

Financial Statements

**Evangelical Lutheran Foundation of  
Eastern Canada**

December 31, 2009

## 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** [the "Foundation"] as at December 31, 2009 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Kitchener, Canada,  
May 20, 2010.

*Ernst + Young LLP*

Chartered Accountants  
Licensed Public Accountants

## Evangelical Lutheran Foundation of Eastern Canada

### STATEMENT OF FINANCIAL POSITION

As at December 31

	2009	2008
	\$	\$
<b>ASSETS</b>		
Cash	693,503	168,080
Accounts receivable	11,984	1,604
Due from the Synod	165,559	277,279
Accrued interest	82,488	74,853
Investments <i>[note 4]</i>		
Bonds - at market value	5,927,803	6,071,805
Equities - at market value	3,269,652	2,416,395
<b>Total assets</b>	<b>10,150,989</b>	<b>9,010,016</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	12,058	11,130
Due to the Synod	321,296	320,475
Managed funds income <i>[note 7]</i>	16,871	—
Managed funds capital <i>[note 7]</i>	396,514	—
<b>Total liabilities</b>	<b>746,739</b>	<b>331,605</b>
<b>Fund balances</b>		
Endowment	6,573,520	6,299,174
Restricted	2,838,422	2,382,613
Unrestricted	(7,692)	(3,376)
<b>Total fund balances</b>	<b>9,404,250</b>	<b>8,678,411</b>
	<b>10,150,989</b>	<b>9,010,016</b>

See accompanying notes

On behalf of the Board:

President

## Evangelical Lutheran Foundation of Eastern Canada

### STATEMENT OF FUND BALANCES

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Year ended December 31

	<b>Endowment fund</b>	<b>Restricted fund</b>	<b>Unrestricted fund</b>	<b>2009 Total</b>	<b>2008 Total</b>
	\$	\$	\$	\$	\$
<b>Fund balances, beginning of year</b>	6,299,174	2,382,613	(3,376)	8,678,411	—
Transfer from the Synod	—	—	—	—	9,815,549
Excess (deficiency) of revenue over expenses and grants for the year	274,346	455,809	(4,316)	725,839	(1,137,138)
<b>Fund balances, end of year</b>	<b>6,573,520</b>	<b>2,838,422</b>	<b>(7,692)</b>	<b>9,404,250</b>	<b>8,678,411</b>

*See accompanying notes*

## Evangelical Lutheran Foundation of Eastern Canada

### STATEMENT OF OPERATIONS

Year ended December 31

	Endowment fund \$	Restricted fund \$	Unrestricted fund \$	2009 Total \$	2008 Total \$
<b>REVENUE</b>					
Donations	2,443	115,584	88,000	206,027	160,672
Investment income (loss)	761,099	232,243	—	993,342	(537,077)
Donations-in-kind	—	419,881	75,815	495,696	365,739
Management fees	—	—	2,483	2,483	—
	<b>763,542</b>	<b>767,708</b>	<b>166,298</b>	<b>1,697,548</b>	<b>(10,666)</b>
<b>EXPENSES</b>					
Planned giving	—	—	7,232	7,232	5,386
Operating expenses <i>[note 8]</i>					
Employment contracts	—	—	47,970	47,970	46,125
Office and administration	—	(2,035)	38,797	36,762	38,865
	—	(2,035)	93,999	91,964	90,376
Grants					
To the Synod	489,196	313,934	—	803,130	770,358
To other charities	—	—	76,615	76,615	265,738
	<b>489,196</b>	<b>313,934</b>	<b>76,615</b>	<b>879,745</b>	<b>1,036,096</b>
<b>Excess (deficiency) of revenue over expenses and grants for the year</b>	<b>274,346</b>	<b>455,809</b>	<b>(4,316)</b>	<b>725,839</b>	<b>(1,137,138)</b>

See accompanying notes

## Evangelical Lutheran Foundation of Eastern Canada

### STATEMENT OF CASH FLOWS

Year ended December 31

	2009	2008
	\$	\$
<b>Operating Activities</b>		
Excess (deficiency) of revenue over expenses and grants	725,839	(1,137,138)
Add (deduct) item not involving cash		
Unrealized (gain) loss on investments [note 4]	(637,579)	934,533
Net change in non-cash working capital [note 9]	95,454	34,130
<b>Cash provided by (used in) operating activities</b>	<b>183,714</b>	<b>(168,475)</b>
<b>Investing Activities</b>		
Portfolio cash transferred	—	475,023
Managed funds transferred in	396,514	—
Managed funds income payable	16,871	—
Purchase of investments	(1,619,903)	(1,639,582)
Sale of investments	1,548,227	1,501,114
<b>Cash provided by investing activities</b>	<b>341,709</b>	<b>336,555</b>
<b>Net increase in cash during the year</b>	<b>525,423</b>	<b>168,080</b>
Cash, beginning of year	168,080	—
<b>Cash and short-term investments, end of year</b>	<b>693,503</b>	<b>168,080</b>

