



## Presentation and Adoption of the FY2023 Budget

We always appreciate the Gather opportunity to provide you with a detailed overview of our finances and the Mission and Ministry budget. Together, we partner in a 3StrandStrong mission, and it is important that you are provided with the information you need to gauge the scope, stewardship, and effectiveness of our shared mission. Ultimately, our aim is to support, equip, and encourage our churches and members in the flourishing of their local ministries.

### FY2023 BUDGET PROPOSAL

On Saturday, June 25, we will present the proposed Mission & Ministry Budget for fiscal year 2023 (covering the period from October 1, 2022, through September 30, 2023). This proposed budget was reviewed and affirmed by Covenant Offices Leadership Team (COLT), the Council of Administrators and the Finance Committee of the Executive Board. The FY2023 Base Mission Investment Proposal totals \$18,289,248. The details of that budget proposal are found in the table below:

	Approved Budget FY 2022	Proposed Budget FY 2023	23 vs 22 %
<b>Base Mission Investment</b>			
Start and Strengthen Churches	\$ 1,227,340	1,254,749	2.2%
Make and Deepen Disciples	841,011	865,670	2.9%
Develop Leaders	937,666	1,167,637	24.5%
Love Mercy Do Justice	641,604	650,692	1.4%
Serve Globally	1,418,738	1,393,560	-1.8%
MarComm	1,464,442	1,388,860	-5.2%
Shared Services	4,098,426	4,451,387	8.6%
Other	182,689	175,000	-4.2%
Core Mission Investment	10,811,916	11,347,555	5.0%
Church Plant Appropriations	1,817,500	1,677,000	-7.7%
Living Legacy Funding	(480,000)	(300,000)	-37.5%
Net Church Plant Appropriations	1,337,500	1,377,000	3.0%
Global Personnel Appropriations	4,431,920	4,564,693	3.0%
North Park University Support	1,000,000	1,000,000	0.0%
Mission Friends Appropriations	5,431,920	5,564,693	2.4%
<b>TOTAL BASE MISSION INVESTMENT</b>	17,581,336	18,289,248	4.0%
Mission Surplus (Deficit)	\$ (883,056)	\$ (1,459,699)	
Draw from General Reserves	\$ (883,056)	\$ (1,459,699)	

The FY2023 budget proposal represents a 4% increase over the approved FY2022 budget as we return to more normal (post-pandemic) levels of mission activity. While most components of the Base Mission budget are projecting an annual increase of 3% or less, two areas require additional investment in FY2023. We are increasing our investments in the Develop Leaders team by adding staff to expand their ability and reach as they care for our credentialed community. The Shared Services budget reflects the recent increased investment in information technology, operating systems, governance engagements, financial resources and event coordination to better support a denomination and work environment calling for more automation, nimbleness, and digitization. It is worth noting that the proposed Shared Services budget is 1.8% less than the actual Shared Services spend in FY2021.

In the presentation at Gather, we will further review the key data and drivers of the proposed budget, including:

- The operating activities of our 5 Mission Priorities teams (Start and Strengthen Churches, Make and Deepen Disciples, Develop Leaders, Love Mercy and Do Justice, Serve Globally), as well as our Marcom and Shared Services teams (President’s Office, Finance, Advancement and Operations).
- The substantial annual “external appropriations” activity in support of our mission friends. Start and Strengthen Churches commits to large annual external appropriations for church planting and related activities. Serve Globally supports our Global Personnel and ministry partners through external appropriations. Covenant Offices provides a major annual external appropriation in support of North Park University/NPTS.
- The funding of the budget via the faithful support of our churches, individual donors, and affiliates.

## FUNDING THE MISSION

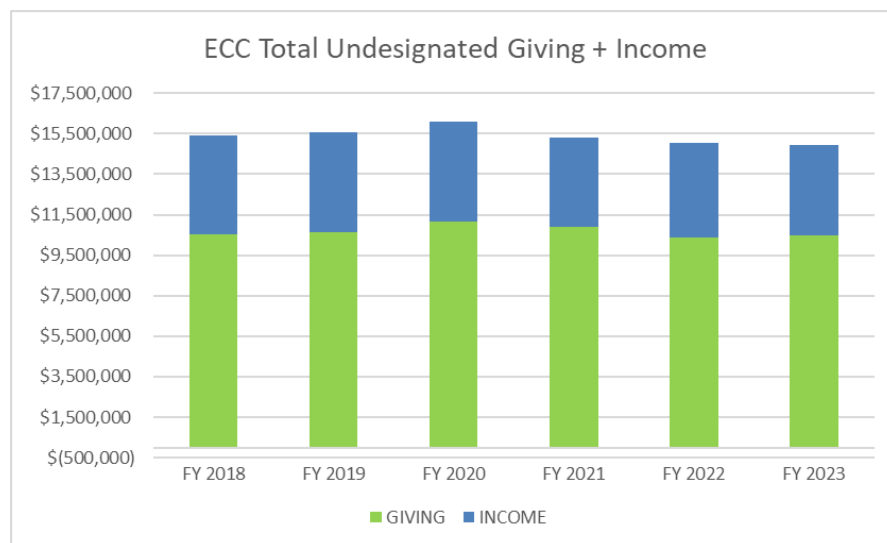
The FY2023 budget proposal includes the following funding projections:

