

THE LUTHERAN WORLD FEDERATION

Meeting of the LWF Council

Geneva, Switzerland

13 – 18 June 2013

Report of the Chairperson for the Finance Committee

Exhibit 10



THE
LUTHERAN
WORLD
FEDERATION

Report of the Chairperson for the Finance Committee

Ms. Christina Jackson-Skelton

Introduction

- (1) This report is focused on presenting the 2012 financial results and other financial matters that will come before the LWF Council in the course of this annual meeting. Overall, the financial results were positive when compared with the approved budget and the prior year results. Total operating income exceeded expenses, the actuarial pension provision was reduced resulting in an increase in non-operating results, and total operating reserves were increased.

2012 Financial Results

- (2) The Lutheran World Federation had positive net income from operations of EUR 2,687,000 for the fiscal year ended December 31, 2012. This was composed of positive results of EUR 137,000 for Geneva Coordination and of EUR 2,550,000 for Field Coordination, mainly due to an operating surplus at the Augusta Victoria Hospital. In addition, there was a non-operating decrease in the required pension provision of EUR 324,000 resulting in total income over expenses of EUR 3,011,000.
- (3) The following table gives an overview of the 2012 results by department.

The Summary of Income and Expenditure for the year 2012													
Amounts in EUR	DPO / Gen. Sec.		Dept. for Theol. & Public Witness		Dept. for Mission & Development		Dept. for World Service			Total Geneva Coordination	Total Field Coordination	Total Programs & Projects	TOTAL LWF
	Geneva coordination	Programs & projects	Geneva Coordination	Programs & projects	Geneva coordination	Programs & projects	Geneva coordination	Field coordination	Programs & projects				
Income	2,345,068	8,795	202,774	1,105,894	255,311	8,401,274	2,559,620	4,586,251	80,674,978	5,362,773	4,586,251	90,190,941	100,139,965
Expenditure	-2,372,556	-8,795	0	-1,105,894	-25,333	-8,401,274	-2,956,767	-2,036,363	-80,674,978	-5,354,656	-2,036,363	-90,190,941	-97,581,960
Subtotal	-27,488	0	202,774	0	229,978	0	-397,147	2,549,888	0	8,117	2,549,888	0	2,558,005
Project Write-offs	0	0	-242,613	0	-202,447	0	-127,749	0	0	-572,809	0	0	-572,809
Financial result	29,635	0	18,342	0	135,698	0	518,063	0	0	701,738	0	0	701,738
Operational result	2,147	0	-21,497	0	163,229	0	-6,833	2,549,888	0	137,046	2,549,888	0	2,686,934
Pension prov release	119,496	0	37,704	0	86,124	0	80,676	0	0	324,000	0	0	324,000
Net result	121,643	0	16,207	0	249,353	0	73,843	2,549,888	0	461,046	2,549,888	0	3,010,934
Reserves 1.1.	662,674	0	456,679	0	1,134,519	0	6,574,434	9,692,957	0	8,828,306	9,692,957	0	18,521,263
Reserves 31.12.	784,317	0	472,886	0	1,383,872	0	6,648,277	12,242,845	0	9,289,352	12,242,845	0	21,532,197
Reserves 1.1.12 without IAS pension provision	854,376	0	490,301	0	1,276,222	0	6,663,407	9,692,957	0	9,284,306	9,692,957	0	18,977,263
Reserves 31.12.12 without IAS pension provision	856,523	0	468,804	0	1,439,451	0	6,656,574	12,242,845	0	9,421,352	12,242,845	0	21,664,197

- (4) The operating surplus for the Geneva coordination of EUR 137,000 compared to the budgeted deficit of EUR 197,000. Actual results vs. budget in EUR by department were as follows:

	<u>Budget</u>	<u>Actual</u>
DTPW	800	(21,497)
DPO/Gen. Sec	(199,596)	2,147
Mission & Development	976	163,229
World Service	1,125	(6,833)
Total	(196,695)	137,046

