

Discussion of IUCC's Financial Situation in Short & Medium Term

by Mark Allen, treasurer-elect

Summary Current Financial Situation

Overall the COVID-19 virus has hurt us financially, especially the ECC and despite a probable re-opening of the ECC on July 6, 2020, which the A-Board has approved, we are limited due to requirements for social distancing of 6 feet which reduces the number of kids we can have to about 50% of capacity or 35 kids (see attached chart) from our normal 70 kids (i.e., partials (2 and 3 days) and full-time). Actual capacity at any one time is 63. Operating at 50% capacity, the best we can probably do is **breakeven +/- a few thousand**. Starting at a slightly lower number will cost us in the short-term in July – August until we get to 35 or so in September.

The forgivable PPP loan of \$96 thous. will help and we believe we can also apply for payroll retention credits of up to \$60 thous., but we will need to separately incorporate the ECC to do this (further discussion below). Even with these offsets and pretty steady positive stewardship YTD (which I thank you for) we are obviously, **going to miss the 2020 budget pretty substantially.**

The ECC budget for 2020 was for a profit of \$113 thous. and it will probably end up being a loss of (\$75) thous. plus or minus \$25 thous. **just for the ECC**. I am still working on the full impact on the General Fund but despite cuts in expenses and naturally lower costs (less utilities as we are not having services) it will suffer from lower rent from the ECC, inability to charge same amount of staff salaries to the ECC, no event revenue and possibly no in person fund raisers all of which reduce income. And the new Sr. Pastor you are voting on will be more expensive than our existing interim pastor. All these factors will begin to eat into our working capital at higher rates once we re-open and the longer we operate without the ECC at a higher level of capacity.

Bottom line is depending on how the re-open goes and how long the social distancing is kept at 6 feet for the ECC as well as a host of other factors, **we may need to make changes in operations and the budget** for both the end of 2020 and for 2021. The level of changes are dependent on how we do in the next 3 months.

Changes to operations and the budget **could include but are not limited** to the following items:

1. Raising an emergency fund to help us deal with these problems and as a future hedge against similar events - \$200k to \$250 thous.;
2. Increase Stewardship levels for 2021 over 2020 by 10 to 15% over existing pledge and non-pledge levels;
3. Reduction in Ministry and Building and Grounds costs;
4. Cuts to the Admin. Board budget for items like OCWM, at least temporarily;
5. Reduction in wages for all staff;
6. Possible use of P-Hall for ECC to increase the number of kids, if licensing will approve (no guarantee we can do this as they may say no); and

7. Limited use of working capital funds to continue to fund losses, we have already done this somewhat YTD since March 2020 and it will increase in June – November timeframe until we get Dec. stewardship pre-payments when cash will start to increase a bit.
8. Borrow from Cornerstone, last ditch solution

So what do I need you to do now? Pray with me as always and help me plan and move the ball forward by doing the following:

1. As we have special meetings and forums to further give you details in the coming months, I need attendance and feedback as this is your church and I want input to help guide the A-Board and the ECC as we move forward.
2. Ask questions and pose alternatives, call me or email if you want to; I am in the Directory (madallen@msn.com/612-868-1939).
3. Approve the formal by-laws request for electronic meetings. As this is a safer alternative for all involved and will allow for easier and quicker special meetings as I update you in the next few months and request permission to do the items I am listing below.
4. At a future date, approve the split of the Church proper from the ECC into two separate corporations. It serves two purposes: (a) it should allow us to apply for payroll retention credits as a separate corporation and it will hopefully shield both corporations from liability due to the COVID-19 pandemic if the problem occurs to one or the other corporation.
5. Approve indemnification for the Directors/Officers and Agents of the corporation as they make decisions on your behalf.

Indemnification is a form of protection against loss. Indemnification is a promise to pay on behalf of, or to reimburse, a director, officer, employee or agent who suffers a loss because of their service to the corporation. Indemnification is generally not available where the party acted unlawfully or not in “good faith” or not in a reasonable manner considering the circumstances. However, the corporation’s promise to indemnify a director or officer is still only as good as the corporation’s resources allow. In other words, it is self-insurance. However, the purchase of an insurance policy from a reputable insurer adds another layer of protection. We already do have D&O (Directors and Officers Insurance) and have for many years, but what we lack is an explicit guarantee in the By-Laws that this indemnification and the insurance will be available to these various parties under specific circumstances. While there are some CA state laws that provide limited indemnification for non-profits, they are complex and do not cover all parties at all times under all circumstances. **Only an explicit guarantee in the By-Laws will fully cover these parties.** Further, this is something that the UCC National has in its By-Laws as well as do many CA religious corporations. If you search under bylaws in CA you will see similar language in most non-profit religious organizations relating to Section 9246 CA Nonprofit Code.

A copy of that language is below for reference for the National UCC; however, this exact language cannot be used as its from Ohio and CA has some guidelines but it's a good example.

