

***Episcopal Diocese of Pennsylvania***

***CBIZ Consulting Report***

***May 31, 2006***

## **Table of Contents**

Introduction.....	3
Wapiti Project .....	4
Expenditure Summary .....	4
Sources of Funding .....	6
Comments/Recommendations .....	6
Net Assets Classifications.....	7
St. Giles Proceeds Fund.....	7
St. Peter's Broomall Fund.....	8
Cowles Fund .....	9
Denbigh Fund .....	9
St. Matthew's Fund .....	10
Messiah Fund.....	11
St. Andrew's #1 Fund.....	12
St. George's Jerusalem Fund.....	12
Endowment For The Episcopate Fund .....	13
Zion Fund.....	14
Diocesan Reserve Fund .....	14
Epiphany Sherwood Fund.....	15
William & Sallie Carter Memorial Fund .....	16
Church House Fund .....	16
Morris Fund .....	17
Lance Fund .....	18
Mc Creery Fund .....	18
Moss Fund .....	19
St. Mathias Fund.....	20
Unrestricted Net Assets Withdrawals.....	21
Write offs occurring in 2003.....	22
Comments / Recommendations .....	23
Comments / Recommendations (continued).....	24

## Introduction

CBIZ Accounting, Tax & Advisory, LLC ("CBIZ") was engaged to perform consulting services on behalf of the Episcopal Diocese of Pennsylvania related to the Wapiti Project and the classification of Net Assets. CBIZ services included consulting and financial analyses of the books, records and other data provided to us by the finance department of the Diocese, representatives of the Church Foundation and the Diocese's independent auditors.

Per our engagement letter, our engagement was limited to 140 man-hours. During that time we were able to research and report on the Wapiti Project and report on the accounting of nineteen funds currently accounted for by the Diocese as being Unrestricted Net Assets. The Special Audit Committee provided CBIZ with 12 suggested funds and the remaining seven were picked at random by CBIZ based on 12/31/05 stated values.

CBIZ researched the Wapiti Project by reading related documentation supplied by the Diocese, conducting a walkthrough of the Wapiti site in Maryland, noting accounting policies and procedures and obtaining expenditure details. CBIZ prepared schedules summarizing expenditures and identified sources of funding for the Wapiti Project.

CBIZ researched the method of fund accounting used by Church House and the Church Foundation by reading documents provided by the Episcopal Diocese of Pennsylvania and through inquiry and observation. CBIZ prepared summaries for 19 out of 98 funds accounted for by the Diocese as Unrestricted Net Assets, totaling \$ 10,147,787 or 80% of the market value of the Unrestricted Net Assets that appear in the 2005 unaudited financial statements. The summaries include our analysis of the funds' classifications, analysis of activities for 2003, 2004 and 2005, and various recommendations and suggestions.

During the preparation and research, CBIZ was able to gain insight into the financial policies and procedures used by the Church House and Wapiti Project. CBIZ had the opportunity to analyze these policies and procedures and has included some recommendations.

Management in both Philadelphia and Maryland were helpful and accommodating at all times. All requested information was produced for CBIZ in adequate time and all communication was forthcoming and timely.

## Wapiti Project

CBIZ researched the Wapiti Project ("Wapiti") by obtaining the general ledger activity for the Wapiti Project and Diocese records for 2005 and 2004, reading Wapiti Board of Director Meeting minutes, and conducting a walkthrough of the Wapiti site in Maryland on May 10, 2006.

CBIZ noted the Diocese entered into an Option to Buy Agreement for the property the Wapiti Project lies on. The original option expired January 2006, with a first extension with the same terms expiring May 31, 2006, and a second extension, without changing terms, expiring December 31, 2006.

CBIZ noted that the Finance & Property Committee minutes included approval of the Wapiti funding to be funded by Unrestricted Net Assets. Funding for the Wapiti Project was recorded as program expenditures by the Diocese during the period 1/1/03 through 12/31/05.

### ***Expenditure Summary***

The following schedule summarizing expenditures by category for the Wapiti spending from inception through 12/31/05. As of April 24, 2006, Wapiti had recorded an additional \$363,113 worth of expenditures. Please note that the below expenditures include not only program expenses but also capital assets.

