

Summary of 2019 Income, Assets, and Expenses
of the Episcopal Diocese of North Dakota
(updated 6-17-20)

Submitted to the Diocesan Discernment Task Force, June 15, 2020
by Amy Phillips & Dan Rice



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Preface by Phillips & Rice

In May 2020, Dr. John Baird, chair of the Diocesan Discernment Task Force (DDTF), asked us to assist the DDTF by providing a summary of the finances of the ND Episcopal Diocese in a manner that might help the DDTF understand the finances in the context of the Diocese's process of discerning whether or how to move forward with calling a Bishop. We were asked to pursue this task not because we are professional accountants or financial advisors but because we were perceived as individuals who are committed to the well-being of the Diocese, willing to ask questions, and able to construct a report understandable to any parishioner. We hope the information compiled below meets the needs of the DDTF.

In the process of developing this report, we consulted with several individuals and reviewed many documents. We are particularly grateful to Charlotte Peterson (Diocesan Assistant Treasurer) who is in the process of formally reconstructing the Diocesan 2019 & 2020 budgets after the resignation of the Bishop and two consecutive Diocesan staff. Ms. Peterson provided us with guidance and clarification, answered innumerable questions, and reviewed the report draft. She will be able to provide supplemental and updated information to this report. We also received assistance from available members of the Diocesan Finance Committee (Fr. Duffy Williams, John Baird, Fr. John Floberg, Charlotte Peterson, Fr. Bart Davis, and Andrea Stomberg) and from the President of the ND Episcopal Foundation, Leo Wilking. Regardless of the invaluable assistance we received from these individuals, we alone are responsible for the information in this report and anyone else should be held harmless for inaccuracies, misrepresentation, or missing information.

Primary documents used for development of the information below included "Income & Expense vs. Budget as of 3-31-20]," "2/23/95 Policies for Endowments, etc.," "Balance Sheet December 2019," "Endowment Fund 12/31/2019," "Designated Fund Summary for December 2019," "Operating Fund Restricted/Designated Funds (Net Assets) – 31 December 2019," "ND Episcopal Foundation Gift History, Restrictions and Guidelines," and NDEF financial reports.

This report is not an official audit or financial statement. It is simply an illustration of the financial operation of the Diocese. There are many sources of revenue for the Diocese including designated funds that have been set up by the Diocese over the years, trust and endowment funds, grants, and Our Fair Share income. Fund definitions are used differently in different documents and no one document explains everything completely. The finances of the Diocese are a moving target, especially with current economic instability, so Ms. Peterson and the Finance Committee are the most

reliable sources of information about Diocesan finances. But we hope the information below provides at least a basic overview of the revenue potentially available to the Diocese, its sources and amount, and how the Diocese spends its money. Financial data throughout the report were totaled and reported excluding cents. **This report focused only on the 2019 budget year and as of the writing of this report, 2019 budget information is still being updated and reviewed by Ms. Peterson and the auditing firm.**

