

**TREASURER'S REPORT TO THE 133rd ANNUAL CONVENTION
OF THE EPISCOPAL CHURCH IN COLORADO
SEPTEMBER 30, 2020**

1. Introduction

Already posted as links in the "Resources" section of the webpage for the 133rd Annual Convention are the 2019 Financials and the Proposed Budget for 2021. Because our time to discuss financial matters this year is limited both by time and format, I thought it would be a good idea to supplement those two documents with this written report, which provides further context for the numbers that you will see at those links. In addition, below is a summary overview of our 2020 financials through August 31.

Before turning to those matters, I wish to express my personal appreciation to those who have responsibility for various aspects of the financial health of the Episcopal Church in Colorado: Bishop Lucas, Canon Dyer, Controller Pam Greenfield and her staff, and my colleagues on the Finance Committee and the Standing Committee. Most of all, I and those I just listed owe a debt of deep gratitude to the congregations and institutions that make up our diocese and to the faithful who so generously support you--and, through you, us--in our ministries, especially in these challenging times. Thank you.

2. 2019 Preliminary Financials

Ordinarily the webpage for the Annual Convention would include a summary of the financial reports for the previous year, along with a link to the completed audit report; instead, what you will see this year are preliminary (unaudited) financials. For a variety of reasons, which many of you have also experienced yourself, we were unable to complete the 2019 audit before the Annual Convention. Once the audit is completed it will be posted on the website, together with a report highlighting any material variations from these preliminary figures. With this caveat in mind, here are my observations about the preliminary financials that we have posted.

a. Operating Budget: On the revenue side, you will see that the 2019 grant from the Colorado Trust came in significantly better than budgeted. Congregational pledge income was within about 1% of budget (which, as anyone with responsibility for estimating revenues from nearly 100 different sources will likely tell you, is itself a remarkable feat). In the end, thanks chiefly to the increased Colorado Trusts grant income, total revenues from all sources ran modestly ahead of budget. When it came to expenses, there were savings in some categories due chiefly to budgeted staff positions remaining vacant, while negative variations were driven chiefly by many non-recurring expenses that are commonly seen in a year when there are many transitions in staff and program initiatives. There were also two additional categories of one-time expenses that appear toward the bottom of the report, for the previous bishop's sabbatical and the bishop search. Owing to their non-recurring nature, both these were entirely funded by draws from general reserves. Bottom line, our net deficit for 2019 came in at approximately \$53,000, which is about 1.9% of budgeted expense.

b. Balance Sheet: Typically changes in the value of assets carried on our balance sheet occur fall into one of two categories: changes in the market value of endowment funds

under investment, and transfers related to congregational assets. The first category is fairly self-explanatory; however, it deserves mention that most of these funds are restricted for specific purposes. That said, 2019 was again a good year in the bond and equity markets, so the value of those investments increased. Transfers related to congregational assets fall into two subcategories: the estimated value of real property of closed churches held for sale (when the sale occurs, the net proceeds are used as directed by the Standing Committee), and the assets of mission churches (when a church is in mission status, its assets are carried on the books of the diocese, and when a church changes from mission to parish, those assets are transferred off the books of the diocese). The year-to-year changes to our balance sheet are generally unremarkable, and 2019 was not an exception to that general rule; however, if you have any questions about the preliminary figures that have been posted (or, once they are up, the final audited figures), please do not hesitate to contact me or Controller Pam Greenfield for an explanation.

3. 2020 Year-To-Date

As most of you have seen both personally and in your congregational or other professional experiences, most of 2020 has been exceptional in countless ways. On the expense side, salaries and benefits have not departed significantly from budgeted levels, except when a vacancy occurred and the position was not filled. Program expenses that would ordinarily have involved in-person gatherings were reduced as the need for travel and lodging went away, while expenses to conduct them remotely increased. Some activities that would have generated revenues (this Annual Convention is a good example of that) were cancelled or re-tailored to fit new circumstances. At the end of the day, however, we have thus far experienced some net savings on the expense side, which we hope will be available in the form of operating reserves to meet future needs should future revenues not meet budgeted levels.

When it comes to revenues, many congregations and diocesan institutions--and the Diocese itself--applied for and received loans under the Payroll Protection Program, which we hope will eventually be forgiven. The largest unknown has been to what extent congregational pledge and plate income past early March would be affected by the pandemic. As you know, giving to the Diocese is largely based on pledge and plate donations from the members of each congregation, and what we have seen and heard from lay and clergy leadership is that some categories of individual giving have remained strong: chiefly, pledge payments from individuals who have not been adversely affected financially by the economics of the pandemic, and the willingness of some to pay their pledges in advance. Countering that have been declines in in-person giving, mitigated to some extent by shifting the culture toward online donations. As of August 31, we were not far below budgetary projections for congregational giving; however, because the most significant months in the congregational giving cycle occur at year-end, it is very difficult to reliably predict how that will sort out.

