

ROADMAP TO **RESILIENCE**

ANNUAL REPORT 2019 | PRESENTED AT ANNUAL COUNCIL 2020



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General Conference of Seventh-day Adventists | 12501 Old Columbia Pike, Silver Spring, MD 20904, USA

DIRECTOR'S MESSAGE



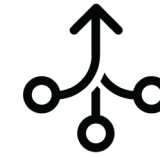
Paul H. Douglas, MBA CPA
GCAS Director



Jack L. Krogstad, PhD CPA
GCAS Board Chair

In the matter of months, the normal we have been accustomed to for generations has been subject to a global scale disruption due to the COVID-19 pandemic. There has been no exception to the disruption and the long-term effects for persons, as well as the Church as an organization, may not be known for years to come.

We likely did not imagine that in such a short time everyday life could change so much. We now find our faces covered by masks, our fellowship as believers confined to the walls of virtual meetings, our formalities of work taking place from home, and our finances needed to support mission made uncertain by the global economic fallout. Our apparent lack of imagination suggests that the pandemic found us flat-footed as an organization with no prepared

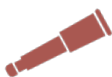


response for realities related to the prophecies we preach. Now, many of the changes made in urgent response to the pandemic will no doubt become permanent – whether these changes were made by strategic choice or because of settled comfort in new patterns of behavior.

The current crisis is just a signal of what is yet to come and church leaders would be wise to not let this crisis go to waste by making valiant attempts to continue doing business as usual. Opportunities to explore new ways of thinking and employ new ways of doing business are available to those who take the time to prayerfully look for them. The next crisis is already in the making and without a prepared response there may not be sufficient resilience to survive.

Church organizations need to build the resilience necessary to face adverse economic conditions that can threaten resources needed for mission. This resilience is based on a faithful trust in God and benefits from forward thinking with God. When trust is matched with thinking, it should inspire Church organizations to make appropriate plans in the *fat* years to avoid or minimize any mission disruption in the *lean* years. However, many Church organizations seem more likely to excel at trusting and less likely to engage in thinking. The result of this imbalanced method of management is an increased risk that Church organizations will not have the resilience needed to carry out its mission in times of crisis.

GCAS is uniquely positioned to see up close the global preparedness of Church organizations to sustain their mission in times of crisis and their ability to provide an agile response to rapidly emerging realities. It is from this unique vantage point that we offer a **Roadmap to Resilience** for consideration by Church leaders and their governing committees. Although the roadmap is not a panacea, it addresses a range of issues that can be commonly applied at every level of the Church and its family of institutions. The range of issues are captured in the following five actionable dimensions:



Anticipate | An essential business practice is to anticipate a variety of scenarios of what could have a positive or negative impact on the organization. By documenting a planned response to these scenarios or developing a response framework for unanticipated scenarios, the organization creates safeguards against the prospect of being caught flat-footed when there is a crisis.



Align | Organizational structures and systems have a shared purpose to be servants of mission. Therefore, it is imperative to align these structures and systems to ensure the effective and efficient utilization of resources. This should be an ongoing exercise that seeks as its goal to spend more on the mission and spend less on the machinery.



Automate | The abilities of technology increase exponentially each year and has long arrived at the capacity to perform numerous tasks without human intervention. Maximizing advances in technology to automate repetitive tasks will enable organizations to recalibrate staffing levels to control costs or repurpose personnel to more frontline mission responsibilities.



Associate | Church organizations pursue a common mission yet the suite of technical competencies necessary to do so are not universally



available. Breaking through the veil of established geographic boundaries and finding ways to associate with other church organizations within the family allow for leveraging the best available competencies and lessening the duplication of effort to produce similar resources or perform standard responsibilities.



Analyze | There is a wealth of information trapped in the transactional data that is recorded by an organization. When organizations analyze this information in real time, they can unlock the stories of progress to be celebrated and understand the signals of problems to be corrected. Employing such a data-driven approach to management and governance keeps organizations on the leading edge of knowing what is happening, why it is happening, and what should be done in response.

GCAS is prepared to partner with your Church organization on its journey to resilience. We know your organization. We believe in your mission. We are interested in your success. Although there will always be a place for the annual audit, in times like these and beyond we see where Church organizations will need more than just the assurance an audit provides. It is with this in mind we applied and were accepted to join the BDO Alliance USA as an independent member firm. Our membership in this alliance gives us access to an international network of people and firms that allow us to expand our services and provide you meaningful support for your success. In the coming months we will be sharing with you how this relationship will bring value to you.

On behalf of the approximately 300 professionals operating from 45 regional offices around the world, let me say we are delighted to serve you and we remain committed to making excellence our signature every day.