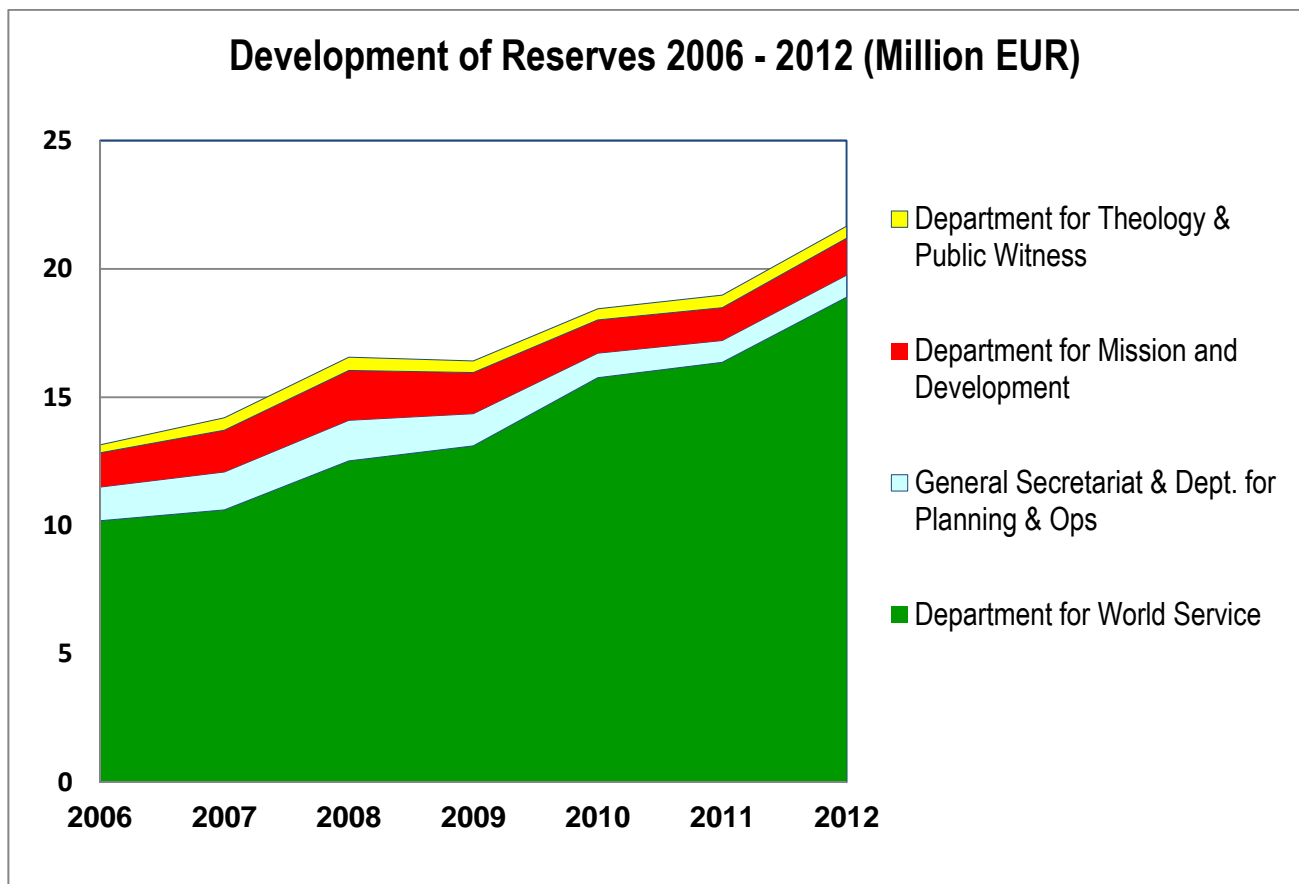
The adverse variances in DTPW and DWS were due mainly to project write offs, while the average EUR/CHF rate for the year of 1.21 compared with the budget rate of 1.25 also had an adverse effect when converting Swiss Franc expenditures. This was offset to a certain extent by higher investment income and foreign exchange gains together with, in the case of DMD, the charge out of costs under activity based costing.

The Geneva coordination expenditure was 3.5% below budget in Swiss Franc terms:

	<u>Budget</u>	<u>Actual</u>	<u>Variance %</u>
DTPW	1,242,725	1,202,540	3.2
DPO/Gen. Sec.	4,366,695	4,228,485	3.2
Mission & Development	2,871,961	2,712,598	5.6
World Service	2,835,540	2,777,692	2.0
Total	11,316,912	10,921,315	3.5

