

Report of the Treasurer

Mr. Peter Stoll

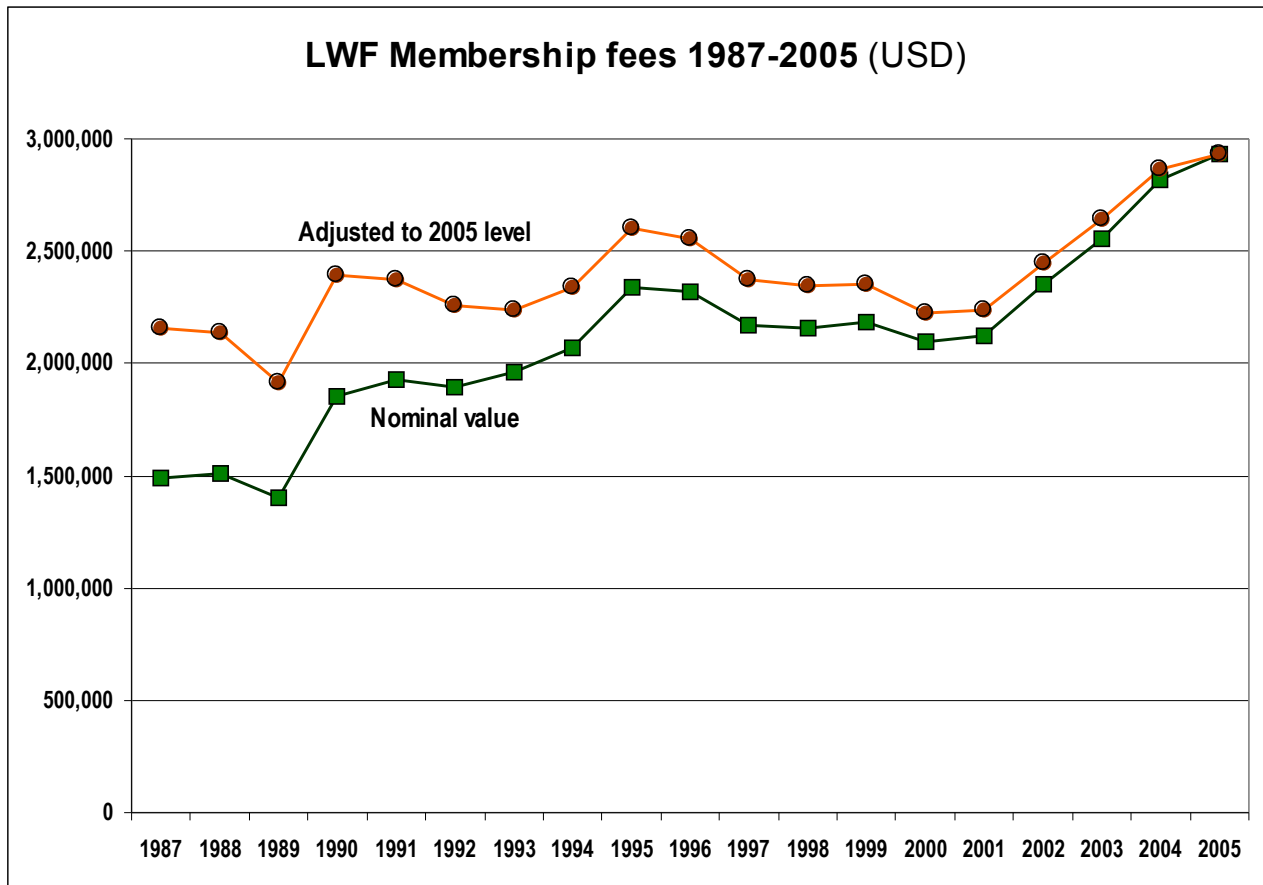
Living Together – Strengthening the Communion Through More Financial Solidarity

• The financial situation of the LWF in a longer perspective

- 1) Since we as the Lutheran World Federation (LWF) are celebrating our 60th anniversary this year here in Lund my report as the Treasurer will show you the financial situation of our Communion in a longer perspective. I will start with the income side of our budget, move on to the development of the expenditure over the years and finally I will give you a closer look at the reserves.
- 2) On our way through the finances we will see that a fair part of what we are doing in our Communion as the LWF is depending on the commitment and the financial solidarity of the member churches and related agencies. Taking that into account it will not surprise you that the Treasurer will take the opportunity to thank the member churches and related agencies for their support during the last years – and to ask for an even stronger commitment in the years to come.
- 3) Let us try to strengthen our Communion - our living together - through more financial solidarity. The strongest signs of financial solidarity within the LWF are the membership fees and the support from related agencies and member churches.

