UUCB Treasurer's Report
February 2015 (Six Months, Jul 1, 2014 – Dec 31, 2014)

An updated Treasurer's "To Do" list is attached, as is a written version of the report given at the February 8 congregational meeting.

Top Line Summary

This report, like last month, adds a fourth column that projects year end results, based on (for this report) six months of actuals. Brackets in the columned numbers mean an unfavorable variance (revenue underrun or expense overrun, "worse than budget"), while numbers without brackets indicate a favorable variance from budget, i.e.: "better than budget".

We continue to underrun revenues, YTD by $29,800, which is a slight improvement. All of this is pledge income, as the overage in Community Rentals has made up the Shu Ren classroom underrun.

There are still other budget line items that will likely underrun (such as the first Sunday collections), but they are being made up by things like weddings/memorials and pledge payments from last year, for a total projected $47,000 underrun, down from my project $60,000 last month.

Revenues	YTD Dec Act	YTD Dec Bud	Var	EOY Est
Pledge income	$260,500	$290,300	($29,800)	($47,000)
Rental income	$158,200	$159,900	($1700)	0
All other	$ 90,800	$ 75,800	$15,000[1]	0
Total	$509,400	$526,000	($16,600)	($47,000)

Excluding restricted funds[i] and one time adjustments[2], expenses are underrunning by $20,000. We will start to see the savings in our health care plan in December (see "Employee Health Care" below). I am projecting $20,000 favorable in Personnel costs, a combination of salary underruns and lower healthcare costs, and coming in "on target" netting everything else. This assumes the additional contract minister expenses come from "CT restricted".

The current year end (June 30, 2015) estimate is a $27,000 deficit, a slight improvement from the $30,000 deficit projected last month. This does not include any money put in a building reserve.

[1] Primarily overruns in non-pledge contributions and prior year pledges

[2] I have adjusted out $25,000 sent back to the endowment for duplicate payouts. Several funds had been set up for automatic payout, so were duplicated last year when we changed to the 13 quarter methodology.

	YTD Dec Act	YTD Dec Bud	Var	EOY Est
Expenses				
Personnel	$329,800[3]	$343,700	$13,900	$20,000
All other	$124,800	$148,900	$24,100	0
Total	$454,600	$492,600	$38,000	$20,000
Net (revenues over expenses)	$54,800	$ 33,400	$ 21,400	($27,000)

UUCB's Financial Future

I used the model I developed last summer to come up with several different scenarios for the operating cash results, primarily varying membership and pledge increases. This was presented as a PowerPoint at the February 8 congregational meeting and is included as a written report (Attachment II).

Building Maintenance Fund

As discussed at the last board meeting, a Building Maintenance Fund has been established as an endowment by Grace Ulp with an initial contribution of $30,001. It will be managed by the UUA Common Endowment Fund. It includes the following conditions:

1. The endowment will pay out on an annual basis using the same policy used for the Operating Endowments, which are currently at 4% and preserve the real value of the endowment over time. The fund will not be subject to additional draws based on performance, but may be used for a loan for building maintenance that is paid back on appropriate negotiated terms.
2. "Building maintenance" shall mean the replacement and repair of items that would ordinarily be included in a reserve maintenance study, such as the one done in 2010 for UUCB.
3. "Buildings" shall include all UUCB owned buildings on the UUCB campus at One Lawson Road.
4. Should the congregation no longer own the buildings, the Building Endowment will follow the congregation to support whatever buildings the congregation owns or rents.
5. Should the congregation cease to exist, the Building Endowment will be subject to the asset terms described in the by-laws, which is currently to revert to the Unitarian Universalist Association.

[3] Most of this is a position that has been vacant in Facilities for several months, plus a $5000 underrun in retirement.

We are very grateful to Grace for her generous gift. Though she has decided to make no stipulations around land development, her intent is to reduce the need to develop land. She invites others with a common desire to contribute to the fund.

Cash management

Capital funds have been invested in two institutions that provide better earnings than Mechanics Bank: Bank of the Internet ($250,000 at about 1%) and Schwab ($200,000 at about 2-3%). BofI is a money market fund that we can tap any time – Schwab is a bond fund that will be more variable with the market.

Endowment Value

The current value of the UUCB Endowment as of 12/31/15 is $1,493,819. Current performance of the UUA Common Endowment Fund, which includes UUCB's endowment, can be found at http://uucef.org/ The 5-year (net of fees) return is 7.5%, 3-year 8.9%, and the one-year return is 2.8%.

Our current policy provides for a 4% payout on the past 13 quarters, which would be $56,664 for the 2-15-16 fiscal year, $1600 more than this year. Because the 3-year return exceeds 4% (the payout amount) plus inflation (2.7%), per the policy we have up to an additional (capped) $21,249 for projects that are good operational investments that would pay off in future years.