GCAS is proud to announce that on August 1, 2020, it was accepted to join BDO Alliance USA as an independent member. The BDO Alliance USA is a nationwide association of independently owned local and regional accounting, consulting and service firms with similar client service goals. The BDO Alliance USA presents an opportunity for these firms, by accessing the resources of BDO USA, LLP and other Alliance members, to expand services to their clients without jeopardizing their existing relationships or their autonomy. The BDO Alliance USA was developed to provide member firms with an alternative strategy for gaining competitive advantage in the face of a changing business landscape. The Alliance represents an opportunity for BDO to enhance relationships with reputable firms that share a mutual business understanding. The BDO Alliance USA is a subsidiary of BDO USA, LLP, a Delaware limited liability partnership.



BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 700 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 88,000 people working out of more than 1,800 offices across 167 countries.

The BDO Alliance USA is committed to helping us better serve our clients whenever and wherever we may need it. GCAS will be able to access an alliance of CPA and consulting firms throughout the United States and an international network of people and firms. We are delighted at the opportunity to join this alliance and are confident this will allow us to bring more value to our clients.

OUR RESPONSIBILITY

CLIENT BASE

The General Conference Auditing Service serves as the Seventh-day Adventist Church’s preferred provider of assurance and related services. The client base includes all denominational organizations such as General Conference institutions, world divisions and their institutions, unions/union of churches and their institutions, local conferences/missions/regions/field stations and their educational institutions at the secondary level or higher, and Adventist Development and Relief Agency country offices and projects not audited by external auditors.

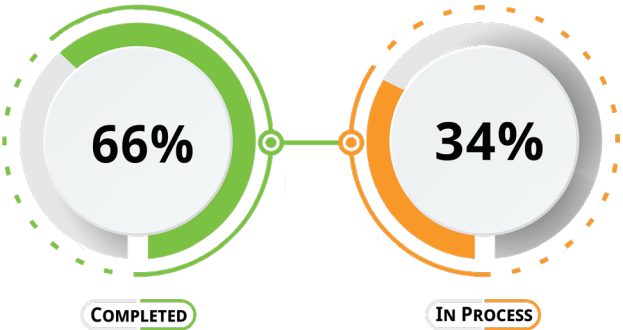
—General Conference Working Policy SA 05 25



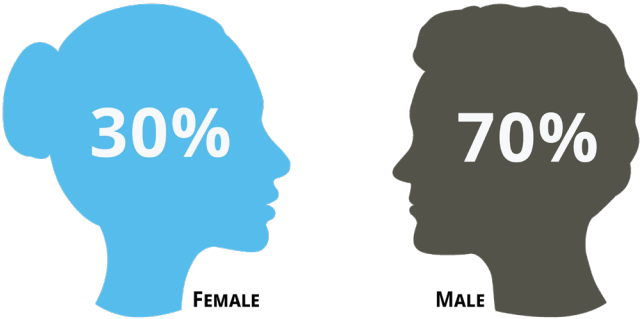
OUR RESOURCES

The engine for **Delivering Excellence** is fueled by an appropriation received from the General Conference and revenue we receive from billing our clients to recover the cost of the services to them.

We provide these services with a highly qualified team, which is diverse in its composition and dedicated to the commitment of obtaining the highest professional qualifications in order to deliver excellence. Our team has responded to God’s call to devote their talents to serving Him and His church.



PROFESSIONAL CERTIFICATION



DEMOGRAPHICS



Trans America Area Seminar in
Lima Peru, January 2020



Trans Asia Pacific Area Seminar in
Gold Coast Australia, February 2020



North America Area Seminar
via ZOOM, July 2020

Our Shared Values

Service

We each share a personal commitment to Christian Service. Our attitude and actions incorporate *integrity, respect, professionalism, and efficiency.*

Integrity

- We are guided by moral and ethical principles which are reflected in our conduct

Respect

- We respect God by humbly dedicating ourselves to Him
- We respect our clients by valuing their opinions, understanding their needs, and supporting their mission
- We respect our colleagues by valuing their contributions, understanding their needs, and supporting their professional growth
- We respect our profession by applying its standards and best practice

Professionalism

- We demonstrate a culture of helpfulness and courtesy by our attitude
- We develop our core competencies through a commitment to continuous learning and obtaining the highest level of professional qualifications. We design our system of quality control to ensure our work complies with professional standards
- We determine to communicate valuable information in an effective manner

Efficiency

- We are committed to conserving church resources by providing the highest quality audits at the best economical value

We each embrace these values enabling us to deliver excellence!

