



Community of Christ

CHRIST'S MISSION, OUR MISSION

March 4, 2016

Financial Update

Community of Christ leaders are committed to timely, transparent updates on the church's financial situation. Because leaders are making decisions regarding staff reductions that will occur in March 2016, the Acting Presiding Bishopric provided financial information to the World Church Finance Board in a teleconference on February 29, 2016. A summary of that information is now being provided to the church in English, Spanish, and French.

In September 2015, President Steve Veazey shared a letter of counsel with the church announcing leadership changes to be presented to the 2016 World Conference. As I understand it, part of the early announcement was to allow me as incoming presiding bishop to lead preparation for the fiscal year 2017 budget. That budget will go into effect July 1, 2016, after the new Presiding Bishopric is in place.

In preparation for the transition, President Veazey instructed me to immediately start working with Michele McGrath, director of Finance, and Steve Graffeo, co-chair of the Budget Planning Team, to review our financial situation and ongoing financial strategic plan.

This process helped me understand data and assumptions guiding the church's five-year strategic financial plan in ways I previously had not known as a member of the Council of Twelve. Historically, each leading quorum of the church has different responsibilities. The presiding bishop is responsible for fiscal management and serves as financial trustee.

In my tenure on the World Church Leadership Council since 2002, I have witnessed a growing collaboration between quorums on particular strategic decisions. This resulted in the Presiding Bishopric sharing more financial information than in previous decades. However, this did not mean all information available to the presiding bishop was considered necessary to share with other quorums. I believe there was a goal to share what the presiding bishop thought was important without burdening other quorums with details the presiding bishop was managing.

Working to understand the details of the church's finances led to an increased flow of detailed information to the First Presidency and then to the World Church Leadership Council. In early February 2016, as presiding bishop designate, I was convinced of the need for a significant worldwide ministries budget reduction. This was reviewed and supported by the incoming Presiding Bishopric.

The budget reduction of \$6.32 million announced to the church on February 18, 2016, is based on a more conservative risk tolerance in terms of fiscal management and real estate investments. The following new information was shared with leadership, which led to their support for budget reductions:

1. In November 2015, I shared with the First Presidency and then the World Church Leadership Council that the church's two major endowments, the balance of the \$40 million gift, and remaining proceeds from the Atherton/historic site sales that support the worldwide ministries budget were all held in investment real estate, primarily the Harmony project. This means income planned to come from these funds to support the budget are not available in cash. Therefore, we are using a line of credit to supplement other incoming cash to manage cash flow.
2. In the same meeting I identified several sources of income in the five-year strategic financial plan that were not sustainable for more than a few years. This put additional pressure on cash-flow management and budget levels.
3. In early February 2016, I shared with the First Presidency and then the World Church Leadership Council about principal levels of the two main endowments supporting the budget—the World Ministries and Temple endowments. This information had been monitored by the presiding bishop but not shared with the First Presidency and World Church Leadership Council, so leaders were surprised to learn this information.

Specifically, as of June 30, 2015, 51 percent of the World Ministries Endowment principal and 40 percent of the Temple Endowment principal had been spent in support of the budget. The World Ministries Endowment principal level should have been about \$48.6 million as of June 30, 2015. Instead, it was \$24 million. The Temple Endowment principal level should have been about \$47.5 million as of June 30, 2015. Instead, it was \$28.6 million.

As previously stated, all of this balance is in investment real estate. In fiscal year 2009, the church started spending the principal from both endowments to support the budget. This began because of the economic downturn and significant negative investment returns in the securities market in 2008. Spending endowment principal is allowable in unusual circumstances for a limited time. However, our ongoing spending rate to provide income to the budget from the endowments continued to lower the balance below the principal level. Additionally, the investment in market securities eventually was fully spent. All that remained was the balance in real estate.

4. In the February meeting, we also reviewed the fact that our investment real estate, primarily the Harmony Development project, will not generate significant cash flow over the next few years as originally planned and hoped for.

In consultation with my counselors in the Acting Presiding Bishopric, from my perspective, three insights created the need for a major budget reduction:

1. World Church assets to support the World Ministries budget are all invested in real estate, primarily the Harmony project.
2. Endowment balances are well below their principal levels.
3. The probability of the Harmony project and/or other investment real estate providing significant cash flow in the next few years is low.

Some of this information had been shared before with the World Church Leadership Council. However, a complete picture had not been shown that revealed the high probability, from my perspective, that a more significant budget adjustment in one or two years would be required if we did not reduce expenses now. Again, this is based on the Acting Presiding Bishopric's more conservative risk tolerance than previously used by the bishopric. I am convinced that despite the pain of this reduction, the church will be positioned better for mission in the future if we take this action now. The First Presidency and World Church Leadership Council understood and supported the need to proceed in this way.

