Report of the Chairperson for the Finance Committee

Ms. Christina Jackson-Skelton

1. INTRODUCTION AND OVERVIEW

This report is focused on presenting the 2014 financial results and other financial matters that will come before the Lutheran World Federation Council in the course of its 2015 meeting.

In fiscal year 2014, The Lutheran World Federation (LWF) total income reached EUR 116.22 million through generous contributions from member churches, church-related agencies, the United Nations, EU & US government funding sources and other partners, as well as individual donors, against the budget of EUR 87.68 million, a favorable variance of EUR 28.54 million (33%) and an increase of EUR 10.53 million (10%) compared to the previous year.

The LWF’s consolidated financial results for 2014 have contributed to the stability of the organization, supporting LWF’s commitment to ethical practices and regulatory compliance.

The Department for Theology and Public Witness (DTPW) realized another year of growth in income with an increase of 17% compared to 2013 for the Lutheran Identity strengthened in worship and ongoing theological discernment, ecumenical dialogue and interfaith collaborations.

The Department for Mission and Development (DMD) experienced a further income decline of 11% as compared to 2013, although the decrease was less pronounced than in recent years and spending was within the budget allocation. Declines have been managed through refocusing and adjustments of programs; less money is available for assisting member churches growth in capacity for holistic mission.

The Department for World Service (DWS) income increased by 11% compared to 2013, including support for new country programs for refugee care and maintenance in Iraq and Jordan.

The General Secretariat and the Department for Planning and Operations (GS/DPO) remained steady with an increase of 5% to support organizational sustainability and effectiveness.

The 2014 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). The revised standards for the valuation of pension liabilities (IAS 19) had an impact on the comprehensive financial results.

The total increase in reserves during the year was EUR 4.3 million, reduced by 2.9 million to effect the changes in pension liabilities for the IFRS presentation. After the restatement of pension liabilities, the total reserves in 2014 increased to EUR 23,657,320 from EUR 22,309,179. The increase in reserves is
mainly due to the large accounting surplus of EUR 4.2 million from operations at the Augusta Victoria Hospital (AVH) in Jerusalem. A sizable reserve is necessary in order to finance the operations of the AVH. This is not a cash reserve; it is primarily reflected in accounts receivable.

In 2014, the LWF focused on its stated objective of growing in a sustainable manner that will create long-term value through balancing the budget, improving the financial systems, maintaining a healthy cash flow and mobilizing resources.

Overall, it has been another positive year for the LWF. Spending was well-managed despite unanticipated losses in income due to the negative exchange rate variances. Challenges remain for the LWF as it strives to move towards its goals of sustainable operations.

2. 2014 CONSOLIDATED FINANCIAL HIGHLIGHTS

LWF income grew by 38% or EUR 32 million over the past 3 years, largely due to an increase in the LWF’s global humanitarian and development programs, which increased from 85 million in 2011 to EUR 116 million in 2014.

The figures are shown below:
2.1 2014 LWF INCOME – EUR 116,222,534

The total 2014 LWF income was EUR 116,222,534. The below chart shows the income received by each department:

![Income Chart]

2.2 2014 LWF INCOME – EUR 116,222,534 – COMPARISON OF ACTUAL & BUDGET

The 2014 income was 33% higher than the projected 2014 budget and 10% higher than the previous year.

