

**Report of the Chairperson for the Executive Committee**  
**Oberkirchenrat Olaf Johannes MIRGELER**

## **1. INTRODUCTION AND OVERVIEW**

This year as chair of LWF Finance Committee, I present my report to the Executive Committee since the Council and Finance Committee meetings are cancelled due to Covid-19.

Let me begin my report with Lutheran World Federation's (LWF) financial performance in 2019. It is important to report on LWF's financial health and stability whilst LWF leadership is navigating through this tough, uncertain Covid economic crisis.

- *LWF 2019 Consolidated income was at EUR 168 million, which was 12% more compared to the previous year, EUR 150 million*
- *LWF 2019 Consolidated net results (surplus) was EUR 19 million or 375% more than previous year*
- *LWF reserves were at EUR 71 million, an increase of EUR 19 million(37%) compared to previous year*
- *LWF Cash balance increased to EUR 30 million, an increase of 11% compared to previous year*

I am very happy to see this excellent performance in 2019 with a stable balance sheet and sufficient liquidity. The performance confirms that our governance, leadership controls, monitoring and fundamentals are robust and have been built up over the years on outstanding finance principles, policies and guidelines. Our policy is to avoid financial deficits from operations, which is crucial for the LWF's success, and to maintain the long-term financial stability.

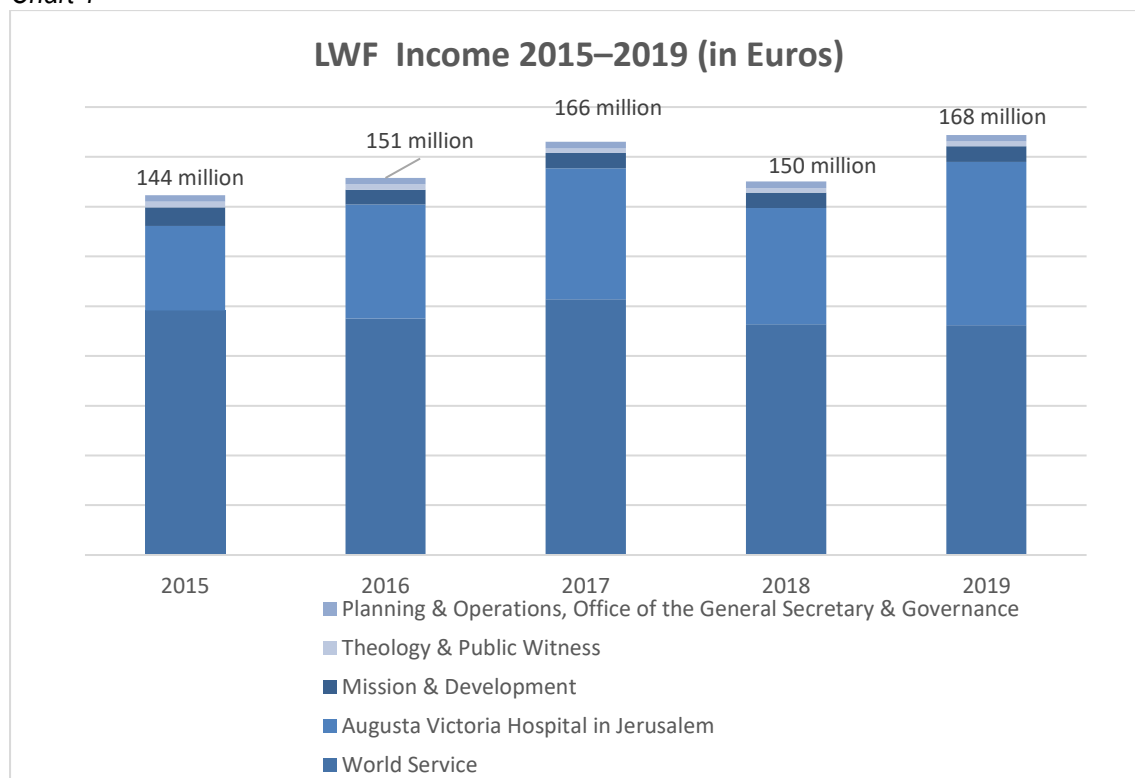
The CONSOLIDATED AUDITED FINANCIAL STATEMENTS of the LWF have been prepared in accordance with International Financial Reporting Standards (IFRS), in compliance with Swiss laws and regulations, and following International Accounting Standards (IAS).

## **2. LWF 2019 INCOME**

LWF2019 total income EUR 168 million, was contributed generously by our member churches, church-related agencies, the United Nations, EU and US government funding sources, other partners, as well as individual donors.

The below chart shows the total income growth from 2015 to 2019, a growth of 17%

Chart 1



The increase of income was mainly through the Department for World Service emergency programs and from substantial revenue growth in Jerusalem/AVH operations.

