

World Church Financial Update November 2017

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THE UPDATE...

1. Fiscal Year 2017

Managed within a balanced budget and annual audit under way

The Presiding Bishopric is grateful for Worldwide Mission Budget managers who demonstrated excellent stewardship by providing ministries and services to the worldwide church within the available income. As a result, fiscal year 2017 expenses were managed slightly below the available income for the year. Total income was just over \$17 million. The expenses were just over \$16.4 million. This resulted in about a \$600,000 surplus.

The June 2017 financial update FAQs reported that as of May 31, 2017, the church had drawn \$8 million from the available \$17 million external line of credit used to manage cash flow. It also was reported the plan was to continue to pay down this balance. As of June 30, 2017, the

balance on this line of credit was \$2.5 million. As cash-flow management was reviewed in late September during the fiscal year 2017 closing process, the Presiding Bishopric felt it was prudent and feasible to pay off the line of credit in October. The \$17 million line of credit loan still is available but will be used only as needed to manage cash flow.

In June 2017, the Presiding Bishopric announced a new appraisal was under way for the unsold portions of Harmony, the 3,250 acres in eastern Jackson County, Missouri. The Presiding Bishopric used a new appraiser to understand how appraisers are assessing the market to better position the church for negotiations during sales. This appraisal was completed June 30, 2017, but has not yet been audited. The unaudited appraised value is \$40.4 million, which is \$20.5 million above the previous appraised value as of June 30, 2016. This new value is more in line with what the Presiding Bishopric's market analysis indicates as the value. This value will increase the church's net assets and better position the Presiding Bishopric for sales negotiations.

As reported in the June 2017 financial update, the Presiding Bishopric's preliminary analysis indicated additional reductions in net assets would occur between June 30, 2016, and June 30, 2017. Two significant factors are contributing to this expected decrease. The first is a change in how the church tracks gift plans. The second is based on a reduction in the projected interest rate used by actuaries to estimate the church's retirement responsibility. You can read additional details in the June 2017 financial update on the church's website.

The Fiscal Services team is working with the independent auditors as the fiscal year 2017 audit is accomplished. This year the Presiding Bishopric and First Presidency refined the audit process based on feedback from the World Church Finance Board. An audit review team was established with five members from the elected positions on the World Church Finance Board and the Corporate Body of Community of Christ. The audit review team will:

1. Meet via teleconference with the independent auditor and key fiscal team members to identify any areas of concern the auditor needs to focus on. Team members will have the opportunity to make private contact with the auditor after this teleconference to identify any confidential concerns.
2. Receive and review the audit report and auditor's required communication package before it is submitted to the World Church Finance Board for approval in June.
3. Meet via teleconference with the independent auditor and key fiscal team members to review material and ask questions after reviewing the audit report. Again, team members will have the opportunity to make private contact with the auditor after this teleconference to identify any confidential concerns.
4. Provide a report on the auditor's required communication package at the June World Church Finance Board.

2. Fiscal year 2018

Income projections and plans to manage within a balanced budget

Two risk factors identified by the World Church Finance Board in the approved fiscal year 2018 Worldwide Mission Budget were Worldwide Mission Tithes and undesignated bequests assumptions.

Worldwide Mission Tithes are behind the goal for calendar year 2017. However, the Presiding Bishopric is pleased to report that contributions for September were above budget.

As a follow-up to President Steve Veazey's "A Time to Act!" statement, the Presiding Bishopric identified key actions individuals, congregations, and mission centers could take in response to the current financial situation. As a result, individuals and jurisdictions have been making pledges for sustainable Worldwide Mission Tithes using this form <https://CofChrist.wufoo.com/forms/kzjjz6m1su8ob5/>. We are grateful for this generous response.

Additionally, the Presiding Bishopric has received a great response to the June 2017 reminder email to those who made pledges during the Grassroots effort in March 2016. As a result, the fulfillment rate for calendar year 2017 moved from 34 percent in August to 84 percent in September. Thanks to all who have completed or exceeded their 2017 pledge to Worldwide Mission Tithes.

