Treasurer’s Annual Financial Report

The report contains the following documents:

2. Budget to Actual notes.
   - Introduction
   - Internal developments
   - Diversification of revenues
   - Overview of expenditures
   - Losses recorded
3. Audit and year-end result and follow-up.

Annexes (for members only):
1. ILGA-Europe’s 2019 Statement of Activities (Budget to Actual)
2. Statutory 2019 Annual Accounts (Belgian Regulatory Law) in English and French (attached), including the Statement of Position
3. Comparative internal financial statements 2018-2019
4. Auditor’s report
Summary

ILGA-Europe’s financial statements covering the period from January 1, 2019 to December 31, 2019 have been independently audited by a certified auditing firm contracted by the Executive Board: Callens, Pirenne, Theunissen and Co. They show actual income registered at 3,087,949.21 €, expenses of 3,016,305.25 €, and a year-end result of 71,643.96 €.

The financial year 2019 proved to be a period of complex work to secure diverse funding required to cover the wide work carried out throughout the region. Many of the long standing grants were coming to an end, creating a significant gap in budget both for 2019 and the years to come. ILGA-Europe proved to be able to adapt to the changing context and make best use of existing resources. Additionally, several streams of funding were expanded and some new funding was acquired – core grants, project-specific funds and one subsidy each from the governments of Ireland and Cyprus. The organisation has expanded its capacity to deliver more resources to the movement, including financial and capacity building, both in-person and online. More focus was put on low-cost activities in order to maintain impact while decreasing overall costs. As usual, work was put into retaining the highest standards of accountability and management, both in terms of ILGA-Europe’s own funds and the funds re-granted to the movement.

The Annual Conference of 2019, held in Prague, was significantly cheaper for ILGA-Europe and participants, thanks to the ability to secure a low-cost venue and change the structure of some of the event. A significant number of project partners and scholars were brought in to increase the participation of underrepresented groups. Important successes were noted in multiple areas of work, from contributions to
legislative and policy solutions and accelerating changes on a national and international level, to linking member organisations in Europe and Central Asia with other partner organisations and political actors to mutually reinforce efforts and facilitate strategic partnerships in targeted areas.

As we reflect on the financial achievements of 2019, we see that the conditions in which ILGA-Europe operate, also financial, are more challenging than during the previous decade. ILGA-Europe are still struggling to acquire the 250,000 € of flexible resources needed annually to fulfil co-funding requirements. Mobilizing new resources remains to be a priority but most successes are noted in the area of project and event funding. And, as we already know in 2020, the amount of efforts undertaken in a situation of crisis will only increase and ILGA-Europe need to focus its financial efforts on building a level of flexibility that enables risks to be taken when required by the current situation.

To this end, ILGA-Europe have been and continue investing in alternative means of funding its activities, including individual donor engagement, corporate partnerships and involvement of members and partners. We believe that further establishing ILGA-Europe as a driving force for change in the region goes hand in hand with making it more sustainable and therefore effective.

On behalf of the Board of ILGA-Europe, I ask the membership that the financial report for the year 2019 be approved.

Yves Aerts
Treasurer of the ILGA-Europe
Executive Board
**Introduction**

The financial statements within this report represent ILGA-Europe’s statements for 12 months: from January 1, 2019 to December 31, 2019. These statements have been independently audited by a certified auditing firm contracted by the Executive Board.

The Annexes attached are a core element of the report, while this document is intended to provide narrative and comparative information.

The Statement of Activities (Budget to Actual) includes a comparative column associating actual audited expenses and revenue for 2019 to the membership-approved budget from the Brussels Annual Conference 2018. The report is broken down by funder to allow for further transparency in relation to grant activities and spending. Due to security precautions some funders are marked as “Anonymous”. The Statement of Position (Belgian Financial Statement) provides data in the obligatory Belgian format, and therefore is accompanied by an internal excerpt of official books: the Comparative Financial Statement.
Internal developments

ILGA-Europe is a continuously growing organisation, with an increasing portfolio of diverse activities and membership, and more and more involvement in various parts of Europe and Central Asia. As such, it needs to persistently improve its own systems and controls, to ensure the best and most strategic use of resources. The key changes implemented or started in 2019 are:

- The strengthening of processes and controls around ILGA-Europe’s re-granting, including development of internal guidelines on the scope of review of reports, development of capacity building tools for grantees, multiple webinars on financial management, documentation and reporting held throughout the year. This work is part of a long-term plan and builds on the approach outlined in the Re-Granting Manual approved in the previous year.