Restricted Account Spending (as of Nov 30, 2014)

Lawrence Lecture	$5698
Capital Campaign	$6101
Beloved Café	$8000
Capital Campaign	$25,780

[i] The use of "restricted accounts", common to churches and other non-profits, creates an effect on financial statements that is simple in concept but makes comparison of budget-to-actual complicated. Every dollar used from a restricted account has an equal amount added to revenues, out to a zero impact on net income (revenues minus expenses). Restricted account payments are typically not budgeted, so have the effect of appearing to be a dollar overrun for both revenues and expense. I will typically adjust out the restricted account spending in the analysis of revenue and expense variations to budget, and include a short analysis of the restricted spending at the end of the report.

1. Develop successor: I have agreed to serve until June 30 of 2015. Since this is a Board position, the Nominating Committee will be looking for candidates. I am working with Anne Greenwood, Deborah Schmidt, and Jean Gleason to formalize the reduction in treasurer duties that happened when I took over the role. This will make the position more "doable". I am also recommending a separate trustee(s) for the Calkins Trust, which fell to the treasurer and has been maintained by Anne Greenwood. **I have agreed to remain until February of 2016 to train a new treasurer, or until that treasurer is comfortable in the position (whoever comes first). The Nominating Committee has provided a possible candidate, and Lenore Ralston and Larry Nagle have agreed to serve as trustees for the Calkins Trust.**

2. Review and recommend (with the Endowment Committee) a policy to implement the by-laws change on payout.: The current by-laws take 5% of whatever the endowment balance is as of December 31 of the previous year, but gives the board an option to do less than 5% if it appears this is reducing the value of the endowment. I have three concerns about this proposed implementation policy: 1) it calculates the new payout percent as the previous 12 quarter returns of the endowment. In years after major market corrections (such as 2008), the policy overcorrects the payment – had it been in place the past five years, we would have had no payout for two of those years. 2) the policy still puts a significant amount of emphasis on a single date. Best practice is typically to average the balance over a number of quarters. 3) The determination of whether or not the rate of return is less than 5% is done as of June of the fiscal year previous to the payout year . This means the payout might not be known for budget purposes until the second month into the budget (July). [The Endowment Committee has agreed upon a policy that does a base payout of 4% on the 13 quarter investment actuals as of December 31 of the year previous to the budgeted payout. It also identifies up to an additional 1 ½% based on 1) the endowment's rate of return for the past 3 years, 2) the effects of inflation or deflation, and 3) the potential use of the funds for one time versus ongoing operations. The policy was provided to the Board in December for approval at the January meeting. A chart showing the difference between the 13 quarter average versus December 31 is included as Attachment III in the January Treasurer's Report.] **Approved by the Board at the January 16, 2014 meeting.**

3. Administrative costs of gifts: Many non-profits take a percentage (typically 5 to 15%) of large gifts into their operating budgets to cover the costs of

administration. I will be investigating this and making a recommendation to the board. I will also be resolving whether or not we want to take management fees from the trusts we manage.

4. Develop cash flow model: The intent of this model is to project our financial trends at least 5 years into the future, and create it in such a way that the board and CT can change key variables (like number of members, average pledge, number of employees, etc.) and determine the longer term impact.**. I have created a model that projects income and expenses through 2020, with 16 income variables, and 13 expense variables. It suggests that the church can be financially sustainable if certain (reasonable) assumptions about membership and giving levels will hold. The model has been sent to the CT, Board, and Financial Advisory Council. The model was used to provide three scenarios for the February 8, 2015 congregational meeting (see Attachment II of February 2015 Treasurer's Report).**

5. Provide long term assessment of financial stability: This is tied into the item above. It will also include an analysis of our donor base, both current and future. **This analysis (excluding donor base) was presented at the February congregational meeting and concluded that it would be possible to go some years with declining membership and employee hour reductions, but doing so would ultimately result in being forced to sell the building and/or move from the hill. Two things are required for long term sustainability: a turnaround in member loss, and an additional source of funds for building investment. This point was also made at the February 2015 congregational meeting.**

6. Include budget item for routine maintenance and use it: I will provide an analysis of how routine maintenance is budgeted and used. **This item has been superceded by the capital campaign maintenance program.**

7. Analysis of rental property profitability: **The profitability of both schools has been wrapped into the work being done by the Land Development Task Force, which has hired Equity Community Builders to evaluate potential development of residential lots. Both buildings are more than covering their incremental and building reserve costs.**

8. Cost of part time vs full time staff : This would be an analysis of the costs vs. the benefits of full time vs. part time staff. **Much of this analysis depends on the policy for benefits, which is being reviewed by a**

personnel task force created by the CT. The group has worked on drafting revisions and identifying items needing policy direction; completion is pending some additional revisions and document compilation, as well as policy direction from the CT after its review of the draft wording. Completion is estimated at June 2015.

