

## MONITORING REPORTS

### 2.7 FINANCIAL PLANNING AND BUDGETING

**Policy:** Financial planning shall not:

- A. Deviate materially from the Shared Vision (ENDS),
- B. Compromise fiscal prudence or integrity, or
- C. Fail to reflect a multi-year plan that reflects both the financial and spiritual dimensions of our stewardship.

**Operational definition:** Financial planning includes annual budgets, quarterly forecasts, special project budgets, ad hoc analysis, and strategic goals and objectives.

- A. The President shall prepare a budget and a strategic plan for the Association that moves the Association towards the Shared Vision as expressed in Policy 1. A budget that does not deviate materially from the Shared Vision can be linked to each of the three sub-policies in Policy 1.
- B. A financial plan that does not compromise fiscal prudence or integrity will be based on key assumptions that are consistent with past experience and/or that can be supported with analysis and data. Forecasts that are misleading or missing important information would violate the principal of integrity.
- C. A financial plan that reflects a multi-year plan encompassing both the financial and spiritual dimensions of our stewardship is a budget that directs resources to programs and activities that address the goals and objectives of a strategic plan. A multi-year plan will not necessarily include a multi-year budget.

**Rationale:** Financial planning starts with the annual budget, but includes many other disciplines employed to keep the Association on an even fiscal keel. However, the focus of the Board should be on the annual financial plan as embodied in the budget and on the periodic updates as reflected in the quarterly forecasts.

- A. The Ends are aspirational statements and do not clearly lead to specific programs and financial commitments. Therefore, the President and his senior staff have developed strategic goals and objectives which further the Ends and inform the budget.
- B. Fiscal prudence means finding a balance between absolute certainty and wishful thinking in financial forecasts. While the past is a good place to start, changed circumstances in the Association or the wider world as well as new strategies can change forecasts up or down. Full transparency helps to insure integrity in the financial planning process.
- C. Current best practices in strategic planning do not require long range financial projections. In fact, for many institutions, such forecasts are considered a distraction. That said, having a clear statement of an organization's goals and objectives, regularly updated to incorporate changing dynamics, is essential. An article from McKinsey Quarterly put it this way:

*Above all, companies should avoid combining strategy reviews with discussions of budgets and financial targets, because when the two are considered together, short-term financial issues dominate at the expense of long-term strategic ones. . . . Thus, the best-practice companies we surveyed organized two clearly demarcated meetings: a full day on strategy with each business unit and a shorter meeting, at a different time of year, to set financial targets. The two are then coupled in a rolling annual cycle; the financial plan is an input for the strategy discussion, which in turn is an input for the next financial plan.*

**Supporting data:** The Association has a rigorous budgeting and forecasting process that is shared transparently with the board. The Administration's strategic planning and budgeting process follows a pattern similar to that described in the McKinsey report above. At the annual strategic retreat of the Leadership Council (the executive heads of each staff group) the President frames an overarching strategy and the LC members establish goals and objectives for their staff groups that are supportive of the institutional goals. The LC also meets mid-year to update the plan. These meetings are typically facilitated by a consultant with expertise in strategic planning. The President and the Leadership Council also have a separate set of meetings in the February-March timeframe focused on financial targets and budgets.

- A. The Administration has prepared a document called Budget Linked with Ends, which shows each major area of programming funded through the budget and relates each as to how closely it is related to achieving each of the Ends.
- B. The transmittal memorandum accompanying the submission of the budget explains the assumptions behind the budget and how the proposed budget is related to past experience and trends. The Administration is can provide any additional information to support its assumptions and calculations as requested by the Board.
- C. The priorities expressed through the budget are presented in the President's strategic plan and goals. This document will be submitted before the April board meeting.

**Therefore, I report compliance.**

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**Policy:** 1. [The President shall not] Fail to present at the Board of Trustees' April meeting:

- A. A balanced operating budget for each of the Association's business segments based on reasonable planning assumptions, including projections of revenue and expenses for the fiscal year beginning on July 1, for approval by the Board.
- B. A capital budget for the fiscal year beginning on July 1, based on reasonable financing and depreciation assumptions.
- C. A proposed budget for the following fiscal year, which will be received by the Board as information.

**Operational definition:**

- A. The Administration will submit to the Board for its review high-level budget in the same format as the Supplemental Schedules in the annual audited financial statements showing each of the Association's operating units. A more detailed budget for the Operating Section, which includes programmatic and supporting activities, will also be submitted. All will be in balance except Beacon Press. In accordance with Policy Appendix 2.F.4, the Administration is requesting permission from the Board to expend a portion of Beacon's accumulated surplus that is in excess of 3% of Beacon's total expenses in the prior fiscal year. Beacon Press is planning to use these funds to pay for the creation of a fundraising position focused on obtaining grants from foundations. We do not expect this position to generate significant income until its second year; therefore Beacon will show a deficit in FY 13.
- B. The Administration will submit to the Board for its review a budget for capital expenditures on computer hardware, computer software, and the physical plant showing the previous year's actual expenditures, the current year's budget, a budget for the upcoming year, and a budget for the out-year. The schedule will also show related depreciation expenses for each year.
- C. The budget document reference in A above will include budgets for both the upcoming fiscal year the following fiscal year.

**Supporting data:** Budgets for all operating units are being submitted to Board and the Finance Committee for review at their April 19, 2012 meeting. Specifically, the material includes budgets for Current Operations, Beacon Press, the Building Loan Fund, UU Common Endowment Fund and General Assembly and a memorandum explaining the changes from the current fiscal year to the FY13 budget. A FY14 budget is also included. In addition, the President submitted a capital budget for FY13 showing both expenditures and budgeted depreciation expense.

**Therefore, I report compliance.**

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**Policy:** [The President shall not] 2. Commit the Association to any initiative that lacks a clear and comprehensive funding plan.

**Operational definition:** Any initiative undertaken by the President should be included in the operating budget and include appropriate sources of funding, whether from unrestricted or restricted sources. If an activity is launched during a fiscal year after the budget is finalized, it should have a clear source of funding, whether restricted contribution, program income, or operating surplus.

**Rationale:** The annual budget itself is a "clear and comprehensive funding plan." Every activity in the annual budget is either funded through restricted, dedicated funding sources or from unrestricted revenues. The fact that it is balanced shows that all activities

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included in it are fully funded. On occasion, a new project will be proposed during a fiscal year. Such a project cannot be started without an identified source of restricted funding or a comfortably forecasted surplus with which to fund the activity.

**Supporting data:** The budget demonstrates the funding sources for all initiatives. There are no initiatives not included in the budget. The budget is balanced.

**Therefore, I report compliance.**

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**Policy:** [The President shall not] 3. Provide less for the Board's budget than the amount determined pursuant to policies on "Cost of Governance" in "Section 3 Governance Process".

**Operational definition:** The chair of the Finance Committee will be consulted regarding the budget for the Board and Volunteer Leadership to insure that the "Cost of Governance" is adequately funded. Committee chairs should submit requests directly to the Board through the Finance chair.

**Rationale:** The chair of the Finance Committee has been the primary point of contact for the Board and Volunteer section of the budget in the past. The chair may elect to consult with other board leadership and committees in such a way as to insure that the Cost of Governance is fully funded in the budget.

**Supporting data:** The Board and Volunteer Leadership section of the budget was submitted to the Chair of the Finance Committee for review.

**Therefore, I report compliance.**

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