

Notes
Financial Policy Committee Meeting of 2/8/18

Attendees:

Jack Welch (Chair)
Carol Bertaut (Treasurer)
Ellen Kelly
Michael Thoryn
Jack Rogers
Paul Strella
Sara Deshler (Executive Director)

Update on Board Activity – Ellen / Carol

Board developing priorities for next year to guide development of budget.

Board developing outcomes for the 5th Strategic Direction: *Live out our vision and mission through transformational giving.*

Current financial report

Sara reviewed report with Committee which compared current income and expenses with budgeted numbers.

Update on Pledges – Sara / Jack W

- As of 2/2/18, \$907,872 has been pledged, \$2,505 or .3% more than at this point last year due to an increase in average pledge from \$1,822 to \$2,017 (9.7%).
- However there have been fewer pledges to date, only 450, which is 47 (9.5%) fewer than this point last year and 47 below this time in 2017.
- Total projected pledge amount at this rate is \$909,979, which is more than \$190,000 below the target.
- Total projected pledge payments would be \$902,242, which would be almost \$35,000 under FY18 budget.

Sara reported that an additional \$19,000 contribution had been received and considered as a FY2018 pledge payment, which may partially offset this negative projection of pledge income.

Jack W will follow up with the 26 or so new members since January 1, 2017 who have not made a pledge.

The Committee recommended that the Board establish a team to follow up in the future with members who have not pledged by the end of June.

Review status of efforts to convert to new chart of accounts

Sara advised that most of the conversion problems have been resolved and the staff is now focusing on the balance sheet.

Define and establish FY2019 cap on expenses using the new chart of accounts.

The Committee agreed that the Board ought to maintain the \$1,309,444 cap on expenses and Carol will continue to work with Sara to define the expense categories affected by this cap in the new chart of accounts.

Dashboard

The Committee agreed that due to the new FY2018 structure of accounts being different than the pre FY18 chart of accounts, it appears practical to compare only those FY17 accounts that are in sync with newly established FY18 accounts, e.g., pledges, rentals, plates and gifts and otherwise to track trends from FY18 forwards rather than trying to track trends forward from earlier years.

Revisions to Board policies

The Committee agreed to recommend revising attached Board policies to provide more flexibility in managing other Church funds as well as the Endowment and to assign the FPC a role in monitoring and reporting on CLUUC operational income and expenditures for consistency with budget.

Pledge payments made in FY18 for pledges made for FY19

Because of the recent change in tax law affecting charitable contributions, some members are paying their FY19 pledges in FY18. In response, the Committee agreed that the amount of pledge payments received in FY18 for FY19 should be tracked separately from pledge payments received in FY18 for FY17 and 18 and included in accounts as income for FY19 rather than FY18 to avoid over reporting FY18 income and under reporting FY19 income.

Recommendations on unrestricted non pledge gifts of or exceeding \$10,000

Board policy provides that such gifts be used as the FPC recommends and the Board approves.

The Committee recommended that the Board allocate the \$10,000 Parker gift to the FY18 operational budget as the best means of complying with the family's desire that it be used for social justice as the budget includes more than that amount in social justice expenditures.

The Committee recommended that the Jay Schneider Family be contacted by Sara to ascertain whether they would prefer their gift in honor of Jay be deposited in Endowment Social Justice fund where it could not be used until the fund reached \$100,000 (currently

contains about \$18,000) or the Blumenthal Social Justice fund where it could be used without such a restriction.

Draft structure for reports on Church funds

To be able to quickly see not just the total amount in each of the various Church funds but to see how much is available for expenditure, the Committee agreed to request that the staff provide a chart with the following information:

- the current amount of money in each of the funds - this figure would not include the HVAC or other loans owed;
- the amount of funds restricted (e.g., \$1,777,949 for the Endowment Fund);
- the amount of funds designated to be disbursed but not yet disbursed; and
- the resulting amount of funds remaining and available for expenditure.

See attached draft of chart – numbers included need to be updated.

The Committee asks the Board to clarify whether HVAC loan should come from the Endowment Fund only or from the Endowment pool. Once the chart described above has been updated, it can be sent to the Board to assist it in making this determination.

The Committee recommended that all but funds and value of buildings, land, and organ be deleted from list of assets on balance sheet and that only these items be appreciated or depreciated. Jack W agreed to try and obtain at no cost an updated appraisal of value of buildings and land.

The Committee agreed to recommend that funds be taken from the Blumenthal Futures account to pay the costs of the Capital Campaign and not paid back, but that this be reported in accounting for funds received by the Campaign so that the funds involved are not counted as campaign contributions.

Next Meeting - Thursday 2/8 at 645 in Room 30-31

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Edits to cover other non-Endowment Funds and Role of FPC in monitoring and reporting on CLUUC operational income and expenditures for consistency with budget.

2/2/18

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

Current Policy Governing the Use of Endowment and other Church 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 **and other funds** are spent wisely to maintain and preserve Cedar Lane's buildings and grounds, **purposes for which other funds were established and maintained**, and to further advance the mission of the church.

