

Report of the Treasurer to the 229th Diocesan Convention

Budget and Financial Report for the Mission and Ministry of The Convention of the Protestant Episcopal Church in the Diocese of New Jersey

To: Clergy, Lay Deputies and Alternates to the 229th Convention of the Diocese of New Jersey

From: James H. Bathurst, Treasurer

The Budget and Finances for the Mission and Ministry of the Convention of the Protestant Episcopal Church in the Diocese of New Jersey - Report to the 229th Diocesan Convention

Dear Friends,

This memorandum accompanies the Revised Preliminary Diocesan Budget for fiscal year 2013 and the Proposed Preliminary Diocesan Budget for fiscal year 2014, supporting the mission and ministry of the Diocese of New Jersey for the next two years, which I am submitting for your consideration on behalf of Bishop Cancell, the Diocesan Council, the Finance and Budget Committee and the financial office of the Diocese. It also highlights other important issues and initiatives of financial significance undertaken or continued during 2012 impacting areas of financial management both within and outside the operating budget.

The 2013 Budget

The Finance and Budget Committee once again had an extremely challenging set of circumstances as they met to draft the Revised Preliminary Budget. Parochial income was just a little bit higher in 2011 than the previous year (this is the income year on which the 2013 budgeted revenue is based). While there has been some limited improvement in the economy, the Diocese as well as our Parishes and Missions continued to struggle financially as costs continued to rise and income did not keep pace with this increase. On top of this economic reality, the Diocese had to face the tremendous impact of Superstorm Sandy.

In spite of the above, Fair Share Asking appears to exceed the reality of the last few years. At the start of the budget process we had only received thirty six Fair Share pledges. After calling each of the Churches that had not made a pledge we still had less than 100 pledges in time to have a completed budget for the approval of Diocesan Council in December. Over fifty Churches had to have estimates inserted into the revenue figures in order to complete the budget process, and as of this writing, we are still missing pledges from 32 of our 150 congregations. But while the process has been a bit frustrating and we plan to improve upon it this fall, the results of the pledging have been encouraging. The commitments total 66% of the asking which is up 3% over 2012. However, while encouraging, we need to continue to improve in order to be able to fully fund the budget. The net result of not being able to meet the 2013 preliminary income projection made last year was that we fell short of being able to fund the very restrictive 2013 Proposed Preliminary Budget approved at last year's Convention by over \$200,000.

In order to present a balanced budget for 2013 the Finance and Budget Committee and the Diocesan Council had to make some very sobering decisions. These decisions were made on both the expense and revenue sides of the budget. On the expense side of the budget the Finance and Budget Committee was forced to make some very difficult decisions in areas that requested additional funding and the Committee had to make some difficult decisions within many other line items to be able to balance the budget and not impact program of the Diocese. Some highlights on the expense side of the budget the 2013 budget provides:

- for our mission churches, a 9% increase over 2012 (line 10)
- funding of The Episcopal Church at same level as 2012 – 10% of parochial income (line 20)
- 25% increase in funding for Anti-Racism (line 32)
- funding of Trinity Cathedral at the same level as 2012 (Line 40)
- an increase in funding for Youth Activities (line 300)
- an increase in funding for Diocesan Convention (line 400)
- 2% increases in most staff compensation (lines 600-680); compensation for the CFO reflects increase over a 2-year period due to significant expansion of job responsibilities bringing this position to a level of responsibility comparable to the Canon to the Ordinary
- maintain obligations to retired clergy, widows, widowers and orphans (Lines 730 to 734)
- for the provision of the Episcopal Election and Transition processes (Lines 700 and 701)

On the revenue side of the budget, after consideration of the expenditure adjustments, a review of the various funding sources (Lines 1b, 2, 2a, and 4) still left the budget approximately \$218,000 short of being in balance. In order to avoid making what many would perceive to be devastating cuts to Diocesan programs, Finance & Budget and Diocesan Council agreed to recommend taking \$217,251 from prior years' accumulated surplus in order to balance the budget. It is worthy of note here that, although a very similar amount (\$211,694) was budgeted to be used from surplus to balance the 2012 budget, thanks to higher-than-anticipated Fair Share giving on the part of our congregations and diligent expense management, only \$64,683 of surplus was actually needed. We hope the same (or better!) may be said about 2013 this time next year.

