

Right Reverend, clergy, delegates, and virtual guests; good morning.

Years ago, a friend of mine was poking fun at me one day and said, “You know, all of you accounting and financial types are alike. You like things organized, structured, and predictable; after all you spend most of your day just putting numbers in boxes on a ledger sheet.” Now, I would like to think that my profession requires a little more substance than that. In fact, his comments sounded rather elementary; more like me encouraging one of my grandchildren using crayons to color between the lines in a coloring book. But in self-awareness, I must admit grudgingly that his description probably contained some truth.

The year 2020 has been anything but organized and predictable. For me, I yearn for the day when I could just only think about putting numbers in boxes.

In early spring, soon after the Covid- pandemic struck, we at the Diocese, including Bishop Smith, then Bishop-elect Johnson, Desiree Brattin, and I met and tried to assess and predict what this could mean for us financially. Like you, we did not know what the future held for us. What we did decide that day, was that if there ever was a reason to tap into our “rainy day” funds, this was probably going to be it. We identified several causes of action:

1. Since we thought we might have a liquidity squeeze, we made the decision to generate cash by selling \$500,000 of our fixed income DIT investment portfolio.

2. We also assumed that many of our parishes might be in the same position. So, we made the recommendation to Diocesan Council to try and support our parishes by granting an assessment deferral, or holiday, until June 30<sup>th</sup>; and finally
  
3. We decided to set aside, with Council's approval, a non-budgeted fund of \$200,000, whereby financially distressed parishes could apply for emergency grants in case of dire need. We had five parishes and one pending, that took advantage of these emergency grants. Diocesan Council determined to repurpose the remainder of the money for Covid-19 cleaning grants and technical grants for virtual services
  
4. Also, subsequent to that meeting we determined that we would apply for a PPP (or Payroll Protection Program) loan, and in fact like many of our parishes, were granted a loan in excess of \$240,000.

These actions gave us the ability to weather the storm, but obviously negatively impacted our financial operations for the year. Although we have been able to reduce expenses due to a lack of travel and programs throughout the year, our year-to-date financial statements show an operating loss of \$195,000. However, we anticipate that if, and when, the PPP loan is ultimately forgiven it will offset these losses and get us back to a break-even position.

Over the last decade we have been focusing on the Diocese's financial condition, and longer-term sustainability. Financial sustainability, similar to environmental sustainability, requires responsible budgeting and prudent stewardship of our resources. We have looked at key indicators, such as declining daily Sunday attendance and changing demographics of our congregations, and questioned "how that would translate to future revenues and reliance on assessments?". We have also looked at our financial assets to see if we could manage those assets more efficiently, squeezing additional monies from those investments without structurally adding to our investment risk profile. We slowly have undertaken changes over the years. Among other things, we:

1. Consolidated all endowed assets under one investment manager, thereby saving several hundred thousand dollars a year in investment manager fees; and
2. Since we met the qualifications, we applied and were granted by the IRS a change in the tax classification of the Thompson Trust and the White Trust from private foundations to supporting organizations to save on Federal excise taxes applied against our investment income from these trusts.

This year I would like to report of two additional developments.

- a. Historically, we have been conservative in constructing our investment portfolios, following a 60/40 maximum allocation between equities and fixed income. Similarly, our asset selections excluded higher risk assets with less liquidity, such as real estate and private equity. Ten years ago, the long-term projected rate of return with our type of portfolio was close to 8%. However, the prolonged low interest rate environment in recent years has significantly impacted our long-term projected rate of return to a point where we are now looking at low to mid 6% numbers.

Some may ask, “Why is this so important?” The simple answer is to sustain the status quo and to protect and maintain our long-term revenue stream at today’s purchasing power, we have to earn 7% annually to meet our 4.5% annual spending policy, cover our investment manager fees and to provide 2% as an estimate of the Federal Reserve’s inflation rate target.

