

# Report of the Chief Financial Officer to the 229<sup>th</sup> Diocesan Convention

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

From: Phyllis B. Jones, Chief Financial Officer



*Supporting the Mission and Ministry of the Convention of the Protestant Episcopal Church in the Diocese of New Jersey*

Greetings, Partners in Ministry –

Os Hillman, Founder of Marketplace Leaders Ministries and originator/author of the TGIF (Today God is First) daily devotionals so popular in the Faith at Work movement, often writes about what he calls a “Joseph Calling”, named appropriately after one of the greatest biblical administrators who ever lived. Here’s how he describes that calling: “A true Joseph is one who is a provider both spiritually and materially for those in the Body of Christ. It is a person who understands that he is simply a manager of all that God has entrusted to him. It is a person who has humility and a broken and contrite heart before God.” As you read what follows, please join me in thanksgiving for the many “true Josephs” with whom we are blessed, and without whom the renewed energy and significant progress we are experiencing in building up the financial foundation that supports our Diocesan ministries would not be possible.

Here in the Finance Office, I have the blessing and privilege to know and work with these true Josephs on many levels on a daily basis. They surround and support the entire spectrum of our endeavors, which can be broadly described as occurring in six major categories:

1. Operating Budget and Daily Financial Management
2. Congregational Support
3. Internal Controls, Systems, Processes and Reports
4. Trust Fund and Investment Management
5. Real Property Management
6. Diocesan Governance

I’d like to share with you some of the progress we’ve made and challenges we’ve experienced in each of these areas, and give you an idea of the breadth and depth of the work we do and the support we receive from the many Councils, Committees, Boards, Agencies and individuals under whose authority we serve and with whom we collaborate. Please bear in mind as I mention these groups and individuals (boxed and highlighted for emphasis the first time they appear in the text) that they are comprised completely of volunteers who are giving of themselves and their gifts to our Diocese.

## ***Operating Budget and Daily Financial Management***

The Diocesan Operating Budget forms the backbone for allocation of financial resources to the daily operations of the Diocese. Developed in December/January through intense work by the **Finance & Budget Committee**, it gets approved in January by **Diocesan Council** for presentation to Convention. Once approved by Convention, it is overseen between Conventions by Diocesan Council, **the Treasurer** and the Chief Financial Officer. The 2012 Budget vs Actual Report, side-by-side with the 2013 Proposed and 2014 Preliminary budgets, can be found in Financial Exhibit I.

It’s certainly no secret that key funding for the budget comes from Fair Share pledges by our congregations. Having now operated within the same Asking environment for almost 10 years, we were hearing a clear call to revisit and re-envision the culture as well as the process by which we encourage congregational giving. Bishop Councill responded to that call a year ago by appointing an **Accountability and Fair Share Task Force**, which met, prayed, deliberated, reached out and listened diligently throughout 2012. The fruits of their labors are presented in their report, which is Document 39, and in the requested revision of Canon 16 in the report of the

Standing Committee on Constitution & Canons. Each fall, the Finance Office sends pledge request forms to each of our congregations as part of the budget preparation process. Some highlights of the results of that process can be found in the Treasurer's Report (Document 49) and the full listing of 2013 pledges as of this writing can be found in Financial Exhibits II and II-1.

Another significant source of funding for the budget comes from the numerous trust funds that have been left over time to our Diocese, some of which are administered by the Trustees of Diocesan Trust Funds and some of which are administered by Diocesan Council. Income from the majority of these funds, which are listed in Financial Exhibits III and III-1, contributes to the budget line items as detailed in Exhibit III-1.

Finally, each fall the Finance Office requests budget allocation applications from those committees and commissions requesting funding from the Operating Budget. Those applications and the Fair Share pledge results form the framework within which the Finance & Budget Committee works to generate a balanced budget for presentation to and approval by Diocesan Council in January. The Treasurer's Report highlights the important aspects of the 2013 and 2014 budgets and some of the background behind decisions that were made regarding significant line items.

