Managing Any Deficit / Surplus at Year-End 2018-19

Proposal: Approve the following recommendation from the Budget and Finance Committee:

Resolved, that any 2018-19 deficit (the amount by which approved expenses exceed approved funding sources) existing at year-end in the Operating Fund be absorbed into that fund's net asset balance.

Resolved that any 2018-19 surplus (the amount by which approved funding sources exceed approved expenses, including churchwide mission support and transfers to the Planting Fund and to Region 9) existing at year-end in the Operating Fund be managed in the following manner:

(1) Distributions shall be limited to the total that will allow the Operating Fund's year-end net asset balance to equal at least $165,000.

(2) If there is at least $8,000 of remaining surplus after meeting the requirement specified in (1) above, then that remaining amount of the surplus shall be distributed in the following manner:

a. 10 percent to Lutheran Theological Southern Seminary, up to a maximum dollar amount equal to its Level 2 budget ($120,000);

b. 10 percent to Lutheran Theological Center in Atlanta, up to a maximum dollar amount equal to its Level 2 budget ($1,500);

c. 10 percent to NovusWay, designated for the support of Lutheranch, with the total allocation limited to the NovusWay Level 2 budget ($10,000);

d. 20 percent to the six campus ministry programs receiving monthly synodical support during 2018-19, with this additional amount to be allocated proportionately based on the ministries' Level 1 budgeted amounts, with the total allocation limited to the Campus Ministry Level 2 budget ($58,000);

e. 20 percent to the synod's temporarily restricted net asset account entitled "Synod Staff Development," for use as determined by the Synod Council, with the total allocation limited to the Salaries, Housing, & Benefits Level 2 budgets ($48,835); and

f. 30 percent, plus any remaining amounts not previously allocated due to the category limitations noted in the preceding paragraphs, to a new temporarily restricted net asset account to be entitled "Living Lutheran Legacy: Reserve for Rent Reduction." It is anticipated that monies in this account will be paid to St. John's Lutheran Church, Atlanta, at an appropriate time in the future, when it is determined by the synod officers that such payment will result in lower rent payable to the congregation for the new synod office facilities.

BACKGROUND INFORMATION & RATIONALE

It is likely that the current fiscal year will result in a sizable surplus for the Operating Fund, primarily because for most of the year the synod office will have occupied temporary space at St. John's

Lutheran Church, Atlanta, on a rent-free basis. The year-to-date surplus in this fund, as of October 31, 2018, was $62,325. If the situation deteriorates during the remaining months such that the year ends in a deficit position, the first paragraph of the recommended action indicates that the deficit is simply to be absorbed into the Operating Fund's net asset balance. An alternative to this action would be to recommend transfers from specified restricted accounts to make up some or all of the deficit. That alternative was not included in the recommended action because of the unlikelihood that there will be a deficit this year.

If the 2018-19 fiscal year does end in a surplus position for the Operating Fund, the first priority for managing the surplus is recommended to be rebuilding the fund's net asset position to approximately the level it was prior to the significant losses of the past 10 years. Prior to 2011, the Operating Fund's net asset balance (sometimes casually referred to as the synod's "reserves") was allowed to fluctuate mildly from year to year, usually within the range of $155,000 to $165,000. When operating deficits threatened to reduce net assets below this level, subsidies were approved and applied, usually from the Southeastern Lutheran Holding Corporation. The table below shows the subsidies provided and the exact net asset balances at the end of fiscal years 2008-09 onward. After the 2010-11 fiscal year, additional subsidies from the Holding Corporation were no longer possible.

Fiscal Year	Subsidy from SE Lutheran Holding Corporation	Operating Fund's Net Asset Balance at Year-End
2008-09	$13,854	$158,727
2009-10	$125,138	$158,727
2010-11	$89,000	$165,756
2011-12	--	$165,756
2012-13	--	$165,756
2013-14	--	$141,222
2014-15	--	$165,405
2015-16	--	$120,360
2016-17	--	$120,482
2017-18	--	$127,189
As of 10/31/18	--	$195,799

<u>Example.</u> If the current fiscal year were to end with the same $62,325 surplus that existed on October 31 of this year and if all of that surplus was distributed at year-end to other entities, the Operating Fund's net asset balance would decrease by $62,325 and would then equal $133,474 for the start of the new fiscal year. The recommendation in item (1) of the second Resolve is provided because a level in the range of $133,000 does not leave a lot of cushion for managing uneven cash flows and absorbing potential future losses. Over the past 25 years, a level closer to $165,000 has usually been sufficient to absorb losses when they occur, without causing major disruptions for synod operations. For this example, the impact of approving item (1) of the second Resolve would be to reduce the potential $62,325 distribution by $31,526 and then distribute only

the balance of $30,799. After such distributions, the net asset balance at the start of 2019-20 would once again equal $165,000 (which is the current $195,799 balance minus the $30,799 hypothetical distribution).

Item (2) in the proposal provides for some possible distributions, generally consistent with Level 2 in the approved 2018-19 ministry funding plan. A minimum threshold ($8,000) is recommended to avoid extremely small distributions to some of the recipients. If total monies to be distributed exceed $8,000, the six subparagraphs in the resolution specify how the funds would be allocated. The first five of the subparagraphs are consistent with priorities of recent years; they call for distributions to the entities for which the 2017 Synod Assembly approved Level 2 budgets; those Level 2 budgets are provided below for reference.

Approved Level 2 Budgets within the 2018-19 Ministry Funding Plan**

Ministry Expense	Level 2 Budget
Lutheran Theological Southern Seminary	$120,000
Lutheran Theological Center in Atlanta	$1,500
NovusWay (Lutheridge, Lutherock, Lutheridge)	$10,000
6 Campus Ministry Programs	$58,000
Salaries & Housing	$45,365
Staff Benefits (FICA)	$3,470
Total:	$238,335

*** This table excludes those Level 2 items that are paid as an automatic percentage of mission support contributions. Items excluded in this way are ELCA mission support (50%), transfers to the synod's Planting New Congregations Fund (3%), and Region 9 support (0.5%).*

The rationale for the recommendation in subparagraph (f) of the second Resolve is tied to the fact that much of this year's expected surplus is due to not having paid rent to St. John's during most of this fiscal year. Future rent will be $3,800 per month, beginning when the synod moves into its new office space. Much of that amount will be used by St. John's to make mortgage payments associated with construction of the synod space that was not funded by Living Lutheran Legacy Building Fund contributions.

As future, unanticipated Building Fund contributions are received from donors, they will periodically be used to make additional principal payments on the mortgage, with the loan re-amortized to require a lower monthly payment. Principles negotiated with St. John's indicate that savings from additional principal payments will be shared equally by the synod and St. John's, unless a donor specifically designates that the savings should benefit only one of those parties. The intent of subparagraph (f) is to retain monies in the specified net asset account until they can be used to fund an additional principal payment and thereby decrease future rent. However, there is no intent to specify that the synod should be the only beneficiary of the additional payment of principal.