9. Identify and communicate challenges: The Treasurer's Report will identify key financial challenges. **The Treasurer's Report at the February 2015 Congregational meeting outlined the challenges identified in item 5 above. This report is available on the member table.**

10. Analyze staff compensation to UUA Guidelines: The UUA has compensation range guidelines that are updated every few years, and are based on comparable ranges and responsibilities in other non-profit organizations (including other churches). I will look at each employee's salary and indicate where in the range they are, and provide a summary to the board and CT. **Provided in September 2013 and October 2014 reports. Detail also provided in printout of Treasurer's February report to the congregation. New guidelines effective July 1, 2014, suggest selected staff members are still under minimum.**

11. Clarify Bill and Barbara's home equity arrangement: The cost of Bill and Barbara's home was initially shared by the church and our co-ministers. The intent of this analysis is to make sure we are all aware of what happens at the end of their active ministry with UUCB. [Detailed background provided in February report, with two board sessions scheduled March 2 and 3 to review the agreement and its implications. **Board approved methodology and permission to sell at March 20, 2014 meeting. The Church receives about $300,000 from this transaction, $171,000 over the initial $129,000 Cope Fund investment. The funds will be invested for the next two years in a several bond funds, and used to invest in the next called minister's house.**

12. Analyze electricity rate structure for best fit: this is changed to "determine what solar panel payments should have been and recommend payment plan to CT" because we have determined that we have been overbilled by PG&E, and that we have been underpaying the solar loan payments. **[$31,410.78 in PG&E credit ($27,036 in billing adjustments, plus $4374 that we had overpaid) was applied against the solar loan. PG&E is not required to go back more than 3 years, so we do not**

expect more credits. This means our ongoing electricity cost per year will be less than zero. Should regulations change to allow full time of day credit for the power we are exporting to PG&E each year, the panels would generate about $12,000 in revenue for us.]

13. Identify any solar loan impacts on endowment for past two years : This has been done, with the result that $5500 of endowment payout has not been transferred from the endowment into operating funds. I will work with the CT to determine what to do with these funds. **The payout has been applied against the solar loan and transferred to the endowment. This is a bookkeeping entry only.**

14. Create Financial Advisory Council that meets quarterly: This would be open to any congregation member who wanted to commit to attendance, and would serve as a sounding board for the treasurer, identify financial issues that needed to be addressed, and help educate the congregation. **Five meetings have been held so far. Per the charter, this meeting included a determination as to whether or not the Council should continue. The Council decided to continue for another year, per the discussion on the November 2014 report. The Council will be open to new members, in addition to Mac Lingo, Larry Nagel, Ralph Nelson, Maryann Simpson, Grace Ulp, Sara Roberts, Ira Nelken, Lynn Hammon, Jennie McLean, and Jo Maxon. Lenore Ralston joined at the January 2015 meeting.**

15. Lead creation of 2014-15 budget. **The budget was approved by the congregation on May 18, 2014. I have prepared a monthly spread based on historical percentages so that this budget reflects seasonal changes. Budget requests for 2015-16 were distributed at the end of January 2015, and are due February 27.**

16. Review property tax requirements. UUCB currently pays almost $10,000 in property taxes, although our auditor has said we should not be subject to them. **It appears these are all special assessments applied to all property owners, though I have not yet talked with the tax authorities. We were recently notified of a tax increase which appears to be connected to Shu Ren's tax status. Any incremental taxes from this will be the responsibility of Shu Ren.**

17. Identify and work with a non-profit tax attorney to insure there are not unintended consequences to our tax status as UUCB expands into new

revenue streams. **I am meeting with the most knowledgeable attorney on Thursday, February 12, 2015.**

18. Investigate the potential of including the Caretaker's Cottage electricity in the UUCB bill to take advantage of our solar capacity.

19. Rationalize the significant number of brokerage accounts we currently have, some of which were set up to make stock transfers from members more convenient.

Ljl/2-12-15

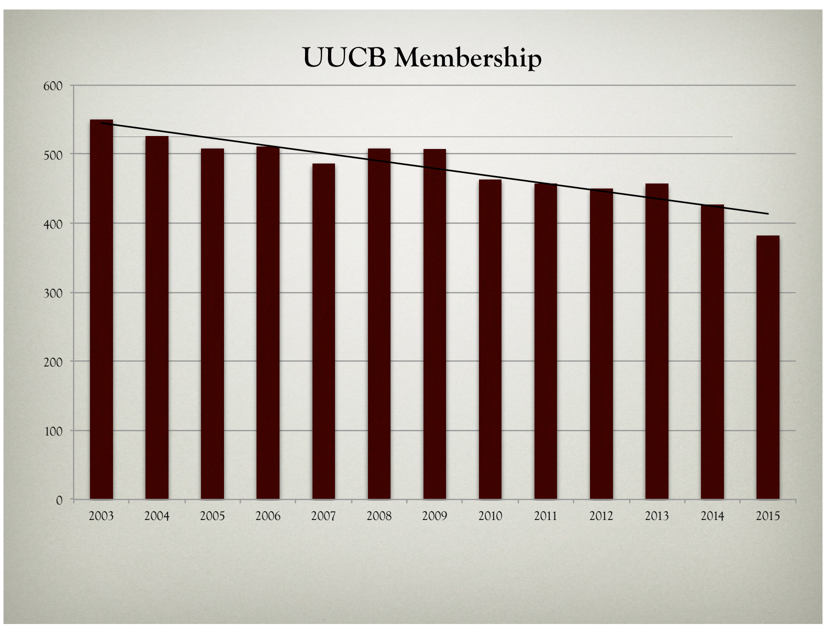
No tears will go undryed
not on my watch
No child will go unhugged
not on my watch
No brother or sister will go unheard
not on my watch
No pain will go unmended
not on my watch