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

First, the primary use of the appropriations from the Endowment 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, 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.

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~~.

Disbursements from other funds, such as the Blumenthal Futures Fund, the Memory Garden Fund, the Kiplinger Fund, and the Social Justice Fund shall be authorized by the Board through the annual budgeting process in accordance with the purposes of the funds involved.

Such funds may as needed and approved by the Board be used to cover deficits in operating budgets, for other purposes which further advance the mission of the church, or disbursed to the Contingency Account for emergency expenses. Proposals to do so must be shared with the Congregation for its consideration in approving proposed annual budgets.

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. 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 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 include, as needed and approved by the Board, transfers from Church investment funds such as the Endowment and major gifts.

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.

The Financial Policy Committee in concert with the Executive Director and Treasurer shall monitor operational income and expenditures during the year for material deviations from the approved budget and notify the Executive Director, Senior Minister, and Board of anticipated or actual deviations together with related advice on action to be taken to address.

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.

Long-Term Capital Budget

To maintain the Church's buildings and other facilities over a long-period of time, e.g., replacing roofs, parking lots, sidewalks, HVAC, etc., a Long-Term Capital Budget and Capital Reserve should be developed which include developing and periodically updating a plan for maintaining 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.

Annual Capital Budget

In March, the Senior Minister and Executive Director with the assistance of the Financial Policy Committee shall 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.

Maintenance items included in the Long-Term Capital Budget and funds available in the Capital Reserve will be considered in developing this annual capital budget. This budget will 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 Capital Campaign as far as they are developed.

Funding

Distribution from the Endowment Fund or other Church investment accounts along with a Capital Reserve account will be the primary sources 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.

The total Capital Budget will reflect funds available from the Endowment payout, the Capital Reserve 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 Capital Reserve and 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.

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2/9/18

Revision to include monitoring of budget

Includes recommended revision of 11/30/17 regarding membership.

CHARTER OF THE FINANCIAL POLICY COMMITTEE BOT APPROVED 6/17/14

PURPOSE:

The Financial Policy Committee (FPC) serves as a financial advisor to the Board of Trustees. As such it will assist the Board in its oversight of the Church finances. The FPC is standing policy committee of the Board. It does not have an operational role, which is reserved to the Senior Staff and Financial Team. The Trustees may request recommendations from the FPC on specific issues and the FPC may investigate other issues at its own initiative on behalf of the Trustees. From time to time the FPC with the Treasurer shall hold educational sessions to ensure that Board members have adequate understanding of the congregation's financial status and trends. The Senior Minister may also request assistance from the FPC through the Board President on policy matters of financial importance to the Church's ministries.

RESPONSIBILITIES: The specific responsibilities of the FPC include, but are not limited to, recommending to the Board of Trustees:

- annual Board financial priorities,
- totals for operating budget income and expenses,
- parameters on proposed operating and capital budgets,
- outside financial audits,
- financial policies for the Board,
- multi-year financial plans,
- requested expenses outside of budget,
- use of non-pledge gifts,
- policy for long-term facility plans, and
- undertaking of capital campaigns.

and monitoring:

- internal audit results,
- care for resources practices,
- performance of funds invested by the Endowment Committee, and
- the financial health of the Church.

The Financial Policy Committee in concert with the Executive Director and Treasurer also shall monitor operational income and expenditures during the year for material deviations from the approved budget and notify the Executive Director, Senior Minister, and Board of anticipated or actual deviations together with related advice on action to be taken to address.

The FPC may seek information and advice from any entity inside or outside the Church in order to develop its recommendations. The FPC sets its own procedures and schedule of meetings. All of its meetings are open. At the direction of the Board the FPC will communicate its recommendations to the Congregation.

MEMBERSHIP: The FPC is composed of five to seven members including the Treasurer, the Assistant Treasurer and ~~three to five additional members~~ others who may include Trustees ~~and or~~ non-Trustees. Members serve ~~one-, two-, or three-year staggered terms, which may be renewed~~ staggered three-year terms commencing on the first day of July, such that each year one third of the members will be appointed to the Committee. Non-voting ex-officio members include the President of the Board of Trustees, the Senior Minister, and the Executive Director. ~~The initial Committee membership is~~ New members are approved by a majority of the Committee recommended by the Financial Task Force and approved by the Trustees. ~~Vacancies on the FPC may be filled by the Committee and shall be approved by the Board.~~ The FPC selects its chair ~~that~~ who shall be approved by the Trustees.

There will be an annual invitation for candidates to apply for membership. All Committee members must be either members or friends in good standing. When considering candidates, the members shall consider the applicant's skills, availability, commitment to Cedar Lane, and the diversity of the membership. Preference shall be given to candidates that have not yet served as members, especially over candidates who have served the Committee during the past few years. Members generally shall serve no more than two consecutive terms. The Trustees may remove a member of the Committee for malfeasance, negligence, or incapacitation.