4. 2021 Proposed Budget

a. Budget process:

Proposed budgets for each upcoming year are developed over the summer months, keeping in mind the canonical requirement that it be posted at least 30 days before the

Annual Convention. This year, as in past years, the Treasurer, Controller, and Canon to the Ordinary draw on all the information at hand to project revenues from various sources for the coming year. At the same time, the Canon to the Ordinary, in consultation with the Bishop and advised by the Controller, projects expenses, taking into account changing circumstances and missional priorities. This results in a first draft of a proposed budget, which is presented to the Finance Committee for its input. Adjustments are made to take into account the Finance Committee's observations and advice, and the revised draft budget is then presented to the Standing Committee. Ordinarily, that draft budget ends up being the one proposed to the Annual Convention.

While the same basic process I just outlined was followed this year, both the Finance Committee and the Standing Committee saw their primary role and responsibility as being to determine the extent to which operations in 2021 could responsibly be funded from unrestricted reserves (or, to put it another way, how large a deficit was reasonable to propose). In the end, the Standing Committee voted unanimously to recommend adoption of the proposed budget that you have seen, with a net operating deficit of \$84,860.

a. Revenues:

Our two most significant sources of unrestricted revenues are the grant from the Colorado Trust and congregational pledge payments. Our budget projection for the Colorado Trust is based on an estimate provided to us by its leadership in August, and the amount shown is their estimate of what to expect its grant will be in 2021. For the past several years, congregational pledge payments were estimated by the Canon to the Ordinary, the Treasurer, and the Controller based on their collective review the individual circumstances of each congregation and how those might affect its pledge. While that approach worked very well in prior years, this year's estimate was based on a combination of experience to date and what we have been hearing from others in parish or diocesan leadership about what they expect going forward. As you will see, we expect that revenues from all sources will be significantly lower than both budgeted levels for 2020 and where we currently expect that the 2020 actuals will come in.

b. Expenses:

The year-to-year differences seen in the proposed budget are chiefly driven by the following:

- > Development & Financial Stewardship: This department has been virtually eliminated, although some of its functions will be performed by other remaining staff.
- > Formation: Some expenses have been from another department to this one as the salary and benefits of current staff have been moved to reflect those changes in duties. This staff change chiefly accounts for the year-to-year increase in this department.
- > Multicultural Ministry:

For years prior to the arrival to Bishop Kym, many leaders have wanted to shift the focus of Latino Missioners supporting just two congregations directly by providing clergy

support to a more strategic look at engaging, empowering, and equipping congregations across the entire diocese. We eliminated one Latino Missioner position and retained one Missioner to engage this ministry. Recent events have also highlighted the need to provide resources to support all ethnicities, particularly our people of color and indigenous population. This will be a half-time position, and we are currently exploring partnering with another entity to secure the remaining funding.

> Business Office: The 2019 budget included the estimated salary and benefits for a new support position. That position has been eliminated from the proposed 2021 budget.

> Support of the Wider Church: The General Convention of The Episcopal Church ("TEC") has established a standard minimum percentage of giving by each Diocese: 15% of its total income, which is chiefly derived from congregational giving (or assessments). When this standard was set, the Episcopal Church in Colorado was among the dioceses that were not already giving at or above this level; we were at 10%. A period of time was provided for those not yet at 15% to reach that level and, if it was not there by the deadline, it could request a longer "runway" for getting there by proposing and obtaining approval of a plan for reaching it. The Episcopal Church in Colorado, acting through our Bishop and with the approval of the Standing Committee, submitted a plan to step up our percentage each year. Our proposed plan was approved. It committed us to be at 12% in 2020, 13.5% in 2021, and at 15% in 2022 and thereafter. The proposed budget reflects the 13.5% that we committed to in our approved plan. We have had some preliminary conversations with TEC leadership about the possibility of making adjustments in that approved plan in light of changed circumstances, but it remains to be seen whether that will result in a modification to our current approved plan.

> Salary and benefits: The proposed budget does not include any across-the-board increases to salaries, but it does project likely increased costs in health insurance premiums.

I hope that this report is helpful to your understanding of where we have been financially, where we are now, and where we expect to be going in the uncertain times that lie ahead. I look forward to your further questions, either during the course of the Annual Convention or afterwards. I will close with repeating where I began, by thanking you for your support of our many ministries. God bless you all, and those whom you love and care for.

Respectfully submitted,

Jay A. Swope
Treasurer