<table>
<thead>
<tr>
<th>INCOME</th>
<th>2014 ACTUAL</th>
<th>2014 BUDGET</th>
<th>2013 ACTUAL</th>
<th>VARIANCES ACTUAL vs BUDGET</th>
<th>VARIANCES CURRENT vs PREVIOUS YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dept. for Theology &amp; Public Witness</td>
<td>1,876,230</td>
<td>2,132,526</td>
<td>1,613,025</td>
<td>(266,296) (11)%</td>
<td>263,205 16%</td>
</tr>
<tr>
<td>Dept. for Mission &amp; Development</td>
<td>7,514,447</td>
<td>9,098,300</td>
<td>8,511,268</td>
<td>(1,583,853) (16)%</td>
<td>(996,821) 10%</td>
</tr>
<tr>
<td>Dept. for World Service</td>
<td>104,607,065</td>
<td>73,945,444</td>
<td>93,166,652</td>
<td>30,661,621 41%</td>
<td>11,440,413 12%</td>
</tr>
<tr>
<td>General Secretariat &amp; Dept. for Planning</td>
<td>2,224,792</td>
<td>2,510,800</td>
<td>2,395,852</td>
<td>(286,008) (10)%</td>
<td>(171,060) 6%</td>
</tr>
<tr>
<td><strong>TOTAL INCOME</strong></td>
<td><strong>116,222,534</strong></td>
<td><strong>87,687,070</strong></td>
<td><strong>105,686,797</strong></td>
<td><strong>28,535,464 33%</strong></td>
<td><strong>10,535,737 10%</strong></td>
</tr>
</tbody>
</table>
2.3 **2014 LWF INCOME – EUR 116,222,534 BY SOURCE COUNTRIES**

The chart below shows the percentages of contributions received from member churches, international partners and other international organizations.

![Chart showing percentages of contributions by country](chart1.png)

2.4 **2014 LWF INCOME – EUR 116,222,534 – Allocation to Programs**

The chart below shows the utilization of the total income received.

![Chart showing allocation of income](chart2.png)
2.5 2014 LWF EXPENDITURE - EUR 112,598,415 – By Departments

Of the total 2014 expenditure of EUR 112.59 million, 89% was for the Department for World Service, 7% was for the Department for Mission and Development and 2% was for the Department for Theology and Public Witness. The General Secretariat and the Department for Planning and Operations also spent 2%.

The key figures are found below:

![Diagram showing expenditure distribution by departments]

2.6 2014 LWF EXPENDITURE - EUR 112,598,415 – COMPARISON OF ACTUAL & BUDGET

The following is the LWF expenditure for 2014 compared with the Budget.

<table>
<thead>
<tr>
<th>EXPENDITURE</th>
<th>2014 ACTUAL</th>
<th>2014 BUDGET</th>
<th>2013 ACTUAL</th>
<th>VARIANCES</th>
<th>2014 Vs BUDGET</th>
<th>CURRENT Vs PREVIOUS YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Favourable/</td>
<td>Favourable/</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(Unfavourable)</td>
<td>(Unfavourable)</td>
</tr>
<tr>
<td>Dept. for Theology &amp; Public Witness</td>
<td>1,979,744</td>
<td>2,130,427</td>
<td>1,641,040</td>
<td></td>
<td>(150,683)</td>
<td>(7)%</td>
</tr>
<tr>
<td>Dept. for Mission &amp; Development</td>
<td>7,572,830</td>
<td>9,097,800</td>
<td>8,419,122</td>
<td></td>
<td>(1,524,970)</td>
<td>(17)%</td>
</tr>
<tr>
<td>Dept. for World Service</td>
<td>100,803,936</td>
<td>73,938,700</td>
<td>88,903,689</td>
<td></td>
<td>26,865,236</td>
<td>36%</td>
</tr>
<tr>
<td>General Secretariat &amp; Dept for Planning</td>
<td>2,241,905</td>
<td>2,509,941</td>
<td>2,622,964</td>
<td></td>
<td>(268,036)</td>
<td>(11)%</td>
</tr>
<tr>
<td>TOTAL EXPENDITURE</td>
<td>112,598,415</td>
<td>87,676,868</td>
<td>101,586,815</td>
<td></td>
<td>24,921,547</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11,011,600</td>
</tr>
</tbody>
</table>


2.7 2014 LWF NET RESULTS (ADDITION TO RESRVES) - EUR 4,293,141

In 2014, the LWF’s consolidated net results from operations were EUR 4,099,982, an increase of EUR 193,159 (5%) compared to the previous year, where 99% was contributed by DWS, 3% by DMD and 2% by DTPW.

- The positive results of DWS were due to the AVH in Jerusalem’s book profits of EUR 4.2 million.
- The DTPW negative results of EUR 81,656 were mainly due to increased staff costs.
- The 2014 Council meeting in Medan, Indonesia, hosted by the local church, provided considerable savings in council expenses. EUR 108,065 of reduced council expenses was used to cover the 2017 assembly planning expenses incurred in 2014.

