

THE LUTHERAN COUNCIL OF GREAT BRITAIN LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

1 BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention as modified by the valuation of fixed assets investments at market value and in accordance with applicable accounting standards and the principles contained in the Statement of Recommended Practice (Accounting and Reporting by Charities) issued by the Charity Commission for England and Wales in March 2005 (SORP 2005).

2 ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are:

(a) Fixed assets

Properties in the ownership of the Council are stated at the cost of additions and improvements less grants received. Office equipment, fixtures and fittings are stated at cost.

(b) Depreciation

Assets costing over £500 are capitalised. Depreciation is provided on a straight line basis by reference to the expected useful lives of the assets. Their useful lives are estimated as follows:

| | |
|--------------------------------|----------|
| properties | 50 years |
| showers and kitchens | 10 years |
| furniture and fittings | 5 years |
| heavy equipment | 4 years |
| computers and office equipment | 3 years |

(c) Incoming resources

Incoming resources include all amounts earned or receivable up to the accounting date.

(d) Fund accounting

Restricted funds are the unexpended balances of donations and grants held on trust to be applied for specific purposes.

Designated funds are unrestricted funds that have been set aside at the discretion of the trustees for specific purposes. The purpose and use of designated funds are described in the notes to the financial statements.

General funds are the accumulated surplus of incoming resources over outgoing resources. They are available for use at the discretion of the trustees in furtherance of the general objectives of the charity.

(e) Grants payable

Grants payable include all grants payable during the year.

(f) Investments

Fixed asset investments are stated at market value in accordance with SORP 2005. The Statement of Financial Activities includes gains and losses arising from the revaluation of investments.

(g) Pension cost

The Council contributes to a group staff pension scheme and to the personal pension plans of certain employees. All pension schemes are defined contributions schemes. The pension cost represents contributions payable by the charity during the year.

(h) Resources expended

The costs of charitable activities comprises expenditure directly attributable to the Council's charitable objectives plus support costs.

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**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)**

2 ACCOUNTING POLICIES (continued)

(h) Resources expended (continued)

Governance costs comprise the costs of governance arrangements which relate to the general running of the Council plus related support costs.

Support costs comprise the costs of central management and administration insofar as these are not directly attributable to other activities. They are allocated to the costs of generating funds, charitable activities and governance according to the time spent on each activity.

3 INTERNATIONAL LUTHERAN STUDENT CENTRE

One of the Council's main activities is the International Lutheran Student Centre, whose results have been incorporated within the financial statements.

In June 1982, fixtures and fittings were transferred to the Council by means of a long lease on the property at 30 Thanet Street, London. The fixtures and fittings had an original cost of £40,000 but this cost was met by donations and grants by the Trustees.

Funds have been designated by the Trustees to provide for the long-term upkeep of the premises and the replacement of fixtures and fittings at the end of their useful lives. Further details of these funds are given in note 17.

| 4 INVESTMENT INCOME | 2006 | 2005 |
|----------------------------|---------------|---------------|
| | £ | £ |
| Interest receivable | 32,620 | 17,347 |
| Dividends receivable | 56,989 | 57,486 |
| | <u>89,609</u> | <u>74,833</u> |

| 5 COSTS OF GENERATING FUNDS | Unrestricted funds | Restricted funds | Total 2006 | Total 2005 |
|------------------------------------|-------------------------------|-----------------------------|-----------------------|-----------------------|
| | £ | £ | £ | £ |
| Expenses relating to: | | | | |
| Augustana Centre | | | | |
| direct costs | 15,590 | - | 15,590 | 11,871 |
| Other rental income | 15,836 | - | 15,836 | 21,924 |
| Investment managers' fees | 5,566 | - | 5,566 | 4,055 |
| Support costs | 6,187 | - | 6,187 | 1,759 |
| | <u>43,179</u> | <u>-</u> | <u>43,179</u> | <u>39,609</u> |

6 GRANTS PAYABLE

Other support for member churches includes the following grants to member churches paid during the year.

| | 2006 | 2005 |
|---|---------------|---------------|
| | £ | £ |
| Estonian Evangelical Lutheran Church in Great Britain | 5,000 | 4,500 |
| Hungarian Lutheran Church in Great Britain | 600 | 1,000 |
| Latvian Evangelical Lutheran Church in Great Britain | 4,400 | 2,500 |
| Lutheran Church in Great Britain | 10,000 | 8,500 |
| | <u>20,000</u> | <u>16,500</u> |

No grants to individuals were paid from the Student Hardship Fund (2005, nil).

