

THE STANDING COMMITTEE ON ADMINISTRATION & FINANCE

Durham, NH
June 10-14, 2002

Minutes of the Meeting

Present were: Richard Miller, Ken Kesselus, Diane Pollard, Nancy Salmon, Vince Currie, Barbara Mann, Bonnie Anderson, Ann Coburn, Barnum McCarty, Russ Palmore, Tim Vann, and Nancy Caparulo.

Anti-Racism Training

The meeting was convened at 3:00 PM on June 10th to discuss the ways in which the policies and practices of the Executive Council (EC) either support or challenge racism. At 4:30 PM George Werner, Ralph O'Hara, Pat Mordecai, Tony Jewiss, Tom Hershkowitz, Jim Solheim, Sandra Swan, J. Patrick Mauney, and the Committee on International Concerns joined the group.

Misappropriations in Mexico

Bob Sessum, Chair of the Committee on International Concerns, introduced the matter of the Mexican bishops and alleged misappropriated funds in their dioceses, and turned the session over to Patrick Mauney, Director of Anglican and Global Relations. Patrick cited an article in the *Living Church* (also appearing on the internet) that disclosed accusations of the misuse of funds by the bishops of Northern and Western Mexico. He reviewed the pursuit of independent audits for the diocese in question, the need to support the actions being taken there to obtain justice, and the difficulty trying to exert any influence in an autonomous diocese. The concern of DFMS stems from the support that continues to go to those dioceses and the needs for accountability. Patrick also discussed the means by which funds are forwarded from DFMS. There are a number of trusts that benefit the dioceses, which belong to them but there is strong evidence that \$1 million in Western Mexico is likely to have been misappropriated for the bishop's personal use. In considering the use of custodial funds, it is hard to pinpoint which funds have been misused.

Carl Gerdau, David Beers, Brian Grieves, and Steve Waring (from The Living Church) joined the session.

Patrick continued that audits from those dioceses are expected very soon. He clarified the general picture of what has occurred in Mexico, including the likelihood of both legal and canonical charges being brought against the bishops. Bishop Folts, who has had a long history with the Mexican Church, would like the EC to speak out clearly regarding their support of the Mexican church's action. The source of the misused funds is not certain but owing to the history in those dioceses in the past several years, the revelation about malfeasance might have been anticipated. Patrick discussed further the problem with DFMS trying to interfere in the work of an autonomous diocese. He quoted Ian Douglas as saying, "For us to ask resignations from an autonomous church is to establish a precedent that no one wants to live with." Patrick continued to explain that quarterly appropriations, as of June, have been held pending action of EC. The National Church of Mexico (NCM) engaged an independent firm to do the audits. It had been DFMS's expectation that regular audits would be done and that it was the job of the covenant committee to ask for them.

Francisco Duque and his interpreter, Saulo Salvador, joined the meeting.

Patrick explained further that DFMS is now facing a legal entity that is autonomous and asked what we might do legally to help rebuild the NCM's legitimate church, beside the Canonical processes they already started. We have no right to impose but may reinforce and complement as outsiders, who have fiduciary responsibility over the funds we provide to the NCM. David Beers responded that we are not entitled to send in auditors but that DFMS can condition future payments. To the extent that DFMS sends new money, we can make it conditional that it is being spent in the proper way. DFMS needs to support

and guide the NCM's structure through their executive committee. Once the funds reach the NCM, the funds are out of our control.

Thorough discussion followed regarding the nature of the NCM's custodial funds, entitlement to those funds, monitoring expenditures, etc. Patrick outlined the process of autonomy, which includes agreement on continued DFMS support, and the role of the covenant committee. The committee meets with the diocese or autonomous entity to discuss and monitor the covenant. Perhaps the NCM should require an audit. Questions included: 1) Who is the legal entity? 2) Do they have articles of incorporation? 3) Can covenants be rescinded?

Russ asked about any gesture of communication from the Mexican bishops to the PB.

Apparently the bishops are incommunicado. Patrick expressed no doubt that something awful has occurred there and urged EC to make a statement. He added that four of the five existing bishops will be replaced by the end of the year. Patrick's working draft was discussed pursuant to a joint recommendation from the International Concerns and A&F committees. Rita Redfield suggested that we make sure that any statement appears in Spanish and in English simultaneously. A small group comprised of Anthony Guillen and Louie Crew from International Concerns and Richard and Tim from A&F would work on the statement.

