



Community of Christ

CHRIST'S MISSION, OUR MISSION

Financial Update Questions and Answers June 2017

- 1. Where do I find the fiscal year 2018 Worldwide Mission Budget that the World Church Finance Board just approved?**

www.CofChrist.org/financial-updates

- 2. What is the World Church's fiscal year?**

The World Church's fiscal year starts July 1 and ends June 30. For example:
Fiscal year 2017 began July 1, 2016, and will end June 30, 2017.
Fiscal year 2018 will begin July 1, 2017, and will end June 30, 2018.
Fiscal year 2019 will begin July 1, 2018, and will end June 30, 2019.

- 3. Did the World Church Finance Board express any concerns about the fiscal year 2018 Worldwide Mission Budget that was approved?**

The income assumptions for the proposed fiscal year 2018 Worldwide Mission Budget were approved at the February 2017 board meeting. This was a new process for the board's involvement in developing the proposed budget.

Since the February meeting, additional information led World Church leaders to question the income projections. The board also expressed concern. As a result, the First Presidency and Presiding Bishopric brought forward a budget amendment to reduce the budget by \$750,000. After considerable discussion, the board did not vote in support of this amendment. The board decided to approve the originally proposed fiscal year 2018 Worldwide Mission Budget at \$18.7 million. The board also expressed trust in leadership's close monitoring of projected income, and it encouraged leadership to make adjustments as needed should income projections not occur as planned.

- 4. How can I support the Worldwide Mission Budget?**

Worldwide Mission Tithes are the primary source of income for the budget. Individual and congregational support of Worldwide Mission Tithes support the worldwide mission funded through this budget. Learn ways to give at www.CofChrist.org/give.

The church gave almost \$14.9 million in calendar year 2016. If we can repeat that level of giving in calendar year 2017, it will keep us on track for continuing the current levels of ministries and

services funded through the Worldwide Mission Budget. The World Church Finance Board agreed there is a sense the church can share at this level and will want to respond to this opportunity. The challenge is how World Church leaders and the board get the message to the people. Leadership and the board are committed to sharing the story.

5. What is the summary of the independent auditor's findings as of June 30, 2016?

The World Church received an unqualified opinion regarding the audit. This means the independent auditor indicated the consolidated World Church and Graceland University financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The audit report included:

- Deconsolidation of Canada. This was the need to legally separate the World Church assets held in Canada from the World Church assets held in other countries to comply with national laws for charitable organizations.
- A change in the appraisal process that resulted in decreasing the book value of the Harmony Project, which is in eastern Jackson County, Missouri, USA.
- An additional increase in the overall retirement liability due to the decrease in the assumption about the long-term rate of return on investments. Details about the retirement obligation are in Note 10 on page 37 of the audit.
- A change to our accounting for endowments to discontinue and reverse the inflation adjustment previously added each year to permanently restricted net assets.
- The impact on net assets of using a spending rate on the endowments as income to the budget when the majority of investments were in real estate without significant cash income.

6. Is the auditor's report available to membership?

The World Church's current independent audit firm is able to issue its report only in English. Therefore, the audits are available in English only.

The fiscal year 2016 audit is at

www.CofChrist.org/common/cms/resources/Documents/FY16-CofC-Audit-Report.pdf.

The fiscal year 2015 audit is at

www.CofChrist.org/common/cms/resources/Documents/FY-2015-CofC-Audit-FS.pdf.

The fiscal year 2014 audit is at

www.CofChrist.org/common/cms/resources/Documents/FY-2014-CofC-audit-FS.pdf.

The fiscal year 2013 audit is at

www.CofChrist.org/common/cms/resources/Documents/FY_2013_CofC_Audited_FS.pdf.

7. What factors caused the reduction in net assets from June 30, 2015, to June 30, 2016?

- \$60 million for real estate write-down due to change in the appraised value of Harmony
- \$15 million added to the previous unfunded retirement obligations
- \$6 million for fiscal year 2016 budget spending based on using a spending rate from the endowments, which are invested mostly in Harmony
- \$7 million as a result of deconsolidating the World Church assets held in Canada

8. How are staff retirement benefits funded?

The Presiding Bishopric is committed to funding the church's retirement benefits for about 1,000 people as provided in the Defined Benefit and Post Retirement plans. As previously announced, the Defined Benefit Plan was frozen December 31, 2015, with a few exceptions. The Post Retirement plan contains various benefits provided to different categories of staff members over the years. Some Post Retirement benefits will be paid fully within the next decade or so; some benefits will continue many years longer.