• The membership fees

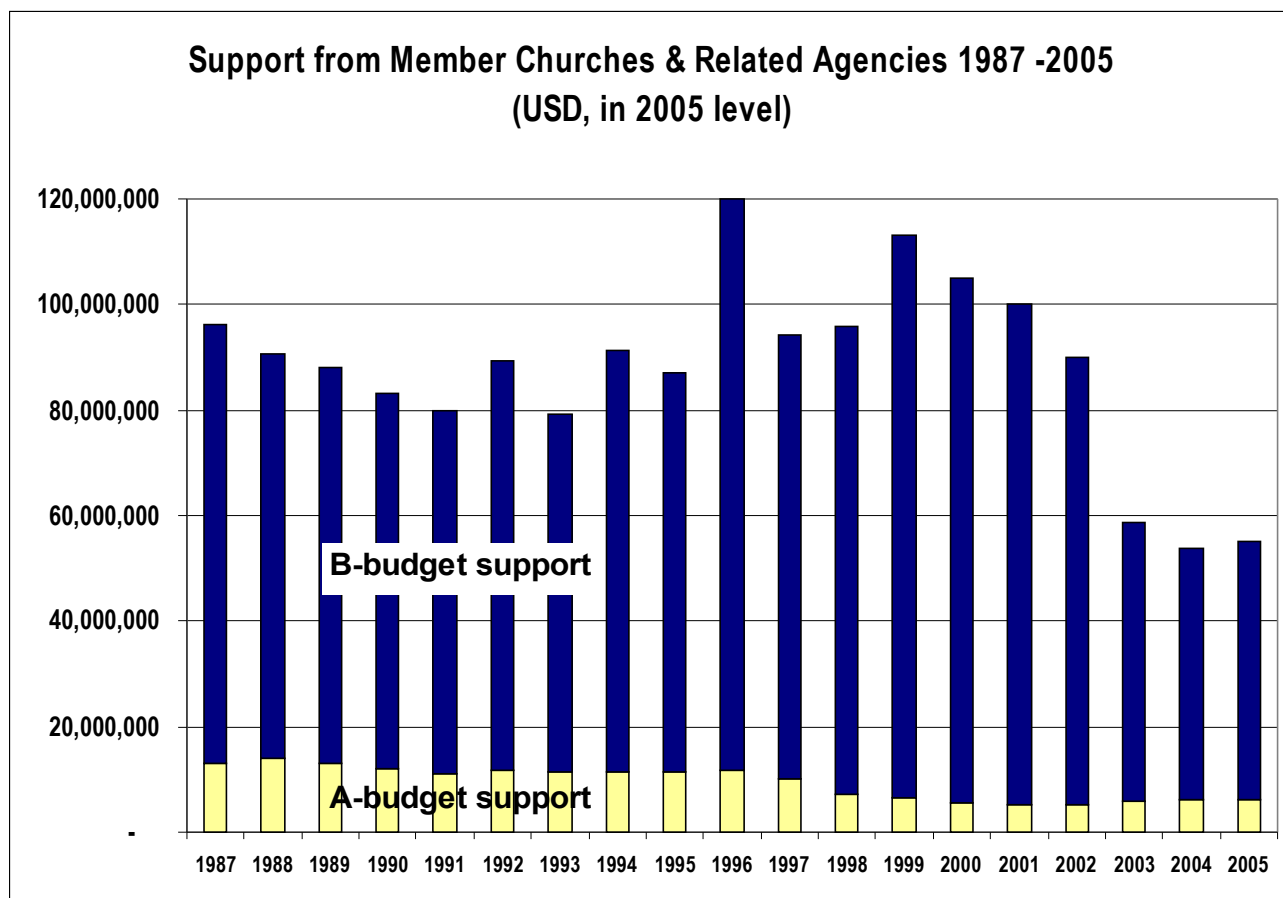
- 4) In 1999 the LWF introduced the concept of fair membership fees. This means that two parameters are taken into account when calculating the fees, namely the number of members of the church and the gross national income (GNI) of the respective country. Since 2005 the total request has been USD 3.5 million. We can see from the following chart that the received membership fees have increased steadily.