### 3. LWF 2019 INCOME BY DEPARTMENTS

As shown below chart, in 2019 the income of the Department for Theology and Public Witness's (DTPW) was EUR 1.9 million (1%)

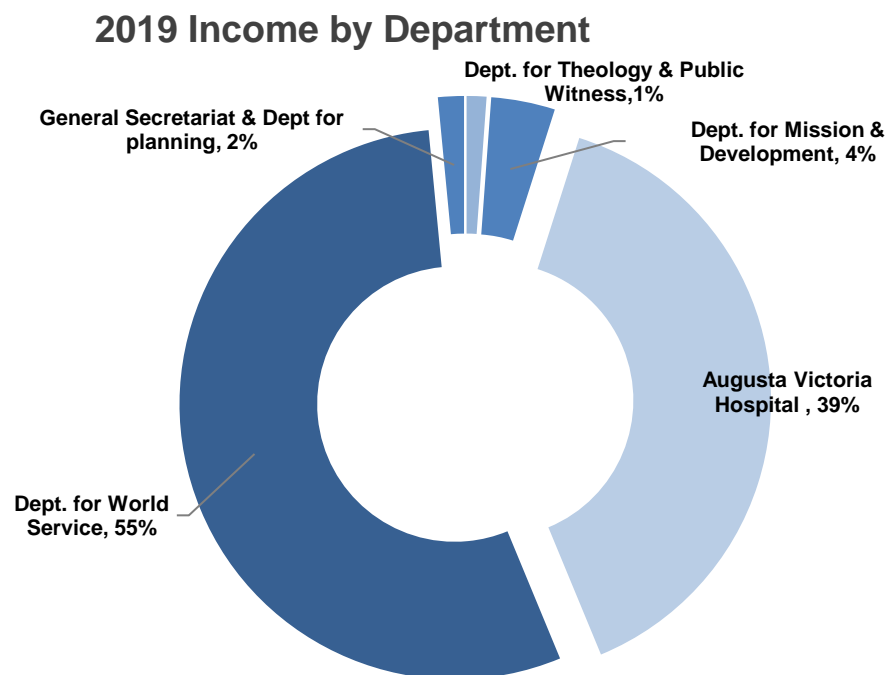
Income of the Department for Mission and Developments (DMD) was EUR 6.3 million (4%)

Income of the Augusta Victoria Hospital in Jerusalem (AVH) was EUR 65 million (39%)

Income of the Department for World Service (DWS) was EUR 92 million (54%)

Income of the General Secretariat and the Department for Planning and Operations (GS/DPO) was EUR 2.5 million (2%),

Chart 2



### 3.1 2019 LWF INCOME: TREND BY DEPARTMENTS 2015 TO 2019

The charts below show the income trend for the LWF Departments

**The Department for Theology and Public Witness (DTPW)**, income is on a decreasing trend but in 2019 the income increased by 10 % (EUR 179, 000) mainly from increased contributions by a member church (ELCF), the Endowment Fund and unrestricted legacy funds.

**The Department for Mission and Development (DMD)** income was on a reducing trend but became stabilized and improved to an increasing trend from 2018. In 2019, the income increased by 2%, (EUR 139,000) as a result of programmatic changes, new program initiatives, and fundraising activities.

Chart 3

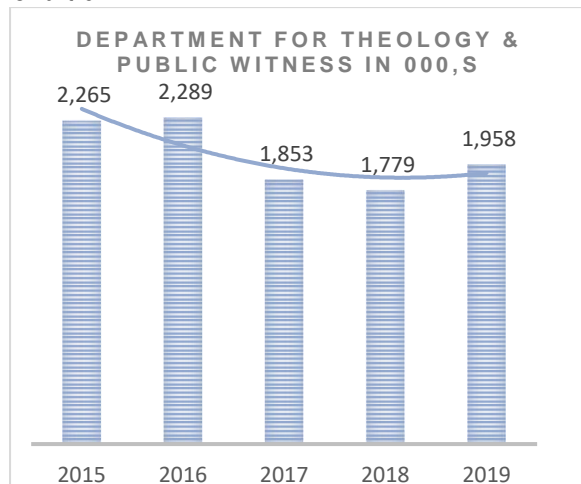
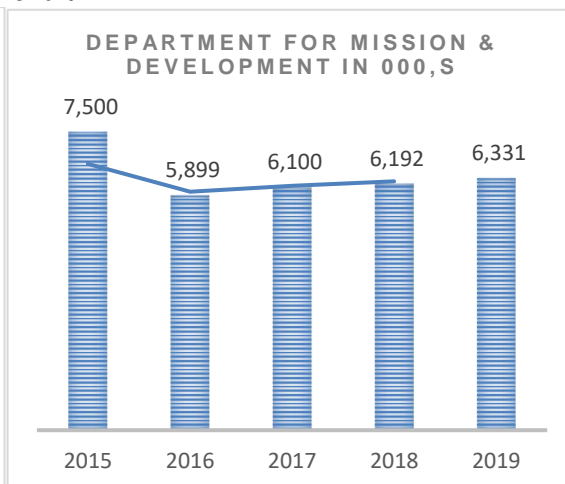


Chart 4



As seen below, the income of the **Department for World Service (DWS)** is stable: In 2019 the income increase of 2 % (EUR 2,120,000) is primarily associated with the increased funding of some global emergencies.

The income of the **Augusta Victoria Hospital** has been on an increasing trend: In 2019 the income increased by 33 % (EUR19, 735,000). This was due to increase in Patient Service Revenue by 33% (EUR 14 million) and exchange gains of 10% (EUR 4.3 million )