At the 2016 World Conference, the Presiding Bishopric report stated, "It is an acceptable business practice to not fully fund the liabilities of a defined benefit plan at a particular time." Although this generally may be true as interest and actuarial results change over time, further research has indicated the Presiding Bishopric needs to develop a plan that shows how the full obligations will be met based on our best estimates each year. In January 2017, the World Church Leadership Council agreed that we intend to do what it takes to fulfill the church's financial retirement responsibility to retirees and families.

The plan for meeting the retirement responsibility includes the pension trust, which is invested in marketable securities and real estate. This trust is a separate legal entity from the church. Its assets are not comingled with church assets. The funding for pension obligations also includes ongoing support from the Worldwide Mission Budget. Lastly, raising funds for the retirement responsibility now is part of the Bridge of Hope Project.

9. What is the unfunded retirement liability reported in the audit, and how did it get so big?

In the independent audit report available on the World Church's website, Note 10 on page 37 provides details about the World Church's retirement obligations. The current unfunded liability for the World Church's retirement responsibility is \$94.2 million. The retirement responsibility estimates how much would need to be invested today to fulfill all benefits due in the future for about 1,000 people. At this time, the Presiding Bishopric has a plan to fund several years of benefit payments, so the challenge is to prepare for what is owed in the future.

The percent funded dropped from 28 percent as of June 30, 2015, to 21 percent as of June 30, 2016, based on benefits paid and the change in assumption regarding the long-term investment return. This shows how the percent funded can change dramatically based on changes in assumptions.

The funding level for the World Church’s retirement responsibility was impacted significantly by the market in 2008. Following this loss in the market, the asset allocation was adjusted to a more conservative stance. Additional funds were added to the benefit trust from the net proceeds from the Atherton, Missouri sale. At this time, the Presiding Bishopric has funds to cover several years of benefit payments, so the challenge is to prepare for what is owed in the future. The Bridge of Hope Project will focus on funding the retirement responsibility first.

10. If the church “fully” funds the retirement obligations now, will this take care of this problem forever?

Determining how much is required now to fully fund the retirement obligations is an estimating process. The Presiding Bishopric is using best industry standards on determining this amount. If the church is able to fully fund the retirement obligations now, at some point it is possible that additional funding may be required based on interest rates, life expectancies, and other variables that only can be estimated.

11. Why does the audit include Graceland University?

The World Church Finance Board asked the independent auditor for the World Church if it could prepare an audit that included only the World Church’s financial statements. The board felt this would make the audit easier to read for church members. However, the independent auditor determined that because of the legal control and economic interest of the World Church for Graceland University, a consolidated audit was needed to meet the applicable Financial Accounting Standard Board authoritative guidance.

12. Where can I read about the grassroots effort from March 2016?

www.CofChrist.org/common/cms/resources/Documents/UpdateonGrassroots03-24-16.pdf

13. What is the three-year budget model?

	FY2017	FY2018	FY2019
Original Tithing Estimate	\$ 13,000,000	\$13,000,000	\$13,000,000
Tithing Commitments Received			
Additional Staff Added Back	950,000	950,000	950,000
3-percent Provision for Inflation and Cost Increases		520,000	1,060,000
Total Tithing Commitments Received*	950,000	1,470,000	2,010,000
Other Rental and Service Income	3,500,000	3,500,000	3,500,000
Total Proposed Budget	\$ 17,450,000	\$17,970,000	\$18,510,000
* Includes provision for some unfulfilled tithing commitments			

14. What is the Harmony Project?

The church owns 3,250 acres in the Little Blue River Valley of Jackson County, Missouri. The first stage in the Harmony Project includes a 130-acre housing development by Homes by Whittaker (www.newtownatharmony.com). Whittaker is known nationally for its use of New Urbanism, which promotes compact, walkable, mixed-use projects. Homes with front porches are built on wide streets in neighborhoods that include some stores, parks, and schools. The design encourages relationship-building in community. Originally plans called for a regional or national company to develop the rest of the valley with housing, commercial, and retail sites. No company has been found, so the Presiding Bishopric is looking at other options for selling the property more expeditiously.

15. What is the current plan for the New Town at Harmony Project?

The 3,250 acres known as the Harmony Project do not include the 130 acres in the Harmony area previously sold to the Whittaker company to develop New Town at Harmony. The New Town project continues. The World Church is receiving quarterly payments. Water and sewer lines are complete. Streets and curbs are scheduled to start in July 2017. The final plat with street addresses for 80 lots is complete.

