



Fiscal Year 2019/2020 Financial Review and Performance Report

As we prepare to gather at our annual meeting, please find the following summary of the financial materials and information we will be providing to our delegates related to our operating results, our benefit programs, and our financial stewardship.

FY2020 OPERATING RESULTS

2020 was a year that reminded us that our approved annual budget – no matter how rigorously and thoughtfully constructed - is still just a best guess about our near-term financial future.

We certainly never imagined that a global pandemic would force us to temporarily close the doors of our churches, retreat from the 8303 Building to makeshift home offices, cancel all Covenant travel and events, and learn how to mission and worship together via Zoom links and livestreams.

The suddenness and severity of the crisis initially caused us grave concern about our finances. Similar periods of extreme economic adversity over US history indicated that we would experience a significant downturn in donor support, lasting upwards of two years. Accordingly, we downgraded the outlook for our FY2020 budget to a projected budget shortfall of \$2 million – with a “worst case” shortfall projection of \$2.75 million.

However, our actual financial performance surpassed those revised projections with a budget shortfall of “only” \$1.707 million. Moreover, we received a \$1.776 million CARES Act PPP loan during 2020 (which we anticipate will be fully forgiven) that wholly covered that deficit.

There are several reasons we performed better than our revised projections. First, the capital markets were unexpectedly resilient. After an initial plunge, the US stock market rallied to new all-time highs within 5 months of 8303 closing its doors. The upsurge bolstered our invested reserves and our retirement plans. In fact, the Covenant Pension Plan enjoyed fully funded status at year end 2020.

Secondly, despite the adversity and uncertainty, our churches and individual donors faithfully supported the denomination in its time of need. We had anticipated a double-digit downturn in our giving. Instead, our actual support nearly matched the totals from the previous year. Finally, the stewardship of the denominational team - via tightening our belts, personal sacrifice, and budget cuts - helped to produce a total spend in FY2020 that was approximately \$991k less (or 7.6% below) the same proforma period in 2019. All these factors combined to produce a final budget result that was surprisingly close to the “best guess” that was approved at our Annual Meeting in 2019.

	FY2020	FY2019	Y-O-Y
	Unaudited	Proforma	% change
Income:			
Total Undesignated Giving	\$ 6,038,356	\$ 6,078,503	-0.7%
Affiliate Fees	\$ 2,782,788	\$ 2,741,636	1.5%
Living Legacy Funds Draw	\$ 594,581	\$ 789,550	-24.7%
Annual Bequests Draw	\$ 535,000	\$ 485,000	10.3%
Misc Income	\$ 12,443	\$ 32,373	-61.6%
Communication Sales	\$ 104,087	\$ 229,413	-54.6%
Rental Income	\$ 212,202	\$ 208,956	1.6%
Total Income	\$ 10,279,458	\$ 10,565,431	-2.7%
Expenses:			
Start and Strengthen Churches	\$ 2,270,557	\$ 2,618,786	-13.3%
Make and Deepen Disciples	\$ 571,709	\$ 748,548	-23.6%
Develop Leaders	\$ 474,658	\$ 535,356	-11.3%
Love Mercy Do Justice	\$ 407,787	\$ 410,121	-0.6%
Serve Globally	\$ 3,764,277	\$ 3,691,454	2.0%
Communications	\$ 736,328	\$ 814,407	-9.6%
Shared Services	\$ 2,698,830	\$ 2,650,174	1.8%
North Park University Support	\$ 666,667	\$ 666,667	0.0%
Other	\$ 395,897	\$ 842,675	-53.0%
Total Expenses	\$ 11,986,710	\$ 12,978,187	-7.6%
Base Mission Surplus (Deficit)	\$ (1,707,252)	\$ (2,412,757)	
Reserves Withdrawal	\$ -	\$ 2,412,757	
Cares Act PPP Loan	\$ 1,775,890	-	

[**Note:** Due to the recent change in the Covenant’s fiscal year end to September 30, fiscal year 2020 was shortened to an eight-month period (as we transitioned to the new reporting period). This makes comparisons with previous fiscal year results a difficult endeavor. In the table above, we created proforma FY2019 results to provide some basis for comparison. However, the proforma FY2019 is only a best estimate. Significant portions of our income and expense flows are highly seasonal. For example, approximately 40% of Covenant giving arrives in the last quarter of the calendar year. Another example is the lumpiness of major Covenant event expenses.]

