

CHRIST CHURCH DETROIT
Financial Report for 2021 Annual Meeting

This report is a substitute for the live financial presentation that is normally given at the annual meeting of the members of Christ Church Detroit. Those of you have attended such meetings in the past may remember this as the part of the meeting in which the speaker and others present spend a lot of time shuffling papers trying to find the numbers being discussed. In addition to the information in this report, we are attaching responses to some frequently asked questions about specific items in the statements and budgets.

1. The Bottom Line. Despite the many disruptions over the last year, the "2020 Actual" results (which are shown in the middle column of the statement that also has the budgets), report a net operating gain of \$5,934. The value of the endowment and other assets invested through the Diocese also increased in 2020. These are extraordinarily good outcomes, and ones that we all can celebrate.

Much of the credit for the outstanding results go to the generosity of our parishioners, especially those who were able to dig a little deeper to increase their giving in 2020 and their pledges for 2021. Credit also goes who organized and participated in programs such as the online worship services that included beautiful music and flowers, the prayer, study and art groups, the diaper drive, Emily's Angels, countless Zoom meetings and the many other activities that kept members engaged in the life of the parish when we could not meet in person. Some credit also has to be given to more unusual sources of significant support: namely, the Episcopal Diocese of Michigan and the federal government.

2. Coping with the Pandemic. The COVID-19 pandemic disrupted the financial operations of the Church in all sorts of ways. These included long delays in receiving mail, limited access to the buildings and records and even shortages of construction materials.

A. The Ups and Downs. The impact of the pandemic on particular types of income and expenditures varied considerably.

i. Increased Giving. Despite some delays in receiving pledge payments during the spring and summer, individual contributions to the parish during 2020 exceeded the budgets by about \$50,000.

ii. Expenses with Little Change. Because the Vestry decided to maintain the employment of the regular staff, compensation costs for those individuals remained at or very close to budget for 2020. The 2021 budget shows similar compensation expenses for this year. There were also other large expenditures, including the Diocesan assessment, insurance premiums and property taxes that remained about the same.

Christ Church Detroit

Financial Report for 2021 Annual Meeting

Page 2

iii. Offsetting Losses and Gains. A few kinds of revenue, including donations for flowers and charges for food, decreased substantially, but those reductions were largely offset by decreases in the corresponding expenses.

iv. Losses in Income from Parking and Use of the Buildings. The greatest negative impact on the operating budget resulted from lost revenues from parking and from the use of the Church buildings by outside groups and for special events.

v. Outreach. Soon after the pandemic began, the Vestry decided to allocate the Easter offering of \$2,500 to community outreach. In order to reflect this, a new line item for outreach was added to the 2020 budget and has also been included in the 2021 budget. While this was a modest change, it represents the first time in many decades that outreach has been supported through the regular operating budget.

vi. New Sources of Revenue.

a. The USA. The second largest source of new support in 2020 (after the increase in member giving) was the \$48,900 forgivable loan received from the federal government under the Payroll Protection Program. The Church appears to have met the requirements for the loan to be forgiven in its entirety, but, because the amount received was relatively small, it is not yet eligible to submit the paperwork necessary to confirm that outcome. Once a submission has been approved, the \$48,900 liability with respect to the loan shown on the balance sheet can be deleted.

b. The Diocese. In April, 2020, the Church began to receive reimbursement from the Episcopal Diocese of Michigan for all of the compensation and benefits associated with the employment of Pastor Anthony under a program supporting priests during the first three year of their ministries. Diocesan support has also included three \$10,000 grants for the storm water management project, the repair of the sanctuary floor and the restoration of the bell tower. In addition, the Diocese provided a \$250,000 loan in October to finance the work being done on the bell tower. The Vestry has indicated that it expects to repay this loan over four years using money to be raised under the capital campaign.

B. Budgeting Changes. In September, the Vestry adopted a revised 2020 budget reflecting the many positive and negative changes resulting from the pandemic. The 2021 budget was prepared on the assumption that the COVID-19 restrictions would be in effect for six months and that the Church facilities would be fully open for six months. Those assumptions are beginning to look a bit optimistic, but a variation of a month or two is unlikely to have a major

Christ Church Detroit

Financial Report for 2021 Annual Meeting

Page 3

impact. The 2021 budget retains the "Covid" and "No Covid" columns as a reference in order to assist in evaluating operating results during this year and to help in preparing the 2022 budget.