	Budget	Budget	23 vs 22
	FY 2022	FY 2023	%
<b>Base Mission Provision</b>			
Church & Individual Donor Giving	\$11,205,170	\$ 10,505,549	-6.2%
Affiliate Fees	\$ 4,203,006	\$ 4,200,000	-0.1%
Annual Bequests Draw	\$ 818,000	\$ 1,874,000	129.1%
Other Income and Rent	\$ 472,104	\$ 250,000	-47.0%
<b>TOTAL BASE MISSION PROVISION</b>	<b>\$16,698,280</b>	<b>\$ 16,829,549</b>	<b>0.8%</b>

Our Advancement team is projecting \$10,505,549 in total undesignated giving from member churches and individual donors in FY2023, or a -6.2% decline versus the FY2022 budget. This represents the lowest projected level of giving to the coordinated budget since FY2017. We are also projecting a -47% decrease in year-over-year “Other Income” due to the continued decline in fees received from providing communication services. To provide adequate support to FY2023 ministry and mission activities, the budget offsets the projected decline in income with a commensurate increase in the size of the annual bequest draw. We usually draw 10% of existing bequest fund reserves into our annual budget, as in FY2021 when we drew \$918,000 into the budget. However, the FY2023 budget proposal assumes a one-time 20% draw of the bequest fund reserves, or an estimated \$1.874 million.

Much like your local church context, we take significant funding risk in the Base Mission Investment budget. We have always committed to funding our mission priorities with a deep sense of trust in God’s ongoing provision through the faithful giving of member churches and donors. Nearly 60% of our budgeted operating income is derived from local church giving and individual donor support. Our mission structure is designed to serve our churches, conferences, pastors and members, and our annual budget process has traditionally supported that structure regardless of whether it is fully funded at any given time.

However, it appears we may have reached a point of critical mass. As detailed in the chart below, our total income (net of the annual draw from our bequest reserves) has been flat over the past four years, and has recently begun declining:



In fact, we project that through FY2023, our total operating income will have declined for three straight

years. Our most recent fiscal year – 2021 – saw our actual total income decline to a level below our total income in fiscal year 2018. While we remain grateful for the faithful giving our donors, it grows increasingly challenging to fund (let alone expand!) our mission as income levels fall.

The Covenant Offices team has worked hard over the past three years to better align the total size of the budget with the total level of mission provision. As a result of that stewardship, the proposed FY2023 budget total of \$18,289,248 represents only a 1.7% increase over the FY2018 budget, or only a .34% annual increase over five years. Yet, despite our best stewardship efforts (including presently projecting to forego compensation increases for Covenant Offices staff in FY2023, unless our end of year performance is better than presently projected, the FY2023 budget proposal still results in a projected budget deficit of \$1.46 million.

In the Fall of 2020, we brought a resolution to the Executive Board that mandated a cash balanced budget by FY2024. That resolution was aimed at galvanizing our denomination around a stewardship endeavor that would help assure our financial sustainability far into the future. Accordingly, we are charged with bringing forth a balanced budget proposal at this time next year. However, should the recent trends in undesignated giving (the lifeblood of our coordinated mission budget) persist – it is difficult to imagine achieving a balanced budget without a strategic reassessment of our operating systems and the structure of the denominational team.

Our budget presentation at Gather will include a detailed preview of the FY2024 budget process, including additional observations regarding Covenant giving trends and the affordability of our current missioning structure.

We thank you for your support of our shared mission and the daily confidence you place in us to shepherd the overall financial strategies of the Covenant. Please know that the Finance Team always seeks to ensure that our resources are stewarded in a manner that sustains and advances the Covenant mission, glorifies God, and honors the intent of our donors. If we are to mission well, we must steward well.

Respectfully,

Steve Klimkowski

Treasurer and Chief Financial Officer