Sandy Miller

The Unitarian Universalist Church of Berkeley has a very strong list of assets:

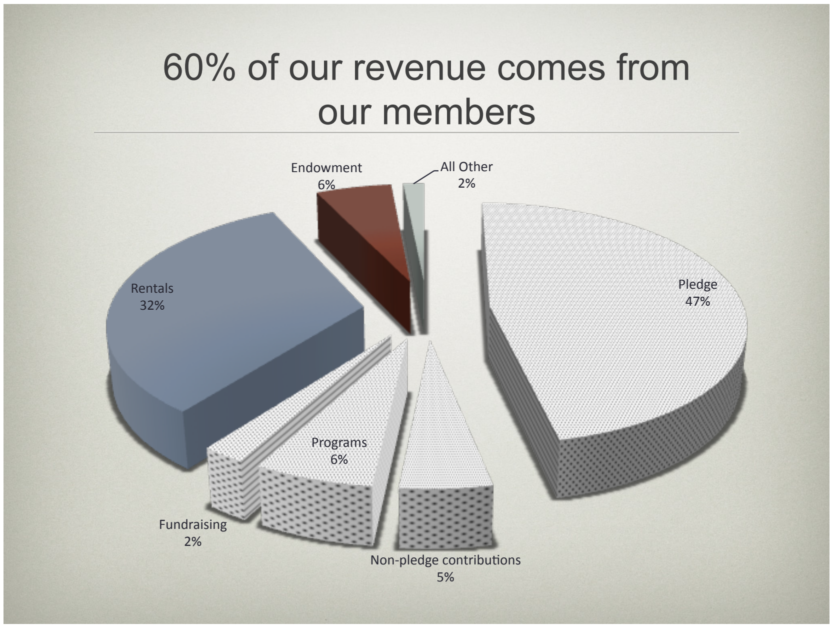
- No debt – buildings and 9 acres of land, plus Freestone
- Endowment worth $1.5 M
- Over $800,000 pledged for building investment, $710,000 already collected
- An extraordinary music program
- Human capital within and outside our walls
    - "An active and dynamic partner" (immigration, CCISCO, GRIP, Read Aloud, UU Justice Ministry, UU Service Committee)
    - 5 community ministers and seven "member" ministers
    - Professional family ministry

We have an infrastructure (building, staff, programs) built for 600 members – and we just dropped to 383.

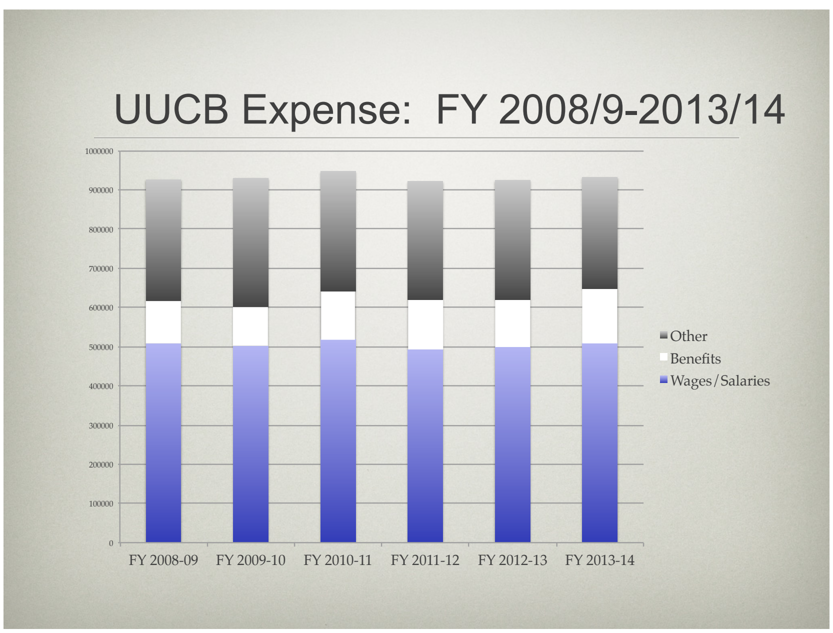


This chart shows total membership (what is "certified" and recorded with the Unitarian Universalist Association) starting in 2002 through 2015, which uses a consistent method of counting members. The dark line is a regression analysis, indicating the trend over the 14 years.

This has a major impact on our financial future because 60% of our revenue comes from our members.



