

Treasurer's Comments to the General Conference

Spring Meeting

April 5, 2009

O Taste and see that the Lord is Good

“O taste and see that the LORD [is] good: blessed [is] the man [that] trusteth in him. Psalms 34:24. During this past year we have had occasion to “taste and see that the Lord is good”. We have also had plenty of reasons to need to trust in Him. We have always seen His goodness and we can always trust Him.”

This was the first paragraph of our report to Spring Meeting last year when we were reporting on the blessings of over US\$ 100 million in Extraordinary Tithe. At that time we had no idea of the economic events that would transpire in the next few months. How true it is: “O taste and see that the LORD [is] good: blessed [is] the man [that] trusteth in him. Psalms 34:24. Our trust is in the Lord.

It is once again a privilege to bring a report of the tithes and offerings which God's children have brought with rejoicing to the House of the Lord. In spite of the economic turmoil in the last quarter of 2008, tithes and offerings for the year were up. The financial markets have of course had a negative impact on the General Conference as it has on most organizations.

Tithes and Offerings

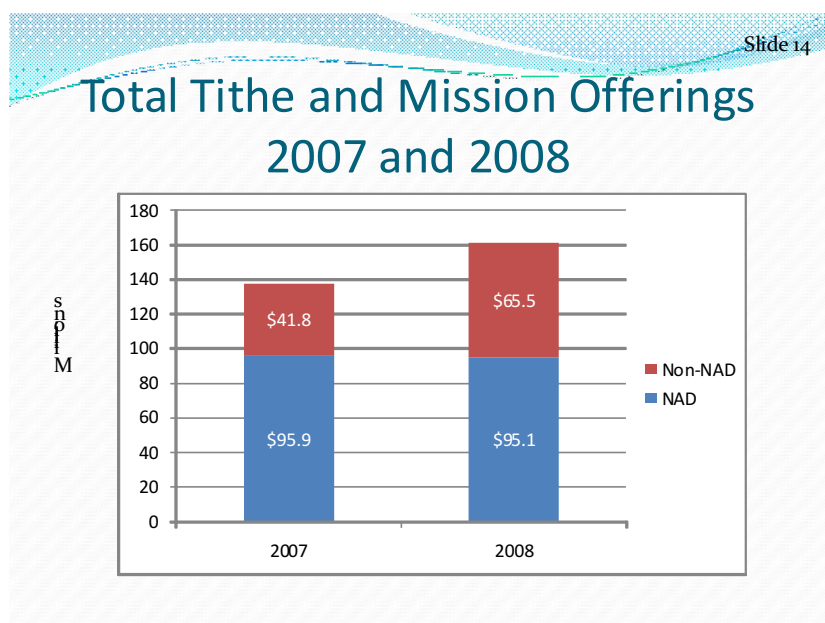
Worldwide tithe in 2008 was up 8.56% over 2007 and totaled US\$ 1,934,565,008 as compared to US\$ 1,780,527,081. Approximately 43% of that increase in US dollar terms is due to the changes in the exchange rate with the weak US dollar during the first ten months of the year, but there were still major increases in tithe in terms of local currency in most divisions. Tithe in the North American Division, except for the portion from Canada, was not affected by the exchange

rates but the US economy was one of the first to be affected by the economic tsunami that is rolling around the world. Tithe in NAD was down .4% compared to 2007 but when adjusted for extraordinary tithe items it was up .8%.

