

# 2003 ANNUAL COUNCIL

## TREASURER'S REPORT

October 13, 2003

We have had the privilege over the last couple days to listen to reports from the General Conference President, Secretary, and others about the growth of the Church and how God is leading in the lives of His people. We are thrilled to see how God has blessed His children and His Church both spiritually and materially.

Total tithes and offerings, according to the General Conference Statistical Report, increased from \$1,718,230,383 in 2001 to \$ 1,772,879,408 in 2002, or a 3.2% increase. Tithe increased from \$1,120,268,583 to \$1,161,698,944, or a 3.6% increase. Total offerings through church channels increased from \$597,691,800 to \$611,180,464, or a 2.2% increase. Unfortunately, though, the World Mission Offerings decreased from \$48,038,299 in 2001 to \$46,466,793 in 2002, a decrease of 3.3%.

As members of the General Conference Executive Committee, we are concerned about the financial health of the Church around the world. The gross tithe and offering numbers indicate a vibrant growing church. Our attention during this report will focus primarily on the funds that flow through the General Conference budget and the General Conference's Operating Statement which represents only a small portion of the total tithe and offerings received around the world. Steven G Rose, General Conference Undertreasurer, will review the General Conference Operating Statement and the World Budget following this report.

Even as we have listened to the reports of progress throughout the world, we have been reminded that there remains a great challenge in the 10/40 Window. Almost half of the world's population is located within this area and it is almost untouched by Christianity. It reminds us of the Joshua predicament which William G Johnson wrote about in an editorial in the *Adventist Review* a few years ago.

In Joshua 1:3 the Lord said, "Every place that the sole of your foot shall tread upon, that have I given unto you, as I said unto Moses." But then after a few years, the children of Israel had settled down and we find recorded in chapter 13:1: "Now Joshua was old and stricken in years; and the Lord said unto him, Thou art old and stricken in years and there remaineth yet very much land to be possessed."

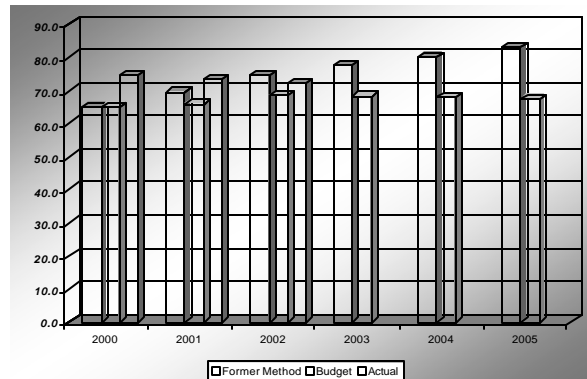
We have been proclaiming the Third Angel's Message for over 150 years and "there remaineth much land to be possessed." Unfortunately, the areas that have the greatest need—such as the 10/40 Window—have the least ability to staff and fund the work

As we consider how the General Conference can assist in areas of special need, it is important to look at trends and projections in tithe and offerings. In the year 2000, when we

started phasing in a new tithing formula, we knew the next five to ten years would be a period of adjustment for the General Conference World Budget.

Reducing the tithing percentage from the North American Division from 10.72% to 8.00% over five years will result in a reduction of tithing income to the General Conference World Budget of approximately \$20 million per year when fully implemented. At the same time, increasing from 1% to 2% of gross tithing for the other divisions will result in an increase of approximately \$5 million per year. The net effect is a reduction of approximately \$15 million per year in tithing available for the World Budget. It will reduce the tithing portion of the World Budget from approximately \$83 million per year to \$68 million by the fifth year. Graph #1 shows these projections assuming a 4% per year increase in North American Division tithing and a 2% increase in tithing in the other divisions.

