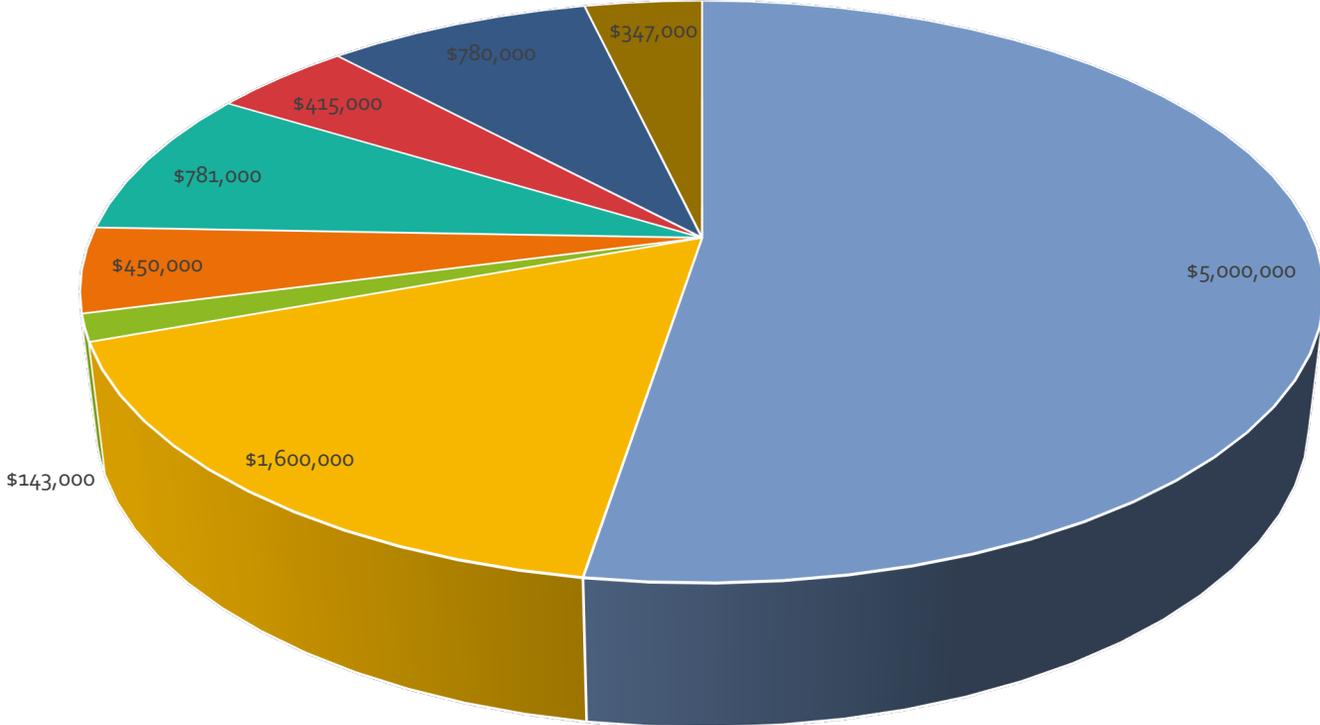


Financial Facts

Episcopal Diocese of Eastern Michigan

Current Investment Funds



- Episcoapl Endowment Fund unrestricted
- Breaking New Ground restricted
- McElroy Surplus Fund restricted
- Loans & Grants restricted
- CDRF restricted
- McMath, Batchelder, Demille restricted
- Growth & Income restricted
- Charitable Contributions restricted

Current Facts

- We also have a General Operating Account of approx. \$740,000 that is not listed above because it is invested differently.
- The Diocesan Commitments that we receive on an annual basis is about \$430,000. This represents 35% of the Diocesan Annual Income.
- To overspend and invade the corpus of the investment funds will limit the future income of the Diocese and create a more challenging position than we currently find ourselves in.

Types of Funds

- **Self-imposed restrictions:** The recipient of the fund itself (the Episcopal Diocese of Eastern Michigan) designates how the money can be spent. This designation can be changed at the will of the Diocesan Council.
- **Donor restrictions:** This type of fund is given to the diocese with restrictions already in place by the donor.

