



Washington Association of Conservation Districts

To: WACD Board of Directors
From: Tom Salzer, Executive Director
Date: June 21, 2021
Subject: FY 21-22 Budget Message

A – Purpose

This budget message provides a high-level explanation of WACD's proposed budget for fiscal year 2021-2022 (July 1, 2021 through June 30, 2022).

For those with a financial background, you may find that my presentation in this Budget Message is less rigorous than you are used to. My purpose in presenting simpler explanations is to help our non-financial people better understand WACD's budgets. WACD staff will be happy to take a deeper dive into more detail at any time.

B – Context

B.1 – Organizational structure

WACD is a single entity organized as a nonprofit business league under Internal Revenue Code section 501(c)(6). The exempt purpose for a 501(c)(6) is to promote the common business of its members. The Internal Revenue Code says:

A [501(c)(6)] business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

WACD is not a charitable nonprofit, meaning that it does not fall under section 501(c)(3) of the Code. Donations to a 501(c)(6) organization are not tax deductible for donors. In general, trade associations organized under 501(c)(6) are not eligible to directly receive grants from 501(c)(3) grant-making organizations and foundations.

WACD was formed in 1942. Later, the Plant Materials Center operation was added to WACD to serve WACD's members. Functionally, WACD has two operating divisions: the Plant Materials Center in Bow, Washington and the Executive Office in Olympia, Washington.

This year, we attempt to build a stronger sense of being one organization by providing a roll-up of the budget that connects the individual budgets for the two operating divisions. That roll-up bridges the very different work performed by the two operation divisions.

B.2 – The budget is a plan

It is important to remember that a budget is a plan and plans can change. Revenue amounts are targets, and expenditure amounts are maximum spending limits. I expect WACD will strive to exceed revenue targets and to keep expenditures within budgeted spending limits.

C - Documents

In the meeting folder are documents in the same order as presented in this budget message:

- 1 FY 21-22 Budget Message 20210621 (PDF)
- 2 Rolled up WACD budget & current assets (PDF and Excel spreadsheet)
- 3 FY22 Finance Committee Recommendations (PDF)
- 4 FY21-22 WACD Budget Assumptions (PDF)
- 5 Executive Office Budget FY 20-21 Actuals & FY 21-22 Budget (PDF and spreadsheet)
- 6 PMC Budget FY 20-21 Actuals & FY 21-22 Budget (PDF and spreadsheet)

D – FY 21-22 Budget Message (document #1)

This document is document #1, the budget message.

E – Rolled up budget & summary of current assets (document #2)

E.1 – Context

Document #2 presents a summary of cash assets, followed by summaries of the current budget and the proposed budget. This information is presented at the very highest level, with both operating divisions (Executive Office and Plant Materials Center) combined into a single view.

Please note that the comparison presented is June 1, 2020 vs. June 1, 2021. WACD's fiscal year ends at midnight of June 30, 2021, so the view of assets is not aligned with our fiscal year. Nevertheless, we have data for June 1, 2021 and so we offer the year-over-year comparison to help illustrate changes in cash assets.

E.2 – Assets

On June 1, 2020, cash assets (including unrealized gains on investments) totaled \$1,795,119.98. One year later, cash totaled \$2,040,787.13.

To the right is shown a column titled “Change yr-to-yr” that illustrates the changes from June 1, 2020 to June 1, 2021. The most significant change is in investments held by Edward Jones, with total gains of \$269,144.81. Investment gains over the past year have been remarkable. In fact, I would characterize them as a windfall, meaning unusually high and likely not sustainable over several future years.

E.3 – Budget

The budget section of document #2 shows, from left to right:

- The current FY 20-21 budget;
- Actual results as of June 1, 2021; and
- The proposed FY 21-22 budget.

E.3.a – Total revenue

Actual revenue on June 1, 2021 is \$64,159.22 greater than budgeted for FY 20-21. We anticipate revenue continuing to grow to \$1,533,940.00 over FY 21-22, a year-to-year increase of \$129,715.00.

E.3.b – Total expenses

Offsetting the anticipated growth in revenue are increased expenses. Total WACD expenses at June 1, 2021 is \$1,333,572.93. That figure is \$63,448.71 less than budgeted for FY 20-21. However, we project expenses to rise to \$1,553,548.89 over FY 21-22, an increase of \$156,527.25.

E.3.c – Net income from operations

For the current fiscal year, it appears we will end the year with net income substantially higher than budgeted. However, for FY 21-22, we project that expenditures will rise more than anticipated increases in revenue, resulting in negative net income from operations of \$19,608.89.