Chart 5

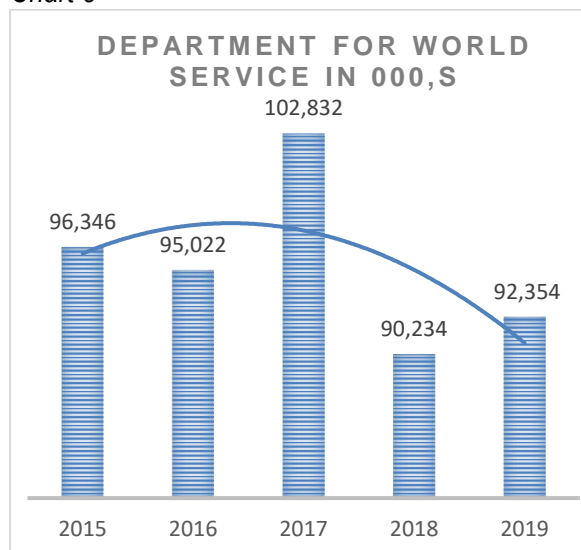
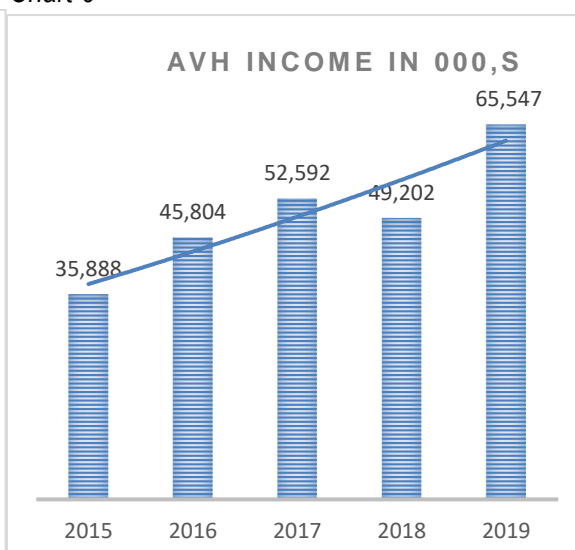
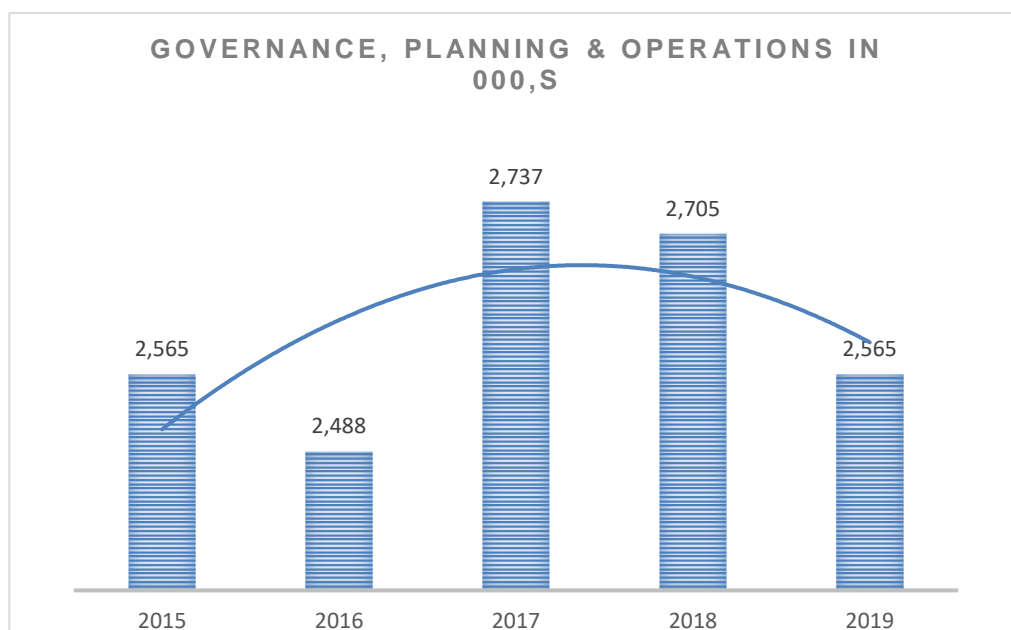


Chart 6



The income trend for the **General Secretariat** and the **Department for Planning and Operations (GS/DPO)**, which supports the organizational sustainability and effectiveness, mainly depends on membership fee income. In 2019, the income decreased by 5% (EUR 140,000) due to the reduced income from member church supported programs and more allocation of membership fees to support DMD.

Chart 7



### 3.2 2019 LWF INCOME: COMPARISON OF ACTUAL AND BUDGET & PREVIOUS YEAR

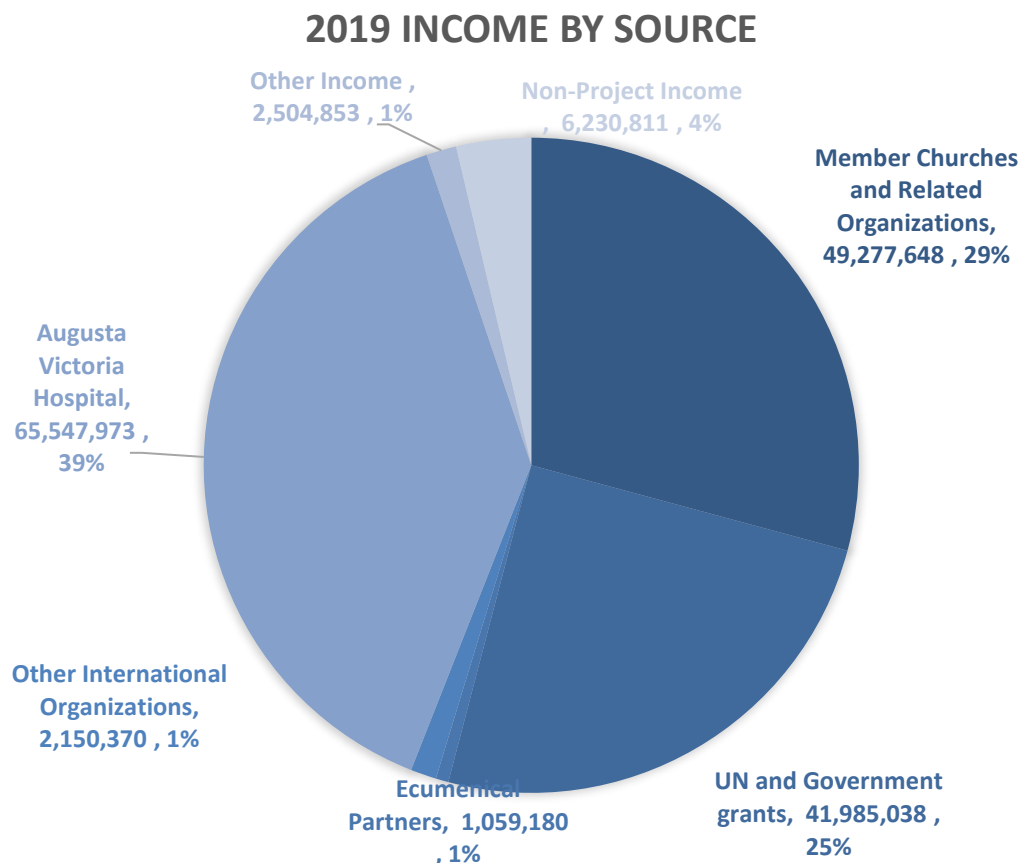
In 2019 LWF, total income was EUR 168 million, which was EUR 18 million or 12% higher than the previous year. While the budgeted 2019 income was EUR 180 million, the shortfall of EUR 12 million or -7% compared to the budget meant that some of the planned work could not be fully funded. Fund-raising efforts are continuing, with the goal to reach the anticipated coverage.