Episcopal Endowment Fund

- This fund has no restrictions and is used for general operating. We have followed the acceptable and prudent draw of 5% annually from this fund (on a rolling average) amounting to about \$227,000 per year.
- If we take more than this we would be at risk of invading the corpus of the fund.

Breaking New Ground Fund (BNG)

- This fund has a self-imposed restriction. BNG came into being from a capital fund campaign in the diocese.
- “Breaking New Ground” is understood primarily to be for new church starts, but could also include new, innovative, or novel ministries that aren’t likely to be funded by more traditional means.
- We are currently overextending this fund.

McElroy Surplus Fund

- This is a donor-restricted fund that is held by the Episcopal Diocese of Michigan.
- The purpose of this fund is for the training of those who are entering professional ministry.
- We receive 25% of the annual income from this fund, which amounts to about \$65,000 year.
- **In addition to this annual income we have a McElroy surplus account valuing approx. \$143,000 that is available from past underutilization of this income.**
- **Surplus account will be used up by approximately 2019-2020 and will no longer exist. Several years ago we were instructed by the Trustees of this fund that we needed to spend down our surplus account otherwise our annual income from the fund would be cut.**

Loans & Grants

- This fund has a self-imposed restriction for bricks and mortar projects within the diocese.
- In order to support our mission, in recent years some of these funds have been expended at higher levels than what is generally understood to be prudent.
- Each year 10% of the fund balance is available for grants to churches for projects that would fall within this description.

Congregational Development and Redevelopment Fund (CDRF)

- This has a self-imposed restriction to assist in congregational growth and development in the Diocese.
- Funds are only added upon the sale of church property.

McMath, Batchelder and Demille Funds

- These funds are donor restricted and used for camp scholarships, assistance of our retired clergy with Medicare supplement costs, and educational lectures.

Growth and Income Fund

- These are donor restricted funds with a variety of designations.
- Not to be used for general operating.

Charitable Contribution Fund

- This is a donor restricted fund to be used for charitable purposes that are yet to be determined.

General Operating Reserve

- This is essentially a savings account built up in past years when spending didn't exceed income for general operating expenses.
- It is not a restricted fund in the same sense as the previously listed funds, it is forecasted to decrease annually going forward.
- This reserve's approximate balance is \$740,000.

