

To: Finance Committee and Board of Directors
From: Christie Smith
Date: June 14, 2016
RE: FY17 Budget – Assumptions and Information

Confidential

Budget FY2017: Where Money Meets Mission

Overview and Strategy:

The budget for FY 2017 addresses key issues for the Potter League as outlined in the recently approved Strategic Plan for FY17 through FY19. This plan employs a broad spectrum of strategies to fulfill our mission and bring about the following positive change:

- A community that is aware, knowledgeable and engaged in the welfare of its animals.
- Healthy, well-adjusted animals that find trusted homes and satisfy the community's desire for companion animals.
- A community committed to a standard of excellence in the care and humane treatment of animals across the State.
- A partnership of animal welfare agencies and other community organizations that work together, share resources, and combine influence to protect animals and address animal issues throughout the State.

To achieve the Strategic Goals by July 31, 2019, targets have been set and resources will be devoted to the following five strategic issues.

1. *Outreach and Influence:* The League is viewed as a community asset and expert resource for animal needs and issues, and influences a standard of excellence in the practice of animal welfare statewide.
2. *Programs and Services:* The League delivers or partners with others to meet the full range of the community's animal needs with programs and services that are accessible to all segments of the population.
3. *Fundraising:* The League employs a robust mix of strategies to tap a broad base of support, and provides a donor experience that deepens the commitment to the League and the community's animals.
4. *Sustainability:* The League builds and sustains the human and financial capacity to provide ongoing leadership and support to meet the changing needs of the community and the organization into the future.
5. *Internal Operations:* The League supports the ongoing development and maintenance of both a comprehensive risk management program and a compensation program to protect and reinforce the organization's commitment to its long term goals.

The Potter League will continue to use a model or equation that is humane, always keeping the best interest of the animals in mind.

Our Humane Equation



Budget Summary

Attached for review is a thoughtful and conservative budget prepared by all staff for the August 1, 2016 through July 31, 2017 fiscal year. This FY2017 budget shows total operating income of \$1,725,560. Operating expenses are budgeted to be \$1,748,807 leaving a net loss of \$23,247 for the year. An additional \$4,600 in revenue is anticipated as the *final* capital campaign pledge receivable. Depreciation is not included in the budget, but we will make a scheduled transfer of \$31,900 in operating funds to the League’s System Replacement Plan. The net result is an overall \$50,547 decrease in our cash position from operations. The Finance Committee has reviewed several drafts of this budget and approve of this final format.

I recommend approval of this budget.

Documents included for review:

- ✓ FY17 Proposed Budget - as reviewed and recommended by the Finance Committee
- ✓ This document - FY17 Budget – Assumptions and Information

- ✓ 2015 State of the Nonprofit Sector Survey – the executive summary of the survey conducted by the Nonprofit Fund highlights important issues for all nonprofit organizations to remember.

The largest single expense in the Potter League budget is always personnel costs. As reported last year, we have made critical investments in organizational capacity with key positions added as well as an investment made in technology, software and website enhancements. Implementing a new organizational chart and getting the right people into the right seats was one of my highest priorities for the past few years. Staffing is appropriate for the Potter League's core services which include animal care, customer care, veterinary care, training and behavior activities, volunteer, development and administrative needs. Responsibility and accountability for departments and individual positions continue to be centralized, efficient and effective. Improved leadership capacity is essential and supported through a commitment to staff training and coaching.

Community outreach is the foundation of the Potter League's FY17-19 Strategic Plan. The plan, approved in March 2016, is a departure for the Potter League and takes us from a singular, internal focus to also looking outwards into the community. More proactive work is needed to prevent animal suffering and homelessness by taking a critical look at where the greatest need exists in our communities. Much of the activity outlined in the plan is built around creating a visible, consistent presence in lower income neighborhoods with solutions that are proactive rather than reactive. The strategic plan and outreach activities recognize the need to adjust our approach to meet the needs of an ever-changing society. Community outreach efforts shift our influence towards a greater understanding of how animal welfare issues fit within a complex set of human circumstances. This shift will take time and patience but will result in transformational change for how the Potter League supports animals.

The Strategic Plan also mandates activities to fundraising (revamp events, direct mail, greater segmentation of mailings, work with major donors) and marketing activities (increased visibility, social media enhancements and consistent messaging). Internal improvements for risk management, strategic oversight, benchmarking are all addressed. The most critical and immediate effort is to hire a new executive director and allow him/her to create their own imprint onto the future of the Potter League. We have thoughtfully adjusted the deliverables for the first year of the strategic plan to allow for the executive transition.

While an approximate \$51,000 deficit is shown on the proposed FY17 Operating Budget, we have just been notified of a bequest in excess of \$700,000. It is anticipated that the bulk of this gift will be received prior to 7/31/2016. The funds will be temporarily restricted and can be used for:

- "the protection, care and feeding of animals brought to the shelter but *not* for salaries or other compensation for individuals employed" by the Potter League.

- Since we own our building the donor has also said, “funds may be used as necessary for the proper upkeep and maintenance” of the shelter
- However the donor does “not want this bequest to be used for the purpose of spaying and neutering of animals” as to do so would encourage people who could otherwise afford the surgery to use the Potter League’s subsidized service.

We are working with the executor, lawyer and accountant (Robin Skuncik Jones) for this bequest to iron out final details. If nothing else, I am anticipating that we can use \$51,000 of these temporarily restricted funds to cover animal care, the System Replacement Plan or a portion of utilities – wiping out the deficit for FY17. We anticipate this gift will have a life span of 5-10 years, and we are developing a plan for its long-term use.

