

United Church of God, *an International Association*
Council of Elders Meeting Report
Dec. 8, 2009—Cincinnati, Ohio

Chairman Roy Holladay called the meeting to order at 9 a.m. by asking Darris McNeely to open with prayer. All members of the Council except Jim Franks were present, along with several guests.

Financial Update

Chairman Holladay gave the floor to the treasurer, Jason Lovelady. He reviewed the current as well as historical financial information. He stated that the income rate of growth has slowed down, and for the first time since the 1990s we are experiencing negative growth, which is currently at -1 percent. From 2003 to the present, income growth had been running at approximately 5 percent compounded annually, while church attendance has remained relatively constant through that same time period.

Aaron Dean asked if anyone is gathering information from pastors about the number of members who are unemployed. Mr. Lovelady responded that this information was not available at this time. Bill Eddington asked what the inflation rate has been over that same period of time, to which Jason Lovelady replied that it has been pretty flat, but probably around a 3 percent rate. Doug Horchak asked how much of the income is from donors and coworkers and the treasurer answered that it is around 10 percent, and that has remained pretty constant over the years.

Mr. Lovelady commented that it is much better to budget conservatively and manage surpluses, than to over budget and have to make cuts half way through the fiscal year. To budget conservatively this next fiscal year, he said, we will need to consider the possibility of negative income growth. In addition to the fact that income is trending downward, expenses in the following areas will be trending upward in the years ahead: discretionary assistance, training and replacement costs for new hires in the ministry and health care costs.

He stated that, if the Church is able to hire four new elders per year over the next 15 years, we will be able to maintain the current number of pastors, so long as the current pastors all remain employed through the age of 75. However, the average age of retirement will most likely be closer to 70 than 75. If the age of retirement falls below 75, hiring four men a year will leave us short (perhaps as many as 20 to 25 elders)—meaning that to remain current will require hiring more than four elders a year over the next 15 years.

Currently, the budget for ministerial development is \$70,000 a year, he reported, but that will not generate four hires a year. He said that the plans are to expand the ministerial development program with the proposed education program under consideration. Paul Kieffer pointed out that the \$70,000 does not include salaries.

Mr. Lovelady mentioned that health care claims have increased about 5 percent per year, which is very good considering industry averages, but this year has been

different. Currently we are over budget by \$390,000. The challenging question is, how much of this increase do we need to build into next year's budget? He stated that the other concern is that premiums will probably increase due to this most recent claim activity. He then asked, where will these additional funds come from? Three areas to consider: congregational care, international subsidy and media.

The treasurer commented that local church subsidy requests have increased significantly. Doug Horchak pointed out that some congregations have stopped collecting tithes locally and therefore started requesting subsidy.

Mr. Lovelady said that international subsidy is 14 percent of the budget—direct funds to the international areas are \$2,313,725 or 10 percent of the budget, while the remaining 4 percent, or \$1,011,211, is media subsidy—primarily printed publications.

Media is the most variable part of the budget, he commented, while all other areas are largely fixed. He reported that from the 2003-2004 to the 2008-2009 fiscal years, income increased by 33 percent and public proclamation received 47 percent of that increase. However, overall, public proclamation is 25 percent of budget, an increase from 19 percent in the 2003-2004 fiscal year. He referred to a chart showing that, as income increased, so the media budget increased.

The treasurer reported that income is currently running 2 percent below budget, and if this trend continues for the remainder of the fiscal year, we will be approximately \$500,000 below budget. Health care is over budget by \$400,000 and the branding project is \$100,000, which was not budgeted for in this fiscal year. He said that areas to consider for cuts are: the cost of living allowance (COLA), facilities expansion, the reserves, congregational care, education, international subsidies, Festival, home office, General Conference of Elders and media. From these, the treasurer projected we need to find close to \$1 million in budget cuts for this fiscal year.

