

Notes
Financial Policy Committee Meeting of 1/11/18

Update on Board Activity – Ellen / Carol

Board needs information on amount of funds the Endowment will disburse in for FY2019. Jack W suggested getting current numbers for all of the Church investment accounts, not just Endowment so that FPC and Board can have a comprehensive view all available funds, what is restricted and what is available.

Board is working on strategic directions and outcomes which can help set priorities for developing the budget.

Board is reviewing initiatives funded temporarily in FY2018 to determine whether to continue to fund.

Final Report on External Audit.

The final report from the auditor, Kathleen Flaherty of Mathews, Carter and Boyce, PC, dated January 10, 2018 repeated the findings and recommendations included in the progress report. As action is being taken to address all of the recommendations, the Committee recommends the Board accept the report and close the issue.

Review status of efforts to convert to new chart of accounts and produce current financial reports

Sara is working with accountant to clear up out of date items on balance sheet

Set up separate set of accounts for Endowment and other investment accounts with totals reflected in main set of accounts.

Sara working on categorizing moneys in investment funds as restricted, limited restricted, and unrestricted.

Update on pledges

- As of 1/7/18, \$911,272 has been pledged, \$18,944 or 2.1% more than at this point last year due to a substantial increase in average pledge from \$1,863 to \$2,028 (8.9%).
- However there have been fewer pledges to date, only 449, which is 30 (6.3%) fewer than this point last year and 57 below this time in 2017.
- Total projected pledge amount at this rate is \$926,733, which is more than \$150,000 below the target.
- Total projected pledge payments would be \$916,817, which would be \$18,183 under FY18 budget.

Committee discussed need to increase membership – not clear yet what net increase is for FY2018.

Committee recommended focusing on number of pledge units rather than number of members in estimating amount of pledges and pledge income as many members do not pledge. Committee discussed whether a distinction could be made between members who pledge and persons who have been granted the services and support provided members but that the Church understands will not be pledging.

Committee discussed that under the new tax law, fewer people will be able to deduct their pledges.

Committee discussed the risk that pledge income may fall significantly short in FY2019 if more pledges are not received and the average size of pledges doesn't continue to increase.

Draft format for financial reports – see Sara's draft attached to email

The draft report is a comprehensive view of all income and all expenses including disbursements from Endowment and other funds and expenses paid for by disbursements. It will be necessary to separate out operating income and expenses, to determine and apply cap on FY19 expenses to comply with policy adopted by Board and to be able to monitor these categories.

Jack R, Carol, Ellen and Jack W will work with Sara on this task.

Updates on Projects - Sara

Sara is completing documentation of financial and operational policy and procedures. Committee members are to provide her with any comments they may have as soon as possible.

A Capital Campaign short- term checking account is being established with Eagle Bank, and Sara is working with Regina Dull and Don Bliss on guidelines for determining how much to invest in longer-term accounts to obtain the best rate of interest compatible the need to avoid losses. The Committee expects the Endowment Committee will determine the best accounts to invest in.

Change is needed in Board policies to formally authorize the use of the Endowment Fund to balance the Operating Budget.

Proposed revision of related Board policies attached.

Capital Reserve and Budget. The Committee discussed the importance of developing a plan for maintaining facilities over time, e.g., replacing roof, parking lots, sidewalks, HVAC, etc., together with projected timing and costs along with amounts that would need to be set aside in a capital reserve account each year to pay these future costs. The Committee understands that the architect working with the Capital Campaign team will be providing information which should assist the FPC in working with the Senior Staff, Development Committee, Facilities Team and any other immediately concerned teams in developing such a plan.

Development of a program budget.

The Committee reviewed Jack's model for categorizing expenses by program, e.g. Religious Education, Social Justice.

Update on development of Dash Board

Jack R will need accurate current data – the Committee discussed relieving the burden on Sara by going directly to staff, e.g., Jen Morley for financial data and Sara Davidson for membership data as she will be handling membership function in future.

Ministry Team Leaders Meeting 12/21/17 Notes – Distributed

Next Meeting - Thursday 2/8 at 645 – Jack R indicated the Endowment Committee would meet at 815.

DRAFT
12/11/17

**PROPOSED CHANGE IN BOARD POLICIES TO UPDATE USE OF ENDOWMENT
FUND TO BALANCE OPERATING BUDGET**

Current Policy Governing the Use of Endowment Funds? (Board Policy Manual Part II. GOVERNANCE Policy for Spending Endowment Appropriations, BOT approved 6/17/14)

This policy is intended to ensure that the appropriations from the Endowment Fund are spent wisely to maintain and preserve Cedar Lane's buildings and grounds and to further advance the mission of the church.

~~It is also the Board's intention to use Endowment Fund appropriations in a four-year transition period to balance the church's operating budget.~~

The Endowment Committee, in accordance with its Charter, determines the funds available for annual appropriation. The Board authorizes spending of the appropriation through the annual budgeting process.

First, the primary use of the appropriations is for preserving the Church's beautiful buildings and grounds. Therefore, appropriated funds will be first applied to the Capital Budget for this purpose as recommended by the Senior Staff in consultation with the Finance Team.