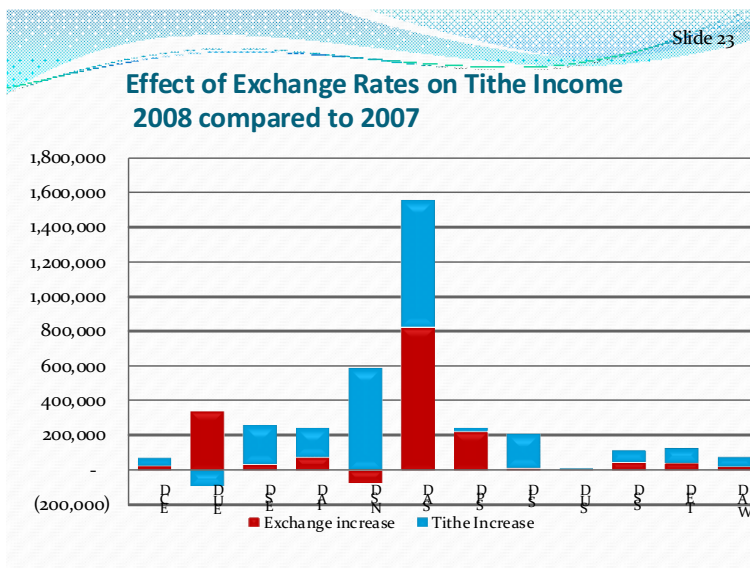
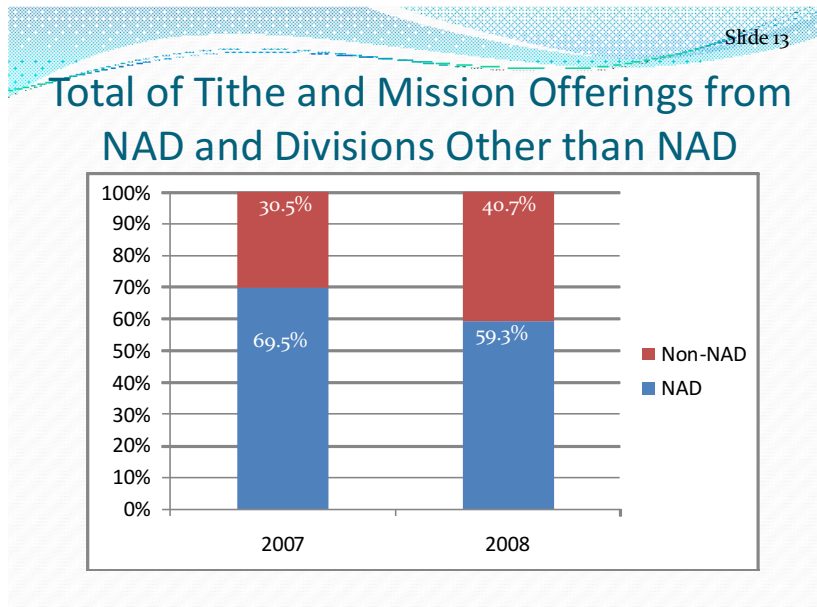
The large increase in local tithe in many areas outside of North America, 43% of which came from changes in exchange rates, now means that the total gross tithe from the twelve divisions outside North America has exceeded that of North America for the first time. In 2008, gross tithe from North America was US\$ 894,234,155 and from the rest of the divisions US\$ 1,040,330,853. The current strengthening of the US dollar could reduce the US dollar equivalents of the tithe from outside the US in 2009.

Mission offerings in the North American Division were down slightly from US\$ 24,179,938 in 2007 to US\$ 23,774,840 in 2008. But mission offerings from the other divisions were up substantially from US\$ 38,106,782 in 2007 to US\$ 44,734,514 in 2008. As in the case of the tithe, approximately half of this increase in mission offerings when stated in US dollars was due to changes in the exchange rates.

Slide 14 (below) shows the increase in tithe and mission offerings from NAD and the twelve other divisions. You can see that all the increases in revenue to the General Conference this year came from outside the North American Division.



Slide 13 (to the right) shows the dramatic shift in the percentage of funds coming to the World Budget from areas outside of the North American Division. It also shows how much more vulnerable the General Conference's World Budget is to exchange rate fluctuations.



Slide 23 (to the left) shows by division a breakdown of the amount of the increase in tithe that came from increased tithe in local currency and the amount that is attributable to changes in exchange rates. Approximately 47% of the increase is due to changes in exchange rates.

Investments and the Financial Market

The past twelve months have been the most volatile for investments since the Great Depression. It has not been without its affect on the assets of the church. Although the church is not in the business of building up funds to be invested, there are substantial amounts of retirement funds, endowment funds and other allocated and working capital funds that need to be invested to both earn returns and to offset the effect of inflation during the time they are held.

The General Conference investment office invests not only the funds held by the General Conference for its work , but also the investments of the North American Division Retirement Funds, the Hospital Retirement Funds, and funds belonging to other denominational organizations that have placed them with the General Conference to invest. The decision on the allocation of the funds between the various investment pools is up to each organization and depends on the goals for the funds involved.

