

What Happened to AFSC Finances?

There is still unresolved pain in the AFSC community from the two budget cuts that were taken in FY2018 and FY2020. For those who lived through those times, important questions are still unanswered: What went wrong? How did the reserves go to zero? Why didn't Governance prevent this?

As part of the healing process, the Community, Equity, Justice Board Committee has called for an external expert to look at the records and answer the questions, followed by a listening and healing process. As someone who served on the Finance Committee, Board, and later as Treasurer during the times when the problems were created, I checked my own records to see whether the answer was visible. This memo reports what I found.

What happened to the reserves?

Figure Oneⁱ shows a good approximation of the decline of the reserves, using the current Board definition.

- The drop from 2007 to 2009 is accounted for by both the collapse of stock prices and the large deficit spending as the organization shrank, including Board designated transition funds.
- At that time, the Board authorized a transfer of over \$9 million from reserves to bring the formal retirement plan up to full funding. The underfunding had gone as high as \$27 million.ⁱⁱ
- Over the following years, the Board authorized additional investments from reserves, including \$3.5 million for the Courageous Acts campaign, and \$5.7 for the Centennial Celebration.ⁱⁱⁱ
- There were years when income did not meet budgeted expenses. For example, a year-end deficit of \$2.4 million was reported to the Board for FY2014.^{iv}

Why did the Board let this decline in the reserves happen? The situation was masked by two numbers in the way reserves were being reported.

- First, the Board policy was that reserves consisted of unrestricted net assets minus any underfunding in the retirement plans. As the assets in the retirement plan recovered in the years after the collapse and its underfunding decreased, the reserves appeared to grow, although there were no new resources.
- Second, the then-CFO was including "excess charitable gift annuities" and charitable gift funds in the reserves balance. Technically, these are unrestricted, but it was never the Board's intention for them to be included in reserves. As the asset value of the annuity portfolio recovered after the collapse, this increase gave a false impression that the reserves were still healthy.

The Board changed the policy in 2017 to provide a clearer picture of the true reserves. The new definition removed nearly \$10 million, leaving only \$3.6 million at the end of FY16.^v The Board's policy is to maintain an amount in reserves equal to at least 50% of operational spending in the previous fiscal year. AFSC was at about 10% in 2018.

Why were budget cuts needed?

The low level of reserves would not have created a need for budget cuts by itself. But over the previous few years, the Board had also authorized budget levels that were out of line with income. Beginning with the FY2013 budget, the CFO began framing choices about spending of unrestricted funds with a model that focused on the projected future status of reserves, relying on appreciation of assets along with projections of increasing income.^{vi} It turned out that this model was over-optimistic. Income remained flat, but budgets based on the model allowed spending to go up. Along with the Board-authorized reserve spending, this approach contributed to the drop in true reserves from 2014 to 2018, seen in Figure One.^{vii} As the new CFO put it in 2017, AFSC was a \$30 million organization with a \$37 million budget. Recognizing the situation, Shan Cretin started the necessary cuts with the FY 2018 budget, her last. With reserves near zero, Joyce Ajlouny completed the process and balanced the budget in FY2020.

Figure One. Central Fund Balance

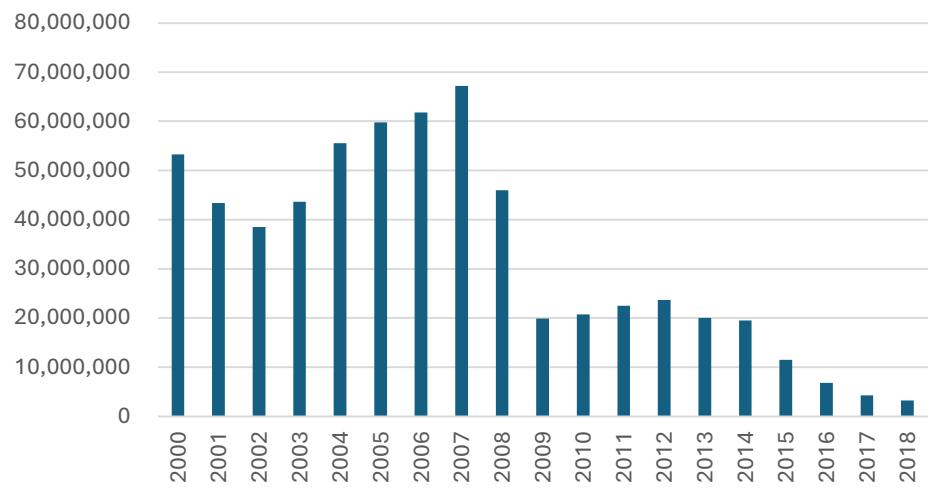
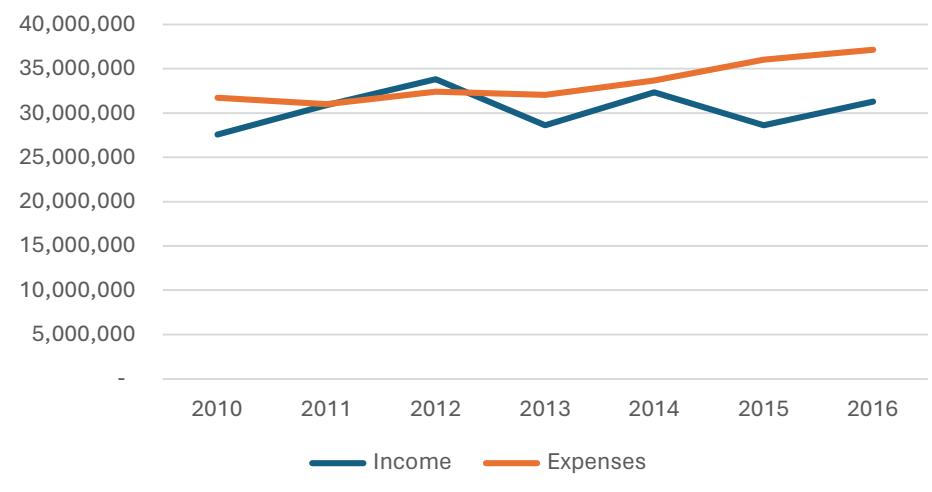


Figure Two. Flat Income, Rising Spending



ⁱ The underlying data for this graph was prepared by Cynthis O'Keefe, a member of the Finance staff, in 2019.

ⁱⁱ "Restatement of Reserves using Current Board Policy Approved January 2017," prepared May 15, 2017 by Shan Cretin; updated June 16, 2017

ⁱⁱⁱ Source: FY2017 budget book. The special allocation for the Centennial celebration was made in January 2016.

^{iv} The FY2014 deficit was noted in the FY2016 Budget Book, September 2015.

^v "Restatement of Reserves using Current Board Policy Approved January 2017," prepared May 15, 2017 by Shan Cretin; updated June 16, 2017

^{vi} November 2011, Board Supporting Paper #13b.

^{vii} AFSC audits, 2010-2016.