



# Community of Christ

CHRIST'S MISSION, OUR MISSION

## World Church Financial Update June 2017

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## THE UPDATE...

### World Church Finance Board

#### ***Audit accepted and budget approved***

The World Church Finance Board met June 3–4, 2017, in Independence, Missouri. The board accepted the independent audit for the Community of Christ and Affiliates Consolidated Financial Report on June 30, 2016. The board also approved the fiscal year 2018 Worldwide Mission Budget.

The audit report can be found at: [www.CofChrist.org/common/cms/resources/Documents/FY16-CofC-Audit-Report.pdf](http://www.CofChrist.org/common/cms/resources/Documents/FY16-CofC-Audit-Report.pdf).

The fiscal year 2018 Worldwide Mission Budget can be found at: [www.CofChrist.org/financial-updates](http://www.CofChrist.org/financial-updates).

### Audit as of June 30, 2016

#### ***No concerns identified in the audit***

*The church has not found an affordable audit firm that can create an independent report in English, French, and Spanish. The church is not authorized to translate the audit and present it as an independent audit in other languages. Therefore, the audit is only available in English.*

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.

### Net Assets as of June 30, 2016

#### ***Major reduction in net assets but minimal effect on annual operations***

As reported in the March 2017 financial update, the value of the World Church's net assets decreased significantly from June 30, 2015, to June 30, 2016. The World Church net assets reported in the independent audit are \$11 million. As previously reported, there were four contributing reasons for the decrease:

- \$60 million for real estate write-down
- \$15 million added to the previous unfunded retirement obligations

- \$6 million for fiscal year 2016 budget spending from endowments
- \$7 million as a result of deconsolidating the World Church assets held in Canada

The net asset reduction from the end of fiscal year 2015 to the end of fiscal year 2016 is disappointing; however, it does not directly impact current operations supported through the Worldwide Mission Budget. The budget is supported by annual income received primarily through Worldwide Mission Tithes. The fiscal year 2018 Worldwide Mission Budget approved by the World Church Finance Board continues the level of ministry and services currently provided in fiscal year 2017.

### **Preliminary Forecast of Net Assets as of June 30, 2017**

#### ***Additional reductions in net assets expected***

Preliminary analysis indicates additional reductions in net assets will occur between June 30, 2016, and June 30, 2017. Two significant factors are contributing to the expected decrease in fiscal year 2017. The first is a change in how the church tracks gift plans originally made for the Worldwide Mission Endowment. To simplify the financial statements so everyone has a clearer understanding of the World Church's current circumstances, these future contributions will be accounted for in the fiscal year when the gift is received. They will not be carried in the World Church's accounts-receivable balance.

The second change is that the Presiding Bishopric continues to work with our actuaries to get the most realistic understanding of the church's retirement responsibility. Additional adjustments may occur in fiscal year 2017 calculations.

The Presiding Bishopric is continuing an annual appraisal of the unsold portions of Harmony, which is 3,250 acres in eastern Jackson County, Missouri. The Presiding Bishopric will use a different appraiser to continue to gain a deeper understanding of how appraisers are assessing the market. This may lead to another change in the book value, but it also will help the Presiding Bishopric negotiate potential sales based on a strong understanding of the market.

### **Internal Audit of Retirement Trust Plan**

#### ***No problems reported, and leadership committed to meet significant retirement responsibility***

An internal audit was completed on the Community of Christ Appointee/Employment Retirement Trust Plan as of June 30, 2016, 2015, and 2014. Details about the accumulated plan benefits and changes in retirement responsibilities were determined by an independent actuarial firm. The World Church received an unqualified opinion on this audit as well. This means the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles

In the independent audit report available on the Word 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 is a calculation that estimates how much would need to be invested today to fulfill all benefits due in the future for approximately 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.

In 2008 the steep market decline significantly hurt the funding level for the World Church's retirement responsibility. 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 of the Atherton, Missouri, sale. The Bridge of Hope Project will focus on funding the retirement responsibility first.

## **Bridge of Hope Project**

### ***Plan for funding retirement responsibility and building up endowments***

As described in the March 2017 Financial Update, the World Church has created the Bridge of Hope Project to fund the retirement responsibility and then build up the endowments ([www.CofChrist.org/financial-updates](http://www.CofChrist.org/financial-updates)). Three funding sources are being pursued to support the Bridge of Hope Project:

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.

## **Fiscal Year 2017 Worldwide Mission Budget Status**

### ***Income shortfalls anticipated***

Managers are doing an excellent job of working within their approved budgets for fiscal year 2017. Three income areas are projected to be below budget for fiscal year 2017: Worldwide Mission Tithes, undesignated bequests, and other income.

As of April 30, 2017, Worldwide Mission Tithes are \$350,000 below budget for calendar year 2017. This means instead of reaching the \$14.3 million goal, we are trending toward \$13.2 million for calendar year 2017. This has created a major concern about what, if any, adjustments need to be made in World Church expenses. The key to sustaining our current level of mission around the world is how the church financially supports that mission through Worldwide Mission Tithes. Getting back on budget is critically important. The calendar year goal was set based on input from the World Church through tithing plans received during the March 2016 grassroots effort. We are hopeful the World Church will respond to the need to make this goal based on the previous commitments. If the trend does not change by September, World Church leaders will have to consider how to reduce expenses to match the income.

Because of the unpredictability around undesignated bequests, the Presiding Bishopric uses the undesignated bequests from the previous fiscal year to fund the current fiscal year. Therefore the undesignated bequests received in fiscal year 2016 are being used to fund this line item in fiscal year 2017. The actual undesignated bequests received in fiscal year 2016 were \$337,000 less than budgeted.