The Presiding Bishopric is preparing for Giving Tuesday (November 28) and a strong finish to the calendar year with hopes for \$3.5 million received for November and December.

The undesignated bequests received in fiscal year 2017 to be used as revenue for the fiscal year 2018 Worldwide Mission Budget were late in arriving. However, the final amount available for the budget is now only \$393,000 below budget. This shortfall already has been covered through adjusted expenses. The Presiding Bishopric was able to cover the \$575,000 expense line item in the fiscal year 2018 budget for transition costs related to staff reductions in 2016 as part of the fiscal year 2017 closing process.

Therefore, the primary remaining income uncertainty for fiscal year 2018 is Worldwide Mission Tithes. The Presiding Bishopric will continue to monitor Worldwide Mission Tithes received in fiscal year 2018 and adjust non-staff spending as necessary to keep expenses within the available income.

3. Investment Real Estate Sales

Update on the latest sales and progress in New Town at Harmony

The contract with Homes by Whittaker (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 now support 80 lots.

As reported in June, the World Church was negotiating with the company installing phase I of the solar farm about leasing land for phases II and III. The World Church since has negotiated a lease for phase II, but phase III will not occur on World Church property.

Additionally, four other investment properties have been sold since June 30, 2017, and two more contracts are in place. The Presiding Bishopric continues to convert investment real estate to liquid assets. Even with these sales, the majority of the endowment balances still are held in the World Church's investment property. Therefore, no income will be planned from the endowments to support the fiscal year 2019 Worldwide Mission Budget.

4. World Church Finance Board

Supported draft fiscal year 2019 budget plan

In September 2017 President Veazey in an address to the church stated:

Based on what we can forecast, we need to develop the fiscal year 2019 budget at \$5 million below the fiscal year 2018 budget. Obviously, a new budget level will reduce the number of church services, resources, and staff. It also will require us to significantly change how we operate.

Several factors contributed to this forecast:

1. World Church leaders decided not to include the previous year's undesignated bequests as a revenue source for the current year's budget. The level of undesignated bequests received from year to year is unpredictable, creating inconsistency in income levels. Starting in fiscal year 2018, undesignated bequests received each year will be used for the Bridge of Hope Project to fund the retirement responsibility and then grow endowments. This means that just under \$2 million no longer is available as projected income to the annual budget.
2. Worldwide Mission Tithes are projected to decrease over the next few years if we do not grow in membership and develop new generous disciples.
3. With the need to reduce the budget, a smaller staff was projected at International Headquarters. With a smaller staff, a significant reduction in the level of resources, services, and events was assumed. That meant less "other income" and "netted income" in the fiscal year 2019 Worldwide Mission Budget.
4. As reported by the Presiding Bishopric in June 2017, the goal for the fiscal year 2019 Worldwide Mission Budget is to develop a substantially cash-neutral budget.

At the November 2 World Church Finance Board meeting, World Church leaders presented an overall draft income plan for the fiscal year 2019 Worldwide Mission Budget. Also presented were the assumptions made to develop this plan. At this point, we fully expect the budget reductions for fiscal year 2019 will be less than the \$5 million originally projected. As promised by President Veazey, World Church leaders are reducing non-staff expenses as much as possible to minimize staff reductions. We will continue to monitor pledges and sustainable giving to Worldwide Mission Tithes. The final projected amount for Worldwide Mission Tithes for fiscal

year 2019 will be reviewed and ultimately approved at 2018 World Church Finance Board meetings in February and June.

Based on presentations made November 2, the World Church Finance Board supported the draft baseline budget for fiscal year 2019. It includes the staff reductions needed to move to a more sustainable budget. As a result, Human Resource Ministries has notified those in positions that cannot be continued.

In his “A Time to Act!” address, President Veazey shared what the church could do to lessen the overall financial reductions. While the staffing level for fiscal year 2019 has been set, the church still can help minimize the reduction of non-staff expenses for areas such as disciple-formation and worship materials, international leadership development, and special mission projects. This can be done through recurring, sustainable giving to Worldwide Mission Tithes. Achieving the \$3.5 million goal for November and December will have a tremendous impact on our ability to maintain these ministries.

