



Part One: Work of the Office Responsibilities

The treasurer of the Evangelical Lutheran Church in America (ELCA) proposes policy and oversees the implementation, within such policies, of the financial, accounting, audit, banking, investment, property, information technology, and building management systems of the churchwide organization. In addition to serving as the executive officer for the Office of the Treasurer, the treasurer serves as president of the Mission Investment Fund of the ELCA (MIF). The duties and responsibilities of the treasurer are explicitly defined in the *Constitution, Bylaws, and Continuing Resolution of the Evangelical Lutheran Church in America*, provision 13.50. and following, with additional responsibilities related to the operation of the MIF found in provision 17.50. and following.

Introduction

Over the past biennium, a period marked by economic instability and decreasing financial support, a critical responsibility of the Office of the Treasurer has been to project revenue, recommend spending authorization levels, and advise the Office of the Presiding Bishop regarding the required level of contingency and underspending plans. Reductions in churchwide revenue have impacted support and operations across a broad scope of mission and ministries, many carried out in partnership with other parts of this church. Through careful work in estimating and monitoring revenue and adjusting spending plans, the financial operations and responsibilities of the churchwide organization were not compromised, and it continues to meet legal obligations and to maintain strong controls and financial standards. In the midst of making adjustments for decreased financial resources, the other work of the office continued, including necessary and strategic system implementations and upgrades, financial reporting, and management of the business functions of the churchwide organization. A summary of some key accomplishments is provided below.

Organizational Transition and Building Management

Since the restructuring of the churchwide organization in late 2010, the Office of the Treasurer has concentrated its efforts on closing the fiscal year with positive net income; implementing the changes called for under the new design proposal; incorporating the asset management, administration, customer service and accounting functions formerly carried in the ELCA Foundation;

and ensuring that strong internal controls are maintained throughout the transition process and into the new structure.

The redesign of the churchwide organization made it necessary to realign many churchwide operating systems to match the new structure, including the website, general ledger, donor management, time and attendance, printers, telephones, and numerous ancillary systems.

To support efficient operations and a shorter process of transitioning to a new organizational structure and culture, it was important to move staff into their new organizational units as soon as possible. A new configuration for work space assignments was designed and approved at the end of 2010. In this process, all units, with the exception of some major unit subgroups, such as the Information Technology team, were located together, and the seventh floor was vacated and made available for leasing to new tenants, which will generate additional income for the churchwide operating budget. The staff moves (and moving of related phones, computers, and printers) were completed by the end of March 2011 with minimal new configuration. Other work with building and tenant management is ongoing. The large projects scheduled for 2011 are replacement of the original roof of the Lutheran Center and some renovation work in the parking garage.

Budget Development and Unit Accounting Services

Accounting coding for the new organizational structure has been developed, as well as mapping to trace the accounting history from the old structure into the new. The Office of the Treasurer worked closely with units to establish accounting and budget structures that best serve their management needs as well as those of the organization. Reports are being revised to service the new structure and management requirements.

The Office of the Treasurer continues to work closely with the Office of the Presiding Bishop and the Mission Advancement unit in the monitoring and reporting of synodical mission-support plans and contingency planning processes.

Information Technology

Information Technology (IT) is an area for most organizations that carries both a high level of risk and the potential for delivering greater organizational capacity and efficiency. As such, the churchwide organization has dedicated significant time and resources to ensuring that the systems are as secure as possible from external or internal threats to processes

or data. This process has included investment in technology and business continuity architecture. In 2010, the churchwide organization and the MIF also contracted for a special external IT audit to test for any vulnerabilities and recommend ways for enhancing security. The results of the audit were very favorable, and recommendations have been implemented and reported to the ELCA and MIF Audit Committees.

At the same time, the churchwide organization invested in new business and operating systems that will enhance the efficiency and effectiveness of how it carries out ministry through the churchwide expression, while keeping a strategic focus to all purchasing decisions. A recently formed Technology Advancement Team will establish and facilitate technology-related project selection and prioritization criteria aligned with the ELCA's two churchwide strategic priorities, business and communication objectives, and unit strategies. The team is charged with making decisions for the benefit of the whole organization and will have shared ownership for decision-making related to project selection, prioritization, and release approval.