Financial Audit Updates

Included in these delegate materials is information related to the most recent Covenant audits. The first audit report represents the total “consolidated” operations and financial position of the Covenant as of January 31, 2020. This report includes both “base mission” activity as well as broader global “project ministries” and related Covenant financial obligations. This is the most comprehensive view of our mission activity from a financial perspective.

Normally we would also make available to you the audited consolidated financial statements for the fiscal year most recently concluded (September 30, 2020). However, the global pandemic and its impact on our workplace continues to challenge our financial processes, internal controls, and our access to our teammates and data. We affirm the importance of timely recognition and measurement of all financial reporting activity, but at the time of this publication, we continue to work through completing the audit of our most recent financial year-end.

The second enclosed report is a **DRAFT** of the audited financial statements of the Covenant Pension Plan (“CPP”) as of December 31, 2019. The CPP is the primary pension plan for Covenant ministers and Global Personnel. As in prior years, the audit remains in **DRAFT** form only because of a normal delay in receiving final valuations from certain private capital asset managers. The report will be finalized this summer, and we do not expect any material revisions.

Bethany Benefit Services

Bethany Benefit Services (“BBS”) continues to enjoy sound reserves and good operating results. Year after year, the BBS team strives to provide Covenant churches, affiliates, pastors, global personnel and retirees with affordable, high quality and comprehensive care, without compromising the plan’s long-

term sustainability. We congratulate Christina Kempe on her recent promotion to Director of Bethany Benefits. We are very blessed to have such a faithful, talented and compassionate Covenanter heading up such a vital Covenant ministry.

While BBS enrollment in 2020 was relatively stable, the plan experienced a greater number of departures than we generally see – most likely due to pandemic-related layoffs. We hope to allocate more time and resources in 2021 toward promoting greater awareness of BBS across our churches, in order to further expand our membership. Increased enrollment means lower costs to our members, better care of our pastors, and a more diverse spread of the plan's risks.

We are pleased to share that both the Covenant Pension Plan and the Lay Pension Plan enjoy fully funded status as of year-end 2020.

Financial Stewardship

Looking forward, we remain hard at work to remedy the underlying causes of our budget's reliance on reserve withdrawals. The initial fruit of our endeavors was the FY2021 budget plan - a budget that is \$2.5 million (or 13%) less than our total spend in FY2019 and reduces our projected annual budget shortfall from \$2.6 million in 2019 to only \$.6 million. While we are encouraged by these numbers, we recognize that a portion of the reduced spend is due to Covid-19 impact. Inevitably, Covid-19 will fade, and our budget will expand as we resume more normal levels of mission activity.

We remain focused on creating better financial reporting across the Covenant ecosystem, enhancing transparency around our finances and annual budget, tightening expense management, expanding our programs around pastor economic wellness (particularly in under-resourced churches), growing our financial reserves, and continuing to build our Advancement efforts and our 3StrandStrong bonds.

Our goal is to ensure the long-term sustainability of the Covenant's finances in its support our mission to "join God in God's mission to see more disciples, among more populations, in a more caring and just world." If we are to mission well, we must steward well. To help advance our goal, we brought a resolution before the Executive Board in October 2020 that requires the Covenant to balance its budget by fiscal year 2024. The Board approved that action, and we fully expect to achieve that mandate.

We continue to be blessed by talented and faithful Covenanters who work alongside us on the Finance Committee of the Executive Board and on the Board of Pensions and Benefits. Our work would not be possible without them, nor without you.

We look forward to sharing more with you at Gather 2021.

With deep gratitude,

A handwritten signature in black ink, appearing to read "Steve Klimkowski". The signature is fluid and cursive, with a prominent initial "S" and a long, sweeping tail.

Steve Klimkowski

Treasurer & Chief Financial Officer