Graph #1  
Combined – Tithing Sharing



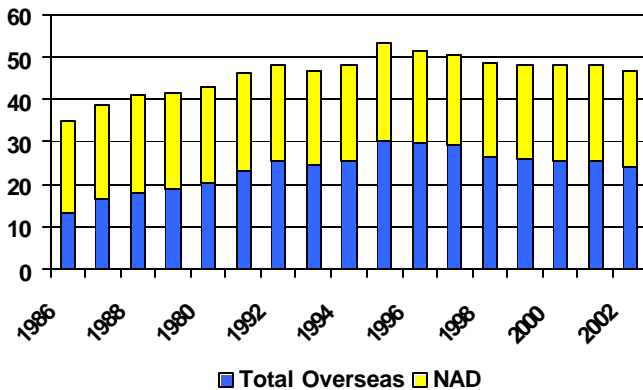
Graph #2  
GC Operating Projections  
Tithing Sharing Formula Phase In

2001 Slight Gain  
2002 Break Even  
2003 Break Even  
2004 3 Million Loss  
2005 5 Million Loss  
2006 3 Million Loss  
2007 Break Even  
2008 Possible Increase in Appropriations

In addition to the tithing sharing, the General Conference receives approximately \$48 million per year from mission offerings. This includes the Thirteenth Sabbath Offering, a portion of which goes for special projects, and the Annual Week of Sacrifice Offering which is processed through the General Conference Office of Global Mission. Assuming no increase or decrease in these offerings over the phase-in period, we projected the operating results as follows: Graph #2

You can see in Graph #2 that we are projecting in the year 2004 to have an operating loss of approximately \$3 million and in 2005 an operating loss of approximately \$5 million. Then in 2006 the loss should decrease to approximately \$3 million as the net tithing coming to the General Conference should start to increase after the fifth year of the phase-in. By 2007 we would hope to be back to a break even or positive position. We set aside additional working capital during the strong years of 1997 through 2000 to help us through periods such as this phase-in of a new tithing formula. We increased the working capital requirement from 20% of annual unrestricted income to 30%, which increased our working capital by approximately \$11 million. With the additional working capital and allocated functions to cover existing commitments, we felt we could work through this phase-in period without having to reduce the dollar amount of appropriations to the divisions and institutions and without laying off staff at the General Conference. We have left some vacancies unfilled to help reduce costs.

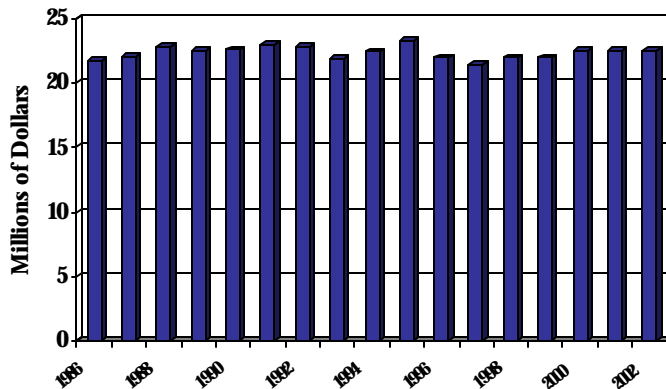
**Graph #3**  
**WORLD MISSION OFFERINGS**



As we moved into this new phase-in period in the year 2000, we could not project the effect that the investment markets would have on our finances. We will touch on that issue a little later in the report.

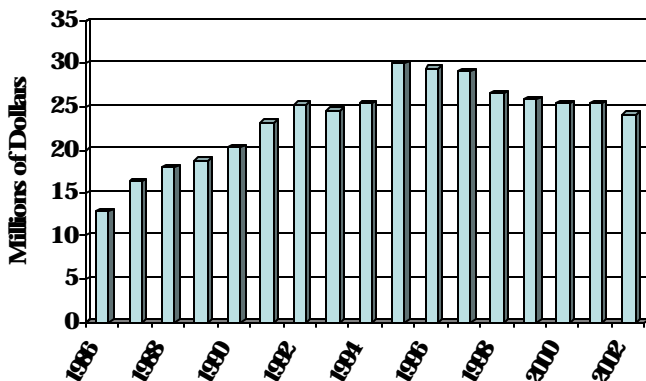
In 2000 we projected that World Mission Offerings would remain constant throughout the five-year period and hopefully even increase some. As Graph #3 shows, this has not been the case. Steve Rose, will spend more time reviewing Graphs #4 and 5 which show the trends for the North American Division World Mission Offerings, as well as the World Mission Offerings from the other world divisions. Total mission offerings in the year 2000 were \$47.90 million and by the year 2002 had decreased by \$1.24 million to \$46.66 million.