INCOME	2019	2019	2018	VARIANCES ACTUAL Vs BUDGET		VARIANCES CURRENT YAER Vs PREVIOUS YEAR	
	ACTUAL	BUDGET	ACTUAL	Difference	%	Difference	%
Dept. for Theology & Public Witness	1,958,538	2,404,490	1,779,209	(445,952)	-19%	179,329	10%
Dept. for Mission & Development	6,330,790	7,292,550	6,192,314	(961,760)	-13%	138,476	2%
Augusta Victoria Hospital	65,547,973	52,385,000	49,202,414	13,162,973	25%	16,345,559	33%
Dept. for World Service	92,353,112	116,142,350	90,234,974	(23,789,238)	-20%	2,118,138	2%
General Secretariat & Dept. for planning	2,565,460	2,577,889	2,705,171	(12,429)	0%	(139,711)	-5%
<b>TOTAL INCOME</b>	<b>168,755,873</b>	<b>180,802,279</b>	<b>150,114,082</b>	<b>12,046,406</b>	<b>-7%</b>	<b>18,641,791</b>	<b>12%</b>

### 3.3 2019 LWF INCOME: EUR 168,755,873 BY SOURCE

The following chart shows the percentages of contributions received from member churches and related organizations, UN and government grants, the AVH, international partners, and other contributors.