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for the year ended 31 December 2006 (continued)

7 TOTAL RESOURCES EXPENDED

| | Staff costs | Establishment and office costs | Transfers between funds | Other costs | Total 2006 |
|--|----------------|--------------------------------|-------------------------|---------------|----------------|
| | £ | £ | £ | £ | £ |
| Costs of generating funds | 6,340 | 31,273 | - | 5,566 | 43,179 |
| Ecumenical relations and activities | 8,132 | 17,226 | - | - | 25,358 |
| International Lutheran Students Centre | 235,793 | 165,967 | - | 35 | 401,795 |
| Student chaplaincy | 21,980 | 12,108 | - | - | 34,088 |
| Communications | 3,485 | 9,588 | - | - | 13,073 |
| Other support for member churches | 1,162 | 2,708 | - | 20,000 | 23,870 |
| Total charitable activities | 270,552 | 207,597 | - | 20,035 | 498,184 |
| Governance costs | 3,485 | 6,232 | - | 5,362 | 15,079 |
| | 280,377 | 245,102 | - | 30,963 | 556,442 |

Included in total charitable expenditure are fees of £5,211 (2005, £5,088) payable to the auditors for the audit and £69,618 (2005, £53,507) for depreciation.

8 GAIN ON DISPOSAL OF FIXED ASSETS

During the year, the Council realised a surplus of £729,296 on the sale of its freehold property at Kingscroft Road, London NW.

9 SUPPORT COSTS

| | 2006 £ | 2005 £ |
|--|---------------|---------------|
| Costs of generating funds | 6,187 | 1,759 |
| Ecumenical relations and activities | 21,653 | 10,556 |
| International Lutheran Students Centre | 6,187 | 5,278 |
| Student chaplaincy | 6,186 | 3,519 |
| Communications | 9,280 | 5,278 |
| Other support for member churches | 3,093 | 3,518 |
| Total charitable activities | 46,399 | 28,149 |
| Governance costs | 9,279 | 5,278 |
| | 61,865 | 35,186 |

10 RELATED PARTY TRANSACTIONS

The Trustees received no remuneration in connection with their duties as trustees. In 2006, 2 (2005, 2) trustees received reimbursement of travel expenses totalling £438 (2005, £271) during the year and no trustees attended seminars whose costs were paid by the Council (2005, 2 trustees, total cost £80). No other payments were made directly to or for the benefit of Trustees. As part of its work to support Lutheran churches, the Grants Committee (which does not include any trustees connected with churches that have applied for grants and whose decisions about grants do not require the approval of the Trustees) made special grants during the year to member churches including a trustee amongst their pastors.

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**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)**

10 RELATED PARTY TRANSACTIONS (continued)

Grants made to member churches including a trustee amongst their pastors were:

| | 2006 £ | 2005 £ |
|---|---------------|---------------|
| Estonian Evangelical Lutheran Church in Great Britain | 5,000 | 4,500 |
| Latvian Evangelical Lutheran Church in Great Britain | 44,000 | 2,500 |
| Lutheran Church in Great Britain | 10,000 | 8,500 |
| | 59,000 | 15,500 |

11 STAFF COSTS

| | 2006 £ | 2005 £ |
|------------------------|----------------|----------------|
| Staff costs comprised: | | |
| Wages and salaries | 217,098 | 210,338 |
| Social security costs | 17,026 | 16,545 |
| Other pension costs | 14,104 | 13,214 |
| Other staff costs | 32,149 | 31,074 |
| | 280,377 | 271,171 |

No employee earned more than £60,000 during the year. The average number of persons employed during the year, most of whom were part-time employees, was:

| International Lutheran Student Centre | 20 | 20 |
|---------------------------------------|-----------|-----------|
| others | 3 | 3 |
| | 23 | 23 |

12 TANGIBLE FIXED ASSETS

| | Freehold property £ | Leasehold property £ | Fixtures, fittings and equipment £ | Total £ |
|-----------------------|---------------------------|----------------------------|---|------------------|
| Cost | | | | |
| at 1 January 2006 | 130,865 | 543,797 | 364,692 | 1,039,354 |
| additions | 955,000 | - | 42,108 | 997,108 |
| disposals | (64,741) | - | (153,428) | (218,169) |
| | 1,021,124 | 543,797 | 253,372 | 1,818,293 |
| Depreciation | | | | |
| at 1 January 2006 | 61,180 | 93,594 | 331,556 | 486,330 |
| charge for the year | 36,113 | 10,676 | 22,829 | 69,618 |
| disposals | (29,577) | - | (153,428) | (183,005) |
| | 67,716 | 104,270 | 200,957 | 372,943 |
| Net book value | | | | |
| at 31 December 2005 | 69,685 | 450,203 | 33,136 | 553,024 |
| at 31 December 2006 | 953,408 | 439,527 | 52,415 | 1,445,350 |

