

COUNCIL ON FINANCE AND ADMINISTRATION

2018 Stewardship Report to Annual Conference

The Council on Finance and Administration (CFA) report this year celebrates the faithfulness and dedication of the local churches of the Baltimore-Washington Conference. There is good news to be shared, not only in the telling, but also in the way CFA has applied the success in 2017 to the 2019 budget to the direct benefit of our local churches.

It is good news that the local churches in our conference continue to set record high apportionment giving in 2017. The collection rate of 92.45% beat the budget estimate of 92% for the second year in a row. The 2019 budget continues this projection at 92%. This has been a realistic expectation set at the same rate since 2015.

Total local church income for the churches of the Baltimore-Washington Conference grew significantly in 2017. This continues a trend measured since 2012. Our apportionment base also grew by almost 1% in 2017. While it seems inevitable that costs will increase each year for both local churches and the conference, CFA undertook to mitigate a portion of that effect for the local churches by reducing the benevolence factor from 17.725% to 17.600% for the 2019 budget. This follows a reduction also in 2018. This reduced apportionment income by \$100,000 from what it would have been under the 2018 rate. The effect is to maintain the level of apportionment income or ministry shares between \$14.2 million and \$14.3 million. This is the seventh year in a row CFA has set apportionment income at a consistent and stable level. This is intended to provide predictability and stability for the local churches in their connectional giving.

The 2019 budget also continues strategic initiatives to accelerate the payments on the mortgage for the conference center and new camping facilities. This has the potential to save us \$1million in interest if we are able to pay off this debt early in 2022. Retiree medical expenses will continue to be paid wholly from reserves and with no contribution from apportionments. CFA has also increased its target for reserves from 10% to 15% of apportionment income to be completed in 2019. With the positive fund balance from 2017, we are currently at 13.8%. A highlight, both financially and otherwise, is the outstanding income and program performance of Retreat and Camping Ministries.

In addition, the 2019 budget reflects the new structure of the Discipleship Ministries and will provide transparency and accountability as we engage in this new structure. It provides increased funding for these ministries. It also includes almost \$80,000 in new outside grant income. It reduces stewardship expenses and is a balanced budget.

CFA has considered potential risks to both local church income and connectional giving that can take effect in 2018 and 2019. Effective in 2018, changes in the Federal Tax laws may affect charitable contributions, and in February 2019 the "Way Forward" process will be voted on at the Special Session of the General Conference. Either or both of these events may have negative effects on local churches and a ripple effect on ministries of the Baltimore-Washington Conference. CFA stresses that adverse effects are only potential risks and not a certainty. While the effects are currently unknown, they will evolve over the next two years. CFA is boosting its reserves and, together with other affected agencies, will follow events closely, remain flexible, and develop strategies to address their effects.

2017 Financial Results (Pre-Audit):

Income

The apportionment/mission share income in 2017 was \$14,288,609 with an overall collection rate of 92.45%. For the fourth straight year, the Conference has set a record high for the collection rate. The collection rate budget was set at 92.0% and the positive performance was better than budget by \$69,686 (0.5%). The apportionment giving was actually \$54,699 (0.4%) lower than the prior year which is simply a factor of a lower apportionment budget in 2017.

The collection rates recorded in recent years are as follows:

2017: 92.45%	2012: 89.10%
2016: 92.08%	2011: 90.46%
2015: 91.66%	2010: 90.51%
2014: 90.77%	2009: 89.24%
2013: 89.84%	2008: 87.00%

The number of churches contributing 100% towards their mission shares remained high with 82% of our local churches meeting that standard. The number of churches giving 100% of their mission shares was 84% in 2016, 83% in 2015, and 82% in 2014.

The non-apportionment income in 2017 was \$4.4 million which was \$41,000 (0.9%) less than budget. On actually a good note, the non-apportionment income was \$298,000 less than expected due to the lower funding that was required from the Board of Pensions Reserves to pay for Retiree medical benefit expenses that were 16% less than budget. That negative performance was offset by more than budget performance in Retreat and Camping Ministry revenues that exceeded their budget by \$87,000. Earnings on investments were also stronger than expected with net gains of \$73,000 greater than budget. Overall, the non-apportionment income was \$1.4M more than the prior year as a result of the change in the 2017 budget that funded all of the Retiree medical benefits from the Board of Pensions Reserve instead of apportionment funding.

Expenses

The total expenses in 2017 were \$18.2 million which was \$434,300 (2.3%) less than budget. The most significant financial pressures were the Zimbabwe Partnership expenses that exceeded budget by \$57,000 and annual conference expenses that exceeded total income by \$30,000. These were offset by under budget performance in Retiree Medical expenses at \$298,000, as mentioned previously under the non-apportionment income. Other expenses under budget included moving costs - \$49,000, legal - \$47,000, and insurance - \$35,000.