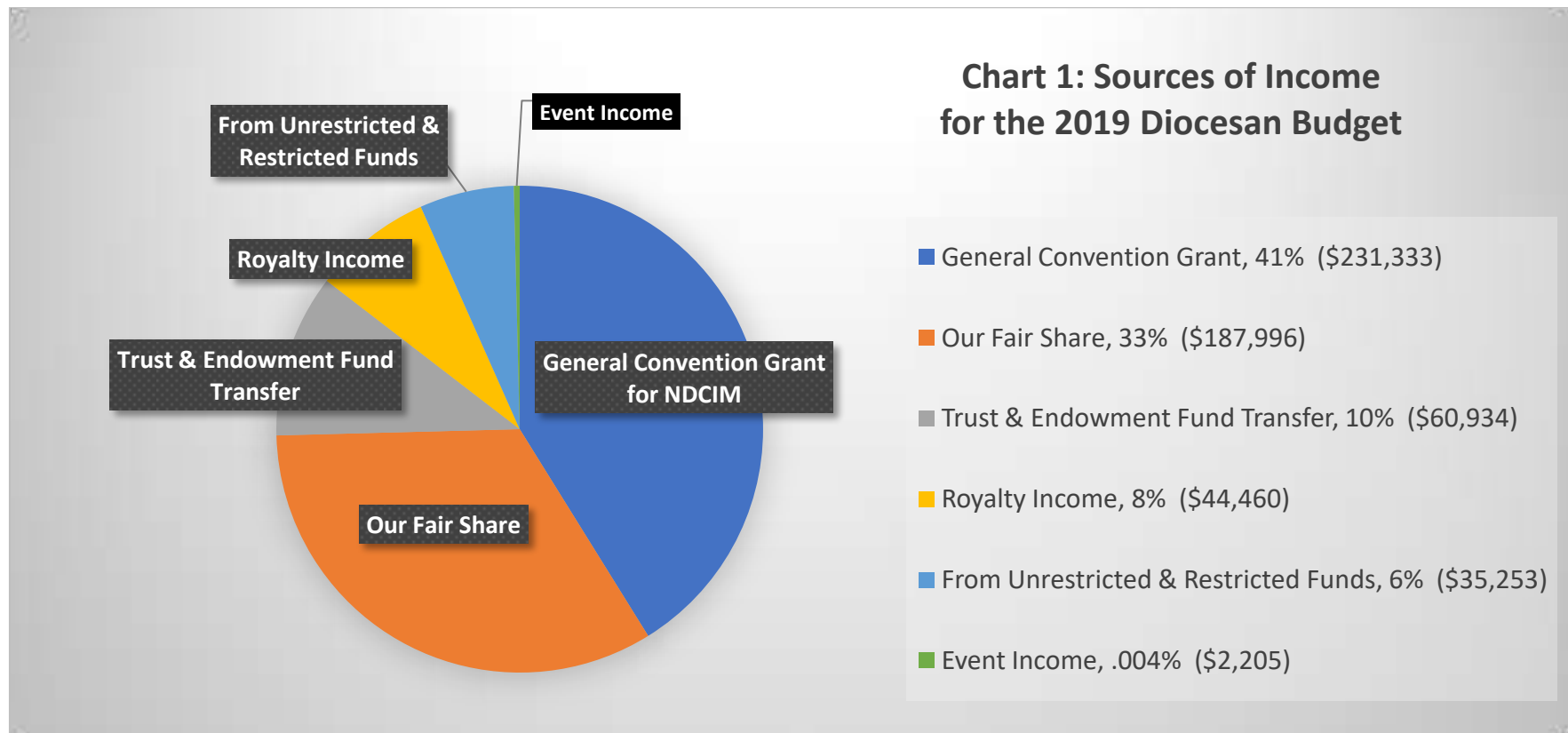
In the event the DDTF has questions, or if we can be of further assistance to the DDTF, our contact information is immediately below.

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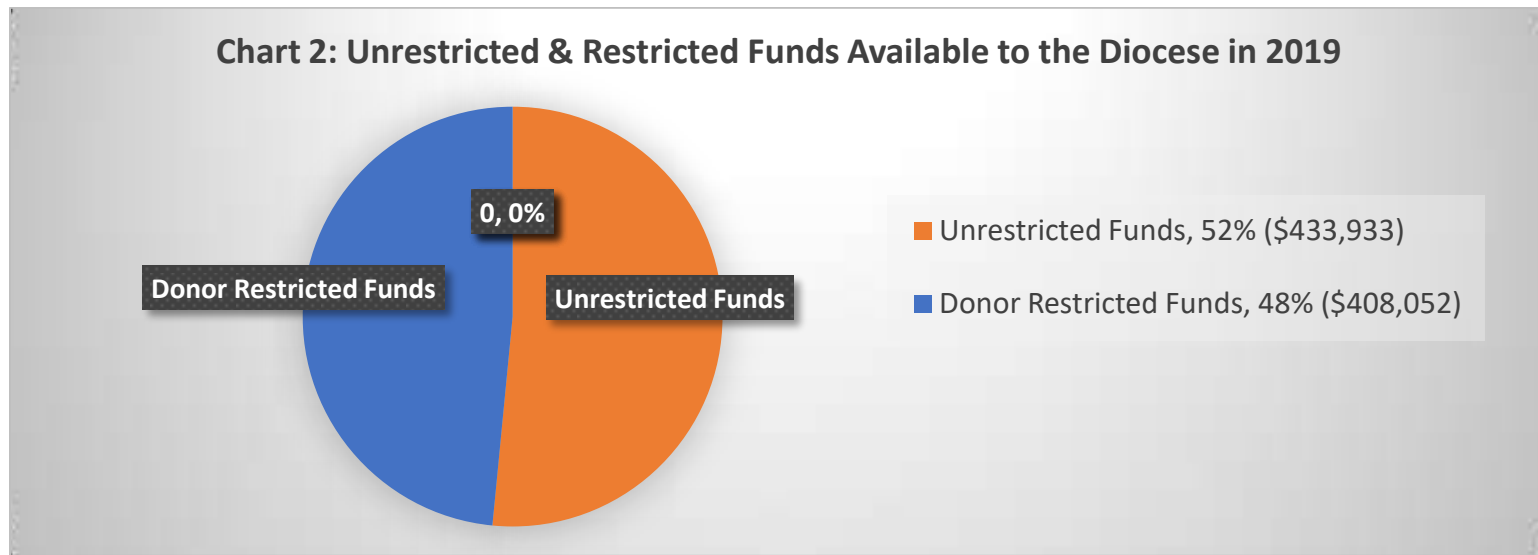
I. Sources of Income for the 2019 Diocesan Budget

For the 2019 budget, sources of income included: Our Fair Share (contributions from Diocesan congregations); transfer of monies from established Diocesan Funds (Unrestricted, Restricted, and Trust & Endowment); Royalty Income (from mineral rights); Event Income (such as the Diocesan Convention); and the General Convention Grant to the Diocese used for the work of the ND Council on Indian Ministries. Total reported income for the 2019 Budget was \$562,181. The breakdown of this amount is provided in Chart 1 below, with percentages representing each category's portion of total income. Information for the chart came from the document titled "Income & Expense vs. Budget as of 3-31-[20]."



