TO: Finance Committee


FROM: Philip Rylands, President
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2019-2020 Final Operating Budget Surplus $218,062 (page 4, reference A)
vs. Prior Year Actual $892,125

Modified Basis of Reporting for Spending Rule & Capitalized Expenditures
See NOTE under each of these categories.

Summary

Final budget revenue is anticipated to be 4.4% higher as compared to the prior season (page 1, reference B). This is due to an increase of in membership dues from $1300 to $1500 and an increase in the spending rule from 4% to 4.33%. Final budget expenses will increase 13.0% due increased payroll and programming costs (page 4, reference C).

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Final Budget – Revenues

Membership ($262,705 increase 17.3%): Page 1, reference D

- Four Arts - ($228,000 increase 15.4%). Increase due to membership dues have gone from $1300 to $1500 (membership reinstatement fees have been put on hold). There were 1156 memberships last season. Dues are calculated based on a sustaining membership number of 1140.

- Contemporaries - ($52,500 new line item). Last season the Contemporaries membership was put on hold. This season the membership dues are $350 and 150 contemporaries memberships are being projected.

Donations ($33,954 decrease .6%): Page 1, reference F

Annual Giving Donations ($10,902 increase .2%): Page 1, reference G

- Chairman’s Forum – ($11,300 decrease .7%). The number of Chairman’s Forum donors in 2018/19 was 67 versus 66 in 2017/18. To be conservative, the budget is showing approximately the same revenue number as last year. On occasion a donor will donate in one year and receive the benefits the next season which explains differences in revenue and number of participants.

- Benefactors Council – ($6,183 increase .3%). The number of Benefactors Council donors in 2018/19 was 214 versus 202 in 2017/18. This is a conservative number as the number of donors in this level often exceeds expectations. On occasion a donor will donate in one year and receive the benefits the next season which explains differences in revenue and number of participants.


Under $10,000 – ($16,019 increase 2.2%). The development department sends out an annual giving appeal to both members and non-members once a month through the month of May. The Development Director will start a targeted appeal this season to non-members who attend programs but have not given a donation.

Other Giving Donations ($44,856 decrease 4.8%): Page 1, reference H
- **Town of Palm Beach Appropriation** – ($10,351 increase 3.0%). This appropriation helps cover both the King Library and Children’s Library employee costs. It has consistently been raised 3% by the Town Council.

- **Palm Beach County Cultural Council Grant** – ($45,794 decrease 19.9%). The PBCCC grant changed their grant process to emphasize out-of-county advertising. The Four Arts submitted a higher request for programming dollars but decreased its request for advertising dollars because of the out-of-county emphasis. This decrease reduced the total dollar award.

- **Corporate Underwriting** – ($10,000 decrease 50%). Decrease due to many corporate donors prefer to earmark their donation for the gala dinner dances during a gala year. The gala is not shown in this operating budget.

- **Other Donations** – ($587 increase 2%). This category includes special underwriting by members of the current season’s programming, including a new piano in the Dixon Education Building. Also includes generous supporter non-member gifts of $10,000 or more. The generous supporter category of giving was created to give recognition to those who give $10,000 or above and are not Four Arts members.

Other Revenue ($145 increase): Page 1, reference I
- **Tickets - Program** – ($14,914 decrease 2.4%) – Decrease due to fewer concerts scheduled this season.

- **Tickets – Screened Events** – ($14,040 increase 9.3%) – Increase due to additional screened events this season.

Spending Rule: Page 1, reference J
Spending Rule – The spending rule was 4.0% in the prior fiscal year and is 4.33% this fiscal year. The increase in revenues produced by the spending rule is the result of the increase in the market value of the Unitized Endowment and additions to principle calculated over a 5 year rolling average. The spending rule equals 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 spending rule is transferred each month to The Four Arts checking account and recorded in the operating budget. See calculation attached. **NOTE**: A spending rule is not GAAP income (Generally Accepted Accounting Principles). GAAP investment income (earned dividend/interest and gains/losses) is shown on the Statement of Activities audited financial statement and not in this operating budget.