- 5) However, there are still around 50 member churches that do not pay any membership fees. In addition, there are some churches that pay just a small share of their fair fee. If all member churches would pay the full fair fee, we would have USD 530,000 more income. This would to a great extent stabilize the Geneva coordination budget.
- 6) The Executive Committee approved the updated membership fee amounts in November 2006 and the letters were sent to all member churches immediately thereafter. The commitment to pay the membership fee is a direct indication of the commitment to the Communion. I sincerely hope that the church leaders here will encourage each other to pay the full membership fees.

• The support from the member churches and related agencies

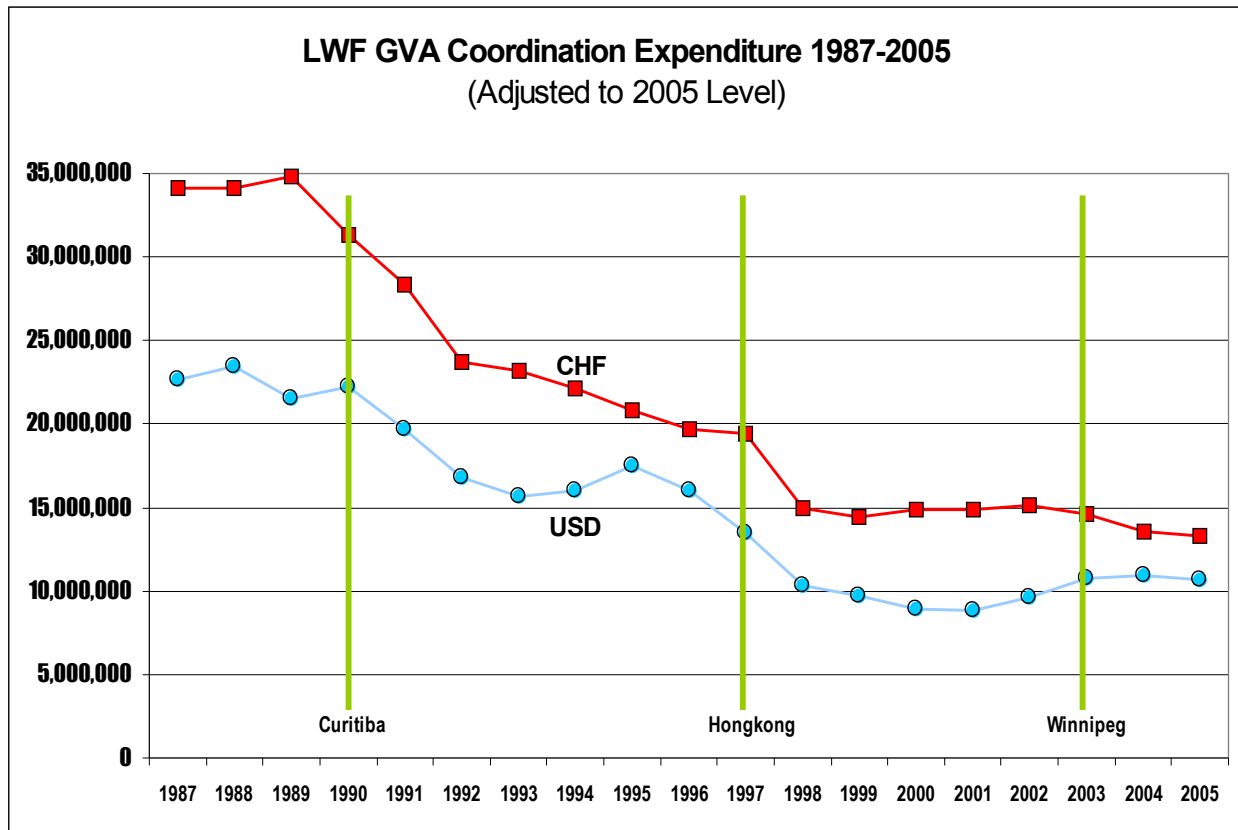
- 7) The support from the member churches and related agencies goes to the Geneva Coordination budget (A-budget) and to the Program/Project budget (B-budget) of the LWF. Around 80% of the A-budget consists of salaries and other personnel costs in Geneva, even if the person works for programs or projects. Therefore the A-budget is not just administration. In the last years the share of the A-budget expenditure has been around 10-12% of the total expenditure.
- 8) We can see from the following chart that the support from the related agencies and member churches to the Geneva coordination budget reduced considerably after 1997. During the last years it has stabilized, but the level is relatively low.



