

Narrative Budget for 2019

This Narrative accompanies the 2019 Proposed Budget and is divided into five parts and two addenda.

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Part 1 – Executive Summary

We are in the second of what we expect will be a three-year cleanup of our budget and financial systems.

In 2017 we began living into many of the canonical changes and suggestions outlined in the Strategic Plan approved at the 2016 Diocesan Convention. The Budget and Finance Committee of Council was restructured into two Committees: 1) a Budget Committee of Council, and 2) a Finance Committee of the Trustees. Ex officio members of each committee include the CF&O, Controller, Treasurer, the Chair of the Budget Committee, and Chair of the Finance Committee. It quickly became clear that needed financial cleanup would be as extensive as the Strategic Plan envisioned.

By mid-2017, the Budget Committee found itself in the unenviable position of being unable to include a budget narrative and spreadsheet in the Calendar of Convention. We did not have accurate 2016 numbers which meant that our projections for 2017 were incomplete. We did not have a clear picture of our Apportioned Share Income because canonical changes had been made in 2016 adjusting how and when Apportioned Share increases could be capped, and for that reason we were working with very conservative estimates on income. Over all our working projections indicated sizable deficits for 2017 and 2018.

At Convention 2017 we presented a skeletal budget for 2018 that removed about \$1,000,000 from disbursements. The 2018 Budget was passed by Convention with the expectation that the Trustees would revise the budget based on better 2018 projections and also with the expectation that the Trustees would allocate additional money for special projects related to the work of the Finance Committee.

In April 2018 the Trustees approved a Revised Budget that was based on 2017 actual disbursements and the expectation that the Bishop would personally address underpayment of Apportioned Shares with specific congregations. This Revised Budget also included a new

allocation for approximately \$500,000 in special projects including, among other things, an extensive audit of the parish payroll account, the creation of a payroll policies and procedures manual, and a review of the designated/restricted funds held by the Diocese. Throughout 2018 the Finance Committee has overseen these special projects and has requested additional funding for 2019 to finish this necessary work.

The 2019 Proposed Budget is very much a “hold-where-we-are” budget. Our income picture is somewhat clearer than it was a year ago. We hope that as the Bishop addresses underpayment of Apportioned Shares with specific congregations we will see a positive result in that part of our income, and we anticipate that 2019 Apportioned Share income will be in line with the modified Trustees budget. Apportioned Share income includes a standard reserve line for bad debt (aka unpaid or underpaid Apportioned Shares) and future Apportioned Share reductions. The diocese has also faced cash flow challenges due to Apportioned Share arrearages, the ongoing Special Projects of the Finance Committee, and the funding of outstanding loans to congregations. As a contingency we have budgeted a bit more than \$350,000. All in all, our income picture is improving, but we recommend maintaining a conservative approach to spending for 2019. With that in mind, we have maintained many of the emergency cuts that we enacted in 2018.

Aside from our financial realities we also faced some systemic realities that complicated our work on the disbursement side of the budget. As we sought to develop this budget one of the challenges that the Budget Committee and the Bishop’s staff faced was determining exactly who or which body had proper oversight of program areas, specifically the lines funding clergy in strategic settings (the 400 section of the budget). These essential programs account for approximately ¼ of the entire budget and are mostly overseen by staff though many of these used to include oversight by Commissions or Committees (such as the Congregational Support Plan Committee). We recommend establishing or reestablishing Commissions, Committees, or Advisory Boards that provide an oversight model that more accurately reflects our ecclesiology. These Commissions, Committees, or Advisory Boards should be accountable to, and have a direct relationship with, the Trustees and Diocesan Council. *Note: In its October 2 meeting, the Diocesan Council unanimously affirmed this (underlined) recommendation.*

Part 2 – Income for 2019

A few highlights of the 2019 Proposed Budget income:

- **Line 002: Total Adjustments due to 12.5% Cap & Adjustment Board:** This line lowers Gross Calculated Apportioned Shares for 2019 by the amount approved (as of September 20, 2018) by the Adjustment Board. It also includes any adjustments required by the 12.5% maximum year-over-year increase enshrined in Canon 17.
- **Line 004: Reserve: Bad Debt & Projected Adjustments:** This line has been renamed from “Unpaid Apportioned Shares” to “Reserve: Bad Debt & Projected Adjustments”. This is a bad debt reserve line for defaults in Apportioned Shares and future adjustments. It is essentially a contingency line that budgets a flat (\$1,500,000) to cover future Adjustments (as noted above Line 002 was current as of September 20, 2018) and an estimate for nonpayment or underpayment.