The chart below shows the net operating results for 2014 by department.

2.8 2014 LWF NET RESULTS – COMPARISON OF ACTUAL & BUDGET

The following is the 2014 LWF net results compared with the Budget.
2.9 DEPARTMENT PERFORMANCE - GENEVA COORDINATION

The total approved budget for Geneva coordination was CHF 13.42 million and the actual expenditures were EUR 13.21 million; well-balanced and within the approved budget limits.

The Geneva Coordination budget is the portion of the LWF department budgets allocated to meet the Geneva headquarter based expenses, mainly in Swiss Franc, for LWF departments, namely The Department for Theology and Public Witness (DTPW), the Department for Mission and Development (DMD), the Department for World Service (DWS) and the General Secretariat & Department for Planning and Operations (GS/DPO).

The average EUR/CHF exchange rate for the year was of 1.22 compared with the budget rate of 1.25, which had an adverse effect on working budgets when converting Euros to Swiss Francs.

Below are the Departments’ Geneva coordination expenditures vs budgets in Swiss Franc terms:

![2014 Geneva Coordination Actual Vs Budget](image)

### 2014 LWF GENEVA COORDINATION – COMPARISON OF ACTUAL & BUDGET

<table>
<thead>
<tr>
<th>EXPENSES</th>
<th>2014 ACTUAL</th>
<th>2014 BUDGET</th>
<th>2013 ACTUAL</th>
<th>VARIANCES</th>
<th>CURRENT Vs PREVIOUS YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dept. for Theology &amp; Public Witness</td>
<td>1,770,212</td>
<td>1,902,123</td>
<td>1,483,365</td>
<td>131,911 7% (286,847)</td>
<td>-19%</td>
</tr>
<tr>
<td>Dept. for Mission &amp; Development</td>
<td>2,851,193</td>
<td>3,050,373</td>
<td>2,807,903</td>
<td>199,180 7% (43,290)</td>
<td>-2%</td>
</tr>
<tr>
<td>Dept. for World Service</td>
<td>4,210,208</td>
<td>4,011,364</td>
<td>3,576,566</td>
<td>(198,844) -5% (633,622)</td>
<td>-18%</td>
</tr>
<tr>
<td>General Secretariat &amp; Dept for Planning</td>
<td>4,378,875</td>
<td>4,457,265</td>
<td>4,306,937</td>
<td>78,930 2% (71,938)</td>
<td>-2%</td>
</tr>
<tr>
<td>NET FINANCIAL RESULT</td>
<td>13,210,488</td>
<td>13,421,125</td>
<td>12,174,791</td>
<td>210,637 0 -1,035,697</td>
<td>-9%</td>
</tr>
</tbody>
</table>
3. MEMBERSHIP FEES

Membership income increased in 2014 compared to the previous year from US$ 3.18 million in 2013 to US$ 3.21 million in 2014, an increase of US$ 29,000. Unfortunately, due to the negative impact from the US$/EURO exchange rate, the income gain was not realized upon conversion. The following table shows this:

<table>
<thead>
<tr>
<th>Approved Budget 2014</th>
<th>Actual Received 2014</th>
<th>% to the Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD 3,289,650</td>
<td>USD 3,216,736</td>
<td>97.8 %</td>
</tr>
<tr>
<td>EUR 2,530,500</td>
<td>EUR 2,320,236</td>
<td>91.7 %</td>
</tr>
</tbody>
</table>

Number of churches making contributions

The total number of churches that contributed to membership fee was 100 in 2014 compared to 115 the previous year. This includes 7 churches that paid their membership fee in 2014 but not the previous year.

In 2014, the Indonesian Churches hosted the council meeting and LWF realized a savings of EUR 108,065 in council expenses that would otherwise be financed through membership fees.

This achievement of increase in membership fee income would not be possible without the dedicated support, caring and hard work of our member churches. Thank you for your commitment to this aspect of our life together. I would like to place on record my deep appreciation to all for your support and faithful stewardship.