Over the biennium, a number of IT projects have been or are in the process of being implemented. A summary of those having the greatest operational and strategic impact are noted in the following paragraphs:

- **ELCA Constituent Information System (ECIS):** Phase II of the project to unify all constituent data sources of the churchwide organization involves integrating over 345,000 donors, 1.6 million gifts, and the online giving application into ECIS. It also includes integrating ECIS with the churchwide organization's general ledger system and an upgraded Synod Remittance Advice System for use by synods. Data clean-up, data de-duplication, and streamlining business processes continue following completion of the first phase of the data consolidation. Cross-unit communication and work efficiencies in managing this information have been strengthened through the restructuring of the churchwide organization.

An ECIS pilot has been implemented with the Metropolitan Chicago Synod and the Greater Milwaukee Synod to investigate how this new system could serve synods and other related organizations.

- **MIF Technology Enhancements:** An initiative to have MIF join the churchwide organization in using the data center at the Board of Pensions in Minneapolis as a secondary site for purposes of business continuity is on schedule. Replication of some business-critical data has already begun. The site is expected to be fully ready to host MIF disaster recovery efforts before the expiration of the current SunGard contract in mid-2011.

IT has an active supporting role in discussions regarding a replacement of the MIF core banking system scheduled for 2012. The new system is expected to deliver substantial improvements in customer support and relationship management, business intelligence, executive management

reporting, and integration to other systems, resulting in improved operational efficiency and marketing opportunities.

- **Human Resources Information System Conversion:** IT, General Accounting, Human Resources (HR), and Global Mission staff have been working collectively on migrating HR and payroll systems and services from ADP to Ultimate Software's UltiPro solution. The new web-based system will provide all employees and Global Mission personnel with a secure portal that allows global access to manage their contacts, benefits, performance management, attendance, payroll, and other HR services online. In addition, it will streamline several processes and provide management with flexible reporting tools. The first time the new system will be used is June 2011.
- **Churchwide Assembly Related Projects:** IT has been working on a pilot project to provide documents electronically, instead of in binders, to the 2011 Churchwide Assembly voting members of five designated synods. The platform will be an Apple iPad or similar device with the *Pre-Assembly Report* loaded and networked into a dedicated website to provide updates during the course of the assembly. The goal is for the chosen device to be programmed to resemble the binder and be user-friendly.

IT, in coordination with the Office of the Secretary, has been working to provide an enhanced system to handle the nominations process at the 2011 Churchwide Assembly. This new system will be based in the ECIS integrated data system.

- **Contract Management:** A contract management module is being implemented to streamline the process of initiating, authorizing, procuring, disbursing, and monitoring approved contracts. The module provides staff with the capability of electronically storing, managing, and reporting on past, future, and upcoming contracts and commitments. A pilot for managing the 2012 ELCA Youth Gathering contracts is scheduled for July 2011, with staff training slated to take place during the summer and fall.
- **Foundation System Conversions:** IT and accounting staff teams have been working collectively on two system conversions. For endowment administration, the HWA Trust Processor system was selected and is live with the check writing module. The other modules will be implemented in phases during third quarter 2011. The second project is the implementation of PG Calc's GiftWrap web-based software to replace the current custom deferred gifts system in September 2011. GiftWrap will also integrate with ECIS.
- **Synod and Congregational Support:** IT is piloting a program to provide remote backup services to the Southeastern Iowa Synod. The service provides for backing up files and directories on synod computers in Southeastern Iowa to storage devices located in the Lutheran Center. If the pilot is successful, the service could be offered to all synods in fall 2011.

Affiliate agreements with Qwest Communications and Verizon Wireless are now in place for ELCA congregations and synods. All congregational and synodical employees are

now eligible for discounted business and personal Verizon wireless accounts. Discounts also are available using Qwest Communications audio and web-conferencing solutions and on long-distance telephone services.

- **Novell to Microsoft Transition:** IT has an initiative to transition away from Novell technology to Microsoft technology. The most visible component of this effort is the move from GroupWise email and scheduling to Exchange Server and the Outlook client in late 2011. Less visible infrastructure components already have been migrated.

