

FINANCIAL ANALYSIS

RESTRUCTURED SYNOD

Dwayne Cleave, LCC Treasurer

6/22/2017

NOTES TO READER

1. The financial projection for administration cost savings and the future spending budget illustrated throughout this report is based on the assumption that the three Districts will **voluntarily discontinue** their operations and **windup** their respective Corporations. We are also assuming that the windup of the District Corporations would take place reasonably soon after the 2018 District Conventions.
2. The estimated convention cost savings illustrated on **page 7** assumes that a 4 year convention cycle is adopted.
3. The aggregate financial results of LCC and the three Districts shown on **page 3**, is based on audited financial statements dated January 31, 2016 for LCC; January 31, 2016 for the East District; December 31, 2015 for the Central District; and January 31, 2011 for the ABC District. We chose the relatively dated statements for the ABC District for comparison, because that was the last fiscal year where their operating fund financial results were not significantly distorted by CEF operations. It is also important to mention that we only included the operating fund results for each of the entities in this report. CEF income and expenses, convention incomes and expenses, church worker conferences incomes and expenses, have all been excluded.
4. The aggregate congregational mission remittances to the Districts and LCC for the 2016 calendar year were approximately **\$2,600,000**. This recent figure is very relevant to the commentary shared on **page 2**. This approximation is based on information contained in the January 31, 2017 audited statements for LCC; December 31, 2016 audited statements for the Central District, Cash-Flow projections included in the court monitor quarterly reports for the ABC District, and confirmation of East District receipts from their Business Manager.

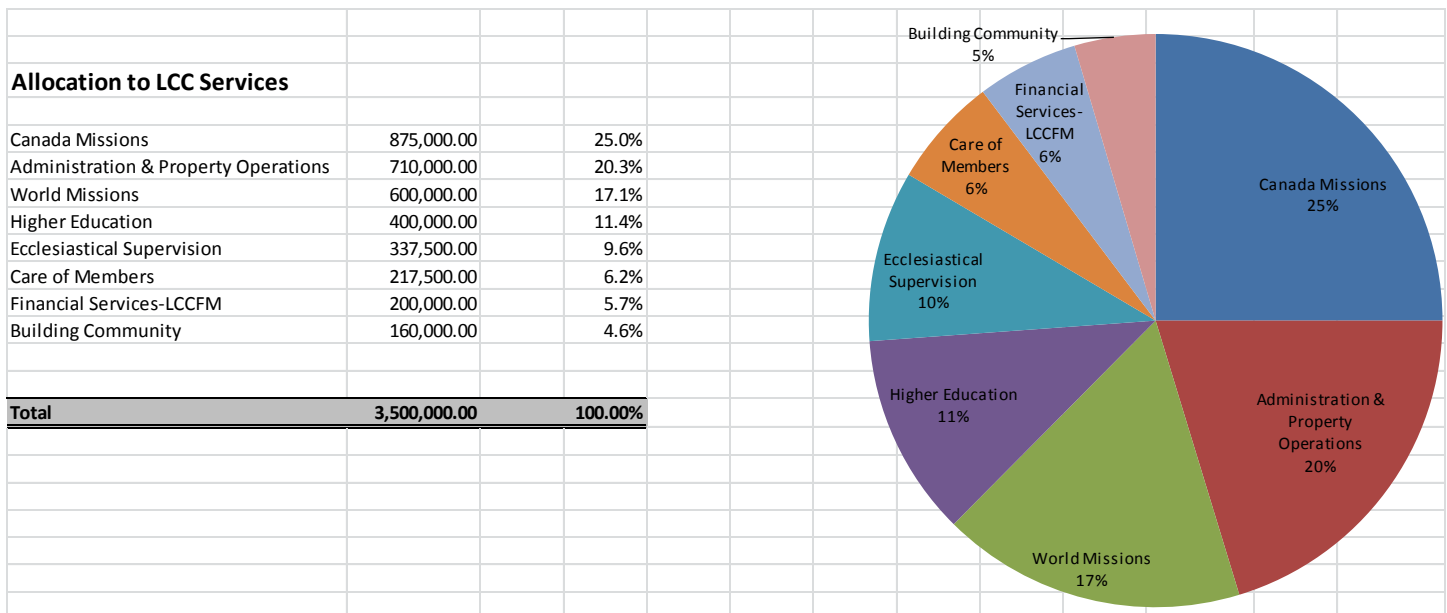
COMMENTARY TO LUTHERAN CHURCH –CANADA (LCC)