Final Budget - Expenses

Employee Costs ($437,243 increase 12.7%): Page 2, reference K
- **Salaries (includes overtime & vacation accrual)** – ($311,583 increase 12.0%). Increase due to raises, hiring a Head of Box Office, Kiosk Specialists, Senior Advancement Associate, and Events Assistant. Also, more hours are in the budget for seasonal staff to help patrons with the new box office/attendance system. Full-time staff raises were almost $94,000 which approximates the 3.5% increase approved by the compensation committee. Extra money was included for a few salary adjustments to correct compensation inequities. Extra compensation was given to David Breneman and Philip Rylands to pay their taxes on moving costs, which under a new IRS rule, must be reported on their Form W-2 as income.
6/30/20 Final Budget vs. 6/30/19 Actual

- **Insurance - Dental** – ($8,179 increase 30.8%). Increase due to more full-time staff qualify for this benefit and new services were added to the plan that increased the premium.

- **Insurance – Health & Employer H.S.A. Contribution** – ($60,333 increase 34.8%). Increase due to the premium was raised 6.9% and new staff were added to the plan. However, the main reason for the large difference between this season and last season is that the Four Arts received almost a $19,000 refund from Aetna last year which reduced the prior year’s overall cost of health insurance. If premiums paid continue to exceed claims, Aetna will split the difference and refund the Four Arts. Only employers with low claims history are offered to join this type of level funding plan.

- **Pension 401(k) match** – ($19,628 increase 7.9%). Increase due to staff continue to put more of their paycheck into the pension plan because of the generous discretionary match of 100% (there is a cap of $10,000 per participant).

### Maintenance ($19,812 increase 2.4%): Page 2, reference L

- **Lawn & Gardens** – ($21,064 increase 11.7%). Increase due the gardening company requested an increase in their service contract. They have not had a raise since they started in 2016. This line item also includes a contingency for extra tree trimming.

- **Art Conservation** – ($16,378 increase 46.6%). Majority of increase due to removing the concrete pad for sculpture that was given on loan and returned to the owner.

- **Capitalized Expenditures** – ($29,333 decrease 13.2%). Capitalized purchases last season included a new fire alarm box. This season purchases are for lighting in the garden, AV upgrades in the education building, box office scanners/kiosks, a new roof on the Spanish façade, and the new piano in the Johnson Hall (generously underwritten by a special gift). **NOTE:** The Four Arts expenses operating capitalized equipment and improvements in this operating budget presentation. Expensing improvement purchases is not GAAP (Generally Accepted Accounting Principles). GAPP treatment of capitalized expenditures is shown on the Statement of Financial Position in the audited financial statement at the fiscal year end. These purchases will be reclassified as fixed assets and depreciated.

### Utilities ($46,981 increase 12.5%): Page 2, reference J

- **Electric & Natural Gas** – ($27,928 increase 15.4%). Increase due to a full season of utility costs for the library building. When the building was under construction, the general contractor switched the electricity account to its business name.

- **Water** – ($8,111 increase 9.2%). Increase due to a full season of water usage in the library building.

- **Phone** – ($10,401 increase 11.7%). Increase due to the need for faster internet service for the new ticket system and its heavy Wi-Fi requirements.

### Insurance ($28,114 increase 20.5%): Page 2, reference K

- **Building, Contents & Liability (ex-windstorm)** – ($26,613 increase 26.1%). Increase due to raising the D&O insurance from $10mil to $15mil and the umbrella policy from $5mil to $15mil. Includes a contingency for adding active shooter coverage. The Four Arts attorney will recommend the name of an insurance consultant to review all Four Arts coverages. See existing insurance coverage summary attached.

### Printing, Signs, Photography ($30,189 increase 12.8%): Page 2, reference L

- **Schedules/Calendar/Folio** – ($28,316 increase 27.9%). Increase due to adding more pages to the season program brochure and the folios. The development department is highlighting more donor gifts and events in these publications. A contingency of 5% was added in case any new publications are requested.
• Development-Capital Campaign and Dedications – ($8,040 decrease 100%). Decrease is due to last year included the cost of invitations to the library renovation grand openings.

• Photography – ($5,631 increase 29.7%). Increase due to extra photography costs to produce photo books to be given away as gifts to donors.

