



*Evangelical Lutheran
Foundation of Eastern Canada*

Annual Report 2008

Contents

| | |
|------------------------------|----|
| Report of Directors | 2 |
| Directors Serving in 2008 | 4 |
| Gifts Received | 5 |
| Grants Made | 5 |
| Funds at December 31, 2008 | 6 |
| Investment | |
| Policy and administration | 8 |
| Portfolio | 8 |
| Income | 8 |
| Challenges | 9 |
| Audited financial Statements | 10 |

Report of Directors

The Evangelical Lutheran Foundation of Eastern Canada (ELFEC) operates as a federally incorporated public foundation with charitable registration status. Modeled after a community foundation serving multiple organizations within the Lutheran community across the territory of the Eastern Synod, ELFEC exists to attract donations from individuals and organizations, invest capital and distribute investment earnings.

On behalf of the Board, I am pleased to report that although ELFEC is still very much in its infancy, we are well into the process of establishing a solid foundation (pun intended!) that promises to serve our stakeholders well in the years ahead. To this end, the Board has been very active in developing and implementing policies that position ELFEC to satisfy its objectives - objectives that provided the motivation to establish this organization.

Following is a list of these original objectives (**in bold font**) and an update on the current status of each:

1. **To create a liability firewall between Synod's operations and assets**
 - This objective was accomplished on January 1st, 2008 with the transfer of the Eastern Synod's investment portfolio to ELFEC. In addition to this initial transfer of assets, subsequent funds have been transferred on several occasions over the past two year period, a practice which is expected to continue into the future on an ongoing basis.
 - Consistent with its corporate objects, ELFEC has provided a number of grants to the Eastern Synod to fund a variety of synodical ministries.
 - A document associated with the transfer of synodical funds, "Eastern Synod Disbursement Policy", was finalized and operationalized in 2009.

2. **To provide opportunities for congregations to pool investments**
 - During the past year, the Board approved a "Disbursement of Investment Income Policy", a "Fee Schedule" and a "Managed Fund" template, all of which are pre-requisites to providing pooled investment services to congregations.
 - We are extremely pleased that these efforts are now beginning to bear fruit as evidenced by the transfer of funds from Trinity, New Hamburg and Mt. Zion, Waterloo in mid 2009. Discussions with a number of other congregations are currently underway.

3. **To provide additional services to donors:**
 - **Accept donations of securities**
 - **Distribute proceeds to multiple beneficiaries**
 - **Manage donor-advised funds (DAFs)**
 - As a result of the current economic climate, compared to previous years there has been less incentive for donors to make donations

of marketable securities. Nevertheless, ELFEC has facilitated several of these transactions over the past year, the proceeds of which were distributed to ministries in the Eastern Synod, several congregations and Lutheran Homes: Kitchener-Waterloo.

- A “Granting Policy”, a “Funds, Fund Types and Criteria for Naming Policy” and templates for donor agreements have been developed and are now ready for use.
- We are awaiting our first donation to a “donor-advised fund”.

ELFEC’s Board remains highly committed to ensuring that high standards of governance for the corporation are articulated and observed. With this goal in mind, policies covering confidentiality, conflict of interest, director responsibility, financial accountability and sexual abuse have been implemented over the past two years. We anticipate implementing additional policies governing other aspects of corporate life in the year ahead (including a biennial review of the Investment Policy that was recently initiated).

We are all well aware that 2008 was not kind to investors! And as was the case with most investors, ELFEC’s investment portfolio absorbed its share of losses. We are, however, thankful that the impact of falling markets was cushioned somewhat by the high quality of our holdings and by our relatively conservative investment policy. Financial markets remain volatile - nevertheless, it is comforting to see an improvement in results so far in 2009.

At the completion of this, the second full year of ELFEC operations, I would like to offer a sincere word of thanks to the other five members of the Board: Laurie Kitchen, Caroline Verleyen, David Michael, Rev. Guenter Dahle and Rev. Dr. David Pfrimmer. A special “*THANK YOU*” to Laurie, who not only served as Vice-President, but has given so freely of her time and talents in helping to establish ELFEC’s accounting systems and preparing our financial statements for the initial yearend audit.

Effective with this AGM, David Michael and I have both reached the end of our current terms and have decided not to seek re-election. Based on my experience working with David over the past twenty years on the ELFEC Board and its predecessor body, the Eastern Synod’s Investment Committee, I have seen firsthand the invaluable investment knowledge and other expertise that he has provided. Thank you David!