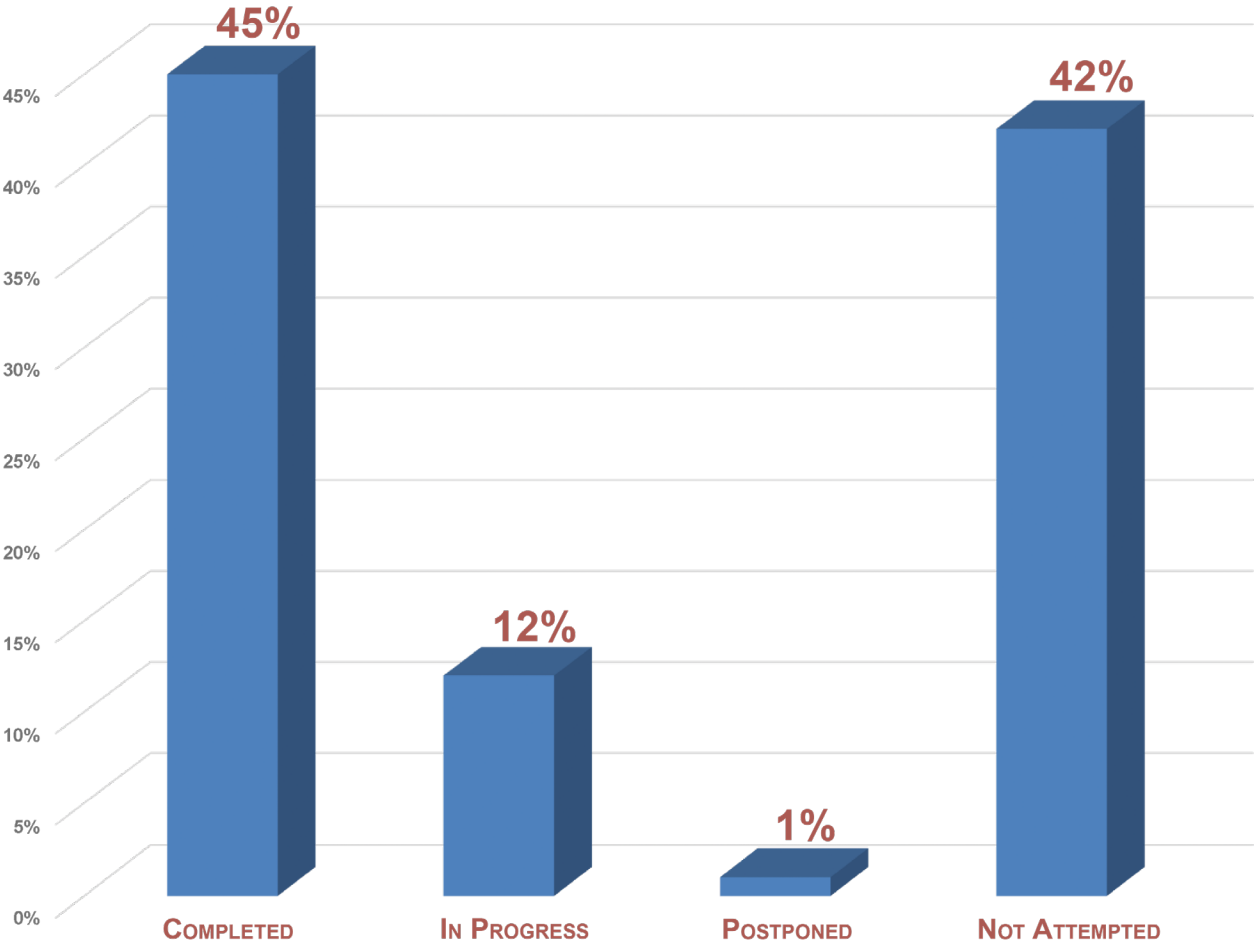
OUR SHARED MISSION AND VALUES



Our Shared MISSION

*We serve God by delivering excellent audit
services to the Seventh-day Adventist Church!*