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)

| 13 INVESTMENTS | 2006 £ | 2005 £ |
|---|-----------|-----------|
| Market value at 1 January 2006 | 2,226,946 | 1,920,983 |
| Additions | 279,361 | 86,136 |
| Less: disposals | (244,095) | (55,500) |
| Net movement on cash accounts | (1,698) | 4,965 |
| Net gains on valuation at 31 December 2006 | 269,389 | 270,362 |
| | <hr/> | <hr/> |
| Market value at 31 December 2006 | 2,529,903 | 2,226,946 |
| | <hr/> | <hr/> |
| Listed investments | 2,403,246 | 2,098,591 |
| Cash on call | 126,657 | 128,355 |
| | <hr/> | <hr/> |
| Market value at 31 December 2006 | 2,529,903 | 2,226,946 |
| | <hr/> | <hr/> |
| <p>The total value of investments managed by Cazenove at 31 December was £1,368,622 (2005, £1,223,490).</p> | | |
| <p>Details of investments:</p> | | |
| CAF UK Equity Growth Fund | 486,685 | 418,285 |
| Cazenove Absolute Return Trust for Charities | 350,363 | 176,028 |
| Cazenove Equity Income Trust for Charities | 389,376 | 389,620 |
| Cazenove Growth Trust for Charities | 388,136 | 380,340 |
| Cazenove Income Trust for Charities | - | 119,447 |
| Charities Property Fund | 319,715 | 286,020 |
| Others | 595,628 | 457,206 |
| | <hr/> | <hr/> |
| Market value at 31 December 2006 | 2,529,903 | 2,226,946 |
| | <hr/> | <hr/> |
| Historical cost | 1,881,025 | 1,821,142 |
| | <hr/> | <hr/> |
| Unrealised gain | 648,878 | 405,804 |
| | <hr/> | <hr/> |
| 14 DEBTORS | 2006 £ | 2005 £ |
| Due within one year: | | |
| Trade debtors | 5,834 | 5,546 |
| Prepayments and accrued income | 13,015 | 15,630 |
| | <hr/> | <hr/> |
| | 18,849 | 21,176 |
| | <hr/> | <hr/> |
| 15 CREDITORS | 2006 £ | 2005 £ |
| Due within one year: | | |
| Taxation and social security | 5,970 | 4,577 |
| Trade creditors | 36,515 | 5,921 |
| Accruals and deferred income | 28,881 | 26,284 |
| Deposits received | 39,831 | 45,717 |
| Other creditors | 291 | 2,213 |
| | <hr/> | <hr/> |
| | 111,488 | 84,712 |
| | <hr/> | <hr/> |

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)

16 RESTRICTED FUNDS

| | LWF fund | Student hardship fund | Total 2006 | Total 2005 |
|-----------------------------|-------------|-----------------------------|---------------|---------------|
| | £ | £ | £ | £ |
| Balance 1 January 2006 | - | 2,543 | 2,543 | 2,542 |
| Incoming resources | 9,978 | 3,797 | 13,775 | 13,948 |
| Outgoing resources | (9,978) | - | (9,978) | (13,947) |
| Balance at 31 December 2006 | - | 6,340 | 6,340 | 2,543 |

The LWF fund represents a grant from the Lutheran World Federation towards the costs of the student chaplaincy.

The student hardship fund comprises the unspent balance of donations for the support of students suffering hardship.