- Further consistent digitising of accounts and approval systems, allowing for approx. 80% of ILGA-Europe’s book-keeping and financial management to be moved to a secure and accessible online environment, and this speeding up audit and expenditure verification processes.

- In light of the 2017/2018 losses caused by fluctuations between the euro and other currencies, improved currency exchange management, including use of an external currency processor which enables freezing transactions until a good rate can be obtained. Currently the majority of ILGA-Europe revenues are streamlines through this processor, allowing to avoid a loss of approx. 3000 € on every 100 000 $ received.

- The opening of a new position within the Finance and Admin

Key take-aways

- Strengthening of re-granting work.
- Digitalisation of accounts.
- Better currency exchange management.
- New position: Events and Finance Officer.
- High number of audits.
Finally, several audits took place throughout and concerning the year 2019, including an overall EC and organisational audit of 2018 (reported in the previous Conference), two externally contracted audits of the European Commission Operating grants 2016 and 2017, a project audit of the Anonymous Project (following nearly 4 years of implementation in 5 countries), a project audit of the subsidy by the Kingdom of the Netherlands (2 years of implementation), a standard annual audit of the 2019 Operating Grant and a standard organisational audit of the overall financial year 2019, followed up with a review of ILGA-Europe’s financial affluence and financial risk assessment quality in light of the Covid-19 pandemic. In terms of funds, approx. 5 000 000 € of project expenditure was reviewed and barely 30 000 € was found ineligible (0.6%), which can be counted as a success. The findings mostly concerned errors in processes, calculations and allocations from previous years, the risks of which since then have been eliminated through stronger internal controls and clearer policies. A few minor changes were planned to be developed and implemented as a result of these audits, including:

- Systems for better documentation of year-end expenses and accruals
- Systematisation of tracking and documenting procurement processes
- Improved tracking of fixed assets
- More detailed policy for daily subsistence allowances for staff and event participants.

During the organisational audit of financial year 2019 the auditors made no findings, so no recommendations for further improvements were noted for the time being.
Diversification of revenues

Needless to say, the mobilising of resources was one of the key priorities for 2019. Given the number of large-scale long-term projects which have provided continuous funding to certain areas of work throughout the previous 4 years, ILGA-Europe needed to invest in securing sufficient resources to carry out its work and continue building up a reserve. The initially approved budget foresaw revenues of 3 035 615 € and a year-end deficit of nearly 70 000 €. ILGA-Europe proved to be able to adapt to the changing situation and make best use of existing resources. Overall, revenues increased to 3 078 903 € in actual revenue at year’s end, with over 500 000 € of core funds available and deferred to 2020 and 2021 to increase overall financial stability. This is the best core funding mobilizing result in years, and allows ILGA-Europe some comfort in terms of capacity to fundraise for specific, under-funded areas of work foreseen for 2020, 2021 and beyond.

In terms of changes to the structure of funding, four large, long-term projects were closed, with another 3 starting their final (non-renewable) year in 2020. Two new projects were started, allowing to cover the costs of approx. 1 staff member. Few funding streams were significantly increased by donors, including the Wellspring Philanthropic Trust core grant with project-specific additions. The Chechnya Fund was closed in 2019 and the intake of donations finished. The work around the Diversity Fund was heightened and, along with other fundraising efforts (including the engagement of two new European governments), enabled ILGA-Europe to bring over 160 scholars and project partners to the 2019 Conference in Prague, including those from highly sensitive regions where activists face higher probability of challenging conditions.

