

UNILU FINANCIAL DISCUSSION

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1. SUMMARY OF FISCAL YEAR 2014-2015

The church ended the fiscal year on September 30, 2015 running a deficit of \$5,625: \$191,335 was received and \$196,961 was spent. The deficit was caused by a number of factors.

- At the last annual meeting, the congregation approved a budget that included a very ambitious target of \$131,000 in offerings. The primary reason for this number was that it would allow the church to support an intern, which the congregation viewed as a priority. The congregation directed the council to hire a new intern provided we could support one (based on data in the spring). As Vicar Stu already has housing, the increase in congregational giving (about \$110,000 in 2013-2014 to \$118,793 in 2014-2015) is sufficient to support him, except that other sources of funding decreased.
- The level of support for campus ministry from the wider church has fluctuated in the past two years, and due to accounting errors payments were delayed to the church. This meant that the estimate in last year's budget for grants was incorrect, and was about \$5,500 more than we will actually receive each year going forward.
- Money the church gets from space use has declined, while the budget had an increase. In the previous year, the church received \$47,119 for groups using the church's space, which was down from \$49,787 in 2013-2014 and \$53,539 in 2012-2013. The Amigos preschool is the main space user: they contribute the majority of this money and do not cause this decline. Instead, less use by smaller groups (music lessons, one-time-events) causes this decline. Last year's budget also projected an increase in space-use fees to offset increasing utility costs. No one updated the space use policy or fees, so this didn't happen.
- The church had a list of property projects to be done last year, which didn't happen. Instead, we dealt with termites which is most of the spending on capital improvements. The budget last year included up to \$10,000 for capital improvements, of which up to \$6,000 could be from saved money from previous years and \$4,000 of which should be thought of as "new" money. We spent \$6,673, leaving around \$2,500 to come from savings.

The other change which prevented a larger deficit was a change in the use of the church's endowment. The endowment committee updated the way the endowment supports the church this past year. Each year, the endowment increases in value and some of that increase is "paid out" to support the church. This year and in future years, half of the payout is being used to support the ongoing work of the church and half is being saved to assist in large one-time projects. This year, 4% of the endowment's value is being paid out, so around \$9,500 appears in the budget (and a similar amount is accumulating for projects).

To address the deficit, the church tapped into savings and sent out an end of the year appeal. The church received an additional \$2,830 in donations for the previous fiscal year in early October. We also used \$2,500 of saved money for capital improvements as planned. This left a deficit of \$300, which is insignificant given the size of the budget.

2. ORGANIZATIONAL CHANGES

The structure of next year's budget is changing to improve usability and more accurately reflect the way the church will spend money. In the past, if the choir raised money at a concert to donate to Lutheran World Relief, this would appear as "designated giving" and spending under social justice. But this was not really a part of the budgeting process, which made predicting giving and spending difficult. As another example, certain budget lines were higher than the actual spending was likely to be because they were priorities to the congregation. For example, there have been no expenses attached to the Peer Ministers Program (ELCM) budget line for several years, but because campus ministry is important to the congregation it remained. The 2015-2016 budget attempts to reflect actual spending, so does not include designated giving (or the spending resulting from it). Furthermore, budget lines like social justice are smaller not because less will be done, but because donations of money and volunteer time are not included.

Furthermore, some of the line items in next year's budget have been re-organized to aid in understanding and accounting. They should be reasonable clear looking at this year's budget, but make comparing with the past budget harder. For reference, the following changes have occurred:

- The music coordinator line now includes money for substitutes.
- The choir line includes the choir director and money for sheet music (separated from worship supplies).
- The scope of worship supplies line is limited as piano tuning is moved to maintenance and sheet music is put in with the choir line. This will hopefully make it easier to understand and budget.
- Spending on social justice is reorganized. Now it reflects only money to be spent from the operating budget, and includes money for events and money for donations. If the full proposed amount were spent, this would be an increase over last year in terms of money actually spent by the church.
- The Peer Ministers line is removed.
- The category "Utilities, Maintenance, Furnishings, and Equipment" is subdivided to make it easier to understand. There are now separate lines for utilities and for maintenance and

furnishings. The intent is for maintenance and furnishings to cover small projects around the property, whether they be replacing a chair, a light bulb, or a fence.

