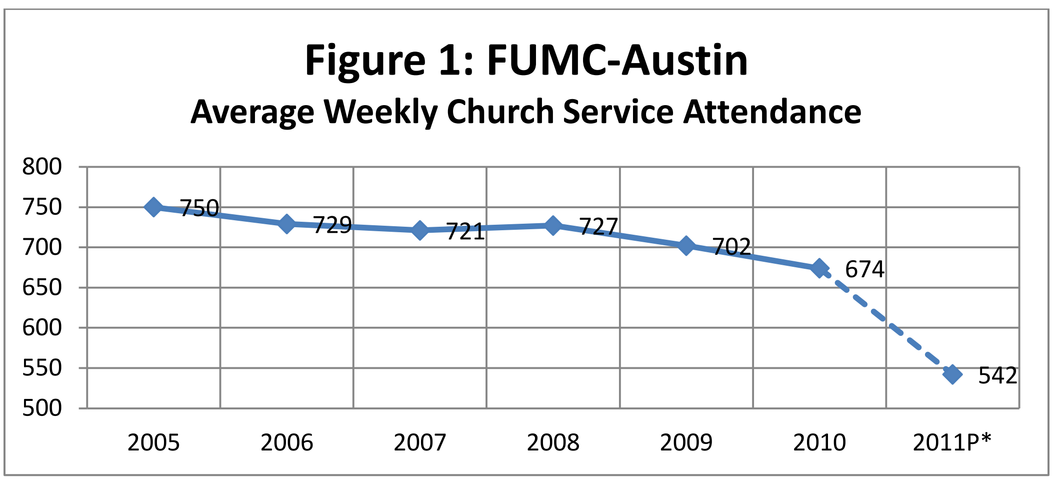
# A Financial Summary of First United Methodist Church – Austin

The Fiscal Oversight Subcommittee of the Finance Committee of the First United Methodist Church of Austin (FUMC-A) worked intensively over the first few months of 2010 to better understand the finances of FUMC-A. It produced a financial summary of FUMC-A that was shared with the Administrative Board in the late spring of 2010. This document attempts to update that summary of the financial condition of FUMC-A over the past five or six years in as comprehensive, but as uncomplicated a way as possible. Since pictures are said to be worth a 1,000 words, graphs are the primary communication vehicle used here.

## Membership & Attendance:

FUMC-A has seen an attendance decline over the past several years:




It is unknown exactly how membership levels correlate to attendance, but one would assume some relationship exists. We believe improving attendance and membership are important to improving the financial performance of FUMC-A because the church's fixed costs could be spread across a larger number of participants.

## Overall Financial Performance:

When we consider financial performance at FUMC-Austin, it is important to recognize that the entire enterprise involves five separate funds: (1) the Operating Fund, (2) the Fixed Assets Fund, (3) the Designated Fund, (4) the Preschool Fund, and (5) the Endowment Fund.

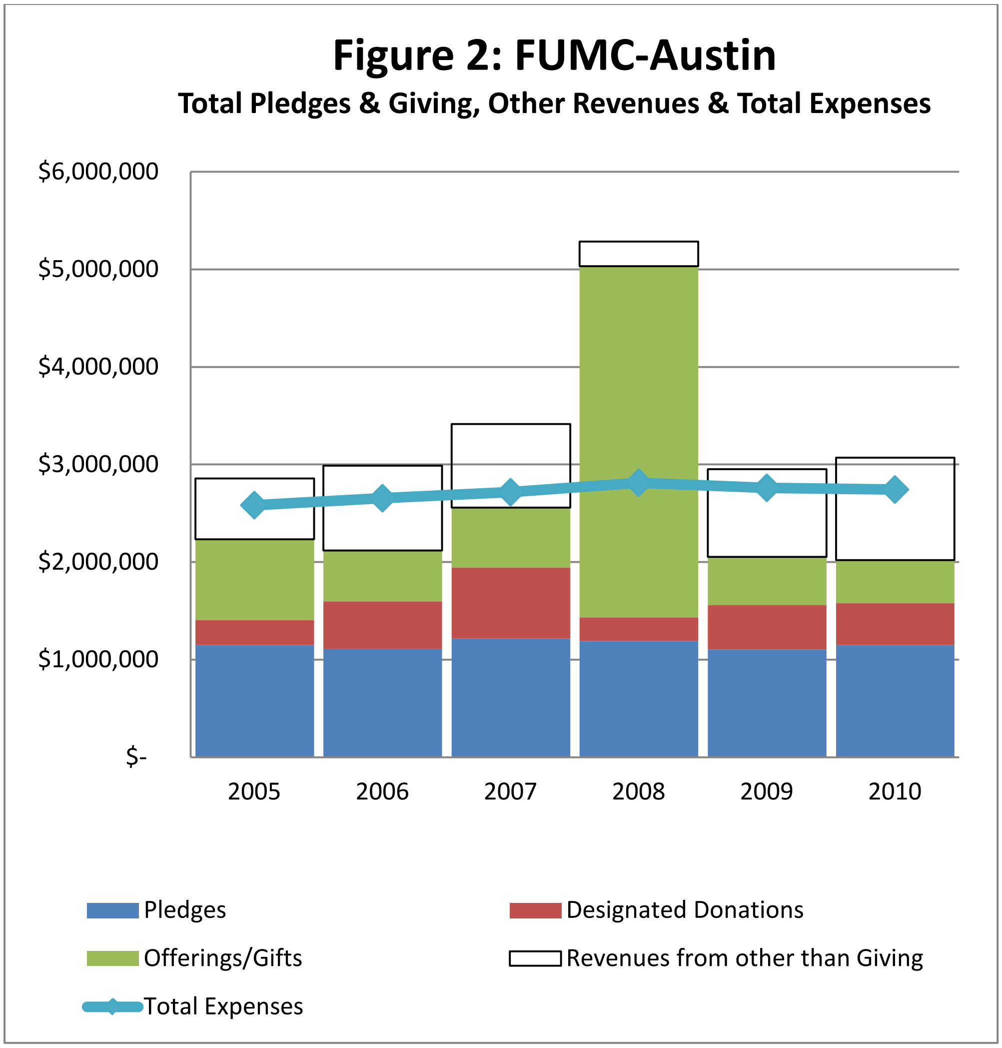
Income, expenses, assets, and liabilities for these five funds are combined in the first three graphs presented below. It is important to understand the entire picture. Following the description of these combined funds, however, will be a more focused description of the finances affecting the direct operating activities of the Church.

