



TO: Finance Committee

RE: Preliminary Budget 2017-2018 vs. Forecast 2016-2017

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

DATE: April 20, 2017 – 10 AM

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**2017-2018 Preliminary Budget Surplus is estimated to be \$340,631 (pg 4)**

**Summary (pg 1 & pg 4)**

As compared to this season's forecast, next season's preliminary budget revenue is expected to decrease -\$295,166 or -3.6% (pg 1). This is a conservative estimate. We had several large donations from non-members and we don't know from year to year if they will continue. Also, corporate donors will most likely underwrite the galas. We expect the same number of Chairman Forum donors but we cannot anticipate if some will give more than the minimum donation. Preliminary budget expenses are expected to decrease -\$39,285 or -.5% (pg 4).

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| <b>REVENUES</b> |
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**Membership:**

No changes.

**Donations (-\$395,323 decrease -8.3%):**

**Annual Giving Donations (-\$190,091 decrease -4.8%):**

- Chairman's Forum – (-\$116,580 decrease -8.2%). This is a conservative estimate. The budget reflects the same number of donors from this past season (52). However, there were several members who gave more than the \$25,000 minimum giving level and this "extra" giving is not included in the budget.

**Other Giving Donations (-\$205,232 decrease -25.5%):**

- Corporate Development – (-\$71,500 decrease -74.1%). We are anticipating less corporate donations due to the galas. Many corporate donors select to underwrite the dinner dances rather than a program in a gala year.
- Other Donations – (-\$138,000 decrease -84.7%). This donation category varies from year to year. The donations mainly consist of non-member donors who give \$10,000 or more. Since non-members cannot participate in the Chairman or Benefactor giving level, their donation is recorded in this category. In 2016/2017, there was a one-time \$50,000 gift from a member to underwrite the Four Arts History Book.

**Other Revenue (\$6,000 increase .7%):**

- Tickets-Art Exhibitions – (\$6,000 increase 17.6%). We anticipate the public ticket sales for the art exhibits to increase next season. The Winston Churchill paintings and the exquisite paper costume exhibit should attract a wide number of visitors.

**Spending Rule:**

\*Spending Rule – (\$94,157 increase 8.7%). The spending rule is 4%. A spending rule equalizes the spending year to year from the Unitized endowment. The 4% annual spending rule amount is calculated based on the five year rolling average market value of the Unitized Endowment (see calculation attached).

*\*The spending rule replaces dividend & interest income in the operating budget presentation. The Four Arts uses a spending rule in its internal operating budget presentation to moderate fluctuations in income. The spending rule is not GAAP (Generally Accepted Accounting Principles) and is not recorded as income in the fiscal year end Audit Report.*

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| <b>EXPENSES</b> |
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**Employee Costs (\$206,358 increase 7.0%):**

- Salaries – (\$47,541 increase 2.1%). A 3.5% merit raise was approved by the compensation committee. Less will be spent in salaries because the digital media assistant resigned and was offered an outside consulting position. Her fee will be charged to advertising instead of payroll. There will be a savings because her fee is only 2/3's of her salary.
- Bonus – (\$125,000 increase). The compensation committee met in March and a discretionary bonus pool was authorized for this preliminary budget presentation. In December, the Board will decide if bonuses will be awarded.
- Health Insurance – (\$5,793 increase 3.7%). There are two less participants in the health insurance plan. The plan premium increased 5.8% and the employee plan deductible increased \$600 (\$5,000 to \$5,600). The Four Arts increased the employer health savings account contribution by \$600 (\$2,602 to \$3,204 per participant). The compensation committee approved these changes.
- Pension 401(k) Match – (\$23,644 increase 11.0%). Employees have raised their contribution to the 401(k) plan to participate in matching funds. This past season the Board approved funding the 2017 discretionary match of 100% with a cap of \$10,000. Next March, the Board will decide if the 2018 discretionary match will be funded.

**Maintenance (-\$341,000 decrease -32.1%):**

- Buildings & Grounds – (-\$50,000 decrease -16.2%). Extra monies were allocated this past season to move the garden entrance because of the library renovation project. Savings in 2017/2018 include cancelling the cleaning and monitoring services in the library building. They will not be needed while the building is under construction.
- Conservation – (-\$16,000 decrease -17.8%). There are no new conservation projects scheduled for the 2017/2018 season. The extra monies spent during 2016/2017 are related to the conservation of two original library murals.
- \*Operating Improvements – (-\$275,000 decrease -61.1%). In this last season, \$450,000 was spent on the parking expansion project. Capital projects planned for the new season are: 1) renovate Nancy Mato's gallery apartment and turn it into office space, 2) upgrade lighting in the auditorium, 3) install directional signage on the campus, and 4) upgrade the acoustical soundboard in the auditorium.