- **Line 005: Net Income from Apportioned Shares:** Our net income from Apportioned Shares is in line with historic realities, and in fact one could argue that it may be a bit high.
- **Line 010: Trinity Grant in Support of Liaison for Global Mission:** This temporary funding source has been zeroed out after the conclusion of a several-years-long commitment by Trinity Church. The staff position of Liaison for Global Mission is not affected by this loss of funding.
- **Line 012: Fundraising Income - Year of Lamentations:** A three-year program of racial reconciliation (beginning with a “Year of Lamentation”) was passed by Convention in 2017 without any funding request. The Social Concerns Commission line (Line 606) absorbed initial funding in 2018, and the Trustees added a fundraising line to ensure that finances were balanced. This line is zeroed out in 2019 and all events in Year 2 will be funded by the Social Concerns Commission or through event fundraising and fees.
- **Line 014: Contribution to General Endowment (25% Cap):** By Canon no congregation can pay more than 25% of the total disbursement budget. Trinity Church, Wall Street, is assessed an Apportioned Share of more than 25%; the “extra” money is transferred to the endowment of the diocese.
- **Line 015: Contingency:** An additional contingency of about \$350,000 is built into the budget on the income side. The somewhat unwieldy exact dollar amount exists to balance the budget.

Total income is budgeted at \$11,172,501 which is more conservative than the 2018 Revised Budget by about \$255,000, though this is nearly \$885,000 over the 2018 Convention Budget.

Part 3 – Disbursements for 2019

A few highlights of the 2019 Proposed Budget disbursements:

100 Section

- **Line 101:** Our Assessment to the Episcopal Church has increased based on updated calculations. We have budgeted our full Assessment. This will increase disbursements by about \$180,000.
- **Other Lines in the 100 section** are budgeted at 2018 levels.

200 Section

- **Line 208:** Canon for Pastoral Care Line is increased to supply funding for chaplains for the deaf and for retired clergy.
- **Other lines in the 200 section** are budgeted at 2018 projected levels.

300 Section

- **Line 301:** The staff position of Director of Strategic Planning will be eliminated in 2019. The work overseeing various Strategic Congregations will be shared by the Canon to the Ordinary and the Canon for Transition Ministry. This will decrease disbursements by about \$170,000.
- **Other lines in the 300 section** are budgeted at 2018 projected levels.

400 Section

- **Line 401:** CSP Transition Clergy Compensation continues to decrease according to an agreement reached in 2016.
- **Line 402:** Harlem Initiative restored to 2017 levels.
- **Other lines in the 400 section** are budgeted at 2018 projected levels. Please note that there were numerous coding issues in the 400 section of the budget which have been cleaned up and which account for the year-to-year variances.

500 Section

- **Line 505:** Property Support Grants and **Line 506:** Christian Formation Commission Programs / Young Adult Ministry are budgeted at the amount requested by each Committee/Commission.
- **All other lines in the 500 section** are budgeted at the same levels as 2018.

600 Section

- **Line 604:** Sustainable Development Goal Grants is funded at a level that similar to the amount of grants the Commission has been able to give out in 2018 by pulling from its own line and prior years' remaining grant money. It is now approximately 55% of the level suggested by the Episcopal Church (0.7% of our total budget). This line was zeroed out in 2018.
- **Line 606:** Social Concerns Commission is budgeted at the amount requested by the Commission for 2019. Please note that the first Year of Lamentation, a program of the Reparations Committee, was passed by Convention in 2017 without any funding request made by the Reparations Committee. To ensure that the program was funded, the Trustees allocated additional money to the Social Concerns Commission Line and also added a new line to the 2018 Revised Budget, Line 012: Fundraising Income - Year of Lamentations, to offset costs. Funding for Year 2 is included in the Social Concerns Commission Line and all budgetary funding will be allocated by the Social Concerns Commission. Any additional funding will be through event fundraising and fees.
- **Line 608:** New York Service & Justice Collaborative: this line used to be part of the Christian Formation Line and was broken out for clarity.