## Money Coming In and Going Out:

With the exception of a single major gift to the Church's Endowment Fund in 2007, participant giving has remained fairly stable at between $2.0 million and $2.5 million per year. (See Figure 2) Revenues unrelated to giving have also remained relatively stable except for fluctuations caused by revaluation of investments.

Total expenses have shown a gradual, but steady increase until 2009 when spending was significantly curtailed. This spending restraint is planned to continue throughout 2011. A new ministerial leadership team joined the Church in June of 2010.

The Church accrues a non-cash expenditure of about $190,000 per year in depreciation. With adequate income, this item provides a source of cash flow to support some replacement of eroding capital assets as they deteriorate over time. With this in mind, the Church has been able to additionally post a positive bottom-line in every year except for 2008. Positive bottom-lines enable the Church to pay off its debts, to expand or to replace deteriorating assets.

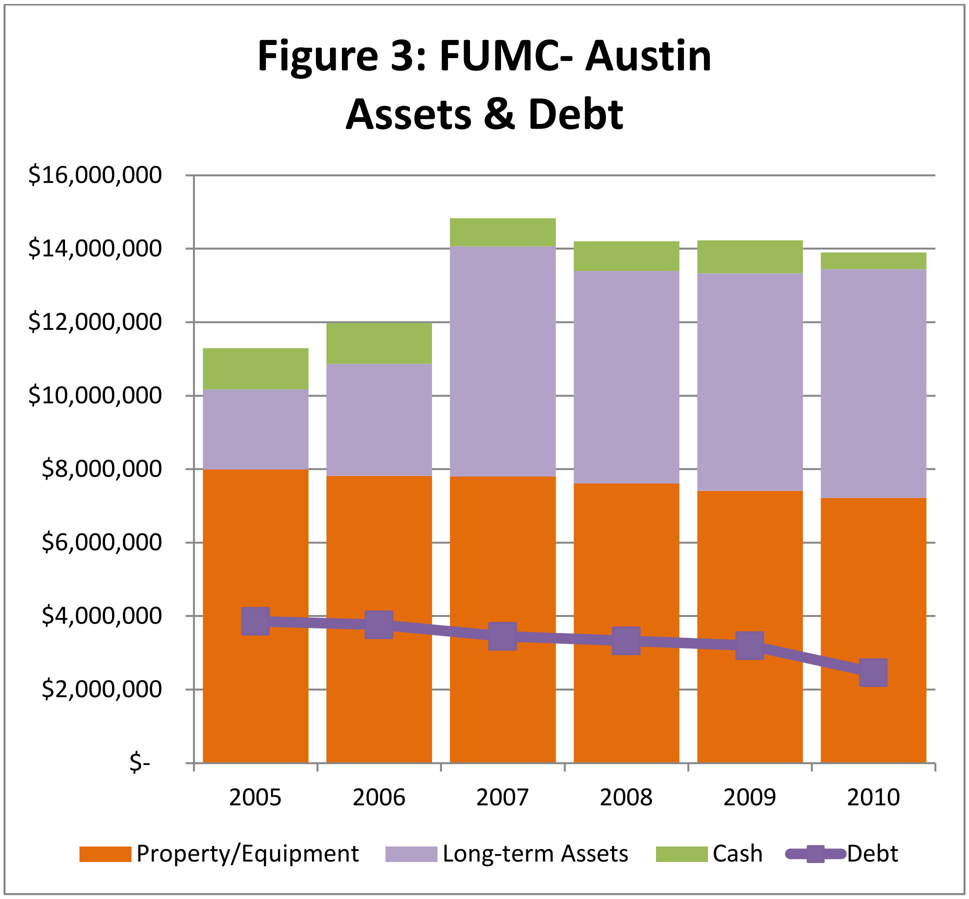



The Church overall appears to be in a sound financial condition, but challenges loom large. The ongoing economic recession can further reduce giving and ongoing declines in participation could add to this challenge. The plant is old and expensive to operate. The cost of replacement and repair remain significant.

