

FINANCE COMMITTEE AND TREASURER'S REPORT

As we discussed last year at this time, the COVID pandemic has impacted the finances of our church, just as it has affected all of us. Many of our sources of revenue are down.

However, on a positive note, recognizing that this would be a difficult year, many members of our congregation contributed more than was expected. Because of their generosity, our fiscal results were not as bad as had been anticipated.

When preparing the 2020-2021 Budget Reforecast and the 2021-2022 Proposed Budget, The Finance Committee considered both the effects caused by the pandemic, as well as lower pledge dollars because of our reduced membership numbers.

Highlights of the 2020-2021 Budget Reforecast include:

- Higher than expected pledge payments and contributions
- Reduction in rental income from Coop Nursery School and other renters
- Expenses basically the same as initially projected (thanks to the hard work of our ministers and staff)
- To help close the Budget Gap (expenses exceed revenue), we will use our Cash and/or Reserves*
- To help close the Budget Gap, we will probably need use of Endowment funds.**
(Endowment has approved the use of \$30,000 to help meet the projected year-end need)

Highlights of the 2021-2022 Proposed Budget:

- We will again be faced with a shortfall of Revenue vs Expenses (i.e., a Budget Gap)
- To help close the Budget Gap, we will again use Cash and/or Reserves*
- To help close the Budget Gap, we will again need to use some Endowment funds**
(Endowment has approved the use of up to \$74,500, depending on actual year-end need)

The Year Round Stewardship Committee has done a great job in encouraging pledges from congregants. But we are again projecting pledge payments that are lower than in previous years, and lower than our annual expenses.

Other impacts on the Income include an uncertain amount of rental payments from the Coop Nursery School, a drop off in rentals for weddings and other events, and the rent we receive from the use of our parking lot could drop dramatically at any time.

On the Expense side, we will again reduce our funding to the UUA by \$10,000. There will be no allocations to Reserves. Expenses will be slightly higher this year due to an increase in UUA health insurance payments, and because we increased our contributions to the staff pensions to the level recommended by UUA (10% of salaries instead of last year's 5%).

As we had in the previous two fiscal years, there is a projected shortfall of \$175,000 for the 2021-2022 Budget year.

Because we anticipate there will be another shortfall during the 2021-2022 Fiscal Year, we are again proposing to use Cash that previously was designated as Reserves* to help close the Budget Gap.

In addition, we will probably also need another, larger contribution from the Endowment.**

This is not a stable fiscal position.

In past years, we have endeavored to build up Reserves, but we are now forced to use both the Reserves and Endowment funds to make up for the cash shortfalls. If we cannot find a way to increase our Revenues, we will have to consider other, serious Expense adjustments.

And these Expense adjustments would most probably come from people costs.

People costs (our staff) make up 2/3's of our entire annual expense budget. Our staff are the heart of TUCW, and they make it possible for us to deliver on the goals, programs, and services that make our congregation a loving community.

We are committed to keeping our financial position as strong as possible, to ensure the continued life of our congregation. But if expenses are cut too much, it will have a very negative affect on TUCW...on who we are and what we can hope to accomplish.

Explanation of the 2020-2021 Profit/Loss Budget, the 2020-2021 Reforecast and 2021-2022 Proposed Budget

- 1st column: **2020-2021 Approved Budget**
- 2nd column: **Reforecast of the 2020-2021 Approved Budget**, showing estimated year-end actuals
- 3rd column: **2021-2022 Proposed Budget**
- 4th column: Difference between the 2021-22 Proposed Budget and the Reforecast of the 2020-21 Budget.

Contingencies

Every year the Finance Committee prepares a list of upside and downside Contingencies to go with our Budget projections. For the upcoming **2021-2022 Budget** year, we recommend:

2021-22 Budget Contingency Priorities

UPSIDE (\$25,000)

- | | |
|------------------------------|----------|
| 1. Increase People Cost | \$15,000 |
| 2. Increase General Reserves | \$8,000 |
| 3. Increase UUA Contribution | \$2,000 |

DOWNSIDE (\$25,000)

- | | |
|------------------------------|----------|
| 1. Decrease UUA Contribution | \$10,000 |
| 2. Decrease People Cost | \$15,000 |

If the Net Income rises so that it is positive by \$25,000 or more (i.e., there is no Budget Gap), we will increase People Cost, Reserves, and the UUA Contribution. If the Net Income decreases by \$25,000 or more (i.e., the Budget Gap grows larger than anticipated), there will have to be a decrease in our UUA Contribution and People Cost.

NB: One very positive note - our prior PPP loan (\$112,900) has been forgiven by the SBA and will not need to be repaid.

Respectfully submitted by: Stephen Grathwohl, Treasurer

***Reserve Accounts:** TUCW has established a number of Reserve accounts, to hold cash to be used in furtherance of efforts that have been approved by the Congregation (e.g., Music, Social Justice, Building & Grounds, etc.). However, these Reserve accounts are not separate cash accounts. The Reserve funds are comingled with our normal bank cash accounts (checking + savings). If Reserve funds are spent, it reduces our available Cash. If Cash is spent, it reduces the funds available to be used as a Reserve. For this reason, when we say we will use Cash or Reserves to help close the Budget Gap, we are in effect referring to the same pool of money.

****Endowment Accounts:** For the past few years, the Endowment Committee has been asked to help close our annual Budget Gap (annual expenses exceeding annual revenue). In normal years, Endowment gives the following dollars to help support our annual budget:

- 1) \$4,500 from the Bernhard Music Fund, which is restricted for use by the Minister of Music
- 2) \$30,000 from the annual growth in the total investment accounts, for general use in the Operating Fund

But recently, in addition to these dollars, the Endowment Committee has been asked to give extra funds to help close the Budget Gap.

Each June, just before the start of our new fiscal year, the Finance Committee works to establish a proposed Annual Budget (which is then approved by the Congregation at our Annual Meeting). If a Budget Gap is projected for the upcoming year, the Finance Committee calculates if it has enough extra Cash to close the Gap. If not, the Endowment Committee will be asked to assist, and a targeted amount of Endowment funds will be shown on the Proposed Annual Budget.

At the end of each Fiscal Year, we do a Budget Reforecast. Based on this Reforecast, the Budget Gap is sometimes less than had been projected. And sometimes the Budget Gap is greater than had been projected.

Based on the actual end-of-year Gap amount, Endowment will contribute funds up to the dollar amount that had been committed at the start of the Fiscal Year. The final dollar amount contributed by Endowment is based on the need.

The Congregation should understand that use of Endowment funds comes with an opportunity cost. Unlike Cash that sits in our checking account, Endowment funds are “earning assets”. They are invested with the goal of increasing in value each year. If some of these earning assets are liquidated to help close the Budget Gap, those dollars are spent, and any potential future growth is lost.

SEE ATTACHED

A - Insert 2020-21 Budget, the 2020-2021 Reforecast, Proposed 2020-21 Annual Budget, and a Variance column (1 pg)

B - insert Balance Sheet (1 pg)