On the pages below, Chart 2 "From Unrestricted and Restricted Funds" and Chart 3 "Trust & Endowment Fund Transfer" provide more information on these two sources of income.

Chart 2: Unrestricted & Restricted Funds Available to the Diocese in 2019



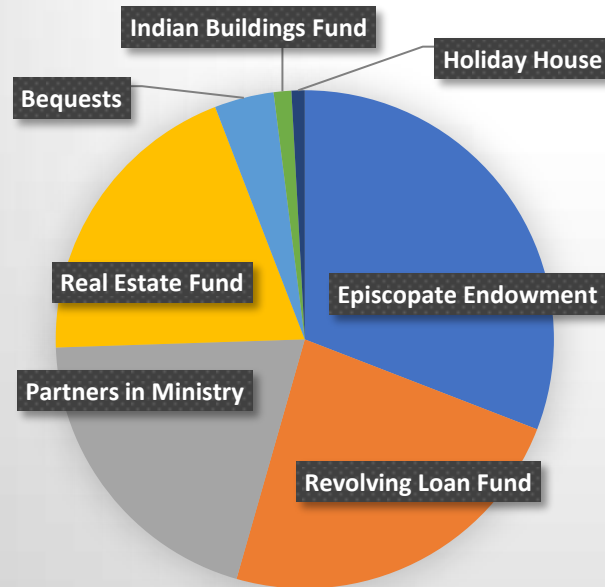
Unrestricted monies are those that may be used for any purpose determined by the Diocese. Some unrestricted monies are designated by the Diocesan Council to be reserved for particular purposes. These funds are called “Designated” or “Reserve” Funds (such as the Diocesan Car Reserve and the Lambeth Conference Reserve). By the end of the 2019 budget year, there were 18 Designated/Reserve Funds each containing some amount of money ranging from \$667.53 (the Youth Ministry Fund) to \$218,082.36 (Native American Property Repair Fund). The total for all 18 funds was \$433,933 (Chart 2 above). For five of these funds, there was no activity during the budget year (meaning no money was put into or drawn out of the funds).

Specific restricted funds, also called “Donor Restricted Funds,” are limited to the use determined by the donor (such as the Robert E. Robert Trust and the Native American Leadership Training Fund). By the end of the 2019 budget year, there were 28 Donor Restricted Funds, 9 of which had no activity. They ranged in amount from \$0.00 (the Church Periodical Club) to \$204,620.87 (Sustainability Grants), and the total for all Donor Restricted Funds was \$408,052.

The 2019 ending balance for combined Unrestricted and Donor Restricted Funds was \$841,985. The list of these funds can be found in the document titled “Designated Fund Summary for December 2019.”

Monies from Unrestricted and Donor Restricted Funds that are not used in an annual budget are held over from year to year. Also, some unused budgeted monies may be placed into particular Unrestricted or Donor Restricted Funds.

**Chart 3: Trust & Endowment Fund
as of 12/31/2019**



■	Episcopate Endowment, \$1,011,135
■	Revolving Loan Fund, \$770,957
■	Partners in Ministry, \$656,666
■	Real Estate Fund, \$643,622
■	Bequests, \$126,351
■	Indian Buildings Fund, \$37,539
■	Holiday House, \$28,161

Transfers from the Diocesan Trust and Endowment Fund (TEF) are an additional source of income for the Diocesan Budget. The TEF is an investment fund comprised of several funds (see Chart 3 above) some of which were established via donor bequests and some via other means. The Diocesan Finance Committee supervises the investment portfolio of the Diocese. Two of the funds listed in Chart 3 are referenced in the “2/23/95 Policies” document as endowments (the Episcopate Endowment and the Partners in Ministry fund) which means that the principal is to be maintained permanently and only the interest may be expended. The “Endowment Fund 12/31/2019” document indicates that the TEF market value as of 12-31-2019 was \$3,274,434. This includes dividends on the TEF paid in the amount of \$143,941 that were reinvested back into the TEF. From the TEF, \$60,934 was transferred to the 2019 Diocesan Budget. Descriptions of each of the TEF funds listed in Chart 3 follows (as taken from the “2/23/95” document and two additional fund policy documents provided by John Baird):

- The Episcopate Endowment is the original endowment established by the Diocese in 1930. Only the interest may be used. Although it was originally established to support the Bishop and for “missionary and extension work” in North Dakota, the Diocese later designated its use for general operating expenses of the Diocese.
- The Revolving Loan Fund is for use by congregations for capital improvements and general operating expenses.