- 9) The reduction in the B-budget support since 2003 is due to the establishment of local independent country programs, the accounts of which are separate from the LWF. However, the Department for World Service still assists these country programs in many ways.
- 10) The support from the member churches and related agencies is crucial for the life and work of the Communion and the Secretariat. We count on the member churches and related agencies to become more and more responsible owners of the work so that the common goals set out in the new strategic plan can be achieved.
- 11) This leads us to the expenditure side of our budgets.

• The Geneva Coordination Expenditure

- 12) The reduction of the Geneva Coordination expenditure has been considerable since 1989, although it has slowed down during the last 7 years. Because 80% of the Geneva Coordination budget is staff related costs, the reduction directly reflects the decrease in the number of staff. One has to remember that this budget is not at all just administration. Much of the work is actually programmatic. Therefore the reduction has also had direct implications on the programs and projects of the LWF. On the other hand, because the programmatic work has not been reduced at the same rate as the number of staff, it means that the staff has been under more pressure lately.



- 13) With such a drastic change over the years it is high time to have a strategic plan to review and realign the available resources with realistic goals. We appreciate very much that such a strategic plan is now ready for discussion in the Council. The next step will be to transform the implications of the strategic plan into operations. We also need to realign the Geneva Secretariat to the new context. A proposal for the new configuration and organization of the Secretariat should be brought to the Council in June 2008 in order to facilitate a timely realignment in 2009.

• Awareness raising and fundraising

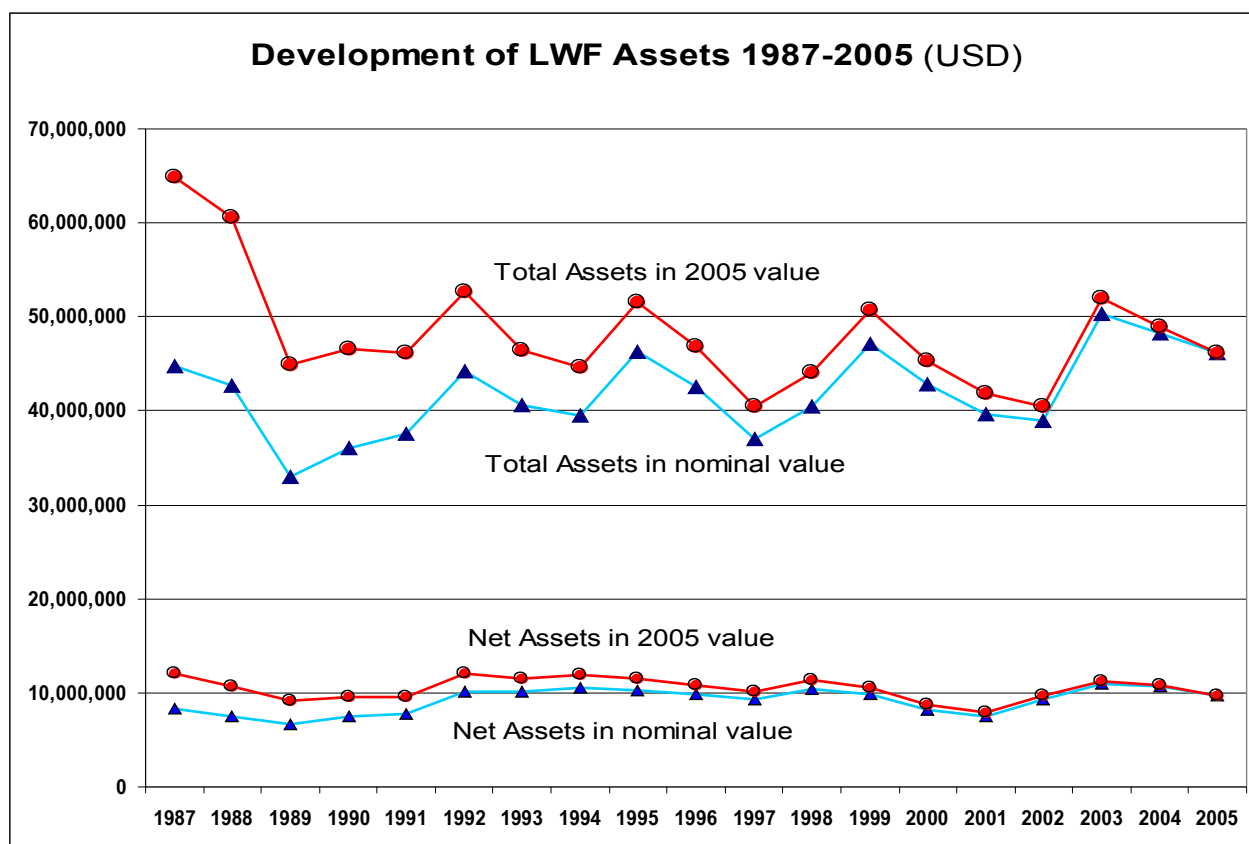
- 14) The just mentioned new strategic plan for the LWF, which will be presented later at this meeting, has a section on fundraising, so I will here touch only the main challenge for the LWF.
- 15) The member churches are the owners of the LWF. Therefore the support from them and the church related agencies and mission societies is the core income of the LWF. We are relying on the commitment of these owners to the strengthening of our Communion.
- 16) Until now there has been an understanding that the LWF cannot directly fundraise in the member church countries, because the churches and their agencies and societies do that on our behalf. But the question can be asked, however, to what extent do these owners of the LWF actually commit themselves to the Communion.
- 17) Sometimes it seems as if the awareness of the LWF among the constituency of the member churches could be better. E.g. the LWF Sunday could become a common awareness campaign for the whole Communion and thereby also increase the ownership of and the support to the LWF in future.