So, this year the Endowment Committee, in consultation with our investment manager and following their recommendation, approved a 5% allocation to private equities in an attempt to boost our long-term projected rates of returns, while only moderately increasing our portfolio risks.

b. However, the biggest news in 2020 relates to the White Fund. The White Fund was established in 1952 by Kelton and Alma White for the sole purpose of providing a funding source whereby parishes of the Diocese could apply for loans to be used for capital projects. Due in large measure to the restrictive covenants of the trust and corresponding lack of demand and ability of parishes to service debt, the White Fund has grown to approximately \$20 million. Over the years, we kept looking at this endowment as an underutilized financial resource.

We began to investigate the possible alternatives to modify the trust with our Diocesan Chancellor, who provided us with a roadmap. First the Bishop and our Standing Committee would need to propose and agree to modifications. We then would need to seek approval from our corporate trustee, then the Attorney Generals of both the States of Missouri and Pennsylvania, and finally we would need to seek approval from the court to approve our petition to modify the terms of the trust. As you might imagine,..... the wheels of bureaucracy..... move .....very slowly. But after several years in the works, I can report that our petition to modify the terms of the trust was finally approved by the court in July of this year.

Briefly, the new modified terms for distributions from the trust which are a little less restrictive are as follows:

- 1 Making loans to parishes, as before;

- 2 Making grants to financially distressed parishes for capital projects, taking in account various financial factors;
- 3 Making emergency repair grants up to \$25,000; and
- 4 Making grants for general operating purposes for parishes which the Bishop with the concurrence of Standing Committee determines are in a location critical to the mission of the Diocese.

I would be remiss if I did not recognize several individuals that had significant roles in making this happen.

First, members of Standing Committee, Dick Entenmann of Grace Kirkwood and Deacon Jere Birdsong who at the time years ago initiated the proposed modifications and also, of course, our Chancellor Hal Burroughs. However, the one individual who doggedly pursued all the required approvals, and who shepherded the whole process, our Vice Chancellor, Andrew Bleyer.

I now would like to move on to discussing the proposed 2021 general operating budget. As some of you may know, the budgeting process is outlined and governed by our Canon III.7. That process starts in July with the solicitation of requests from interested parties, then

1. We meet with the Bishop to get his guidance and input;
2. The Finance Committee, which consists of the Lyn Ballard from Grace Kirkwood, Liz Yount from St. Peter's and I do an in-depth review before sending our recommendation to Council;
3. Council then reviews that recommendation and makes additional comments, before sending to our convocations for a third level of review and commentary.

4. Finally, Council considers the comments from our convocations and makes a final approval of the budget that you see before you today.

I emphasize the process, because it demands multiple levels of input from all across our Diocese at various stages, challenging our thinking and vetting the proposed budget before it is presented to you today for your consideration.

Moving to the details, first on the revenue side:

1. Earlier I discussed the reliance on parish and mission assessments. This year assessments are even more problematic due to the potential financial ramifications of the pandemic on our congregations. We have factored a \$50,000 decrease in anticipated assessments, after backing out the Cathedral's increase in assessment, which is a non-cash offset for Diocesan office rent.
2. Our endowment and investment income are calculated based on spending policy formulas utilizing the fair market value of investments, and the Thompson Trust component is included based on the Bishop's commitment.

On the expense side:

1. We continue with 100% of our National Church assessment;
2. Consistent with our past practice, we incorporate a COLA adjustment for our employees of 1%, which corresponds to the increase in the Consumer Price Index. Of note, Bishop Johnson has opted to forgo this increase.

3. We include a 4 1/2% increase in benefits for our employees.
4. We include a new line item (51) of \$20,000 for property management to cover the expenses associated with the Grace Hill property for which the Diocese inherited back.; and finally
5. We include various levels of support for our financially distressed parishes. This historically has been an area of great focus and time, as we review and consider relevant facts regarding their respective needs, financial statements, sources of revenue support, and the existence, if any, of endowments.

I trust that you will find this budget balanced, not only in the traditional financial sense, but also balanced in terms of addressing needs across a diverse diocese with many activities and ministries.

I hope that we return to “normal” times in 2021, but my fear is that it may be only wishful thinking. What I do suspect is that we will need to be flexible and be prepared to modify and manage our financial resources as future events may dictate.

Submitted by Tom Hedrick,  
Treasurer