If the Church is to grow, it will need to develop the attitude, organization, and capacities for growth. This will require some investment – of money, but mostly of time, energy, and leadership. If the Church continues shrinking, it will need to undertake a more active effort to reduce its expenditures while striving to maximize the Church's benefits to those who rely on it for physical and spiritual support.

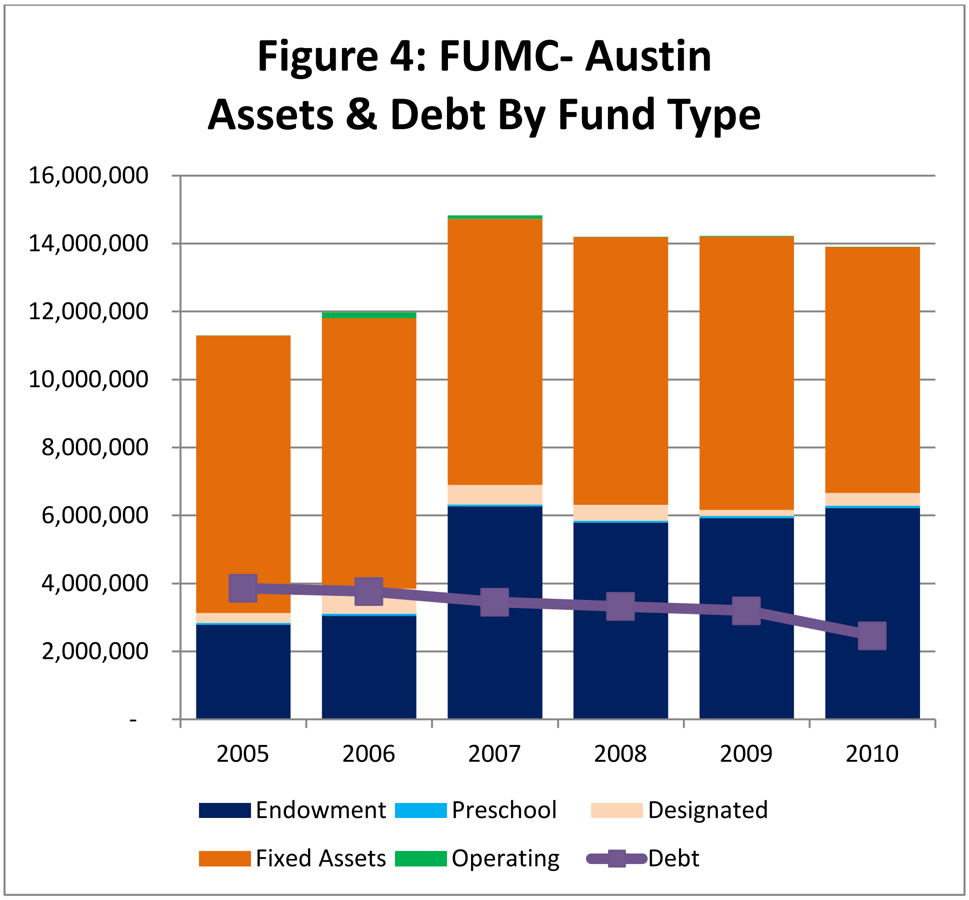
In addition to what we gather up and what we spend, it is important to assess what we are worth and what we owe.

## What We Own and What We Owe:




The Church ( See Figure 3) has property and equipment that is gradually declining in net book value as it ages. The Church's debt has been progressively declining as well from its initial amount of $4.0 million in 2004. We have cash and investments (long-term assets) that have grown substantially during this period – the largest increase occurring in 2007 as the result of a major gift to the Church's Endowment Fund. The difference between the top of the asset bars and the debt line represents the Net Asset value of the Church. This is a measure of how much "ownership" exists in the Church after its debts are considered. Net Asset value has generally been increasing although a drop off occurred in 2008 and 2009 as a result of an overall loss in 2008 (See Figure 2). In 2010, the smaller of two notes was paid off. This reduced debt, but also depleted cash balances.

All of the preceding graphs and discussion about finances at FUMC-Austin have been developed on a comprehensive and consolidated basis. As reported earlier there are five different segments of the Church financial system that are included in the combined analysis. (See Figure 4)




The Endowment Fund was created to provide FUMC-A with a long-term, permanent source of ongoing financial support. The major gift in 2007 was made to and invested in the Endowment Fund. The Endowment Fund is governed by a Board of Church members and the Endowment Fund contributes four percent (4%) of its value to the Operating Fund of the Church on an annual basis. The current annual contribution is approximately $240,000 per year. This contribution is for the Church to use as it sees fit, but it has generally been allocated to pay the principal and interest on the Church's remaining debt.