Many have asked what we are doing to ensure we do not have a similar experience in the future. I believe several actions already have been taken to respond to lessons being learned. Furthermore, the Acting Presiding Bishopric is committed to continuing to identify other lessons we can respond to, so we are able to rebuild trust with our members and create a more solid financial foundation for mission.

Actions we are taking include:

1. The president of the church will bring forward a letter of counsel regarding the presiding quorums. If approved by the 2016 World Conference, it will name the presiding bishop to serve as counselor to the president. This will break down traditional quorum boundaries that have not proven helpful in recent history and integrate information and responsibility in the First Presidency. It will also reduce the budget by one leadership position.
2. The Acting Presiding Bishopric has solicited outside financial counsel to help us review our financial-monitoring systems, financial reporting to various groups, and financial plans and processes. Working together with consultants and the First Presidency, we know we can improve processes and our ability to report our financial health to the World Church Leadership Council and World Church Finance Board. We also will seek input from the Council and the Board as we bring forward specific recommendations.
3. The Acting Presiding Bishopric, First Presidency, and Office of General Counsel are reviewing and updating policies on how often we rotate external consultants

- to receive fresh financial perspective. For example, because we used the same real estate appraiser for 15 years, we will now have a new firm provide appraisals for critical investment real estate.
4. The Acting Presiding Bishopric and First Presidency submitted a resolution to World Conference asking approval to have the World Church Finance Board review and accept our annual audit each year instead of bringing it only to World Conference every three years.
 5. In addition to improved reporting with the World Church Leadership Council and World Church Finance Board, we are implementing a better way to coordinate and review critical decisions within the Presiding Bishopric.
 6. I feel more comfortable stepping into my role as the acting presiding bishop because I have a counselor who also fills the position of director of Finance. Michele McGrath is well prepared to serve through extensive financial education, training, and experience. She is new to the financial ministry of the church, bringing a fresh set of internal eyes that will be a blessing. This demonstrates another lesson learned. We are evaluating term limits for some key financial positions to ensure new insights and fresh perspectives. Additionally, I am grateful that Steve Graffeo brings expertise in real estate management and human resources, and the continuity of knowledge and lessons learned from previous years in the Presiding Bishopric.

As we prepare the fiscal year 2017 budget for World Church Finance Board review and action in June, we are undertaking a major budget reduction. As stated previously, we are working to reduce \$6.32 million from the budget, and preparing an expense budget based on income of \$16.5 million. This level is comprised of \$13 million of world mission tithes and \$3.5 million of other income, including undesignated bequests.

Leaders believe the church will respond to and exceed the \$13 million world ministries tithing goal. We received \$13 million of tithing in calendar year 2015, so we believe this level and higher is possible if we can awaken the church to our opportunities for mission. The World Church Leadership Council Strategic Planning Team is meeting for three weeks, followed by a Council of Twelve week-long meeting to create a sustainable, balanced budget. The reduced budget requires that we manage our expenses this fiscal year and proceed with staff reductions to start the next fiscal year with significantly reduced staff expenses. We also have moved into a management budget, limiting non-staff expenditures to those most necessary to prepare for World Conference.

In closing, I want to assure the church that from my research and perspective our current circumstances are not the result of illegal activity or a desire to bring harm to the church. Some have asked how the \$40 million gift and the proceeds from the Atherton/historic site sales have been used.

The \$40 million tithing gift was received in October 2004 and donor instruction was to use funds as needed to promote the mission of the church. In fiscal years 2006 through 2016, the gift provided income to the worldwide ministries budget. As of December 31, 2015, \$11.6 million of the \$18 million balance of the gift was moved to the World Ministries and Temple endowments to raise principle levels. The remaining balance was used to fund the health plan reserve, currency exchange, and program real estate funds.

Net proceeds for the Atherton/historic sites sale in April 2012 were \$15.3 million. These funds were used to increase the retirement trust balance, and support the worldwide ministries budget and other operational projects in fiscal years 2013 through 2016.

I am confident we can move forward from this place. The Acting Presiding Bishopric is committed to rebuilding trust between the Presiding Bishopric, World Church Leadership Council, World Church Finance Board, and you, our members, priesthood, leaders, and friends. Together we can navigate this difficult time while giving attention to Christ's mission and providing future leaders and generations the opportunity to live mission without the financial burdens we now face.

You can find answers to more questions, and consider the opportunities these financial challenges put in front of us at www.CofChrist.org/official-announcements.

I have heard from many that you are praying for leaders and the church. Thank you! Please continue to pray as we continue our spiritual venture to boldly follow the Mission Initiatives into the heart of God's vision for the church and creation. Thank you for your prayerful support.

Stassi Cramm
Acting Presiding Bishop