PROPOSED BUDGET (AFTER RESTRUCTURING)

INTRODUCTION

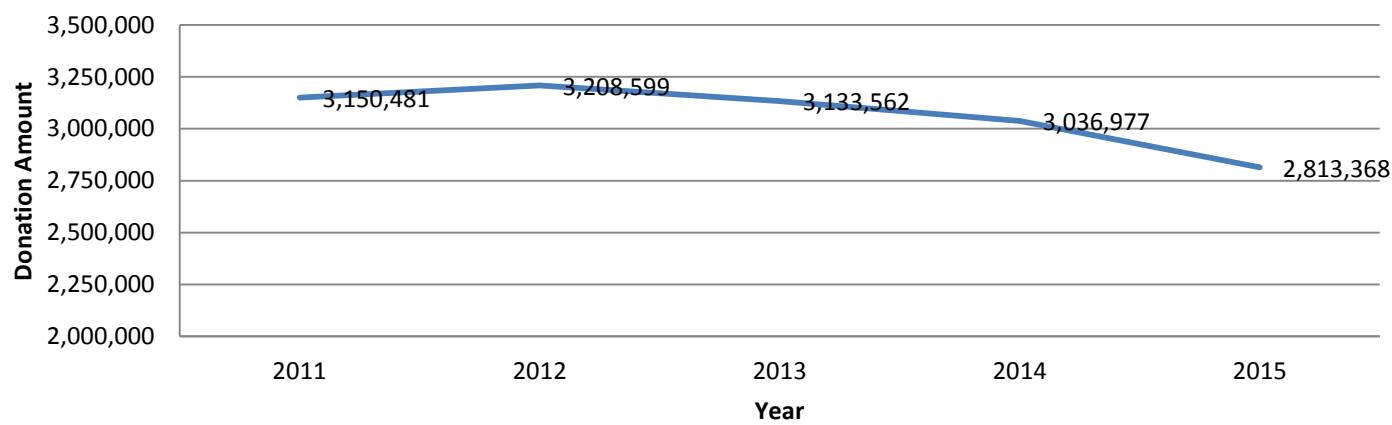
Upon careful analysis, we have determined that LCC will have financial resources totalling **\$3.5** million to allocate amongst the eight key services it provides to the Synod. It must be clearly understood that this is a much more modest program than our Synod constituency has been accustomed to in the past, but it is an honest reflection of the current financial realities.

LUTHERAN CHURCH CANADA															
ONE ADMINISTRATIVE STRUCTURE-PROPOSED BUDGET															
(3 Regional Pastors & 1 Director of Canadian Missions)															
AREA	Region	%	Region	%	Region	%	Canada	%	%	Regions	%	LCC	%	Synod	%
	Actual		Actual		Actual		Mission			Subtotal				Total	
Revenue															
Congregation Remittances												2,800,000	80.0%	2,800,000	80.0%
Designated Purpose												450,000	12.9%	450,000	12.9%
Planned Gifts												100,000	2.9%	100,000	2.9%
Investment Income												50,000	1.4%	50,000	1.4%
Endowment Distributions												50,000	0.0%	50,000	1.4%
Canadian Lutheran												50,000	1.4%	50,000	1.4%
Total Revenue	0	0%	0	0%	0				0%	0	0%	3,500,000	99%	3,500,000	100.0%
Expenses															
Higher Education												400,000	19.3%	400,000	11.4%
Canada Missions		0.0%		0.0%		0.0%		0.0%	0.0%	675,000	47.3%		0.0%	675,000	19.3%
Congregations in Transition		0.0%		0.0%		0.0%		0.0%	0.0%	200,000	14.0%		0.0%	200,000	5.7%
Congregation Services		0.0%		0.0%		0.0%		0.0%	0.0%		0.0%	0	0.0%	0	0.0%
Administration & Property Ops	45,000	26.5%	45,000	26.5%	45,000	26.5%	42,000	24.7%	26.5%	177,000	12.4%	493,000	23.8%	670,000	19.1%
Presidents office												135,000	6.5%	135,000	3.9%
Regional Pastors	125,000	73.5%	125,000	73.5%	125,000	73.5%		0.0%	73.5%	375,000	26.3%		0.0%	375,000	10.7%
International Mission												600,000	28.9%	600,000	17.1%
Lutheran Historical Inst												30,000	1.4%	30,000	0.9%
Financial Services-LCCFM												200,000	9.6%	200,000	5.7%
Commissions & BOD												40,000	1.9%	40,000	1.1%
Council Of Presidents												15,000	0.7%	15,000	0.4%
Canadian Lutheran												160,000	7.7%	160,000	4.6%
Total Expenses	170,000	100%	170,000	100%	170,000	100%	42,000	25%	100%	1,427,000	100%	2,073,000	100%	3,500,000	100.0%
Net Income (Loss)														0	0.0%