The Preschool Fund is the smallest of the Church's Funds. This fund is used to support the operation of the Church's Preschool program for children. While the Church provides space and general overhead support, the Preschool Program is supported by fees charged to and paid by the parents of students in the Preschool. While the financial position of the Preschool Program is not the focus of this report, it appears to be self-supporting and a worthwhile activity of FUMC-Austin.

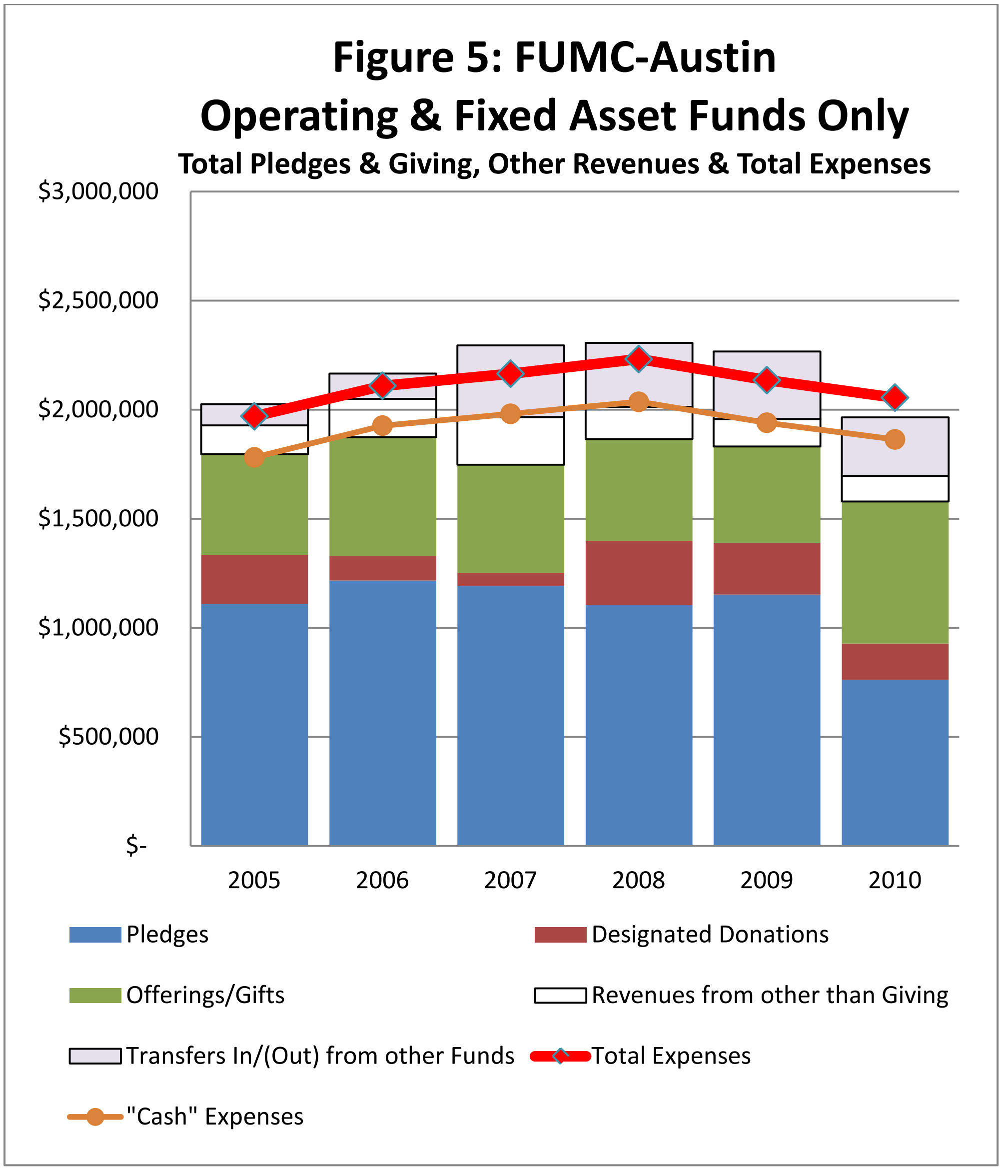
The Designated Fund contains funds that have been identified for a specific purpose and which are often restricted for certain uses by the donor(s). The Designated Fund includes funds designated for Sunday School classes and special programs, among others.

The Fixed Assets Fund is predominantly composed of the Church's property, buildings, and equipment. Cash here is used to purchase new equipment and other capital items and to pay down the debt. The Operating Fund completes the five major funds. It and the Fixed Assets Fund are the "bread and butter" of the Church's financial functioning. Because the Endowment Fund is restricted to making a standard annual contribution to the Church and the Designated and Preschool Funds are restricted to certain purposes, the Operating and Fixed Asset Funds assume financial responsibility for supporting the core mission of the Church. Financial support of the clergy and Church staff, financial support of the buildings and associated equipment, support for missions both within and external to the local Church and support of worship activities are key activities supported by these two funds.

The subsequent analyses of Church finances will now focus on these two funds in combination with each other.