I would be remiss if I didn’t take the opportunity to thank our part-time staff person, Jeff Pym, who serves so capably and with such dedication in the roles of corporate Secretary-Treasurer and ELFEC’s Director of Lutheran Planned Giving. ELFEC, and by implication the entire church, both receive such tremendous value from this talented individual.

The Board would also like to express its sincere thanks to the synod for the start-up funding that it has been providing, assistance that has been essential in helping to pay legal, accounting system setup and other necessary expenses

that are required during our early years. Thanks also to you, the members of this corporation, for your continued interest and support!

Along with retiring board member David Michael, permit me to close on a personal note by letting you know how grateful we are for having had both the opportunity and the honour to serve as members of the initial ELFEC board. It's great for all of us to know that the Board will continue to be well served through the skills and dedication of the four board members who are continuing, along with those of the two new nominees.

Respectfully submitted,

Keith Myra, President

Directors Serving in 2008-9

| Director | Elected | Term Ending |
|-------------------------|----------------|--------------------|
| Rev. Guenter Dahle | 2007 | 2010 |
| Ken Diebel | 2007 | 2008 |
| Laurie Kitchen | 2008 | 2011 |
| David Michael | 2007 | 2009 |
| Keith Myra | 2007 | 2009 |
| Rev. Dr. David Pfrimmer | 2007 | 2010 |
| Caroline Verleyen | 2009 | 2011 |

David Michael and Keith Myra have indicated their intention not to stand for re-election to the ELFEC board of directors in 2009. Both have been directors of ELFEC since its inception, and both served as members of the Eastern Synod investment committee for many years prior to the creation of the foundation. Keith has served as ELFEC's founding president since 2007.

Both David and Keith have brought immense energy, knowledge and wisdom to their respective roles. As President, Keith invested countless hours in the incubation of ELFEC from idea to reality. Their colleagues on the board and staff of ELFEC will miss them more than a few words in this report can express.

Note

The remaining sections in this report pertain to the fiscal year ending December 31, 2008.

Gifts Received

ELFEC received the following gifts from the Eastern Synod in 2008:

| | |
|--|-------------|
| Initial transfer of investment assets | \$9,815,549 |
| Subsequent donations to funds | 73,672 |
| Planned giving program support | 75,000 |
| Other gifts of planned giving program support: | |
| Lutheran Homes: Kitchener-Waterloo | \$4,000 |
| Waterloo Lutheran Seminary | 8,000 |
| In-kind donations of securities from four individual donors: | \$365,539 |

Grants Made

Grants were made during the year to:

| | |
|-------------------------------------|-----------|
| Eastern Synod | \$770,358 |
| Faith Lutheran Church, Port Elgin | 58,127 |
| Lutheran Homes: Kitchener-Waterloo | 202,175 |
| St. Peter's Lutheran Church, Warton | 5,436 |

Funds at December 31, 2008

| Fund Name | Year-end Balance |
|---------------------------------------|------------------|
| General Investment Fund WLS | \$1,544,302.00 |
| General Investment Fund ELCIC | 1,544,302.00 |
| General Investment Fund Eastern Synod | 1,542,363.71 |
| Undesignated gifts | 508,914.22 |
| Emergency relief | 22,232.92 |
| Lutheran home continuing | 350.96 |
| Lutheran home distribution | 21,000.32 |
| Retired pastors health | 39,167.31 |
| Bishop's parsonage | 18,163.45 |
| Property and loan | 11,609.03 |
| Spencer-Barche education | 66,978.59 |
| J. V. Toolsie | 3,107.85 |
| Wheat Ridge | 12,671.89 |
| Synod office building capital | 139,158.73 |
| Special projects | 23,465.15 |
| Congregational assistance | 55,108.54 |
| Candidacy gifts | 13,275.39 |
| Ernst | 27,011.83 |
| German scholarship | 9,635.93 |
| Viet | 4,829.72 |
| Tsui memorial | 31,470.84 |
| Kutt memorial | 4,590.73 |
| Dannecker | 220,721.54 |
| WLS women student | 4,060.58 |
| Canadian mission gift | 533,239.85 |
| Koehler Canadian mission | 462,262.61 |
| Werlich estate | 153,510.87 |
| Canadian mission CECF | 734,474.96 |
| World mission gift | 73,323.74 |
| Allan Camp Edgewood | 1,227.90 |
| LCM investment | 43,778.96 |
| LCM Waterloo endowment | 2,006.03 |
| LCM Waterloo reserve | 151,843.07 |
| LCM London Luther House | 46,422.94 |
| Lay ministry education | 56,264.57 |
| Lutherhostel | 29,621.06 |
| St. Mark's Middle LaHave | 14,733.88 |
| Trinity Shantz Station | 5,579.16 |
| Trinity Shantz Station cemetery | 30,079.72 |