National UCC Indemnification language from their website

ARTICLE V. INDEMNIFICATION

Any Officer of the United Church of Christ, or any member, including officers and directors, of the General Synod, the United Church of Christ Board or the Councils, Commissions, and Committees of the General Synod may, to the full extent allowed by law, be indemnified by the United Church of Christ Board against all judgments, fines, and amounts paid in settlement of, and against all reasonable expenses, including attorney's fees, actually and necessarily, incurred in defense of any lawsuit, proceeding or prosecution (including appeal thereof) wherein such person is made a party by reason of being such officer or member to the extent such person is not otherwise indemnified by another entity. This provision shall also extend to any lawsuit, proceeding, or prosecution in which such officer or member is made a party in such person's capacity as an officer or member of another organization in which the person serves at the request of any of the above entities or bodies. In all other lawsuits, proceedings, or prosecutions, indemnity shall not be made unless the officer or member acted in good faith and for a purpose which the person reasonably believed to be in the best interests of the Entity or body of which the person is an officer or member and in criminal actions or proceedings only upon the additional requirement that the person had no reasonable cause to believe that the operative conduct or inaction was unlawful. These indemnity provisions shall also operate for the benefit of anyone duly serving in a representative capacity for such member or officer.

6. At a future meeting, approve the formation of an emergency fund to help us deal with similar situations in the future. \$200 - \$250 thous. range.
7. Approve at a future date, new line of credit (LOC) with Cornerstone of approx. \$350 thousand.

Exhibit A below has a few tables to help you understand the details.

Exhibit A

Summary of Contribution Margin for ECC @ Different Capacity Levels and Staffing						
Capacity % Of 70 kids		26%	34%	50%	64%	79%
Kids		18.0	24.0	35.0	45.0	55.0
Ratio of Kids to Teachers		4.50	6.0	8.75	7.50	9.17
Teachers		4.0	4.0	4.0	6.0	6.0
Total Staff		6.0	6.0	6.0	8.0	8.0
Reveue		\$16,853	22,338	\$32,392	\$41,533	\$50,673
Variable Wages		15,934	16,066	16,308	23,104	23,324
Var. Contribution Margin		919	6,272	16,085	18,429	27,349
Var CM %		5%	0	50%	44%	54%
Fixed Expenses:						
Fixed Payroll		8,227	8,227	8,227	8,683	9,139
Rent		2,500	2,500	2,500	3,372	3,882
Other fixed		5,429	5,429	5,429	5,491	5,552
		16,156	16,156	16,156	17,545	18,573
Net Income (Loss)		(\$15,236)	(9,884.1)	(\$71)	\$883	\$8,777
w/o depreciation		-90%	-44%	0%	2%	17%
Extra revenue less cost		(303)	(110)	1,382	565	886
Net Income (Loss)		(\$15,539)	(\$9,994)	\$1,311	\$1,448	\$9,663
w/o depreciation						

IUCC and Stewardship. So far stewardship has actually been a little bit better than LY from mid-March through the end of May so we have not seen decreases due to the recession we are now in. In May we were 15% better than LY and YTD we are now 2.2% better than LY. Budget revenue is \$157.5 thous. through May and so at \$164.4 thous. we 4.3% better than budgeted contribution revenue. Do remember this is just contribution revenue and is not rent from the ECC or other activities that used to generate revenue.

**Irvine United
Congregational Church
Statement of Activities
for 2020
General Fund**

	Act Jan-20	Act Feb-20	Act Mar-20	Act Apr-20	Act May-20	2020 Total
Revenue:						
Pledged Contributions	\$25,552	\$22,736	\$32,271	\$29,742	\$31,286	\$141,587
LY and Other	1,820	4,325	2,823			8,968
Non Pledged Contrib	4,989	1,834		3,787	3,217	13,827
Total Contributions	32,361	28,895	35,094	33,529	34,503	164,381
Percentage chg vs LY	5.0%	-9.0%	-40%	2.0%	15.0%	2.2%

IUCC Fiscal 2020 - Budget of Cash Flows

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	Net Income	Depex	NI Adjs	Other	Capex	Princ.	CF
GF	(\$180.1)	\$126.2	(\$54.0)	(\$73.2)	(\$66.2)	(\$10.3)	(\$203.7)
ECC	112.8	24.0	136.8	\$2.2	(\$25)	0	\$114.0
CIF							
PEF	0.2	\$0	\$0	\$0	0	0	\$0
Elims	0	\$0	\$0	\$0	\$0	\$0	\$0
	(\$67.2)	\$150.2	\$82.8	(\$71.2)	(\$91.1)	(\$10.3)	(\$89.8)

To give you an idea of how much the ECC supports the general fund this is the budgeted cash flows for 2020 by entity. While we will spend less in capex and the cash burn rate will be less in the general fund, **losing the income from the ECC has a major impact on our ability to fund the cash uses in the general fund.**

Please also note that we had about \$68 thousand of funds at year-end 2019 for the pergola work and other projects that was given to us in 2019 for tax write-offs but was meant to be spent in 2020 so the negative budgeted cash was in large part due to these funds coming in during 2019 and being scheduled to be spent in 2020. Without this special item the cash loss would have been relatively small on a budget basis (\$31 thous).