



TO: Finance Committee

RE: Actual Results 2016/2017 vs. Actual Results 2015/2016

FROM: David W. Breneman, President
Kathy Mardambek, Finance Director

2016/2017 Actual Operating Results: \$868,424 Surplus*
(page 5, reference **A** – *Modified Basis of Reporting for Spending Rule & Capitalized Equipment)

Summary – Revenues (page 1, reference **B)**

Total revenues of \$8,317,320 in 2016/2017 were flat as compared to the previous year of \$8,313,906 in 2015/2016 (page 1, reference **B**). Even though last season's membership and donations exceeded the previous year by over 10% (page 1, reference **C**), the change in total revenues was minimal due to no international travel program in 2016/2017. In 2015/16, there were international travel ticket sales of \$540,766 (page 1, reference **TT**) to Piedmont, Italy.

NOTE: Going forward the international travel program will not be recorded in the budget as part of program services. The activity will be recorded as fundraising because the education committee structured the ticket price so that it would have a tax-deductible component. This tax-deductible amount changed the accounting for the event and gave the Four Arts two reporting options, fundraising or joint cost allocation. The Four Arts chose the fundraising option because the joint cost allocation method is complex with strict rules regarding purpose, audience, and content.

Summary – Expenses (page 4, reference **D)**

Expenses increased 3.1% in 2016/17 versus 2015/16. The majority of the increase was for capitalized operating improvements (page 2, reference **E**).

Details – Revenue

Membership (\$31,200 increase 2.2% - page 1, reference **F):**

- Increase due to accepting more new members in the 2016/2017 season.

Annual Giving Donations (\$333,415 increase 9.1% - page 1, reference **G):**

- The Chairman's Forum – (\$255,562 increase 22.0%). The Chairman's Forum participation increased from 43 to 52 donors. Several members moved up from the Benefactor Council to the Chairman's Forum. Only members can donate at the Chairman's Forum level.
- Benefactors Council – (\$82,967 increase 4.3%). There were 201 Benefactors Council donors in 2016/2017 versus 191 in 2015/2016. This category of giving continues to grow each year. Only members can donate at the Benefactors Council level.
- Giving Under \$10,000 – (\$5,114 decrease .9%). This category of giving consists of the following levels: Four Arts Circle (\$5,000-\$9,999), Guardian (\$2,500-\$4,999), Patron (\$1,000-\$2,499), and Donor (\$100-\$999). Both members and non-members can donate to any of these giving levels.

Other Giving (\$124,834 increase 17.9% - page 1, reference H):

- Town of Palm Beach Appropriation – (\$9,473 increase 3.0%). This appropriation helps cover library employee costs and has been raised 3% each year by the Town Council. The appropriation will continue during the library renovation.
- Palm Beach County Cultural Council Grant – (\$3,063 decrease 1.4%). The funding for this grant has been reduced across the board for all arts organizations due to the budget cuts in Palm Beach County.
- Corporate Development – (\$47,850 increase 89.2%). Corporate development increased this season due to a large corporate gift directed to the Founding Fathers education program.
- Other Donations – (\$70,574 increase 68.4%). This giving category includes gifts from members and non-members. There were two large special one-time gifts 1) underwrite The Four Arts history book and 2) pay for the conservation of the Diana sculpture. Non-members who give \$10,000 or more to support the season's operations are also included in this category. Since the Benefactor and Chairman Forum participation is not available for non-members, a donation of \$10,000 or more from a non-member is recorded here and recognized in the publications under the generous supporter level.

Other Revenue (\$421,789 decrease 31.8% - page 1, reference I):

- Tickets-Programs for Lectures, Concerts, Films, COL – (\$135,784 increase 26.5%). Program ticket revenue increased due to the Founding Fathers education program. It sold out seats at almost every lecture.
- Tickets-Piedmont – (\$540,766 decrease 100%). There was no international travel in 2016/2017. International travel is an every other year event. The next event will be shown under fundraising.
- Tickets-MetOpera & Other Screened Events – (\$4,416 decrease 2.0%). There was a slight decrease in ticket sales. The attendance numbers were down on average for all screened events.
- Tickets-Art Exhibitions – (\$8,716 decrease 20.6%). Art ticket sales were not as robust in the 2016/2017 season, although one exhibit included paintings by Georgia O'Keeffe, Mark Rothko, and Jackson Pollock.

Spending Rule (\$59,697 decrease 5.3% - page 1, reference J):

Spending Rule – The decrease in the spending rule was due to lowering the percentage from 4.33% in 2015/2016 to 4.0% in 2016/2017. The spending rule equalizes the spending from year to year in the Unitized endowment. This moderates fluctuations in income for times of market volatility. Each month 4% of the endowment is transferred to The Four Arts checking account and recorded in the operating budget. A spending rule is not GAAP (generally accepted accounting principles). The GAAP basis investment income of earned dividend/interest and gains/losses is shown on the audited financial statement.