See accompanying notes

# Evangelical Lutheran Foundation of Eastern Canada

## NOTES TO FINANCIAL STATEMENTS

December 31, 2009

### 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 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 requirements of the Income Tax Act (Canada).

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

### 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 of Directors. 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.

## **Evangelical Lutheran Foundation of Eastern Canada**

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2009

#### **[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 reasonably 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 statement of financial position 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 "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.



## Evangelical Lutheran Foundation of Eastern Canada

### NOTES TO FINANCIAL STATEMENTS

December 31, 2009

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

#### Financial Statement Presentation [CICA 4400]

Effective January 1, 2009, the Foundation adopted the recommendations of The Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 4440: *Financial Statement Presentation*. The CICA has issued revisions to the 4400 series of recommendations 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. Management has assessed the impact as limited to reclassification of figures in the financial statements and additional disclosures.

#### Financial Statement Concepts [CICA 1000]

Effective February, 2009, the Accounting Standards Board amended CICA 1000: *Financial Statement Concepts*, to clarify that assets not meeting the definition of an asset are not permitted to be recognized on the statement of financial position. The Foundation has reviewed costs recorded on the statement of financial position and determined that no adjustment is required to the financial statements.

## Evangelical Lutheran Foundation of Eastern Canada

### NOTES TO FINANCIAL STATEMENTS

December 31, 2009

#### 4. 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:

	<b>Market value</b>	<b>Unrealized gain</b>
	\$	\$
Bonds	<b>5,927,803</b>	<b>84,182</b>
Canadian equities	<b>2,790,333</b>	<b>528,437</b>
Foreign equities	<b>479,319</b>	<b>24,960</b>
	<b>9,197,455</b>	<b>637,579</b>

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.

#### 5. RESTRICTIONS ON NET ASSETS

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

#### 6. 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, 2009, the Foundation has met its objective of having sufficient liquid resources to meet its current obligations.

## Evangelical Lutheran Foundation of Eastern Canada

### NOTES TO FINANCIAL STATEMENTS

December 31, 2009

#### 7. MANAGED FUNDS

In 2009, the Foundation entered into "managed funds" agreements with two congregations of the Eastern Synod. Under the terms of the agreements, the congregations entrusted the Foundation with assets, totaling \$396,514, which were pooled with the Foundation's assets in the investment portfolio. The congregations retain ownership of assets and have the option of terminating the agreements with due notice. The Foundation charges management fees equal to 0.25% of the capital contributed per calendar quarter, and pays to each managed fund partner a pro rata share of investment income (net of fees) in the first calendar quarter of the subsequent year. Investment income of the unrestricted fund is reported net of the investment income attributed to the managed funds. It is anticipated that these agreements will remain in force for an indefinite period, and similar agreements will be entered into with other partners in future years.

#### 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 pays \$15,000 annually under the terms of the office facilities agreement.
- [b] The Foundation provides the Synod with grants as approved by the Board of Directors. Total grants to the Synod for the year were \$803,130 [2008 - \$770,358].
- [c] The Foundation receives payments from the Synod for Lutheran Planned Giving Services. The amount for 2009 totaled \$72,000 [2008 - \$75,000].
- [d] During the year, the Foundation received \$118,027 [2008 - \$73,672] from the Synod for funds received from donors, which were designated for investment purposes.

## Evangelical Lutheran Foundation of Eastern Canada

### NOTES TO FINANCIAL STATEMENTS

December 31, 2009

#### 9. STATEMENT OF CASH FLOWS

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

	<b>2009</b>	<b>2008</b>
	\$	\$
Increase in accounts receivable	<b>(10,380)</b>	(1,604)
Change in amount due to/from the Synod	<b>112,541</b>	43,196
Increase in accrued interest	<b>(7,635)</b>	(18,592)
Increase in accounts payable	<b>928</b>	11,130
	<b>95,454</b>	34,130

#### 10. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified from the financial statements previously presented to conform to the presentation adopted in the current year.

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