

First Unitarian Universalist Society of San Francisco
Report to Congregation on Status of Five Year Financial Plan

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Background

The Five Year Financial Plan was developed by the board of trustees in response to a resolution adopted by the membership in November of 2003, and was presented in October 2004, after a year during which we began a change in ministry as well as other staff changes. The goal is to maintain programs and staffing without continuing to draw from the principal of our operating reserves.

The plan created a framework for achieving a balanced budget and is a tool for measuring progress. An expected benefit would be to make new money received from any bequests and gifts and from growth of our membership available for new initiatives, but the plan itself does not provide for any new programs or staff. The plan could not take into account all the variables and unknowns ahead as we were moving into ministerial transition, and it does not restrict decisions of the board.

Basic Assumptions

The success of the plan depends primarily on the continuing generosity of members and friends. Some modest but steady increases in pledge income were assumed. Income from endowments was projected to increase somewhat as new money is received. If income fails to meet our needs, the board and executive team will work together to make adjustments in programs and also institute other methods of lowering costs, such as reducing operating hours of the center. The plan includes assumptions about significant increases in rental income as well.

Although it does not include added staffing, the plan provides for 2.5 % annual payroll increases, and for increasing the Society's contribution to the employee retirement plan to 10% (which has already been accomplished). Program expense increases were included at the same rate as growth in pledge income, 7% per year. Allowance was made for some expected ministerial transition costs and a range of alternatives were presented for possible costs of ministry. (The Ministerial Model Task Force later presented recommendations related to the ministerial search and cost of ministry.)

Reviewing Last Year's Report

Mike McGirr, then treasurer, presented the first two status reports on the Five Year Plan in November of 2005 and 2006. The budget for the year ended June 30, 2005, had been adopted before the plan was prepared and was not included in the plan, but we were already making excellent progress, thanks in large part to the dedication and skill of Nancy Evans, who was engaged as executive director in the spring of 2005.

The first budget cycle was completed in June of 2006. Although pledge income was \$35,000 below the projected figure, the shortfall was covered by an increase in rental income, as well as a new income stream called H.E.L.P., which Nancy instigated by asking groups using the center for free or reduced rates to make contributions to help with utilities and maintenance. Expenses were kept under reasonable control. The draw from our unrestricted reserves stayed on target.

Progress since the 2006 Report

June of 2007 represents the second full budget cycle since the Five Year Plan was introduced. The good news is that we ended the year with a balanced budget with help from your prepaid pledges and \$6000 from the Lois Gorham bequest to cover loss of parking revenues. Funds from this bequest in the amount of \$32,000 from this bequest have also been included in the current budget to cover loss of rental income due to the elevator construction.

Expenses were kept under control. Five Year Plan increases of 10% were made to the UUA employee pension fund as well as the annual 2.5% payroll increase. However, a serious challenge for the future is that we are eventually going to have to update our fire alarm system to bring it up to code, which could cost as much as \$100,000. An additional challenge would be staffing for growth. The UUA recommends one full-time program person per 100 people in the church on Sunday; we currently have 2 ¼ program staff (Greg, Betty, and Mark).

Pledge income budget goals continue to be overly optimistic. As you can see from the Operating Fund Report, our budget goal for the year ending June 30, 2007, was \$510,000 but we collected only \$486,131. However, this was a \$15,000 increase over the 2006 collections. This year's budget goal is \$545,000, which represents a 7% increase in pledging. Now that we are into the '08 fiscal year, it is clear that our pledge income will not meet the budgeted goal.

Clearly, if we are to meet these goals, our congregation will need both more members and a higher expectation of membership. Currently, about 10% of the membership accounts for about 50% of pledge income. Although our membership is listed as 467, only 400 members actually pledge, with half that number pledging less than \$900. To maintain our vibrant programs, it is essential to increase both membership and pledge levels.

The Five Year Plan called for aggressive rental income increases. While we have achieved those increases in the last two years, in 2007 our actuals were below our budgeted goal. However, we are at a point where rentals are covering the costs of operating the center and sanctuary. The plan calls for a \$140,000 total increase in rental income over the five years. Options for increasing rental income include designating the space in our three prime rental spaces—the Starr King and Martin Luther King rooms and the sanctuary—for paid rentals only on Saturdays. This would mark a change in congregational life but would increase our rental income, as the rentals for these three spaces can come to more than \$3000 for the day.