*\*The Four Arts expenses operating improvements in the internal operating budget presentation. Expensing improvement purchases are not GAAP (Generally Accepted Accounting Principles). For the fiscal year end Audit, these improvements not be recorded as an expense but instead will be reclassified to the balance sheet and depreciated.*

**Utilities (-\$8,000 decrease -2.2%):**

- Electric & Natural Gas – (-\$8,000 decrease -4.7%). The electricity usage will decrease in the library since it will be closed for the renovation.

**Insurance, not health (\$8,257 increase 6.9%)**

- Building, Content, Liability, etc. – (\$6,047 increase 6.7%). The Four Art insurance agent bids out the policies each year. Historically the increases have been moderate. This year more will be spent on insurance due taking out a builder's risk policy for the library renovation project.

**Printing, Signs, Photography (-\$66,000 decrease -22.1%)**

- General Printing-Administrative – (-\$50,000 decrease -66.7%). This past season included the printing cost of The Four Arts history book. It had been over 10 years since it was updated. No new administrative printing projects are anticipated for 2017/2018.
- Development-Capital Campaign – (\$16,000 decrease -100%). This past season included the printing cost for the library capital campaign brochure.

**Office, Supplies, Advertising (\$127,000 increase 22.5%)**

- Leased Equipment & Supplies/Rental Space – (\$27,000 increase 71.4%). This increase is due to the rental cost of storage space for the library books. They will be warehoused offsite until the building renovation is completed in the fall of 2018.
- Advertising – (\$100,000 increase 33.3%). The increase is due to hiring a consultant for digital media services. The Four Arts is promoting the Sculpture Garden as a year round destination.

**Events-Catering, Meals, & Decor (\$9,100 increase 3.9%):**

- Benefactor & Chairman Dinners – (\$9,100 increase 16.9%). There were several people who could not attend the Benefactors dinner this past season due to illness. We hope to have more attendance for the next dinner.

**Professional Fees (\$20,000 increase 4.1%):**

- Unitized Endowment Fee – (\$10,000 increase 5.4%). The endowment continues to grow under its careful stewardship. The fees are based on a percentage of the portfolio's market value.
- Credit Card Transaction/Banking Fees – (\$10,000 increase 14.3 %). There will be two galas next season. Most attendees charge their tickets on a credit card.

**Sponsored Activities (\$5,000 increase .3%):**

- Program & Shipping Fees – (\$50,000 increase 5.1%). The increase is due to spending more on the Tuesday speaker fees and the concert series.
- Production & Staging Off-Site – (-\$45,000 decrease -87.4%). This past season monies are being spent to move the library books to an offsite storage location. The expense to move the books back into the building will not be incurred until the following fiscal year (2018/2019).

**ESTIMATED: Spending Rule Calculation: Unitized Endowment (2017/2018)**

NOTE: A Spending Rule equalizes the spending from year to year and moderates fluctuations in interest/dividend income spent each year from the endowment. The Finance and Executive Committees have implemented a Spending Rule of 4.0%. The percentage is calculated from a five year rolling average and the result included as income in the budget accordingly:

**I. Calculation**

|           | <u>Unitized Endowment</u> |
|-----------|---------------------------|
| 6/30/2013 | 25,519,354                |
| 6/30/2014 | 29,078,299                |
| 6/30/2015 | 29,132,457                |
| 6/30/2016 | 29,885,188                |
| 2/29/2017 | <b>32,707,362</b>         |
|           | <u>146,322,660</u>        |

|                                     |             |                      |            |
|-------------------------------------|-------------|----------------------|------------|
| Rolling Average Calculation is..... | 146,322,660 | divided by 5 years = | 29,264,532 |
|                                     |             | Spending Rule %      | 4.00%      |

**II. Annual/Monthly redemption:**

|                                   |             |                         |          |           |
|-----------------------------------|-------------|-------------------------|----------|-----------|
| 4.0% Annual Spending Rule =       | \$1,170,581 | Monthly Spending Rule=  | \$97,548 | 2017-2018 |
| Prior Year Annual Spending Rule = | \$1,076,424 | Prior Year Monthly Rule | \$89,702 | 2016-2017 |