



## Fiscal Year 2023 Financial Report

When Gary Walter became head of Church Growth and Evangelism (now Start and Strengthen Churches) in the 1990s, he shared five rules of conduct for those of us on staff to live into. One of those rules was “Remember the widow in Iowa.” It was a simple way for us to remember that every dollar we spend on behalf of the Covenant was donated sacrificially by someone, and we should treat it accordingly. When I started in the interim role as vice president of finance a year ago, I laid out the same five rules for the Finance team, and they have made them their own. We consider the stewardship of Covenant resources to be a sacred trust.

Over the past year, the Covenant has started to live into the new organizational structure approved at Gather 2023. That work has included evaluation of current personnel, evaluating any new positions to be considered, now presenting a fully formed budget for the fiscal year starting October 1, 2024. We are excited in that we believe there will be better missional traction as the ministry anticipated by this budget begins to play out.

We continue to claw our way back from the impacts of Covid earlier this decade, and we sense a light at the end of the tunnel—not a train coming at us but rather the Covenant emerging into a bright new day. That’s not to say “we’re back” but that almost every day feels better than the last, and we can look to the future with optimism and prayer.

One evidence of that truth is that church giving is up approximately 7% from the year before, as well as 7% over budget through the first half of the fiscal year. Something to celebrate!

### **FY2023 OPERATING RESULTS**

Covenant expense spending in FY2023 was 4.15% under budget. That represented significant effort on the part of leadership to keep a rein on expenses. That tight rein was necessary because revenues weren’t up to snuff. We were almost \$800,000 behind budget for Covenant Church Support. However, in July 2023, we received an Employee Retention Credit grant from the federal government for \$1,629,655 (when adding in the interest bonus). That allowed us to forgo some of the deployed reserves (accumulated surplus from prior years) that would have been needed to keep mission moving forward and balance the budget. It is not a great management process to eat into reserves over multiple years, and we are reasonably optimistic that we can get to a fully balanced budget again.

The final operating bottom line was that we ended FY2023 with an operating surplus of \$554,276. Like the uptick in Church Support reported this year in FY2024, it has been a long time since we have been able to report a surplus for the Covenant.

## FISCAL YEAR 2023 FINANCIAL PERFORMANCE

	BUDGET FY 2023	ACTUAL FY 2023	% VS BUDGET
<b>Mission Provision</b>			
Covenant Church Support	\$7,848,188	\$7,074,230	-9.86%
Individual Donor Support	\$2,657,361	\$2,667,054	0.36%
Affiliate Fees	\$4,200,000	\$4,200,000	0.00%
Deployed Reserves	\$1,459,699	\$363,208	-75.12%
Annual Bequest Draws	\$1,874,000	\$1,874,233	0.01%
Other Income	\$250,000	\$275,242	10.10%
<b>TOTAL MISSION PROVISION</b>	<b>\$18,289,248</b>	<b>\$16,453,967</b>	<b>-10.03%</b>
<b>Mission Investment</b>			
Serve Clergy	\$1,167,637	\$1,043,511	10.63%
Serve Locally	\$4,148,111	\$4,204,665	-1.36%
Serve Globally	\$5,958,252	\$5,071,495	14.88%
President's Office	\$946,341	\$1,024,989	-8.31%
Finance	\$1,021,274	\$1,054,877	-3.29%
Advancement	\$908,278	\$1,001,322	-10.24%
Operations	\$1,575,495	\$1,844,443	-17.07%
Marketing & Communications	\$1,388,860	\$1,284,044	7.55%
North Park University	\$1,000,000	\$1,000,000	0.00%
Other	\$175,000	\$0	100.00%
<b>TOTAL MISSION INVESTMENT</b>	<b>\$18,289,248</b>	<b>\$17,529,346</b>	<b>4.15%</b>
Operating Loss	\$0	(\$1,075,379)	-5.88%
Employee Retention Credit	\$0	\$1,629,655	8.91%
<b>NET INCOME (LOSS) FOR YEAR</b>	<b>\$0</b>	<b>\$554,276</b>	<b>3.03%</b>

## COVENANT BENEFITS

Of great interest to clergy, the Covenant Pension Plan experienced a strong 2023 (it reports results on a calendar year basis). Just as the disappointing results in 2022 were fueled by the general equity and other markets being solidly down, the Plan experienced good recovery in 2023. At the recent Board of Pensions and Benefits meeting, it was reported that the Plan was at 105.9% funding level as of January 1, 2024.