- The Partners in Ministry endowment fund exists to support professional clergy in the Diocese and to “provide support for the development of local priests, deacons, and lay leaders.”
- The Real Estate Fund is a restricted fund and has two purposes: to enhance congregations’ mission and ministry programs and to fund capital improvements for congregations.
- Bequests are funds that have been donated by individuals via trusts or wills and are used for Diocesan operating expenses.
- The Indian Buildings Fund “is designated for major repair of buildings on Indian Reservations.”
- The Holiday House fund is the result of the sale of the Holiday House (former Diocesan camp facility) and is used for Diocesan operating expenses

II. Diocesan Budget Expenditures

2019 Diocesan Budget Expenditures can be divided between “Personnel and Operating Expenditures” and “Additional Diocesan Expenditures” (see Chart 4 below). Total budget expenditures for 2019 were approximately \$565,637. Charts 4a and 4b on the next two pages detail the specific expenses within each category.

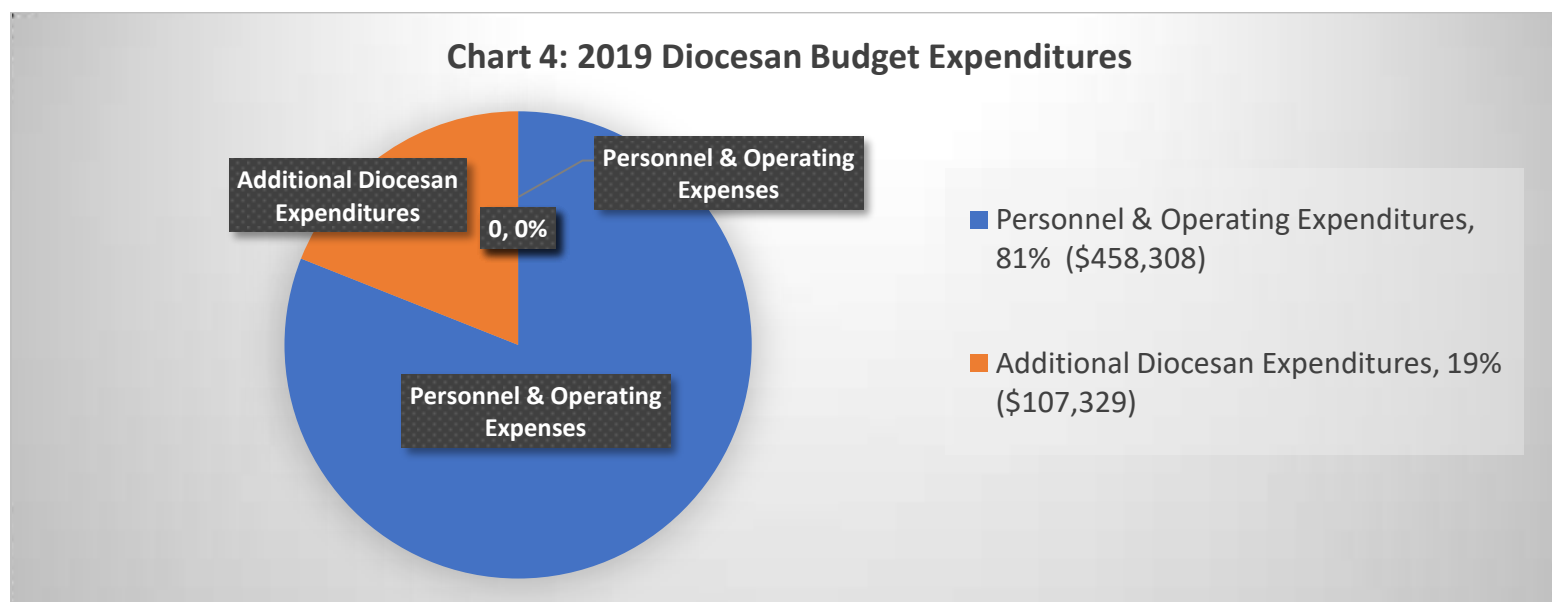
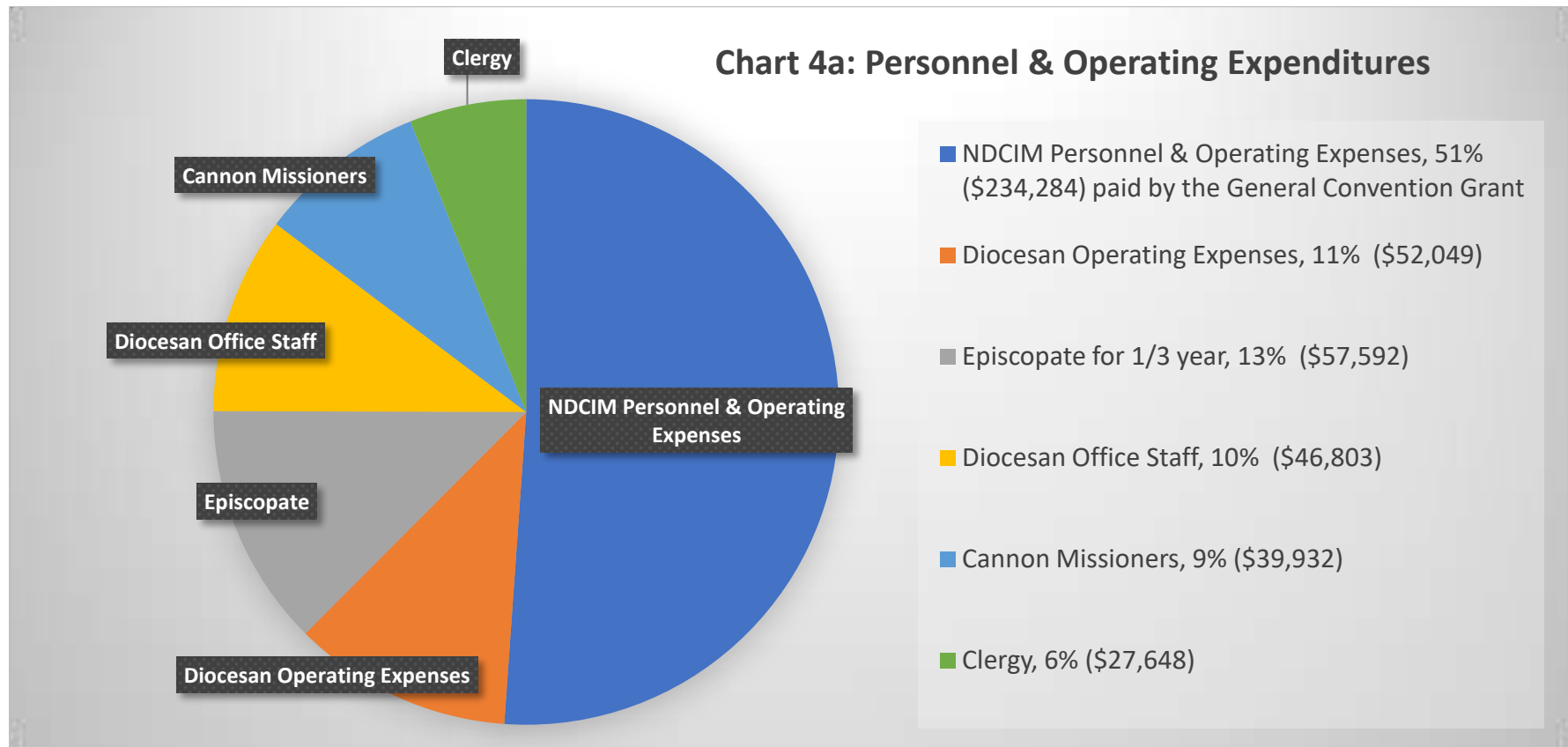