In a related project, the operating system of the churchwide office computers will be upgraded to Windows 7 and the Office 2010 Professional suite. Other possible enhancements of this project include better support for remote connectivity, more robust security features, integration between voicemail and email, and the use of SharePoint as a collaboration tool.

By replacing aged Novell services with up-to-date Microsoft services, plus introducing the new services outlined above, IT is positioning the organization to move into the future.

Audit

Over the course of 2009 and 2010, the internal audit function made significant progress in identifying and reviewing new areas of risk, assisting with major information technology implementations, and helping to implement controls that ensured compliance with new government regulations. High-profile internal audit work included:

- Three new comprehensive reviews conducted to verify compliance with the churchwide organization's contract and fixed asset policies. These audits have become part of the regular audit cycle and have led to new fixed-asset and contracts policies being implemented;
- A new review of the controls surrounding Global Mission operations;
- Assistance with the successful implementation of a program to ensure compliance with the newly enacted Red Flag Act (a government-mandated program to ensure that constituent data is protected), along with the implementation of a mandatory workshop to teach all employees about compliance with this act;
- Completion of a special churchwide audit to examine the efficiencies of each unit within the churchwide organization;
- Assistance with the implementation of new data security and electronic communications policies;
- A general controls review of ECIS that verified the system was properly designed, tested, and implemented; and
- More than 1,100 hours on IT work, including assisting with new systems implementations, audit follow-up work, operational reviews, and assistance given to a special full-scope IT review conducted by an outside IT-audit firm.

Crowe Horwath LLP is the firm contracted to perform the external audit for the churchwide organization. It meets twice a year with the ELCA Audit Committee and coordinates effectively

with Internal Audit to maximize their audit scope and results. In order to be consistent with best practices for audit firm or partner rotation, the Audit Committee determined to continue with Crowe Horwath LLP but requested a rotation in audit partners. A new audit partner was assigned for the 2011 audit. Over the biennium, the audit process was well-managed and the audit results were positive. No significant control weaknesses were identified.

Data Security

Internal Audit partnered with IT and HR to implement a comprehensive, multi-pronged identity theft prevention program, which will further enhance the churchwide organization's control over the use of confidential data as well as ensure compliance with many governmental identity theft regulations. This program was put in place late in the second quarter 2010. It includes a mandatory "Identity Theft" workshop that every employee must attend at least once every two years. In addition, the Data Security Committee has moved from assessing the current data security environment to designing and implementing new policies and procedures that will strengthen the data security process. New procedures include:

- The Red Flag Policy and procedure;
- The Electronic Data Communications policy and procedure; and
- The Data Security policy and related procedures.

General Accounting

Under the new churchwide design, ELCA Foundation accounting and finance staff have been centralized and relocated to the Office of the Treasurer. The initial priorities of the General Accounting team were to maintain all administrative and customer service functions, close the fiscal year on schedule, produce the financial statements, and prepare for the audit. Over the coming year, the general accounting team will be focused on integrating its responsibilities, identifying redundancies and best practices, cross-training, and developing enhanced teamwork.

The Office of the Treasurer is increasingly working to provide accounting services to related entities. The first year of operations under new service-level agreements was completed in 2010 with Women of the ELCA, Lutheran Men in Mission, and National Lutheran Campus Ministry, Inc. The Office of the Treasurer now manages six general ledgers for the churchwide organization and certain related ministries.

Banking

The Foundation and Endowment Fund Pooled Trust operating accounts were moved from Northern Trust to Harris Bank to consolidate all treasury management activity at Harris Bank. As a result of the consolidation, Harris offered a 1 percent earnings credit on all balances held by Harris, including those held prior to the transfer. This level of earnings credit is more than double the rates available for short-term overnight investments, which had been the practice for available ELCA funds.

Receipts Processing

Gifts processing completed a successful upgrade to the software used to receive and process online gifts. As part of the new design, additional gift processing functions have been assigned to the Office of the Treasurer. In order to enhance controls over incoming funds, all checks and deposits are now being sent from the mailroom directly to Receipts Processing, and the team works with unit representatives to confirm deposit information and share documentation.

