



TO: Finance Committee

RE: **Preliminary Budget 2015-2016 vs. Forecast 2014-2015**

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

DATE: April 10, 2015

2015-2016 Next Season's Preliminary Budget Surplus: \$61,688
(page 5 of financials)

REVENUE SUMMARY-Preliminary Budget (page 1 of financials):

Overall revenue is expected to increase 2.6% or \$183,189. The spending rule five year rolling average calculation increased by over \$76,000. The Palm Beach Cultural Council grant is estimated to add \$200,000 in revenue. Since this is the preliminary budget, The Piedmont, Italy trip program results for next season are being shown at *net*, instead of estimating program ticket income and program expenses separately.

EXPENSE SUMMARY-Preliminary Budget (page 4 of financials):

Overall expenses are expected to increase 4.0% or \$275,199. Employee costs will increase 4.3%. Other increases include \$200,000 in grant costs related to the Palm Beach County Cultural grant. Although budget relief for this grant is not shown in this preliminary budget, it could be about \$66,000. Also, we did not include the program expenses for the Piedmont, Italy trip because the preliminary results are being shown *net* of expenses (see Revenue Summary above).

REVENUES

Membership:

Membership dues are not being raised this year for either the Four Arts members or the Contemporaries.

Annual Giving Donations (\$65,037 decrease -2.0%):

- Chairman's Forum – (\$59,093 decrease -5.9%). It is anticipated that the 38 donors from last season will continue to support giving at this donor level. There were two Chairman level donors who each gave an additional \$25,000 for a total of \$50,000. To be conservative this was not included in the budget.
- Benefactors Council – (\$5,944 decrease -.3%). Although we are not raising the budget for Benefactor giving, this level of giving continues to attract new participants. Some of the attrition this season was related to Benefactors moving up to the Chairman's Forum level.

Other Giving Donations (\$121,735 increase 28.0%):

- Town of Palm Beach – (\$9,198 increase 3%). We anticipate that the Town of Palm Beach will continue to raise its appropriation by 3% to cover the cost of library salaries and other related expenses.
- Grant – (\$200,000 new revenue). This is a new source of revenue and is only an estimate. The Palm Beach County Cultural Council selected The Society of the Four Arts as a grant recipient but the dollar amount of funding has not been finalized. The Palm Beach County Cultural Council grant revenue is estimated to be \$200,000 (see further explanation in the expense section under “Advertising”).
- Corporate Development – (\$58,000 decrease -79.5%). The new season will be a gala year. Corporate donations will be less due to most corporate donors will switch their funding to gala underwriting instead of season programming.
- Other Donations – (\$29,463 decrease 54.1%). We anticipate that the Great Give program will continue to be offered by The United Way and The Community Foundation for Palm Beach and Martin Counties. This past season, The Four Arts’ share of the matching grant money was about \$25,000.

Other Revenue (\$50,000 increase 7.1%):

Other revenue should be in line with last season with one exception. The Piedmont, Italy trip ticket program revenue is presented *net* of estimated program expenses. A \$50,000 surplus on this ticketed program is a very conservative estimate. This program’s revenue and expenses will be broken out separately for the Final Budget presented in early December.

Spending Rule (\$76,491 increase 7.2%):

The spending rule equalizes the spending from year to year from the Unitized endowment and moderates fluctuations in income. The spending rule of 4.33% is applied to the endowment’s five year rolling average market value. This is a history of past spending rule amounts: \$1,059,630 (2014/2015); \$968,502 (2013/2014); \$966,091 (2012/2013); \$933,150 (2011/2012); \$897,212 (2010/2011); \$903,198 (2009/2010); \$912,780 (2008/2009); \$815,028 (2007/2008); \$720,000 (2006/2007); \$664,800 (2005/2006); \$575,000 (2004/2005); \$513,000 (2003/2004). See worksheet attached.