Prepaid - Advertising	\$ 2,141	Phase II Permit/App. Fees	250
Prepaid - Subscriptions	300	Other Fixed Assets	1,156
Prepaid - Insurance	4,133	Event Support Equipment	11,276
Prepaid Software Support	876	Suspense/Clearing Account	4,002
Building Improvements	2,819,047	Wapiti Operating Taxes	1,692
Phase I Const. in Progress	510,519	Discounts Income	97
Pre 2004 Costs	380,182	Meats, Fish, Poultry Expense	2,891
Furniture, Art, Decor	561	Deli Expense	456
Land Option	3,000,000	Dairy Expense	1,015
Phase II Sub-Consultants		Beverage Expense	966
Expenses	19,881	Produce Expense	1,464
Phase II Architects Expense	132,086	Grocery Expense	17,869

Episcopal Diocese of Pennsylvania  
CBIZ Consulting Report

Camp Site and Facilities	76,400	Temporary Storage Expense	173
Camp Human Resources	8,405	Consultation Fees	3,404
Camp Transportation		Beer Expense	133
Expense	4,630	Wine Expense	1,569
Camp Program Expense	6,096	Liquor Expense	663
Camp Training Expense	2,067	Waste Disposal Expense	1,665
Camp Administration	1,372	Propane Expense	11,448
Camp Health and Wellness	599	Electric Expense	11,208
Donations	75	Security System Monitoring	656
Guest Refund Expense		Landscaping Supplies	641
Account	170	Grounds Maintenance	2,972
Building Improvements		Building Maintenance	6,774
Expenses	25,249	Facilities Main. Equip/Fuel	3,771
Health and Medical Insurance	66,456	Vehicle Maintenance	33
Workmen's Comp./Disability	3,506	Local Phone Service	4,208
Operating Insurance	2,759	Cellular Phone Service	2,273
Unemployment Insurance	2,375	Advertising/Marketing	12,582
Vehicle Insurance	1,427	Printing/Copying Expense	1,143
Future Dev. Legal Fees	4,302	Website Expense	6,920
Operational Legal Expense	158	Postage, Shipments, Courier	1,506
Employee Background Check	12	Gen. Office/Computer Equip	10,131
Registrations/Memberships		Bank Fees	1,763
Fees	485	Late fees	336
Dues and Subscriptions	597	Bad Debt Expense	420
Finance Charges Expense	220	Software Maintenance	20,547
Licenses/Inspections/Permits	565	Miscellaneous Expense	1,637
Audio/Visual Supplies	275	Uniform Expense	557
Mileage Expense	2,987	Sundries Expense	300
Parking Expense	98	Linens Service Expense	1,501
Fuel and Maint. Expenses	4,375	Janitorial Supplies	361
Tolls Expense	755	Cleaning, Chemicals Supplies	273
Meals Expense	463	Event Equip./Supplies Rental	16,663
Lodging Expense	171	Guest Transportation	590
Internet Service Expense	5,848	Sales and Use Tax Expense	1,330
Administration Supplies	3,867	General Event Supplies	5,217
Paper and Disposables	2,355	Canoes, Boats, Vehicles Exp	1,208
Kitchen Supplies	822	Hospitality Supplies	136
Water Delivery Expense	1,243	IT Support Expense	330
Wapiti Meeting Expenses	139	Satellite Expense/Service	216
Payroll Processing Expense	1,271	Furniture, Art & Decor	2,072
Event/1099 Staff Expense	1,643	Merchandise Expense	921
Employee Bonus Expenses	6,423	Credit Card Fees	872
Employer FICA Expense	29,378	<b>Total Expenditures</b>	<b><u><u>\$7,697,510</u></u></b>
FT/ PT Staff Salary/Wages			
Exp.	373,489		

### ***Sources of Funding***

The following schedule provides the sources of funding for the Wapiti Project from January 1, 2003 through December 31, 2005.

<b>Sources of Funding</b>	<b>Amounts</b>
Episcopal Diocese	\$ 4,265,261
Denhigh Fund	3,219,133
Wapiti Revenue	200,960
Miscellaneous Receipts	12,156
<b>Total</b>	<b>\$ 7,697,510</b>

### ***Comments/Recommendations***

The staff at Wapiti currently lacks strong accounting expertise, policies and procedures and an adequate chart of accounts. While expenditures are easily traceable to source documents, revenues/deposits lack adequate descriptions. We recommend the accounting for the Wapiti Project be taken over the Church House finance department or closely monitored by the finance department until the Wapiti personnel can be adequately trained and supervised and policies and procedures can be established and executed.