Receipts Processing staff also participated heavily in the new ECIS design, testing, and training. Planning is underway concerning the best processes for ensuring an efficient system for crediting gifts and maintaining accurate constituent information in the new system.

Accounts Payable

As part of the implementation of new endowment and deferred-gift administration systems, the accounts payable functions for these programs will move from the general ledger system to the respective new administration systems. Accounts Payable staff has been preparing for the increased tax form 1099 reporting requirements for payment to suppliers, expected to take effect in 2012. The team will be instrumental in the churchwide organization's review of unclaimed property, scheduled for late 2011.

The Office of the Treasurer now provides expense reimbursements through direct deposit into individual staff banking accounts. The office also began utilizing workflow capabilities for the automatic electronic submission of general accounting system reports to staff.

Major Work in 2011–2013

Major work that will be undertaken by the Office of the Treasurer over the next biennium is expected to include:

- Review of all major functions impacted by the centralization of churchwide accounting functions to ensure maximum efficiency and the application of best practices where diverse processes have come together as one function.
- Full review and updating of policy and procedure documents that govern the operations of the office.
- Establishment of charters for inter-unit work groups that will oversee the administration and servicing of the endowment fund and deferred gift programs.
- Assistance to the Office of the Presiding Bishop in finalizing the new biennium spending plan.
- Support for units in reviewing initial budget plans and making adjustments to budget structure for 2012.
- Completion of implementation and training and continuation of planning to leverage the capacity of the new operating systems for endowment, deferred gifts, constituent information management, human resources information, and contract management.
- Transition of the churchwide organization from Novell technology to Microsoft technology.

Part Two: 2009 and 2010 Financial Report Audited Financial Report for Fiscal Year 2009 and 2010

The consolidated, audited financial statements for the Evangelical Lutheran Church in America for the years ended January 31, 2010, and January 31, 2011, are attached as Appendix A and Appendix B of this report. These statements include the activities of all units and offices of the churchwide organization that are not separately incorporated as well as the Endowment Fund Pooled Trust. The report includes a consolidating schedule by fund of General Operating Funds, the Endowment Fund, and the Deferred Gift Fund. The financial statements are prepared by management, audited by Crowe Horwath LLP, and reviewed by the ELCA Audit Committee.

As a result of current operating expenditures being managed within available income and good recovery in the market value of the endowment and deferred-gift pools, the results for fiscal years 2009 and 2010 were positive.

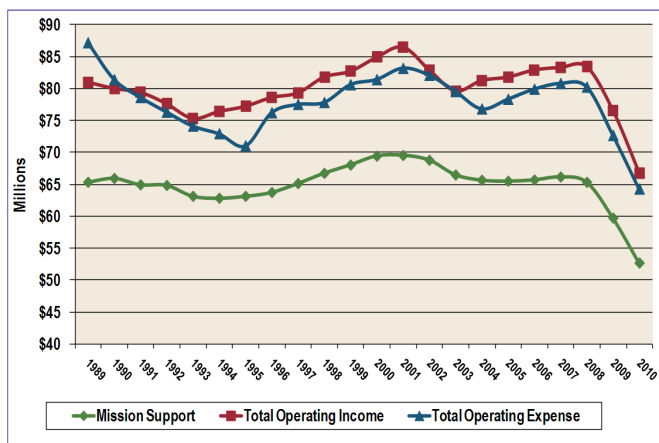
Current Operating Results for 2009 and 2010

The current operating results for the biennium, reported exclusive of the Endowment and Deferred Gift Funds and non-operational, pre-audit adjusting entries, also reflected positive net income. Net operating income for the 2009 and 2010 fiscal years amounted to \$3.9 million and \$2.6 million, respectively.

After five years of increases, total current fund operating income for the churchwide organization decreased in 2009 by \$6.9 million to \$76.5 million and again in 2010 by \$9.8 million to \$66.8 million. The primary factor impacting revenue was mission support income. Income from congregations in the form of mission support decreased from \$65.3 million in 2008 to \$52.6 million in 2010, a total reduction for the biennium of \$12.7 million or 19.5 percent.