Operating Statements

Tom Hershkowitz discussed the financials as of April 30, 2002. We have had \$14.7 million in revenues and \$13.3 million in expenses. Statutory income reflects a loss of \$4.8 million after the change in endowment income, but we are managing well with the full year's budget as diocesan commitments exceeded that projected by about \$500K. Tom's concern is refugees, funded by the government, since very few have been processed because of new security rules. Tom has serious questions about the whole program and feels that A&F and management need to understand how it is likely to look going forward.

Concerning 2003 and beyond, we will take a dip in the endowment next year from an income standpoint, and we will have less investment income in the next triennium because of the moving average and current market performance. We will have to compensate for that in the budget, perhaps by raising the pay-out rate (investment committee and EC will have to approve that) to 5.5% to keep a base plan budget going into the next triennium. Tom thinks we'll be okay on the diocesan income lines that might cover us into the next triennium. A 3% decline in diocesan income is assumed for 2003 and serves as the base from which to project income for the next triennium. Tom is concerned about what the invested income is going to be. The draw-down approved at GC has not been used yet.

Budget Priorities

The draft priorities were reviewed and Russ asked Bonnie Anderson, Chair of PB&F, which requested a mission driven budget, to react and respond to these priorities. She responded that the PB&F executive committee met by conference call the previous Friday. They asked, "What doesn't fit into the laundry list? Are these really priorities? Were they just taken from the questionnaire? Are these in priority order?" PB&F felt "strivers of justice and peace among all people" looked like a throw-away. Bonnie said that PB&F may not build a budget based on these draft priorities at GC because of the concerns its executive committee has expressed.

Tim felt it is important to use the term "connection" but questioned how they are tied to budget dollars.

Ralph framed the construction of the draft priorities. The first three bullets referred to congregational development. Youth was of primary importance and then bringing people into the church while strengthening what we have. Fund-raising will have to be looked at in new ways since we will need more

income that we now have to support the work that we want to do. Leadership development and communication run through all five of the bullet points.

The survey, 20/20 recommendations, PB&F's last triennium's priorities, and what was accomplished through those priorities were considered to arrive at the draft list.

It was agreed that another word for "un-churched" should be found.

Richard adjourned the meeting at 6:15 PM.

The meeting was reconvened a little after 2:30 PM on June 11th with the Presiding Bishop, Jim Solheim, Tony Jewiss, and Carl Gerdau, specifically for the presentation of an update of the GTS project in executive session. **Moved, second and carried** to keep confidential.

GTS UPDATE

Russ and Ralph made the presentation. Recap included: approved a 5-phase development schedule related to a possible move to Chelsea; Dall Forsythe (Chair of the Investment Committee) is the de-facto chair of the committee; Andy McMaster (CPA and Audit Committee member) is also working on the project. The committee met three times since February with Ralph and Pat. By this meeting it was hoped that Phase One would be complete. But it is not quite finished. Since February, however, the Staubach Company was asked to re-analyze the real estate aspects from a financial standpoint. Russ was very impressed with the work they did, particularly as the report is not what was anticipated. Given the financials, the decision becomes far more complicated than it appeared to be. Russ asked that the project be considered in the long term. It is one that makes good financial sense in the final analysis. In any case 815 will require renovation (especially asbestos abatement). There will be debt incurred in either scenario, a larger debt burden that had not been anticipated will be realized if the project goes ahead. Because of the 5-phase model, DFMS is allowed to proceed in a step-by-step manner and contemplate exit strategies along the way. Russ asked that A&F and EC consider authorizing an expense of \$1 million to move from Phase I into Phase II. Staubach believes that an architect should be hired to begin drawings (at a cost of about \$250K-\$300K from each project entity).

Ralph put together a set of numbers that were provided by the Staubach group and presented a summary of the project with a comparison to renovate 815 and stay. Key components fall into place in the year 2015. Lengthy discussion ensued around debt service and GTS's ability to raise necessary funds. More discussion focused on risks and rewards and Russ expressed his enthusiasm for the mission and program side of the project. He believes that if we can reach the last item of Phase I (the comfort letter –both entities are comfortable to move to phase II), it would be prudent to go forward. Pat Mordecai added that fund-raising on GTS's behalf and the flow of funds from their campaign into the project is an issue that is ongoing.

