating budget is impacted by the new space in utilities, insurance, and cleaning expenses and FY2022 is the first year that has those expenses fully reflected.

Income

The primary source of income for CCCHUU is member pledges and loose collections, making up 79% of total income. Total income for FY2022 was \$661k, flat compared to \$663k in FY2021. Figure 2 shows all sources of income.

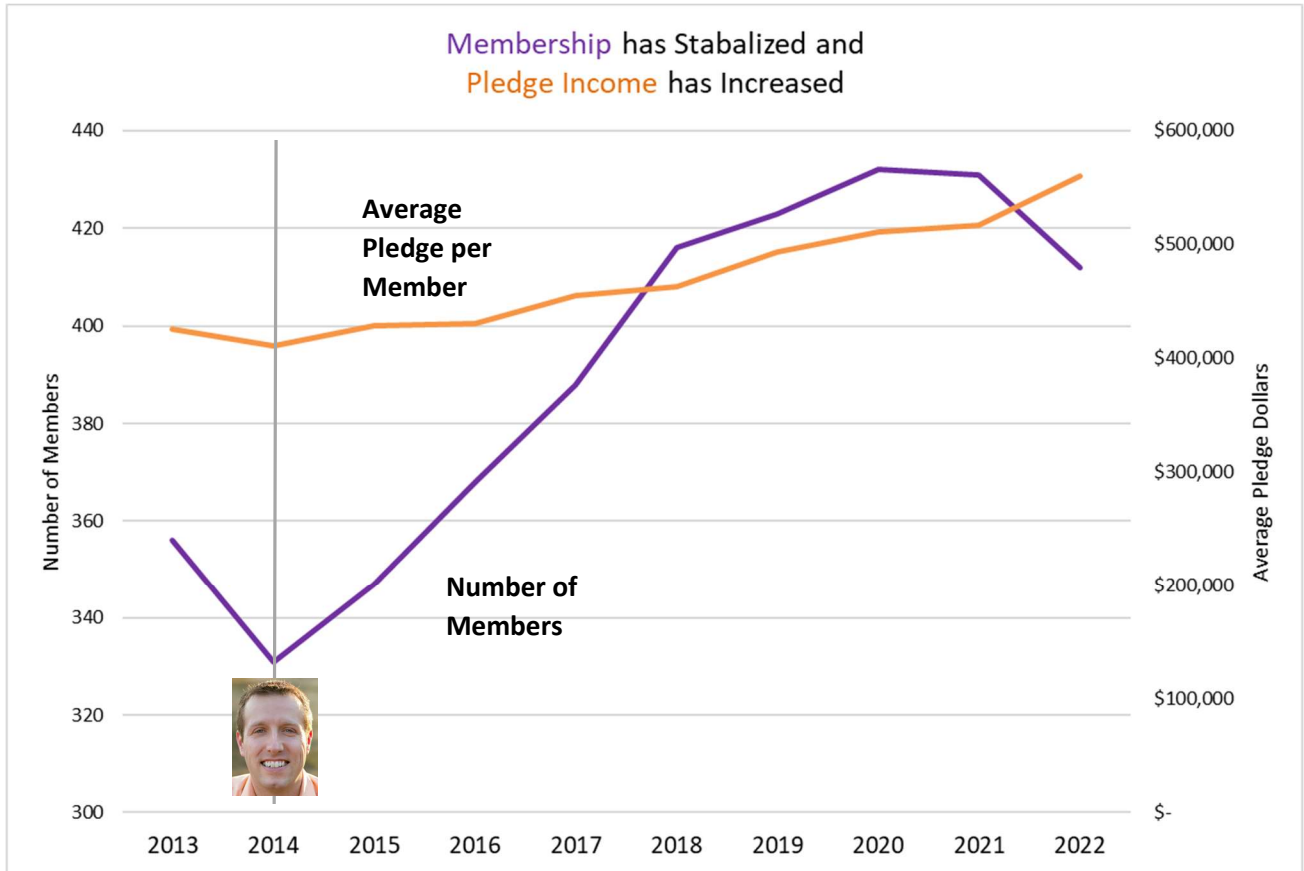
Figure 2 – FY2022 Sources of Income



Pledges and Loose Collections (primarily pledges) was \$561k, up quite a bit from \$517k in the prior year. This was a result of a successful pledge drive.

In 2014 our current minister, Thom Belote, joined the church, and membership grew considerably from 2014 to 2018. Membership has been hovering just over 400 members since 2018. While membership has been stable, total pledges have been growing which allows the church to keep up with inflation and new expenses. Figure 3 shows the trends of these two numbers.