Chart 4a below shows Personnel and Operating Expenditures for 2019. (Charts 4a and 4b contain data from the “Income & Expense vs. Budget as of 3-31-[20]” document but we constructed chart categories that differ somewhat from that document). Percentages in Chart 4a represent each category’s portion of Personnel & Operating Expenditures. Expenditures included NDCIM clergy and operating expenses, Diocesan operating expenses (such as office supplies, meeting expenses, insurance, etc.), the Bishop’s salary and benefits (Episcopate) for the portion of the year before his resignation, Diocesan Office Staff salaries and benefits, Canon Missioners stipends and benefits, and additional Clergy expenditures (stipends, benefits, living expenses).



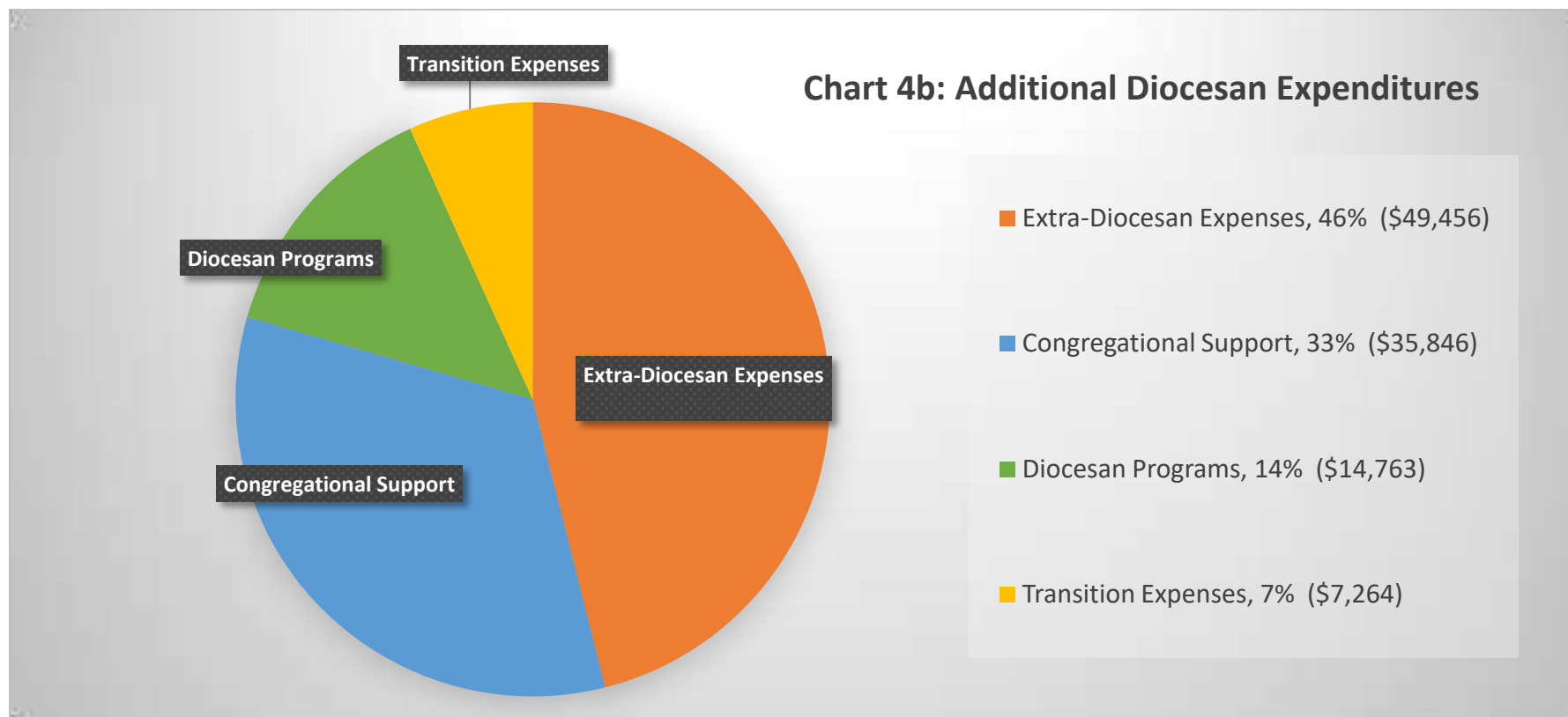
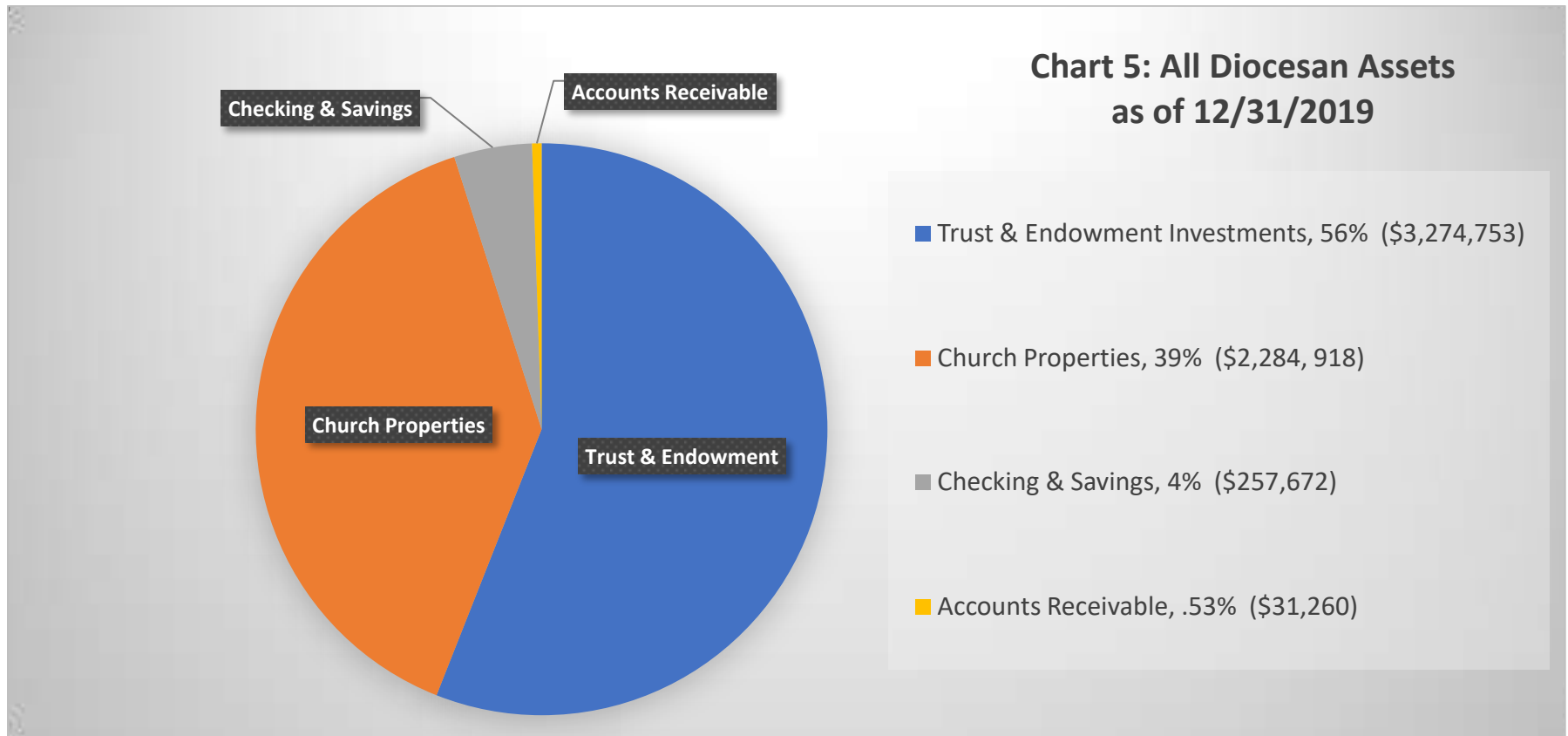