As recently as six years ago, the three Districts and LCC had available revenues of \$4.2 million. Approximately \$3.3 million of those revenues was derived from congregational mission remittances. Much has changed since that time. Subsequent to the CCAA proceedings, ABC congregational mission remittances to the District and LCC in aggregate have decreased by \$400,000 (a drop of approximately 33%). The other two Districts have also experienced annual reductions in mission receipts the past few years. The East District is down \$150,000 or (15%) and Central is down about \$50,000 or (6%). The graph below illustrates the chronic decline in mission remittances over the past five years.

LCC CONGREGATIONS- MISSION REMITTANCES TO DISTRICTS



It is also important to mention that even though the Districts and LCC were only receiving \$4.2M they were still trying to maintain ministry programs that totalled \$4.85M, with the end result being significant operating deficits. In the past, the Districts managed this deficit by either drawing down on their reserve funds or by relying heavily on unpredictable investment returns. It goes without saying that neither LCC nor the Districts have inexhaustible reserve funds, so it is critical that the proposed administration have a spending budget that reflects the funding being provided by the Congregations.

Going forward LCC will need to be very strategic in its deployment of capital; as it is clear that our congregations cannot support everything we are trying to do now or may wish to do in the future. Therefore, the funding LCC ultimately receives **must be deployed** where it is expected to achieve the **most good for the Kingdom of God**.

LUTHERAN CHURCH CANADA & DISTRICTS

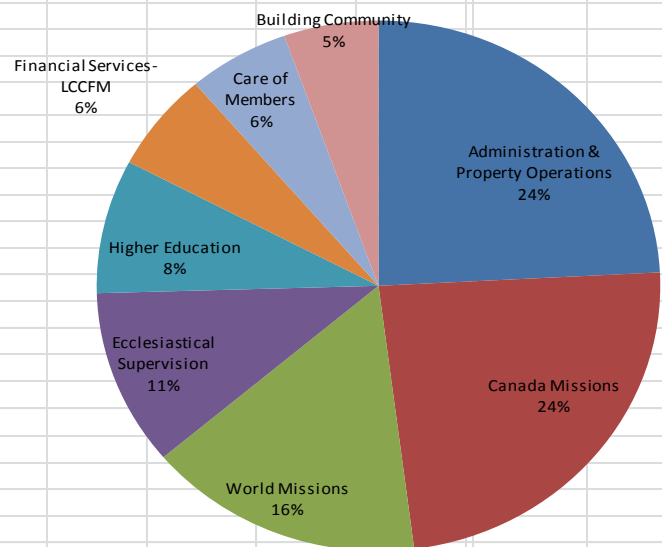
FINANCIAL RESULTS (Pre-Restructure)