Details – Expenses

Employee Costs (\$43,402 decrease 1.5% - page 2):

- Salaries – (\$4,547 decrease .2% - page 2, reference K). The raises were 3.5% in 2016/17 and 5% in 2015/16. The raise increase was smaller year over year. The salary number in 2015/2016 was inflated by a one-time \$35,000 severance payment to the former executive secretary. Other timing differences include, 1) Nancy Mato is phasing out her retirement. She no longer manages the music position. Her salary was reduced and her music replacement did not start until October 2016. The Events Coordinator resigned in January of 2016 and the position was temporarily filled in house.
- Bonuses – (\$119,450 decrease – page 2, reference L). The timing of the discretionary bonus has been changed to a calendar year end and the bonus will no longer be paid in June. This was to eliminate paying a bonus in advance of known results. If approved by the board in December, bonuses will be paid that month.
- Payroll Taxes – (\$10,481 decrease 5.9% - page 2, reference M). There was no bonus paid in 2016/2017 which reduced the amount of payroll taxes.
- Pension 401(k) Match – (\$86,618 increase 67.3% - page 2, reference N). The Four Arts raised its discretionary match from 50% to 100% of the employee contribution and kept the cap in place of \$10,000 per employee. Employees are now contributing more of their own money to the plan.

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- Pension 457(b) Contribution – (\$11,738 increase 25% - page 2, reference **O**). The Four Arts raised its discretionary contribution by 25%. The president and the eight department directors participate in this plan. This is a deferred compensation plan for only highly compensated staff.

Maintenance (\$413,977 increase 69.6% - page 2):

- Buildings & Grounds – (\$50,535 decrease 16.6% - page 2, reference **P**). The decrease is due to the 2015/2016 season included some large one-time maintenance expenditures, 1) glass work in the projection booth, 2) air conditioning maintenance for the thermostat in the gallery, and 3) handrail repairs in the education building.
- Lawn & Gardening – (\$39,402 decrease 19.3% - page 2, reference **Q**). The decrease is due to sod replacement in the sculpture garden after the February 2016 gala dinner dance. In the middle of the 2015/2016 season, the lawn service company was replaced by another company that didn't charge extra for many services. This cost savings was fully realized in 2016/2017.
- Operating Improvements – (\$488,828 increase 1345.6% - page 2, reference **E**). The 2016/2017 season includes the cost of the parking lots expansion project. The expenses in this category are reclassified to the balance sheet and capitalized/depreciated at fiscal yearend. This line item is non-GAAP and only presented for operating budget purposes.

Utilities (\$39,284 increase 11.6% - page 2)

- Electric & Natural Gas – (\$33,356 increase 21.1% - page 2, reference **R**). Increase is due to more natural gas usage. Beginning 2016/2017, the natural gas is being used 12 months in the gallery building to keep the temperature at a consistent level for the artwork and the building interior. Previously the extra cooling power was only used during season.
- Water – (\$8,486 increase 10% - page 2, reference **S**). Increase is due to several water leaks outside the gallery building in 2016/2017. There was six months of heavy watering for the new plantings after the parking lot renovation.

Insurance (page 2, reference **T)** We are in the process of reappraising the buildings and contents to determine if the insurable value is accurate for fire or other damage. The last time the buildings were appraised was 2011. The Four Arts does not carry windstorm insurance and has always elected the minimum coverage for flood insurance.

Printing, Signs & Photography (\$51,465 increase 22.8% - page 3):

- General Printing-Administration – (\$36,563 increase 157.3% - page 2, reference **U**). The increase is due to a one-time expense in 2016/2017 for The Four Arts History Book. This is a publication that has traditionally been printed every twenty years.
- Membership/Contemporaries/BC & CF – (\$5,965 increase 88.7% - page 3, reference **V**). Increase is due to the new publication in 2016/2017 for the Annual Report. The Annual Report is finalized in December after the audit and tax return are approved. This new publication includes the organization mission, selected statistics, and the audited financial report.
- Development – (\$15,058 – page 3, reference **W**). This is the cost of the Library Capital Campaign brochure. It is a one-time expense that only occurs when there is a capital campaign.
- Photography – (\$4,805 decrease 36.7% - page 3, reference **X**). Decrease is due to there were two art exhibitions in the 2016/2017 season and fewer objects to photograph. In 2015/2016, there were four art exhibitions and each one had many objects.

Office, Supplies & Advertising (\$61,352 decrease 11.3% - page 3):

- Supplies: Office – (\$12,674 decrease 25.0% - page 3, reference **Y**). Decrease due to 2015/2016 included a one-time expense for new furnishings in the ladies restroom of the gallery building.
- Supplies: Audio/Visual/Maintenance – (\$5,625 decrease 27.5% - page 3, reference **Z**). The audio visual equipment purchases vary from year to year based on season programming needs.
- Leased Equipment Maintenance/Supplies/Rental Space – (\$9,793 increase 31.3% - page 3, reference **AA**). At the end of 2016/2017, there was a new monthly charge for the rental of warehouse space for the library books. This will continue until the library renovation is complete.