EXPENSES

Employee Costs (\$119,499 increase 4.3%):

- Salaries – (\$93,000 increase 4.4%). The increase in salaries is due to giving raises above the 2% level to the staff. Last season the president awarded raises above 2% to only the directors (there were two exceptions). This year David Breneman asked that each director be provided with a three year salary history for their department. David Breneman will review the department director’s raise and bonus recommendations but he will make all final compensation decisions.
- Insurance Health & H.S.A. – (\$9,554 increase 6.0%). This increase is due to new staff members on the insurance plan for a full 12 months. The premium increase was only 3.5%.
- Pension 401(k) – (\$14,000 increase 11.1%). The increase is due to employees contributing more to the 401(k) pension plan. The Four Arts has a generous discretionary match of 50% with a cap of \$10,000 per qualified plan participant. There will be one additional employee making a maximum 401(k) plan contribution to qualify for the maximum discretionary match, which is why the increase is so much higher.

Maintenance (\$134,000 decrease -17.7%):

- Buildings & Grounds – (\$25,000 decrease -7.6%). The major repairs last season related to the rental of the temporary chiller unit, which was needed when the gallery and Rovensky building units broke.
- Operating Equipment – (\$109,000 decrease -75.7%). We don’t anticipate any large operating equipment needs because over the last few years many large purchases have already been made. Most air conditioning units have been replaced. The computer servers are up to date and lighting projects are complete.

Utilities:

These costs are expected be in line with last season's forecast.

Insurance (not health) – (\$7,700 increase 7%):

A contingency is being estimated. The insurance costs have not increased significantly over the past few years because the insurance agent bids out the large renewals.

Printing, Signs, and Photography:

These costs should be in line with last season's forecast.

Office, Supplies & Advertising (\$250,000 increase 59.9%):

- Advertising – Grant (\$200,000 new expenses). These are advertising costs associated with the Palm Beach County Cultural Council grant, which will be used to promote a wider program outreach. It is estimated that there will be \$66,000 in program budget relief but it is not reflected as an offset to this \$200,000 expense.
- Advertising – Outside Consultant – (\$50,000 new expense). The Marketing/Development/Special Events Department is managed by one director, Katie Edwards. She has taken on greater responsibilities and her communication's role has expanded since January. Her department has received realigned duties for all catering and special events. The library capital campaign will be the next big project for development. This department has only four staff members, including the director, and an outside consultant will provide needed assistance.

Employee Travel/Study/Entertainment & Events Catering/Meals/Décor:

- These costs are expected to be in line with last season's forecast.

Professional Fees (\$21,000 decrease -4.8%):

- Legal – (\$21,000 decrease -58.3%). Legal costs should decrease due to this past season most of the expenses were related to the pension plans. This past season, the pension attorney gave a presentation to all plan participants. He also had to do more research on the new president's pension rollover options.

Sponsored Activities (Direct Program Costs) (\$60,000 increase 4.4%):

- Programming Fees – (\$50,000 increase 5.6%). Programming fees for the art exhibits will be more because there will be three exhibitions versus only two last year. There was a last minute opportunity to bring in a well-known Cuban jazz group so the concert costs will be a little higher. However, there will be cost savings on some program fees. David Breneman has been able to save money by contacting some of the Tuesday speaker candidates directly rather than going through an agent.
- Transportation – (\$10,000 increase 25.0%). Increase is due to negotiating a second airline ticket for a travelling companion in exchange for the Four Arts paying a reduced speaker's fee.

Interest Expense Education Building – (\$7,000 decrease -100.0%):

We anticipate that the line of credit balance of \$35,000 will be paid off very soon.

Spending Rule Calculation: Unitized Endowment (2015/2016)

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 4.33%. 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>
6/30/2011	24,087,145
6/30/2012	23,590,460
6/30/2013	25,519,354
6/30/2014	29,078,299
2/28/2015	28,916,507
	131,191,765

Rolling Average Calculation is.....	131,191,765	divided by 5 years =	26,238,353
		Spending Rule %	4.33%

II. Annual/Monthly redemption:

4.33% Annual Spending Rule =	\$1,136,121	Monthly Spending Rule=	\$94,677	2015-2016
Prior Year Annual Spending Rule =	\$1,059,630	Prior Year Monthly Rule	\$88,302	2014-2015