Chart 8

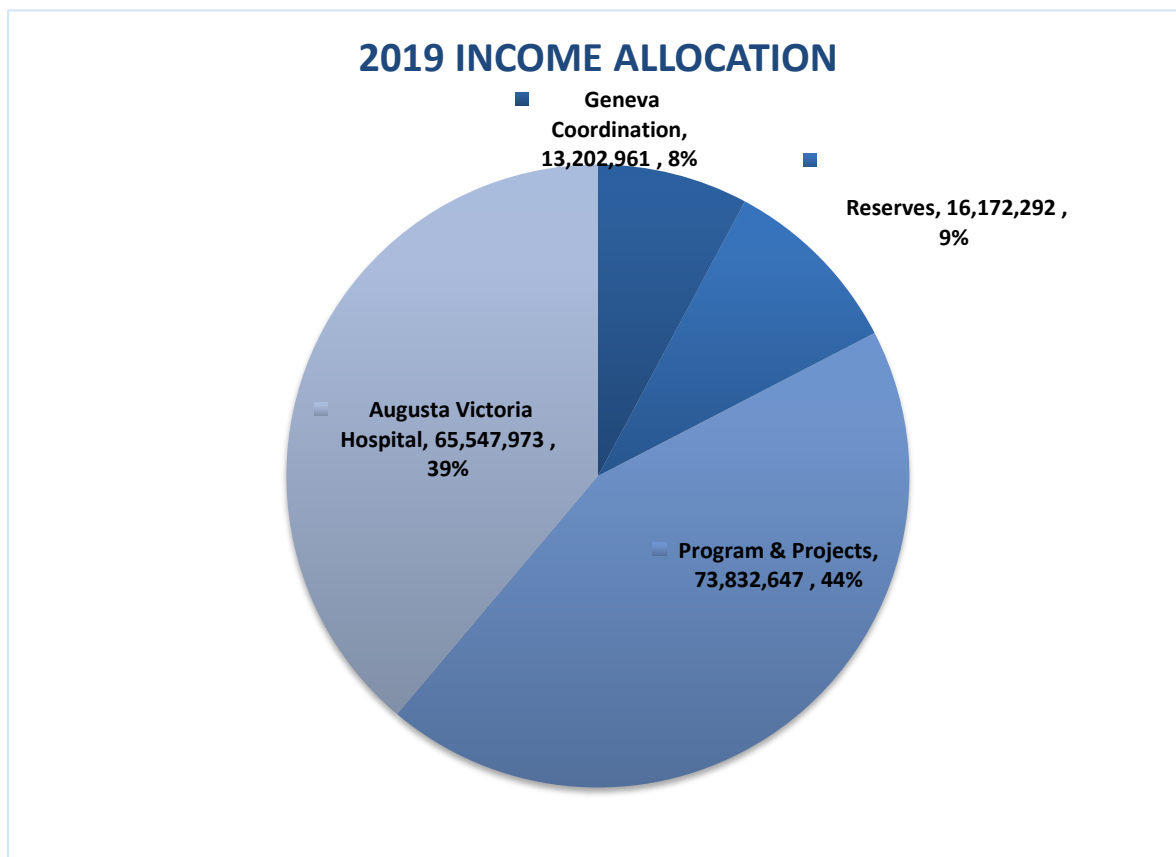


- **Member churches and related organizations: EUR 49 million (29%)**
- **UN and government grants: EUR 41 million (25%)**
- **Augusta Victoria Hospital: EUR 65 million (39%)**
- “Other Income” includes income from compound management, administration fees of UN, US Grants, etc.: EUR 2 million (1%)
- Ecumenical partners: EUR 1 million (1%)
- “Non-Project Income” includes foreign exchange gains, vehicle hire, and sale of assets: EUR 6million (4%)
- Other International Organizations: EUR 2 million (1%)

**3.4 2019 LWF INCOME: EUR 168,755,873 Allocation to Programs**

The chart below shows the allocation of the total income received. In 2019, LWF Communion Office Coordination was 8% of the total income, 9% added to the reserves and the balance 83% was allocated for programs and projects, including Augusta Victoria Hospital.

Chart 9

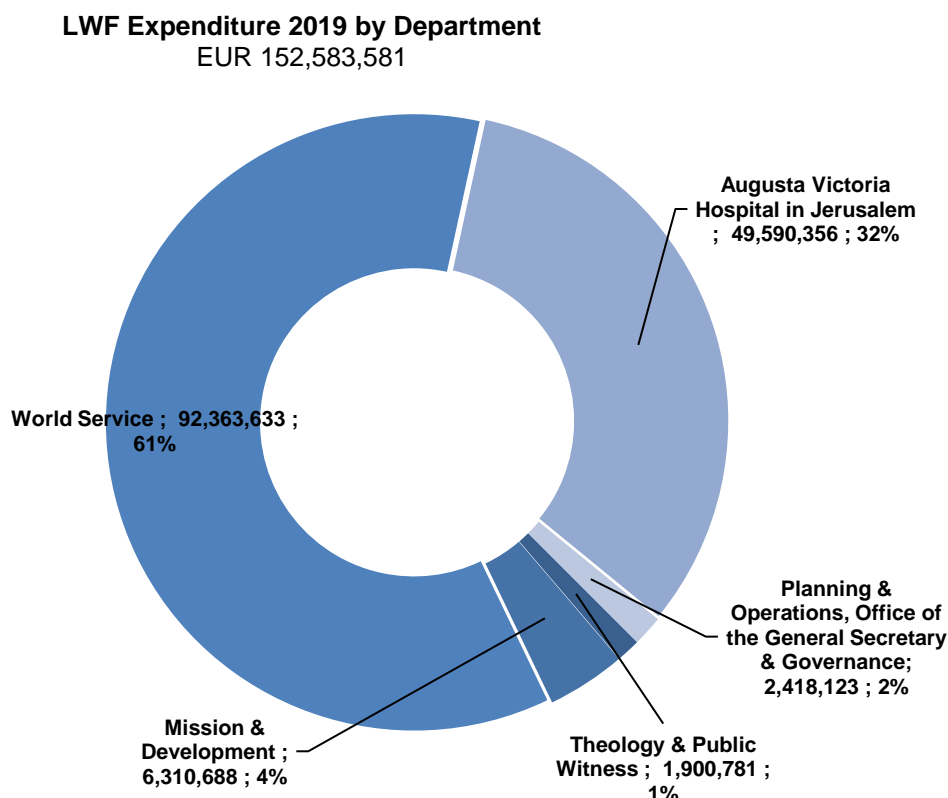


**4. 2019 LWF EXPENDITURE: by Department**

LWF total 2019 expenditure was EUR 152 million, of which 61% was for the Department for World Service, 32% for the Augusta Victoria Hospital, 4% for the Department for Mission and Development, and 1% 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 in the chart below.

Chart 10



## 5. 2019 LWF OPERATING RESULTS: EUR 16.17 MILLION

In 2019, the LWF's consolidated net result from operations was EUR 16,172,292 for the year. In addition, EUR 3,541,709 was added as other comprehensive income, the details are as below

- Dept. for Theology & Public Witness: net surplus of EUR 64,594
- Dept. for Mission & Development: net surplus of EUR 24,837
- Dept. for World Service : net surplus of EUR 16.07 million, of which AVH's surplus is EUR 15.95
- General Secretariat & Dept. for Planning and Operations: net surplus EUR 1,593,865, mainly from treasury investments gains
- Restatement of pension liabilities (IAS19): Actuary valuation resulted in a gain of EUR 2,183,500
- The total comprehensive result for the year in audit report is EUR 19,714,001, which includes the pension actuary valuation gain of EUR 2,183,500 and the treasury income of EUR 1,500,669 as exceptional items.