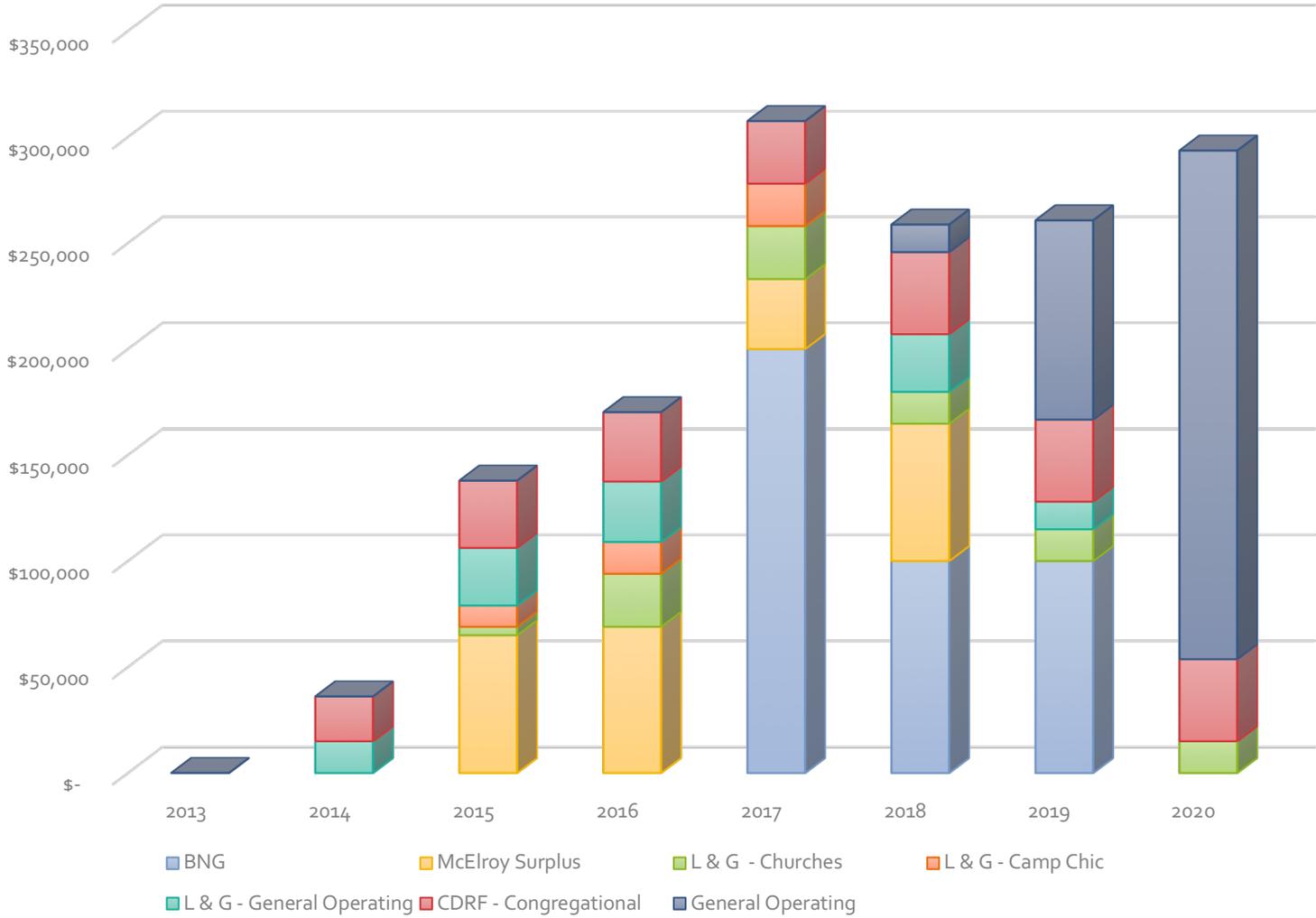
Financial Facts

- In order to support our mission, in recent years some of these funds have been expended at higher levels than what is generally understood to be prudent.
- Each year the diocesan office drafts a 3-year budget for the operations of the Episcopal Diocese of Eastern Michigan. This budget is approved by the Diocesan Council on an annual basis.
- It is generally understood that a prudent amount of money to take out of any investment on an annual basis is 5% of the fund balance.
- The annual amount of money taken from several of the funds (with the exception of the General Operating Reserve, which is not an investment account) have exceeded the prudent amount of 5% in order to fund current diocesan mission – our operations, programs, and staff.
- I have heard some questions and comments from around the Diocese that each year we have budgeted for a deficit and end up with a balanced budget or better. In the following section I have outlined how that has taken place, and you will see why, if we continue to use the same practices, we will be facing significant financial challenges.

Future Budgeted Spending

- The following graph represents what was used in recent years and what is forecasted for future years over and above the established prudent 5%.
- These amounts are not the total cost of the programs or positions listed; they represent the amounts not covered by the 5% and regular operating funds.
- The figures represent the percentage of each fund balance used.
- These percentages are not available for future years because of market fluctuation.