**Graph #4**  
**North America Division**  
**World Mission Offerings**



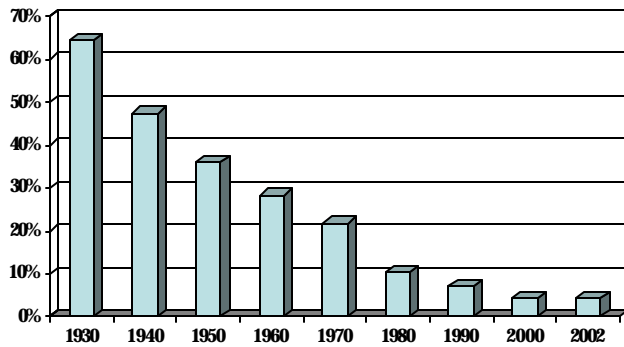
You can also see in Graph #6 the sharp decrease in mission offerings as a percentage of tithes over the period between 1930 and 2002. Graph #7 shows the actual dollars of tithes as compared to the actual dollars of mission offerings over the same period of time.

**Graph #5**  
**Non-North American Divisions**  
**World Mission Offerings**



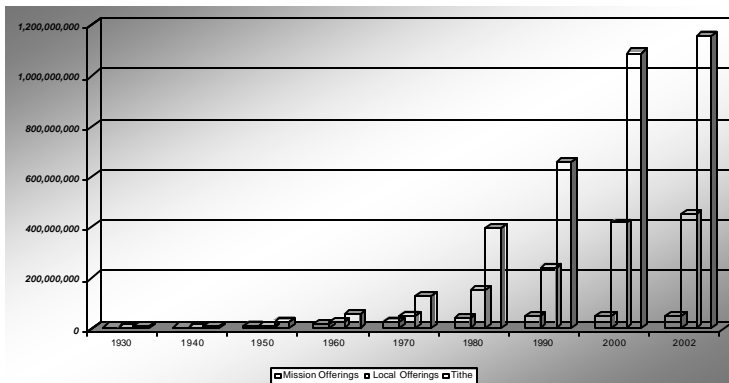
Total giving to missions includes more than what we are showing in these statistics. Our system of reporting includes only the funds which come through the General Conference and are processed through the World Budget. There are many individuals, local churches, conferences, and other organizations which are helping with the mission program through direct funding of specific projects and programs which are not included in these totals. We

Graph #6  
Mission Offerings as a Percentage of Total World Tithe



need to study our total reporting system to find ways to give a better picture of the overall support for the world work. It is vitally important, though, that we maintain a strong mission offering that can be directed by the General Conference Executive Committee which has the responsibility of looking at the total needs of the world field and giving special emphasis to areas of special opportunity or need, such as we have with the 10/40 Window.

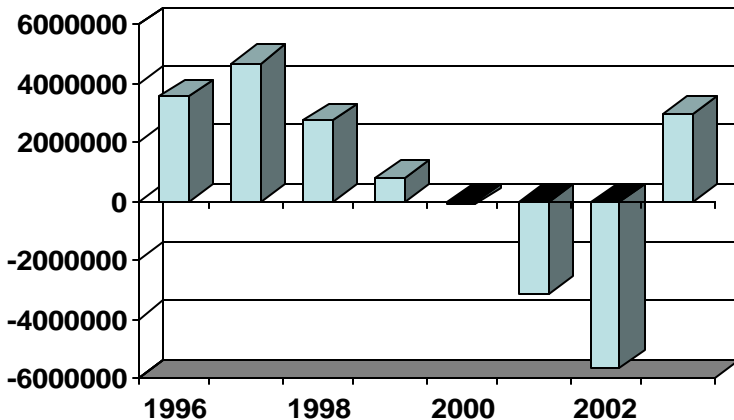
Graph #7  
Mission and Local Offerings as Compared to Total Tithe