Once the budget is in place and approved by Convention, it then passes to the Finance Office for implementation and execution, overseen by Diocesan Council and the Treasurer. Emanuel (Manny) Strauss, our Business Manager, has responsibility for day-to-day transaction processing and input into the accounting system. Rich Grant, our Accounting Manager, has responsibility for compliance with proper accounting procedures, report development and analysis. Final responsibility for oversight, accuracy, compliance, transparency, coordination and reporting rests with the CFO.

### ***Congregational Support***

The Finance Office regards congregational support as a top priority and continues to work hard to improve responsiveness to and relationships with all of our congregations. To me personally, this has meant reaching out to people where they are as well as improving the overall quality of communications and providing expanded opportunities for gatherings to share information. Some specific examples of this include:

- Conducting Vestry retreats around the inextricable intertwining of mission, ministry and resource allocation
- Preaching and conducting congregational workshops as requested on various topics, including the above as well as stewardship, community development, etc.
- Visiting vestries and finance committees as requested to assist with congregation-specific issues
- Working with clergy, vestries and finance committees on budgeting, forecasting, development projects, tax issues, etc
- Implementation across the Diocese of the Small Business Health Care tax credit
- Communicating relevant opportunities for grants and other financial resources
- Re-instituting a semi-annual (rather than annual) meeting schedule for clergy, wardens, vestries and finance officers (Parish Leadership Days – April and October)
- Continually working to improve response time to emails and phone calls
- Hurricane Sandy response, including coordination of workshops and communications channels to match needs and resources in the immediate aftermath of the storm. Includes working together with Church Insurance and the congregations impacted by storm damage as well as Episcopal Relief and Development and the congregations providing community services

### ***Internal Controls, Systems, Processes and Reports***

Fear not – I am not about to bore you with an exhaustive listing of what this means on a daily basis! Just two major developments I'd like to share with you:

Accounting System Upgrade and Changeover: during 2012, we were successful in identifying and implementing a new and much more robust accounting system than has previously been in place. The primary driving motivation in doing so was our limitations within the old system in tracking and reporting on assets, liabilities,

equity, revenues and expenses by fund. It is called Financial Edge and is developed, maintained and hosted by a company called Blackbaud – well-known and widely-used in the non-profit and religious sectors. Here are some of the major advantages we gained:

- Full ability to track and report by fund
- Ability to produce Budget vs Actual reports in the format desired without requiring duplicate entry of data on a separate spreadsheet
- Additional ability to track and report transactions and budgetary results by committee, commission or event without requiring duplicate entry of data on a separate spreadsheet
- Highly customizable reports all coming off the same database, maximizing consistency of data across all types of reports
- Elimination of costs and time associated with hardware upgrades and software updates, and improved security and redundancy. Financial Edge is cloud-based and the monthly subscription fee covers all upgrades and maintenance. This highly cost-effective option enabled us to implement the system with no necessity for budget increases or capital funding for new hardware and software.

Official “cut-over” to the new system occurred as of January 1, 2013. Our project lead for this is Rich Grant, assisted by Manny Strauss. I’ve been extremely pleased with their progress and I am grateful to both of them for their diligence in undertaking this in the midst of an already busy daily schedule.

Fund Accounting Implementation: closely tied to the above has been our development of the underlying account structure detail to enable us to track transactions, assets, liabilities and equity by fund. Based largely on the work and recommendations of the Joint Task Force on the Catalog of Funds (see also Document 41 from the reports for this Convention and Document 37 from last year’s Convention), we have assigned our funds to the trustee groups having authority over them and designed our reports to be able to consolidate them under those trustee-group headings. In this way, we maintain our ability to track detailed transactions within each fund separately and yet report on them in a consolidated manner, combining accounting integrity with reporting simplicity. A visual representation of the organizational structure of our funds can be seen in Financial Exhibit XII.

### ***Trust Fund and Investment Management***

Now that you’ve looked at Financial Exhibits III, III-1 and XII, you have an idea of the extensive structure of our Trustee Groups and the trust funds for which they are responsible.

You might have been surprised to see that Diocesan Council, in addition to administering the Operating Budget and overseeing the mission and ministry of our Diocese, has trustee responsibility for several loan funds. They also coordinate with the Trustees of Diocesan Trust Funds in approving disbursements from several “city funds” over which they have been charged with that authority: the St. James Fund (Atlantic City), Elizabeth Fund, Plainfield Fund and Camden Fund. During 2012, we have worked together to fulfill an overdue reporting requirement with respect to disbursements from the St. James Fund. That preliminary report has been prepared (see Financial Exhibit XI) but was not ready in time for formal Council approval in January. It is therefore presented for informational purposes only, and will be updated, approved by Council and presented for Convention approval next year.

