

UUFM Budget and Endowment FAQs

for April 2020 Annual Meeting

Endowment

What is the UUFM endowment?

Funds for the long-term financial health of the fellowship. Endowment funds are held for growth, special investments, and targeted use, and help provide for the long-term financial health of the fellowship. We have both an “expendable” endowment and non-expendable “permanent” endowment.

The expendable endowment are funds held by us in accounts we have access to and manage ourselves. They are in a mix of mutual funds and money markets, in a fairly conservative balance that will still allow growth. These are essentially savings that we can access, though our bylaws and other policies specify special procedures for using them, with the aim that these funds can be used wisely and in support of growth initiatives, capital investments, and generally to support the long-term health of the fellowship. Note that expendable funds that are being treated this way as an endowment are sometimes called “quasi-endowments.”

The permanent endowment is held in funds by a third-party. UUFM is not allowed to touch the principal, ever, though every year we are given a portion of the funds’ earnings (if any) to spend. This kind of fund is sometimes called a “true endowment.” We own several distinct non-expendable permanent endowment funds that serve different purposes. These funds are held for us and managed by the Greater Manhattan Community Foundation (GMCF). The “Grow Green” donations some of us make every year go into these funds.

Are all of our savings in endowment?

No. UUFM also has a capital fund that can be spent on off-budget facilities and other related expenses without special congregational approval. We try to build this fund up yearly with regular income as well as special donations. We also get earnings from the GMCF permanent endowment, which we put aside and save for targeted expenses.

Who decides what part of the endowment is expendable and what is non-expendable?

The endowment is built by donations from members or friends, mostly through memorial bequests. Substantial one-time donations are automatically put into the endowment. Unless otherwise specified, donations are put into the expendable endowment. This is a common practice for organizations that have both expendable and non-expendable endowments. If a donor wants to ensure that their donation lasts in perpetuity, they can donate to the non-expendable permanent GCMF funds. To date, most of the non-expendable endowment has come through GCMF's annual "Grow Green" event donations.

What is UUFM policy regarding spending of endowment?

UUFM bylaws allow the board to spend up to 5% of the endowment by board vote. The bylaws were written before we had a separate permanent endowment. In recent years the bylaws have been interpreted the following way: Since the permanent endowment principal is not accessible anyway, the 5% rule obviously doesn't apply to it. So we interpret that rule to mean the board can approve the use of 5% of the expendable endowment within a fiscal year. We have been using the balance of the expendable endowment at the beginning of the fiscal year to determine this amount, and have been interpreting the bylaws to mean that the congregation approves use of the endowment for some purpose, the board still has discretion to spend up to 5% of expendable endowment if needed.

How much of the endowment is it reasonable to spend?

This is a complicated question about which people will have different opinions, and depends on the circumstances. On the one hand, we want to save and grow the endowment to provide for the future. On the other hand, if we never use it for anything, what's the point of having it? So there will always be at least some balance required. Ideally, we want to hold endowment for major capital projects or other major initiatives. During periods when we are overall investing in the future (as we have been doing with the move to a full time minister) we may decide we need to use a small amount to fund operating expenses. Ideally, we want this not to be greater than 3-4%. This is a relatively sustainable use of funds which in good years can be taken just from earnings from investments, and still allow for growth, though if we can manage even less use and more growth, that's better. In times of need we may find it necessary to use more than that so that we can meet operating expenses.

Where are UUFM policies stated?

The basic requirements for how UUFM handles the endowment are in UUFM By-Laws. In 2015 the UUFM board approved a stewardship and giving policy, including use of endowments. This

was developed after we received the Kirmser bequest and began a series of discussions of endowment management, including the difference between expendable and non-expendable endowments, what “socially responsible investing” means, and where non-directed gifts to the fellowship should go.

How much is in the endowment?

Below is a table of the endowment status as of March 31, 2020. (Note: \$16,000 was transferred from the Vanguard money market account to the checking account on 4/14.)

Expendable Endowment	
UUA Common Endowment Fund	\$9,878.30
Vanguard Money Market	\$284,867.07
Vanguard Social Index	\$297,271.45
Total Expendable Endowment	\$592,016.82
Permanent Endowment	
GMCF Lay Leadership Fund	\$21,096.37
GMCF UU Agency Fund	\$20,655.12
GMCF UU Grow Green Fund	\$17,211.14
Total Permanent Endowment	\$58,962.63
Total Endowment	\$650,979.45

Where did our endowment funds come from?

The endowment was built up from generous donations from several people over the years, including, in recent years, bequests from Phillip and Jeune Kirmser, Jim Mitchell, and Phoebe Samelson. These funds have allowed UUFM to take bold moves, such as move to a full-time minister, and have given the fellowship considerable financial stability and the ability to look to the future. These funds are all considered “expendable” endowment.