**6. DEVELOPMENT OF LWF RESERVES: 2011 to 2019**

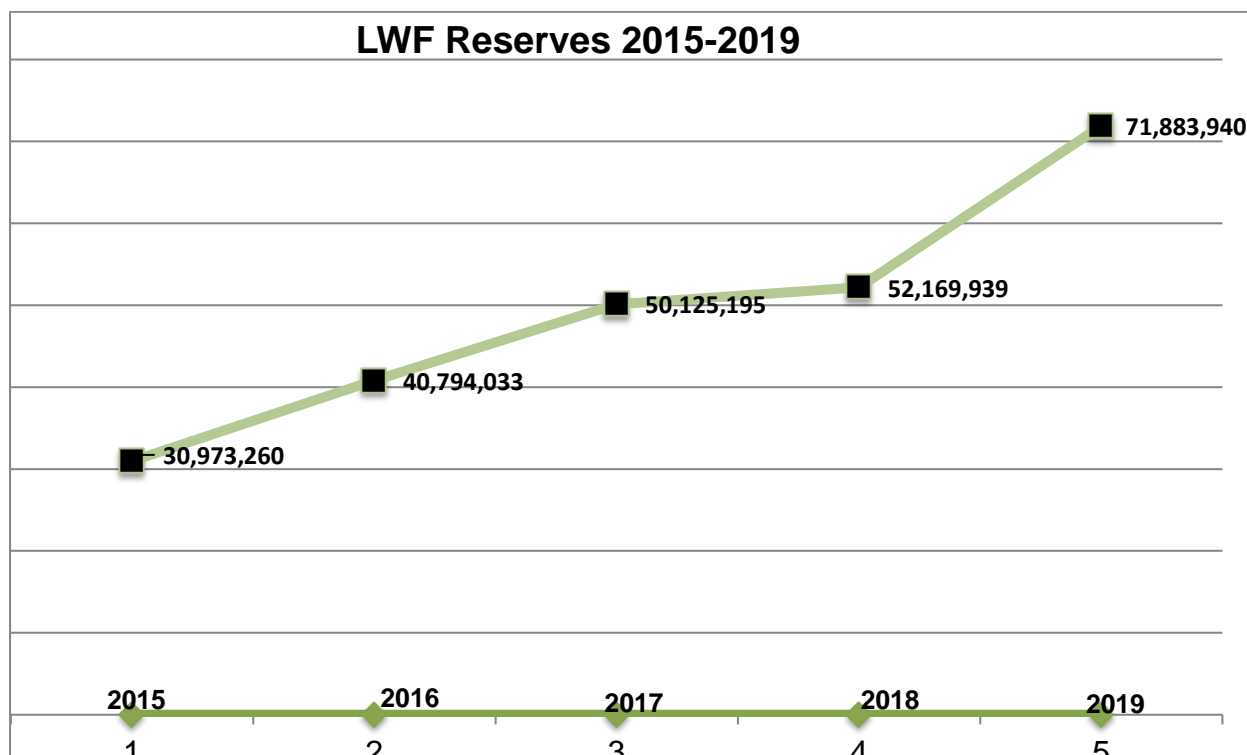
“Reserves” refer to net assets available to support the operations of the organization without restrictions. The Reserves Policy guides LWF reserves. Reserves in the LWF consolidated financial reports are shown as unrestricted reserves but are designated or “ear-marked” for specific purposes of the departments.

LWF reserves increased from EUR 30 million in 2015 to EUR 71 million in 2019. Such a positive and stable financial situation allows LWF to continue its operations in crisis and difficulties.

The chart below shows the development of the reserves from 2015 to 2019, after the restatement of pension liabilities under IAS19, representing a 38% growth compared to the previous year and 132% growth from 2015 to 2019.

EUR 53 million (75%) of the reserves belongs to AVH and a sizable reserve is necessary in order to finance AVH operations.

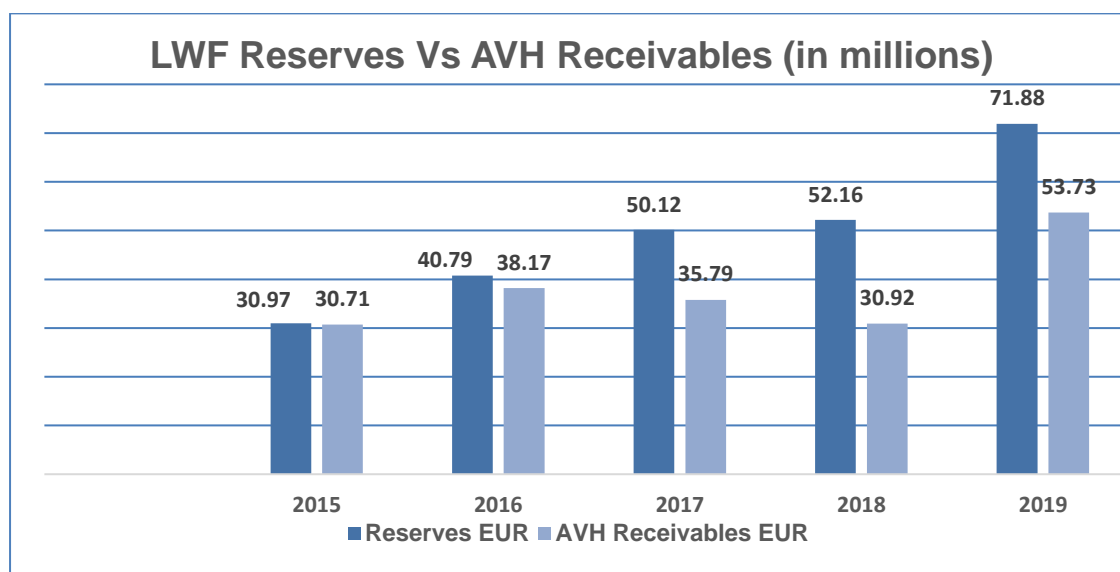
Chart 11



### 6.1 LWF RESERVES vs AVH RECEIVABLES

The following chart shows the reserves from 2015 to 2019 compared to the Augusta Victoria Hospital receivables in view of the LWF liquidity risk.