That includes everything in white – in addition to pledges and non-pledge contributions, most of our program and fundraising comes from us. Our revenues have been essentially flat for 6 years – as have our expenses:

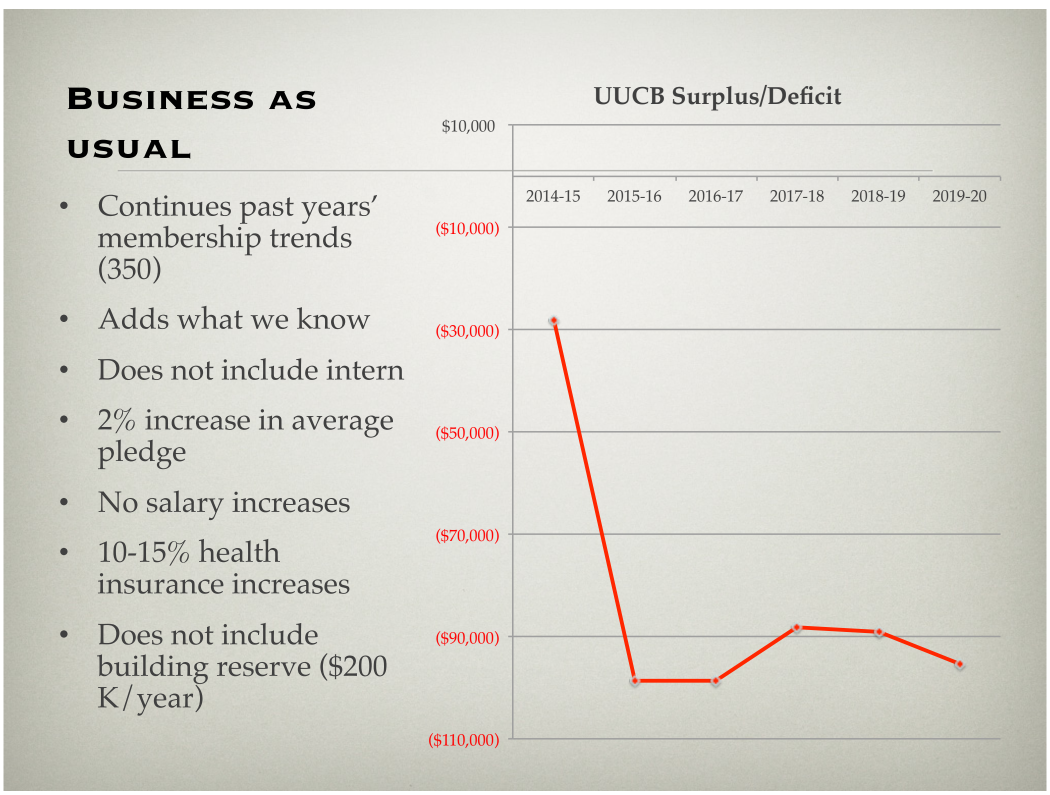


In real terms (adjusted for inflation), expenses have dropped about 12%. Employee costs (blue and white together) are about 2/3 of total cost, with salaries and wages (in real terms) dropping 13% while benefits (led by health insurance) have increased by an inflation-adjusted 10%. We have primarily controlled expenses by controlling the salaries and hours of our employees, with most employees not having a raise in 4 years. We still have 3 employees who do not meet UUA minimums (down from 6 last year). The cost to bring them up to minimum and provide an overall 2% raise is about $25,000.

Recently we learned several things:

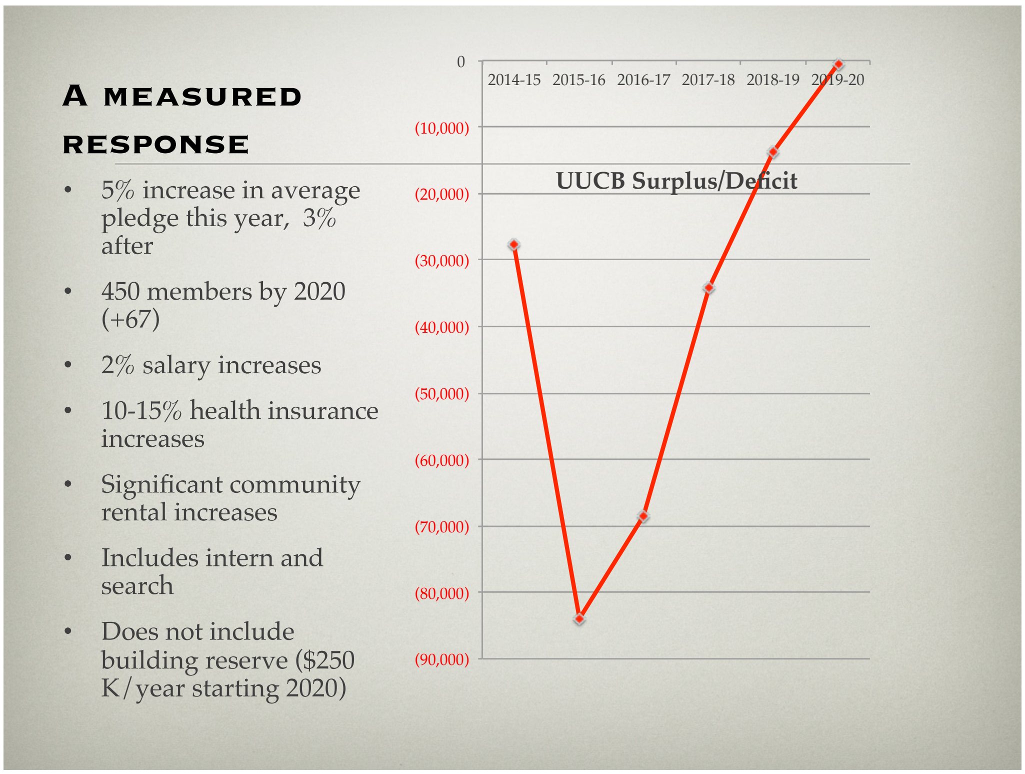
- Shu Ren (our largest tenant) is leaving effective June 30
- We have dropped from 427 to 383 members
- We can (and have) significantly increase(d) community rentals
- We have at least $22,000 of search and transition costs over the next two years
- Next year includes an intern (to provide relief for our interim minister, who has replaced three people)