WORK PLAN RESULTS



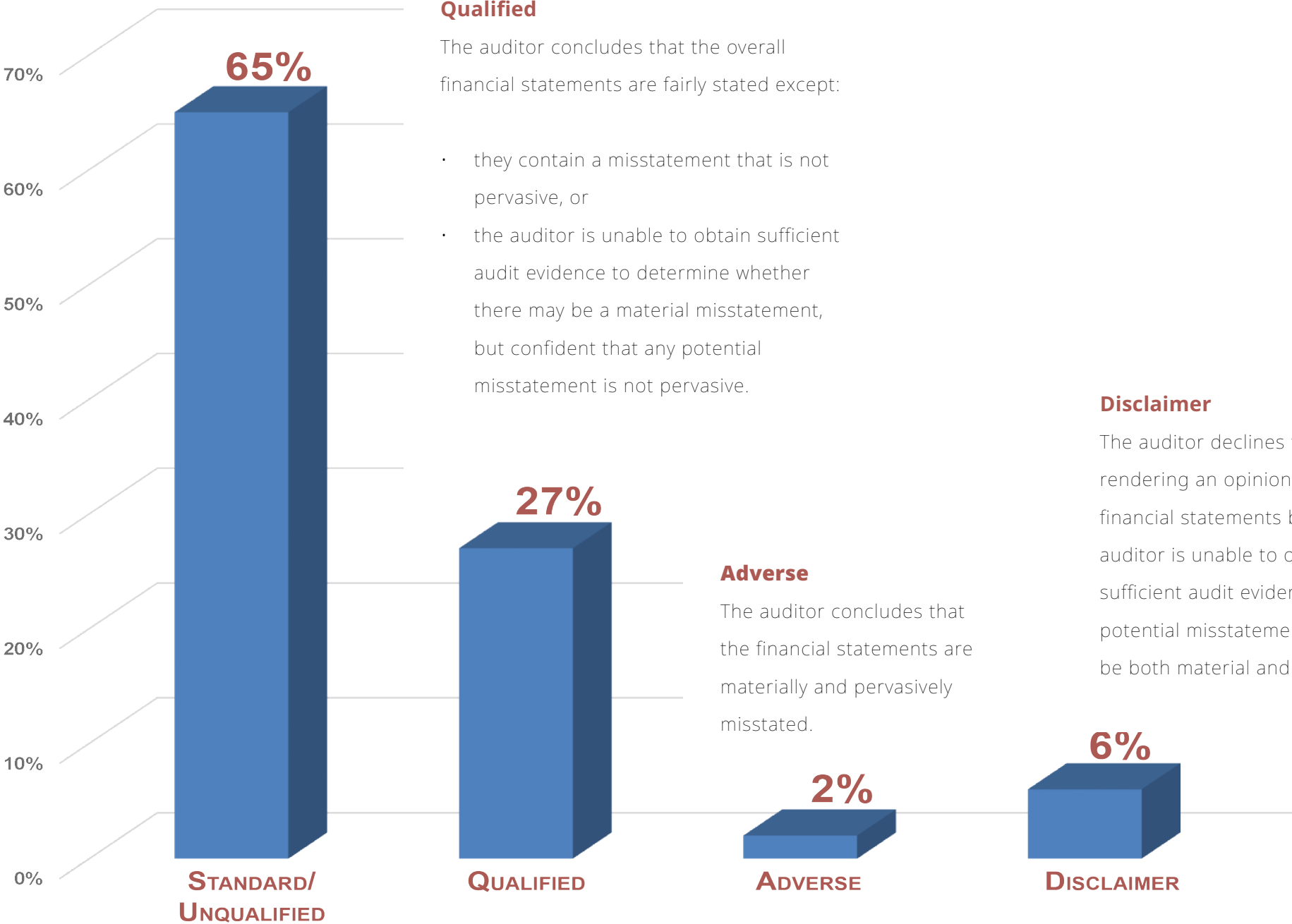
ANALYSIS OF WORK PLAN RESULTS

Type of Entities	Total Portfolio	Engagements Completed	Engagements In Progress	Engagements Postponed	Engagements Not Attempted
Divisions	13	11	2	0	0
Unions	136	97	27	1	11
Conferences/Missions	753	402	117	10	225
Educational Institutions	706	260	79	4	362
Healthcare Institutions	154	54	19	3	78
Publishing Houses/ABCs	149	65	12	1	71
ADRA Entities	107	30	7	1	69
Trust	67	21	3	0	43
Other	268	125	22	2	119
Total	2,353	1,065	288	22	978

TYPES OF FINANCIAL STATEMENT OPINIONS

Standard/Unqualified

The auditor concludes that the overall financial statements are fairly presented.



Qualified

The auditor concludes that the overall financial statements are fairly stated except:

- they contain a misstatement that is not pervasive, or
- the auditor is unable to obtain sufficient audit evidence to determine whether there may be a material misstatement, but confident that any potential misstatement is not pervasive.