There are 2,161 pastors, chaplains, global personnel, and other ministry roles (and their spouses) who participate in the Plan. Of those, 1,042 are actively receiving pension benefit payments. Those payments total more than \$1,250,000 every month. We are now in a long season (next 60 years or so) of declining numbers in the Plan. With the closure of the Plan to new applicants a few years ago, we saw a drop of 16 participants in 2023. All told, the Plan has assets of \$283,453,382 as of January 1, 2024.

Covenant Benefits (an imbedded ministry of the Covenant) supplies financial security through health insurance and retirement benefits to pastors and ministry staff, which enables Covenant leaders and ministries to give of themselves and their abundance. Numerous access points to mental health services are included, which enable Covenant pastors and leaders to care for their own emotional and mental health while attending to the emotional, spiritual, and mental health of their congregants. Covenant Benefits acts as an advocate and liaison when insurance concerns arise, freeing up time and space for Covenant pastors and leaders to focus on their ministries.

The health insurance ecosystem is ever more complicated as new laws are enacted, and costs continue to skyrocket as lifesaving medical advances and specialty medications are released. Covenant Benefits prioritizes affordable access to healthcare. With guidance from the Board of Pension and Benefits and experts in the field, Covenant Benefits continues to manage our group health insurance plan with diligence and service to the Covenant.

The health insurance component of Covenant Benefits is struggling to adjust to the steadily rising costs of medical coverage. Year-over-year increases in actual medical costs for all medical plans nationwide have averaged 8%. Beginning in the year 2019, medical premiums paid by participants and their churches started to total less than the medical treatment costs incurred. The administrative costs of the plan added to that negative balance. Covenant Benefits has traditionally increased premiums very modestly while offsetting any shortfalls with reserve investment returns, while similar denominational and ministry group health plans like ours have passed on double-digit increases regularly to keep up with healthcare inflation. We are evaluating adjustments for 2025 to enable the Covenant to continue providing this important service of group employee health insurance coverage long into the future while keeping up with healthcare inflation trends, such as a higher premium increase, right-sized family tier rates, and/or increased copays and deductibles.

## **FINANCIAL AUDIT UPDATE**

Included with this report is a copy of the most recent Covenant audited financial reports as of the end of our last fiscal year on September 30, 2023. The report includes both “base mission” activity as reported in the Fiscal Year 2023 Operating Results section above, as well as broader global “project ministries” and related Covenant financial obligations. This is the most comprehensive view of our mission financial activity.

## **FISCAL YEAR 2025 BUDGET**

It has been an interesting process to work out the FY2025 budget. The normal planning and meeting with ministry leaders was straightforward and took place on schedule. Then we needed to address a few issues that impact payroll (a major component of the budget every year), such as the Fair Labor Standards Act (FLSA) as well as the reorganizational work, which included combining ministry areas, a process of leveling salary ranges, and consideration of filling positions that have intentionally been left unfilled during the process. With all of that behind us now, we are able to present the FY2025 budget.

There are several major changes to the budget presentation this year:

1. The income projections includes a new line item for Combined Investment Income. In order to simplify some accounting by combining investment accounts where possible, we have been able to identify restricted funds that don't have a requirement to direct investment income back into that restricted account. These are funds where the donors have said they want their gifts to benefit XYZ ministry in the Covenant. Those donors have every right to expect those gifts to benefit that XYZ ministry, but the gifts don't have ties to the earning. Rather than perpetuate the restricted nature of the earnings, this new methodology allows for a significant amount (\$1,100,000) to flow into the general fund budget for the year. Without this revenue, budget decisions would have been much more draconian.
2. The new missional structures have been put into place with Serve Locally (formerly Start and Strengthen Churches, Make and Deepen Disciples, and Love Mercy Do Justice), Serve Clergy (formerly Develop Leaders), and Serve Globally (formerly World Mission) all in place.
3. Overall, the budget is a 2.3% increase from the budget approved last year for FY2024.

We continue to give thanks to the many Covenant churches and individuals who support the mission and ministry of the Evangelical Covenant Church. I am grateful for the dedicated staff who give time and focus to doing the books of the church well and on time. We endeavor to remember the “widow in Iowa” in all we do.

# THE EVANGELICAL COVENANT CHURCH

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