Prior to ABC District CCAA Proceedings

AREA	ABC PRE CCAA	%	Central Actual 2015	%	East Actual 2015	%	Districts Actual	%	LCC Actual 2015	%	Total LCC & Districts	%
Revenue												
Congregation Remittances ₁	836,768	91.9%	381,707	73.2%	559,195	82.6%	1,777,670	84.3%	1,354,581	63.8%	3,132,251	74.0%
Designated Purpose	26,517	2.9%	92,098	17.7%	85,409	12.6%	204,024	9.7%	620,843	29.2%	824,867	19.5%
Other	47,163	5.2%	47,666	9.1%	32,444	4.8%	127,273	6.0%	88,198	4.2%	215,471	5.1%
Canadian Lutheran									59,146	2.8%	59,146	1.4%
Total Revenue	910,448	100%	521,471	100%	677,048	100%	2,108,967	100%	2,122,768	100%	4,231,735	100.0%
Expenses												
QD-Higher Education									398,391	18.5%	398,391	8.2%
Canada Missions	282,888	22.3%	193,656	37.2%	364,628	38.5%	841,172	30.7%		0.0%	841,172	17.2%
Congregations in Transition	115,000	9.1%	5,000	1.0%	200,000	21.1%	320,000	11.7%			320,000	6.6%
Congregation Services	190,433	15.0%	3,100	0.6%	11,724	1.2%	205,257	7.5%	54,657	2.5%	259,914	5.3%
Administration & Property Ops	391,786	30.9%	96,300	18.5%	153,049	16.2%	641,135	23.4%	453,138	21.1%	1,094,273	22.4%
Presidents office	157,329	12.4%	122,154	23.5%	101,000	10.7%	380,483	13.9%	131,841	6.1%	512,324	10.5%
International Mission		0.0%		0.0%	25,040	2.6%	25,040	0.9%	748,764	34.9%	773,804	15.8%
Special Projects	25,813	2.0%		0.0%	2,803	0.3%	28,616	1.0%	74,065	3.4%	102,681	2.1%
Lutheran Historical Inst	10,000	0.8%		0.0%		0.0%	10,000	0.4%	14,000	0.7%	24,000	0.5%
Financial Services -LCCFM	75,000	5.9%	85,000	16.3%	75,000	7.9%	235,000	8.6%	60,000	2.8%	295,000	6.0%
Commissions & BOD	20,000	1.6%	15,000	2.9%	14,000	1.5%	49,000	1.8%	38,290	1.8%	87,290	1.8%
Council Of Presidents		0.0%		0.0%		0.0%		0.0%	11,999	0.6%	11,999	0.2%
Canadian Lutheran		0.0%		0.0%		0.0%		0.0%	162,563	7.6%	162,563	3.3%
Total Expenses	1,268,249	100%	520,210	100%	947,244	100%	2,735,703	100%	2,147,708	100%	4,883,411	100.0%
Net Income (Loss)	-357,801	-39%	1,261	0%	-270,196	-40%	-626,736	-30%	-24,940	-1%	-651,676	-15.4%

Allocation to LCC Services (Pre-Restructure)

Administration & Property Operations	1,181,563.00	24.2%
Canada Missions	1,161,172.00	23.8%
World Missions	773,804.00	15.8%
Ecclesiastical Supervision	524,323.00	10.7%
Higher Education	398,391.00	8.2%
Financial Services-LCCFM	295,000.00	6.0%
Care of Members	283,914.00	5.8%
Building Community	265,244.00	5.4%
Total	4,883,411.00	100.00%



Footnote

- Congregation Remittances** – The congregations sent mission remittances totalling \$3,132,251 to the Districts, of which \$1,777,670 was retained by the Districts for their respective ministry work. The remaining \$1,354,581 flowed through the Districts to LCC for the ministry work of the Synod.

LCC'S PROPOSED NEW STRUCTURE

3.0 Regional Pastors (RP) & 1.0 Director of Canadian Missions (DM)

- Assumes (RP) time will primarily be allocated between Ecclesiastical Supervision, Care of Members and Building Community
- Assumes a specialist (DM) will manage the domestic mission program

INTRINSIC ASSUMPTIONS

1. Administration

- The cost of Administration will be about \$400,000 less than historical levels—not so much the result of what we will do in the future but rather because so much downsizing has already taken place within the ABC and Central Districts. We will of course experience further cost savings for audit, legal, and other professional fees, travel for board meetings, and so forth, because of the discontinuation of three additional District Corporations.