Approximately 11% of the General Conference's Operating Fund (excluding Extraordinary Tithe and Donor Advised Funds) are in equities and 89% in fixed income investments. The Plant Fund has 4% in equities and the Endowment Fund 13%. None of the Extraordinary Tithe funds are in equities. With investments, there are realized and unrealized gains and loss as well as investment earnings. When you combine all three of these you get the net return on the investments. For 2008, we had a net negative return on the US\$ 295 million of General Conference owned funds of approximately US\$ 7.6 million It was made up of realized and unrealized losses of US\$ 15.6 and investment earnings of US\$ 8.0 million. That works out to a negative return of 2.6% for the year. This does not include North American Division retirement funds which are managed by the General Conference Investment Committee on behalf of the North American Division and have a much higher percentage of equities and therefore were affected to a much greater extent by the downturn in the markets.

Operating Results

Although there are always items within the annual financial statements that need to be taken into consideration when comparing the operating results of two fiscal years, they usually do not make the two years totally incomparable. The US\$ 104 million in Extraordinary Tithe of which US\$ 94 million was received in 2007 and US\$ 10 million in 2008 require us to look at the effects of the Extraordinary Tithe separately from the rest of the operations to make a proper comparison between the two years. We have prepared spreadsheets showing each of the funds and

sub-funds separately so that we can look at what the financial statements would have looked like without the Extraordinary Tithe, then look at the Extraordinary Tithe separately. These spreadsheets are attached to this report on pages 9-16.

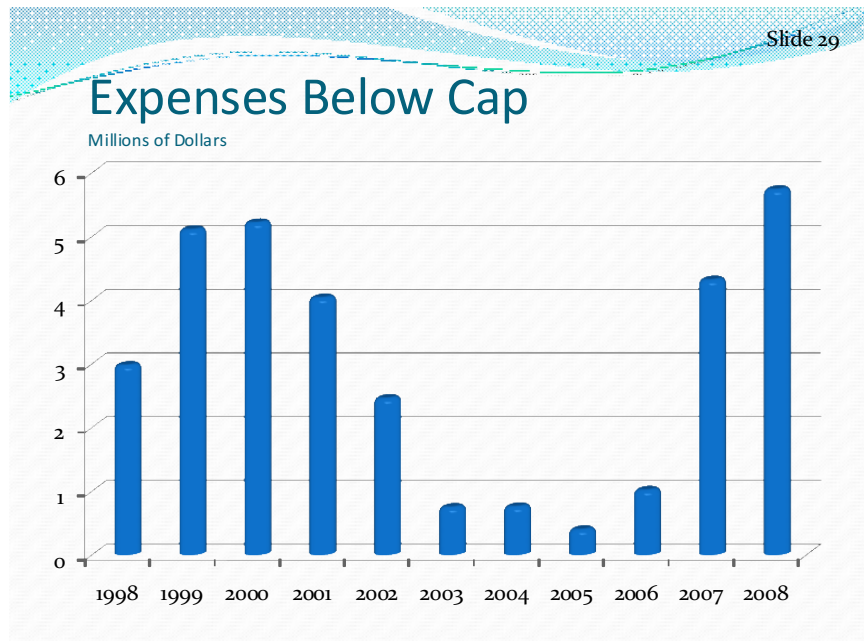
In any normal year, the revenues and expenditure are fairly closely aligned. We budget to spend the majority of expected revenues in the same year they are received. The US\$ 104 million of Extraordinary Tithe we received during 2007 and 2008 will be spent over a period of five to eight years. So in the Extraordinary Tithe Fund, which is part of the Operating Fund on the audited financial statement, we will see the large increases in the fund balance in 2007 and then a decrease each year over the next five to seven years until it has all gone for the initiatives that have been approved. In 2007, this increased the Operating Fund balance by US\$ 94 million in 2007. During 2008, approximately US\$ 7 million were released to divisions and General Conference institutions from the Extraordinary Tithe funds, but accounting requirements require that we show as current operating expense any amounts committed through committee actions to organizations or functions not included in the combined statements. During 2008, the committee approved allocations for all but US\$ 18.5 million of the funds. As US\$ 16.4 million of these funds were for initiatives that are handled through functions that are included within the General Conference's financial statements, those amounts appear as allocated funds. The US\$ 59.5 million that was voted for divisions and GC institutions that are not a part of the General Conference's combined statement are treated as a 2008 operating expense in the statement. The net of the US\$ 10 million received in 2008, plus the investment earnings of US\$ 1.2 million in 2008, and the US\$ 59.5 million treated as an expense in 2008 has the effect of reducing the Operating Fund balance by US\$ 46.4 million. The details of all of these items are shown in the spreadsheets on page 10.