There were other casualties of a difficult, diligent and thoughtful budget-making process such as this that are not immediately apparent in a review of the "numbers". There are programs that will continue but not necessarily at the requested levels and there will be some negative impact that will have to be dealt with. For example:

- for another year the work of the Hispanic Commission will be impacted with the lack of additional funding needed to meet the expanding needs within the Diocese.
- support for Christian Formation with funding at less than 2012.
- there are no funds budgeted to support a study of the needs to ensure that the Diocesan House is being maintained at the level of expectations or to support maintenance that will be required as the result of such a study.

Even in the toughest of economic times there are items that we can celebrate. The Good News of our Diocese includes but is not limited to:

- our Cathedral Church and its growth as a community center whose service to the Trenton community includes its pre-school program, feeding program and UrbanPromise summer camp and after school program.
- our expanding Companion Diocese relationship with Ecuador Central and Ecuador Litoral.
- the vital Youth Ministry programs that continues to positively impact those who take advantage of them.
- the Urban and Prison ministries that continue to flourish.
- A highly successful first year of the Millennium Development Goals Matching Grant Program in 2012, to be repeated and built upon in 2013.
- the continued funding of a missionary (Charlie Nakash, Christ Church, Toms River) for the remote areas of the Dominican Republic.
- an incredible variety of quality enrichment and development programs offered to both clergy and laity through the Ministry Institute.
- our Bishop and the Diocesan Staff – we are truly blessed!

We would indeed be remiss if we did not acknowledge the support from our parishes and missions. This is especially true given the continuing uncertain times and challenging individual circumstances. We particularly wish to express our deep appreciation for:

- the 36 congregations whose 2012 payments exceeded their pledges
- the 40 congregations, out of the 118 pledges received so far, who have pledged 100% of Fair Share asking (up from 28 last year)
- the 19 additional congregations, so far, who although unable to meet the full asking have pledged at the 10% level of giving or higher
- all 77 congregations who increased their pledge amount and/or percent of income pledged
- all those congregations who, regardless of pledge outcome for 2012 or 2013, continue to consider diocesan support as a budget priority and have expressed to us a goal of continued improvement in their pledge amount and/or percent of asking pledged
- the 11 congregations, so far, who have completed their Parochial Reports by the March 1st deadline – let's keep on working to improve this!

The Preliminary 2014 Budget

Revenue for 2014 (Line 1) provides that each congregation pledges 100% of its Asking or increases its pledge from 2013. The estimated pledged income for 2014 has been reduced by a 34% allowance for an anticipated shortfall in pledges (line 1a). As a result total pledged income (Line 1b) is projected at a more realistic number of 66% of asking in order to fund a budget substantially similar to 2013's. The allocation from surplus has been eliminated due to the need to fund only one Bishop, the end of the funding for the Episcopal election/transition process and, the anticipation of a successful fundraising campaign. It is critical that the congregations of the diocese accept the challenges of the new funding process for the Diocese so that important ministries of the Diocese can receive adequate funding to meet the ever-changing demands of the Diocese.

Additional Financial Highlights From 2012

While supporting and managing the Operating Budget is clearly our top priority, comprehensive management of the finances of the Diocese of New Jersey encompasses much more. The various Trustee Boards and the assets they manage and the various committees and task forces which assist the Finance Office in research, recommendations and management all play a crucial role in supporting fiduciary responsibility. Their activities are summarized in the Chief Financial Officer's report (Document 50) and, in some cases, detailed in reports of their own. There are some of special significance, however, that we wish to highlight here, as follows.