A straw vote was taken about developing a resolution to go forward. The PB added his feeling that continuing a step by step process is appropriate and fine with him. Prudence, care and a phased approach being continued is important.

Statement by INC Church in Mexico

The focus of discourse moved to the INC statement on reports from the Church in Mexico. The resolution was **moved and seconded**. Discussion raised the question of the PB being present for the deliberations, since he did not see the text. The statement satisfied both the staff and the EC representative who has been in contact with the bishops in Mexico. Barbara noted that the Audit Committee directed our independent auditors to do special procedures to examine grants accountability generally (domestic & foreign). Province IX has been asked to provide audit information as soon as possible and improve accountability.

We need some uniform ways that staff can tell us what is being done where and how funds were accounted for. Amendments were made. **Tim withdrew the motion.**

Minutes

Moved and seconded that the minutes be approved as presented. **Motion carried without opposition.**

Budget Priorities

Tim initiated discussion about the priorities for budget-making. He referred to his thoughts about amendments. Pat added that PB&F's comment about "what's not a priority" was important and offered a rewrite. There was discussion about the priority ranking, about topics being too broad to be helpful to the staff in budget development, and how fund-raising appropriately is carried out.

It was **moved and seconded** that priorities 1,2, and 3, as re-written by Pat be accepted. Discussion included suggestion to make a resolution of #4 and the wisdom behind adding "children" to youth and young adults. **Motion carried with two abstentions.**

It was **moved and seconded** to have a September meeting of A&F to review what has been done by staff to respond to budget priorities. **Motion carried without opposition.** This meeting will be September 23rd in New York from 9-5:00 with working lunch.

Fund-Raising

A&F agreed to meet with CIM after the plenary the following day to discuss Stewardship & Development's proposal. Ralph gave the background of their resolution to EC concerning fund-raising. Various needs for broader funding around the church had been discussed by the Standing Commission on Stewardship and Development (SCSD), including those of 20/20, the GTS project, congregational development, etc. and the ways in which that might interface with fund-raising at the diocesan level. There was discussion about the yearly cost of a development office (estimate \$200K) and whether or not it is a good idea politically. The pool of people holding the huge wealth that is going to change hands is very small. The group talked about the cost of discernment and feasibility. Pat said the typical cost for a year is 50-100 days at an average of \$1100 per day for the consultant, after an initial expense of \$20K. A straw vote revealed a majority of the committee wishing to continue this conversation.

Richard adjourned the meeting at 6:00 PM.

A session was reconvened at 10:45 AM on Wednesday with Congregations in Ministry, Don Hammond of ERD, Sonia Francis, and Barbara Braver attending, specifically to discuss the proposal from the SCSD. A&F was involved only because of the budget implications. In terms of dollars, development is a bigger project involving the whole church. One suggestion was to link several independent agencies for the general purpose of capital funding as it was not clear whether there was a plan. The PB explained that the discussions have been minimal with a number of groups and that it needs to be looked at it in a comprehensive way to see if there is a rationale to continue. A discernment process must happen first. It was asked to whom the discernment process is accountable. Pat, PB, George Werner, and Ralph would spearhead the process and report to EC before proceeding further. Barnum felt, regardless, there needs to be a development officer at the Church Center. All of the fund-raising efforts are interrelated and can render one another's efforts nil. Pat said the discernment process would likely take a year, according to the estimate from the fund-raising consultant. After the year's collection of information, a recommendation may be made to the General Convention. The discernment process will likely cost up to \$200,000. Tom felt that the current overage in diocesan income might cover part of the expense, depending on what is needed to continue the GTS project. Richard asked if it would be reimbursed if the effort goes forward. Tom responded that we would assume that we would have to cover the cost. Ann asked if it was possible to cost share with ERD and ECF. ERD has decided not to undergo a capital fund

drive at this time. It was agreed that A&F would bring forward the resolution, which would refer to 20/20 missional energies.

At 11:10 AM the group met as A&F alone.

