



TO: Finance Committee
RE: Budget (Final) 2016-2017 vs. Actual (Prior Year) 2015-2016
FROM: David W. Breneman, President
Kathy Mardambek, Finance Director
DATE: November 30, 2016

2016-2017 Final Budget: \$381,864 Surplus
(page 5 of financials)

Budget - Report Summary (pages 1 & 4 of financials)

In summary, this year's budget revenue is projected to decrease -3.2% (page 1) and expenses are projected to increase 6.0% (page 4). Revenue will decrease because last year there was an international travel program to Piedmont, Italy, which raised over \$540,000 in program ticket revenue. Expenses will increase substantially because of a one-time expenditure for the parking lot expansion project. Without this expenditure, operating expenses would have decreased .2%.

Non-Budget - Items

There are several items excluded from the operating budget. The Gala and King Fling fundraising events are not included in the budget report. Next season, the international travel will not be part of program services and therefore not be recorded in the operating budget. Going forward, the education committee elected to present international travel as a fundraiser in order for the ticket price to include a tax deductible component for everyone. Last year, the trip to Piedmont, Italy asked for a voluntary donation and only those who made this contribution were eligible for a tax deduction. Other items excluded from the budget are capital campaign donations, new member voluntary capital contributions, endowment gains/losses, interest/dividend income (Unitized and Rovensky endowments), and depreciation.

REVENUE-Budget revenues projected to decrease -3.2% or -\$266,793 (page 1)

Membership (\$6,306 increase .4%)

- Four Arts Membership Dues – (\$9,100 increase .7%). Paid membership renewals will remain consistent with prior years. There is always some membership attrition and this creates openings for new members to join.
- Library Membership Dues – (\$3,244 decrease -24.5%). Library memberships are projected to be less due to the closure of the library building for renovations this spring.

Annual Giving Donations (\$173,444 increase 4.7%)

- Chairman's Forum – (\$74,982 increase 6.5%). Over the last five years, Chairman Forum giving has steadily increased. To be conservative, we have only projected an extra three donors in this giving category. Last year the actual increase was almost 15%.
- Benefactor Council – (\$99,418 increase 5.1%). Benefactor giving has also steadily risen over the years. To be conservative, we have only projected an extra ten donors in this giving category. Last year the actual increase was almost 12%.

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Other Giving (\$24,522 increase 3.5%):

- Town of Palm Beach Support – (\$9,473 increase 3.0%). This appropriation is given to The Four Arts to help cover library payroll expenses. The Town has consistently raised the appropriation 3% each year.
- Palm Beach County Cultural Council Grant – (-\$3,063 decrease -1.4%). This is the second award in a two year grant cycle. The amount is slightly less than last year due to a projected decrease in Palm Beach County bed tax collections.
- Corporate Development – (\$26,350 increase 49.1%). There is a new corporate underwriter this season. This underwriting is being used to help fund the *Founding Fathers* educational program (see more detail below under Tickets-Programs).
- Other Donations – (-\$8,238 decrease -8.0%). The majority of giving in this category has been from non-members who give \$10,000 or more to support the season's operations. Since the Benefactor and Chairman Forum participation is not available for non-members, the gift is recognized under this *Other Donations* category instead of *Annual Giving*. This season includes a special donation from a member and this gift will help underwrite the Four Arts history book.

Other Revenue (-\$411,368 decrease -31.0%):

- Tickets-Programs – (-\$418,539 decrease -39.7%). Program ticket revenue will decrease because there is no international education travel program this season. The next international travel will take place in the fall of 2017 and will be classified as a fundraiser instead of program services (explanation page 1, Non-Budget Items). There is a new program called *The Founding Fathers: The Relevance of Our Origins*. It is expected to add over \$100,000 to program ticket revenue.
- Tickets-Art Exhibitions – (\$7,589 increase 17.9%). Ticket sales should increase over last year. The first exhibit, *When Modern Was Contemporary*, will be very popular with paintings by Georgia O'Keeffe, Jackson Pollock, and Mark Rothko.

Spending Rule:

Spending Rule – The spending rule equalizes the spending from year to year in the Unitized endowment. This moderates fluctuations in income for times of market volatility. The spending rule was lowered from 4.33% to 4.0%. This percentage is applied to a five year rolling average in the Unitized endowment. The Four Arts operating budget does not reflect interest and dividend income but instead reflects the spending rule as support.