- **Line 609:** Companion Diocese Relationship: This is the only new line in the Budget, though it is a restoration of a past relationship. The Diocese of New York had a companion relationship with the Diocese of Central Tanganyika and this line will nurture and continue this relationship.
- **All other lines in the 600 section** are budgeted at the same levels as 2018.

700 Section

- **Line 701:** The Diocese and the Cathedral have reached an agreement (for at least the next five years) that closes the gap between the cost sharing agreement and the Apportioned Share paid by the worshipping congregation of the Cathedral. This will decrease disbursements by over \$500,000, and it does not affect Apportioned Share income.
- **Line 703:** The Administration line covers all operations and finance staff and has served as a catch-all for many diocesan expenses. Part of the ongoing work of the Finance Committee is to find a way to adequately break out elements of this line.
- **Line 704:** We have allocated \$400,000 to finish ongoing Special Projects of the Finance Committee. We do not anticipate these projects continuing past 2019.
- **Other lines in the 700 section** are budgeted at 2018 projected levels.

800 Section

- **All lines in the 800 section** are budgeted at 2018 projected levels.

900 Section

- **All lines in the 900 section** are budgeted at 2018 projected/budgeted levels.

1000 Section

- **Line 1000** is budgeted to cover expected Health Insurance increases for all personnel in the budget. This line also includes a 2% Cost of Living increase for Diocesan Staff – as of September 15, 2018 the 2019 Social Security increase is expected to be 2.8%. This line also includes a 2% increase for all clergy paid at the Diocesan Minimum – we anticipate that this increase in the Diocesan Minimum will be approved by Convention this year.

Total disbursements are budgeted at \$11,172,501 which is about \$325,000 less than the 2018 Revised Budget, though this is nearly \$500,000 over the 2018 Convention Budget.

Part 4 – Conclusion

The budget is balanced. A few points bear emphasis.

This budget is more conservative than the 2018 Revised Budget, but less conservative than the 2018 Convention Budget. As much as possible we focused on maintaining necessary core expenses including requirements of being an Episcopal Church and commitments to diocesan staff and strategic settings.

It may appear that there is room for expansion in the near future based on seemingly large contingency amounts, limited time Special Projects of the Finance Committee, and a very beneficial agreement between the Diocese and Cathedral. I would caution any overt optimism until the Finance Committee has finished its work. We anticipate that our work will conclude in 2019, but based on how the process has gone, it is not entirely out of the question that our work may continue into 2020. We certainly hope to be done in time for the 2020 budget. As the chair of the Budget Committee and ex officio member of the Finance Committee, I ask your continued patience.

We have an excellent team. I am very grateful for the support and oversight of Bishop Dietsche and his staff. I am very grateful for staff of the Finance Office, in particular Esslie Hughes, Masiel Jordan, and Karin Almquist, who have done the lion's share of the work on this budget and for the Finance Committee and the Budget Committee. I am very grateful for Sr. Faith Margaret, CHS, for her work as Treasurer. I am also very grateful for Billy Wright whose work chairing the Finance Committee and overseeing all of the Special Projects has been exceptional. Lastly, I am grateful for the hard work and time put in by the numerous members of the Finance and Budget Committees.

We invite your questions about any of the lines and changes we have suggested. We ask that you support this budget.

Part 5 – Committee Organization

According to Canon 17 of the Canons of the Diocese of New York: “The Budget Committee shall consist of: a Chair of this Committee appointed by the Bishop, the Treasurer of the Diocese (ex officio), the Chief of Finance and Operations of the Diocese (ex officio), the Chair of the Finance Committee of the Trustees (ex officio), three (3) members of the Council of the Diocese appointed by the Bishop, two (2) members of the Trustees appointed by the Bishop, and others as appointed annually by the Bishop to this Committee.”

