



Geno Strong Memorial Fund Bond Education and Orientation Frequently Asked Questions and Answers

Thank you for your interest in the Geno Strong Memorial Fund. Following are answers to common questions regarding the fund's purpose, source of income, investment strategy, and administration. Click any of the questions below, and the answer will appear under the heading.

- 1. Why was the fund created?** The fund was created as a memorial to the ministry legacy of Geno Roncone. Geno was raised in Highpoint Church and served as its youth pastor for three years before losing his life to a rare form of lymphoma in July 2016. One of Geno's strongest passions was to take as many kids as possible to the annual Rocky Mountain District youth camp. Geno believed camp was a powerful environment where teens could experience God, receive divine direction, and develop healthy relationships with other teens. This fund was the idea of his mother, Rhonda, who wanted his life to continue to be a blessing to other teens and youth pastors until the return of Christ.
- 2. What is the fund's purpose?** The purpose of the Geno Strong Memorial Fund is to sustain an interest-bearing funding source that grows the fund's principal while also sending teens to camp indefinitely.
- 3. How is the fund financed?** The fund is financed through the following two sources:
 - **Donations:** Personal and organizational donations from businesses and churches.
 - **Interest income:** Ten percent of the fund's annual interest is added to the principal and reinvested.Donations are not dispersed as scholarships until they have been invested. Annual earned interest is then divided in two parts (scholarship fund and reinvestment funds). Ninety percent of the fund's annual earned interest is awarded as scholarships, and ten percent is reinvested into the fund's principal.
- 4. How does the fund grow?** The fund's principal is not spent but continues to grow through new donations and by reinvesting 10 percent of the annual earned interest back into church bond investments.
- 5. What are church bonds?** A bond is a registered security (legal promise to pay) and very similar to a corporate bond. However, instead of being issued by corporations like General Electric or Ford Motor Company, the issuers are nonprofit corporations like churches or Christian ministries. Those ministries promise to pay a certain rate of interest in exchange for borrowing money from the investors (in this case, the Geno Strong Fund) over an extended period of time, and the securities are generally secured or collateralized by a first mortgage on the church property. In this application, the Geno Strong Fund is loaning

money (purchasing bonds) to churches and Christian ministries in return for interest that is paid twice a year until the loan term ends and the initial principal is returned in one lump sum.

- 6. How do church bonds work?** Most bonds are purchased through a brokerage firm or dealer and are in amounts of \$1,000 or more at an established interest rate for a determined period of time. The issuer (church or Christian ministry) then issues a bond and serial number agreeing to pay an annual interest rate payable every six months until the term of the bond ends or the bond is paid off early. When the term ends or if the issuer pays the bond early (referred to as “calling the bond”), the principal amount is returned to the purchaser with interest up until that date.

To calculate the projected interest earned from a bond, multiply the bond rate (interest paid) by the face value of the bond and divide that amount in half to determine the semiannual yield.

Example: $\$1,000 \times 5.00\%$ divided by 2 = \$25 every six months

If a church or Christian ministry issues a \$1,000 bond with a 15-year maturity paying 5.00% interest, that ministry promises to pay the bondholder \$50 a year or, in most cases, \$25 twice a year. When the bond matures 15 years later, that ministry repays the initial \$1,000 to the bondholder (in this case, the Geno Strong Fund).

- 7. Is the bond industry regulated?** Although bonds are not rated or insured by the Federal Deposit Insurance Corporation (FDIC), the industry is regulated by the Securities and Exchange Commission (among other regulatory authorities). It is also subject to different state regulations where bonds are sold. A third-party fiduciary serves as the trustee and paying agent responsible for managing the funds and administering the agreements between the bond issuer (church) and investor (in this case, the Geno Strong Fund).
- 8. What type of bonds are most common?** Bonds differ in type, purpose, and maturity. Most bonds can be divided into four basic categories:
- **Treasury bonds** are issued by the United States government to finance federal initiatives.
 - **Corporate bonds** are issued by for-profit companies seeking to raise capital.
 - **Agency bonds** are issued by government-like agencies that serve public needs. These include agencies like the Federal Home Loan Banks, Fannie Mae, and Freddie Mac.
 - **Municipal bonds** are issued by cities, states, and counties to raise money for things like schools, roads, large community venues, and other civic needs.