Chart 4b above shows Additional Diocesan Expenditures in 2019 totaling \$107,329. Percentages represent each category's portion of Additional Diocesan Expenditures.

Extra-Diocesan Expenditures included obligatory assessments paid to the Episcopal Church-US (Covenant Commitment) and to Province VI, and monies reserved for expenses related to the General Convention, the Lambeth Conference, EDEIO, and the Niobrara Convention. Congregational Support included direct support to Grace Church Jamestown, St. Peter's Williston, Advent Devils Lake, and St. Michael's & All Angels Cartwright. Diocesan Programs expenditures included funding for The Sheaf, stewardship, continuing education, Sudanese Ministry, East African Mission, and Refugee Resettlement programs (now called Migration Ministries). Transition Expenses are costs related to the transition period leading up to the potential call of a new Bishop.

III. Diocesan Assets

Chart 5 below details all Diocesan assets at the end of 2019, totaling \$5,848,603 (from the “Balance Sheet December 2019” document). This total will be updated in the official 2019 audit.



IV. The North Dakota Episcopal Foundation (NDEF)

The five-member Board of Trustees of the NDEF provides oversight of an investment fund totaling \$1,337,371 as of March 31, 2020. The NDEF is a nonprofit corporation separate from the Episcopal Diocese of North Dakota, and its investment fund is managed by a financial advisor in Minneapolis. The NDEF provides grants to Diocesan individuals and congregations, as well as to the Diocese itself, through an application process (see <https://ndepiscopal.org/ministries/north-dakota-episcopal-foundation/>). As can be seen in the table below, the NDEF Fund is made up of 14 individual funds which were established and transferred to the NDEF via bequests, trusts, donations, or the Diocese. Distribution of funds from the Masuda Fund and the New Church Plantings Fund are made at the request of the Diocesan Council and the Bishop. One of the funds below, the Episcopal Foundation for Ministry in Higher Education has a separate application process and a separate five-member oversight committee (see <https://ndepiscopal.org/ministries/episcopal-foundation-for-ministry-in-higher-education/>). In general, the NDEF distributes around 2% of the Fund's earnings (interest on the principal) each year to applicants.

Assets of the ND Episcopal Foundation	
Fund	Balance as of 3-31-20
Bailly Endowment Fund	\$103,096
Cushman Fund	\$8,713
Episcopal Fdtn. For Ministry in Higher Education	\$65,033
Masuda Sabbatical Leave Fund	\$40,936
New Church Plantings	\$171,925
Barrow Trust	\$16,268
Fairfield Mission Fund	\$2,561
Horton Bequest	\$95,872
Corning Bequest	\$18,127
Stoudt Bequest	\$673,917
Native American Seminarian Fund	\$117,658
Partners in Ministry	\$181
Stafne Bequest	\$22,414
Unrestricted Operating Fund	\$670
TOTAL	\$1,337,371

V. Concluding Observations

As a result of compiling the information above, we have the following observations. We share these with the DDTF in the hope they may be useful to the DDTF's decision-making.