I added these assumptions to a 5 year projection model I created last summer. This model has multiple assumptions for both revenues and expenses that can be varied by anyone to see what happens to the financial picture – including average pledge increases, number of members, salary increases, inflation, etc. If I project the trend of the past few years, adding in the known changes above, the surplus/deficit looks like this:



And as bleak as this "baseline" is, it still does not include the needed $200,000 to $250,000 annually for a building reserve.

I tried a variety of assumptions, including one I call a "measured response", i.e.: one that takes members back up to 450 by 2020, with a 5% pledge increase this year:



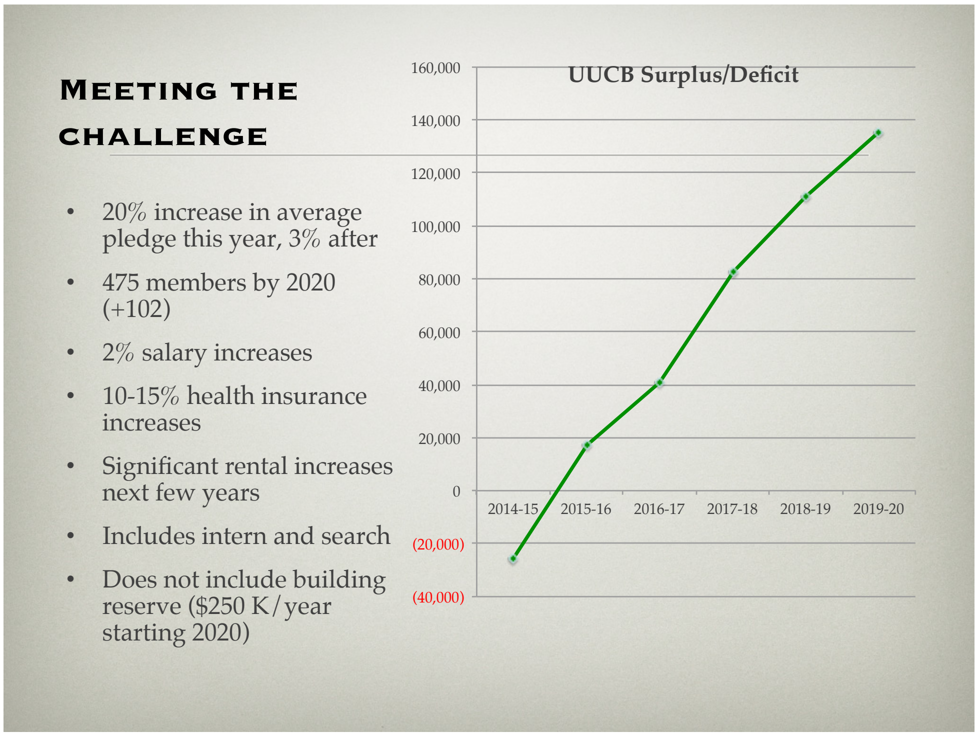
Note in this scenario, we drop to a deficit of $85,000 next year, primarily due to the reduction in revenue from the Education Building and the addition of ministerial search costs, then slowly come up until we break even in 2020.

While this is not a pretty picture, it is sustainable. We could accumulate deficits until 2020 (in total about $250,000), borrowing from the endowment, and then paying it back[1]. Note we are still not including a building reserve.

In the business world, this kind of graph is often referred to as a "hockey stick" – we go down this year, but next year it starts to get better. The trouble with hockey sticks is that they tend to shift to the right – with each year saying "next year will be better".

[1] The solar panel loan, $463,000 taken out in early 2008, is a model for this. It was paid back by 2014 with 6% interest. The pay back included two major bequests.

What happens if we include the challenge from the Stewardship Team, and push on membership a little harder? This view assumes a 20% increase in pledges next year, and 475 members by 2020.