The investment picture is more encouraging this year than it was a year ago. Graph #8 shows the market effects on the General Conference Operating Fund Investments since 1996, including 2003 through the end of August. This graph does not include the General Conference's Endowment Funds or Plant Funds, but the picture in those funds is similar.

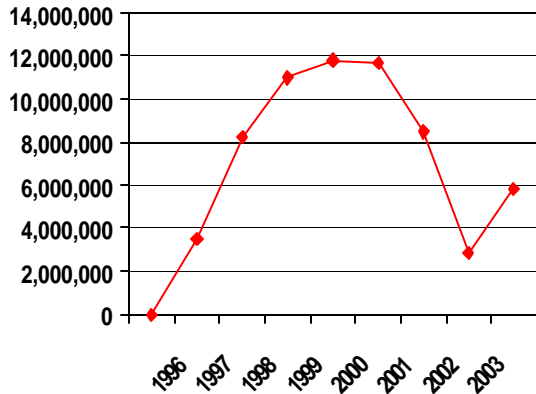
Graph #8

Market's Effects on General Conference Operations  
(2003 Data Through August 31)

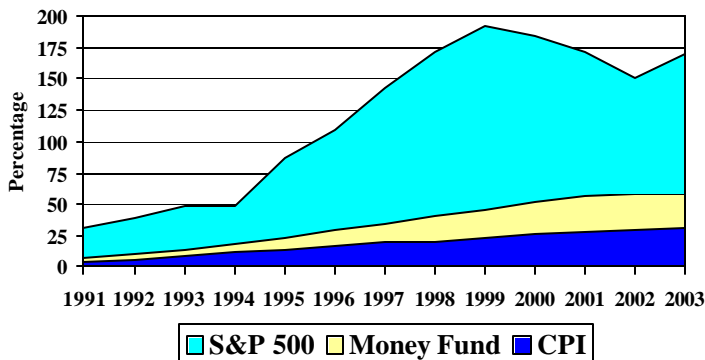


Graph #9 shows the cumulative market's effect since 1995 of the fluctuation in the market value of securities held by the General Conference Operating Fund. This does not include earnings on those securities, but the cumulative market effect. As you can see, the markets have recovered some of their losses. When we look at the long-term picture of investments, it is important to realize that there will be major fluctuations. Although the markets certainly have not returned to their highs of a few years ago for the General Conference Operating Fund, we are back to within a little over \$1 million of what was paid originally for the stocks in our portfolio.

Graph # 9  
 Cumulative Market's Effect on General  
 Conference Operating  
 (2003 data through August 31)



Graph #10  
 S&P 500 vs. Money Fund  
 (Return on \$16.8 Million)



Graph #10 shows the cumulative effect of the returns on the S&P 500 as compared to the Money Fund and the Consumer Price Index from the period of 1991 to the present. As you can see, over the long period—even when including the declines of recent years—we were still better off to keep a portion of our working capital in equities.

We have two major items that will hit our Financial Statement over the next two years. The first one is over \$5 million for building the new office for the East-Central Africa Division in Nairobi. Those funds have been set aside in an allocated function, but will hit the bottom line on our Operating Statement next year. The second item is the General Conference Session costs. We set aside \$1 million per year in an allocated function, but in 2005 it will hit the bottom line as an expense of approximately \$5 million. It is very important that as we review the Financial Statement, we be aware of these major items which will affect the bottom line. We cannot simply look at that one number to determine whether it has been a good year or a bad year operating wise.