Operating expenses were managed within estimated revenue and declined in proportion to decreases in income. Expenses

ELCA Churchwide Organization
Current Operating Income vs. Expense
1989 – 2010



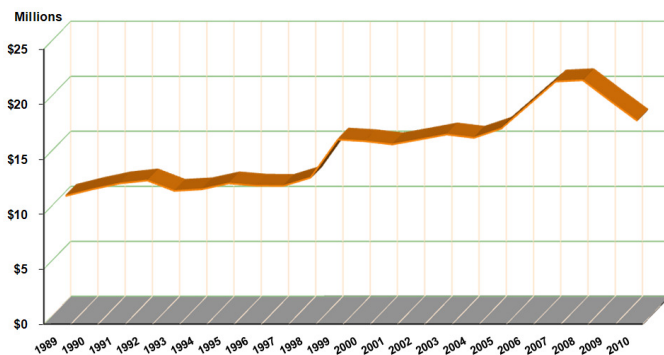
amounted to \$72.6 million in 2009 and \$64.2 million in 2010, as compared to \$80.2 million in 2008. There were no additional allocations made by the Church Council for designated purposes.

ELCA World Hunger

Giving to the ELCA World Hunger was \$19.6 million in 2009, a decrease of \$1.9 million, and further decreased to \$17.7 million in 2010, a reduction of \$1.8 million over the prior year. The primary factor in the decrease was a difference in the amount of bequest income, although there also was a decrease in gift income.

ELCA members also contributed \$12.4 million to the ELCA Disaster Response in 2010—double the amount received in 2009. This total included a generous outpouring of gifts for the Haiti disaster response of \$8.3 million.

**ELCA World Hunger Income
1993–2010**



Deferred Gifts

As of December 31, 2010, the ELCA’s gift annuity pool had 4,865 active annuities with associated segregated assets totaling \$100 million. The ELCA issued approximately 340 new gift annuities in 2009 and 2010. More than 650 gift annuities matured during this same time period, with \$8.6 million distributed to ELCA ministries and other charitable organizations.

The churchwide organization administers 411 active charitable remainder trusts and a limited number of pooled income funds with investments totaling approximately \$80 million as of December 31, 2010. During 2009 and 2010, approximately \$1 million in matured gifts were distributed to ELCA ministries through these programs.

The ELCA Board of Pensions serves as the investment advisor for the gift annuity program, with fixed income instruments constituting approximately 96 percent of the pool’s investments. Wells Fargo and Thrivent Financial serve as investment managers for 85 percent and 15 percent, respectively, of the total charitable trust and pooled income fund investments.

ELCA Endowment Fund

The financial results for the Endowment Fund Pooled Trust are found below in Part Three of this report.

Financial Summary

Despite significantly reduced income over the past two years, the churchwide organization was able to manage its expenses accordingly, resulting in positive income less expense in both years. The final month of the 2010 fiscal year was the first time in 18 months that mission support income surpassed the corresponding month from the previous year. The careful income projections made during this biennium have proven to be the necessary ones in order to maintain stability and ensure ongoing support for those that depend on it. While decreases in mission support have continued in 2011, many synods have begun to recover financially and are sharing more mission support in 2011 than in the prior year. Other categories of income are also performing positively or at the estimated level. The Office of the Treasurer does not anticipate the need for further budget reductions or underspending in the current fiscal year.

Conclusion

In the midst of these challenging times, I have been grateful for the cooperative, responsive, and visionary leadership of the Church Council, Conference of Bishops, churchwide staff and executives, and the presiding bishop and executive for administration. I also give thanks for the continuing generosity and stewardship of the ELCA’s members. Because of you, we are together making a difference in the world for the sake of the Gospel. It has been an unsurpassed privilege to serve as your treasurer.