Key take-aways

- Significant increase in core funding available.
- Closing of several projects.
- Closing of the Chechnya fund.
- More donor engagement around the Annual Conference and Diversity Fund.
- Ability to create reserves is unstable and less than 2% of revenues annually.
The general breakdown of types of costs per funder can be seen in Annex 1 - ILGA-Europe’s 2019 Statement of Activities (Budget to Actual). The main funders remained, as in 2018:

- The European Commission – 30% of revenues
  Annual Operating grant, in the above table featured under dark orange (core) due to covering a large portion of governance and management costs. It is, however, restricted funding with many compliance limitations. This grant covers the majority of ILGA-Europe’s advocacy and policy activities.

- The Global Equality Fund – 13% of revenues
  Multi-year projects financing capacity-building, movement-building and re-granting in specific at-risk countries.

- Wellspring Philanthropic Trust – 11% of revenues
  A core grant with significant portions of it earmarked for strategic communication work, individual donor fundraising and strategic litigation.

- Arcus Foundation – 8% of revenues
  Four projects with diverse objectives, from financing work in specific countries and regions to development of ILGA-Europe’s individual donor fundraising capacity. Overall, the share of this stream of funding decreased by a third since the previous year.

- The Government of the Kingdom of Netherlands – 7% of revenues
  A multi-year subsidy supporting advocacy and policy work outside of the EU, as well as engaging non-EU members in capacity-building activities.

- Anonymous Funding – 7% of revenues
  Two projects funded by a public entity focusing on capacity building and re-granting in specific, at-risk areas.

- Open Society Foundations – 5% of revenues
  A core grant with significant portions of it earmarked for carrying out work on specific countries and on Roma issues.

Other, smaller projects constituted another 5%. The remaining amount (14%) included restricted and unrestricted donations, sponsorships, and subsidies for the Annual Conference Prague 2019.

Even though the financial result of the year is growing every year, and a reserve building plan is being implemented effectively, ILGA-Europe is still struggling with acquiring new sources of funding. Overall, across the last five years (2015 - 2019), the total revenues of ILGA-Europe have been steadily increasing (with the exception of 2019 where conscious decisions were made to delay some work and carry over
budget to 2020) but the amount of new funding, or new funders, is relatively low. In 2019, the revenues from new funders were approx. 2% of the budget. While until the previous year the share of core funds was decreasing, throughout 2019 ILGA-Europe’s funders dedicated additional resources to our organisational sustainability. This, however, will likely not be an on-going commitment, especially given the volatility of the 2020 crisis and changing situation. The ability to build reserves will be decreasing, both due to the need for crisis responses and the decreased pool of non-restricted funding which would cover co-funding requirements for specific grants. ILGA-Europe’s context does not yet allow to mobilize non-restricted donations and corporate sponsorship to a sufficient level to bridge budget gaps and provide sustainability to future financial years.
An important aspect in diversifying ILGA-Europe’s revenues beyond project funds is the annual requirement to provide 20% of co-financing of costs incurred under the European Commission Operating Grant and about 5% of costs of one of the Anonymous streams of funding. In 2019 the required total of nearly 250,000 € for co-funding was allocated from core funds and donations (approx. 160,000 €) and from Conference fees (approx. 90,000 €) – for this purpose every year the participation and accommodation costs of EC-eligible participants are captured under the operating grant and the income from those participants’ fees is recorded as co-funding. The fees therefore strictly cover only actual costs incurred. Unfortunately, this means that the cheaper the Conference fee (where decreasing these costs and making the Conference more accessible has been and remains to be the aim), the more core funds ILGA-Europe needs to earmark for co-funding.

It should also be noted that around 50% of ILGA-Europe’s revenues are issued in currencies other than euro, which is why in previous years significant losses were recorded against the budgeted values of grants. In 2019 however, thanks to the use of currency brokering through an external entity, ILGA-Europe managed to maintain good exchange rates throughout the year while maintaining a good cash holding level.
Overview of expenditures

The overall expenditure structure of ILGA-Europe in the 2019 financial year remained to be largely in line with the projected approved budget and structures from previous years. Some changes occurred to enable moving some resources to 2020, and therefore delaying some work.