• The LWF Endowment Fund

- 18) The LWF Endowment Fund is a good example of the commitment of the member churches and of fundraising. It was officially established on April 7th 1999 but already at the Hong Kong Assembly in 1997 an amount of nearly CHF 15'000 was collected to the fund. The purpose of the Endowment Fund is to help to stabilize the LWF Geneva coordination budget. The capital of the fund is kept in perpetuity, only the annual net yield is distributed for the work of the LWF.
- 19) Last October the assets of the fund reached its first goal of CHF 10 million! Many thanks to all those who have donated to the fund so far.
- 20) The next goal is to reach CHF 20 million by 2017. It is up to all member churches to contribute their fair share to the fund. I hope that every church leader gathered here will bring either a substantial pledge or donation to the fund. The Board of the Endowment Fund has set a realistic goal for each member church based on the fair membership fees. The Board is also having its annual meeting here so that they will have an opportunity to meet with the church leaders of their region and to collect donations and pledges.

• The assets

- 21) The statistics of the last 18 years show that the volume of the assets of the LWF has stayed fairly stable. We still have some reserves, but also some considerable program deficits.



- 22) Especially the old deficit of the Augusta Victoria Hospital in Jerusalem amounting to USD 5.9 million still poses a great threat to the whole LWF. We have a plan to cover this deficit over the next 25 to 30 years with our own income in Jerusalem. At the same time we are also attempting to raise funds with the help of the German churches from the Kaiserin-Auguste-Viktoria-Stiftung and from some governments to reduce the deficit.

• The Staff Welfare Plan – the LWF pension fund

23) The coverage level of the Pension Fund on 1 January 2006 was 112.8%, which is above the target level of 112%. The Staff Welfare Plan (SWP) investment performance in 2006 was 4.8%, which allows an interest distribution to the members' accounts. The Swiss pension fund law has been changing a lot during the last years. This has also meant that the LWF Pension Fund Rules had to be changed respectively. In addition, the SWP benefits and administration have been streamlined so that the pension fund is in a better position to face the future. Even after these changes the SWP is still a generous pension scheme.