- Accountability and Fair Share Task Force – formed just before last year's Convention and charged by Bishop Cancell with thoroughly reviewing the current Fair Share formula and process. The members of this task force have engaged unceasingly throughout 2012 in diligent prayer, research, surveys, analysis, discussions and presentations aimed at discerning recommendations for improvements in fairness of the formula itself as well as the culture and environment of accountability around it. They seek to implement the recommended improvements in fairness of the formula via proposed changes to Canon 16 (see Document 4) and to request one more year to complete their work on recommendations for accountability. Their journey through 2012 and plans for 2013 are more completely described in Document 39 – please take time to read this important report.
- Accounting System Changeover – as recommended to last year's Convention by the Joint Task Force on the Catalog of Funds, the Finance Office has undertaken the implementation of a significantly more robust accounting software capable of handling fund accounting. This was deemed necessary in order to increase transparency, simplicity and clarity of reporting on the numerous funds overseen by the Trustee boards and Finance Office of the Diocese. Changeover to the new system occurred as of January 1, 2013. Further details can be found in the Chief Financial Officer's report.
- Disposition of Assets from Closed Congregations – acting on resolutions included in the Diocesan Council report presented to and approved by last year's Convention (See 2012 Convention, Document 25a):

- funds representing proceeds from such dispositions were segregated from the Operating Account into an account invested with the Diocesan Investment Trust, and
- Canons Phyllis Jones and John Sosnowski presented a report at the June meeting of Diocesan Council detailing recommended procedures for sale of church property in the case of a closed church, who has control over the resulting funds, and highlighting any ambiguities or inconsistencies in the Diocesan canons or between such and New Jersey law/statutes.

In response, Diocesan Council formed a subcommittee to further investigate and refine the recommended procedures. The subcommittee met and made some refinements, which were then presented at the summer/fall meetings of Diocesan Council and the Trustees of Diocesan Trust Funds but not formally approved by either of those groups prior to Convention. The matter will be taken up again at their meetings immediately following Convention to obtain said approvals for final presentation at next year's Convention. Further details regarding the assets involved and the procedure flowchart can be found in the Chief Financial Officer's report.

- Real Property Dispositions during 2012 – transactions occurred involving the following properties:
 - Grace Church, Elizabeth
 - St. Luke's, Westville
 - Holy Communion, Fair Haven

Transaction was pending involving Christ Church, South Vineland

For further details, please refer to the report from the Trustees of Diocesan Trust Funds (Document 51)

- Other Financial Matters
 - Clarification of status of funds formerly reported as "Funds Held in Trust for Others" – as required by last year's report of the Joint Task Force on the Catalog of Funds, detailed research into these funds has been largely completed by the Audit Committee in order that they may be included in the Diocesan audit and reported on as they had been prior years.
 - Task Force on Real Property Status – formed as required by the report referenced above; research in archives to clarify status of titling of real property is in progress with timeline to continue through 2013 and be ready for reporting to next year's Convention.
 - Joint Task Force on Catalog of Funds update – please see Document 41 for this task force's report detailing the follow-up on the Catalog of Funds itself since last Convention and the plan/timeline for completion.
 - St. James Fund report – as required by resolution 2011-5, still needs approval by Diocesan Council and Trustees of the Missionary Fund prior to presentation to Convention. Please see Chief Financial Officer's report for further details.

In Conclusion

We continue to offer our heartfelt gratitude to those congregations noted above which continue to express their faith in our life together as the Body of Christ by pledging their financial and human resources in support of our diocese. Your response during our most recent financial appeals is encouraging to us. The financial commitments that were met at the end of 2012 and pledged for 2013 by many who were seriously affected by Super storm Sandy stands as a true sign of the presence of Christ among us. Our Diocese is truly blessed!!

Finally, we thank Bishop Cuncill for his leadership, understanding and support of the recommendations that went into the formulation of the 2013 and 2014 budgets and we acknowledge the untiring efforts of Canon Phyllis Jones in providing all of the financial data in a timely and coherent manner.

We respectfully request that the 229th Convention of the Protestant Episcopal Church in the Diocese of New Jersey, adopt the Revised Preliminary Diocesan Budget for fiscal year 2013 and the Proposed Preliminary Diocesan Budget for fiscal year 2014, in support of the mission and ministry of our diocese for the next two years, as recommended by the Finance and Budget Committee, and approved by Diocesan Council.