Significant time and money has been spent on the Wapiti Project and Diocese management must make a decision as to whether to secure the investment already in place or stop the spending and accept the losses to date. Projections for the prolonged viability of the property and operations should be considered as a tool for making these decisions.

The option on the property includes a clause that a proportionate amount of acreage will cede to the Diocese should it not proceed to acquire the entire property. Diocese management should continue working with legal counsel to determine what land they are entitled to and if the capital improvements to date are included in that land.

## Net Assets Classifications

Board designated funds are those funds that are internally designated by the Diocese for specific purposes. Some of the following funds have had withdrawals from principal which were attributed to funding the shortage of revenue from assessments, investment and expenses of Wapiti and program and ministry operational deficits. See the *Unrestricted Net Asset Withdrawals* section for more detail.

### ***St. Giles Proceeds Fund***

The St. Giles Proceeds Fund is currently on the net asset subsidiary ledger in what would be called Board Designated Unrestricted Funds. The St. Giles Proceeds Fund consists of two accounts, a Consolidated Principal and a Consolidated Income. The St. Giles Proceeds Fund originated in 1996 due to the closing of St. Giles Church. Internal documents note that the income was to be used to support the Church of the Atonement; \$4,000 per quarter was taken from the fund to support the redevelopment of the Church of the Atonement. CBIZ agrees with the classification of the St. Giles Funds as an Unrestricted Board Designated Fund.

CBIZ traced and analyzed income, fees, transfers and various transactions and provides the following summary for 2003 through 2005 in market value dollars.

<b>Fund</b>	<b>Beg Bal 1/01/03</b>	<b>Interest Income</b>	<b>Gains</b>	<b>Foundation Mgmt Fee</b>	<b>Withdrawal</b>	<b>Balance 12/31/05</b>
St. Giles Proceeds	\$434,643	\$30,267	\$81,843	(\$3,174)	(\$286,700)	\$256,879

The interest income, gains and foundation management fee appear reasonable, properly stated and were agreed to reports from the Church Foundation. The withdrawal amount consists of:

- Income distributed for the benefit of the Church of Atonement totaling \$48,000.
- \$238,700 withdrawn from the principal fund.

CBIZ was unable to obtain documentation indicating Standing Committee approval for the original disbursements of \$4,000 per quarter to the Church of the Atonement. Additionally, it

appears the Church House has not paid the Church of the Atonement the funds since 2003. CBIZ recommends possible actions such as;

- The St. Giles Fund record a Due from Church House for \$48,000 and the Church House subsequently replenish the fund.
- The Standing Committee retroactively approves the disbursements and the Church House pays the Church of the Atonement \$48,000.

***St. Peter's Broomall Fund***

The St. Peter's Broomall Fund originated in 2005 due to the closing of St. Peter's Broomall Church. The Church House received a check in the amount of \$749,935 in December 2005. The monies were initially deposited at State Street Bank and then transferred to the appropriate fund in January 2006. CBIZ obtained and reviewed the sale of property documentation and recording of monies received without exception. Treatment of fund appears reasonable.

CBIZ obtained and reviewed State Street Bank & Trust Company quarterly statements noting the opening of the fund plus the associated interest income. CBIZ noted one \$80.59 withdrawal deemed inconsequential. CBIZ noted the general ledger had been adjusted to reflect proper treatment of Fund at 12/31/05 year end.

CBIZ agrees with the classification of the St. Peter's Broomall Fund as an Unrestricted Board Designated Fund. CBIZ was unable to obtain documentation indicating Standing Committee approval for any distributions or indications of potential use.

CBIZ provides the following summary for 2003 through 2005 in market value dollars.

Fund	Beg Bal 1/01/03	Interest Income	Gains	Foundation Mgmt Fee	Withdrawal	Balance 12/31/05
St. Peter's Broomall					Fund set up	\$749,935

### ***Cowles Fund***

On 12/27/05, the Church House received a check for \$268,898, dated 11/23/05, from the Estate of Dorothy Cowles along with a letter dated 12/20/05. In the absence of a will, the monies were deposited into the Unrestricted Capital Campaign Fund. Copies of the decedent's will were requested by the Church House on 12/29/05, 1/9/06 and 2/6/06.