EXPENSES- Budget expenses projected to increase 6.0% or \$435,666 (page 4)

Employee Costs (\$16,350 increase .6%):

- Salaries – (\$26,411 increase 1.2%). A 3.5% raise was given to the staff; however, this increase is offset for two reasons: 1) There will be a savings this year because two new employees started after the beginning of this fiscal year, and 2) Last year the former executive assistant was given retirement severance which boosted the previous year's salary number.
- Bonus – (\$-119,450 decrease -100.0%). Bonuses will no longer be budgeted ahead of time. If approved, bonuses will be paid in December following the end of the fiscal year.
- Payroll Taxes – (\$5,195 increase 2.9%). This increase is related to the increase in salaries.
- Health – (\$5,183 increase 3.4%). This increase is related to adding new staff to the medical plan. The plan premium did not increase because The Four Arts raised the employee deductible from \$3,000 to \$5,000. The Four Arts implemented a \$50/month employee co-pay but offset this co-pay in the form of an increased \$50/month employer Health Savings Account (HSA) contribution. Currently the Four Arts contributes \$2,604 annually to each employee HSA account.
- Workers Comp – (\$2,835 increase 11.7%). Florida worker's comp rates have increase this year.
- Pension 401(k) Match – (\$83,862 increase 65.2%). It was proposed at the April 2016 Finance Committee meeting to increase the employer discretionary match from 50% to 100% but keep the match capped at \$10,000. This will help employees save for retirement. Several employees have raised their own contribution to take advantage of this generous matching opportunity.

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- Pension 457(b) Employer Contribution – (\$11,800 increase 25.1%). It was proposed at the April 2016 Finance Committee meeting to raise the employer contribution by 25%. This is a deferred compensation pension plan designed for only the president and department directors. The last increase of 25% was in March 2008.

Maintenance (\$410,208 increase 69.0%):

- Buildings & Grounds – (-\$36,528 decrease -12.0%). Decrease is due to fewer maintenance projects anticipated this season. Last year's expenses included installing a water fountain and updating the humidity control system in the gallery building.
- Lawn & Gardening – (\$9,152 increase 4.5%). Last year there was a savings by switching mid-season to a new lawn maintenance company. The increase this year is due to the removal of two large banyan trees behind the auditorium
- Art Conservation – (\$23,912 increase 48.0%). Conservation includes re-gilding and installing the *Diana* sculpture gifted last season to The Four Arts. These expenses will be underwritten by the donor.
- Operating Improvements – (\$413,672 increase 1138.7%). This season the parking lot expansion project is estimated to be \$450,000 and is being funded through the operating budget. At fiscal year end, the parking lot will be reclassified to the balance sheet and depreciated.

Utilities (\$21,325 increase 6.3%):

- Electric & Natural Gas – (\$11,160 increase 7.1%). The increase includes a contingency for usage and rate changes.
- Water – (\$7,498 increase 8.8%). The watering schedule has been increased to four times a week. This summer a water pipe burst outside the gallery building.

Insurance:

The insurance policy is bid out by the broker each year. The broker provides excellent service and the representative is always available to answer questions.

Printing, Signs & Photography (\$76,180 increase 33.8%):

- General-Administration – (\$68,655 increase 295.4%). There are two new items being printed this season: 1) Four Arts History Book. This is only the third time the book has been printed since The Four Arts inception and 2) Annual Report. This new publication will highlight the previous season's annual operations, including both a financial and programming report. It will be mailed out in December after the Board approves both the audit and tax return.
- Schedules/Calendar/Folio – (-\$14,687 decrease -11.4%). The cost of the season calendar is less than last year due to switching printers and receiving a more competitive price. The MetOpera schedule was not printed this season but instead emailed to patrons.
- Programming Art, Music, and Education – (\$4,246 increase 11.5%). There will be one additional concert this season. Several concerts will require more detailed program notes.
- Development – (\$16,000 increase). This expense is for the Library Capital Campaign Brochure. The cost includes design, architectural renderings, and printing.
- Signs – (\$2,479 increase 15.0%). Increase is due to more signage for the first art exhibit, *When Modern Was Contemporary*. The exhibition curator, who travels with the show, has stringent guidelines for displaying the text panels.

Office, Supplies & Advertising (\$12,324 increase 2.3%):

- Supplies: Office – (\$8,195 increase 16.2%). Increase due more giveaways purchased by the marketing department. Marketing provides small gifts with Four Arts logos to volunteers and patrons during certain events. There will be more volunteers needed to help out this season with The Palm Beach County Cultural Council grant survey. The grant requires a survey of program attendees every other year.
- Supplies: Computers/Software – (\$3,147 increase 7.3%). Increase due to upgrading laptops for membership, library, and administration.
- Supplies: Audio/Visual – (-\$1,422 decrease -7.0%). The audio visual equipment purchases vary from year to year based on season programming needs.