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



Given the pressures of COVID19 on the members over the last 2 years, it is very good to see overall pledges increased for FY2022 from prior years.

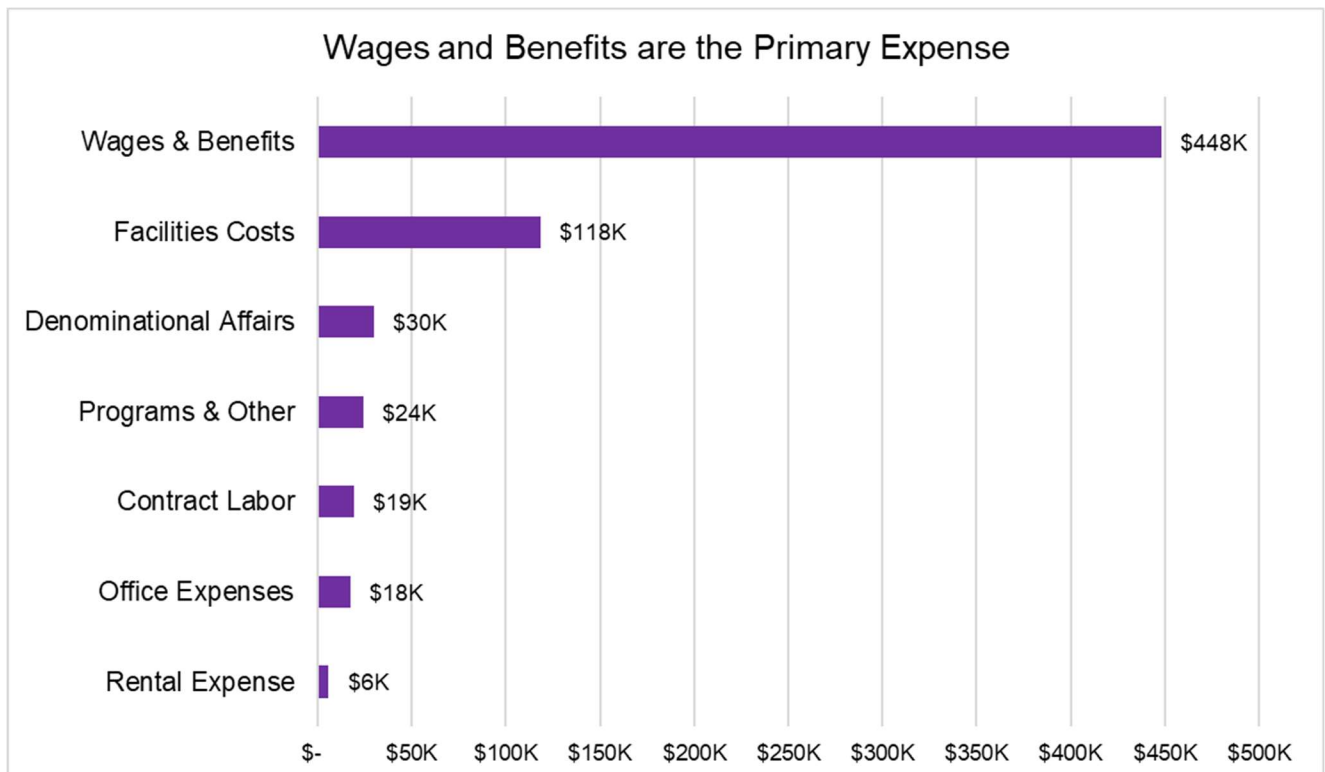
Expenses

There are two ways the congregation spends money.