### Presenting the Needs

Our members have a tremendous passion for finishing the work and, when presented with the needs, are extremely generous. Over the years we have tended to take for granted that they understood the needs and appreciated the importance of the mission offerings in helping finish the work. We have watched the decline in mission offerings as a percentage of tithes and lamented that we did not have more funds to help finish the work. Over this same period of time there has been a major shift in giving patterns with more and more funds being directed towards project giving. I believe we have failed to properly communicate the needs and the tremendous importance of the mission offerings in church growth, nurture, and unity. We give reports of large baptisms in traditional mission field areas. There can be a tendency, when the homeland

area does not experience these kinds of baptisms, to feel that funds are needed more locally since the mission work is obviously going well.

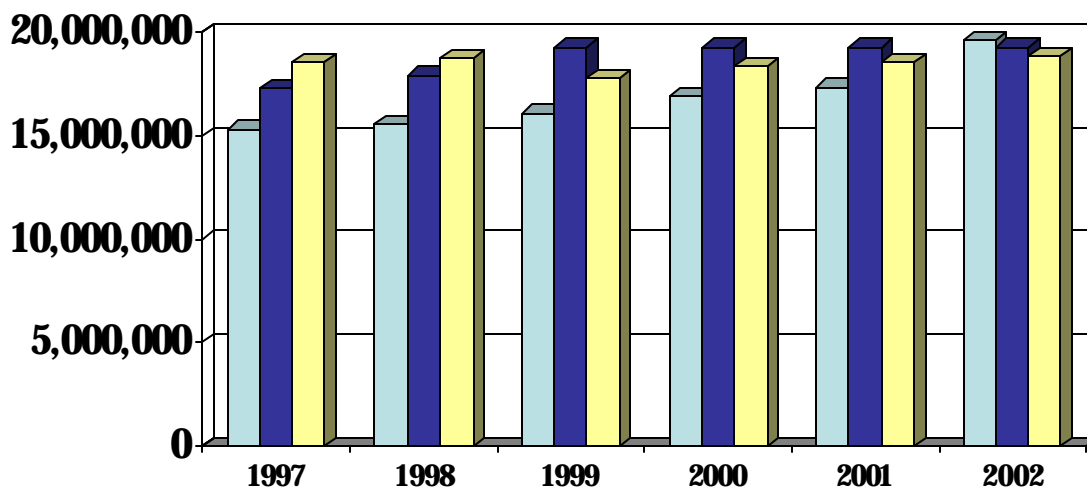
We must lay before our members the great unfinished work, particularly in the 10/40 Window. We are facing unprecedented opportunities in the 10/40 Window now. Technologies such as internet, radio, and satellite television have created new opportunities in addition to opportunities on the ground—including some exciting new possibilities. Unfortunately, many of our members perceive the mission offering as going into a deep, black hole and prefer to give to projects where they feel they can see the direct results.

We have to communicate the importance of our regular mission offerings and the exciting things that are being done as a result of these offerings. There is often the complaint that the regular mission offering simply goes for support of the structure of the Church. The term *structure* has a bad connotation and, in the eyes of many, is simply money wasted in administration. Some tend to evaluate the operation of the Church on the same basis as they would a commercial business enterprise with line authority between administration and employees. We need to apply the best business principles possible in the operation of the Church and reduce as much as possible the overhead costs and inefficiencies. On the other hand, we must not forget the differences between a corporate business structure and a volunteer church organization.

We tend to look at the number of pastors and divide it by the number of administrators and department directors to see the ratio and then compare that to a corporate structure that has line authority between workers and supervisors, and we conclude that we have too many supervisors and too few workers. The reality is, in the Church we have millions of volunteer workers (our church members) who dedicate their time and talents to spreading the gospel. In the areas that are growing the fastest, the major function of the employees of the church is that of organizing and directing the work of the volunteers. It takes a lot more training and coaching to work with unpaid volunteers than it does to supervise paid employees who, once trained and directed, will simply accomplish the task that has been assigned. But at the same time, if you have funds for 100 paid employees and you have three supervisors directing the 97 employees, you will accomplish far less than if you have the 100 individuals supervising 10,000 volunteers. To compare the structure of the Church to the structure of a corporation and only evaluate the structure as it relates to directing the work of paid employees may not be an appropriate comparison.