Comparing the current FY 20-21 budget to the proposed FY 21-22 budget, we see a projected swing from \$7,203.36 net income from operations in FY 20-21 to a negative income of \$19,608.89 from operations.

E.3.d – Recommendation to balance the budget

To balance the FY 21-22 proposed budget, the staff recommendation is to harvest some gains from investments. However, please also bear in mind the pattern that is illustrated in the FY 20-21 actual performance: more total revenue and less total expense than budgeted. Actual harvesting of gains may not be necessary as we work through FY 21-22.

During FY 21-22, WACD will pursue these opportunities to increase revenue:

- Grants from state and federal agencies
- Grants from NGOs (these would run through the Washington Conservation Society)
- Increased sponsorships from industry partners

F – Finance Committee recommendations (document #3)

Document #3 presents recommendations adopted by WACD's Finance Committee, chaired by Treasurer David Fenn.

F.1 – Recommendation #1: COLA

The Committee recommends approval of a cost-of-living adjustment (COLA) amounting to \$1,099 for every non-seasonal employee. This conforms to the policy adopted by the Board of Directors in 2020 where an equal dollar amount is the preferred approach of helping employees keep pace with inflation.

Document #3 presents more detail on how the COLA rates were derived and the dollar impact of providing equal COLA amounts to each non-seasonal position.

Most applications of cost-of-living adjustments apply a percentage rate against the expected wages for an individual. In that system, higher paid employees receive a larger COLA and lower paid employees receive less.

In WACD's system, however, the COLA is calculated against total non-seasonal payroll and then divided evenly. This results in the two highest paid employees receiving a lower COLA amount than would be the case in the more typical approach, and all other non-seasonal employees would receive more.

I support WACD's "equal COLA" methodology as a means of improving employee retention and recommend that we continue this practice per policy.

F.2 – Recommendation #2: Schedule of Financial Audits

The Committee recommends that the Board of Directors adopt a new policy on financial reviews by removing the requirement for annual financial reviews in each of the two years between regular audits that occur on a three-year cycle.

Document #3 provides more background on current policy and the reasons behind the Committee's recommendation.

In general, I would not be supportive of decreasing financial oversight of an organization of WACD's size and scope. However, additional controls have been put in place in calendar years 2019 and 2020, providing the Finance Committee more confidence in financial reports produced by WACD.

The proposed budget for FY 21-22 also includes a new expenditure for a certified public accountant (CPA) to:

- provide additional oversight on accounts, reports, and internal controls;
- advise/assist WACD staff, as needed; and
- complete and file required forms with the Internal Revenue Service.

Those functions are currently being provided by the firm that audits WACD. This firm has also performed prior financial reviews. It is generally accepted that having the firm that assists and advises also fill an auditing role is a potential weakness, or stated another way, it is not as robust a system as we could have. Thus, I support hiring an experienced CPA to help us separate the audit function from the more frequent review of accounts, transactions, reports, etc. The total cost of the independent CPA is expected to be significantly less than the cost of the annual financial review and WACD staff expects to get more actionable advice through this change.

G – FY 21-22 Budget Assumptions (document #4)

Perhaps the most important document is #4. It describes the fundamental assumptions WACD staff made in developing the projected budget for fiscal year 2021-2022.

I stress that the assumptions range from projections with a high level of certainty to forecasts that are not much better than guesses. This is the nature of budgeting. We spell out the assumptions so that the Board of Directors can better understand the underlying basis for the proposed FY 21-22 budget.

H – Executive Office: FY 20-21 Actuals & FY 21-22 Budget (document #5)

Document #5 is provided as an PDF document and as an Excel spreadsheet. Please use whichever format works best for you.

The Executive Office budget deserves additional scrutiny by the Board of Directors because we are presenting a budget that shows a net loss in this operating division.

Revenue for the Executive Office is provided through member dues, grants, and annual meeting fees and sponsorships.

I – PMC Budget: FY 20-21 Actuals & FY 21-22 Budget (document #6)

Document #6 is provided as an PDF document and as an Excel spreadsheet. Please use whichever format works best for you.

The Plant Materials Center budget is very similar to what the Board of Directors has seen in prior years. You may recognize that some expenditures that serve the entire organization are carried by the PMC; examples include the cost of auditing and investment fees.

Typically, such costs would be proportionately carried by each division. WACD has not been doing this. Instead, WACD has had the PMC carry some costs as a potential tax reduction strategy. If, in the future, the IRS determines that income from the sale of plant materials is related to our purpose (i.e., it is not “unrelated business income”), then we can evaluate whether to proportionately spread those costs against the two operating divisions. For now, we continue the practice of having the PMC carry some of those costs.