Overall, the resulting net income prior to audit was a positive \$462,494 which is 2.5% of budget. There are many factors that contributed to this strong financial performance in 2017. We especially give thanks to our local churches who remain so strong in their connectional giving.

BWC Apportionment Base:

The expenses of a local church as they are reported in the annual collection of statistical data, minus dollars that are spent on mission, outreach, debt service and capital projects comprise what is known as the apportionment base for a church. The apportionment for a local church is derived by multiplying the apportionment base by the Benevolence Factor that is established by the Annual Conference when the budget is approved. Using this method, our current Benevolence Factor of 17.725% yields an apportionment that is most commonly in the range of 9-12% of total local church expenses or income.

The apportionment base for the Conference is an accumulated total of the apportionment base that is calculated for each local church. The reported base increased by 1.0% in 2017. The apportionment base trends with the year-over-year changes are as follows:

2017: \$ 88,283,704 (+1.0%)
2016: \$ 87,449,322 (+0.4%)
2015: \$ 87,072,403 (-0.8%)
2014: \$ 87,780,638 (+1.1%)
2013: \$ 86,835,908 (+0.8%)
2012: \$ 86,169,509 (-1.3%)
2011: \$ 87,341,343 (-2.1%)
2010: \$ 89,250,232 (+6.1% vs. 2008)
2009: *Not Applicable – Kept the prior year's base and budget*
2008: \$ 84,095,541 (+3.0%)
2007: \$ 81,646,157

2019 Budget:

The proposed budget for 2019 builds on the strategic initiatives that were first introduced in the 2017 budget. These initiatives include:

1. Increase Level of CFA Reserves from 10% to 15%

With the positive fund balance from 2017, the CFA Reserves now stand at 13.8% of the apportionment budget. The 2019 budget includes \$100,000 towards the increased level of CFA reserves to reach the 15% goal.

2. Accelerate Payment of Conference Debt

The consolidated loan for the West River Dining Hall and the Mission Center will be reduced to a balance of \$2.1 million with the proposed 2019 budget that includes \$600,000 towards accelerated debt payments. The loan balance stood at \$5.2 million at the end of 2016 prior to starting the accelerated payments. The 2019 budget keeps the Conference on pace to pay off the loan in 2022 which will be 6 years ahead of schedule with \$1.0 million total savings in interest payments.

3. Fund Retiree Medical Benefits from Reserves

Retiree medical benefits will continue to be funded from the Board of Pension reserves without any additional funding coming from apportionments. The

retiree medical funding in 2019 is set at \$1,635,000 which is based on the current expense trends for this benefit.

The 2019 budget also includes a reduction of the Benevolence Factor from 17.725% down to 17.60%. This builds on the reduction from 17.75% that was included in the 2018 budget. The reduction in the Benevolence Factor is consistent with the CFA's multi-year plan to keep making progress towards the goal that the average church's apportionments be no more than 10% of their overall income. That level is currently calculated at 10.6% based on the 2017 statistics. This is down from 12.3% in 2011.

Overall, the budget proposal consists of an apportionment income of \$14,294,897 which is an increase of \$34,536 or 0.2% from the prior year. The budget assumes a 92.0% collection rate for the apportionments which is consistent with the actual results for 2016 and 2017. The non-apportionment income is increased by \$231,592 to \$4,435,367 which is driven by increases in external grants and the recognition of \$200,000 from the sale of discontinued churches that will now be recorded in the budget as revenue to fund grants for new church starts.

The expense budget shows an increase in Discipleship Ministry programs of 3.7% from \$11.1 to \$11.5 million. The stewardship and administrative programs will be reduced by 1.9% from \$6.9 to \$6.8 million. The budget incorporates a 2.5% increase in salary, completes the phaseout of Regional Resource Coordinators, and funds the hiring of a new full-time position to lead New Faith Expressions.

Other line items of significance include:

- The General Conference apportionments will be reduced to \$3,481,744 which is a decrease of \$89,866 (-2.5%).
- Retreat and Camping Ministries revenues are projected to grow an additional 4.5% in 2019 which continues to be a very good news story.

Summary

The future continues to unfold and we will continue to rise to meet our financial challenges, strengthened by a willingness to operate in ways both traditional and innovative. We will continue to strengthen communications about our connectional ministries and how apportionments are used throughout the connection. We are blessed as a conference by financial stability and by the resources we have in terms of partnerships, both realized and envisioned.

The Baltimore-Washington Conference continues to develop its stewardship so that vital and vibrant communities can be born and prosper, so that our connections at both local and global levels can be strengthened and increased, and so that all local churches can experience the benefits of the connectional system of which we are all a part. We recognize God's presence at work through it all and thank God as well as appreciate the uniqueness of each local church.

CFA continues to do its work in a spirit that we pray is cooperative and well-focused. As we continue to stand together as a connectional church, we will find both causes to celebrate and the ability to face our challenges together. We will work together for the greater good of which we are all a part, keeping in mind that all that we have and all that we are is from God.

Respectfully Submitted,

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