~~Second, to the extent there are additional funds available from the appropriation, the Board has determined that \$50,000 will be applied annually to the Operating Budget for the Fiscal Years 2014, 2015, and 2016, in accordance with the Four-Year Financial Plan approved by the Board on September 17, 2013, as needed and approved by the Board to cover deficits in operating budgets.~~

~~Third, to the extent there are additional funds available from the appropriation and as approved by the Board, for other purposes which further advance the mission of the church.~~

~~Third~~ **Fourth** and finally, if there are any additional funds available for appropriation, the Board may elect to leave such funds in the Endowment Fund or it may apply them to the Contingency Account for emergency expenses ~~during the year.~~

Current Policy Governing Budget Process (Board Policy Manual Part IV. GUIDANCE AND LIMITATIONS)

E. Budget Delegation, BOT approved 6/27/17)

The Board of Trustees delegates responsibility for preparing and managing the Annual Operating Budget and the Annual Capital Budget to the Senior Minister. The Board retains responsibility for approving the proposed budgets in consultation with the Board Treasurer, the Financial Policy Committee and the congregation.

The Board Policies for the Operating Budget and the Capital Budget follow.

ANNUAL OPERATING BUDGET:

Background

During the last decade Cedar Lane's financial conditions have repeatedly allowed operating expenses to exceed operating income. The resulting deficits have been covered by transferring funds to the Operating Budgets from balance sheet accounts and from endowment distributions. The church has been fortunate to have such non-operating funds available but long-term responsible management of Cedar Lane's finances requires the discipline of balanced budgets. The church should live within its means.

Until now Operating Budgets have been recommended and managed by the Finance Committee and approved by the Board of Trustees. This is changed under Governance by Policy.

New Budgeting Process

Now, the Board will focus on the mission and major priorities of the church, and the Finance Committee becomes the Finance Team supporting the Executive Director. The Senior Minister and the Executive Director will develop the Operating Budget to meet the priorities of the Board. After the Board approves the Operating Budget, the Senior Minister and Senior Staff will manage income and expenses to the budget with support from the Stewardship and Finance Teams. ~~During a four-year period of financial recovery starting in FY 2013-2014,~~ the Board will set income targets and expense limits with advice from the Financial Policy Committee. Such income targets may incorporate subsidies to the Operating Budget from the endowment payout, church investment accounts, and non-endowment gifts to the church. These Board financial priorities provide direction for developing the annual Operating Budget to gradually eliminate operating deficits.

Operating Income and Expenses ~~The objective of this policy, along with the four-year financial recovery plan,~~ is to eventually achieve budgets that balance

operating income and expenses. Operating Income includes pledges, gifts less than \$10,000, facility usage, interest, plate donations, net auction income, net rummage sale income, interest, and income from other church activities and programs. Operating income ~~may~~ does not include, as needed and approved by the Board, transfers from balance sheet accounts, endowment distributions and major gifts even though under the four-year financial recovery plan, they subsidize the Operating Budget.

Operating expenses include those for personnel, administration, facilities, utilities, grounds, program, teams and committees, the Board of Trustees, the denomination, music, religious education, social justice, reserves, contingencies and others recommended by the Senior Minister. Operating expenses do not include those for programs especially established by the Board of Trustees, such as the Blumenthal projects.

CAPITAL BUDGET POLICY:

Background

On February 20, 2001, the Board of Trustees, at the recommendation of the Finance Committee, established a Capital Budget to facilitate planning and budgeting for major building and grounds expenditures by separating them from the church's annual Operating Budget. In previous years, the church had used maintenance reserve accounts in the Operating Budget to pay for such expenses. However, operating income shortfalls resulted in limited funding and delayed repair and replacement of major physical systems. This revised policy reflects the current reality of Governance by Policy, the Four Year Financial Recovery Plan and the Blumenthal Futures Project, which is preparing a Long Term Facilities Plan for the church.

Annual Capital Budget

In March the Senior Minister and Executive Director propose an annual Capital Budget for approval by the Board of Trustees. The Budget will reflect input from the Facilities Team, other associated teams, and Senior Staff. The include specific projects and cost estimates for the next Fiscal Year and in lesser detail for the following two years. The Capital Budget should be compatible with the plans of the Blumenthal Futures Project, as far as they are developed.

Funding

Distribution from the Endowment Fund is the primary source of income for the Capital Budget. The principal purpose established by the Board of Trustees for Endowment distribution is to maintain and improve our site and facilities.

~~During the Four Year Plan, FY 14, FY 15, FY16, and FY 17, part of the Endowment distribution may be diverted to subsidizing the Operating Budget.~~

The total Capital Budget will reflect funds available from the Endowment payout and any other funds assigned by the Board of Trustees, such as bequests. The Capital Budget should be in furtherance of priorities that the Board, in consultation with the Senior Minister has established.

Spending

In general, the Capital Budget's planned expenditures should not exceed the Endowment distribution plus carryovers from previous years and any other funds designated by the Trustees to the Capital Budget. As bids are obtained for projects in the Capital Budget, the Executive Director may make adjustments during the church year within the total approved Capital Budget. Periodically the Board Treasurer will report the status of the Capital Budget to the Board of Trustees.