- Spending and saving money for unusual projects is now called long-term maintenance as opposed to capital improvements. This is intended for big things.
- Office expenses is subdivided to make it easier to understand. Phone and internet are grouped with utilities and the copier is separated out.
- There are now separate lines for space use and money from the endowment.

3. A MISSION SPENDING PLAN FOR 2015-2016

The church council considered our congregational goals and needs and has proposed a spending plan for next year. At this meeting, the congregation needs to approve a spending plan for the coming year. It was very hard to create a balanced budget. The council tried extensively to decrease spending without compromising the church's mission and function. The proposed budget is the result. It will be extremely hard to reduce spending further without changing staffing, which locks up a lot of the budget. The proposed budget increases spending by about \$4,000 (\$196,961 versus \$200,909). The main increases are in payroll and maintenance.

3.1. Staffing. Staffing accounts for 71% of the proposed budget.

- A substantial increase in the proposed spending for next year occurs in pastoral compensation. Pastor Greg's compensation follows guidelines from the synod, and increases about \$5,000. It is the largest line in the budget, but also the most valuable.
- We are committed to supporting Vicar Stu through next summer. This is approximately \$16,000. The budget also includes \$1,400 for one month of a part time minister. Providing housing for an intern is substantially more expensive, and there are also several thousand dollars of up-front expenses to hiring a new intern even if a potential intern would not need housing. At the current level of funding available, the church will not be able to afford an intern (\$36,000 / year) for starting next fall. If we do not need to provide housing, or switch to an every-other year plan, it is possible.
- The choir director, music coordinator, and sunday school coordinator get 2% raises (total cost of about \$350) for a cost of living adjustment. For comparison, social security uses a 1.7% cost of living adjustment. Janitorial staff and childcare are not directly paid by the church, and we will soon be hiring a new ministry secretary, so these are not included.

3.2. Property. The budget is reorganized to highlight the need for maintenance and differentiate ongoing maintenance and long-term projects.

- The Maintenance and Furnishing category includes things like piano tuning, adding lights to the parking lot, plumbers, signs, and replacing a fence. The church has a backlog of routine maintenance, and has not been spending enough money on it. The \$5,000 in the budget is a start towards this. Also remember that a lot of work around the property is done by volunteers.
- The Long-Term Maintenance category is for one-time projects. These include tenting for termites, renovating bathrooms, and repairing the roof. Ideally, the operating budget would

set aside money to accumulate for them. There is no money available for this in the current budget.

Remark. The money for a big project will have to come from accumulated property funds and a separate campaign to raise money. Currently, half of the payout from the endowment is being saved for these long-term projects (about \$9,500 in 2014-2015). Ideally, the operating budget would also set aside funds. Together with a dedicated campaign (perhaps with the saved money being used to match donations), we hope such a project can be funded.

3.3. **Income.**

- To the best of our knowledge, there are no upcoming changes in campus ministry funding so the grants total for next year is correct.
- The income from space use assumes roughly the same level of use and an increase in the space use fees to reflect the cost of maintaining the property. This was attempted last year as well, but this year we have a volunteer to spearhead the process. The hoped-for increase is also smaller than last year.
- The contribution from the endowment should be roughly the same as the contribution this year.
- In 2012-2013, the offering was \$93,653 (this was unusually low). In 2013-2014, the offering was \$111,789. In 2014-2015, the offering was \$118,793. (The number for 2014-2015 does not include the special year end appeal to help balance the budget which raised \$2,830.) These increases are a result of the congregation growing and members increasing their giving. For next year, an increase of \$5,000 (a little over 4%) is reasonable though congregation growth and modest increases in existing giving. The proposed increase of \$8,140 (6.7%) is more ambitious but possible.