## Money Coming In and Going Out - Operating & Fixed Assets:

Figure 5, the following graph, is fairly "busy" and deserves some explanation. The stacked bars represent where income comes from to support the operating activities and fixed assets of the Church. The largest amount of income comes from pledges from Church members and attendees. During the period 2004-2009, pledges usually hovered between $1.1 million and 1.2 million per year. In 2006, pledged giving was about $17,000 higher than the top of this range. Pledged giving hasn't changed much in several years until 2010. Since a major recession officially began in December of 2007, we should perhaps be pleased at so little change during tough economic times and in the face of declining attendance.



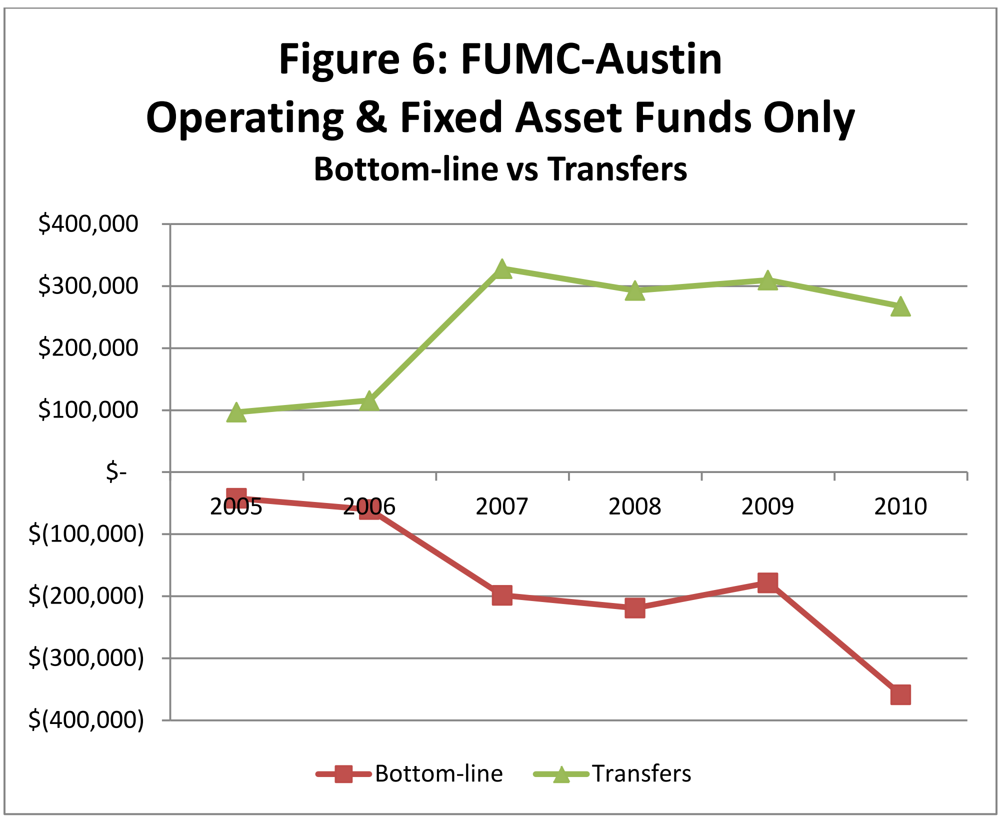

Giving to FUMC-Austin comes from more than just pledged giving. Designated donations are given with a donor-intended use. While all of the gifts to the Designated Fund are designated for some specific purpose, some of the gifts to the Operating & Fixed Asset Funds are too. The designated giving in 2009 totaled approximately $252,000 – the second highest level of designated giving to these funds since 2004. Offerings and Gifts were at their highest in 2004 ($553k) and hit their lowest level in 2009 ($428k). Offerings and Gifts grew in 2010, but this is probably a function of a poorly executed pledge campaign in the fall of 2009.

Revenues from other than giving have remained relatively stable, but these – too – hit their lowest level of the past six years in 2010.

Every year transfers between the five funds occur. In 2004, a small amount of funds were actually transferred out of Operating and Fixed Asset Funds to support other Funds like the Endowment Fund. In succeeding years, fund transfers have flowed in the opposite direction. The largest fund transfer into Operating & Fixed Asset Funds arises from the contribution of 4 percent of the Endowment Fund corpus into support of the Church's operating and fixed asset needs. Additionally, funds given with a donor designation may initially reside in the Designated Fund, but are transferred to the Operating or Fixed Asset Funds if the dollars are to be applied to the designated purchase as intended by the donor.

The stacked bars in the preceding graph describe the totality of income earned in the Operating & Fixed Asset Funds. The lines in the preceding graph display expenses for the combined Operating & Fixed Asset Funds of FUMC-Austin. Two lines are displayed because while the Church fundamentally operates on a cash-basis of accounting, it does book depreciation for its buildings and equipment. Since income is shown on a cash basis and all expenses except for depreciation are expensed on a cash basis, the comparison of the income totals to the "cash" expenses line (an orange line with circle markers) provides a quick glimpse into whether these funds are keeping more cash than is being spent or are losing cash because cash expenses exceed cash income. The "glimpse" and one's assessment of how the Church is doing is based upon where one's eyes draw the line on income. In every year except 2005, Church expenses <u>exceed</u> Church giving. After adding income from areas other than giving, the Church generally breaks even, i.e. its direct earnings equal its expenses. And when considering the generous transfers from the Endowment and Designated Funds, the Church has been able to celebrate a positive cash flow.