The responsibility for oversight of the majority of our funds rests with the Trustees of Diocesan Trust Funds, a descriptive name for one group of people named as trustees for each of six separate, incorporated trust funds as noted in Exhibit XII. Each one of those groups has responsibility for the funds listed under their name in the Exhibit XII chart. They are charged with making sure that trust fund investments and distributions are in compliance with the governing documents of the trust. Their work over the past year has included following up on the numerous recommendations made at last year’s Convention by the Joint Task Force on the Catalog of Funds, and their report appears as Document 51.

Virtually all of the trust funds which are held by our Diocesan trustee groups are invested in the Diocesan Investment Trust (DIT). Further, the DIT is open to all our congregations as an investment vehicle for their own investments. Responsibility for investment strategy, performance oversight and dividend distributions of this trust,

currently valued at approx. \$37 million, rests with the Trustees of the Diocesan Investment Trust. A report on their activities appears as Document 52.

Finally, the Investment Advisory Committee serves as a resource to all of the trustee groups within the Diocese in recommending and monitoring overall investment, spending, gift acceptance and conflict of interest policies to be implemented consistently in the management of the funds entrusted to us.

### ***Real Property Management***

The Trustees of Church Property (one of the trustee groups under the umbrella of the Trustees of Diocesan Trust Funds) and Diocesan Council both have responsibility to assist in matters pertaining to management and sale of real property following the closing of congregations. In response to Resolution 2011-7, reiterated the following year as 2012-7, the two groups issued a joint report to last year's 228<sup>th</sup> Convention (Document 25a) detailing research and steps taken to clarify transactions related to disposition of assets of closed churches from 1999 through December 31, 2011 and recommendations to segregate the proceeds from those transactions into a separate investment account. Further, it set forth a resolution requiring the CFO and Canon to the Ordinary to present no later than Diocesan Council's June meeting "a document . . . suitable for broad distribution detailing the 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."

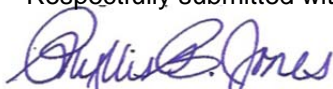
In response to that resolution, such a document was submitted to Diocesan Council at its June meeting. Diocesan Council then formed a subcommittee to recommend further refinements in the procedure to both Council and the Trustees at their fall meetings. The refined flowcharts appear as part of Financial Exhibit IX and were presented to both groups, with no definitive action taken prior to Convention. The matter will be taken up again at their meetings immediately following Convention. Also included in Financial Exhibit IX is an updated report on the disposition of assets from closed churches through December 31, 2012.

### ***Diocesan Governance***

In addition to the above, the Finance Office has also participated this past year in support of the activities of the following groups, all of which make vital contributions to the governance of our Diocese:

- Audit Committee – please see their report (Document 40), especially as it relates to renewed initiatives to assist with congregational audits
- Insurance Committee – their report (Document 35) details the long-awaited results of revising the outdated insurance canons to reflect current practice, included as Part V of the report of Constitution & Canons
- Millennium Development Goals Task Force – assisting with the implementation of and reporting for the new MDG Matching Grants program (see also Document 17)
- Planned Giving Committee – assisting with presentations to and technical assistance for congregations desiring to implement a planned giving program (see also Document 25)
- Loan & Grant Committee – supporting financial evaluations by the Committee in making recommendations to the Board of Missions and/or Diocesan Council for loans and grants; implementing and overseeing loan and grant agreements and reporting (See also Document 36)
- Corporation for Relief of Widows, Widowers and Children of Clergy of the State of NJ – assisting with management of this shared fund between the Diocese of Newark and Diocese of New Jersey (see also Document 29 and Exhibit X)
- Jubilee Ministries – assisting with coordination of funding and compliance with reporting requirements (see also Document 45)

Respectfully submitted with deep gratitude for all with whom I have the privilege to share this ministry,

  
Phyllis B. Jones, CFO