Office, Supplies & Advertising ($50,803 increase 9.4%): Page 3, reference M
• Supplies-Office – ($10,097 increase 17.5%). Increase due to book check-out bags for the children library. These items are restocked about every other year.

• Supplies-Computer/Software/Printers – ($19,001 increase 19.3%). Increase due to creating a phone app and text messaging software to integrate with the new box office ticketing system.

• Advertising – ($17,251 increase 6.9%). Increase due to ad rates have gone up plus a 5% contingency has been added in case of last minute marketing requests for programming promotion.

Employee-Travel Study, Business Meals, & Truck Expenses ($13,857 increase 29.8%): Page 3, reference N
• Travel Study – ($14,638 increase 43.9%). Increase due to the Four Arts paid the moving expenses for David Breneman to relocate back to Virginia and Philip Rylands to relocate to Palm Beach.

Events-Catering, Meals, & Décor ($59,276 decrease 18.2%): Page 3, reference O
• Benefactor & Chairman Dinners – ($13,575 decrease 14.8%). Decrease is due to last season the Benefactors dinner included the Board of Trustees to honor David Breneman's retirement.

• Development-Capital Campaign & Dedications – ($50,432 decrease 100%). Decrease due to last year included the dedication dinner for the renovated library building.

Professional Fees ($95,381 decrease 12.2%): Page 3, reference P
• Unitized Endowment Fees – ($10,292 increase 6.1%). Estimated increase due to good market performance and the Four Arts adding principal to the endowment.

• Credit Card Fees – ($13,401 increase 20.1%). Increase due to extra transactions this year for gala and international travel tickets. Also, includes paying a higher rate associated with switching processors for the new box office ticket system. The Four Arts is using the software vendor UTIX to process credit card ticket sales in order to ensure batches settle timely. This also helps with PCI compliance for the chip reader technology.

• Computer Consulting – ($23,958 increase 13.4%). Increase due to two consultants were hired to help in the selection and transition to the new box office/attendance system. Includes extra projects assigned to the member/donor proprietary database consultant. Also, hired an additional consultant to extract member/donor data and convert to Excel for the development team.

• Consultant - Other – ($139,994 decrease 73.7%). Decrease due last year hired an executive search firm for the new president, Philip Rylands. This year includes: 1) cost of a gala producer to provide logistical support for the two events, 2) estimate to provide the replacement cost of building & equipment in case of flood damage, 3) estimate to hire a professional IT consultant to write the IT Department's policy & procedure manual.
Sponsored Activities – ($599,294 increase 39.8%): page 4, reference Q

- **Program & Shipping Fees** – ($412,666 increase 40.4%). Increase due to higher fees paid for art exhibits and Tuesday speakers. There was an increase in fees for the lecture series in order to attract major talent to The Four Arts. Last year the Four Arts did not pay a fee for the George Bush painting exhibit and the American Seating exhibit was not very expensive.

- **Production & Staging On-Site** – ($58,181 increase 87.2%). Increase due to hiring a consulting firm to provide an interactive experience for the Rembrandt exhibit. There will be ushers at more events to help with the process of checking in patrons using the new box office/attendance ticket system.

- **Transportation-Artist, Vendor, Patron Groups** – ($14,530 increase 20.9%). Increase due to the Campus on the Lake offering more transportation reimbursements.

- **Hotels-Artist, Vendor, Patron Groups** – ($23,335 increase 55.9%). Increase due to larger concert ensembles this season.

- **Security Guards** – ($28,801 increase 40.7%). Increase includes extra guard service required by the second art show, Paintings from the National Academy of Design. There will be a 24 hour guard posted on campus.

- **Parking** – ($14,348 increase 34.9%). Increase includes a contingency for car parkers due to the new decal parking system.

- **Library Programs & Program Supplies** – ($14,092 increase 70.8%). Increase due to the Four Arts will pay for extra busing to bring more children to library programs held in the auditorium.

- **Library Books, CDs, DVDs** – ($30,967 increase 42.3%). Increase due to the King Library ordering extra media for the renovated library. Since the library reopened last year, it has been adding more books and DVDs to the circulation collection.