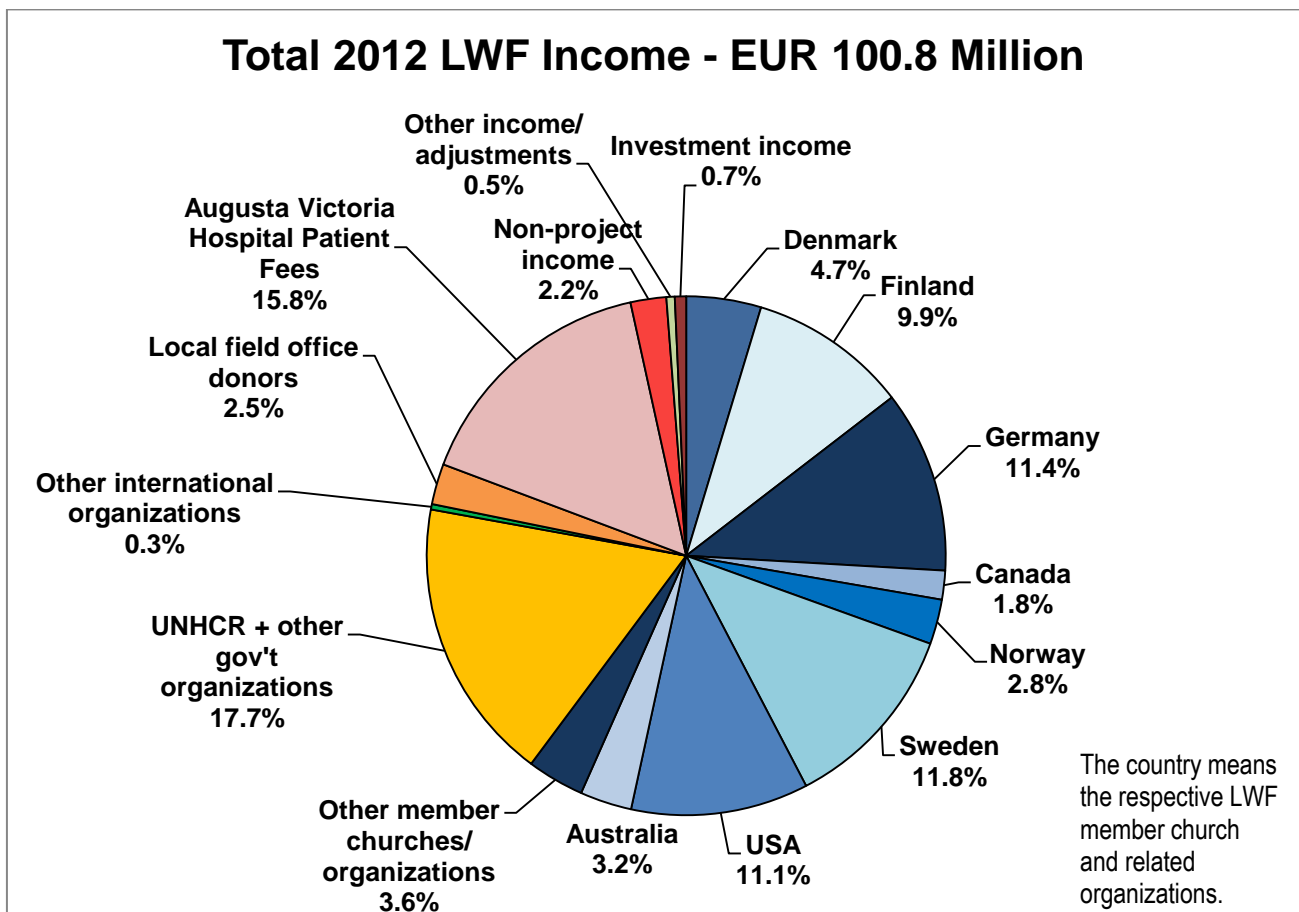
Reserves

- (5) “Reserves” refer to net assets freely available to support the operations of the organization without restrictions. Operating reserves provide a cushion to help survive lean periods and any unexpected events that could deplete funds. Operating reserves can help survive operating shortfalls caused by economic conditions or unexpected disruption in cash flow, enhance capacity to develop new programs or discontinue or retool current programs, obtain favorable financing terms; and achieve steady distribution of support for programs and ministries. In 2012, LWF reserves increased from EUR 19.0 million to EUR 21.7 million, which is above the minimum target level.
- (6) The DWS Field coordination surplus, as in 2012, came almost wholly from the strengthened financial situation of the Augusta Victoria Hospital in Jerusalem (AVH). The more volatile nature of AVH operations and cash flow result in a need for higher reserves for DWS. These reserves have been used to cover the past hospital renovation deficit and patient fee receivables. In 2012 the hospital patient fees income amounted to EUR 15.1 million, 29% higher than in 2011. The following chart shows the development of the reserves from 2006 to 2012.