In 2013 several members started a targeted non-expendable endowment fund held by GMCF to be used for lay leadership development at UUFM. In 2014 we moved \$20,000 of our expendable endowment funds to start a general non-expendable fund at GMCF. Grow Green donations, however, were put into yet another fund, so UUFM now has three funds at GMCF. UUFM gets 4% from these funds when earnings are sufficient, which have been spent on lay leadership training and various capital and other special expenses.

How much endowment has been used prior to this fiscal year?

Since the endowment has been built up in recent years (endowment funds had been used previously to help us build the new sanctuary), funds from the expendable endowment have been used to support our move to full-time ministry and several capital expenses.

In 2015 the fellowship approved moving \$70,000 from the expendable endowment into a “ministerial transition” fund, to support investing in a full-time developmental minister after Michael Nelson’s retirement. This was seen as an investment in the future and an opportunity to grow. Those funds, plus an additional \$55,000 in special pledges from members and a \$10,000 chalice-lighters grant from the UUA Mid-America district, supported the first three and a half years of Rev. Jonalu Johnstone’s ministry, 2015-2019, while membership and pledging grew, though not enough to fully support a full-time minister plus the rest of the UUFM staff and expenses.

The difference between pledging income and full-time ministerial budget required additional use of the endowment, and the congregation approved use of additional endowment funds to repair the roof.

Date	Purpose	Amount
9/2015	Ministerial Transition	\$70,000.00
4/2019	Operating Expenses	\$17,084.13
9/2019*	Roof Replacement	\$19,355.50
	Total	\$106,439.63

**Approved Jan 2019*

In addition, the earnings that we get from our non-expendable endowment held at GMCF have been used to fund other small special projects and to send a number of our lay leaders to UUA Midwest Leadership School.

Proposed 2020 Endowment expenditures

What did we approve in the FY 2019-2020 budget?

In 2019, the fellowship approved a budget for FY 2019-2020 that included an aspirational target of \$150,000 in pledges (almost \$30,000 more than had been pledged the previous year), which would keep the use of expendable endowment to within reasonable expectations of earnings, with more required if pledging income failed to increase that much. Even if we had been able to

meet our lofty target of \$150,000 pledges, we still would have had to spend \$23,487 from endowment to : \$1,771 in earnings that were available from GMCF Leadership Development fund, and \$21,716 from our expendable endowment. That would have been well under 5% of the expendable endowment. While the congregation approved the budget, and so implicitly approved the use of endowment, the board considered that part of the 5% it can spend without explicit approval.

What else did the congregation approve this year to come from endowment?

In October 2019 the congregation approved the spending of an additional \$15,100.00 for masonry work. This work has not yet been done, and the funds not yet transferred.

What additional expenses has the board approved?

The board approved additional expenditures, totalling \$8,021.22, for the Next Steps Weekend (\$3,612.07) and the Visioning Weekend (\$4,409.15). This was within the 5% of endowment expense allowed by the bylaws, even including the planned use of endowment from the budget.

How much total from the endowment is needed this year?

Because we still do not have the \$150,000 in pledges needed to keep endowment support of operating expenses to the budgeted amount, we will need additional funds to pay this year's expenses. We project income to be about \$20,000 less than we hoped, but also predict expenses to be about \$10,000 less than we planned. But that means that we need about an additional \$10,000 beyond what we already planned, for which we need to turn to the endowment. Because this will be beyond the 5% endowment expenditure allowed by the board, we need congregational approval to use endowment funds to meet our expenses. The board is asking the congregation to approve the use of up to \$20,000 of funds from the endowment if needed, but we will only transfer what is needed to cover expenses at the end of the fiscal year.

Date	Purpose	Amount
10/2019	Masonry Repair*	\$15,900.00
2/2020	Operating Expenses	\$16,000.00
4/2020	Operating Expenses	\$16,000.00
4/2020	Operating Expenses**	\$20,000.00
	Total	\$67,900.00

*Approved but not yet transferred

**Asking for up to this amount at this meeting

2020-2021 Budget

What is included in the budget?

The budget that is presented to the congregation at each year's annual meeting is the operating budget for the fellowship. It includes income and expenses of a routine nature (e.g. pledges, fundraising, cash donations, employee salaries, employee benefits, electricity, gas, water, lawn mowing, snow removal, ink/toner, paper, toilet paper, paper towels, coffee, social action events and organizations, etc.). Capital projects (usually bigger non-routine or one-off projects) are funded on an as-needed basis through short-term savings, expendable endowment, or capital campaigns.

How is the budget developed?