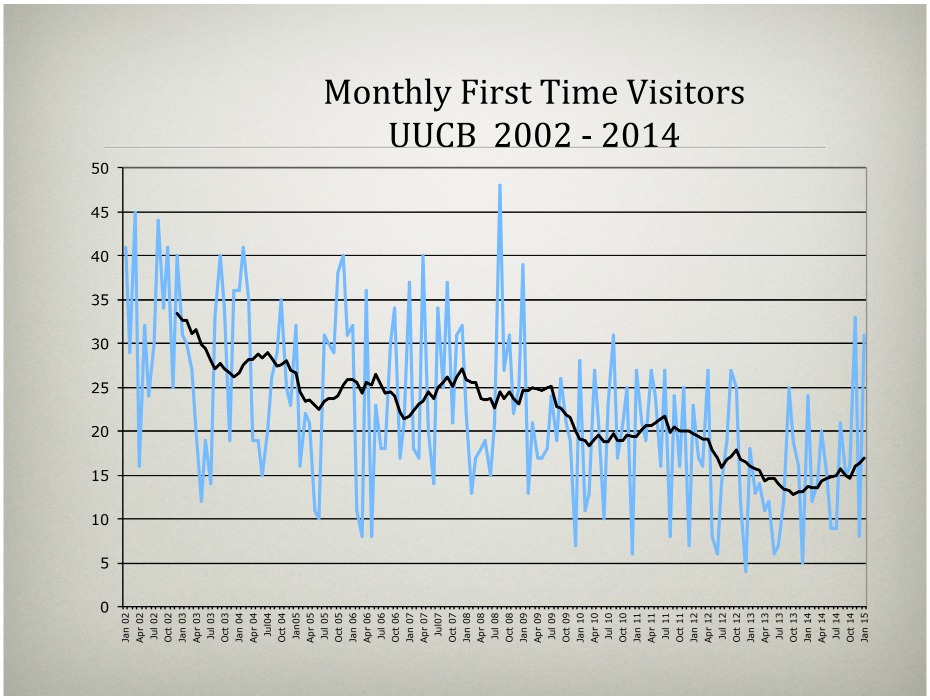


Note it projects a surplus budget next year, even with the known changes.

We still have hard conversations:

- Will we need to develop part of our land? The capital campaign "bought" us 3-5 years. A positive development is that neighbors are looking at creating an endowment similar to the one just created by Grace Ulp, to reduce the need to develop the land.
- Do we belong on this hill?
- How do we grow in an environment where people are not into "church"?

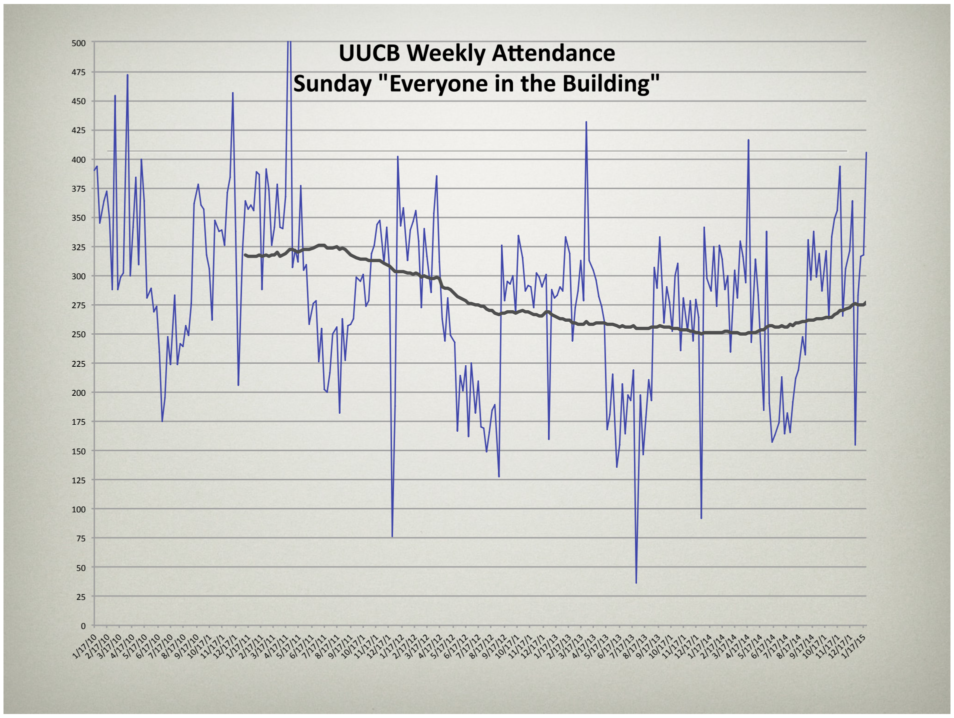
Note that I am asking "how do we grow", not "can we grow". We have several indicators that suggest we have already started to turn around. The first is first time visitors – which is typically a "leading indicator" of 6-8 months before new members.



This charts first time visitors since January of 2002 – the heavy dark line is the rolling average of each of the previous 12 months. For example, the beginning of the line (on the left) is about 34, which was the monthly average for 2002 (or about 400 first time visitors/year). Over time this dropped, taking significant dives in 2009, and again starting in the summer of 2011 until it started to come up again in the fall of 2013. At that point, we were averaging 13 fist time visitors per month, or about 150 in the previous 12 months.

Two things happened in the fall of 2013: we hired Merrin Clough to start a stable Family Ministry program, and we restarted outreach efforts. Lonnie Mosely and Paul Hudson were named Membership Ministry Co-Chairs. Since then, we are up to a (12 month) average of 17 first time visitors/month – that difference (13 vs. 17 visitors) typically equals 8 more members in a single year.