Adverse

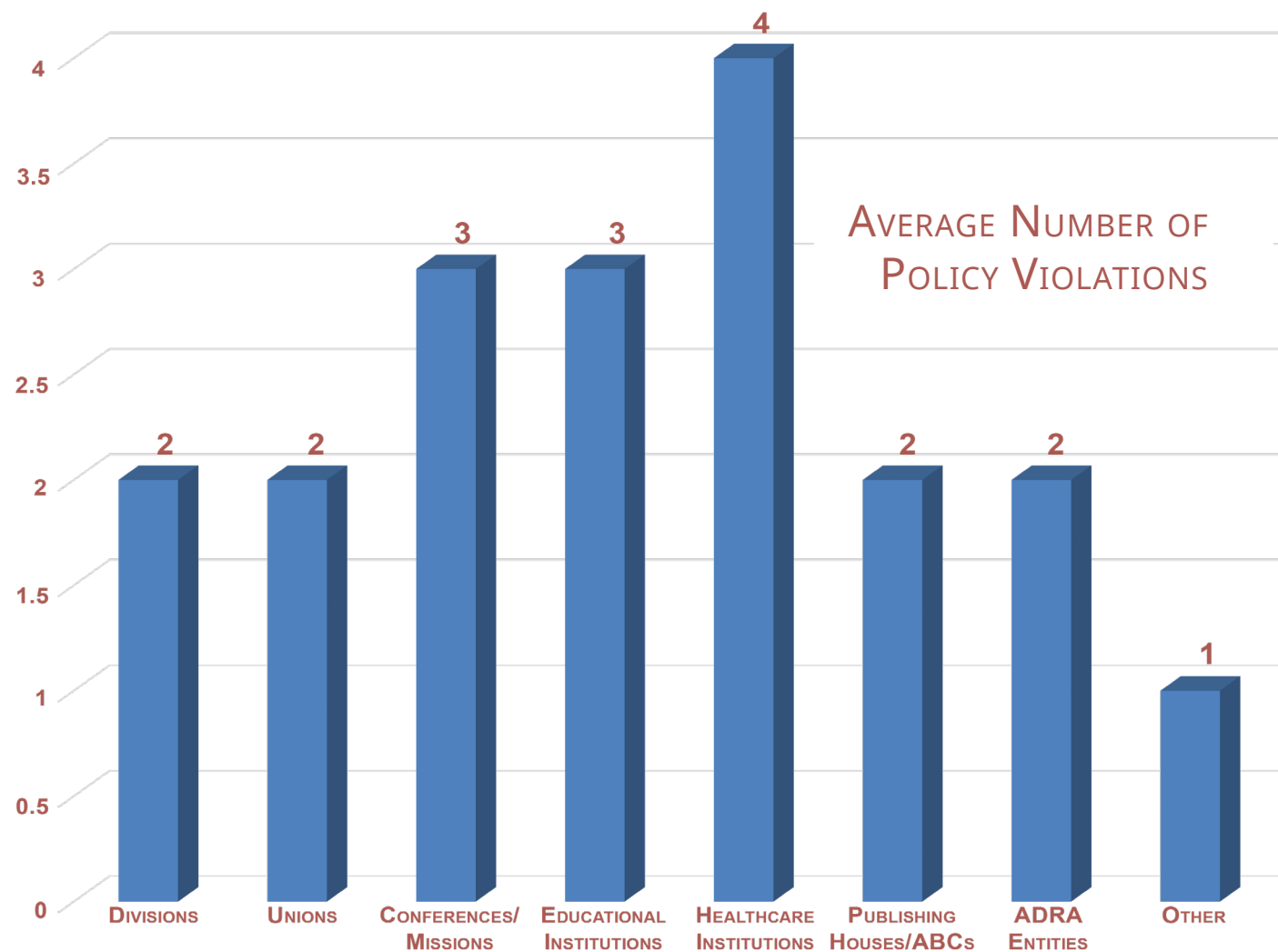
The auditor concludes that the financial statements are materially and pervasively misstated.