Since ILGA-Europe was in 2017 forced to utilise over half of its low reserves to cover a budget gap, the priority has been to generate as positive a year-end result as possible. This is also a part of a larger strive to increase organisational sustainability through building a reserve of approx. 700 000 €. In comparison to 2018, ILGA-Europe had much larger levels of core funds available. And even so, the decision was taken to not use these as much as was possible and carry over to following years. This is why the costs of 2019 are fairly comparable to 2018, where due to limited financial capacity many loss-cutting measures were implemented.

Compared to the budget approved by the membership, total expenditures were decreased from 3 104 766 € to 3 016 305 €, and this is including a large write-off of outstanding receivables at year’s end. The majority of cost decrease compared to the approved budget occurred due to moving of certain development projects partially to 2020, including further development of ILGA-Europe’s Resource Hub and continuation of work on the organisation’s Strategic Framework. Work on intersectionality was also refocused on the intersection of LGBTI and disability activism, with other elements of the work planned for 2020.

Significant savings were made on the 2019 Prague Conference, where, thanks to negotiations and availability of different venues, ILGA-Europe managed to
keep the costs of accommodation and subsistence (and therefore the Conference fee) at a very low level. Given the fact that many limitations to budget applied this year, and that the Conference reached capacity of the venue, significant resources of the conference Diversity Fund were even carried over to the future.

Again, ILGA-Europe managed to keep advocacy and strategic litigation costs low through the use of own resources and cooperation with pro bono experts.

An approx. 30% decrease was noted on re-granting compared to the approved budget (and the previous year). The reasons for this was a decision to delay two calls for proposals in order to carry out a needs assessment with civil society groups in the region and communities concerned. Both calls were issued in 2020. Additionally, the amount budgeted for re-granting under an Anonymous project was estimated based on budget available, but due to the closing of one partner organisation and overall absorption capacity of partners, no more funds could have been issued.

ILGA-Europe succeeded in further bringing down its own fundraising costs, primarily the Annual Equality Gala, therefore retaining a larger portion of income generated through these activities. Similarly, the costs of communications and campaigning were kept at a basic level, in spite of the 2019 European Elections campaign being carried out.

<table>
<thead>
<tr>
<th></th>
<th>Total 2019 Actual</th>
<th>Total 2018 Actual</th>
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<tbody>
<tr>
<td>Personnel costs</td>
<td>1,500,546</td>
<td>1,484,837</td>
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<tr>
<td>Office costs</td>
<td>303,881</td>
<td>295,973</td>
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<td>Conference</td>
<td>355,010</td>
<td>406,527</td>
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<td>Board</td>
<td>26,675</td>
<td>40,412</td>
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<td>Advocacy activities</td>
<td>21,308</td>
<td>19,112</td>
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<tr>
<td>Benchmarking</td>
<td>34,844</td>
<td>17,739</td>
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<td>Direct movement development</td>
<td>189,828</td>
<td>151,807</td>
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<td>Campaigning and communications</td>
<td>12,729</td>
<td>17,935</td>
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<td>Re-granting</td>
<td>423,604</td>
<td>597,243</td>
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<td>Fundraising</td>
<td>30,222</td>
<td>42,276</td>
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<td>Capacity development</td>
<td>69,629</td>
<td>72,416</td>
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<tr>
<td>Other costs</td>
<td>48,028</td>
<td>30,867</td>
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<td><strong>TOTAL EXPENDITURES</strong></td>
<td><strong>3,016,305</strong></td>
<td><strong>3,177,143</strong></td>
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Audit, year-end result and follow-up

Annual audits of ILGA-Europe take place in January of the following year which gives the organisation very little time for a final closing of the year, especially considering that the heaviest work programme element (the Annual Conference) happens towards the end of October. The audit of the financial year 2019 was carried out by Callens, Pirenne, Theunissen and Co., and included the review of general account maintenance, implementation of accounting principles and regulations, basis of cost allocations, depreciation practices, basis for receivables and deferrals, procurement processes, risk mitigation, re-granting due diligence, segregation of duties and approval procedures. Since the Covid-19 lockdowns begun shortly after the audit, the auditors also followed up with verification of the organisational financial management response, risk mitigation measures and over financial affluence. They reviewed ILGA-Europe’s risk assessments in regards to foreseen income and the methods of preparation of the 2020 and 2021 budgets, as well as the process of reporting to the Board on these changes.

