Attending the meeting from the committee: Bryan Krislock, Del Glover, William Haas, Tess Judge, and Mally Ewing Lloyd; from the staff, Kurt Barnes, Doug Anning, Geof Smith, Tanie Oconer (by phone), and Nancy Caparulo (by phone), Michael Barlowe, Esther Cohen (ERD) Joanne Brockway; from external audit firm, Grant Thornton (GT), Ed Miller, Steve Bariban and Mark Oster.

Apologies: Whayne Houghland

Mr. Krislock called the meeting to order at 9:02 AM. Michael Barlowe offered an opening prayer.

Attendance was taken by way of introductions around the table. The Agenda was reviewed and approved.

The Minutes from the December meeting were considered, corrected, and approved as corrected.

Report from Grant Thornton on 2018 Audit
Representatives from GT reviewed their report that had been posted to the Extranet page. No significant findings were reported. New accounting standards were in place this year. They explained the change from three to two columns in presenting the trusts, net assets with donor restrictions and net assets without donor restrictions. Noted was the decrease in assets value owing to fluctuations in the stock market and weaker performance in 2018; 2017 showed gains. The sale of the Austin parking lot in 2018 contributed to a decrease in property and equipment. Offsetting increase was seem in cash/cash-equivalents owing, again, to the sale of the parking lot. Liabilities decreased because of the lower value in funds in the trustee relationships. Update to actuarial projections for post-retirement medical plan resulted in a decrease in liability. Of particular note was the large decrease in federal funding for Episcopal Migration Ministries. Clarifying questions were asked and answered.

The question arose as to why Convocation of Episcopal Churches in Europe is not consolidated into the statements like Guam. Conversation concluded that a review of the standards for consolidation should be done for various church entities.

In discussing the consolidated financials, new disclosures were pointed out in the reporting model for the new categories. Other new accounting pronouncements will take place in 2019. There were no changes in the classification levels of the investment portfolio. Liquidity was discussed. The committee was instructed to think in terms of three “buckets” of reserves having to do with liquidity: working capital reserves, risk reserves, and strategic/opportunity reserves.

Internal controls were discussed as was the IT environment. Each year the IT department is
looked at by independent risk professionals. There were no findings this year. GT seeks to find ways to add value to their work. Best practices are shared outside the audit itself.

The manner in which the financial statements are compiled was a focus. GT would prefer working with an automated system that produces reports from a ledger to streamline the audit process. They do not consider the present Excel system a weakness but an area that needs to be addressed. GT will work on providing information on the cost for such a system. They believe there must be some package that would possibly tag onto Financial Edge.

It was ascertained that daily back-ups of the accounting systems are done; most are hosted externally.

The committee held an executive session with GT from 10:00 to 10:39 at which time the meeting resumed.

Executive Council Finance
Rev. Lloyd reported on actions of the EC meetings both from Oklahoma City in February and last week in Baltimore. She had posted a comprehensive report on the committee’s Extranet page, details of which are available upon request, but she highlighted:

- Approval of the 2019 budget.
- Disposition of the allocation of the 2016-2018 budget surplus
- The short-term reserve is fully funded with 20% budget surplus and $2.88 million from the Austin sale, yielding 3 months of liquid operating cash, the target amount.
- 80% of Austin proceeds have been invested in a new trust to support the budget of the DFMS with income available by approval of EC.
- EC and officers met to look at how mission is being fulfilled?
- Relationships between EC and Staff are much improved.
- Redirected income of a trust that benefited St. Paul’s, which has closed, to Voorhees College.
- A 1908 trust, whose original purpose was fulfilled, has accumulated much value. EC voted to take $55K to devote to staff development.
- In Guam 5 lots are being sold, the proceeds to benefit Episcopal Church in Micronesia.
- The next triennium budget is under way.
- A task force is in place to develop a more reasonable budget process to take to GC for the 2025-2027 budget.
- Resolutions from the Committee on Corporate and Social Responsibility presented two resolutions which have been returned to them for language simplification and removal of redundancies.
- The Development Office, largely because of efforts by Mr. Barnes, is functioning well at last.
- A resolution was approved for first steps toward pension parity between lay and clergy staff. Needed money will come from short term reserves that have been held specifically for the purpose. There is concern about how to budget for the money in the next triennium. Fidelity manages the pension program.
- The Assessment Review Committee has been working with TRO with good results.

A review was made of the committee’s Responsibilities Grid. Discussion resulted in agreement
that someone should be invited to present information to the committee about incursions into data and risk management.