• The financial result of 2005

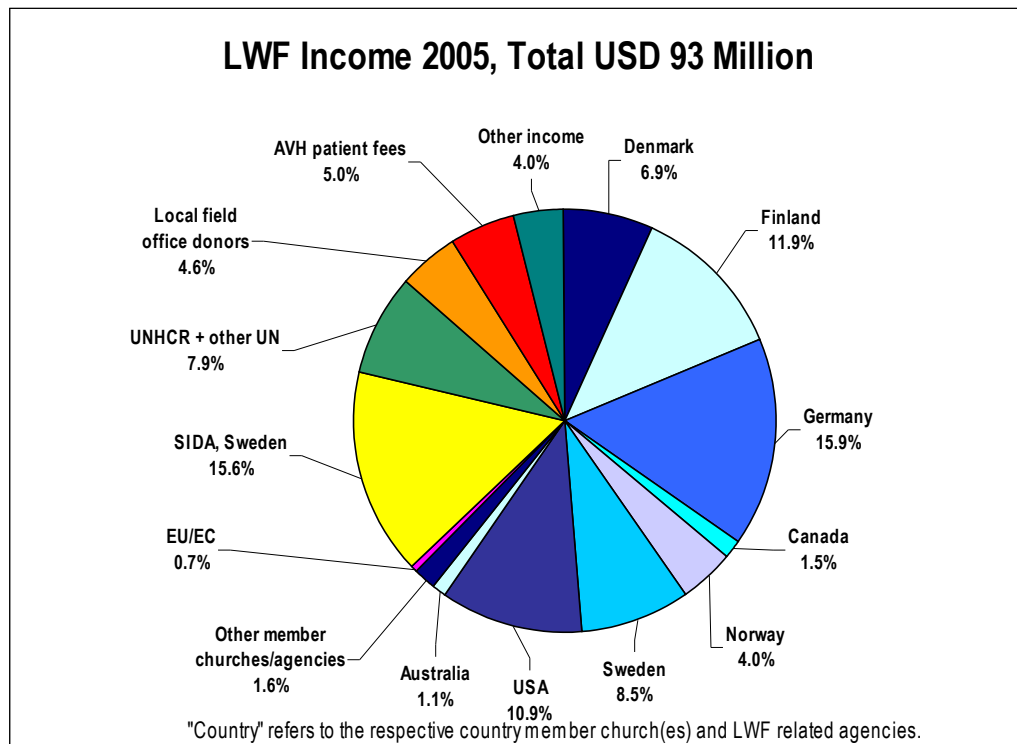
24) Since the Council did not meet in 2006, we have now to review and approve the 2005 Financial Statements. We ended the year 2005 with a deficit on the **Geneva coordination budget** of USD 227,380 due to currency exchange losses. The coordination budget of the General Secretariat had a surplus of USD 54,635. The project write-offs amounted to USD 20,170. Thus the total surplus of the General Secretariat was USD 34,465. The deficit of the DTS was USD 43,717 and of the DMD USD 466,272. Although the project write-offs of the DWS amounted to USD 115,685, the result of the DWS was still a surplus of USD 111,857. Thus the total net result of the Geneva coordination budget after write-offs showed a deficit of USD 363,667.

25) The **program and project budget** of the DWS shows a surplus of USD 1.3 million however, this is the result of the basis of income recognition in this department. Income is accounted for when the cash is received notwithstanding when the equivalent funds are expended. This results in nominal yearly "surpluses" and "deficits".