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- Postage & Mailing Service – (\$5,527 increase 7.7% - page 3, reference **BB**). The increase in 2016/2017 is due to mailing two new publications to all members. These mailings were for the Annual Report and the Founding Fathers brochure.
- Advertising – (\$59,716 decrease 19.9% - page 3, reference **CC**). Advertising was less due to many of the programs sold out ahead of time and marketing did not have to continue to spend as much in promoting the events.

Employee: Travel, Study, Meals & Entertainment (\$9,027 decrease 21.7% - page 3):

- Travel & Study – (\$1,963 decrease 7.8% - page 3, reference **DD**). Decrease is due the curator travel to Brussels in 2015/2016 to review the upcoming exhibit called "Fashioning Art from Paper".

Events: Catering, Meals, & Decor (\$111,168 decrease 32.8% - page 3):

- Programs/Administration – (\$14,175 increase 12.0% - page 3, reference **EE**). Increase due to more catered events for donors in the 2016/2017 season. For example, there was an event before the James Galway concert for all donors who gave \$2,500 and over.
- Programs/Administration-Piedmont – (\$139,603 decrease 100% - page 3, reference **UU**). There was no international travel in 2016/2017. International travel is an every other year event. The next event will be shown under fundraising.
- Benefactor & Chairman Dinners – (\$8,103 increase 17.8% - page 3, reference **FF**). In 2016/2017 both the Chairman's Forum and Benefactors Council dinners had more attendees. The Benefactors Council dinner featured a live band, which it didn't have the year before.
- Capital Campaign – (\$5,520 increase – page 3, reference **GG**). This is a one-time expense in 2016/2017 for the luncheon cost of the library renovation ground breaking ceremony.

Professional Fees (\$49,776 increase 10.5% - page 4):

- Credit Card Transaction Fees – (\$27,387 increase 41.5% - page 3, reference **HH**). These fees have increased because more patrons continue to pay by credit card. For example, in 2016/2017 most of the participants on the Elbe River Tour purchased their tickets by credit card. The merchant service fees are reviewed every two years to ensure the lowest rates.
- Legal – (\$14,724 increase 34.0% - page 4, reference **II**). Legal fees increased in 2016/2017 due to research needed for foreign speakers. For example, the Tuesday speaker Jim Carter required a specific visa for travel to the United States. These are costs absorbed by The Four Arts.

Sponsored Activities – (\$110,030 decrease 6.7% - page 4):

- Programs & Shipping Fees – (\$183,355 increase 22.5% - page 4, reference **JJ**). The increase is due to spending more on the Founding Fathers presenters in 2016/2017. The Campus on the Lake education speakers usually have lower fees.
- Production & Staging On-Site – (\$27,764 decrease 29.2% - page 4, reference **KK**). The decrease is due to spending more in the 2015/2016 season on art exhibit cases and platforms for the Marjorie Merriweather Post dress collection and the Power and Piety display objects. In 2016/2017, the exhibits were only paintings which no special cases.
- Production & Staging Off-Site – (\$31,515 increase 534.1% - page 4, reference **LL**). The increase is due to moving the library books to permanent 18 month storage.
- Production & Staging Off-Site-Piedmont – (\$108,965 decrease 100% - page 4, reference **VV**). There was no international travel in 2016/2017. International travel is an every other year event. The next event will be shown under fundraising.
- Transportation-Piedmont – (\$36,986 decrease 100% - page 4, reference **WW**). There was no international travel in 2016/2017. International travel is an every other year event. The next event will be shown under fundraising.
- Hotels-Piedmont – (\$147,202 decrease 100%, reference page 4, **XX**). There was no international travel in 2016/2017. International travel is an every other year event. The next event will be shown under fundraising.
- Security Guards – (\$16,817 increase 21.3% - page 4, reference **OO**). The increase is due to the guard schedule in 2016/2017 included round the clock guard service for the first art exhibit, "When Modern was Contemporary". This exhibit included paintings by Georgia O'Keeffe, Mark Rothko, and Jackson Pollock.

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- Parking – (\$6,118 increase 19.9% - page 4, reference PP). The increase is due offering valet services in 2016/2017 for everyone during season at the screened events on Saturday.
- Library Programs/Supplies – (\$6,487 decrease 35.2% - page 4, reference QQ). The decrease is due to the main library spending less on supplies in 2016/2017 in anticipation of its building's closure for the renovation. They are operating now in smaller spaces in the Rovensky Boardroom.
- Library Books, CDs, DVDs – (\$13,418 decrease 16.0% - page 4, reference RR). The decrease is due to the main library spending less on books in 2016/2017 in anticipation of its closure for the building renovation project.
- Library Supplies & Electronic Catalog Equipment – (\$4,143 increase 85.6% - page 4, reference SS). In 2016/2017 the children's library ordered bar code labels and scanners to begin automating their department's card catalog system.