Chart 12



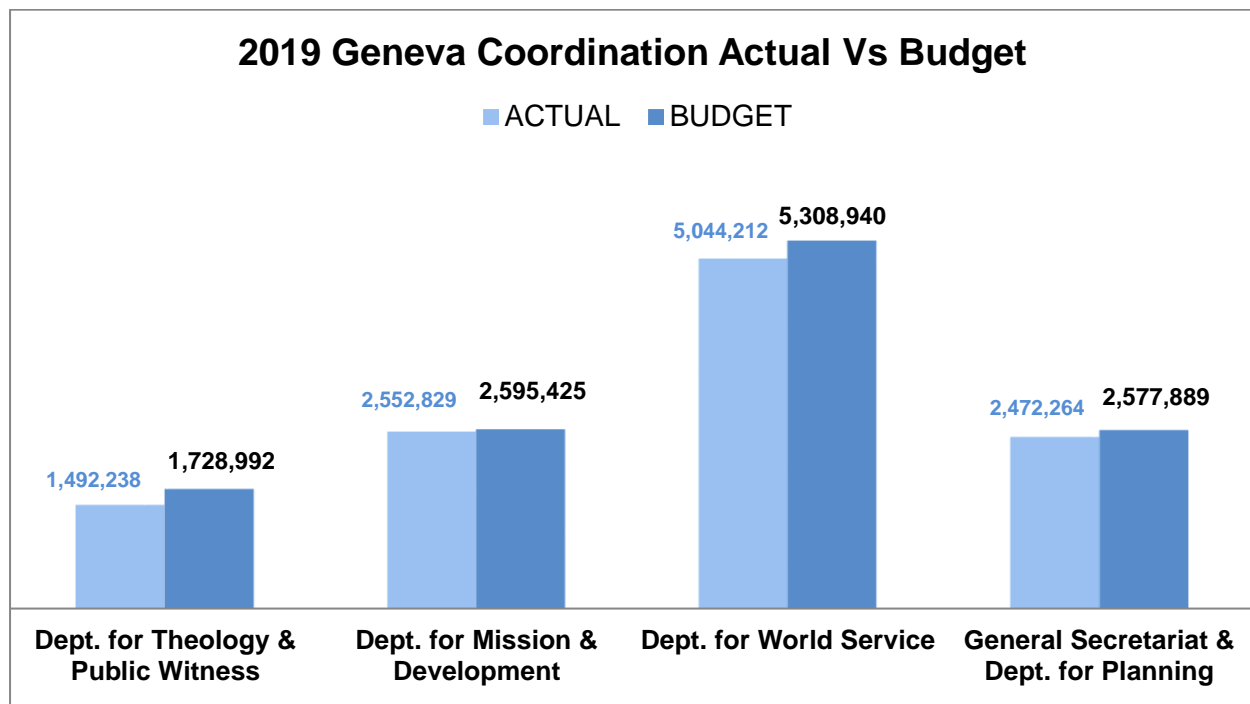
The more volatile nature of the AVH operations, because of cash flow challenges due to unpaid receivables, results in a need for higher reserves for DWS. These reserves have been used to cover the working cash flow requirements of the hospital.

### 7. LWF COMMUNION OFFICE GENEVA OFFICE COORDINATION

The LWF Communion Office coordination budget is the portion of the LWF department budgets allocated to meet the LWF headquarters' expenses for the Departments DTPW, DMD, DWS and GS/DPO. The total approved budget for LWF Communion Office Geneva coordination was EUR 12.21 million and the actual expenditures were EUR 11.56 million, with a positive variance of 5%.

The chart below shows each department expenses compared to the budget

Chart 13



The Geneva expenses are paid in Swiss Francs, the average EUR/CHF exchange rate for the year was of 1.11 compared with the budget rate of 1.16, a -5% negative variance for Euros to Swiss Francs.

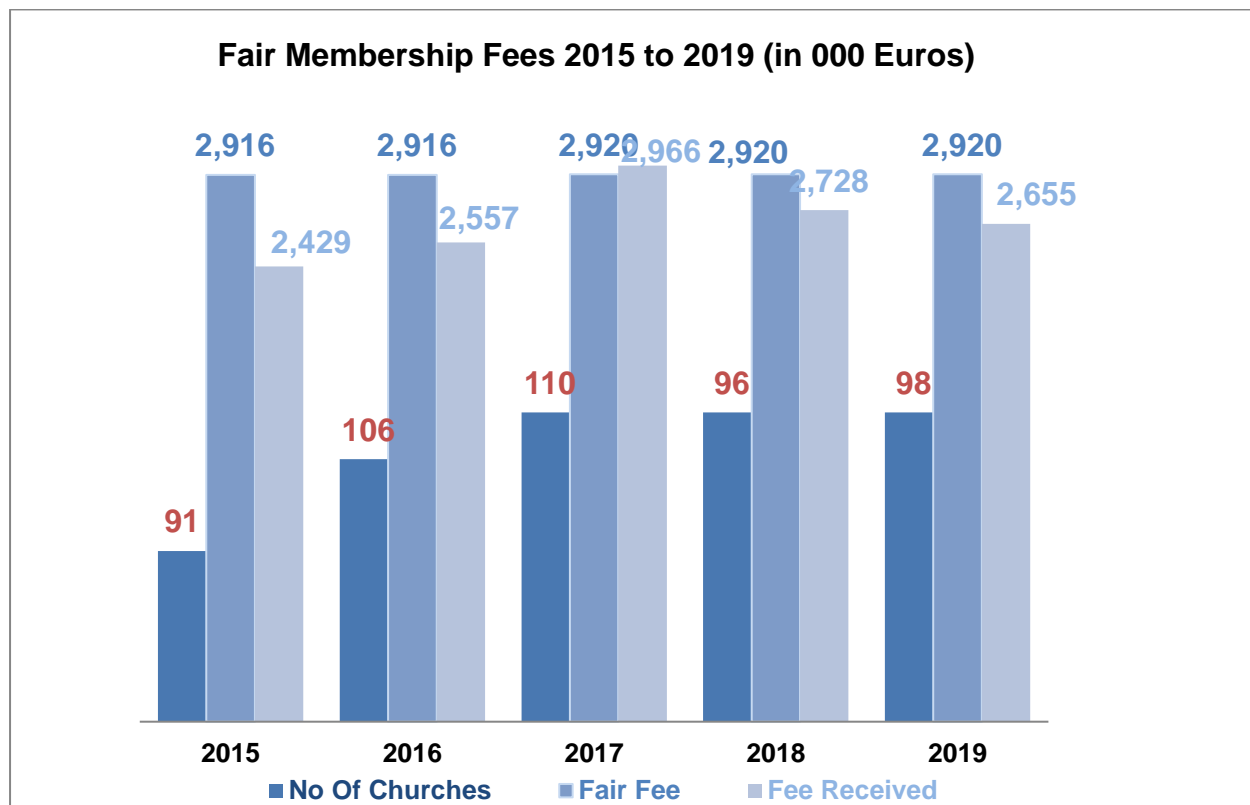
**8. MEMBERSHIP FEES: Contributions 2015 to 2019**