First, the board discusses plans for next year and decides general budget priorities. Then, the treasurer solicits budget requests from committee chairs, the director of religious education, the music director, and the minister. Sometimes the call for budget line requests is accompanied with some direction from the treasurer or the board, e.g., to try to hold budgets steady or reduce them where possible. Next, the treasurer combines the requests they receive with our financial records, the UUA Annual Program Fund request (often referred to as dues), and salary increases consistent with our values and the UUA salary guidelines. Then they submit the draft to the finance committee for review. The finance committee meets, determines possibilities for next year's pledging, expresses concerns, asks questions, discusses changes, eventually approves a budget to submit to the board. Finally, the board reviews and discusses the budget, makes changes if necessary, and votes to approve a budget to present to the congregation at the annual meeting.

Why is there a line item for endowment transfer in the income section?

After conversation, and at the recommendation of financial consultant Barry Finkelstein, the finance committee and board have decided that we should include an endowment transfer as a recognized line of our budget until such a time that we can cover all expenses through other income, or we lower expenses to match all non-endowment income. This is a common procedure amongst congregations that for whatever reason rely on endowment to sustain their operating budget. We have adopted this approach because we cannot yet meet our expenses with pledge and fundraising income. We want to be explicit about how we are projecting we will meet our expenses this year. If pledges exceed predictions in the budget, then we will not need to use as much (or, if we are lucky, any) from the endowment.

How do you decide on the pledge income budget?

In the past we have adopted two different approaches, or a mix of the two. First, we should note that payroll is the biggest part of the budget: over 75% of our total operating expenses. This line is relatively fixed. So, in any given year, given the choices that have already been made about having a minister and staff, there's not as much flexibility in the budget as one might think. And once we've committed to something like a full-time minister, we have to commit also to sufficient other operations to help us work as a full-time ministerial congregation. So, our needs for pledge income in recent years have always exceeded our projected expenses. We have roughly two ways of handling that: put in a figure for pledges that we would like to get to in order to balance the budget, or put in a realistic (or even pessimistic) projection of pledges and then have the budget show the projected difference to start. The first works better as an ideal for us to work for during pledge drives. The second can lead to low expectations, because we're not indicating what we need to work to accomplish as a congregation. Last fiscal year, we put in an aspirational figure, which we, not surprisingly, did not meet. So the \$20,000 "shortfall" in pledges reported was not due to any particular problem, except for the fact that our membership and pledging levels are not (yet) high enough to support full-time ministry.

Are this year's pledging numbers realistic?

This year we put in a pledge number that is realistic, and our budget shows how we can meet expenses with a realistic pledge number and a sustainable use of endowment. Our latest projection is that we will end this year with about \$130,000 in pledge income, and consider the projection of an increase to \$137,000 next fiscal year to be fairly conservative. In fact, several members have already planned to commit to an increase in their pledge, in sufficient numbers that we might be able to see a substantial increase in pledging overall. We would like the pledge income to be much higher than what is budgeted, so that we do not have to use any funds from endowment. We think that this is possible, but do not want to engage in wishful thinking while planning, especially in these times of financial uncertainty associated with COVID-19.

How has donating offering to Helping Hands affected our budget?

The short answer is, we can't really know. At the simplest level, unsurprisingly, cash donations have decreased considerably and Helping Hands donations have increased substantially. However, the increase in Helping Hands (\$3,623) outpaces the decrease in cash (\$2,528), and pledging has increased. Some of those new pledges came from people who had been giving money into the basket without yet having pledged. One thing that people who work on stewardship in religious settings say is that a giving congregation can inspire more giving. So we have also been discussing how the increased contributions to Helping Hands might inspire members and friends to increase their giving to the fellowship through pledging, capital campaigns, or special gifts.

Can we do more fundraising?

Our major fundraising activity in the last few years has been the craft sale, which generates between \$800 to \$1800. We still participate in Dillons community rewards, but the value of the rewards have been reduced over time. We have had other fundraising activities before, such as garage sales, raffle tickets or other contributions at church dinners, and talent auctions, and there are many other possibilities. The main challenge for us is that these require people to organize and lead them and to make them effective. If you are interested in helping out, please do talk to Jonalu or someone on the board.

Another possible source of income is building rental. We have explored this in the past. It would take a lot of volunteer effort to make this a greater source of income, and it would come with costs that we might not want to incur. But again, if people have ideas of how to make it work well and are able to put in effort, it is something we can explore again.

Why is Jonalu going to be only at $\frac{3}{4}$ time?

After much deliberation, the board and the finance committee concurred that we unfortunately cannot continue along this path of use of endowment to support full-time ministry. The board is therefore recommending that we search for a $\frac{3}{4}$ time minister when Jonalu retires. Jonalu is switching to $\frac{3}{4}$ time next year to help with our next year's expenses and to help us get used to what having a $\frac{3}{4}$ time minister means.

Are our projected expenses realistic? Can we cut more?

We do not expect any major increases in expenses at this time. We have found several sources of savings (e.g., changing our phone service, which is why our utilities line is reduced) but over 75% of our budget is salary, and there is not a lot of room for additional reductions. We will explain some of the line items in our presentation of the budget.