A. Observations on Funds Potentially Available to the Diocese

The Episcopal Diocese of North Dakota has more than adequate resources to carry out its current level of operations. Within these resources, the Diocese holds funds that are not donor restricted and could potentially be repurposed if the Council decided to do so. We are not suggesting that this should be done for any or all funds, but these funds are under the control of the Diocese and may be used however the Diocese wishes. Funds of this type during the 2019 budget year included the following in the list below (from "Designated Fund Summary for December 2019" and "Endowment Fund 12/31/19"). It should be noted that the numbers below will no doubt change as a result of the official 2019 audit.

- **Unrestricted funds being held in reserve: \$433,933**
These funds have been set aside for specific purposes and are not available for other uses. Some of these funds could be consolidated, eliminated, or freed up for use by the diocese. Currently, the funds are being held in the checking, savings, or invested in the TEF.
- **Market value of non-endowment/unrestricted funds in the TEF (excluding dividends): \$819,067**
Because the Council decided to invest these funds in the TEF, they could withdraw some or all of these funds, including principal, and use them for the work and mission of the Diocese.
- **Dividends that were reinvested in the TEF: \$143,941**
Rather than have these funds automatically reinvested in the TEF, some or all of them could be paid directly to and used by the Diocese.

In addition, "The Episcopal Diocese of North Dakota Trust and Endowment Fund Spending Policy" (2016) permits year-to-year spending of up to 8.5% of the previous "three-year moving average" of the market value of the TEF. The three-year average of the most recent three years is approximately \$3 million. Therefore, the Diocese could draw around \$255,000 for the 2021 budget and stay in conformity with the policy.

Further, the Diocese owns properties currently valued at approximately \$2,300,000. If any are no longer in use, they could be sold and the revenue used for purposes determined by the Diocese and consistent with its policies. The Diocesan Council may also want to get clarity from the ND Episcopal Foundation Trustees about NDEF funds for which the Diocesan Council is responsible and which can be used for Diocesan purposes.

As a final comment, our purpose is not to suggest which resources should be utilized or how much should be spent from them, but simply to make clear the resources potentially available for future spending.

B. Observations on Financial Documents and Record Keeping

It was a challenging task to unravel and understand the financial records of the Diocese. Over time many accounts, reserve funds, and “pots of money,” have been established to the point where the ability to manage the funds, understand the total financial resources available, and make proper use of them, has become extremely difficult. We were perplexed at the number of different funds and accounts, some of them seeming to be duplicative in purpose, some appearing to lie dormant for long periods of time, and some holding very small or even zero balances. Consideration should be given to consolidation of some of these funds both in the operating budget and in the endowments. In addition, the Finance Committee, the NDCIM, and the Diocesan Council are encouraged to look at funds that have not been utilized for several years to determine how they can best be used or repurposed to meet the immediate needs of people the Diocese serves or could serve.

In the documents we reviewed, we found the use of budgeting terms and categories to be confusing and inconsistent. We hope the new accounting firm will help the Diocese organize and simplify these matters. We have made recommendations to the Finance Committee about the need to locate and organize fund policies, update policies and, in some cases, create new policies to provide adequate stewardship of Diocesan resources. We appreciate the efforts currently underway to address some of these issues.

C. Observations on Financial Planning and Leadership

Over the years, many generous Episcopalians have left bequests and gifts to the Diocese to support the ministries of the Diocese. The Diocese has been effective at investing these funds and building an endowment. It seems, however, that many of these funds may be underutilized, and the endowment continues to grow while there are unmet needs in the Diocese.

The level of Diocesan funds being used to support programs and outreach both within and outside the Diocese seems remarkably limited in light of the resources the Diocese has available. Important outreach has been done outside the Diocese, for example the African scholarships, the Guatemala Mission, and more recently, the migration work in Texas, but

the total investment in these programs has been modest. In addition, while the General Convention Grant comes to the Diocese to support ministry in the indigenous Nations, and Father John Floberg has written additional grants to support this ministry, the Diocese itself invests very little to support these members of the Diocese. Overall, only \$14,763 are dedicated to Diocesan programs (see Chart 4b above).

The Diocese invests very little in church growth. Given the current context of dwindling membership, closing congregations, and clergy shortage, the Diocese may want to consider investing more of its resources in trying to reverse these trends.

Finally, the Diocese seems to lack a clear sense of mission and purpose, not to mention an actual plan, to guide the use of the resources at its disposal. It is the responsibility of leadership to make this happen. In the case of an Episcopal Diocese, this responsibility rests primarily with a Bishop (whether part-time, full-time, or other status). In partnership with a Bishop, the clergy and lay leadership share in that responsibility. Our present situation calls out for the restoration of this shared leadership in our Diocese. It is our hope that this report will assist the Task Force as it moves forward with that restoration.