Disclaimer

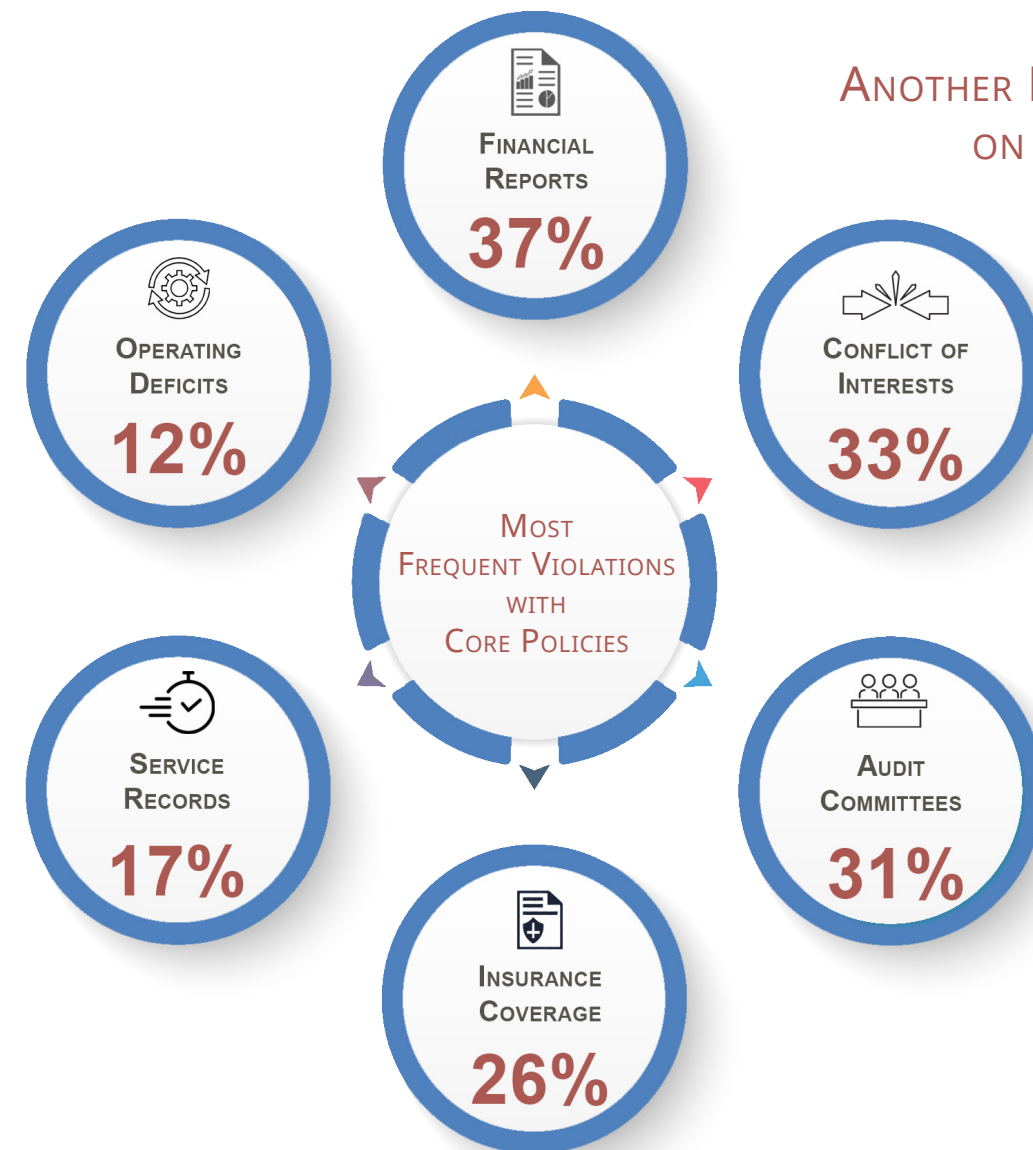
The auditor declines from rendering an opinion on the financial statements because auditor is unable to obtain sufficient audit evidence and potential misstatements could be both material and pervasive.

CORE POLICIES

80% The percentage of Church organizations with at least one violation of the core policies enumerated in GCWP S 90