Church bonds are a form of corporate bonds except the issuer is a nonprofit, faith-based organization like a church or Christian ministry.

Bonds are generally issued in groupings called series. A series may have various amounts, interest rates, and lengths of maturity (term or length of loan). For example:

- **Short-term** bonds usually have less than a 5-year maturity.
- **Intermediate** term bonds usually have maturities of 5-12 years.
- **Long-term** bonds usually have maturities of 12 years or longer.

Usually, the longer the term of the bond's maturity, the higher the interest rate it will yield.

9. Why does the fund primarily invest in church bonds?

- **Church bonds are kingdom investments.** When church bonds are sold, the kingdom of God benefits on both sides of the table. Growing churches are supported, people of faith who invest earn interest, and new people are reached for Christ. For example, one of the first series of bonds the Geno Strong Fund purchased was invested in a Texas church. Not only did that church expand its influence in the community but the earned interest from those bonds is also sending several teens to summer camp every year. You would be hard-pressed to find a traditional bank that chose to spend 100 percent of its profits sending teens to a Christian summer camp.
- **Church bonds are historically stable investments.** Although no investment is failproof and all involve some element of risk, church bonds have a long history of consistent returns. Stocks may not pay dividends, but bonds produce a conservative flow of steady interest. Though church bonds are not currently rated, history has shown them to be more stable investments than stocks, commodities, or collectables. According to Scott Rolfs of B. C. Ziegler and Company, a company that has been issuing bonds since 1913, only 2 percent of the over 500 bonds they have issued over the past 30 years have failed to pay investors their promised interest and principal in a timely manner. For those that did default, the average recovery from the sale of property was 80 percent. Church bonds are most often secured by a deed of trust on church real estate or other property. They are also requested, approved, and in most cases purchased by local believers who share an outstanding commitment to their own church. In other words, they are backed by people who have "skin in the game."
- **Church bonds benefit the people of God.** It is not by chance that banks and lending institutions are earning healthy profits and building elaborate corporate offices. We would rather see interest paid in a way that benefits individual Christian investors, ministries, and moral causes than Wall Street mega companies.
- **Church bonds are flexible in putting money to work.** Because the minimum investment for a bond is usually between \$1,000–\$5,000, we are able to get new funds earning interest as soon as possible. This also allows us to diversify the funds. Instead of putting a large amount of resources in one bond series or offering, we are able to build diversity in the bond portfolio by investing in Christian churches of differing sizes, strength, and geographic locations as well as maturity dates, yield, and risk.
- **Church bonds pay higher interest rates.** As a general rule, church bonds pay about 1 percent more in interest than corporate bonds. For example, over the past few years, it has not been uncommon for the typical 10-year church bond to yield 5 percent and a 25-year church bond to yield 6 percent.
- **Church bonds have proven to be a rewarding experience for Highpoint Church.** The construction and long-term debt of the Southlands campus are presently financed

through church bonds. Our leadership team has many years of practical experience with this form of investment and financing and feels the model works.

- **Church bonds enable us to invest with conscience.** Because we are investing in Christian ministries, we are less likely to be concerned about our funds being invested in services, products, addictions, or lifestyle choices that would compromise our Christian values and beliefs.

10. Why does the funds interest income vary from year to year? There are three reasons why the fund's interest income may vary from year to year.

- **Diversity.** The Geno Strong bond portfolio consists of several bond issues, each with its own interest rate, investment principal, and maturity date.
- **Callability.** The churches and ministries that sold these bonds are able to pay them off early (call the bond), resulting in the principal being returned early and the funds being reinvested elsewhere with a new rate and term.
- **Growth.** The fund is always generating new donor income that is held in a holding account until a solid bond investment opportunity can be identified and purchased.