The Presiding Bishopric will continue to receive pledges and monitor giving to Worldwide Mission Tithes. World Church leaders are grateful for the continuing generosity of individuals, families, congregations, and mission centers. We also are thankful for the spirit of unity around the worldwide church as we work together to move through the church’s current financial difficulties. The church’s generosity over the next several months will influence the final budget level taken to the World Church Finance Board for consideration at the February 2018 meeting and for final approval at the June 2018 meeting.

5. Staff Downsizing

Summary of staff positions reduced to reach longer-term sustainable Worldwide Mission Budget levels for fiscal year 2019 and beyond

The uncertainty about whether your position will be continued is a painful space to live in. Since President Veazey announced that a significant reduction was necessary in fiscal year 2019 to achieve a long-term sustainable budget, World Church ministers and staff members have been living with the knowledge that their positions might be part of the reduction. Feedback from past downsizings has been that it is better to reduce the time between announcements of reductions to actual downsizing notifications. As a result, World Church leaders in consultation with the World Church Human Resource Committee committed to determining necessary reductions and notifications by November 17. First, non-staff reductions were identified to minimize the necessary staff reductions. Unfortunately, some staff reductions still were necessary.

As this financial update is being released, downsizing notifications are being shared with committed faithful staff. It is a heart-wrenching time for everyone. World Church leaders ask that you pray for those who are losing their employment with the church. Please reach out and provide support.

There is a net of 13 position reductions resulting in 240 positions funded in the draft fiscal year 2019 budget. The net change in positions is the total number of positions downsized minus any new positions added. The 13 net position reductions and the 240 funded positions in the draft budget include full-time, part-time, shared funding, and volunteers receiving some support from the budget. The 13 net positions reduced include two positions from the World Church Leadership Council. One or more World Church Leadership Council positions will be filled by volunteers following the 2019 World Conference. The budget reduction from the downsizing of the 13 net positions is \$575,000.

Your individual, family, congregation, and mission center contributions and pledges for sustainable Worldwide Mission Tithes have and will continue to make a difference as we finalize the income assumptions for the fiscal year 2019 Worldwide Mission Budget. As the estimate for Worldwide Mission Tithes increases for fiscal year 2019, we will be able to add back non-staff expenses, providing better ministries and services. Thank you for your amazing response so far to President Veazey's challenge of "A Time to Act!" We look forward to receiving additional pledges in the coming days and months. Together we can support mission locally and globally.

Leaders have considered the best way to provide services and ministries given the contextual realities around the world and the restraint of less available funding. More information about the changes in ministries and services resulting from the fiscal year 2019 budget will be forthcoming. Details will be released after we refine how to support mission as a worldwide church and after the budget is approved in June 2018 by the World Church Finance Board.

The new staffing level for fiscal year 2019 is the best attempt by World Church leaders to project what is sustainable for multiple years based on longer trends for Worldwide Mission Tithes, other income, and netted income.

6. Working Together

Church-wide pause on major facility and property purchases and building projects

President Veazey announced in September 2017:

Beginning today we are implementing a church-wide pause on major facility and property purchases and building projects except for essential maintenance, repairs for safety, and building code compliance. This applies to the World Church, mission centers, campgrounds, and congregations. We need to work together on the financial challenges before us without creating additional obligations. This is similar to the church-wide hold on building projects put in place as we prepared to build the Temple. Any exceptions will have to be approved by the field apostle, director of Field Ministries, and the Presiding Bishopric.

The purpose of this pause is missional and fiscal. As the worldwide church continues to envision where God is leading us, the church must consider hard questions such as the function and value of buildings/properties as part of mission. Pausing in building projects allows more

conversations to occur about the role of church buildings/properties in our faithful response to live Christ's mission. Additionally, the church must fund a significant retirement responsibility and stabilize annual support of worldwide mission. Pausing on building projects allows the church time to assess financial needs and navigate the most prudent way forward.

This pause is not short term. It will take several years to have the necessary missional and fiscal conversations throughout the church. The status of this process will be reviewed at least annually at September World Church Leadership Council meetings. Any changes will be announced during the November financial update each year.