3. Investment Results. The quick recovery of the securities markets after a large decline in the spring of 2020 made an important contribution to the financial stability of the parish. The Church continues to invest its endowment and some of its unrestricted reserves in the Growth and Income Fund administered through the Episcopal Diocese of Michigan. The Diocese has reported that the market value of the investments in the Fund at the end of 2020 was \$1,769,831. That is about \$54,000 higher than it was at the end of 2019. The Church also received "dividend" distributions of \$70,631 from the Fund during 2020 and withdrew \$100,000 in October to meet cash needs for operations.

4. Technical Comments (i.e., the Wonk-y Stuff/Optional Reading).

A. Presentation of Distributions from the Investment Account. The 2021 budget and the "2020 Actual" figures reflect a change in policy adopted by the Vestry that affects the way distributions from the Diocesan Growth and Income Fund and the operating shortfalls are reported.

For the past decade or so, the annual excess of operating expenses over operating income has had two components. One was a hypothetical "prudent draw," equal to approximately 5% of the market value of the account at the end of the preceding year, and the rest was expenditures beyond the "prudent draw." For example, in the original 2020 budget, the total excess of expenses over income was projected to be \$173,654 and the "prudent draw" (which is not shown in the year end budgets) was \$78,000, resulting in projected expenditures above the "prudent draw" of \$95,654.

The Diocesan Growth and Income Fund offers quarterly cash "dividends" for participating organizations that elect to receive them. For 2021, the dividends have been set at 4.10% of average market value of the Fund over the preceding five years, a percentage that is less than half of the average rate of return for the fund over the same period. In the past, the parish has been receiving these distributions and has reported them in its overall statements, but has not taken them into account in determining the net revenues from operations.

The recent change in in policy that is shown in the "2020 Actual" and 2021 Budget figures substitutes the actual cash distributions from the Diocesan fund for the "prudent draw," and includes them as revenue in the operating budget. As a result, the figure showing the excess of operating expenses over operating income (or operating income over operating expense) no longer

Christ Church Detroit

Financial Report for 2021 Annual Meeting

Page 4

includes the prudent draw and is the actual "bottom line." This change in policy is also designed to make it easier to allocate additions to and withdrawals from the fund among the various restricted and unrestricted subaccounts and to see that restricted dividends and withdrawals are used for their intended purposes.

B. Statements Not Final. The fact that the parish annual meeting usually takes place in January can make it very difficult, or even impossible, to assemble all of the information necessary to prepare complete statements. We received the report from the Diocese on investments this week and the new numbers have not yet be included in the balance sheet. Also, bills from RAM Construction for the work done on the bell tower last year were apparently sent to a former employee, instead of to the Church. That may reduce special funds balances, but is unlikely to affect the operating costs. Additional changes may be necessary in other parts of the statements.

5. Challenges and Opportunities Ahead. In recent annual meetings, this part of the financial report has sometimes been called "clouds on the horizon." In this case, there are several factors that could make it difficult in 2021 to replicate the financial success achieved in 2020. One is that it is unlikely that the Church will receive government support in 2021 comparable to the \$48,900 Paycheck Protection Program payment received in 2020. Pastor Anthony served at Trinity Church in 2019 and at Christ Church last year, so the three year Diocesan program providing reimbursement for his compensation is expiring. While parking lot revenues are expected to increase after workers return to their offices in the later part of 2021, it may be several years before that income reaches pre-pandemic levels. Also, continued growth in financial markets is, of course, uncertain.

Finally, the Church received notice late last year that it will be receiving approximately \$77,000 from a trust created by Nancy vom Steeg before her death. Under current Vestry policies, 10% of the amount received will be dedicated to outreach and at least 60% will be added to the unrestricted portion of the investment account at the Diocese. We appreciate this gift and the thoughtfulness and effort that made it happen.

In closing, we should all be grateful that we are in a financial situation that is far better than we could have imagined last spring. All those who contributed to that outcome through their donations, work and prayers are entitled to our sincere thanks.

Jane Forbes, Finance Committee Chair