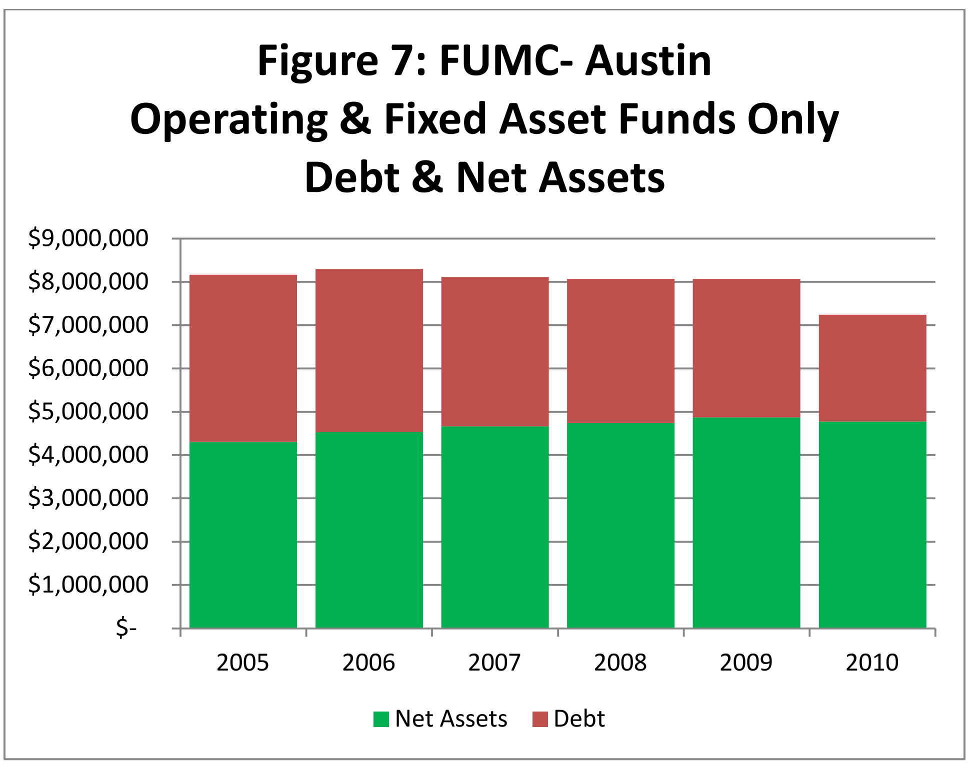
As we observe our facilities and much of our furniture and equipment, it is all getting older. Many of our facilities are in desperate need of repair, renovation, or replacement. Depreciation is a conservative way of measuring the ongoing deterioration of our fixed assets. As noted earlier, annual depreciation cost is roughly $190,000. When depreciation is included in our valuation of total expenses, FUMC-Austin continues with a positive bottom-line, but only narrowly so. In 2010, however, a loss was experienced in the combined Operating & Fixed Asset Funds. The following graph (Figure 6)displays the Church bottom-line (the difference between income and expenses) and the amount transferred in from other Funds.