2. Canada Missions and Congregations in Transition

- Historically spending was \$1.1 million. This level of funding was being partially financed by the District CEF surpluses. We are not planning for that support in the future because it is not a sustainable model. The domestic base mission and subsidy budget after restructuring is expected to be \$875,000.

3. International Missions

- Historically spending was at levels of \$750,000 which included the overseas Mission Executive Salary & Benefits. This spending has been reduced to \$600,000

4. Theological Education

- Historically spending was at \$475,000 level (\$175K each seminary and \$125K CUE). More recently we had to reduce to \$136,000 for each seminary and discontinued funding to CUE. In the restructuring budget we are proposing \$400,000. (\$150K for each Seminary and \$100K for training diaconal church workers). The training of the diaconate used to take place at CUE.

5. Financial Services (LCCFM)

- Historically spending was at \$300,000 level. This has been reduced to \$200,000 which may result in the downsizing of staff at some point in time. This will probably happen systematically through retirement in the relatively near future.

Frequently Asked Questions

1. Can you provide the calculations for the estimated administration savings of \$400,000 overall?

The bulk of the administrations savings are the result of administrative **staff reductions** that have either already happened, or that are expected to happen if the restructuring model is adopted

Compensation Savings

<u>Already Occurred</u>	(A)	Compensation	
4 Administrative Positions		\$ 250,325	
Sub-Total (A)		\$ 250,325	
<u>Reductions Still Expected</u>	(B)	Compensation	
2 Administrative Positions		\$ 115,185)
Sub-Total (B)		\$ 115,185	
<u>Increase in Staff</u>	(C)	Compensation	
1 Digital Communication Technician (C)		\$ 60,000	
Sub-Total Compensation Savings (A+B-C)		<u>\$ 305,510</u>	
<u>Other Administration Savings</u>			
Board Meeting & Commission Savings		\$ 47,290	
Audit & Other Professional Fees (Legal)		\$ 48,000	
Sub-Total Other (E)		<u>\$ 95,290</u>	
Total Administration Savings (D+E)		<u>\$400,800</u>	

Notes to Reader

- I. It is critical to understand that even though some of the administration savings have already been realized through earlier staff reductions they **will only remain permanent savings if the new restructuring model is adopted**. The consolidation of the accounting functions into one corporation is the most efficient way of matching staff resources to the actual work volumes; while still maintaining effective internal controls through the segregation of duties. The status quo will require some of the Districts to either increase accounting staff to ensure adequate internal controls, or depend on non –accounting staff to perform those functions such as the District President or Administrative Assistant.
- II. In our **compensation savings total**, we have not included the compensation for the former ABC District Mission Executive, Director of Parish Services and Vancouver Missionary whose positions were also eliminated due to the CCAA proceedings. This is because we didn't consider their work to be administrative in nature.

2. Can you please provide some detail on the administration budget?

Compensation	\$420,000	12.0%
Office Cost & Professional Services	\$128,000	3.7%
Property Operations	\$ 122,000	3.5%
Boards & Commissions	<u>\$ 40,000</u>	1.1%
Total Administration	\$ 710,000	20.3%

3. Can you please provide a breakdown for salary, benefits, travel, office, secretarial support for a full time regional pastor?

Compensation	\$ 110,000
Travel Cost	\$ 15,000
Admin Support	\$ 28,000
Office Costs	<u>\$ 12,000</u>
Total	\$ 165,000

Regional Pastor- Compensation includes salary & benefits & (Employer CPP, EI, WCB etc.)

Office Cost Details broken out as follows;

400 Sq. foot rental space at \$12 per foot	\$ 4,800
Office Supplies/Misc.	\$ 3,200
Office Equipment	<u>\$ 4,000</u>
Total	\$12,000