Income

- (7) Receipts totaled EUR 100.8 million for the year compared with EUR 85 million the previous year, an increase of EUR 15.8 million or 18.6%. Changes in the level of income are mainly the result of annual variances in emergency and project support.
- (8) The following chart shows 2012 income support according to major categories and donors.



- (9) **Membership fee contributions** are undesignated and provide stability for critical work other than programs and projects. Membership fees in 2012 in Euro terms remained stable being the equivalent of EUR 2,407,000 (2011 EUR 2,415,000). Membership fees are set based on a formula that indicates the relative wealth of the member church country compared with other member church countries.
- (10) The level of membership fee contributions continues to lag the total of fair membership fees. Growth in this area 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. The following lists the development of the Membership Fee income from 2003 to 2012 in USD terms (the 2011 and 2012 fees are translated at the average EUR/USD exchange rate of the respective year). The decline in US Dollar terms in 2012 was due to the strength of the US Dollar versus the Euro during the year.

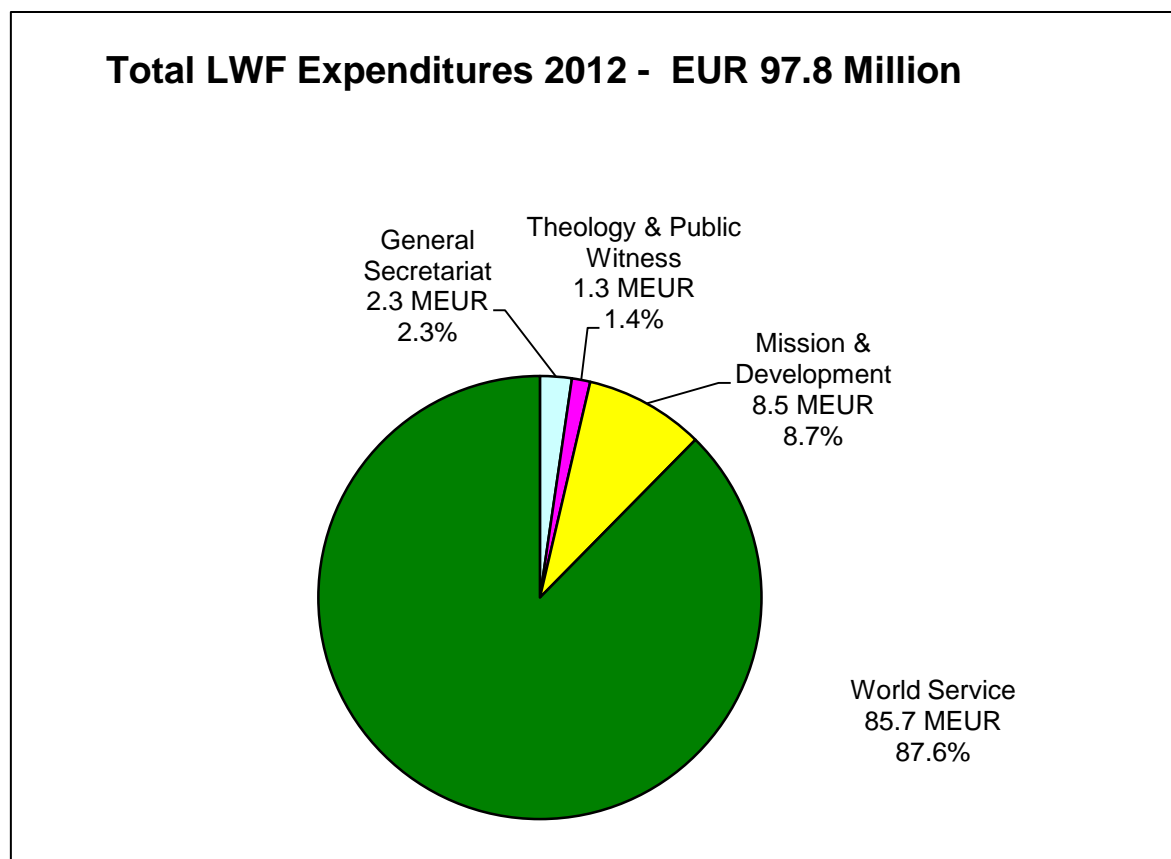
USD

2003	2,557,796
2004	2,817,743
2005	2,934,959
2006	2,985,827
2007	3,154,884
2008	3,266,903
2009	3,229,786
2010	3,032,881
2011	3,357,625
2012	3,100,434



Expenditures

- (11) The 2012 total **expenditures** of the LWF amounted to EUR 97.8 million compared with EUR 85 million in 2011, an increase of EUR 12.8 million or 15%. The following chart shows total expenditure by department.