Our consolidated funds are healthy although we have not received any significant bequests or gifts this year. Decreases in the principal of the Castile Ministerial Housing Fund and the Lois Gorham bequest reflect the use of those monies for their stated purposes. The Investment Committee has engaged financial advisors KCM to actively manage the funds.

The 2007 budgeted goal of reducing the draw on unrestricted reserves to \$61,000 was achieved. However, these reserves have gone down and our auditor has recommended we consider increasing them. The plan included an assumption that additional bequests would be received, which did not happen in the 06/07 fiscal year. In 2007 the audits of 2005 and 2006 were completed. Per a congregational vote, a 2007 financial review will be performed this November by the same auditors, Lautze & Lautze.

Conclusion and Recommendations

Thanks to the hard work and dedication of our executive team, staff, and outgoing treasurer Mike McGirr, we ended the 2007 fiscal year with a balanced budget. Expenses were kept under control but some significant future expenses became apparent. Pledge income increased from the previous year but not enough to reach the budgeted goal. Rental income met or exceeded the plan for the first two years but not for this third year. It is clear that the Five Year Plan goal of \$140,000 total rental income increase will be difficult to achieve without changes in the rental policies that will affect congregational life. The goal of keeping our draw from the unrestricted reserves to \$61,000 was achieved, but with no significant infusion of cash from either a bequest or gift that principal has been reduced.

Following are some recommendations:

- Develop a new plan by the board, to be reviewed by the congregation. There have been many changes at the Society since the Five Year Plan was created, including a new minister and executive director. As we work together to enter into a period of growth, new opportunities and challenges need to be considered, including staffing for growth. In addition, because of these challenges, the board is considering other plans that may more closely fit our needs.
- Change the restriction on undesignated bequests or gifts so that the entire amount, instead of only a third, goes into unrestricted reserves. Now that the Building Maintenance Endowment and Memorials and Celebrations funds have healthy balances, it's time to strengthen our unrestricted reserves. These reserves will be critical in allowing us to respond to future emergencies such as an earthquake or updating the fire alarm system.
- Reserve the Starr King and Martin Luther King rooms as well as the sanctuary for paid rentals on Saturdays. The Five Year Plan calls for aggressive rental increases and these rooms rented on Saturdays can generate the most income. This does not mean that other rooms in the center will not be available to the congregation on Saturdays. At this point, only 20% of our total center and sanctuary usage are the result of paid rentals.
- Finally, and most important, the congregation needs to step up its expectations of membership by increasing pledges and stewardship and encouraging active non-members to join the Society, as either members or pledging friends. Although our membership is listed as 467 members, more than 50 of these members do not pledge. Also, as previously stated, about 10% of the membership accounts for about 50% of pledge income. All of us should consider our time and talent valuable and I want to thank you all for donating yours today; however, we also need more of your treasure if we are going to grow and thrive. As I said in the beginning, *the success of the plan depends primarily on the continuing generosity of members and friends...*and so does our church.

Fund	Sept 30 2005	Sept 30 2006	Sept 30 2007
Unrestricted Fund	\$328,703	\$237,759	\$209,392
Restricted funds*	810,744	969,137	1,056,641
Building Maintenance Endowment	645,061	691,831	732,419
May Treat Morrison Trust	84,981	84,239	92,695
Castile Ministers Housing Fund	81,347	90,108	2,644
Castile Family Intern Fund	14,776	21,395	26,743
Lois Gorham bequest (elevator)	687,069	689,884	426,429
Music Funds**	41,015	46,526	47,994
Dean Perpetual Fund	303,731	328,339	342,492
Total	\$2,997,427	\$3,159,218	\$2,937,452

Consolidated Fund

***Restricted Funds include:**

Memorials and Celebrations Permanent Fund
Dean Memorial Fund
Davis Fund
Aggson Fund
Hathaway Fund
Pierece Library Fund
LEAPS Fountain Fund

****Music Funds include:**

Alex Post Fund
Grand Piano Fund
Handbells Fund
Fortier Fund

Affiliated Endowment Funds not included above:

Society for Community Work
Hinckley Fund
Griffin Fund