Mr. Lovelady commented that income is projected to be approximately \$23,750,000 at the end of this fiscal year. Therefore, he recommended the maximum amount that should be considered for the 2010-2011 fiscal year be \$23,750,000, or no increase, although \$23,600,000 would be more realistic. We will be able to project next year's income more accurately after we know how much of a year-end "bump" in income we received in December and January. Aaron Dean pointed out that other nonprofits, including other churches, are currently running at 20 to 30 percent less income this year compared to previous years, so the Church is doing well in comparison. Melvin Rhodes mentioned a *Wall Street Journal* report that, on average, church income was down about 15 percent, with a number filing for bankruptcy mainly due to building projects they could no longer fund.

Mr. Dean suggested that the Council budget even lower than what the treasurer recommended and, if there are increases, it will produce a surplus.

Mr. Lovelady stated there needs to be a comprehensive analysis of congregational care expense—ministerial expense and congregational subsidy. He proposed that the international subsidy and media budgets be comprehensively studied as well.

Mr. Rhodes mentioned that there are all kinds of meetings each year and asked what the savings would be to cut all the meetings to once every two years. Mr. Lovelady said that Ministerial Services will have to look at that and consider what is necessary on a yearly basis. Robin Webber responded that we need to look at new ways to have those meetings. He noted that some corporate board meetings are held via teleconference, to which Mr. Lovelady stated that over \$100,000 yearly is spent for Council travel.

Doug Horchak said that Ministerial Services has been beta testing video conferencing over the past 12 months. He observed that face-to-face meetings are still important, but they should be held via teleconferencing unless there is a need otherwise. Bill Eddington stated that he had been working with Richard Kennebeck on possible videoconferencing for the Council and that the Roles and Rules Committee will also be testing videoconferencing, but teleconferencing/videoconferencing will never entirely replace face-to-face meetings.

Paul Kieffer stated, with regard to international subsidies, that it has always been the “squeaky wheel” that gets the subsidy. He said that those subsidies need to be looked at from the point of view of not what the international areas believe are important to their specific area, but what is important overall for the organization.

Jim Franks joined the meeting at this time.

Analysis and Review of Cash Reserve Policy

Aaron Dean moved, Scott Ashley seconded and the Council unanimously agreed to rescind the current cash reserve policy.

Aaron Dean moved, Bill Eddington seconded and the Council unanimously adopted a new reserve policy as follows:

Now therefore, it is hereby resolved, that the Cash Reserves Policy for the United Church of God, *an International Association*, is as follows:

The intent of the administration and Council is to manage the financial affairs of United Church of God, IA so that in any fiscal year a minimum of ten (10) weeks or 19.23% of that year’s operating budget be held in cash reserves at the seasonal low point which is the Friday just before the Feast of Trumpets Holy Day Offering.

For this purpose, cash reserves shall consist of cash plus cash equivalents as defined by the Financial Accounting Standards Board (FASB) less amounts designated by the Council for specific purposes (restricted assets).

Excess Cash Reserves: Should cash reserves exceed the required minimum at the seasonal low point which is the Friday before the Feast of Trumpets Holy Day Offering and be reasonably projected to continue to do so in the future by the Treasurer, the Council, with input from the Treasurer and administration, may by resolution commit to spend the excess cash reserves in the current or a future fiscal year.

In the fiscal year that the excess reserves are to be spent, for the purpose of balancing that year's budget, an "Excess Cash Reserves" line item will be added to the budget.

Report on the Texas Property

Mr. Lovelady updated the Council with regard to the property on Milam Road near Denton, Texas. He reported that the property listing service began in September of this year, and that the listing can be seen on various Web sites, specifically, Loopnet and CoStar. In addition, property signage is being placed on the property this week. The report from the realtor stated that the fourth quarter is typically a slow time of year for real estate. No interest has been shown, but questions from two potential developers have been received by the realtor. The property is 81.45 acres and is listed at \$27,500 an acre, making the asking price right at \$2,239,875.

Meeting With Independent Auditor

Mr. Lovelady commented that, with the recommendation of the Strategic Planning and Finance Committee, the Council should reserve time at its December meeting to meet with the independent auditor. He stated that this is typical for all boards and will be very helpful for the Council to do as well.

The rest of the day's meeting was conducted in executive session.

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Gerald Seelig
Council Reporter

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