Staff Welfare Plan – LWF Pension Fund

- (12) As reported last year, the foreseen merger with Stiftung Abendrot , Basel (Abendrot), became effective as of January 1, 2012. While the liquidation process was delayed due to reorganization within the Geneva supervisory authority, a final liquidation audit has been completed by PricewaterhouseCoopers and the liquidation report forwarded to the authorities and Abendrot. All further statutory requirements will be undertaken by Abendrot. A final Staff Welfare Plan Board meeting will be arranged in the near future. The employer's representatives on the new Staff Pension Plan Committee have been appointed by the LWF Meeting of Officers and elections for the employees' representatives are currently in process. The Staff Welfare Committee members will have the right to attend the Stiftung Abendrot Annual Meeting.

The coverage ratio at the time of the transfer was 95.8% while that of Abendrot was 104.0%. By September 2012, the LWF coverage ratio had increased to 97.16% and at the year end this is likely to have again increased slightly. The exact figure is still pending from Abendrot. Discussions as to addressing the remaining shortfall are ongoing with Abendrot. Under the preliminary agreement, the shortfall will be reduced in coming years by a reduction in the interest paid to the LWF SWP members by Abendrot until the coverage level reaches 100%.

LWF Endowment Fund

- (13) The LWF Endowment Fund is a separate legal entity and its results are not consolidated within the LWF financial statements. The Endowment Fund Board report is included in Exhibit 17.2. Contributions

to the endowment fund in 2012 of CHF 134,007 continued to be lower than anticipated, although they exceeded 2001, which was the lowest since 1999. On the other hand, the investment performance of the portfolio in 2012 was extremely positive with a net return of CHF 951,410. The Operating Reserve at the end of 2012 is still negative but at a much reduced level of CHF 51,958. No distribution can be made to the LWF while the reserve is negative due to net negative investment performance. There will be a joint meeting of the LWF Finance Committee and the Endowment Fund Board during this meeting of the LWF Council to discuss the investment principles and distribution policies of the Fund. In order to be successful in achieving the goal of CHF 20 million in assets by the year 2017, additional strategies should be discussed and implemented.

- (14) **The following table shows the financial development of the Endowment Fund for the last six years, a period marked by extreme volatility in the global financial markets.**

Year	Net Assets in GVA, CHF	Funds in USA, USD	Investment Result, CHF	Result of the Year, CHF	Operating Reserve, CHF
2007	10,089,858	1,252,025	-106,445	-86,384	562,215
2008	8,709,673	925,718	-1,827,280	-1,781,522	-1,505,136
2009	10,405,436	1,294,718	1,021,373	1,082,336	-422,800
2010	10,797,181	1,518,098	95,940	126,560	-296,240
2011	10,232,779	1,423,063	-743,393	-707,128	-1,003,368
2012	11,318,412	1,802,808	883,293	951,410	-51,958

Institute for Ecumenical Research in Strasbourg

- (15) The report on the Institute for Ecumenical Research in Strasbourg is included as a separate report to the Council (Exhibit 14.1). 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 financial situation of the institute is currently stable. The Institute had net assets of EUR 2.6 million at 31 December 2012 with income for the year of over EUR 500,000 and a positive result of nearly EUR 70,000.

Committee Responsibilities

- (16) Over the course of their meeting, the Committee for Finance will review the following items, and forward their related recommendations to the LWF Council.
- Approval of the Financial Statements for 2012
 - Appointment of the Auditor for 2013
 - Approval of the LWF Budget and Program Plan for 2014

Concluding Remarks

- (17) The staff and management should be commended for their careful monitoring of budgeted expenses and good budget planning - resulting in positive net results. Going forward, it will be important for the Council and LWF management to consider ways to sustain or grow the work in the midst of rising costs. Additions to the endowment fund and increasing membership contributions and other unrestricted revenue sources are two important considerations.