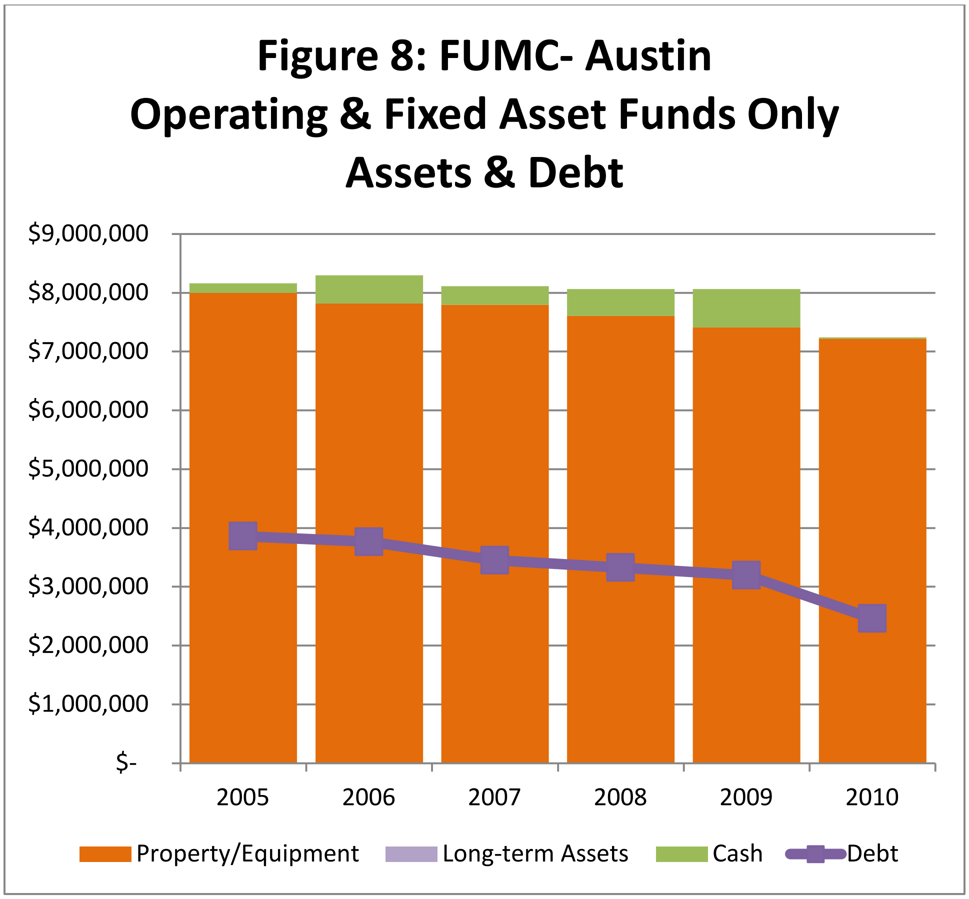

While the Endowment and Designated Funds are making sizeable annual contributions to the Church ($268k), Church losses ($359k) erode the value of that support. This is not a good place for a church to be.

## What We Own and What We Owe – Operating & Fixed Assets:

When focusing on the Church building, equipment, and funds used to pay for Church activities, we note (Figure 7) that overall assets have remained steady at about $8.0 million in total value until 2010 when the Small Note was retired. In 2005, about $4.0 million or one-half of all assets were obligated to cover debt and the Church members "owned" the other half. Over time, the debt has been progressively paid down and "ownership" or net asset value has increased. Of some concern is that overall asset value is trending downward, albeit slowly. When an organization is doing well financially, it uses its resources to replace and replenish its aging and deteriorating fixed assets. In a growing church, we would aspire to increase the value of our plant and equipment. At FUMC-Austin, total fixed and operating assets are in gradual decline.



Another way to analyze assets and debt is to consider the liquidity of the assets. Liquidity describes how easily the organization could use its assets to pay its debts. Cash is the most liquid of assets while our plant and equipment are among the least liquid. The following graph (Figure 8) displays the components of assets in the Operating & Fixed Assets Funds. Not too surprisingly, most of the Church's assets in these two funds are in fixed assets, i.e. land, buildings, and equipment. There are no long-term assets like investments (these are found exclusively in the Endowment Fund) and the Church's operating cash balances are relatively small.