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- Postage & Mailing Service – (\$3,160 increase 4.4%). Postage varies from year to year based on programming mailers. Extra money has been added for contingencies.
- Advertising – NOTE: Advertising dollars continue to be spent on high end publications such as Art & Antiques Magazine, Veranda, and Florida Design. The Four Arts receives a grant from the Palm Beach County Cultural Council (PBCCC) to offset these costs. This season the amount awarded from the PBCCC was \$220,489 (\$72,761 for programming & \$147,728 for advertising).

Employee: Travel, Study, Meals & Entertainment (-\$5,741 decrease -13.8%):

- Travel & Study – (\$4,564 decrease -15.8%). Last year the travel study account included monies to interview candidates for the Head of Music & Film position and staff training for the library electronic card catalog system.

Events: Catering, Meals, & Decor (-\$80,467 decrease -23.7%):

- Programs/Administration – (-\$123,253 decrease -47.8%). Decrease due to last year the Piedmont, Italy trip meals were included in this line item. Going forward this trip will be shown as fundraising and not recorded in the budget as program services (see page 1, Non-Budget Items).
- Benefactor & Chairman Dinners – (\$17,546 increase 38.5%). We are anticipating more attendance this year because of scheduling the dinner earlier in the season.
- Contemporaries – (\$25,240 increase 69.8%). Increase this season due to more Contemporaries events. Last season there were fewer events scheduled because of the gala. One event was cancelled due to a scheduling conflict.

Professional Fees (\$40,984 increase 8.7%):

- Endowment Fee – (\$8,296 increase 4.7%). Fees vary based on market value fluctuations.
- Computer Consulting – (\$42,358 increase 33.6%). Increase due to hiring an outside technical consultant to liaison with software vendors in membership, box office and accounting. The Staging and Technical Services department maintains the network and hardware but does not have a technical background in software.
- Legal – (-\$10,319 decrease -23.8%). Last year the majority of legal fees were related to updating the pension plan and healthcare documents.

Sponsored Activities – (-\$58,522 decrease -3.6%):

- Programs & Shipping Fees – (\$168,011 increase 20.6%). This year there will be a new program in the education department called *The Founding Fathers: The Relevance of Our Origins*. The speaking fees for this program are \$100,000. The ticket sales for this program have been robust plus there is a corporate underwriter to help cover program expenses.
- Production & Staging On-Site – (\$22,131 increase 23.3%). Increase due to extra money in the budget for a videographer to film *The Founding Fathers* program.
- Production & Staging Off-Site – (-\$108,366 decrease -94.3%). The large decrease due to no international travel program this season. Last year included museum fees, reconnaissance, and agency fees for the Piedmont, Italy trip. Going forward the international travel will not be recorded in the budget as program services but instead be shown as fundraising (see page 1, Non-Budget Items).
- Transportation: Artist, Vendor, Groups – (-\$29,920 decrease -37.5%). The decrease is due to no international travel program this season. Last year this line item included transportation for the trip to Piedmont, Italy. Going forward the international travel will not be recorded in the budget as program services but instead be shown as fundraising (see page 1, Non-Budget Items).
- Hotels: Artist, Vendor, Groups – (-\$146,746 decrease -81.1%). The decrease is due to no international travel program this season. Last year this line item included hotel costs for the trip to Piedmont, Italy. Going forward the international travel will not be recorded in the budget as program services but instead be shown as fundraising (see page 1, Non-Budget Items).
- Security Guards – (\$16,893 increase 21.4%). The first exhibition requires 24 hour guard service. This exhibition includes works from Willem de Kooning, Alexander Calder, and Georgia O'Keeffe.
- Parking – (\$3,282 increase 10.6%). Parking includes valet for certain programming events. This season we added valet for *The Founding Fathers* education program. It will be held in the Gubelmann auditorium.

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- Library Program Production & Supplies – (\$4,484 increase 24.4%). The children’s library is anticipating more attendance this season for the Robert Forbes exhibition, *Illustrating Words*. The Four Arts continues to underwrite the bus transportation for any Palm Beach County school that would like to visit this exhibit.
- Library Books, CDs, DVDs – (\$5,297 increase 6.3%). New materials will continue to be purchased even though the library will soon undergo an 18 month renovation. The increase reflects a price contingency.
- Library Supplies-Electronic Catalog System – (\$4,660 increase 96.3%). Increase is for items specifically related to the new library card catalog system such as library cards and labels.