Also other income is below budget by \$250,000 because of investment and accounting fees. The income had been budgeted based on the previous appraised value of Harmony. When the value was written down, this reduced the amount of investment and accounting fees collected. The Presiding Bishopric has cut several major expenses, such as capital expenditures and staff development, to try to manage within the income received for fiscal year 2017.

## **Investment Real Estate Sales**

### ***Process continues to improve liquidity of World Church investments***

The Presiding Bishopric is converting investment real estate into liquid assets. The contract with Homes by Whittaker ([www.newtownatharmony.com](http://www.newtownatharmony.com)) for 130 acres to develop New Town at Harmony continues to progress. 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.

Also phase I 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 our total 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. Two additional properties have signed contracts.

Investment-property management and sales now are being handled directly with brokers and not through management companies. This results in 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.

**Fiscal Year 2018 Worldwide Mission Budget**  
***Budget was approved for nearly \$18.7 million***

The income assumptions used to develop the proposed fiscal year 2018 Worldwide Mission Budget were approved at the February 2017 World Church Finance Board meeting. This was a new process for increasing 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. The board did not approve 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 encouraged leadership to make adjustments as needed, should income projections not occur as planned.

Overall, the approved fiscal year 2018 Worldwide Mission Budget includes the same level of ministries and services as provided in the fiscal year 2017 Worldwide Mission Budget. The approved budget also provides the capacity for a small worldwide staff salary increase in January 2018, provided income projections are met.

Two risk factors in the budget include the assumption for Worldwide Mission Tithes and undesignated bequests. With Worldwide Mission Tithes currently under budget for the calendar year, this creates a concern going into fiscal year 2018. The hope is that people still plan to meet their calendar year 2017 Tithing Plan commitments made during the grassroots effort. The Presiding Bishopric will continue to provide consistent communication about the tithing shortfalls to give the church a chance to respond. The church gave almost \$14.9 million in calendar year 2016. If we can repeat that same level of giving in calendar year 2017, it will keep us on track for continuing the current levels of ministries and services. The World Church Finance Board agreed that 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.

The level of undesignated bequests received in fiscal year 2017 to cover the fiscal year 2018 budget will be known by August. If this income item is below budget, World Church leaders will make adjustments to reduce spending to match the income. If Worldwide Mission Tithes continue to come in below budget, then more significant reductions will be required. This would mean cuts in programs and possibly staff.

The Presiding Bishopric has diligently modeled and projected cash flow for World Church operations. The plan had been that the fiscal year 2018 Worldwide Mission Budget would be cash neutral, meaning cash spent would equal cash received. For various reasons reviewed by the World Church Finance Board, this goal was not achieved. The fiscal year 2018 Worldwide Mission Budget will use about \$576,000 of cash. The goal is that the fiscal year 2019 Worldwide Mission Budget will be developed to be cash neutral.

### **Planning for the Future**

#### ***Strengthening the financial position is a long-term process***

The Presiding Bishopric has been looking beyond fiscal year 2018, forecasting trends about Worldwide Mission Tithes, contributors, cash-flow needs, real estate, and retirement responsibility. The long journey to a stronger financial position is under way, but it will be dependent on many variables. Strengthening the financial position is not something the Presiding Bishopric can do alone. It requires the whole worldwide church to work together and make choices about what matters most.

The First Presidency and Presiding Bishopric are planning strategically for the church's future. In coming months, World Church leaders will continue talks about mission and how to fund it in future decades. The World Church will join these conversations as we prepare for the 2019 World Conference.

### **Working "The Way Forward" Plan**

#### ***Major concerns are Worldwide Mission Tithes meeting budget and successfully selling items to support the Bridge of Hope Project***

In the meantime, the Presiding Bishopric continues to work "The Way Forward" plan. Here's an update on the five items in the plan:

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. If income is not received as planned, expenses will have to be reduced through a management budget.
2. Although numerous opportunities exist to expand the mission of the church into new areas and countries, the recently approved budget does not include expansion. 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 historic assets and other properties in the USA and around the world 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. The Presiding Bishopric is grateful for the generosity of the World Church. At the same time, the Presiding Bishopric clearly is signaling that trends for calendar year 2017 are concerning and will require corrective actions if they do not change. The Presiding Bishopric is asking church members, congregations, and mission centers to respond as they are able to continue to support Worldwide Mission Tithes. 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. World Church leaders are grateful for this support.

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. More information will be provided as work progresses.

**Do Not Be Discouraged**  
***Respond in Faith***

The financial challenges we face as a World Church are monumental. These challenges will not be resolved quickly, and we, as a World Church, can become discouraged. However, we are challenged to remember:

Again you are reminded that this community was divinely called into being. The spirit of the Restoration is not locked in one moment of time, but is instead the call to every generation to witness to essential truths in its own language and form. Let the Spirit breathe. Do not be discouraged. You have not been promised an easy path, but you have been assured that the Spirit that calls you will also accompany you.

—Doctrine and Covenants 162:2e–3a

World Church leaders continue to be grateful, beyond words, for the generous response of the church through Worldwide Mission Tithes. We are humbled by people's willingness to help strengthen the church's financial future through Bridge of Hope Tithes. We are encouraged by the response of seekers and new disciples who encounter the Living Christ through Community of Christ. We continue to sense the Holy Spirit guiding and leading us. It is the testimony of the Presiding Bishopric that the mission of Community of Christ continues, and as we faithfully follow, God will help us build a bridge of hope to the future.

Watch for the next financial update from the Presiding Bishopric in November/December 2017.