



TO: Finance Committee

RE: Preliminary Operating Budget 2018-2019 vs. Forecast 2017-2018

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

DATE: April 11, 2018 @ 9 AM

**2018-2019 Preliminary Operating Budget: \$460,070 Surplus**

**(Modified Basis of Reporting for Spending Rule & Capitalized Equipment)**

**Summary**

As compared to last season's forecast, next season's revenue is forecast to decrease \$26,747 or .3% (pg 1). The decrease is due to fewer ticket sales projected for the art exhibits next season. Expenses are forecast to increase \$261,811 or 3.4% with the majority of the increase slated for hiring a Development Director.

**Snapshot - Revenues**

**Membership:**

There are no anticipated changes in membership. The Four Arts dues of \$1,300 will remain the same. It has been at this level for over 5 years. The Contemporaries are restructuring and making plans to jump start their membership program.

**Donations:**

There are no changes expected in donations. The Chairman and Benefactor donors continue to be the base support of Four Arts missions. Their leadership has outpaced itself every year.

**Other Giving (\$13,080 decrease 1.9%):**

- Town of Palm Beach Appropriation – (\$10,050 increase 3.0%). This appropriation helps cover library employee costs and has been raised 3% each year by the Town Council.
- Corporate Contributions – (\$20,000 increase 66.7%). Increase is due to more corporate donors will contribute towards the season programming since it is not a gala year.
- Other Contributions – (\$43,130 decrease 46.3%). This is a conservative estimate. The majority of giving in this category is from non-members who give \$10,000 or more.

**Other Revenue (\$75,000 decrease 8.2%):**

- Tickets-Art Exhibitions – (\$75,000 decrease 60%). There were two extraordinarily popular art shows this past season: Winston Churchill and Isabelle de Borchgrave paper costumes. Although the George Bush paintings are anticipated to be very popular in the new season, the attendance is not expected to be as high as last year.

**Spending Rule (\$61,333 increase 5.2%):**

Spending Rule – The spending rule is 4%. See calculation attached. The increase in revenues produced by the spending rule is the result of the increase in the market value of the Unitized Endowment. The spending rule equalizes the spending from year to year in the Unitized endowment. This moderates fluctuations in income for times of market volatility. One twelfth of the funds generated by the 4% spending rule is transferred each month 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 of investment income (earned dividend/interest and gains/losses) is shown on the audited financial statement.

**Snapshot-Expenses**

**Employee Costs (\$254,311 increase 7.9%):**

- Salaries – (\$216,296 increase 9%). The raise pool is 3.5%. The majority of this increase is due to budgeting for a full-time Development Director. The Four Arts has had a successful season. The galas raised over one million dollars (net) and season's operating surplus is forecasted to be over \$700,000. A full-time Development Director will be able to concentrate on corporate and planned giving, be point of contact for the Benefactors and Chairman donors, and cultivate giving at all levels. Two of the existing positions in Communications & Development would move to this new department.
- Payroll Taxes – (\$15,279 increase 8.2%). Increase is due to higher payroll costs.
- Insurance - Dental – (\$5,838 decrease 18.7%). The decrease is due to switching carriers. The insurance representative found a plan that is less expensive with has no cap on services. The previous plan didn't have adequate coverage because it had a \$1,000 payout limit.
- Insurance - Health – (\$25,999 increase 15.5%). The increase is due adding more staff to the health insurance plan. The Four Arts is now offering two plans to choose from 1) the current insurance plan with the health savings component and 2) a traditional plan that does not have a health savings account but has lower deductibles and co-pays. The total out-of-pocket cost for the Four Arts is negligible.
- Workers Comp – (\$5,500 decrease 20.8%). The scheduled increase did not materialize as originally reported at the last budget meeting.
- Pension 401(k) Match – (\$11,200 increase 4.7%). Since The Four Arts raised its discretionary match from 50% to 100%, employees have continued to put more of their own money into the plan to secure a 100% match. However, the discretionary match cap remains at \$10,000 per employee.
- Pension 457(b) Contribution – (\$3,125 decrease 5.3%). The decrease is due to Nancy Mato retiring in this past season. Once the new Development Director has been hired, a decision will be made at what level to fund the 457b pension contribution. The current range is \$5,375 - \$7,000 for staff, other than the president. This plan is only for the highly compensated director positions with executive responsibilities.

**Maintenance (\$104,700 decrease 13.7%):**

- Lawn & Garden – (\$10,000 decrease 5.1%). Last summer there were extra gardening costs related to hurricane Irma cleanup. There are no major plantings projected next season since most areas have been refurbished.
- Operating Improvements – (\$94,700 decrease 32.1%). This past season expenditures included 1) the parking lot lighting project, 2) expanding the Director of Building & Ground's apartment kitchen, and 3) converting the curator's former apartment into office space for the Tech Department. Next season we don't anticipate as many large capital outlays.



## **SNAPSHOT - 6/30/19 Preliminary Operating Budget vs. 6/30/18 Forecast**

*NOTE: The Four Arts expenses operating improvements in this 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 as an asset and depreciated.*

### **Utilities (\$15,600 increase 4.4%):**

- Electric & Natural Gas – (\$15,600 increase 9%). The increase in electricity cost is due to re-opening of the library this fall.

### **Printing, Signs & Photography (\$1,300 decrease .6%):**

- General Printing-Administration – (\$10,300 decrease 32.3%). The decrease is due to last season money was allocated to change out the business stationary for new addresses for the Rovensky, gallery, and library buildings. This change of address was necessary so emergency services have the correct building location as generated through the Palm Beach County First Responders System.
- Development-Capital Campaign/Dedications – (\$9,000 increase 900%). The increase is a rough estimate of monies to be spent for printing costs associated with the library grand opening in the fall of 2018.

### **Employee-Travel Study/Meals/Entertainment (\$15,000 increase 42.4%):**

- Travel & Study – (\$15,000 increase 64.7%). Increase due to providing a restructured benefit for the music and art programming positions. Previously, the music position had travel study time out of the office all summer with the exception of two return trips to Palm Beach for staff meetings. Since hiring the curator, this summer benefit is being offered with separate benefits for vacation hours and travel study. The travel study will now be 100% funded by The Four Arts. Last summer it was a trade-off for having the summer away.

### **Events: Catering, Meals, & Decor (\$30,800 increase 11.6%):**

- Development-Capital Campaign & Dedications – (\$30,800 increase 733%). The increase is a rough estimate of monies to be spent on catering the grand opening celebrations for the library.

### **Professional Fees (\$10,000 increase 1.6%):**

- Pension Fees & Consulting – (\$10,000 increase 50%). The increase is due to the future hiring of a consultant to perform the 3(16) services. These services cover plan compliance, document administration, distribution of notices, and timely filing of reports. Although Paychex does some of these functions, the distribution of notices is left up to the employer. CapTrust will be making a recommendation to the investment committee in the fall.
- Consultant-Other – (no change reflected). This will be a timing issue and based upon the need to hire a search firm for the Director of Development position. This is not yet certain.

### **Sponsored Activities – (\$42,100 increase 2.6%):**

- Program & Shipping Fees – These expenses will be in line with last season. There will be less spending for the art exhibits. The George Bush painting exhibit has no fee associated with it and the 200 years of seating exhibit will not be costly. However, this offsetting savings will be spent on Tuesday lectures and Campus on the Lake programming.
- Production & Staging Offsite – (\$30,000 increase 750%). This expenditure is for moving the library books currently in offsite storage back into the library building in the fall.
- Library Books, CDs, DVDs – (\$12,100 increase 18.6%). There will be an increases due to the re-opening of the library this fall.