17 UNRESTRICTED FUND MOVEMENTS

| | Balance 1 January 2006 | Incoming resources* | Resources expended | Transfers and investment gains/(losses) | Balance 31 December 2006 |
|---------------------------|------------------------------|------------------------|-----------------------|--|--------------------------------|
| | £ | £ | £ | £ | £ |
| Designated funds | | | | | |
| Capital fund | 1,647,322 | - | - | 269,389 | 1,916,711 |
| Fixed assets fund | 553,024 | - | - | 892,326 | 1,445,350 |
| Property maintenance fund | 682,264 | - | - | 73,900 | 756,164 |
| Chaplaincy fund | 16,819 | - | - | (16,819) | - |
| | 2,899,429 | - | - | 1,218,796 | 4,118,225 |
| General funds | 199,050 | 1,326,253 | (546,464) | (949,407) | 29,432 |
| | 3,098,479 | 1,326,253 | (546,464) | 269,389 | 4,147,657 |

Capital fund: this fund is maintained in order to set aside an amount that will generate sufficient income to allow the Council's work to continue. The fund was created in 1998 and, since then, has been increased (or decreased) by transfers from (or to) General Funds in line with the net gain (or loss) on the Council's investments.

Fixed assets fund: this fund represents the net amount tied up in tangible fixed assets and so not available to spend.

Chaplaincy fund: this fund represents money received to support the Student Centre chaplaincy.

Property maintenance fund: this fund is funded by annual transfers from general funds and is used to finance essential maintenance work to the Council's properties in accordance with a long-term maintenance plan so as to maintain them in a safe and presentable condition and to improve them in accordance with the Council's longer-term objectives. During 2006, £73,900 (2005, £93,735) was transferred to this fund.

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**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)**

18 ANALYSIS OF NET ASSETS BETWEEN FUNDS

The net assets are held for the various funds as follows:

| | Unrestricted funds | Restricted funds | Total |
|-----------------------|-------------------------------|-----------------------------|------------------|
| | £ | £ | £ |
| Tangible fixed assets | 1,445,350 | - | 1,445,350 |
| Investments | 2,529,903 | - | 2,529,903 |
| Net current assets | 172,404 | 6,340 | 178,744 |
| | 4,147,657 | 6,340 | 4,153,997 |

19 PROPERTY

A long lease at a nominal rent of the property at 30 Thanet Street, London WC1, was granted to the Council in June 1982. The total net cost of the property of £860,000 was met by donations and grants received by the trustees of the project.

20 PENSION COSTS

The assets of the pension schemes, all of which are defined contribution schemes, are held separately from those of the Council in independently administered funds. Contributions made by the Council to the schemes during the year are shown in note 11. Contributions of £291 were due to the schemes at the year end (2005, £2,213).

21 RELATED PARTIES

The Council is one of two corporate members of Bethphage Great Britain, a registered charity with international Lutheran links, providing high quality residential care and assisted living support to about 60 people in the Midlands of England.

22 PENSION SCHEME OBLIGATIONS

One member of staff of the Council participates in the Pensions Trust's Growth Plan. This is a multi-employer pension Plan which is in most respects a money purchase arrangement but it has some guarantees. It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer's contributions payable.

The last formal valuation of the Plan was performed at 30 September 2005 by a professionally qualified actuary. The valuation revealed that the assets of the Plan fell short of the accrued liabilities based on actuarial assumptions about the Plan's future income and expenditure as at the valuation date by an amount equivalent to a past service funding level of 96%. The Actuary has not recommended an increase to employer contributions which are currently 10% and the Council is not aware of any plans to change future employer contribution rates.

Following a change in legislation in September 2005, there is a potential debt on the employer that could be levied by the Trustee of the Plan. The Trustee's current policy is that it only applies to employers with pre October 2001 liabilities in the Plan. The debt is due in the event of the employer's ceasing to participate in the Plan or the Plan's winding up. The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (calculated on a buyout basis i.e. the cost of security benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Plan. If the liabilities exceed assets there is a buy-out debt.

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22 PENSION SCHEME OBLIGATIONS (continued)

The leaving employer's share of the buy-out debt is the proportion of the Plan's pre October 2001 liability attributable to employment with the leaving employer compared to the total amount of the Plan's pre October 2001 liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers and it depends on many factors including total Plan liabilities, Plan investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

The Council has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the Plan as at 30 September 2005. As of this date the Pensions Trust estimated the employer debt for the charity at £63,858; they have since advised the Council that they did not take into account the employee's service with other employers when calculating this figure but that the Council would have to pay the sizeable actuarial cost of providing a revised estimate of the Council's Employer Debt on Withdrawal. It is therefore not possible for the Council to quantify the contingent liability. (There is no current intention to leave the Plan and trigger the contingent liability.)

22 PROJECT GRANTS

Following the sale of the Council's property at Kingscroft Road, the Trustees decided that member churches should be invited to apply for grants totalling a maximum of £50,000 to assist them with particular projects. No applications have yet been received and no commitment has been made.