We are also showing an increase in attendance. This charts goes from 2010 through January of 2015, with the dark line a 52 week rolling average (which adjusts for seasonality):

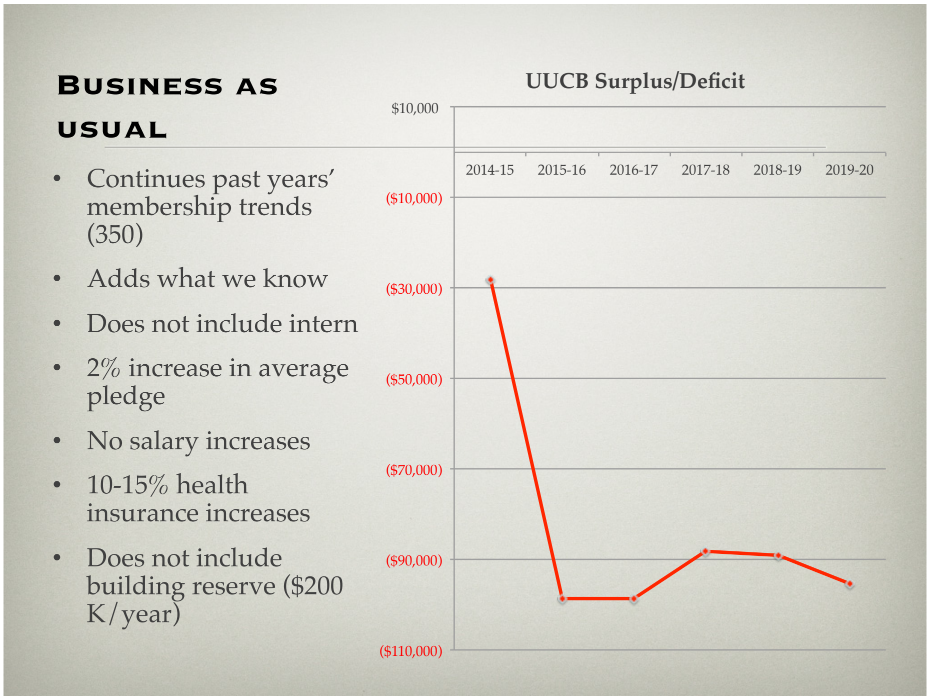


In 2011 we were typically getting an average of 325 people in worship services, Personal Theology, childcare, and the Humanists. That had dropped to 250 by 2014, and started to come back up by late spring. We are now averaging 275 (past 52 weeks), an increase of 10%.

So our charge is clear:

- Turn around membership and pledging trends, and find an additional source of funds for building investment OR
- Envision ourselves as a much smaller church, OR
- Do nothing and assume someone else will take care of it, incurring deficit budgets for years until a much smaller congregation is out of options

The last option is the one that gives me great pause. Remember the "business as usual" chart?



We could do this – and if we did, we would not recover. We would continue to borrow money from the endowment, be unable to pay it back – over decades. At some point, future generations of this church – a much smaller church – would have few options.

Is this the future we want to provide to our successors, given the assets I started this presentation with? Nine acres of paid for land, $1.5 M endowment?

So here is what you can do:

- Make pledging 10% of your income the norm. When I first joined this church, I thought a $200 contribution to the Sierra Club was a fairly large contribution. I now think that is not the appropriate frame of reference. My brother is the treasurer of a mid-sized (300 member) church in Central Indiana. I asked him what their average pledge was. He said "$10,000". "No", I said, "your average, not your highest". "That is the average." "How do you do that?" He shrugged his shoulders: "if you want a church community, you have to pay for it".
- Invite a friend! Paul Hudson has a lot of suggestions around this. This is still the largest source of visitors to UUCB – just under 50%. In most churches it is more like 70-80%.
- Everyone's ministry is outreach and making newcomers and members feel welcome and connected – talk to Lonnie and Paul
- "Like" our Facebook page. When Paul first suggested this to me, I rolled my eyes (like you may be doing now). However, I am becoming a believer, as Paul and I are doing some experiments that suggest this is a really powerful tool.

- Add UUCB to your legacy gifts. Better yet, enjoy your legacy now!

When I left corporate America, I had a package that would have been taxed as ordinary income. When I asked my financial advisory how I could reduce taxes on it, he said "move to Nevada".

Since I did not want to do that, he asked me what I intended to do with my money when I died. "Give it away", I said.

"Why don't you do it now?", he said. "It is a lot more fun."[i]

It is.

So what will our legacy be to future generations at this church? These are the two directions we can go. It is up to us to decide which one.

No friend will go uninvited
not on my watch

No post will go unliked
not on my watch

No challenge grant will go unanswered
not on my watch

No endowment loan will go unpaid
not on my watch

No community will be undone
not on my watch

Adapted from Sandy Miller

[i] Most people are aware that donating appreciated stock is a great way to reduce taxes – you get the full value of the appreciated stock to reduce the income you pay taxes on, without selling the stock and incurring capital gains. What most people are not aware of is how easily one can set up a donor-advised charitable trust (typically a $5000 minimum), that allows you to shelter unusual income in one year to give away in years that may not have as much income – a great tool for people with highly variable income.