The Right Reverend Andrew M. L. Dietsche appointed the following to the 2019 Budget Committee:

The Rev. Matthew Mead
Christ the Redeemer, Pelham
CHAIR BUDGET COMMITTEE
Council, ex officio

The Rev. Michael Bird
Christ Church, Bronxville
Chair Christian Formation Commission
Council, Class of 2020

Robert Cummings
St. Matthew’s, Bedford
Co-Chair Adjustment Board
Trustee, Class of 2019

The Rev. Katharine Flexer
St. Michael’s, Manhattan
Trustee, Class of 2020

The Rev. Sam Owen
Haitian Congregation of the Good Samaritan, Bronx
Council, Class of 2019

The Rev. Jennifer Reddall
Epiphany, Manhattan
Trustee, Class of 2018

The Rev. Matthew Moretz
St. Thomas Church, Manhattan

Peter Saros
Church-without-walls, Bronx
Chair Leadership Development
Council, Class of 2018

Sr. Faith Margaret, C.H.S.
Community of the Holy Spirit, Manhattan
Ex officio, Treasurer

George Wade, Esq.
St. James’, Manhattan
Ex officio, Chancellor

William Wright, II
St. Thomas, Manhattan
Ex officio, Finance Committee Chair
Trustee, Class of 2018

Esslie Hughes
Chief of Finance and Operations
Ex officio

The Rev. Canon John Perris
Canon to the Ordinary
Staff Liaison

Masiel Jordan
Controller
Staff Liaison

Chontel Simmons
Director of Human Resources
Staff Liaison

In Christ and on behalf of the Budget Committee,

The Rev. Matthew Hoxsie Mead,
Chair of the Budget Committee of the Diocese of New York
matthew@christchurchpelham.org; 914-738-5515 (office); 914-471-0260 (cell)

Addendum 1 – About the Budget Spreadsheet and Accrual Accounting

The Budget Spreadsheet includes the 2017 Budget, the 2018 Budget that was passed by Diocesan Convention in 2017 (“2018 Convention Budget”), the 2018 Budget revised by the Trustees in April 2018 (“2018 Revised Budget”), and the 2019 Proposed Budget. There is a variance column comparing the 2018 Revised Budget and the 2019 Proposed Budget.

The Budget Spreadsheet does not contain 2017 Actuals. Past years’ budget spreadsheets have included columns denoting prior year actuals, and providing this information has proven less than helpful: Numerous people have misunderstood these numbers, in large part because they do not fully grasp the difference between cash and accrual accounting. (Please see the **Addendum 2 – Accounting 101: Cash Vs. Accrual** at the end of this document for a very brief synopsis of cash vs accrual accounting.)

The published version of the 2018 Revised Budget is actually a great example of how an attempt to be transparent can cause confusion rather than clarity. The spreadsheet titled “**2018 Approved Budget as Revised by Trustees**” was circulated to the Trustees and Diocesan Council and made available on the Diocesan website:

<https://www.diocesenyny.org/ednyfiles/2018-approved-budget-as-revised-by-trustees/?wpdmdl=43401&ind=1532974379818>

That spreadsheet included a column titled “2017 Actuals”. At first glance, income looks great! Upon closer examination one might notice that income looks identical to the budgeted numbers. It is very important to note that the income numbers in this column do not reflect actual money received (cash accounting), but rather income recorded on an accrual basis. Most notably, it doesn’t account for Apportioned Share payments that were not received (at all or on time). That reality is not obvious without some narrative background or an accounts receivables report alongside the spreadsheet.

The Diocese of New York manages its financial statements on an accrual basis. In my experience, most non-accountants and non-finance people tend to think of income on a cash basis rather than an accrual basis. Additionally, most congregations prepare their regular financial statements on a cash basis rather than an accrual basis. Only their audited financials are prepared on an accrual basis. Very large congregations and all businesses that operate with budgets over \$5,000,000 prepare their financial statements for income on an accrual basis rather than a cash basis.

In a smaller organization, cash accounting is easier and the “snapshot” it provides at any given point can be quite accurate. However, in a larger organization, cash accounting can be quite problematic because the “snapshot” is constantly being updated as earned income payments come in. In the case of the Diocese of New York, Apportioned Share payments don’t all come in on time or before the year is closed out, or at all. If we presented income for the most recent year on a cash basis, it would look far worse than reality, because income would simply be a snapshot of the moment the year was “closed”.