Ms. Christina Jackson-Skelton, *treasurer*

Part Three: The Endowment Fund of the ELCA

Board of Trustees

Mr. Eric N. Anderson, Salina, Kan. (2011)
 Ms. Teresa Chow, Hoffman Estates, Ill. (2015)
 The Rev. Susan J. Crowell, Greenville, S.C. (2015)
 Ms. Ann Sponberg Peterson, *chair*, Decorah, Iowa (2011)
 Ms. Kathleen M. Rehl, Land O'Lakes, Fla. (2014)
 Mr. Fred B. Renwick, New York, N.Y. (2011)
 Mr. John H. Saeger, Lancaster, Pa. (2013)
 Mr. James E. Willis, Rockwell City, Iowa (2015)

Staff Leadership

Mr. David P. Novak, *president*

Purpose

The Endowment Fund of the ELCA is separately incorporated. Most of the assets of the Endowment Fund are invested in the Endowment Fund Pooled Trust (Pooled Trust), which offers pooled investment services for the endowment funds held by the ELCA churchwide organization as well as the invested funds of ELCA congregations, synods, agencies, and institutions. The Pooled Trust is administered by the Office of the Treasurer and the ELCA Foundation with the ELCA Board of Pensions acting as investment advisor.

Investment Management Structure and Objective

When organizations invest in the Pooled Trust, their endowment assets are pooled with the accounts of many other ELCA ministries and the permanent endowment funds of the ELCA churchwide organization into Endowment Fund "A" (Fund A). The larger aggregate fund allows for a diversity of investments that may not otherwise be available to these ministries. To the extent practicable,

investments are made in accordance with the ELCA's guidelines for socially responsible investing.

The objective of Fund A is to provide participants with a stable, quarterly stream of distributable investment income that grows over time approximately in line with the expected long-term rate of inflation. The current recommended distribution rate of 4.25 percent is intended to provide participants with long-term capital appreciation. Fund A's target asset allocation is 35 percent U.S. equity, 25 percent non-U.S. equity, 15 percent investment grade fixed income, 5 percent inflation indexed bonds, 10 percent high yield fixed income and 10 percent global real estate securities.

Financial Results: 2009 and 2010

As of December 31, 2010, the ELCA Endowment Fund Pooled Trust held 1,818 individual accounts totaling \$388.8 million. This represents a net increase of 114 accounts since December 2008. Of these accounts, 884 (\$232.8 million) are currently owned by the ELCA churchwide organization and 934 (\$156.0 million) are owned by other investor participants.

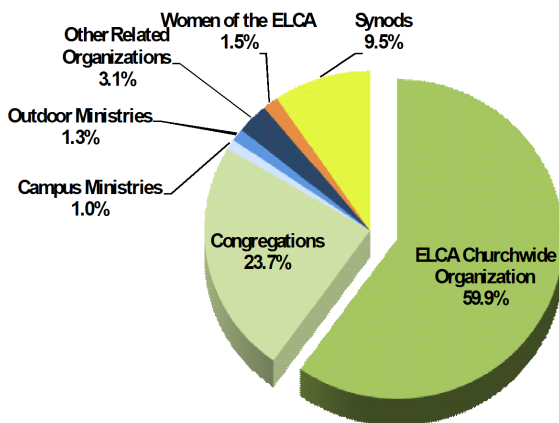
Revenue contributed in 2009 and 2010 for unrestricted, temporarily restricted, and permanently restricted endowments owned by the ELCA, including permanently restricted endowments benefitting numerous other ELCA ministry partners, totaled \$33.3 million compared to \$31.7 million for the prior biennium. Approximately \$157 million of the total net assets of the Pooled Trust at December 31, 2010, were to benefit ministries of the ELCA churchwide organization.

The Pooled Trust grew by 64 new investor participant accounts during the biennium, representing approximately \$8.9 million in new investor deposits. Approximately \$11.5 million in net additions were made to the Pooled Trust by existing investor participants, and 29 accounts totaling approximately \$1.6 million were closed.

Over the two-year period, there was a net increase of approximately 50 percent in the market value of the Endowment Fund Pooled Trust.

Ms. Ann Sponberg Peterson, *board chair*
 Mr. David P. Novak, *president*

Endowment Fund Pooled Trust
 Market Value by Participant Ownership
 as of December 31, 2010
 \$388,811,405



Endowment Fund Pooled Trust
 Market Value at Year-End
 2000 through 2010