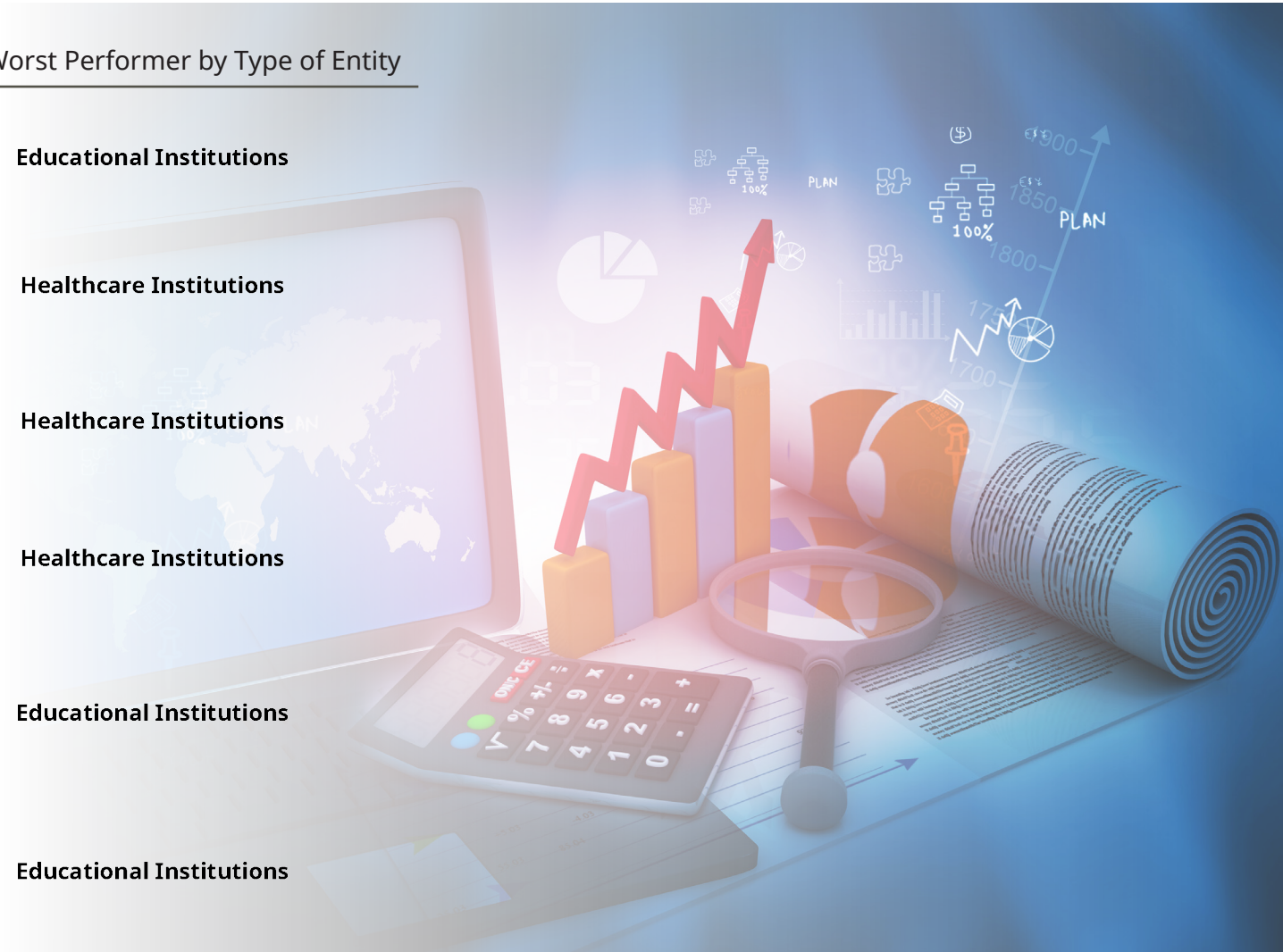
ANOTHER PERSPECTIVE ON VIOLATIONS



SUMMARY STATISTICS FOR KEY FINANCIAL METRICS



Metric	Median	Mean	Best Performer by Type of Entity	Worst Performer by Type of Entity
Current Ratio Indicates ability to meet short-term obligations	2:1	10:1	Publishing Houses/ ABCs	Educational Institutions
Debt Percentage Indicates the proportion of debt to total assets	2%	11%	ADRA Entities	Healthcare Institutions
Liquidity Percentage Indicates ability to pay obligations	124%	685%	Divisions	Healthcare Institutions
Working Capital Percentage Indicates proportion of working capital recommended by policy	80%	92%	Unions	Healthcare Institutions
Self-Support Percentage Indicates ability to operate without reliance on external resources	98%	89%	Healthcare Institutions	Educational Institutions
Days Cash on Hand Indicates the number of days an organization can continue paying its operating expenses	72	174	Divisions	Educational Institutions



Resilience

(n.) The ability to become strong, healthy, or successful again after something bad happens.

extramadness.com

REPORTING HIGHLIGHTS



Most frequent reasons for providing a modified opinion on financial statements:

- Lack of evidence resulting in a disclaimer of opinion
- Misstatement of property, plant and equipment
- Lack of evidence for accounts receivable
- Lack of evidence for revenue
- Lack of evidence for property, plant and equipment

Most frequent reasons for reporting a violation of core policies:

- Insufficient monthly financial statements submitted to governing committee and administration
- Audit committee missing or improperly constituted
- Conflict of interest statements not signed by all committee members and other designated employees
- Insurance coverage not in harmony with requirements
- Service records not all updated and signed

Most frequent reasons for documenting internal control weaknesses:

- Lack of reconciliation of accounts
- Lack of authorization of transactions
- Segregation of duties minimal or inadequate
- Inadequate documentation to support transactions
- Lack of appropriate approvals and documentation for journal vouchers

FINANCIAL REPORTING MATTERS



Accounting

Conceptual Framework

The International Accounting Standards Board (IASB) issued the Conceptual Framework for Financial Reporting in March 2018 as part of a project to provide a complete and updated conceptual framework to use when it develops or revises International Financial Reporting Standards (IFRS) and to help others better understand and apply IFRS. It was effective January 1, 2020.