In spite of the investment declines experienced during 2008, with the tithe and offerings being well above budget and the General Conference headquarters being US\$ 2.4 million under budget, the Operating Fund (excluding Extraordinary Tithe) had an increase of US\$ 2.0 million. We praise the Lord for that. When we

combine all the General Conference Funds (excluding the Extraordinary Tithe Fund) we show a decrease of US\$ 2.6 million.

Working Capital and Operating Cap Summary

The working capital for 2008 is 105% as compared to 107% for 2007. The General Conference headquarters is limited by an expense cap equal to 2% of gross tithe. The General Conference headquarters' expenses in 2008 were US\$ 5.7 below the voted cap. *Slide 29 (to the right) shows how we have operated over the last 11 years relative to the expense cap.*



Budget and operating Constraints

With the uncertainties in the markets and the world economy in October 2008 when the Annual Council voted the 2009 World Budget, it authorized the General Conference Administrative Committee to make adjustments to the budget, if necessary, because of the financial situation. In the World Budget that was voted, we had anticipated a 3% increase in appropriations to most divisions and GC institutions for 2009 over 2008. We did take an action in the General Conference Administrative Committee to hold off on the increase until the picture became a little clearer and we had the final operating results for 2008. We will be bringing to the Spring Meeting a recommendation not to increase the base appropriation by the 3% originally proposed in the 2009 World Budget to give the equivalent of the 3% as a onetime appropriation from the Supplemental Budget. The difference is that it does not raise the baseline of appropriations for future

budgets. It will depend on the economy, but our hope is that we will be able to maintain the same appropriation in 2010 as we have for 2008 and 2009, but that is not guaranteed.

At the same time we put in place a number of constraints at the General Conference world headquarters in light of the financial situation. We follow the North American Division on our remuneration rates. The North American Division voted not to increase the wage factor in 2009. We adjusted our budget accordingly which reduced our budgeted expenses by a little over US\$ 642,000. We also reduced travel budgets by 20% which totaled a little over US\$ 765,000 making a total budgeted savings of approximately US\$ 1.4 million. In addition, we put a virtual freeze on filling any positions that are or become vacant. We are reviewing and reporting to the General Conference Administrative Committee on these constraints every two months. There have been a few positions that had to be filled and a few where we have used temporary or part time staff to help cover functions that were critical. But the annualized net savings from the approximately 20 unfilled budgeted positions at the present time is approximately US\$ 1.6 million.

We are monitoring very closely the effect the recession is having on tithes and offerings. We have looked at the last quarter of 2008 and compared it with the last quarter of 2007 and see approximately a 5% decrease. Part of that is due to changes in the exchange rates, but some of it is due to actual decreases in tithes and offerings because of the economy. We cannot compare the first two months of 2009 to previous year as there are a different number of Sabbaths involved. When we get to the end of March, we will be able to compare and analyze the first quarter of 2009. The item that is having the greatest effect on the revenues coming to the General Conference at this time is the strengthening of the US dollar against a number of currencies. A strong dollar is positive for the church as a whole as it makes the appropriation go farther, but on the flip side it has a major negative effect on the approximately 40% of our revenue that comes from outside of the US. We praise the Lord for the faithfulness of his children as they continue to return their tithes and give their offerings to finish the work.

Conclusion

During these turbulent economic times we have taken courage by the assurance that God is in charge. I have used shared this passage from Ellen White before but would once again share it as a reminder to keep our eye on the One who is at the helm and who sees and knows all.

The servant of the Lord, Ellen White, wrote in *My Life Today*, page 10,

We can see only a little way before us; "but all things are naked and opened unto the eyes of Him with whom we have to do." He never becomes confused. He sits above the confusion and distractions of the earth, and all things are opened to His divine survey; and from His great and calm eternity He can order that which His providence sees is best. {ML 10.4}

If we were left to ourselves to plan, we should make mistakes. Our prejudices, our weaknesses, our self-deceptions, and our ignorance would be manifest in many ways. But the work is the Lord's, the cause is His; He never leaves His workmen without divine directions. .