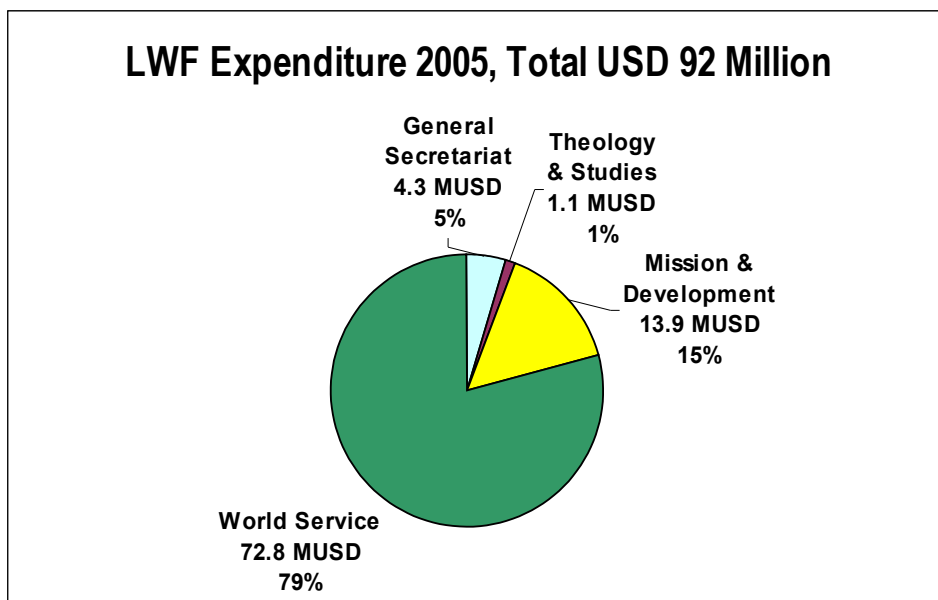
26) The **Net Assets** freely available to the LWF amounted to USD 9.7 million at the end of 2005. The following table gives an overview of the financial development in 2005 by department:

| 2005 | General Secretariat | | Dept. for Theology & Studies | | Dept. for Mission & Development | | Dept. for World Service | | Total | |
|-------------------|---------------------|--------------|------------------------------|--------------|---------------------------------|--------------|-------------------------|--------------|---------------------|--------------|
| | in USD | Coordination | Programs & projects | Coordination | Programs & projects | Coordination | Programs & projects | Coordination | Programs & projects | Coordination |
| Income | 3,086,159 | 1,292,678 | 833,908 | 184,105 | 3,004,403 | 10,436,044 | 4,974,145 | 69,262,826 | 11,898,615 | 81,175,653 |
| Expenditure | -3,031,524 | -1,292,678 | -877,625 | -184,105 | -3,470,243 | -10,436,044 | -4,746,603 | -67,954,073 | -12,125,995 | -79,866,900 |
| Geneva Result | 54,635 | 0 | -43,717 | 0 | -465,840 | 0 | 227,542 | 0 | -227,380 | 0 |
| Proj. Write-offs | -20,170 | 0 | 0 | 0 | -432 | 0 | -115,685 | 0 | -136,287 | 0 |
| Net result | 34,465 | 0 | -43,717 | 0 | -466,272 | 0 | 111,857 | 1,308,753 | -363,667 | 1,308,753 |
| Reserves 1.1. | 1,270,834 | 0 | 311,314 | 0 | 1,223,217 | 0 | 7,888,874 | -3,115,304 | 10,694,239 | -3,115,304 |
| Transf./Adjustm. | 0 | 0 | 0 | 0 | 0 | 0 | -661,913 | 1,806,551 | -661,913 | 1,806,551 |
| Reserves 31.12. | 1,305,299 | 0 | 267,597 | 0 | 756,945 | 0 | 7,338,818 | 0 | 9,668,659 | 0 |

27) The **total income** of the LWF was USD 93 million compared with USD 102 million in 2004. The following pie charts shows where the support in 2005 came from. The substantial support from SIDA, Sweden comes directly from the Swedish government for the DWS rehabilitation work in the Balkans. This support has continued for many years but it started to decrease in 2006. The plan is to establish independent associate programs there in the near future.



- 28) The **total expenditure** of the LWF was USD 92 million compared with 105 million in 2004. The second pie chart shows how it was used between the departments. As before, most of the funds were earmarked for the work of the Department for World Service.



• The financial result of 2006

- 29) We do not yet have the 2006 Financial Statements because the accounts are being closed only now and audited in May. All we can say at this stage is that the Geneva Coordination budget in 2006 had a surplus due to currency exchange gains. This surplus was needed to compensate for the deficit of 2005. On the other hand, the Department for World Service will have a considerable project write-off in 2006 in Sierra Leone program.

• How will the Geneva coordination budget develop during the next years?