The state of processes, developments was satisfactory and no additional recommendations have been issued for FY 2019. All costs were found eligible and appropriately documented (3 016 305 €) and all income registered was deemed actual (3 078 903 €). The end result of the year was 71 644 € in plus which increased the state of ILGA-Europe’s reserves to 158 720 €.

<table>
<thead>
<tr>
<th>Year</th>
<th>January 1st</th>
<th>Year-end result</th>
<th>December 31st</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>-</td>
<td>70,774.42</td>
<td>5,928.10</td>
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<tr>
<td>2015</td>
<td>5,928.10</td>
<td>56,537.41</td>
<td>50,609.31</td>
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<td>2016</td>
<td>50,609.31</td>
<td>53,866.77</td>
<td>104,476.08</td>
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<td>2017</td>
<td>104,476.08</td>
<td>60,978.20</td>
<td>43,497.88</td>
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<td>2018</td>
<td>43,497.88</td>
<td>43,578.65</td>
<td>87,076.53</td>
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<tr>
<td>2019</td>
<td>87,076.53</td>
<td>71,643.96</td>
<td>158,720.49</td>
</tr>
<tr>
<td>2020</td>
<td>158,720.49</td>
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Key take-aways

- Positive audit results with no new recommendations.
- Developments noted.
- Income of 3 078 903 €,
- expenses of 3 016 305 €,
- year-end result of 71 644 €.
- Reserve brought back up to 158 720.49 €.
- A reserve of 700 000.00 € is still needed.
ILGA-Europe’s reserves have historically been low and unstable. This is due to the fact that for a long period of time any surplus income would be interpreted by the European Commission as income for the operating grant, thus decreasing the EC’s contributions. Under those circumstances, no active reserve-building had been possible. Additionally, ILGA-Europe do not receive membership fees\(^1\) which are a primary source of reserves for similar organisations. After the negative result of 2017, ILGA-Europe are in 2019 again slowly building up reserves. The current speed will bring ILGA-Europe to 250 000 € by the end of 2023. This, however, is not sufficient for an organisation with 3 000 000 € of annual expenses and a growing re-granting portfolio. The current estimate is that to fulfil employment notice obligations, ILGA-Europe should retain reserves of 700 000 €.

In light of the findings of the audit as well as an overall analysis of the organisation’s financial functioning, several plans were put in place to be implemented in the course of 2019 and 2020. These aim at increasing the cost-effectiveness, accountability and transparency of the organisation, and growing its sustainability. Key priorities will be investing in efforts for alternative fundraising and reaching out to new potential funders, paired with further work on internal control systems and capacity growth.

Specifically, ILGA-Europe will adopt a more cautious approach to budgeting (overall and project-specific) to limit the planned use of flexible resources and, where possible, voice the need for adequate coverage of costs of staff and overheads. This approach is already visible within the process of 2021 budget planning. The planning of work under the new strategic framework will be aligned so that work can be more cohesive and linked, which will in turn enable ILGA-Europe to allocate more funds to co-funding through including elements of the EC grant activities in applications and budgets funded by other funders. Work on engaging supporters among individuals, companies, members and governments will include increasing transparency about ILGA-Europe’s financial situation to funders and members. In terms of mitigating risks, work on re-granting processes will be furthered to help build capacity of grantees in a structured way.

Overall, ILGA-Europe hope that with the continued support and engagement of members, funders and supporters, in terms of advice and participation as well as financial support and connecting to other entities, the financial situation of the organization will continue to stabilize in spite of the difficult circumstances.

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\(^1\) All membership fees of members belonging to the region of Europe and Central Asia are paid to and used by ILGA World. ILGA-Europe does not receive membership fees.