Spending over 5%

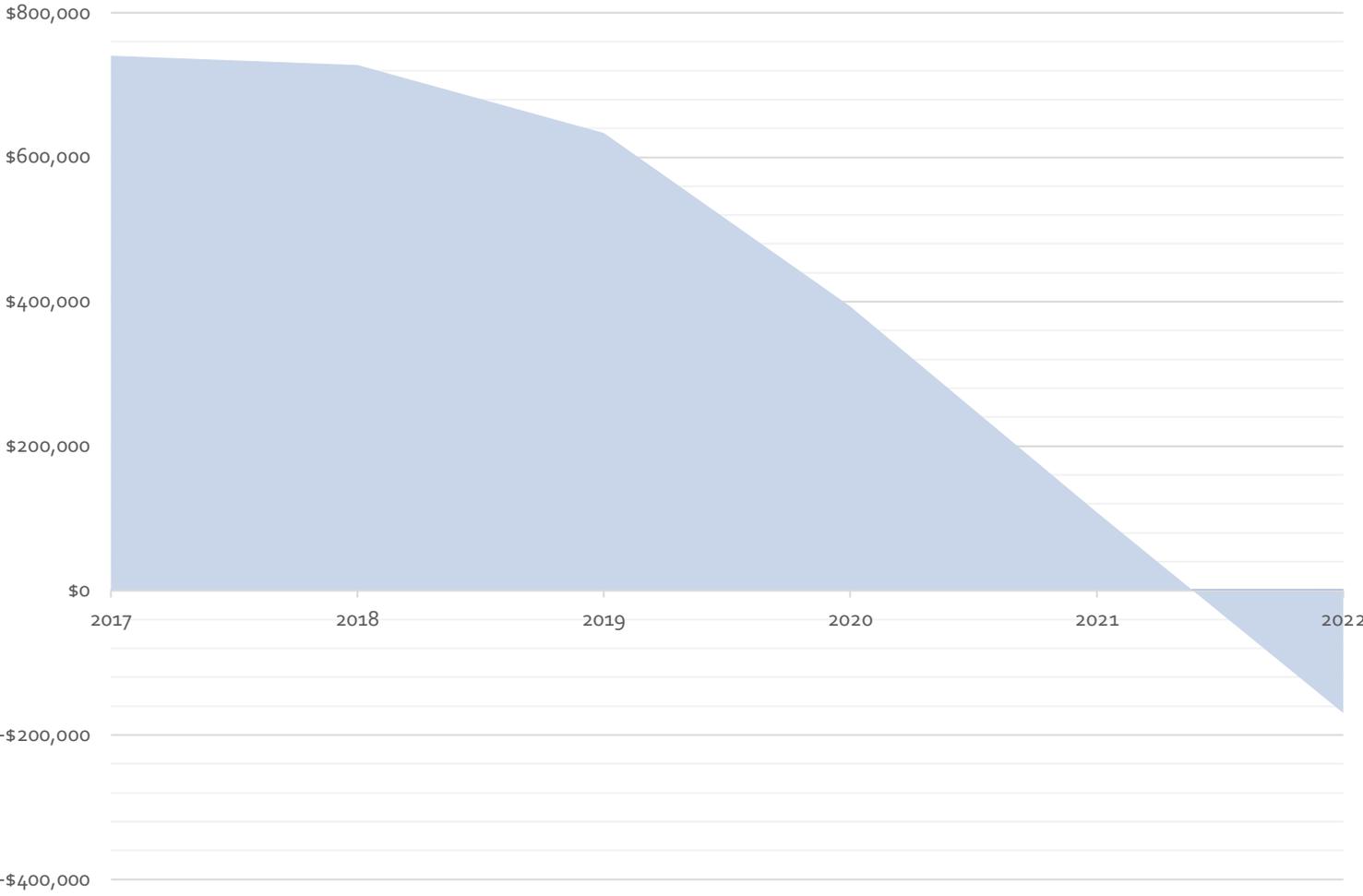


General Operating Balance

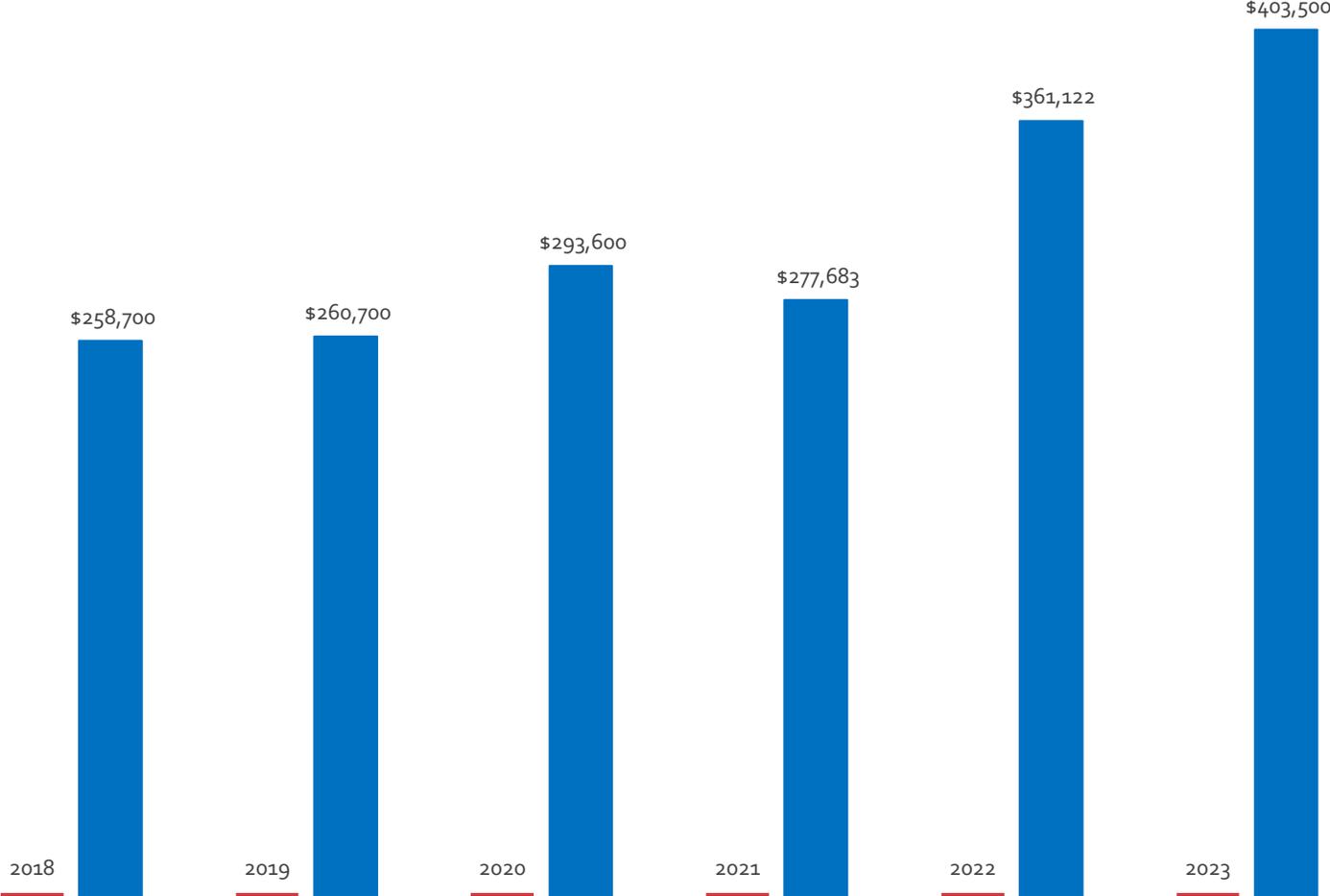
- General Operating Reserve balance over the next several years.
- It is a good business practice to have enough in general operating to equal 1 year of operational expenses.
- For the Diocese of Eastern Michigan this would be about 1,400,000.
- A detailed forecast of the investment funds is difficult to present due to changes in the market.

Forecast General Operating Reserves

General Operating Forecast



Budgeted in Excess of 5% Draw by Year



Options Ahead

- Increase income, which might include fundraising efforts and/or changes to Diocesan Commitment. If you just looked at an increase in the Diocesan Commitment it would increase the commitment to approx. 15% and increasing on an annual basis.
- Decrease expenses, primarily through ending or reducing programs and staff positions.
- A significant restructuring of diocesan structures, programs, and/or staff
- Some combination of the above.