7. Bridge of Hope Project

Update on funding the retirement responsibility and endowments

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. They will be used first to fund the retirement responsibility and then to strengthen the endowments. As the Presiding Bishopric generates net proceeds from the sale of historic assets and missional properties not directly supporting mission, more Bridge of Hope Tithes will flow into the endowments. Contributions to specific purposes within the Bridge of Hope Project will be honored.

The goal for Bridge of Hope Tithes is CAD\$25 million and USD\$150 million. Bridge of Hope Tithes first will be added to the net proceeds from the sale of assets to fund the estimated retirement responsibility. Once this need is met, the balance of Bridge of Hope Tithes plus all future Bridge of Hope Tithes will be used to grow the endowments.

As President Veazey announced in September 2017, \$115 million is the estimated unfunded retirement responsibility. As of this report, \$31.5 million toward the \$115 million unfunded retirement responsibility has been received, lowering the balance to \$83.5 million. An additional \$38.3 million has been pledged. If these pledges are 100-percent fulfilled, the balance of the estimated unfunded retirement responsibility would drop to \$45.2 million. Here are the details behind these numbers.

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 2016 actuary report stated that the unfunded liability as of June 30, 2016, was \$94.5 million. In addition, there are unfunded obligations for the multi-nation retirement plan and the need to pay off the \$15 million loan from Pool A of the Affiliate Investment Pool that was used for Post-retirement benefit payments. 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. The total unfunded retirement responsibility is \$115 million as announced in September 2017.

The retirement responsibility is made of the Defined Benefit and Post-retirement plans. The Defined Benefit Pension Trust is a separate legal entity from the World Church with the Presiding Bishopric as trustees. Both plans were substantially fixed as of December 31, 2015. This means no new employees are being added, and most employees no longer are accruing benefits in these plans. However, the total amount of the retirement obligation will change over time based on interest rates, life spans, and other assumptions that impact projections.

The audited value of plan assets in the Defined Benefit Pension Trust as of June 30, 2016, was \$25.8 million. The \$25.8 million in the retirement trust makes up the funded portion of the church's retirement obligations. In September, President Veazey announced the church needs \$115 million more to cover the estimated unfunded portion of the retirement obligations.

As previously announced, three funding sources are being pursued to support the Bridge of Hope Project to help fund these retirement responsibilities.

First, the Presiding Bishopric sold the Printer's Manuscript of the Book of Mormon for \$35 million to the Latter-day Saints church. The distribution of funds:

- Post Retirement
 - \$15 million to pay off the AIP Pool A loan for the Post-retirement Plan
 - \$1 million to support Post-retirement benefit payments in 2018–2019
- Defined Benefit Plan
 - \$15.5 million added to the Defined Benefit Trust
- \$3.5 million for consulting support on Restoration antiquities

The Presiding Bishopric continues to evaluate the prospect of selling other historic assets and the potential impact on mission. Additionally, the sales of properties around the world that do not directly support the church's mission are being pursued. Assets will be sold only if a satisfactory price can be negotiated.

Second, congregations, mission centers, and other groups are encouraged to make a one-time or recurring contribution to Bridge of Hope Tithes. Several already have responded. If your congregation wants to make a pledge to Bridge of Hope Tithes or Worldwide Mission Tithes, please have your congregational financial officer use this form to notify the Presiding Bishopric: <https://CofChrist.wufoo.com/forms/kzjjz6m1su8ob5/>.

Third, many individuals and families have completed gift plans with pledges to Worldwide Mission Tithes and Bridge of Hope Tithes. Others are invited to give from their abundance or through bequests to Bridge of Hope Tithes. If you wish to pledge to Worldwide Mission Tithes or Bridge of Hope Tithes please use the same online form listed in the above paragraph. If you wish to talk to someone about developing a bequest plan, please contact: MissionFunding@CofChrist.org.

This process is ongoing, and the Presiding Bishopric is grateful for the many people and groups who already have graciously pledged financial support.