I bring this operating budget forward, and urge that we vote to approve it at the June 21 board meeting. It is the final budget I will prepare for the Potter League! I remember vividly sitting in Yesterday’s over lunch working with Bill Harvey on an \$88,000 budget in the early 1980’s - wondering how we would accomplish all that we wanted to do and more importantly how we would raise the needed revenue.

Budget Process:

- The baseline of the budget is the FY15 estimated year end results adjusted for unusual one-time occurrences during the year.
- Senior managers along with their staff were asked to develop their FY16 departmental budgets using FY13, FY14 and the FY15 forecast as a guide. They were asked to provide an explanation for significant deviations from this year’s figures.
- The entire budget was proficiently assembled and created by Nancy Wrathall, Director of Finance and Administration. I reviewed and made adjustments, as needed.

Operating Budget Assumption Highlights:

- FY17 operating budget does not include any new programs. As per the FY17-FY19 Strategic Plan guidelines, provisions are included for additional staff training as well as a new part-time Outreach Coordinator position.
- No Executive Director hiring expenses have been included in the FY17 Operating Budget. An allowance for additional training and community networking has been included.
- Total income from operations of \$1,725,500 is 4.85% higher than the FY16 forecast. Total operating expenses of \$1,748,800 represents a 6.59% increase. The net loss from

operations before depreciation is \$23,200. When the final \$4,600 capital campaign pledge receipt due in September 2016 is considered, there is a loss of \$18,600.

Revenue:

- No change adoption fees are assumed in this budget. Adoption revenue is budgeted at the FY16 projected amount.
- Obedience/Behavior Classes: A minimal increase over the FY16 projection is included. This may be conservative as FY16 revenue is 5% greater than FY15 as of April 30th.
- Fundraising: The Director of Development has increased total revenue from fundraising activities in the FY17 budget by 6.85%.
 - The Have A Heart party has been removed. This has been replaced with a new Spring Event in planning now.
 - Major Gifts: The Director of Development is confident that the FY16 level can be increased by \$20,000 and returned to the FY14-FY15 levels.
 - Grants: Total grant funding has been increased by \$22,460. Included in the FY17 budget is \$18,000 from the “Cassie Medicine Fund”. This fund was established by Helen and Stanley Grossman through the RI Foundation to assist Newport County residents with the medical expenses of their animals. Also included is a grant from the Champlin Foundation to offset the costs of an upgrade to the shelters emergency power system. Both the medical assistance and emergency power upgrade projects are included in their related expense accounts. The emergency power upgrade project is grant dependent. A schedule of grant activity including applications, anticipated receipt amount and date is maintained by the Director of Development.
 - Coyote Project: It is anticipated that funding for this project will be renewed for one more year at \$35,000.
- Town Contracts: All three contracts are included and calculated using the existing contract CPI index adjustments.
- A \$50,000 transfer of income from the Endowment Fund or other investments to operations is planned and included in “Other Income”.

Expenses:

- Personnel:
 - Salary and wage increases averaging 3% are included in the FY17 budget. Since this change would occur in January 2017, the impact on the FY17 budget is 1.75%.

- Executive Director salary is carried at present level with a 3% January increase. Health Insurance is also included at a single plan level for the January 2017-July 2017 period.
- A new part-time, approximately 20 hours per week Outreach Coordinator position is included to assist in the planning of FY17 community outreach activities.
- We are aware of and planning for personnel changes from the new Department of Labor regulations governing the exemption of executive, administrative, and professional employees from the minimum wage and overtime pay protections. The final rules were announced on May 18, 2016 and go into effect on 12/1/2016. The FY 2016 budget has been adjusted to include additional overtime pay at 1 hour / week for 52 weeks for the three staff members most likely to be impacted by the changes in regulations.
- Preliminary information from Blue Cross indicates a slight decrease of 4.0% in our Health Insurance composite rate effective July 1st. No rate change has been assumed in the FY17 budget. Also, this budget contains an insurance expense allowance for three current full-time staff who have opted out of the Potter League plan since these are full-time positions carrying benefit eligibility. If none of these are used during FY17, there would be a savings of \$20,000. Some of this may be needed if Spousal coverage is awarded to the new Executive Director.
- Simple IRA: The expense of the present 3% of gross maximum match is included at the present participant level. The result is a cost of 2.3% of gross payroll.
- Veterinary: Surgical
 - New equipment: Surgi Vet Advisor Monitor: \$4,300 and an anti-fatigue mat: \$225 are included in the surgical equipment budget.
- Community Outreach:
 - Coyote Project: Funding for this project from the Prince Foundation and RI Foundation totaling \$35,000 is including in fundraising revenue. This project is included in both the revenue and expense sections of this budget.
- Administration and Occupancy:
 - Property, Liability, Crime, and Auto Insurance expenses are carried at the renewal quote which is represents an increase of 2% over last year. The quote for the Directors & Officers policy has not been received (is due any day) but is currently carried in the budget with a 6% increase. For Workers' Compensation the present rates have been applied to the FY17 payroll budget as there have been no major claims in the past three years and our experience rate should be favorable.

- No Executive Director search, relocation or hiring related costs are included in the FY17 operating budget. These one-time costs are funded through the Board Designated Reserves.
- Utility costs have been increased by 7%
- \$13,000 is included for an upgrade of the emergency power system to provide heat and air flow to the entire building in the event of a power failure. This will only occur if funded through a grant. Application for \$12,500 has been made to the Champlin Foundation.
- Systems Replacement Reserve:

Year five of the scheduled funding of the Systems Replacement Reserve is \$31,900. This amount will be transferred from Operating Funds to the System Replacement Reserve fund in July 2017. Since this is considered a transfer of funds, it is not included in operating expenses but is included in the FY17 Budget Report as it is part of the change in cash position from operations.