16. What is happening with other investment real estate?

Phase one of a solar farm lease is complete and has been sold out. The Temple Complex utilities will be on the solar grid at about 50 percent of the demand. The World Church is negotiating with the company about leasing land for phases II and III.

Two investment real estate properties have sold since July 1, 2016, for about \$78,000 over book value. Two additional properties with signed contracts totaling \$375,000 are in place.

Investment-property management and sales now are being handled directly with brokers and not through management companies. This results in major expense savings, which increases the World Church's net proceeds from sales.

Sales do not directly support the budget. The investment real estate is managed as part of the overall investments of the various funds of the World Church. Sales help strengthen the liquid asset position of the World Church and its investments.

17. What is the Bridge of Hope Project?

The Bridge of Hope Project is the effort to strengthen the World Church's financial future by funding the retirement responsibility and strengthening the Temple, Worldwide Mission, and Canadian Mission endowments. Funds given to this project will be designated Bridge of Hope Tithes. Bridge of

Hope Tithes will be used first to fund the retirement responsibility and then to build up the endowments. Contributions to specific purposes within the Bridge of Hope Project will be honored.

18. How are funds being raised for the Bridge of Hope Project?

Funds are being raised in three ways:

1. Sale of historic assets and other properties in the USA and around the world that are considered to have less impact on the church’s mission. Assets will be sold only if a satisfactory price can be negotiated. The specifics cannot be shared at this point; however, no sales had taken place as of June 2017. Historic assets include artifacts and property.
2. Asking congregations, mission centers, and other groups with investments to make a one-time or recurring contribution to Bridge of Hope Tithes. Information about this process will begin being shared in July 2017.
3. Asking those who contributed or pledged funds to the Worldwide Mission Endowment to redesignate their gifts to Bridge of Hope Tithes and inviting others to give from their abundance or through bequests to Bridge of Hope Tithes. This process is ongoing, and many already have graciously changed their designation. We now are reaching out to new people to share from their abundance through pledges to Bridge of Hope Tithes.

19. How much has been received or pledged to Bridge of Hope Tithes and the endowments?

	Pledged	Received to Date (3/31/17)
Bridge of Hope Tithes	\$36,500,000	\$4,400,000
Temple Endowment	\$713,000	\$44,000
Worldwide Mission Endowment	\$14,400,000	\$1,000,000
Canadian Mission Endowment	\$3,400,000 ^{CAN}	\$1,800,000 ^{CAN}
Canadian Worldwide Communications Endowment	\$1,500,000 ^{CAN}	\$1,500,000 ^{CAN}

20. Should I give to Worldwide Mission Tithes or Bridge of Hope Tithes?

Contributions to Local and Worldwide Mission Tithes are the heart of generous support of the church and should be the priority. Regular contributions to Worldwide Mission Tithes by individuals, congregations, or jurisdictions provide financial strength and stability, allowing vital ministries and services to be maintained.

We sometimes are blessed with financial gifts that exceed our needs or expectations. Such times may offer an opportunity to consider a gift to Bridge of Hope Tithes. As the retirement responsibility is funded and endowments begin to grow, income will flow to the budget to support and sustain ministries in the future. You can give to Bridge of Hope Tithes by sending a check to the Presiding Bishopric payable to Community of Christ and with a note designating the purpose. You also can put a check in your offering envelope and write in Bridge of Hope Tithes on the worldwide side.

21. Is the World Church drawing on congregational/mission center/campground dollars that are in the Affiliate Investment Pool?

Legally, the presiding bishop is the trustee of all church funds: congregations, mission centers, and World Church. Concerns have been expressed that the Presiding Bishopric is spending congregational and mission center funds from Pool A and Pool B of the Affiliate Investment Pool to cover World Church expenses. This is not the case.

The Presiding Bishopric would not spend funds held by congregations or mission centers for World Church expenses without first coordinating with the stewards of the accounts. Additionally, the affiliate investment pool agreement allows the Presiding Bishopric to issue internal loans from Pool A and Pool B. When these loans are made, this is explained to the stewards of the accounts. At this time, the Presiding Bishopric uses funds in Pool B to provide House of Worship loans, so interest paid on the loans provides earnings in Pool B. The Presiding Bishopric also issued a loan of up to \$15 million from the fixed-income segment of Pool A for the Post Retirement Plan benefits. This loan pays the same interest as the other fixed-income holdings in Pool A.

Congregations and mission centers received their calendar-year-end affiliate investment pool statements in February 2017. These reports are accurate. All of these funds are invested according to the asset-allocation plan developed by the Investment Committee in consultation with the church's investment managers.