- Total pledged as of September 30, 2017:
 - \$38.3 million to Bridge of Hope Tithes—Use Where Needed
 - \$3.3 million (CAD) to Canadian Mission Endowment
 - \$1.9 million to Canadian Worldwide Communications Endowment
 - \$0.3 million to Temple Endowment
 - \$11.9 million to Worldwide Mission Endowment

In summary, as of this report, \$31.5 million toward the \$115 million estimated unfunded retirement responsibility has been received, lowering the balance to \$83.5 million. Additionally, \$38.3million has been pledged. Fulfillment of these pledges would lower the estimated balance of the unfunded retirement responsibility to \$45.2million.

8. New Mission Funding Model

Providing sustainable support for congregation, mission center, and worldwide mission

In September’s “Time to Act!” address, President Veazey said:

The basic blueprint—spiritual formation, community, compassionate ministry and action—is true to the vision of Christ. Everything else, like organizational structure, resources, funding methods, congregational forms, etc., should support this primary purpose.

Following this address, a multinational team was chartered to explore possible new funding models for the church. The team is reviewing current methods used in congregations and mission centers, as well as exploring approaches in other denominations. Conversations are beginning to occur with various groups as the team considers new ideas. Several possible models, which continue to be reviewed and modified, have been drafted.

Any new model the team considers will be centered on the Christ-like principles of generosity, unity, and community. It will involve consideration of how we support the mission and ministries of the whole church, locally and globally. It will look toward the future and be adaptable to accelerating changes in trends while helping engage new generations of contributors.

While the team’s initial responsibility is to develop a proposal consideration, this is the beginning of a much larger process that will grow into a church-wide conversation. Your participation will be essential in helping shape and refine any models for consideration.

In coming months, World Church leaders will continue talks about mission and how to fund it in future decades. We all will be invited to join these conversations as we prepare for the 2019 World Conference.

9. Working “The Way Forward” Plan

Progress is being made, but it takes time and commitment

The Presiding Bishopric continues to work “The Way Forward” plan. Here’s an update on the five items in the plan:

1. In fiscal year 2017, World Church leaders managed Worldwide Mission expenses within the available revenue received. Similarly, they are continuing to monitor Worldwide Mission income received, as compared to budgeted, for fiscal year 2018 and have contingency plans to adjust expenses to manage within available revenue. For fiscal year 2019, World Church leaders, supported by the World Church Finance Board, are evaluating a multi-year sustainable Worldwide Mission Budget level. This is resulting in staff cuts and a reduction in non-staff expenses to work within a balanced and sustainable fiscal budget based on Worldwide Mission Tithes and other projected income.
2. Although numerous opportunities exist to extend the mission of the church into new areas and countries, the fiscal year 2018 Worldwide Mission Budget did not include expansion. Additionally, budget preparation for fiscal year 2019 includes serious consideration about the number of countries that reasonably can receive direct support from the Worldwide Mission Budget.
3. The Presiding Bishopric successfully sold the Printer’s Manuscript of the Book of Mormon. All net proceeds from this sale were used to support the \$115 million unfunded retirement responsibility announced by President Veazey in September 2017. The Presiding Bishopric continues to evaluate the prospect of selling other historic assets and the potential impact on mission. Additionally, the sale of properties around the world that do not directly support the church’s mission is being pursued. Assets will be sold only if a satisfactory price is negotiated.
4. Disciples, families, congregations, and other groups are encouraged to support Worldwide Mission Tithes through sustainable giving. Sharing from abundance can help achieve the goals of the Bridge of Hope Project, which will fund the church’s retirement obligation and build endowments. As a result of the generosity of the worldwide church, the loan from Pool A in the Affiliate Investment Pool supporting the Post-retirement Benefit payments has been paid in full. Additionally, as the Presiding Bishopric continues to manage the overall cash flow of the worldwide operations, the line of credit was paid off in October 2017.
5. As disciples and ministers, we all are called to preach and teach generosity and living to our true capacity in all aspects of our lives, including our finances. We continue to grow in our understanding and practice of whole-life stewardship. Two new tracts on tithing and whole-life stewardship will be available in coming months.

Watch for the next financial update from the Presiding Bishopric in March 2018.