Accounting for Leases

The IASB issued IFRS 16 Leases in January 2016. This new accounting standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to the lease, the lessee and the lessor. This new standard was effective January 1, 2019. Under the pre-existing standard, a majority of leases

were not reported on a lessee's balance sheet. This new standard requires a lessee to recognize assets and liabilities for the rights and obligations created by leases of more than twelve months, thereby causing most leases to be reported on a lessee's balance sheet. Some countries are still implementing a version of this standard.

Revenue Recognition

In May 2014, the IASB established a single, comprehensive framework for revenue recognition to be applied consistently across all types of transactions, and industries. This framework will improve comparability of financial statements. The core principle of the framework is that an entity should recognize revenue when the transfer of goods or services to the customer occurs, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The original effective date was deferred until January 1, 2018, so that additional clarification could be provided and organizations would have time to implement this standard. Some countries are still implementing a version of this standard.

Auditing

Auditor's Report

In January of 2015, the International Auditing and Assurance Standards Board (IAASB) issued new and revised standards, designed to significantly enhance confidence in the audit and the financial statements. These standards require certain additional information to be included in the auditor's report. The new standards require the opinion section of the auditor's report to be presented first, enhanced reporting on the appropriateness of management's use of the going concern basis of accounting, improved description of the responsibilities of the auditor, and for public entities, the auditor must report the most significant matters during the audit as "key audit matters," and must disclose the name of the engagement partner. The new and revised auditor reporting standards were implemented in 2017 because they were effective for audits of financial statements for periods ending on or after December 15, 2016. These new standards influenced the auditing standards in various countries and are still being implemented in some countries.

Denominational

Financial Reporting Framework

The denomination established a Financial Reporting Framework Committee to determine and publish relevant international accounting standards for implementation by church organizations. The committee is focusing first on redesigning the Seventh-Day Adventist Accounting Manual to be more dynamic in its response to changing accounting standards and publishing a multi-volume format tailored for user needs.

Financial Oversight

The denomination is developing an additional level of financial oversight to supplement financial audits, financial reviews, and local church audits. This new level of financial oversight will be referred to as a financial "inspection" and is intended to be suitable for smaller and less complex organizations for which a higher level of service would be out of scale with the associated risks.

GCAS TEAMWORK



LEADERSHIP TEAM

Paul H Douglas, MBA CPA | *Director*

Daniel E Herzel, BA CPA | *Professional Standards*

Maurine Wahlen, MBA CPA | *Professional Development*

Boris R Cardenas, BA CPA | *Workflow and Innovation*

Kimberly J Westfall, BBA CPA | *Quality Control*

Gary B Blood, BS MCP | *Technology*

Robyn W Kajiura, BBA CPA | *North America Area*

Furaha Mpozembizi, BCom CA FCCA | *Trans Africa Area*

Rogelio Cortez, BBA CPA | *Trans America Area*

Jeremy T Smith, BBA CPA | *Trans Asia Pacific Area*

Sandra C Grice, MBA CPA FCCA | *Trans Euro Asia Area*

BOARD MEMBERS

Jack L Krogstad, PhD, CPA | *Chair/NAD Lay Representative*

Thomas Lemon, MDiv | *Vice Chair/GC Vice President*

Paul H Douglas, MBA, CPA | *Secretary/GCAS Director*

Ted N C Wilson, PhD | *GC President*

G T Ng, PhD | *GC Secretary*

Juan R Prestol-Puesán, PhD | *GC Treasurer*

Esther G Abayo, MBA, CPA | *ECD Lay Representative*

Lyudmyla V Chyzhevskya, D.Ec, CPA | *ESD Lay Representative*

Roberto Maggiolini, DIP | *EUD Lay Representative*

Hyden Gittens, M.Sc, CPA | *IAD Lay Representative*

Masao Yanaga, BA, LLB, CPA | *NSD Lay Representative*

Ailton Dorl, MBA | *SAD Lay Representative*

Philip Ndlovu, B.Sc, CA | *SID Lay Representative*

Margaret Dines, B.Ec, CPA | *SPD Lay Representative*

Elirie S Aranas, CPA | *SSD Lay Representative*

VACANT | *SUD Lay Representative*

Frenslly Panneflek, MBA, M.Sc | *TED Lay Representative*

Martin N Onyenmuru, MA, MBA, FCA | *WAD Lay Representative*



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