The deceased's will was received on 3/29/06 and the funds were deemed temporarily restricted by the donor to be used for Seminary Study. CBIZ agrees with the classification of the Cowles Fund as a Temporarily Restricted Fund. CBIZ reviewed e-mails, dated 4/6/06, from the Church House Controller requesting transfer of the funds, including appropriate interest income, to a new individual fund. CBIZ confirmed with the Controller that an adjusting general ledger journal entry will be prepared by the independent auditors to reflect proper treatment of the Fund as of 12/31/05.

### ***Denbigh Fund***

The Denbigh Fund is no longer located on the net asset subsidiary ledger because it was closed 10/15/03. From the documents provided, it appears that the Diocese purchased 5 parcels of land from the Flagg family for \$1 each and in the early 1970's conducted a capital campaign for funds and used the Moss Fund monies to convert the property into a Youth\Conference Center. The property was sold in 1976 for \$825,000. The Moss Fund was reimbursed with interest and the remainder of the proceeds became the Denbigh Fund. CBIZ viewed documents referring to Standing Committee approval throughout the entire process.

CBIZ researched the original transfer of the land from S. Griswold Flagg and obtained copies of the deed transfers from the Montgomery County Courthouse. There appears to be no restrictions on the use of the land other than it cannot be used for a "piggery or other offensive uses". Barring any additional information being located it appears the classification of the Denbigh Fund as an Unrestricted Board Designated Fund was appropriate.

CBIZ traced and analyzed income, fees, transfers and various transactions and provides the following summary for 2003 through 2005 in market value dollars.

Fund	Beg Bal 1/1/03	Interest Income	Gains	Foundation Mgmt Fee	Withdrawal	Balance 12/31/05
Denbigh	\$ 2,010,707	\$26,219	-	-	(\$2,036,926)	\$ -

The interest income, gains and foundation management fee appear reasonable, properly stated and were agreed to reports from the Church Foundation. The withdrawal amount consists of:

- Income distributed totaling \$54,777.
- \$1,982,149 withdrawn the balance of the principal fund.

### ***St. Matthew's Fund***

The St. Matthew's Fund is on the net asset subsidiary ledger in Board Designated Unrestricted Funds in two accounts, Consolidated Principal and Consolidated Income. The St. Matthew's Fund originated in 1974 from the closing of a church and the income was designated to be used for ministry and work in the inner city "Fairmount Deanery" and an intern program to train clergy and support the Ministry of Rev. Carol Moore. **Standing Committee approval 9/17/1975.**

CBIZ agrees with the classification of the St. Matthew's Fund as a non-restricted Board Designated Fund. CBIZ traced and analyzed income, fees, transfers and various transactions and provides the following summary for 2003 through 2005 in market value dollars.

Fund	Beg Bal 1/1/03	Interest Income	Gains	Foundation Mgmt Fee	Withdrawal	Balance 12/31/05
St. Matthews	\$1,152,913	\$68,758	\$298,547	(\$8,475)	(\$1,341,060)	\$170,683

The interest income, gains and foundation management fee appear reasonable, properly stated and were agreed to reports from the Church Foundation. The withdrawal amount consists of:

- Income distributed for the benefit of the Fairmount Deanery for \$164,110.
- \$1,176,950 withdrawn from the principal fund.

CBIZ was informed by the Church House that the extant parishes of the former Fairmount Deanery are: Advocate, Christ Church and St. Ambrose, Emmanuel Church of the Good Shepherd, Free Church of St. John, Grace Church and the Incarnation, and St. Augustine's Church of the Covenant. Extinct churches include: St. Matthew's, Francisville, St. Nathaniel's, St. Luke's and St. Barnabas. The Church House provided vendor reports indicating that at least \$132,931 was given to the churches in the Fairmount Deanery during the relevant period. Therefore, in the absence of additional information, CBIZ recommends a possible action such as the St Matthews Fund record a Due from Church House for \$31,178.

### ***Messiah Fund***

The Messiah Fund is on the net asset subsidiary ledger in Board Designated Unrestricted Funds in two accounts, Consolidated Principal and Consolidated Income. The Messiah Fund originated in 1980 by the closing of a church and the income was designed to be used for the ministry and work of the "Pennypack Deanery" **Standing Committee approval 9/25/1979.**

CBIZ agrees with the classification of the Messiah Fund as an Unrestricted Board Designated Fund. CBIZ traced and analyzed income, fees, transfers and various transactions and provides the following summary for 2003 through 2005 in market value dollars.