4. Can you please provide the calculations for the \$480,000 in convention cost savings for the 12 year period?

Synod and District Convention Cycles				
Year	Current 3 year Cycle and Format	Current 3 year Cycle and Format Cost	Alternative	
			Unified Convention with 4yr Cycle Cost	Projected Savings Unified Restructure with 4yr Cycle
2020	Synod Convention	\$ 280,000		Unified Convention
2021	District Conventions	\$ 425,000	\$ 779,137	
2022				
2023	Synod Convention	\$ 280,000		Unified Convention
2024	District Conventions	\$ 425,000		
2025			\$ 779,137	
2026				Unified Convention
2027				
2028	Synod Convention	\$ 280,000		
2029	District Conventions	\$ 425,000	\$ 779,137	Unified Convention
2030				
2031	Synod Convention	\$ 280,000		
2032	District Conventions	\$ 425,000		
Totals		\$ 2,820,000	\$ 2,337,411	\$ 482,589
Over the 12 year period the estimated savings for the Synod would be \$482,589				

Assumes 2021 year as implementation date for Unified Convention

Total Cost - Current Synod Convention	\$ 280,000.00
# of Delegates attending Synod Conventions	190
Average Cost Per Delegate- Synod Convention	\$ 1,473.68
Total Aggregate Cost - District Conventions	\$ 425,000.00
# of Delegates attending District Conventions	632
Average Cost Per Delegate - District Convention	\$ 672.47
Budgeted Cost Unified Convention	\$ 779,000.00
# of Delegates attending Unified Convention	632
Average Cost Per Delegate- Unified Convention	\$ 1,232.59

5. The Central District outsourced its administrative and accounting functions to LCC part way through fiscal 2013. Can you please provide some details on the financial results, particularly in regard to the Administration?

LCC CENTRAL DISTRICT FINANCIAL RESULTS SINCE RELOCATION TO WINNIPEG								
Three Fiscal Years after Relocation					Three Fiscal Years Before Relocation			
Fiscal Year	2016 Actual	2015 Actual	2014 Actual	Total 3 Yr	2012 Act	2011 Act	2010 Act	Total 3 Yr
Revenue								
Congregation Remittances	777,304	756,401	811,735	2,345,443	807,780	819,373	868,960	2,496,113
Designated Purpose	61,566	92,098	114,790	268,454	44,108	22,216	5,951	72,275
Other	72,373	47,666	56,053	176,092	26,382	6,568	25,984	58,934
Total Revenue	911,243	896,165	982,578	2,789,989	878,270	848,157	900,895	2,627,322
Expenses								
District Missions	179,886	193,656	175,563	549,106	165,131	195,324	148,108	508,563
Congregation Subsidies	4,783	5,000	10,000	19,783	40,000	61,285	65,000	166,285
Congregation Services	13,828	18,100	20,132	52,060	19,195	30,802	38,004	88,001
Presidents Office	125,311	122,154	117,664	365,129	134,974	133,427	180,556	448,957
Administration	114,691	96,300	86,606	297,597	117,288	114,243	131,518	363,049
Sub Total Ops Expenses	438,499	435,210	409,965	1,283,676	476,588	535,081	563,186	1,574,855
Contributions to LCC	350,000	374,694	320,000	1,044,695	368,718	417,375	415,917	1,202,010
Contributions to LCCFM	75,000	85,000	75,000	235,000	56,250	45,000	30,000	131,250
Sub Total Ext Expenses	425,000	459,694	395,000	1,279,695	424,968	462,375	445,917	1,333,260
Total Expenses	863,499	894,904	804,965	2,563,371	901,556	997,456	1,009,103	2,908,115
Net Income (Loss)	47,744	1,261	177,613	226,618	-23,286	-149,299	-108,208	-280,793

Notes to Reader

- I. The Administration costs for the Central District for the three year period after relocation were \$65,452 less than the three year period prior to relocation (363,049-297,597)= \$65,452. The increase in fiscal 2016 is largely attributable to the purchase of an upgraded accounting software system (\$7,500) that was fully expensed to the fiscal period. If this extraordinary expense was excluded, the actual reduction in administration costs was closer to \$73,000. This equates to a total reduction of 20% (72,952/363,049) or 6.33% per year.
- II. In fiscal 2017 the Central District budget for administration cost is **\$94,101**. For the 6 month period Jan –Jun 2017 actual expenses are in line with the budget.
- III. Fiscal year 2013 was not included in the comparison because the outsourcing of administration occurred part way through the year and so there was an overlap of staff for several months (Central & LCC) during the transition