Financial Statements

Evangelical Lutheran Foundation of Eastern Canada

December 31, 2008

AUDITORS' REPORT

To the Directors of
Evangelical Lutheran Foundation of Eastern Canada

We have audited the statement of financial position of **Evangelical Lutheran Foundation of Eastern Canada** ["Foundation"] as at December 31, 2008 and the statements of fund balances, operations and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Kitchener, Canada,
May 11, 2009.

Evangelical Lutheran Foundation of Eastern Canada

STATEMENT OF FINANCIAL POSITION

As at December 31

	2008 Total $
ASSETS	
Cash	**168,080**
Accounts receivable	**1,604**
Due from Synod	**277,279**
Accrued interest	**74,853**
Investments *[note 5]*	
Bonds - at market	**6,071,805**
Equities - at market	**2,416,395**
Total assets	**9,010,016**
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable and accrued liabilities	**11,130**
Due to Synod	**320,475**
Total liabilities	**331,605**
Fund balances	
Endowment	**6,289,567**
Externally restricted	**2,392,220**
Unrestricted	**(3,376)**
Total fund balances	**8,678,411**
	9,010,016

See accompanying notes

On behalf of the Board:

President

STATEMENT OF FUND BALANCES

Year ended December 31

	Endowment $	Restricted $	Unrestricted $	2008 Total $
Fund balances, beginning of year	—	—	—	—
Transfer from Synod *[note 4]*	**7,163,175**	**2,652,374**	—	**9,815,549**
Excess (deficiency) of revenue over expenses and grants for the year	**(873,608)**	**(260,154)**	**(3,376)**	**(1,137,138)**
Fund balances, end of year	**6,289,567**	**2,392,220**	**(3,376)**	**8,678,411**

See accompanying notes

Evangelical Lutheran Foundation of Eastern Canada

STATEMENT OF OPERATIONS

Year ended December 31, 2008

	Endowment $	Restricted $	Unrestricted $	2008 Total $
REVENUE				
Donations	**200**	**73,472**	**87,000**	**160,672**
Investment loss	**(422,523)**	**(114,554)**	**—**	**(537,077)**
Donations-in-kind	**—**	**365,739**	**—**	**365,739**
	(422,323)	**324,657**	**87,000**	**(10,666)**
EXPENSES				
Planned giving	**—**	**—**	**5,386**	**5,386**
Operating expenses *[note 8]*				
Employment contracts	**—**	**—**	**46,125**	**46,125**
Office and administration	**—**	**—**	**38,865**	**38,865**
	—	**—**	**90,376**	**90,376**
Grants				
To Synod	**451,285**	**319,073**	**—**	**770,358**
To other charities	**—**	**265,738**	**—**	**265,738**
	451,285	**584,811**	**—**	**1,036,096**
Excess (deficiency) of revenue over expenses and grants	**(873,608)**	**(260,154)**	**(3,376)**	**(1,137,138)**

See accompanying notes

Evangelical Lutheran Foundation of Eastern Canada

STATEMENT OF CASH FLOWS

Year ended December 31

	2008 $
Operating Activities	
Deficiency of revenue over expenses and grants	**(1,137,138)**
Add items not involving cash	
Unrealized loss on investments *[note 5]*	**934,533**
Change in non-cash working capital *[note 9]*	**34,130**
Cash used in operating activities	**(168,475)**
Investing Activities	
Portfolio cash transferred *[note 4]*	**475,023**
Purchase of investments	**(1,639,582)**
Sale of investments	**1,501,114**
Cash provided by investing activities	**336,555**
Net increase in cash during the year	**168,080**
Cash, beginning of year	—
Cash and short-term investments, end of year	**168,080**

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

1. PURPOSE OF THE ORGANIZATION

The declared purpose of The Evangelical Lutheran Foundation of Eastern Canada [the "Foundation"] is to "receive and maintain a fund or funds and to apply all or part of the principal and income thereof to support and further the life, work and mission of the Eastern Synod of the Evangelical Lutheran Church in Canada [the "Synod"], its congregations and affiliated institutions." The Foundation is incorporated without share capital under the laws of Canada and is registered with the Canada Revenue Agency ["CRA"] as a public foundation. It is exempt from income tax and may issue tax-creditable donation receipts to donors as long as it continues to meet the disbursement requirements of the Income Tax Act (Canada).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund accounting

In order to ensure observance of the limitations and restrictions on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. These funds are held in accordance with the objectives specified by donors, or in accordance with directives issued by the Board of Directors. Transfers between the funds are made when it is considered appropriate and authorized by the Board. To meet the objectives of financial reporting and stewardship over the assets, certain interfund transfers are necessary to ensure the appropriate allocation of assets and liabilities to the respective funds. These interfund transfers are recorded as a component of changes in fund balances.

For financial reporting purposes, the Foundation has combined funds with similar characteristics into three major fund groups as follows:

[i] Endowment

Endowment funds are resources that are required to be maintained by the Foundation on a permanent basis. Revenue of the endowment fund is limited to amounts that have been restricted for endowment purposes by the external contributor.

[ii] Restricted

Restricted funds include amounts that are restricted in accordance with the objectives as specified by the donors.

[iii] Unrestricted

Unrestricted funds include all other expendable funds and investments. General operating expenses are charged to the unrestricted fund.

Revenue recognition

Donations designated by the donor as endowment contributions are recognized as revenue in the endowment fund. All other donor-restricted contributions are recognized as revenue of the restricted fund. Unrestricted contributions are recognized as revenue of the unrestricted fund.

Contributions are recognized in revenue when received or receivable if the amount to be received can be reasonably estimated and collection is assured.