Fund	Beg Bal 1/1/03	Interest Income	Gains	Foundation Mgmt Fee	Withdrawal	Balance 12/31/05
Messiah	\$205,090	12,231	\$53,108	(\$1,508)	(\$238,559)	\$30,362

The interest income, gains and foundation management fee appear reasonable, properly stated and were agreed to reports from the Church Foundation. The withdrawal amount consists of:

- Income distributed for the benefit of the Christian mission work in the "Pennypack Deanery" for \$29,193.
- \$209,366 withdrawn from the principal fund.

CBIZ was able to trace \$6,500 that was used for St. Gabriel's church. CBIZ was unable to determine at this time which additional churches could have existed in the Pennypack Deanery that could have been recipients of funds. Therefore in the absence of additional information, CBIZ recommends a possible action such as, The Messiah Fund record a Due from Church House for \$22,693.

**St. Andrew's #1 Fund**

The St. Andrew's Fund is on the net asset subsidiary ledger in Board Designated Unrestricted Funds in two accounts, Consolidated Principal and Consolidated Income. The St. Andrew's Fund originated in 1977 with the closing of the church, after some specific amounts were sent to the Divinity School in Massachusetts for a number of years as designated, the subsequent income was designated to be used for theological education. **Standing Committee approval 5/27/1980.**

CBIZ agrees with the classification of the St. Andrew's Fund as an Unrestricted Board Designated Fund. However, even though the specific amounts were sent to the Divinity School in Massachusetts for a number of years, there does not appear to be adequate documentation that subsequent withdrawals from this fund were used for theological education. CBIZ traced and analyzed income, fees, transfers and various transactions and provides the following summary for 2003 through 2005 in market value dollars.

Fund	Beg Bal 1/1/03	Interest Income	Gains	Foundation Mgmt Fee	Withdrawal	Balance 12/31/05
St. Andrew's	\$380,973	\$21,922	\$204,981	(\$2,801)	(\$569,083)	\$35,992

The interest income, gains and foundation management fee appear reasonable, properly stated and were agreed to reports from the Church Foundation. The withdrawal amount consists of:

- Income distributed for the benefit of theological education for \$54,229.
- \$514,854 withdrawn from the principal fund.

Therefore in the absence of additional information, CBIZ recommends a possible action such as the St. Andrews Fund record a Due from Church House for \$54,229.

**St. George's Jerusalem Fund**

The St. George's Jerusalem Scholarship Fund is on the net asset subsidiary ledger in Board Designated Unrestricted Funds in two accounts, Consolidated Principal and Consolidated Income. The donor, Bishop Bartlett (10/19/98) requested that the income is to be used by

persons who have never had an opportunity to experience a course at St. George's College as determined by the Continuing Education Committee of the Diocese of PA.

CBIZ agrees with the classification of the St. Andrew's Fund as an Unrestricted Board Designated Fund. CBIZ traced and analyzed income, fees, transfers and various transactions and provides the following summary for 2003 through 2005 in market value dollars.

Fund	Beg Bal 1/1/03	Interest Income	Gains	Foundation Mgmt Fee	Withdrawal	Balance 12/31/05
St. George's	\$8,949	\$386	\$166	(\$43)	(\$8,390)	\$1,068

The interest income, gains and foundation management fee appear reasonable, properly stated and were agreed to reports from the Church Foundation. The withdrawal amount consists of:

- \$8,390 withdrawn from the principal fund.

CBIZ was not able to obtain documentation for any monies distributed for the benefit of persons who have never attended St. George's College. Therefore in the absence of additional information, CBIZ recommends a possible action such as; the St. Georges's Fund record a Due from Church House for \$8,390.

### ***Endowment For The Episcopate Fund***

The Endowment for the Episcopate Fund is on the net asset subsidiary ledger in Board Designated Unrestricted Funds in two accounts, Consolidated Principal and Consolidated Income. The Endowment for the Episcopate Fund originated in 1939 for the benefit of supporting the Episcopate.

CBIZ agrees with the classification of the Endowment for the Episcopate Fund as an Unrestricted Board Designated Fund. CBIZ traced and analyzed income, fees, transfers and various transactions and provides the following summary for 2003 through 2005 in market value dollars.

Fund	Beg Bal 1/1/03	Interest Income	Gains	Foundation Mgmt Fee	Withdrawal	Balance 12/31/05
Endowment	\$5,635,566	\$414,355	\$1,629,559	(\$41,998)	(\$421,256)	\$7,216,226