Membership fees are set based on a formula that indicates the relative wealth of the member church country compared with other member church countries. Despite the significant strides of recent years, the level of membership fee contributions continues to lag behind the calculated fair membership fees. Growth in membership fee income would help to provide support for areas that have been identified as high priority in the strategic planning process, such as theological and ecumenical work.

Membership Fee Contributions: 2010 to 2014

The following graph shows income from membership fees from 2010 to 2014, reflected in EURO.
4. RESERVES

“Reserves” refer to net assets available to support the operations of the organization without restrictions. LWF Reserves are guided by the Reserves Policy. Reserves in the LWF consolidated financial reports are shown as unrestricted reserves but designated or “ear-marked” for specific purposes of the departments.

In 2014, LWF reserves increased from EUR 22.3 million to EUR 26.6 million, before the restatement of pension liabilities under IAS (19).

4.1 RESERVES IN COMPARISON TO YEARS

The reserves grew by 32% (EUR 8.5 million) in the past 4 years. The following chart shows the development of the reserves from 2010 to 2014, before the restatement of pension liabilities under IAS (19).

LWF Reserves held in Geneva – EUR 9.1 Million – Stable performance

The communion office reserves held in the Geneva treasury are kept as liquid, low-risk deposits to support sustainability and effective operations.
4.2 **LWF RESERVES HELD IN GENEVA – EUR 9.1 MILLION- BY DEPARTMENTS IN EUROS**

The reserves held in Geneva and the ownership of funds by departments (in EUROS) are as below.

![Pie chart showing the distribution of reserves held in Geneva by department.]

**LWF Reserves held in Geneva – EUR 9.1 Million - % By Departments**

The reserves held in Geneva and the ownership of funds by department by percentage are as below.

![Another pie chart showing the distribution of reserves held in Geneva by percentage.]

The DWS Field coordination surplus in EUR is attributed mostly to the financial results of the Augusta Victoria Hospital in Jerusalem (AVH). During the year, AVH reported an accounting surplus of EUR 4.2 million through accrual of income and receivables. The more volatile nature of AVH operations as a result of cash flow challenges stemming from unpaid receivables results in a need for higher reserves for DWS. These reserves have been used in the past to cover the hospital renovation deficit and patient fee.
receivables.

In 2014, the hospital patient fees amounted to EUR 24.44 million, 16% higher than in 2013. The AVH patient fees receivables from the Palestinian Ministry of Health was EUR 13.68 million in 2014, a considerable reduction compared to 2013 receivables of EUR 17.72 million as a result of increased, effective lobbying and advocacy by our member churches and other partners.

5. ASSEMBLY FEES

LWF 12th Assembly approved budget was EUR 2,994,964. Against this budget we have received pledges of EUR 2,353,366.

In 2014, the actual assembly income received was EUR 541,626. The expenses incurred in 2014 for the assembly preparations and planning meetings were EUR 108,065. These expenses were paid from the 2014 council budget, which was not used due to the hosting of the council meeting in Medan by the Lutheran Churches in Indonesia.

6. STAFF WELFARE PLAN – LWF PENSION FUND

The LWF Staff Welfare Plan – Pension fund has been affiliated to the Stiftung Abendrot pension fund since January 1, 2012. All assets and liabilities were taken over by the Stiftung Abendrot, effective January 1, 2012, and an agreement has been signed by the LWF and Abendrot Foundation.

LWF is only liable to pay the monthly employer contributions to the fund and no longer liable for managing the pension funds nor for any under coverage in pension funds.

According to the pension fund valuation report, the pension fund performance in 2014 was 4.8% and the coverage level for LWF pension reached 103.3%, with the value of assets estimated at CHF 38.69 million.

A Staff Pension Plan Committee (SPPC) was constituted with employer and employee representatives to govern the affairs of the pension fund. The employer’s representatives on the new Staff Pension Plan Committee have been appointed by the LWF Meeting of Officers and the employees’ representatives were elected by the employees. The SPPC members have the right to attend the Stiftung Abendrot Annual Meeting.

As of 2013, it is mandatory in accordance with the IFRS IAS(19) revised standard on accounting for employee benefits to adopt the standards and restate the impact in the consolidated financial reports. Based on this, the LWF evaluated the pension liabilities and made the changes in its financial reports to reinstate the liabilities for 2014 and prior years.