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

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

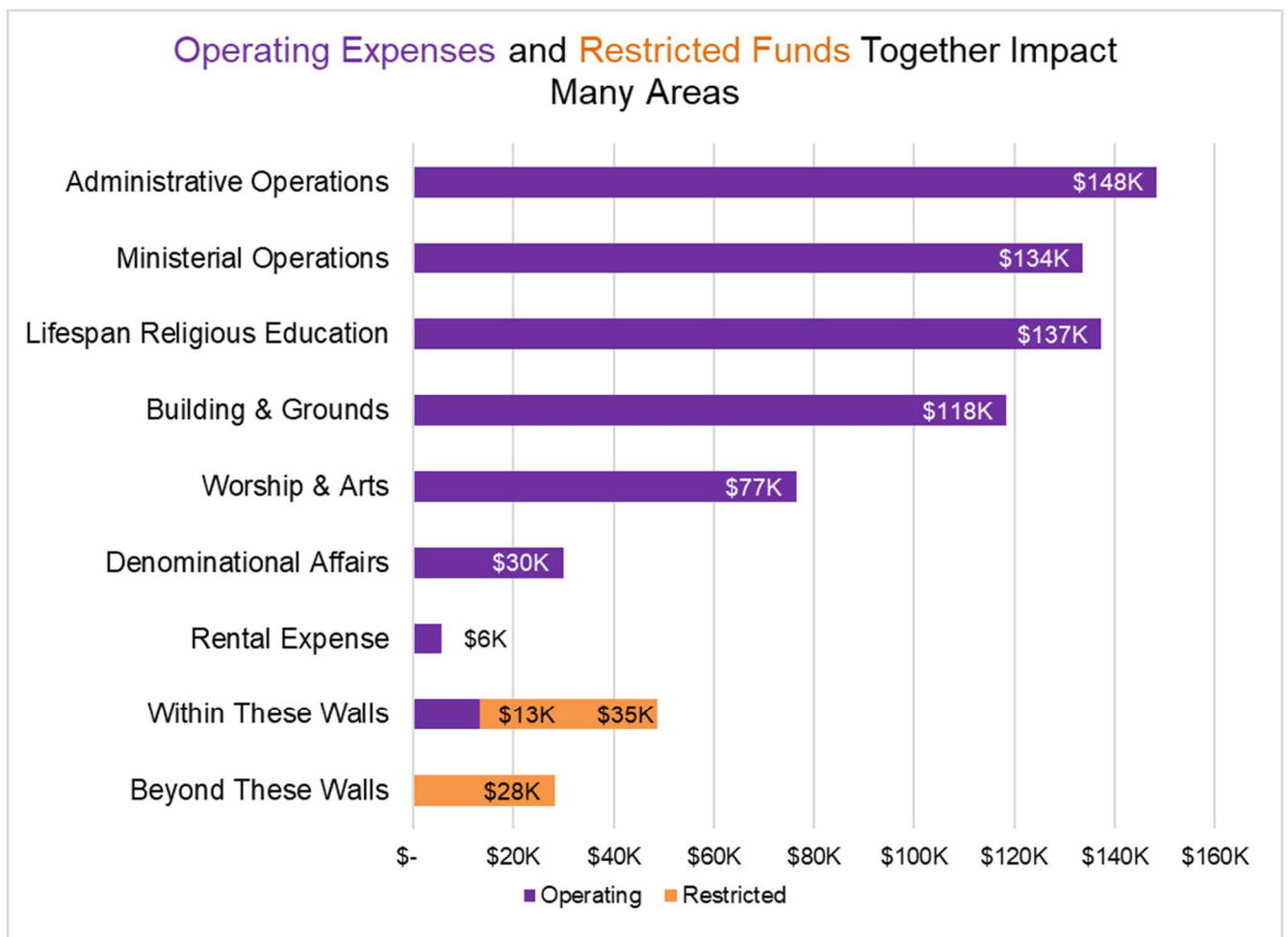
Figure 4 – FY2022 Operating Expenses by Type of Expense



Wages and benefits for our staff made up the majority of our operating expenses, at 68%. Facilities costs consist of putting money away for repairs into the Maintenance Reserves, janitorial expense, and other building costs, and made up 18% of operating expenses in FY2022. All other items in the operating budget made up the remaining 14% of expenses.

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

Figure 5 – FY2022 Operating Expenses and Restricted Funds by Purpose of Expense



- Building and Grounds - putting money into our maintenance reserves, janitorial services, insurance, utilities and other maintenance
- Ministerial Operations - primarily salary and benefits for our minister
- Lifespan Religious Education (LRE) - Director of LRE and the LRE Assistant and expenses for education programs for all ages

- Administrative Operations - Congregational Administrator and Office Assistant, office equipment and technology
- Worship & Arts - Director of Music and the Accompanist, and music expenses
- Denominational Affairs - payments to the national/regional UU organizations
- Rental Expense - expenses needed to generate income from the parking lot (taxes paid on the income and tax filing expenses)
- Within These Walls - the operating budget funds 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
- Beyond These Walls - distributions by Share the Plate and other restricted funds

Maintenance Reserves

Included in Figure 4 under Facilities Costs, and in Figure 5 under Building & Grounds is an expense for maintenance reserves of \$46k. This is where the operating budget sets aside money to the balance sheet in a line called Maintenance Reserves. BOT policy states that at least 7% of total income be set aside as maintenance reserves each year, which are to be used for maintenance expenses that are more than \$1k, now or in the future. The idea is to show an expense each year, even if we don't have any major maintenance expenditures, so that when a major issue comes up it does not impact the operating budget all in one year. The board maintains a 10-year maintenance plan of forecasted expenditures.