In a larger organization, accrual accounting makes it easier to keep an eye on the big picture and adjust for the reality of delayed payments that will eventually come in – even if they come in years later. If we were to present income for the most recent year on an accrual basis without a reserve, it would look unrealistic, because income is set at the level that it was “earned” before any write off.

Accrual and cash accounting each have their advantages and disadvantages, but for the most part cash accounting only works for smaller organizations or for providing board members a snapshot of the organizational cash position. For example, even in a very large congregation it is normal for a Treasurer to present regular financial statements to the Vestry that are a mix of cash and accrual accounting. Doing so allows the Vestry to have some sense of the real time cash position of the parish. Most parishes offer a bird’s eye financial picture at the annual meeting.

The Trustees of the Diocese of New York have similar responsibility to a parish vestry, and our Finance Committee is required to present regular financial statements to the Trustees. For a number of years that was not done regularly in our diocese. Correcting this problem was both a recommendation and a canonical change made during the 2016 Strategic Plan process. The Finance Committee and the Bishop’s staff have been working to correct this problem, and I am pleased to say that progress has been made in getting a more accurate “real time” picture to the Trustees. More work remains to be done.

All of that is to say that the diocese manages its finances on an accrual basis. This year’s budget spreadsheet does not have income “actuals” for 2017 because providing that information would create more confusion than clarity. Per our Strategic Plan the Finance Committee and Bishop’s staff have made significant progress towards ensuring that the Trustees are provided regular, accurate financial statements. Also, per our Strategic Plan, the Finance Committee and Bishop’s staff are working towards providing annual financial statements to the diocese. Finally, the Budget Committee is working with the Finance Committee to figure out a way to present to the entire Diocese an accounts receivable report alongside the budget in a way that is helpful.

In Christ and on behalf of the Budget Committee,

The Rev. Matthew Hoxsie Mead,
Chair of the Budget Committee of the Diocese of New York

Addendum 2 – Accounting 101: Cash Vs. Accrual

The cash basis and accrual basis of accounting are two different methods used to record accounting transactions. The core underlying difference between the two methods is in the timing of transaction recordation. When aggregated over time, the results of the two methods are approximately the same. A brief description of each method follows:

- Cash basis. Revenue is recorded when cash is received from customers, and expenses are recorded when cash is paid to suppliers and employees.
- Accrual basis. Revenue is recorded when earned and expenses are recorded when consumed.

The timing difference between the two methods occurs because revenue recognition is delayed under the cash basis until customer payments arrive at the company. Similarly, the recognition of expenses under the cash basis can be delayed until such time as a supplier invoice is paid. To apply these concepts, here are several examples:

- Revenue recognition. A company sells \$10,000 of green widgets to a customer in March, which pays the invoice in April. Under the cash basis, the seller recognizes the sale in April, when the cash is received. Under the accrual basis, the seller recognizes the sale in March, when it issues the invoice.
- Expense recognition. A company buys \$500 of office supplies in May, which it pays for in June. Under the cash basis, the buyer recognizes the purchase in June, when it pays the bill. Under the accrual basis, the buyer recognizes the purchase in May, when it receives the supplier's invoice.

The cash basis is only available for use if a company has no more than \$5 million of sales per year (as per the IRS). It is easiest to account for transactions using the cash basis, since no complex accounting transactions such as accruals and deferrals are needed. Given its ease of use, the cash basis is widely used in small businesses. However, the relatively random timing of cash receipts and expenditures means that reported results can vary between unusually high and low profits.

The accrual basis is used by all larger companies, for several reasons. First, its use is required for tax reporting when sales exceed \$5 million. Also, a company's financial statements can only be audited if they have been prepared using the accrual basis. In addition, the financial results of a business under the accrual basis are more likely to match revenues and expenses in the same reporting period, so that the true profitability of an organization can be discerned. However, unless a statement of cash flows is included in the financial statements, this approach does not reveal the ability of a business to generate cash.

(from <https://www.accountingtools.com/articles/cash-basis-vs-accrual-basis-accounting.html>)