

## **Treasurer's Report to Convention**

The Diocese of California, with input and oversight from the Executive Council and its Finance Committee, has focused on adapting the financial affairs of the Diocese to respond to the current coronavirus pandemic. The Diocese and most of its congregations and institutions applied for and received forgivable Paycheck Protection Programs (PPP) loans totaling more than \$4 million. These funds have been used to cover payroll and benefits and to assist with losses due to the virus in accordance with the terms of the federal legislation that established the PPP.

In addition, as of this writing the Diocese has received written and verbal gift commitments payable over the next three years from generous individuals in the approximate amount of \$565,000. These funds, together with budgetary savings by the Diocese, will allow the Diocese to offer assessment relief in excess of an estimated \$400,000 in 2020 assessment appeals, with the expectation of more assessment relief in 2021 and 2022.

As a result of the PPP loans and the extraordinary private gifts, the Diocese and many of its congregations will end calendar year 2020 in better financial condition than many observers thought possible earlier in this year. Most congregations have remained current in reimbursements to the Diocese for payroll and benefits and payments under the Diocesan line of credit program.

This comparatively good news, however, is not reason for complacency. We all need to redouble our efforts to grow the church and help ensure a vigorous and vital future.

Turning now to the audit report for the most recent fiscal year: the financial accounts of the Diocese are audited by the accounting firm of Hood & Strong. A copy of our audited financial statements and the independent auditors' report are made available on the website of the Diocese.

In the pages following this letter I have included a summary of the financial statements of the Diocese for the year ended December 31, 2019. At the date of this writing, the 2019 audit has not been released by our auditors pending receipt of the audited financial statements of our investment manager, but we do not anticipate any material changes to the results described below.

### **Financial Results for Calendar Year 2019**

The financial books and records of the Diocesan Corporation are composed of five separate funds:

1. the Operating Fund

2. the Custodial Fund
3. the Endowment Fund
4. the Deferred Gifts Fund
5. the Expanding Horizons Campaign Fund (a fund first established in 2016)

The Diocesan Corporation experienced an increase in total net assets of approximately \$6.26 million during 2019 due to unrealized gains in our endowment and planned giving portfolios from strong market returns, a gift to the endowment for the benefit of a congregation of a house valued at \$2.25 million, and modest increases to the net assets of the custodial and capital campaign funds.

The operating fund of the Diocese reported a 2019 deficit of (\$183,675) compared to a surplus of \$82,184 in 2018. A \$190,000 increase to our bad debt allowance was taken as a provision against future losses. Absent this provision, the operating fund would have reported a surplus of \$6,325. The primary sources of revenue for the operating fund are assessment income, gifts, fee income, and the annual income distribution from the Endowment Fund.

The Diocese's endowment funds are managed by the Domestic and Foreign Missionary Society of the Protestant Episcopal Church ("DFMS"), which manages the endowment fund of The Episcopal Church with which the diocesan endowment is co-invested.. The DFMS fund adheres to the social responsibility guidelines of The Episcopal Church, and more specifically, to the mandate of Resolution C045, "Environmentally Responsible Investing", passed by the 78<sup>th</sup> General Convention of The Episcopal Church.

At 12/31/19 the Diocese had outstanding loans to various parishes, missions and Diocesan organizations of approximately \$1.552 million under its program of providing financial support for Diocesan organizations seeking assistance for capital improvements to their properties. The Diocese continues to provide both payroll and personnel benefits services to churches and organizations within the Diocese, a service that is offered in very few other Episcopal dioceses. At the end of 2019 the Diocese had receivables of approximately \$1.763 million for payroll and benefit advances under this program.

### **2020 Forecast and 2021 Budget**

The operating fund is currently expected to finish in the black for the 2020 thanks to Resurrection Fund gifts raised by Bishop Marc and the anticipated forgiveness of the diocesan PPP loan. It is difficult to project the final surplus at the time of this writing, as it will depend on the amount of assessment relief granted in the fall of 2020.

The proposed assessment rate for 2021 continues to be the lower assessment rate approved by Convention in 2011, with a top rate of 17% versus a top rate of 20% in earlier years.

The Program & Budget Committee, Finance Committee, and Executive Council are recommending for your approval a 2021 operating fund budget that will result in a balanced

budget for the year with a small surplus. A copy of this proposed 2021 budget is included in the Convention materials together with prefatory and line item notes.

The 2021 budget approved earlier this year assumed a cost of living increase for salaries of 1.5%. The cost of living increase as measured by the San Francisco Consumer Price Index for All Urban Consumers for the year ending June 30, 2020 was **1.6%**, and in keeping with prior years' practice, the actual percentage increase of 1.6% as of June 30 is submitted to Convention for its approval as the recommended COLA for 2021 salaries.

### **Financial Policies and Procedures**

The Finance Committee of the Executive Council holds monthly teleconference meetings to review the financial affairs of the Diocese. Its monthly discussions include a review of the year to date operating financials, the aging of receivables from the parishes and missions, and the line of credit loan facility available to parishes and other Diocesan institutions. A summary of these meetings is then presented at each month's Executive Council meeting.

Three other committees of the Executive Council also have significant involvement in the financial affairs of the Diocese:

- The Program and Budget Committee prepares the recommended operating budget for the coming year, which is then presented to the full Executive Council and subsequently to Diocesan Convention. Members of this year's committee in addition to myself were Birgit Eschmann, Aidan Jobe Sea, Thomas LaFrance, Rev. Chip Larrimore, Marj Leeds, Jim McConnell, Bruce Morrow, Richard Patenaude, and Eleanor Prugh.
- The Investment Committee has oversight responsibility for the investments of the Endowment Fund.
- The Audit Committee is charged with the responsibility of ensuring that the financial affairs of the Diocese are audited by an independent auditor and that appropriate accounting policies and internal controls are established and followed.

### **Corporation Sole**

The assets of the Corporation Sole except for its real estate holdings were transferred to the Diocesan Corporation in December 2009. A separate report on the financial position of the Corporation Sole follows this report. There was no activity in the Corporation Sole in 2019.

### **Other Matters**

The Diocese and its member churches continue to experience financial constraints, and it is likely that we will continue to see many of our churches suffer from the strain of limited financial resources and the effects of the COVID-19 pandemic. This calls for the Diocese to be particularly mindful of its fiduciary responsibilities for the financial welfare of the Diocese and its churches and missions.

I wish to express my thanks to Tom Ferguson, Joann Aicardi, Sarah Crawford, Jim Forsyth, and all the staff at Diocesan House for their hard work and assistance over the past year.

Respectfully submitted,

B. Bradley Barber, Treasurer

August 24, 2020