Donations-in-kind

Donated materials contributed to the Foundation are recorded at fair market value.

Investments

Bonds and equity investments are valued at fair value, defined as market value. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Financial instruments

All financial instruments are initially recorded on the balance sheet at fair value. They are subsequently valued at fair value or amortized cost depending on the classification selected for the financial instrument. Financial assets are classified as either "held-for-trading", "held-to-maturity", "available-for sale" or "loans and receivables" and financial liabilities are classified as either "held-for-trading" or "other liabilities". Financial assets and liabilities classified as held-for-trading are measured at fair value with the change in fair value recorded in the statement of operations. Financial assets classified as held-to-maturity or loans and receivables and financial liabilities classified as other liabilities are subsequently measured at amortized cost using the effective interest rate method.

The Foundation has classified its financial instruments as follows:

- Cash and short-term deposits, bonds and equity investments are classified as held-for-trading;
- Accounts receivable and accrued interest are classified as loans and receivables; and
- Accounts payable and accrued liabilities are classified as other liabilities.

The Foundation is subject to credit risk with respect to its receivables. The maximum credit risk is the fair value of these receivables.

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2008, the Foundation adopted the recommendations of The Canadian Institute of Chartered Accountants ["CICA"] Handbook section 1535: Capital Disclosures, which require the disclosure of qualitative and quantitative information that enables users of the financial statements to evaluate the organization's objectives, policies and processes for managing capital. The adoption of these recommendations only required additional disclosures, which are provided in note 7.

The Foundation has chosen to apply CICA 3861: *Financial Instruments – Disclosure and Presentation* in place of CICA 3862: *Financial Instruments – Disclosure* and CICA 3863: *Financial Instruments – Presentation.*

4. TRANSFER OF ASSETS

Effective January 1, 2008, the Synod transferred $3,123,331 of its investment in equities, $6,217,195 [including accrued interest of $56,261] of its investment in bonds and $475,023 of cash from the general investment fund and special purpose and designated funds to the Foundation, a related party, for a nominal amount.

The agreement between the Synod and the Foundation requires the Foundation to honour donor designations and restrictions for use of these funds.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

5. INVESTMENTS

The Foundation's funds are invested in bonds and Canadian and foreign equity securities. These investments are subject to market value fluctuations and the Foundation records these investments at market value. Accordingly, the year-end market values and investment income for the year include unrealized gains and losses.

The combined market values of the investments are summarized below:

	Market	Unrealized (Loss)/Gain
Bonds	**6,071,805**	**77,967**
Canadian equities	**1,997,632**	**(929,295)**
Foreign equities	**418,763**	**(83,205)**
	8,488,200	**(934,533)**

The Foundation is subject to market risk, foreign currency risk, and interest rate risk with respect to its investment portfolio. To manage these risks, the Foundation has established a target mix of investment types designed to achieve the optimal return within reasonable risk tolerances.

6. RESTRICTIONS ON NET ASSETS

Restricted funds are either subject to donor directions and designations or are subject to the internal designations of the Foundation.

7. CAPITAL MANAGEMENT

In managing capital, the Foundation focuses on liquid resources available for operations. The Foundation's objective is to have sufficient liquid resources to continue operating despite adverse events with financial consequences and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at December 31, 2008, the Foundation has met its objective of having sufficient liquid resources to meet its current obligations.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

8. RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and are measured at fair value.

[a] The Foundation is provided with facilities and administrative services from the Synod. The Foundation reimburses the Synod for expenses incurred on behalf of the Foundation, in addition to receiving $15,000 annually under the terms of the office facilities agreement.

[b] The Foundation provides the Synod grants as approved by the Board of Directors. Total grants to the Synod for the year were $770,358.

[c] The Foundation receives payments from the Synod for Lutheran Planned Giving Services. The amount for 2008 totalled $75,000.

[d] During the year, the Foundation received $73,672 from the Synod for funds received from donors, which were designated for investment purposes.

9. STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances consists of the following:

	2008 $
Increase in accounts receivable	**(1,604)**
Net amounts due to related parties	**43,196**
Increase in accrued interest	**(18,592)**
Increase in accounts payable	**11,130**
	34,130

10. SUBSEQUENT ACCOUNTING POLICY CHANGES

The CICA issued the following new accounting standards which will apply for the Foundation's fiscal year beginning January 1, 2009.

Financial Statement Presentation [CICA 4400]
The CICA has issued revisions to the 4400 series and certain other sections to amend or improve certain parts of the CICA Handbook that relate to not-for-profit organizations. With respect to presentation, these changes include making the disclosure of net assets invested in capital assets optional; making CICA 1540, *Cash Flow Statements,* applicable to not-for-profit organizations; and requiring the reporting of revenues and expenses on a gross basis in the statement of operations unless not required by other guidance. A new section, CICA 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations,* was included in the revisions, which requires certain disclosures when fundraising and general support expenses are allocated to other functions. These changes in accounting policies must be adopted by years beginning on or after January 1, 2009, with earlier adoption permitted. Management is assessing the impact of these revisions and the timing for their adoption. However, the impact will be limited to reclassification of figures in the financial statements and additional disclosures.

Financial Statement Concepts [CICA 1000]
In February 2008, the Accounting Standards Board amended CICA 1000, *Financial Statement Concepts,* to clarify that assets not meeting the definition of an asset or the recognition criteria are not permitted to be recognized on the balance sheet.

The amendments are effective for financial statements for fiscal years beginning on or after October 1, 2008. The Foundation is examining its current approach to recognizing costs as assets and will implement these standards effective January 1 2009 retroactively with restatement of the prior year. The impact of implementing these amendments on the Foundation's financial statements is currently not known.