MEMORANDUM

TO: Finance Committee

FROM: Tim Brennan

RE: UUA Budget Forecast 2nd Quarter FY 15

CC: Board of Trustees, Peter Morales, Harlan Limpert, Terasa Cooley, Mary Katherine Morn

DATE: January 12, 2015

Summary

This memorandum describes the key differences between the first quarter budget forecast for Fiscal Year 2015 and the second quarter forecast. At this time, we are forecasting breakeven outcome for the year. The principle factors driving changes from the earlier forecast are as follows:

1) Investment income from the building sale proceeds is less than originally budgeted and below the first quarter forecast. The sale proceeds from 25 Beacon and 6-7 Mount Vernon Place were invested through Eastern Wealth Management with two objectives: first, to protect against loss, and second to generate a return of 1.0 to 1.5%. While the first goal was met, the second was not. A late year downturn in high yield bonds triggered by the rapid fall in oil prices caused the high yield ETFs in the portfolio to lose approximately $127,000 in value.
2) Expectations for APF are $77,000 below budget.
3) Both income and expenses are on budget.
4) The result of these factors is that all of the contingency has been committed.

Budgeting and forecasting for this fiscal year has been extremely challenging. Unusual and difficult to predict factors include: investment income from building proceeds (described above), operating expenses of the new building, building management fees, depreciation calculations, and the transition from lessee to ownership. Fiscal year 2016 should be much more predictable since many of these moving pieces will be settled and knowable.

Notes on Variances from 1st Quarter FY15 forecast to 2nd Quarter Forecast

Overall Income – on budget
Except as noted below, there are no material changes from the first quarter report.

Unrestricted Gifts – down $115,000
Results from recognizing the President's Council donations as restricted income rather than unrestricted, as was done in the past. This has no bottom line effect.

Investment Income – down 15%
The original budget required an additional endowment draw of $400,000 to offset the budgeted operating deficit. The sale of mineral rights earlier in the year (recognized in Campaign Income below) makes this unnecessary. In addition, there was a shortfall in investment income from building sale proceeds described above.

Campaign income – up 28.6%
Reflects $400,000 from the sale of mineral rights (the remaining $540,000 is classified as temporarily restricted) and the President's Council donations described above.

Income for other purposes – up 29.4%
Reflects additional occupancy fees from Beacon Press.

Overall Expenses – on budget
Savings from unfilled positions are reflected throughout.

Program and strategy office – down 11.9%
Reflects the reclassification of one employee from this department to Congregational Life with no bottom line effect.

Administration – down 4.9%
Caused by unfilled positions in Human Resources.

Information Technology Services – up 5.3%
Forecast is back to original budget. The lower first quarter forecast resulted from an error in calculating depreciation. The second quarter forecast corrects this error.

Contingency – down 100%
The investment shortfall and decline in expected APF revenue is offset by the contingency, but none remains for the remainder of the year.

Current Section Excess (Deficit) – breakeven
The Leadership Council is continuing to seek expense savings to offset any unforeseen unfavorable variances.