During FY2022 the church set aside \$46k for maintenance reserves and spent \$26k on HVAC replacement, \$5k on tree removal, and \$5k on other projects. The ending balance was \$104k. There are several projects that will use the reserves in the next few years, including replacing the roof under the solar panels and repaving of the parking lot.

Capital Fund

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

During FY2022 we paid the final bills for the building project. In future years the Capital Fund will pay for additional projects that add features to the church facilities.

Financial Risks and Other Considerations

Future Operating Budgets

The expanded building brings with it increased costs in insurance, cleaning, and utilities. In FY2022, after a period of modest increases in health insurance costs, we saw a larger increase in that year's premiums. This increase meant that FY2022 ended very close to break even, with a deficit of \$3k. This deficit was funded by the excess operating reserves mentioned earlier in this report. The budget for FY2023 is projected to have a deficit as well. Often, actual income and expenses end more favorable than budget, but if circumstances are not as usual and FY2023 ends as budgeted, approximately half of the excess operating reserves will be used for FY2023. The Board will emphasize in the coming annual pledge drive the need for additional pledging to prevent deficit budgets in the future. If pledge income over the next few years does not rise enough by the time excess operating reserves are used up, we have the risk of not being able to adequately compensate our staff and could have to cut programming expenses. Note that this report is being written after the FY24 pledge drive and the results were a strong increase, so this risk is diminished.

Maintenance costs, especially for the aging Manse building, continue to be a concern. Maintenance reserves are sufficient for the forecasted repair needs for FY2023, but are predicted to be exhausted in FY2024. If we experience more mechanical failures than forecasted, particularly HVAC systems, the deficit will require more money from the operating budget than the normal 7% of income, driving up expenses.

Acknowledgements and Sources

Thanks to our Congregational Administrator, Harrison Gray, who provided the data for this report and who keeps our church finances running.

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

Data visualization assistance by Demia Wright.

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

Financial Statements

The financial statements are on an accrual basis.

Notes on Table 1 - Balance Sheet

Fixed Assets and Illiquid Equity are up due to the completion of the building project in FY22.

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

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

Notes on Table 2 – Income Statement

Other Income in FY2021 was higher due to \$68k of PPP Grant income used to pay salaries.

Notes on Table 3 – Reconciliation of Operating Reserves

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

Notes on Table 4 – Restricted Funds

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

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

ASSETS	<u>Jun 30, 22</u>	<u>Jun 30, 21</u>	<u>Jun 30, 20</u>	<u>Jun 30, 19</u>
Current Assets				
Checking/Savings	446,383	567,243	1,279,737	1,005,042
Other Current Assets	15,087	30,204	10,214	22,306
Total Current Assets	461,470	597,447	1,289,950	1,027,348
UU Common Endowment Fund	266,130	286,290	198,905	204,106
Fixed Assets	4,634,097	3,112,731	3,112,731	3,112,731
TOTAL ASSETS	<u><u>5,361,698</u></u>	<u><u>3,996,468</u></u>	<u><u>4,601,586</u></u>	<u><u>4,344,186</u></u>
LIABILITIES & EQUITY				
Liabilities				
Current Liabilities				
Payroll Liabilities	18,214	18,726	19,978	26,353
Accrued Payables	2,616	1,853	2,205	1,048
Unearned Income	64,845	81,687	57,545	80,758
Total Current Liabilities	85,675	102,266	79,729	108,159
Long Term Liabilities	0	0	68,462	0
Total Liabilities	85,675	102,266	148,191	108,159
Equity				
Financial Reserves				
Operating Reserves	108,233	110,978	57,074	44,274
Maintenance Reserves	104,428	94,375	55,625	38,388
Ministerial Transition Res.	11,607	21,865	13,865	13,865
Total Financial Reserves	224,268	227,218	126,563	96,526
Illiquid Equity	4,635,313	3,113,947	3,113,947	3,113,947
Endowment	266,630	287,394	199,808	206,442
Other Restricted Funds	149,810	265,643	1,013,077	819,111
Total Equity	5,276,022	3,894,202	4,453,396	4,236,027
TOTAL LIABILITIES & EQUITY	<u><u>5,361,698</u></u>	<u><u>3,996,468</u></u>	<u><u>4,601,586</u></u>	<u><u>4,344,186</u></u>