7. LWF ENDOWMENT FUND

The LWF Endowment Fund is a separate legal entity; its results are not consolidated within the LWF financial statements. The Report of the LWF Endowment Fund Board is in Exhibit 16.2. Contributions to the endowment fund in 2014 were CHF 68,948. In 2014 the investment performance of the portfolio in 2014 was positive with a net return of CHF 947,799.
The 2014 Operating Reserve shows a positive balance of CHF 1,134,323 that is available for distribution as per the distribution policy. The total assets of the endowment fund are CHF 14,777,811, including the endowment benefiting the LWF that is held in the ELCA Endowment Fund Pooled Trust.

**Financial performance during 2014**

A positive year in the stock market performance resulted in another good year of performance for the Endowment Fund during 2014.

The table below summarizes the performance of the Endowment Fund since 2007 based on the Audit Report.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Assets in GVA, CHF</th>
<th>Investment Result, CHF</th>
<th>Result of the Year, CHF</th>
<th>Operating Reserve, CHF</th>
<th>Funds in USA, USD</th>
<th>Distributions made to the LWF in CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>8,709,673</td>
<td>-1,827,280</td>
<td>-1,781,522</td>
<td>-1,505,136</td>
<td>925,718</td>
<td>285,829</td>
</tr>
<tr>
<td>2009</td>
<td>10,405,436</td>
<td>1,021,373</td>
<td>1,082,336</td>
<td>-422,800</td>
<td>1,294,718</td>
<td>0</td>
</tr>
<tr>
<td>2010</td>
<td>10,790,265</td>
<td>95,940</td>
<td>126,560</td>
<td>-296,240</td>
<td>1,518,098</td>
<td>0</td>
</tr>
<tr>
<td>2011</td>
<td>10,226,345</td>
<td>-743,393</td>
<td>-707,128</td>
<td>-1,003,368</td>
<td>1,423,063</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>11,311,762</td>
<td>883,293</td>
<td>951,410</td>
<td>-51,958</td>
<td>1,802,808</td>
<td>0</td>
</tr>
<tr>
<td>2013</td>
<td>11,985,082</td>
<td>602,206</td>
<td>582,129</td>
<td>530,171</td>
<td>2,019,476</td>
<td>0</td>
</tr>
<tr>
<td>2014</td>
<td>12,658,182</td>
<td>882,121</td>
<td>947,799</td>
<td>1,134,323</td>
<td>2,223,760</td>
<td>343,647</td>
</tr>
</tbody>
</table>

8. **INSTITUTE FOR ECUMENICAL RESEARCH IN STRASBOURG**

The Audit report on the Institute for Ecumenical Research in Strasbourg is included as a separate report to the Council (Exhibit 13.1). It is a distinct legal entity with its own board and its results are not part of the consolidated financial statements of the Lutheran World Federation.

The institute ended the year with negative EUR 8,979 net results. The total reserves amount to EUR 2.5 million.

9. **COMMITTEE RESPONSIBILITIES**

Over the course of the meeting, the LWF Committee for Finance will review the following items and forward the related recommendations to the LWF Council:

- The LWF Audited Financial Statements for 2014;
- Appointment of the External Auditor for 2015;
- The LWF Budget and Program Plan for 2016.
10. CONCLUDING REMARKS

The leadership of the Lutheran World Federation, its staff and its Council, have maintained a strong commitment to financial stability, a balanced budget and adequate cash reserves to ensure ongoing operations.

The recent Swiss National Bank decision to abandon the cap on the value of the Swiss Franc against the Euro has adversely affected the 2015 budget. However, in view of the strong performance and systematic, disciplined and proactive approach by the Communion Office Leadership Team, LWF has successfully managed the risks of heavy losses in exchange rates. Their attention to this issue was timely and their communication was thoughtful and strategic. The situation will continue to demand the attention of leadership and its impact on future sustainability must be considered.

I am grateful for the outstanding staff leadership and the wise counsel and commitment from member churches. It is a privilege to work with the staff and to serve the LWF Council as chair of the Committee for Finance. May God continue to abundantly bless this communion of churches.