| | |
|--|---------------------|
| Synod scholarship | 68,203.01 |
| Lutheran Office of Public Policy | 10,000.00 |
| Lutheran Planned Giving | 41,735.51 |
| Ministry of integrity | 0.00 |
| Convention carryover | 7,860.43 |
| Synod office equipment | 29,864.34 |
| Synod emergency | 4,064.35 |
| Bishop's discretionary | 20,902.63 |
| Bishop's company | -3,255.16 |
| Lutherhostel | 14,171.54 |
| Canadian Chinese mission | 17,535.11 |
| Canadian missions emergency | 16,530.07 |
| Special assistance - small congregations | 10,387.35 |
| Bear Lake church | 2,816.05 |
| Christ, Agincourt | 0.00 |
| Global hunger seminar | 3,772.70 |
| Congregational GHDA project | 30,572.13 |
| Companion synod | 104.64 |
| Edgewood emergency | 3,498.65 |
| Lutherlyn emergency | 17,609.37 |
| Mush-a-Mush emergency | 6,286.60 |
| Outdoor ministry investment | 0.00 |
| Institution chaplains network | 3,980.00 |
| Campus ministry emergency | 9,110.00 |
| Professional leadership | 3,655.00 |
| Candidacy holding | 1,328.69 |
| Communication equipment | 2,903.27 |
| Resource development | 7,545.31 |
| Stewardship consultant | 0.00 |
| Worship CLWG | 5,054.90 |
| Learning CLWG | 4,244.52 |
| Witness CLWG | 13,921.74 |
| Support CLWG | 4,192.83 |
| Training | 3,039.66 |
| Stewardship consultant | 8,286.17 |
| Service CLWG | 3,702.52 |
| Youth CLWG | 23,955.77 |
| 2004 Training event | 0.00 |
| LARC event | 535.00 |
| Challenge for change | 3,763.09 |
| ES Mission undesignated | 67,208.69 |
| Barrie Orillia mission | -2,477.49 |
| Total funds | 8,673,471.54 |

Investment

Policy and administration

In 2007 ELFEC adopted the investment policy that had been used by the investment committee of the Eastern Synod, with necessary changes in nomenclature. That policy can fairly be described as conservative, with its emphasis on:

1. Preserving capital
2. Generating a predictable stream of income
3. Attaining growth in value to offset the effects of inflation

ELFEC renewed the contract of Rae & Lipskie Investment Counsel (RLIC), a Waterloo firm that has managed the portfolio since 1999. Rae & Lipskie continue to achieve good investment returns and to provide a high level of customer service, operating within the guidelines provided by the investment policy.

Portfolio

The investment policy specifies that the portfolio be divided between investment classes as follows:

| | |
|--------------|--------|
| Cash | 0-10% |
| Fixed income | 60-80% |
| Equity | 0-35% |

It is common for the percentages to vary through the year with normal fluctuations in markets and investment decisions by the manager. At year-end 2008 the breakdown was as follows:

| | |
|--------------|-------|
| Cash | 2.5% |
| Fixed income | 69.7% |
| Equity | 27.8% |

Results

It is common knowledge that 2008 was one of the worst years in recent memory on investment markets. ELFEC fared better than most investors, sheltered from the worst losses by our conservative investment policy. Nevertheless, the portfolio had a return of *negative* 5.8% on the year. The portfolio's average annualized return from February 1998 to the end of 2008, consisting of almost ten years in Eastern Synod hands and one year in ELFEC's, is 5.5%.

Challenges

Interest rates on government bonds are at historic lows, and it appears that governments intend to keep interest rates low in the short run at least to facilitate general economic recovery. While 2009 to date has seen an encouraging increase in values on Canadian and international stock exchanges, we have a relatively modest exposure to equity markets.

These two factors combined means that it is becoming harder to realize significant annual returns on investments. Over the next year or two we may see higher rates of growth as equity markets return to pre-recession values (we hope). But it may be necessary to accept that the days of routine double-digit gains are gone, for the foreseeable future at least.