We have spent considerable time studying the needs of the 10/40 Window. We will be spending time studying the deployment of missionary budgets as well as the costs that are challenging our budget. Graph #11 shows how the increasing costs of our interdivision missionary program are putting pressure on the World Budget where there is basically no net increase in funds during the phase-in period. We need to lay before our members the great need in the 10/40 Window. It will take sacrifice on the part of our members, but it will also take sacrifice on the part of the Church corporately as we make the adjustments needed to free up funding, interdivision budgets, and other resources for work in the 10/40 Window area, as well as other areas with special opportunities. We have said for years that we must reduce our dependence on appropriations in the parts of the world where we have strong membership on the

## Graph #11 Interdivision Employee Funding and Budget



■ **Actual**
■ **Budget**
■ **16.5% of GC Budget**

ground. We need to reallocate those resources, both appropriations and interdivision missionary budgets, to parts of the world where it is impossible for the local membership to carry the burden as we are very “thin on the ground,” as Elder Jan Paulsen likes to refer to it—meaning, that we have virtually no membership in comparison with the general population.

As we move towards directing more and more of the resources available through the General Conference to the 10/40 Window, we must be patient and not expect to see large numbers of baptisms as the immediate result. It is always encouraging to come back with a report of thousands of baptisms, but we will not have those kinds of reports from most areas in the 10/40 Window. I believe that, with proper information, our members will continue to give and support this area—even though the reports will by necessity be more in the nature of reporting the types of work that is being carried on rather than the immediate results we are seeing and can count. When we go into an area using the airwaves or through the internet, we often reach and nurture individuals who may not be able to be in contact with anyone else in their area who is a Seventh-day Adventist or even a Christian. We must find ways to communicate to them—even if it is a one-way communication—that they are part of the great family of God, and we must continue to nurture and support them.

The Lord may not choose to open up these areas in the same way as He has some others where we can readily see the results of the work. But we need to be careful not to think like Elijah in 1 Kings 19:14 where we read “. . . and I, even I only, am left; and they seek my life, to

take it away.” In verse 18 the Lord responded, “and I have left me 7,000 in Israel, all the knees of which have not bowed unto Baal, and every mouth which hath not kissed him.”

God’s statistical report is very different from yours, Elder Bediako. It may be that at the end of your report you will have to add: “plus all those recorded in the Book of Life, the knees which have not bowed unto Baal.”

The Lord’s work is going to be finished. The question is: Are we going to be a part of it? Are we going to do our part?

Steve Rose is going to present the Financial Statement for the General Conference. I am sure that as God looks at the balance sheet He is asking, “What is this? You have failed to show in the asset section that the cattle on a thousand hills are Mine.” God owns everything. He has entrusted everything to us as His stewards and we must all be faithful. As Elder Paulsen has said repeatedly, no faithful steward to whom the Lord has entrusted means wishes the Lord to come and find his or her bank account still intact.

Wednesday night when the 10/40 Window Committee discussed the need for interdivision budgets to enter many of the countries in that area, Elder Bertil Wiklander, President of the Trans-European Division, said that he hoped the Lord would not come while we were still discussing how to find a few interdivision missionary budgets to enter the 10/40 Window. Although we all want the Lord to come as quickly as possible, I do not think any of us as administrators of the divisions or the General Conference want the Lord to come while we still have all of the interdivision budgets serving in the same place that they have been for the last 50 years and have the Lord ask us, “But what happened in the 10/40 Window?”

May the Lord bless us individually and corporately as we struggle with the issue of the need to finish the work everywhere, including the areas that are in such desperate need of help.

Robert E Lemon  
General Conference Treasurer