These reasons are why the committee's treasurer and investment analyst keep a current data base of all bond investments and their specific circumstances.

11. Does the fund invest in zero-coupon or compounded bonds? No. Because the funds guidelines require 90 percent of annual interest to be expensed as scholarships, the Geno Strong fund does not invest in bond offerings involving compounding interest that is paid in a lump sum at the bond's maturity date.

12. Are interest earnings from the fund taxed? No. Because Highpoint Church is registered as a nonprofit 501(c)(3), we are not required to pay taxes on earned interest because the earnings are used for ministry purposes.

13. What risk factors can contribute to church bond volatility? All investments carry some risk, including the safest bonds. The following factors are a few examples of the potential risks associated with investing in church bonds:

- **Unforeseen economic factors.** Negative economic factors within a church's community, loss of donors, or natural disasters can reduce a church's income (tithes and offerings) to the point where it struggles to stay current on payments.
- **Loss of organizational credibility.** Moral failure, scandal, or internal organizational conflict can diminish the church's financial health, growth potential, and ability to stay current on expenses and bond payments.
- **Lower interest rates.** If interest rates fall to the point where other bonds can be sold at a lower rate of interest, the issuer may seek to "refinance debt" by calling the older bonds and paying them off early. Although the fund would get its principal back, it would then have to reinvest at a lower "going rate."

- **Reliance on contributions.** Because churches are primarily dependent upon voluntary contributions to pay the principal and interest of bonds, there is no guarantee that these contributions will increase or remain stable enough to meet its obligations.
- **Loss of senior leadership.** A church's senior minister, lead pastor, or CEO serves a significant role in community relations, leadership, vision, management, growth, and viability. The impact, if any, upon a church in the event of the resignation, termination, disability, or death of senior leadership is indeterminable.
- **Early bond redemption.** In most cases, the issuer of a bond has the right of early redemption for any and all bonds. However, investors do not have the right to require the issuer to redeem any bonds before maturity. Should the issuer/church redeem the bonds by paying them off early, the principal will be returned and investors will cease to accrue interest on the date of redemption.
- **Tax exempt status of the church.** Churches operate as nonprofit organizations that qualify for various exemptions from state and federal taxes. The elimination of any of these exceptions could adversely affect the churches' revenue and ability to pay the bonds and interest.
- **Trustee limitations.** The ability of the bond's trustee to exercise its right on behalf of the bondholders under the indenture may be limited by bankruptcy, insolvency, reorganization, or any other similar laws or equitable principals related to creditors' rights.
- **Change of terms.** The terms and conditions of the bonds (maturity dates and interest) may be changed in extraordinary situations if consent is acquired by an exceptionally large percent (usually over 80 percent) of bondholders representing the aggregate principal.
- **Church bonds are unrated.** There is no formal credit rating or insuring institution on church bonds nor is it anticipated that application for such will be made.

14. What criteria does the committee use to select bond investments?

The Committee and governing Board uses the following criteria to evaluate investment opportunities.

- **Collateral** (value and marketability of the collateral)
- **Finances** (prior cash flow, financials and debt service)
- **Location** (setting, facility, parking and surrounding communities)
- **Leadership** (governance, history and strength of pastoral and Board leadership)
- **Debt** (future amortization and debt service requirements)
- **Growth** (current growth, ministries, relevance and community engagement)
- **Diversity** (does the opportunity help protect the fund's overall portfolio by offering a variety of church models, investment size, geographic location and exposure to possible economic or natural disasters?)

15. How can I get updates on the fund? Updates are posted to the fund's website at www.genostrong.com

16. How is the Geno Strong Fund administrated? The fund is administered by motions of the official board of Highpoint Church and directed by written and approved guidelines. The maintenance, reporting, and recommendations have been entrusted to a special steering committee.

- Click here to read the fund's operating guidelines.
- Click here to read the steering committee's roles and responsibilities.
- Click here to read the latest steering committee report.
- Click here to download this orientation in PDF format.

If you have any additional questions, please email the fund's steering committee at genostrong@highpointchurch.us.