To build on the generosity provided by several congregations in calendar year 2016, the Presiding Bishopric is reaching out to congregations, mission centers, and campgrounds that have surplus funds in investment accounts. These groups will be invited to contribute a one-time or recurring gift or to allow the Presiding Bishopric to apply a spending rate to a specific balance for a fixed number of years. Contributions will be recorded as Bridge of Hope Tithes. They will be used to fund the goals of the Bridge of Hope Project in priority order unless the group wants to make a specific designation. Contact about making these types of donations will begin in July 2017.

22. Are the operational costs of the Temple and Auditorium part of the Worldwide Mission Budget?

Yes, as are capital needs for the facilities. That is why income from the Canadian Temple Endowment has been included in the Worldwide Mission Budget.

23. When will the World Church endowments be available to provide income to the budget again?

Three World Church endowments held in Canada are providing income to the fiscal year 2017 Worldwide Mission Budget and plan to provide income for the fiscal year 2018 Worldwide Mission Budget. These endowments are the Canadian Temple, the Canadian Worldwide Communication, and the Canadian Mission endowments. These three endowments are invested in marketable securities. Therefore, a spending rate can be applied to provide cash income to the budget.

Three World Church endowments held in the USA are invested mostly in the Harmony Project and therefore cannot provide income to the Worldwide Mission Budget. These endowments are the Temple, Worldwide Mission, and General Operating endowments. The Presiding Bishopric does not have a projection of when these endowments will provide income to the Worldwide Mission Budget. The two primary factors are the pace of sales in the Harmony Project and the rate of funds raised for the Bridge of Hope Project.

24. What are the First Presidency and Presiding Bishopric doing to avoid the problems that led to the current situation with the World Church's endowments?

We continue to review lessons learned and what policy and process improvements should be implemented. One lesson being implemented through policy is to apply a spending rate on assets in our endowments or reserves only when they are increasing in value and generating cash to cover the spending rate. A new policy has been developed and implemented to apply this lesson learned.

Another lesson being implemented is increasing the involvement of the World Church Finance Board. As a result of World Conference Resolution 1306, the World Church Finance Board now reviews and approves the independent annual audit for Community of Christ and affiliates. Second, the First Presidency and Presiding Bishopric are meeting three times a year with the World Church Finance Board. Third, the World Church Finance Board reviewed and approved the fiscal year 2018 income assumptions at the beginning of the process for developing the Worldwide Mission Budget. Overall, the increased participation by the World Church Finance Board provides ongoing review and a level of independence in monitoring the financial decisions.

25. What are the five points of "The Way Forward"?

"The Way Out" was the plan used by the Presiding Bishopric to navigate the church's financial struggles of 1931 to 1938. In February 2016, these points were used to guide the initial planning for responding to the financial struggles of the church today, or "The Way Forward." In the March 2017 Financial Update report, the Presiding Bishopric provided updates on the five points. Here is the update as of June 2017:

1. The two risk factors in the approved Worldwide Mission Budget are the level of undesignated bequests available and the continued support and growth of Worldwide Mission Tithes.
2. The new budget does not include expansion around the globe. It continues the level of ministries and services provided in the fiscal year 2017 Worldwide Mission Budget.
3. The Presiding Bishopric continues to evaluate the prospect of selling some historic assets and other properties that do not directly support the church's mission. As stated previously, assets will be sold only if a satisfactory price can be negotiated. Net proceeds will be used to fund the Bridge of Hope Project.
4. The church's ongoing support of Worldwide Mission Tithes through sustainable giving is critical to continued ministries and services. Additionally, the church's response to share from its abundance to Bridge of Hope Tithes is funding the church's annual retirement responsibility and discharging debts. It eventually will build up endowments.
5. As requested by World Conference Resolution 1314, the First Presidency and Presiding Bishopric are creating resources to support priesthood and leaders in developing disciples who understand faithful tithing as part of the six principles of A Disciple's Generous Response.

26. What are the debts mentioned in Point 4 of “The Way Forward” that will be discharged responsibly?

The external debt that needs to be discharged is paying off the line of credit with Bank of Kansas City. The church is preapproved for \$17 million on this line of credit. As of May 31, 2017, we had drawn \$8 million, which was down slightly from the beginning of the fiscal year. The long-term plan of the Presiding Bishopric is to pay off this balance and use the line of credit only to manage temporary cash-flow needs or other emergency requirements.

The internal debt that needs to be discharged is the loan from Pool A in the Affiliate Investment Pool to support Post Retirement benefit payments. This internal loan is for \$15 million. The Presiding Bishopric will pay off this loan as part of the overall plan to fully meet the church’s retirement responsibility.