The annual membership contributions from the LWF member churches support the essential work of LWF. These funds play a crucial part in providing financial stability for the Communion Office. The LWF Council and leadership continue to make all efforts to bring contributions to the full fee levels.

In 2019 the membership income decreased slightly by 3 % ( EUR 73,519) compared to the previous year. One of the main reason is the changes in exchange rates compared to Euro.

The below chart shows the fees compared to the fair fees and the number of churches that paid the fees.

Chart 14



Of the 148 member churches, the total number paying their membership fee in 2019 was 98 compared to 96 in the previous year.

The membership fees are based on the concept of the “fair share” principle. The “Fair share” concept seeks to ensure that every church can make a financial contribution that is commensurate with their financial circumstance

We remain enormously grateful for the consistent financial commitment from members, which enables the communion office to provide vital services for the smooth running of the LWF.

**9. LWF STAFF WELFARE PLAN PENSION FUND**

The LWF Staff Welfare Plan Pension fund has been managed by an independent pension fund in Switzerland, the Stiftung Abendrot Foundation, since 2012 January 1, 2012.

LWF is liable to pay only the monthly employer contributions to the fund and is no longer liable for managing the pension funds nor for any under coverage in pension funds. A Staff Pension Plan Committee (SPPC) was constituted with employer and employee representatives to govern the affairs of the pension fund.

According to the pension fund valuation report, the pension fund performance in 2019 was Positive 10% (in 2018 the performance was negative -1.68%). In 2020 first quarter, due to Covid crisis it reported a loss of -5.4%.

The coverage level in 2019 for LWF pensions was 112.5%, with the value of assets estimated at CHF 42 million. The coverage level decreased to 108% in 2020 first quarter due to the Covid crisis.

It is mandatory, in accordance with the IFRS IAS19 revised standard on accounting, for employee benefits to adopt the standards and restate the impact in 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 2019.

## **10. LWF ENDOWMENT FUND**

The LWF Endowment Foundation is a separate legal entity; its results are not consolidated within the LWF financial statements.

Total contributions received for the endowment fund as of 31 December 2019 were CHF 15,289,406, including the Evangelical Lutheran Church in America (ELCA) Endowment Fund Pooled Trust contributions of CHF 2,866,262.

The 2019 operating reserve balance was CHF 1,807,999 after the 2020 distribution of CHF 172,034 made to LWF according to the distribution policy. In 2019, the fund performance was a positive 12%. The performance benchmark of the fund is 5 % and the preferred investment period is 8 years, the average performance since 2009 is 3 % and the performance of the last 10 years is 4%.

The Board meeting in 2020 approved a distribution of CHF 767,721 to support LWF 2021 budget from its operating reserves balance

The Endowment Fund investments are exposed to the high volatility and other risks in investment markets. The investment markets continue to be uncertain and highly volatile in 2020, as of 30 April 2020, the performance is negative -5.77% due to the Covid crisis. The LWF staff are regularly monitoring and managing the situation with the fund managers.

The Endowment Fund Board is discussing alternate ways of investing, whether to buy an office building in Geneva for LWF, using part of the fund or not.

## **11. EXECUTIVE COMMITTEE RESPONSIBILITIES**

Over the course of the meeting, the LWF Executive Committee will review the following items and Approve:

- The Report of the Auditors on the Consolidated Financial Statements for the year ended December 31, 2019

- The Audited Financial Statements of the Department for Theology and Public Witness, Department for Mission and Development, Department for World Service and the Department for Planning and Operations and General Secretariat for the year ended December 31, 2019.
- Appointment of the External Auditor for 2020

## **12. CONCLUDING REMARKS**

The Lutheran World Federation achieved excellent financial performance in 2019, which contributed to the stability of the organization. The level of liquidity and reserves well equip LWF to meet the current global challenges of COVID-19 and to continue its operations, serving humanity as a worldwide communion of churches.

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

Membership fee support plays a large part in ensuring financial viability and sustainability. The member churches are committed to support LWF and many churches are paying the fees regularly. I am grateful for that and wish to reiterate my deep appreciation for that. I would invite all member churches to continue paying the membership fees regularly and to support the LWF's vital work.