- 30) The following table shows the projected Geneva coordination budget income and expenditure for 2007-2011 assuming we continue with the current income and expenditure patterns without Activity Based Costing (ABC).

| Amounts in CHF | 2007 | 2008 | 2009 | 2010 | 2011 |
|------------------------------|-----------------|-----------------|-----------------|-------------------|-------------------|
| Total income projection | 12,811,000 | 12,300,000 | 12,300,000 | 12,350,000 | 12,400,000 |
| Total expenditure projection | 13,303,000 | 13,000,000 | 13,250,000 | 13,450,000 | 13,650,000 |
| Projected result | -492,000 | -700,000 | -950,000 | -1,100,000 | -1,250,000 |

- 31) In the table, we have assumed that the currency exchange gains and losses will offset each other in the long run. We can conclude that without additional income and/or savings we will have a structural deficit growing from CHF 492'000 in 2007 to CHF 1'250'000 in 2011. This means that we must take immediate measures to achieve balanced budgets in the future.
- 32) One way to decrease the deficits is to use Activity Based Costing, where some of the relevant Geneva costs will be allocated to the programs and projects using time sheets or other transparent and accurate methods. This approach can only be used as long as the Geneva coordination costs are in a reasonable proportion to the program costs. The current projection shows that ABC could cover around CHF 800'000 of the A-budget expenditure. However, it is difficult to say how realistic and accurate this projection is. Even if the projection turns out to be accurate, it will not be enough to fully offset the structural gap in our A-budget.
- 33) Finding a sustainable Geneva Secretariat structure is one of the main goals of the Strategic Plan. As I mentioned earlier, a proposal should be brought latest to the Council in June 2008 in order to facilitate a timely realignment in 2009.

• How will the 11th Assembly in Stuttgart, Germany, be financed?

- 34) The 11th Assembly in Stuttgart is only three and a half years away. Around 80% of the Assembly budget comes from Assembly fees paid by the member churches. These fees are calculated using fair membership criteria. Many churches have started to pay their fees in installments so that the annual burden becomes lower. However, there are still quite a number of churches that have not yet started to pay. I strongly encourage you that when you go back to your churches, please check the payment schedule of your Assembly fees. Your church should have received an Assembly fee letter with the due amount from the LWF Finance Office at the beginning of February.

• PricewaterhouseCoopers activities in Argentina related to the 1992 external debt conversion

- 35) During the last Council meeting in Bethlehem concern was raised about the participation of the LWF auditor PricewaterhouseCoopers (PwC) in allegedly unsatisfactory auditing of accounts that were regarded as part of the external debt of the Republic of Argentina. The Council in 2005 agreed that:
- ✓ The LWF program "Advocacy on Illegitimate Debt" located in Argentina would substantiate the concern raised by providing concrete information and elements on which the critical assessment of PwC's role was being based; and
 - ✓ OFA would present this information to PwC Geneva, seeking to engage in dialogue on this issue and obtain the position of PwC regarding the information provided; and
 - ✓ In so doing, the LWF gave expression to its commitment to furthering good governance and enhancing social audit as a means to reach such governance; and

- ✓ For this reason, but also in view of the limited options of the LWF, to hire auditors adequate to the nature of its operations; and
- ✓ Information on the progress and results of the dialogue would be received at its next meeting.

36) The LWF Office for Finance and Administration received information from Argentina in November 2006 and sent a letter to PwC Geneva on 14 November 2006 asking for comments by 31 January 2007. Since this process still continues in February, the outcome will be reported to the Council through the Report of the Committee for Finance and Administration.

• Strengthening the Communion through more financial solidarity

37) At this meeting we as the Council have to:

- Approve the Audit reports for 2005
- Approve the updated A-budget for 2007
- Appoint the Auditors for the year 2007
- Approve the Statement of Needs for 2008-2010

38) Coming back to my remarks at the beginning, I ask

the church leaders

- to support the payment of the full fair membership fees and Assembly fees through your churches
- to encourage your churches to bring their donations to the LWF Endowment Fund

the agencies

- to continue supporting the projects and programs of the LWF
- to pay a fair administration fee for the implementation and management of the projects

39) Finally let me thank the Finance Director Pauli Rantanen and his team for their highly professional management of our finances in the last months and year. And thanks to all of you for your strong commitment to the work of the Lutheran World Federation. By joining our efforts we can continue to build a stronger Communion for the benefit of the whole ecumenical movement.