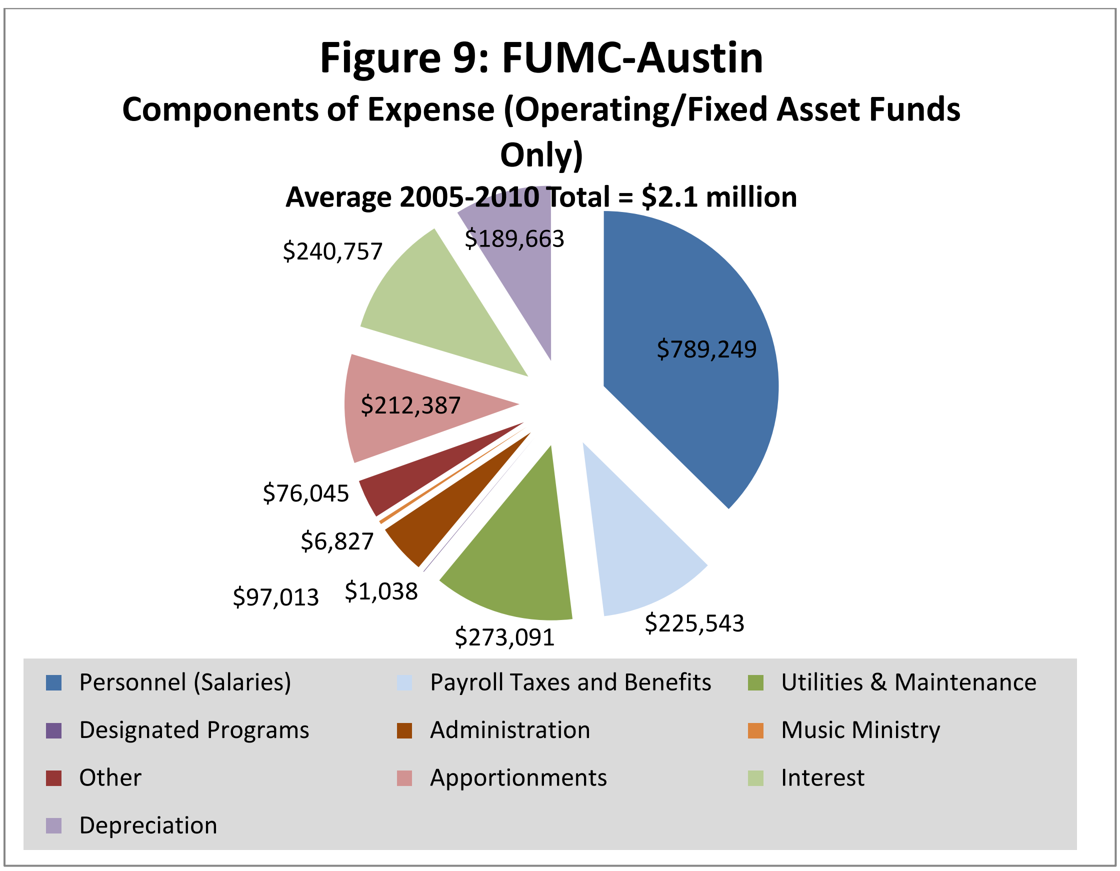



By year-end 2010, there was virtually no cash left in the Operating & Fixed Asset accounts. This is not a good situation for assuring payment of normal bills, much less the payment of longer term obligations. While the Church can be proud of paying off the Small Note, this success placed a significant strain on the Church's cash position.

## Where We Spend Our Money

We have focused on income and overall expenses, assets and debt; but comprehending the way expenses are applied is also relevant to understanding Church finance.

Our monthly financial statement describes "programmatic" allocations of expense, e.g. in broad categories like Worship, Membership, Missions, Music Ministry, Administration, etc. There are more detailed accounts within each Program or category, but items like salaries and health insurance costs are distributed among the different Programs. Figure 9, below, displays an average of all Operating & Fixed Asset expenditures for the years 2004 through 2009. The major expenses in Figure 9 are identified by "functional" rather than programmatic category, i.e. as Salaries, Payroll Taxes & Benefits, Utilities & Maintenance. Some expenditures not otherwise classified do remain in programmatic categories such as Administration and Music Ministries.



A church is clearly a people business. Almost half of the cost at FUMC-A is for people – both clergy and staff. Utilities and maintenance requires approximately one quarter of a million dollars each year. Interest on debt is the third largest Church expenditure. Paying off of the Small Note reduces this some, but finding a way to refinance or pay off the Large Note will be an important next step for the Church. Apportionments represent the planned giving of FUMC-A to the broader church and to worldwide benevolences outside the reach of FUMC-A. While expenses were reduced in 2009 and 2010, there really hasn't been much change in the overall spending during the six years under review here.

## How Are We Doing Now and Where Are We Headed?

This report has been compiled when the Church is less than one month away from completing 2011. It is tempting to make a projection from the eleven months of data available. The Stewardship Campaign for 2011 was better organized than in 2010, but giving levels are not hitting the projections for 2011. The Church began the year by releasing $57k in prepaid 2011 pledges (collected in late 2010) from the designated fund to the operating fund. The Church goal was to maintain this $57,000 in available cash by year end. At the end of November, 2011 only $1,200 remained available.

The Church Charge Conference on December 4, 2011 narrowly passed a recommendation from the Finance Committee that read:

> ***In order to balance the budget and build a cash reserve, The Finance Committee prayerfully recommends that FUMC enact a spending cap for 2012 of no more than $1.568m, that FUMC adjust that spending cap downward if 2011 results in a loss, and that FUMC adjust the spending cap downward if the pledge drive does not bring in sufficient projections to reach that cap, and that FUMC direct any additional funds above that cap into building a cash reserve.***

The ramifications of the recommendation are clear. The Church has reached a point at which it must avoid spending more than it has. Determining what it has or is expected to have will be a major challenge in the days ahead as a spending plan is compiled for consideration by the Administrative Board in January of 2012.

## Conclusion

This document has been prepared to assist the FUMC-A member with an overall understanding of our Church's financial condition. The accounting system is complex and requires considerable understanding before the question of "How are we doing?" can be answered in an understandable fashion. It is even more challenging to be able to do this quickly.

In the future, we will need to discuss whether the indicators displayed here are relevant and useful to understanding FUMC-A financial performance, whether there is adequate budget information available for looking forward, and how this effort to communicate openly about our Church's finances can be done well and consistently.

As we attempt to evaluate where we have been, we see a Church that has many strengths. Even though our members have seen declines in attendance and worsening economic times, it appears that those who remain are ever more generous. The growth of the Endowment Fund has generated a solid level of support that has kept our Church afloat during these difficult times.

But mixed within our strengths are our weaknesses, too. The levels of current giving and current spending are too close to each other leading to losses that must be made up from Endowment Fund contributions. The Small Note has joyfully been paid off, but our cash position is dire. The new ministerial leadership team is working with staff and Church members to find appropriate ways to adapt to difficult trends in attendance and giving. They and we will be challenged to revive FUMC-Austin and with little in the reserve, we will have to be better stewards on both the giving and the spending side to lift our Church up financially and spiritually.

Riding on the financial edge is not a good place to be, but with God's help we must find a way to improve the finances of our Church.  This document will be further updated as the 2011 financial information becomes available in early 2012.

Fiscal Oversight Subcommittee

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