AF-19 (to accept the audit) was **moved and seconded**. Barbara discussed the changes to the audit charter. A resolution will be presented to EC (AF23) to accept it. Tom explained that there would be requests for proposals issued to a number of large auditing houses in accordance with Audit's wish to look into the possibility of other auditors. The entire not-for-profit team from Arthur Andersen is working at Grant Thornton. The Audit Committee is dealing with accountability issues. **Motion carried without opposition.**

Tom discussed and explained AF20 (the return of appreciation on restricted trust funds). This year \$1.1 million must be moved to designate unrestricted funds as board restricted. **Moved, seconded, and carried without opposition.**

Episcopal Relief and Development (ERD)

Don Hammond was asked to report for ERD. Since February, ERD filed incorporation documents for 501(c)(3) and IEN number with NY State. On April 7th the separate incorporation was approved. As of July 1 they will be official. They are changing the board from a grant-making to a governance body. Consultants from Trustee Leadership Development are helping to identify board and staff roles and how they work on policy vs implementation. A charter is being written to make sure there is a solid foundation from which to operate.

Barnum asked about the decision against a capital fund drive. When ERD looked at where they were organizationally, they discovered they were deficient in development. Their major donor area was not very solid and they couldn't do both a capital campaign and major donor work simultaneously. They will now focus more on the major donor process rather than a capital fund drive. Major trusts and endowments will be an ECF goal. Pat added that the major funding DFMS is considering is targeted to soliciting large gifts from people who would not be inclined to give large sums parochially.

Additional discussion involved presenting AF-21 (continued funding for the GTS project).

After a break for Eucharist the session was reconvened at 2:35 PM.

Moved and seconded AF-24 (support for fund-raising discernment process). Amended. **Carried without opposition.**

Episcopal Church Foundation (ECF)

Diane discussed the proposal brought to A&F in San Antonio from the Episcopal Church Foundation. The PB had requested an examination of what activities agencies were involved in that overlapped in managed funds. It was agreed that there is no point in giving over the DFMS funds to ECF now that we are looking into that area again. Matters were distilled down to endorsing them as the planned giving arm of the church. It was reported that the ECF board had agreed to two DFMS people serving on their board and that ECF would report to EC about their activities and audit annually. The CFO of DFMS will be a voting member of the board, and a member of our Investment Committee will also serve on their board.

Suggested wording for the affirmation via AF-25: In response to the ECF request, we reaffirm them as the arm for planned giving in the Episcopal Church and, further, appreciate the possibility of their including members of DFMS and staff on its board. This was **moved and seconded**. Vince spoke to the elimination of the stewardship & development office and the other desks at the Church Center that created a cash flow into the church. A&F discussed the need for raising funds and what support is available for that at 815. **Motion carried without opposition.**

Program, Budget & Finance (PB&F)

Bonnie re-stated the request from PB&F for budget priorities and issues of accountability procedures for black colleges and block grants. Information has been provided by the Audit Committee that identifies where there are questions. Bonnie asked that specific answers be provided to PB&F by March 1, 2002. She also pointed out that at the 2000 GC, ERD came to PB&F for \$1.5 million for administrative costs, saying they wouldn't need this support going forward. Bonnie is in touch with Bishop Tharp about their budgetary needs and would like PB&F to be provided with their budget picture.

Dr. Monroe from Voorhees College reported to Bonnie on some items that address concerns.

She told A&F that PB&F asked that the proposed budget look like a draft document. She thanked A&F for the priority process and for taking the request seriously.

Ann asked that Province IX issues be included in the above list. She wants written reports about the Province IX and other supported entities with regard to accounting for the funds they receive. The treasurer's office will put together a report to the Audit Committee.

The session was recessed at 6:00 PM and reconvened on Thursday at 7:50 AM to articulate the budget priorities. This was discussed at length. It was **moved and seconded** to accept priority order (AF-22) as presented. **Motion was withdrawn** to allow additional discussion.

It was **moved and seconded** that these appear in priority order. **Motion was withdrawn** to permit additional examination of priority order. It was finally agreed that the order reflects the emphasis of the church's missional energy. Amendment was added to the resolution (AF-22A). To prioritize has been our mandate. In accordance with the mandate of the Executive Council, these . . . It was **moved and seconded** to accept the order of the priorities as listed. **Carried without opposition.**

Meeting was adjourned at 10:15 AM.

Respectfully submitted,

Nancy Caparulo
Recording Secretary