**Reports from The Finance Office**
Mr. Barnes went over the report he had posted to the Extranet. GT was asked to review and amend four chapters from the business methods manual. Chapters are posted to the web as they are updated.

Mr. Barnes Kurt is rearranging support in the offices of Finance and Development since his assistant, Sheila Golden, is retiring at the end of this month.

The Development Office staffing and fund-raising efforts were reviewed. With the addition of an annual appeal manager, Cecilia and TJ will be free to focus on foundation work and cultivation of donors. The office is raising money predominantly for Cuba Pensions Project, Navajoland, EMM, Historically Black Colleges and Universities (HBCU), Haiti, and the Archives. EC approves all fund raising activities. $800K needed for Cuba pension campaign. Performance goals have been guiding the work. EMM will be a challenge because it is unknown whether there will be a contract next year and the church wishes to continue the work.

A look at the financials revealed all income and outgo in line with the budget at this time. Rental income is low but last two vacant spaces had to be readied for tenants. New rents begin in the 3rd quarter. Rents run 10 or 15 years and are fixed. Taxable tenants pay their own taxes.

Mr. Barnes looked at:
- Refugee loan collections. It is anticipated that DFMS will continue to receive the income from loan collections.
- There are 30 church plants under consideration.
- The balance sheet, credit facilities, and long-term debt.
- $15 million Revolving line of credit has zero drawn but will be renegotiated this year.
- Investments declined in 2018, a 6% loss in value. In 2019 the return has been 12.5% through April.
- IC wants a lower draw on income.
- CCSR continues work in engagements and dialogues.
- Economic Justice Loan Committee (EJLC) - $1.4 million will mature this year and will be available for re-lending or new lending.

A short break was taken at noon and a working lunch.

**Report from the COO**
Geof Smith said he is waiting for an opportunity to address some longer term issues and risks to the church regarding enterprise risk management. He complimented the Development Office and took a look at IT, where they are doing back-up data, updating firewalls. Mandatory password rotation will begin soon. There is a Foresight group within Executive Council working to find the greatest issues encountered in smaller parishes. They will begin conversations on issues that will span beyond a triennium. Risk assessment, interviews and compilation from leadership team are in place. There is nothing to indicate a critical risk to the organization.
Demographic, scientific, social trends are the focus to be determined and possible action suggested. A detailed conversation followed about risk management looking ahead.

**Chief Legal Officer’s Report**

Doug Anning talked primarily about Cuba reintegration and property issues in Cuba. All property was expropriated by the government and there is some question about how to proceed with those issues. Many rectories are inhabited by relatives of priests who were in place during the Battista years. It is unclear as to the number of properties held by the Church in Cuba in 1964, when the DFMS was insuring them. The Archives may have a list and a copy of the insurance policy that was in place at the time.

A comprehensive look was taken at the IRS charitable mileage statutory cap of 14 cents per mile and the church allowance of 58 cents per mile for business expense reimbursement. Travel guidelines and reporting were discussed at length. Beyond $600 the excess reimbursement above 14 cents per mile becomes taxable income and must be reported through an IRS form 1099. Tax reporting is the earner’s responsibility. EC must be told that if your personal automobile reimbursement is for more than 1,500 miles annually (i.e., generating a $600 excess) you get a 1099. The staff and committee will follow up with publicizing this impact.

**Report of the Executive Officer**

Secretary Barlowe talked about:
- His recent work at EC.
- The State of the Church Committee is looking at diocesan reports. The parochial report was changed at GC because the numbers being reported were spiraling downward but not telling the whole story. There is a need to redesign the parochial and diocesan reports after the State of the Church committee reports to EC. Diocesan report information determines the budgetary Assessment.
- There will be a possible impact in our budget for ACC. The formula for the Asking of the provinces of the ACC has changed, which would triple or quadruple the Asking of TEC.
- A change was made to the joint rule of order having to do with background checks, which is recommended for provinces also. EC authorized payment for background checks for EC members. An independent firm is in place that will do this work. The expense is worth having a professional company do the checking.
- Work is closing in on potential candidates for PHOD and VPHOD for the next GC.

Executive sessions with the Chief Operating Officer, Chief Legal Officer, Secretary, and Treasurer began at 1:41 PM. Recording secretary was excused at this time.

Following the completion of the executive sessions, the committee reconvened and elected Bryan Krislock as Chair and Del Glover as Vice-Chair. The committee then adjourned.

Respectfully submitted,
Nancy Caparulo
Staff support to the committee