3.4. **Conclusions.** It is very hard to cut further money from the church's operating budget without making major changes to the way the church operates. Spending on areas like hospitality is already very low because most of the expenses are covered by donations. Some expenses like insurance, utilities, and property taxes are beyond our control. The majority of the spending (71%) is on staff, which is impossible to reduce without cutting or eliminating positions. This is why the council eventually decided to ask for the ambitious increase in congregational offering.

Remark. It is a distinct possibility that the current staffing levels are not sustainable. This budget staves off having to eliminate or reduce positions for another year. The congregation and council should be prepared to have to do this in the future. It is much easier to defer maintenance or for congregation members to cover church expenses out of pocket than to eliminate hours or positions. Unfortunately, this causes long term problems. If the congregation does not have sufficient financial resources to support this level of staffing, the congregation will have to support things through volunteer efforts.

4. NOTES ABOUT SPECIFIC BUDGET LINES

The following comments provide additional information about specific budget lines appearing in the report.

- Children's education materials shows a negative number because a large refund was processed this year for spending last fiscal year. Actual spending this year was around \$350.
- Spending on the Sunday School coordinator includes pay for last September that was processed this fiscal year.
- Music coordinator increases to correctly account for substitutes.
- Choir line increases to include music for the choir (no longer part of worship supplies).
- Worship supplies was substantially overspent for a variety of small reasons, the need for a paschal candle, and because piano tuning was classified as worship supplies instead of maintenance.
- General Hospitality is overspent, and community life is fully spent, because of kitchen supplies purchased for dinner church. This is a one-time event, and future spending will be much lower.
- Sunday childcare does not have a cost of living increase as they are paid by the Amigos.
- Evangelism and Outreach spending was much less than expected because the one-time projects that motivated the additional \$500 have not materialized. Spending is on signage, advertising, and publications.
- Social Justice spending is a smaller number, but due to no longer counting "pass-through" donations this will mean more being donated from the operating budget.
- Pastor Greg's compensation follows the guidelines put forth by the synod. It is the largest item in the budget, and also the most important.
- Spending on an intern is much lower than the number in the budget because that number reflected the cost of providing housing. The church could support an intern only because no housing was needed. The number in next year's budget includes nothing after Vicar Stu leaves.
- Pastoral Continuing Education has not been spent because Pastor Greg is preparing to begin a graduate degree next year. Funding in this category is increased to support him, carrying over the unspent money from this year. Note also that continuing education is part of his compensation.
- It is not clear why the Pastor's discretionary fund was hardly used this year (it was used extensively in 2013-2014).
- Spending on utilities and maintenance is lower than budgeted mostly because of issues of categorization. Several big expenses (piano tuning, termite tenting) that could be categorized as maintenance were included elsewhere (worship supplies, capital improvements). Categories are changed to make this clearer next year.
- Capital improvements was spent on termite tenting and the floor in the fireside room. These were not the projects being considered last fall - those projects have not been done.
- Janitorial services is a contract with a company, so we do not give a cost of living increase.
- Property taxes have decreased relative to 2013-2014 due to the Amigos paying the share of the tax bill due to them not being registered as a non-profit. In the future, the paperwork allowing the rectory to be tax exempt will decrease the tax bill further (and give a refund for several previous years).

- Spending last year on a ministry secretary is in line with the job description. In previous years, fewer hours were worked leading to the decreased estimate in the budget last year.
- Office Expenses are overspent for a variety of small reasons. The line is being split up to help keep track of spending.
- The payments on debts are repaying the loan from the Amigos for renovations. The last payment will be June 2016.
- Grant funding was miscalculated due to synod budget cuts and accounting errors by the synod last year. The monthly amount has been stable for the past 8 months, and this informs next year's projection.
- Earned income decreased because space use has decreased and the space use agreements were not updated to take into account increasing costs to the church as projected.
- Designated giving is no longer part of the budgeting process, but will be used to record special donations and reimbursements donated to the church.
- The congregational offering increased by \$8,000 compared to 2013-2014. The number \$131,472 in the budget was an ambitious number put in at last year's congregational meeting. For next year, there is a smaller but still ambitious number.