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

Income	<u>Jun 30, 22</u>	<u>Jun 30, 21</u>	<u>Jun 30, 20</u>
Collections			
Member Pledges	560,524	517,359	511,359
ID Contributions	2,673	498	1,445
Loose Collection	6,658	5,125	10,766
Total Collections	569,856	522,982	523,569
Other Income			
General Operating Fundraising	23,930	9,935	17,904
Other Income - Other	854	70,033	2,192
Total Other Income	24,784	79,968	20,095
Rental Income			
Building Rental	3,575	500	3,791
Parking Lot Rental	62,354	59,373	58,959
Total Rental Income	65,929	59,873	62,750
Total Income	660,569	662,822	606,414
Expense			
Administrative Operations	148,374	144,101	134,103
Building & Grounds	118,399	90,766	99,670
Denominational Affairs	30,000	30,000	30,000
Lifespan Religious Education	137,404	129,620	126,064
Ministerial Operations	133,702	133,231	121,387
Rental Expense	5,686	9,472	10,113
Within These Walls	13,148	6,656	10,901
Worship & Arts	76,606	66,260	61,377
Total Expense	663,320	610,105	593,614
Net Income	(2,751)	52,717	12,800

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

Operating Reserves	<u>Jun 30, 22</u>	<u>Jun 30, 21</u>	<u>Jun 30, 20</u>
Beginning Reserve	110,978	57,074	44,274
Net Income	(2,751)	52,717	12,800
Other Activity	6	1,187	-
Ending Reserve	<u>108,233</u>	<u>110,978</u>	<u>57,074</u>
Maintenance Reserves	<u>Jun 30, 22</u>	<u>Jun 30, 21</u>	<u>Jun 30, 20</u>
Beginning Reserve	94,375	55,625	38,388
Additions to Reserve	46,041	46,398	43,501
Expenditures	(35,988)	(7,647)	(26,264)
Ending Reserve	<u>104,428</u>	<u>94,375</u>	<u>55,625</u>

Table 4
Activity in Temporarily Restricted Funds, FY2022
(unaudited)

<u>Fund</u>	<u>Balance at 6/30/21</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Transfers</u>	<u>Balance at 6/30/22</u>
<u>Within These Walls</u>					
Art Resources Fund	4,540	923	(43)	-	5,420
Benevolence Fund	7,145	-	-	(7,145)	-
Campus Ministry Activity Fund	369	-	-	-	369
Capital Fund	180,251	42,614	(172,673)	-	50,191
Children Ministry Activity Fund	10,232	1,729	(2,182)	-	9,778
Church Fellowship	743	-	-	-	743
Concert Series	7,899	22,734	(12,656)	-	17,977
Cookbook 2020	45	66	-	-	111
Frances Brewer Flower Fund	1,274	170	(203)	-	1,241
Services Auction Fund	75	-	-	-	75
Live Streaming Infrastructure	-	-	(1,996)	-	(1,996)
Memorial Rock Fund	5,624	-	-	-	5,624
Minister Discretionary Fund	6,450	285	(6,768)	12,550	12,518
Music Activity Fund	(339)	2,161	(1,807)	-	16
Photo Directory July 2020	340	10	(345)	-	5
Quilting Group Clearing Fund	610	-	-	-	610
Sanctuary for Dialogue	1,206	121	-	-	1,328
Sarah Insch Youth Leadership	2,601	-	-	1,298	3,899
SEA Activity Fund	1,155	-	-	-	1,155
Women's Circle	1,330	400	(1,888)	-	(158)
Youth Activity Fund	12,708	4,079	(7,584)	1,609	10,812
Total Within These Walls	244,257	75,292	(208,144)	8,313	119,718
<u>Beyond These Walls</u>					
Community Service Ministry	(6)	-	(1,429)	1,954	519
Faith in Action	(55)	-	-	-	(55)
Habitat Fund	4,291	-	(4,000)	3,169	3,460
IFC Fund	-	445	-	-	445
Sanctuary & Immigrant Support	11,201	10,759	(5,407)	-	16,553
Share the Plate Sunday	590	33,113	(15,912)	(13,436)	4,355
SWL Ministry Team Fund	5,365	1,045	(1,595)	-	4,815
Total Outreach	21,386	45,362	(28,343)	(8,313)	30,093
Total Restricted Funds	265,643	120,654	(236,487)	-	149,810