

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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Chartered Accountants
and Business Advisors

People Count.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of: Evangelical Lutheran Foundation of Eastern Canada

Report on the Financial Statements

We have audited the accompanying financial statements of Evangelical Lutheran Foundation of Eastern Canada, which comprise the statement of financial position as at December 31, 2011 and the statements of fund balances, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Evangelical Lutheran Foundation of Eastern Canada as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

RLB LLP

Guelph, Ontario
March 12, 2012

Chartered Accountants
Licensed Public Accountants

**EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011**

	A S S E T S	
	2011	2010
CURRENT		
Cash	\$ 381,936	\$ 400,044
Accounts receivable	11,668	7,986
Donated life insurance policies	13,188	0
Due from the Synod (note 6)	854,137	363,477
Accrued interest	60,149	59,169
Investments (note 3)		
Long term investments	6,741,992	6,183,941
Equities - at market value	<u>4,112,632</u>	<u>3,667,293</u>
	<u>\$12,175,702</u>	<u>\$10,681,910</u>
	LIABILITIES	
CURRENT		
Accounts payable and accrued liabilities	\$ 7,927	\$ 8,858
Due to the Synod (note 6)	373,584	213,832
Managed funds income (note 7)	6,869	28,428
Managed funds capital (note 7)	<u>701,925</u>	<u>496,514</u>
	<u>1,090,305</u>	<u>747,632</u>
	NET ASSETS	
FUND BALANCES		
Endowment	7,429,855	6,746,485
Restricted	3,632,834	3,180,991
Unrestricted	<u>22,708</u>	<u>6,802</u>
	<u>11,085,397</u>	<u>9,934,278</u>
	<u>\$12,175,702</u>	<u>\$10,681,910</u>

**EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Endowment Fund	Restricted Fund	Unrestricted Funds	2011 Total	2010 Total
FUND BALANCES, beginning of year	\$ 6,746,485	\$ 3,180,991	\$ 6,802	\$ 9,934,278	\$ 9,404,250
Excess of revenue over expenses and grants for the year	<u>683,370</u>	<u>451,843</u>	<u>15,906</u>	<u>1,151,119</u>	<u>530,028</u>
FUND BALANCES, end of year	<u>\$ 7,429,855</u>	<u>\$ 3,632,834</u>	<u>\$ 22,708</u>	<u>\$11,085,397</u>	<u>\$ 9,934,278</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Endowment Fund	Restricted Fund	Unrestricted Funds	2011 Total	2010 Total
REVENUE					
Donations	\$ 773,602	\$ 787,566	\$ 86,250	\$ 1,647,418	\$ 418,827
Investment gain	173,295	69,877	0	243,172	617,979
Donations-in-kind	0	4,534	194,133	198,667	9,261
Management fees	<u>0</u>	<u>0</u>	<u>7,287</u>	<u>7,287</u>	<u>4,877</u>
	<u>946,897</u>	<u>861,977</u>	<u>287,670</u>	<u>2,096,544</u>	<u>1,050,944</u>
EXPENSES					
Planned giving	0	0	5,633	5,633	5,557
Employment contracts	0	0	49,891	49,891	40,200
Office and administration (note 6)	<u>85</u>	<u>162</u>	<u>30,637</u>	<u>30,884</u>	<u>35,658</u>
	<u>85</u>	<u>162</u>	<u>86,161</u>	<u>86,408</u>	<u>81,415</u>
GRANTS					
To the Synod (note 6)	263,442	409,972	0	673,414	435,809
To other charities	<u>0</u>	<u>0</u>	<u>185,603</u>	<u>185,603</u>	<u>3,692</u>
	<u>263,442</u>	<u>409,972</u>	<u>185,603</u>	<u>859,017</u>	<u>439,501</u>
EXCESS OF REVENUE OVER					
EXPENSES AND GRANTS for the year	<u>\$ 683,370</u>	<u>\$ 451,843</u>	<u>\$ 15,906</u>	<u>\$ 1,151,119</u>	<u>\$ 530,028</u>

**EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	2011	2010
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Excess of revenue over expenses and grants for the year	\$ 1,151,119	\$ 530,028
Items not requiring an outlay of cash		
Unrealized loss (gain) on investments	93,457	(386,304)
Non-cash donations	<u>(13,188)</u>	<u>0</u>
	1,231,388	143,724
Changes in non-cash working capital		
Accounts receivable	(3,682)	3,998
Cash surrender value of donated life insurance policies	13,188	0
Due from the Synod	(490,660)	(197,918)
Accrued interest	(980)	23,319
Due to the Synod	159,752	(107,464)
Accounts payable and accrued liabilities	<u>(931)</u>	<u>(3,200)</u>
	<u>908,075</u>	<u>(137,541)</u>
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Managed funds capital	205,411	100,000
Managed funds income	(21,559)	11,557
Purchase of investments	(1,754,053)	(1,485,502)
Sale of investments	<u>644,018</u>	<u>1,218,027</u>
	<u>(926,183)</u>	<u>(155,918)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(18,108)	(293,459)
NET CASH AND CASH EQUIVALENTS, beginning of year	<u>400,044</u>	<u>693,503</u>
NET CASH AND CASH EQUIVALENTS, end of year	<u>\$ 381,936</u>	<u>\$ 400,044</u>

**EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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).

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

a) 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.

(b) 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.

The Foundation follows the restricted fund method for contributions.

**EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) **DONATIONS-IN-KIND**

Donated materials consist of bonds, equities and life insurance policies contributed to the Foundation. Bonds and equities are recorded at fair market value and life insurance policies are recorded at their cash surrender value.

(d) **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.

(e) **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, bonds and equity investments, and due from Synod are classified as held-for-trading;
- Accounts receivable and accrued interest are classified as loans and receivables; and
- Accounts payable and accrued liabilities and due to Synod 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. 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 gain (loss)
Bonds	\$ 6,741,992	\$ 138,517
Canadian equities	3,136,026	(216,570)
Foreign equities	<u>976,606</u>	<u>(15,404)</u>
	<u>\$ 10,854,624</u>	<u>\$ (93,457)</u>

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.

**EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

4. RESTRICTIONS ON NET ASSETS

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

5. CAPITAL MANAGEMENT

The Foundation defines capital as its unrestricted fund balance, which was \$22,708 at year-end [2010 - \$6,802]. 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, 2011, the Foundation has met its objective of having sufficient liquid resources to meet its current obligations.

The Foundation is not subject to externally imposed capital requirements.

6. TRANSACTIONS WITH THE SYNOD

Transactions with the Synod are in the normal course of operations and are measured at the exchange amount. At year end, balances owing to and from the Synod are unsecured, interest free, with no set terms of repayment.

- [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 grants as approved by the Board of Directors. Total grants to the Synod for the year were \$673,414 [2010 - \$435,809].
- [c] The Foundation receives payments from the Synod for Lutheran Planned Giving Services. The amount for 2011 totalled \$74,000 [2010 - \$72,000].
- [d] During the year, the Foundation received \$854,137 [2010 - \$216,142] from the Synod for funds received from donors, which were designated for investment purposes.

7. MANAGED FUNDS

These are funds owned by other congregations of the Eastern Synod for which the income and capital is designated for the benefit of these congregations. Under the terms of the agreements, the congregations' contributed assets, worth a total of \$701,925 (2010 - \$496,514), 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 collects 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. 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. BANK INDEBTEDNESS

The Foundation has an authorized operating line of credit with a limit up to a maximum of \$20,000. The line of credit bears interest at prime plus 2.1%. The Foundation has not utilized any of the available balance at year end.