

**EVANGELICAL LUTHERAN FOUNDATION OF
EASTERN CANADA**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
INDEX TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

	Page
INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS	
Financial Position	4
Statement of Fund Balances	5
Statement of Operations	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 - 12



Chartered Accountants
and Business Advisors

People Count.

INDEPENDENT AUDITOR'S REPORT

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

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, 2012 and December 31, 2011 and the statements of fund balances, operations and cash flows for the years 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 accounting standards for not for profit organizations 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 audits 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, 2012 and December 31, 2011 and the results of its operations and its cash flows for the years then ended in accordance with Canadian accounting standards for not for profit organizations.

Guelph, Ontario
March 6, 2013

RLB LLP
Chartered Accountants
Licensed Public Accountants

Page 3

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012

	2012	2011
ASSETS		
CURRENT		
Cash	\$ 833,724	\$ 381,936
Accounts receivable	13,361	11,668
Donated life insurance policies	13,188	13,188
Due from the Synod (note 8)	527,266	854,137
Accrued interest	55,708	60,149
Investments (note 5)		
Long term investments	7,175,941	6,741,992
Equities - at market value	<u>5,519,950</u>	<u>4,112,632</u>
	<u>\$ 14,139,138</u>	<u>\$ 12,175,702</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 8,269	\$ 7,927
Due to the Synod (note 8)	141,111	373,584
Managed funds income (note 9)	48,227	6,869
Managed funds capital (note 9)	<u>963,726</u>	<u>701,925</u>
	<u>1,161,333</u>	<u>1,090,305</u>
NET ASSETS		
FUND BALANCES		
Endowment	8,332,783	7,429,855
Restricted	4,602,796	3,632,834
Unrestricted	<u>42,226</u>	<u>22,708</u>
	<u>12,977,805</u>	<u>11,085,397</u>
	<u>\$ 14,139,138</u>	<u>\$ 12,175,702</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Endowment Fund	Restricted Fund	Unrestricted Funds	2012 Total	2011 Total
FUND BALANCES, beginning of year	\$ 7,429,855	\$ 3,632,834	\$ 22,708	\$11,085,397	\$ 9,934,278
Excess of revenue over expenses and grants for the year	<u>902,928</u>	<u>969,962</u>	<u>19,518</u>	<u>1,892,408</u>	<u>1,151,119</u>
FUND BALANCES, end of year	<u>\$ 8,332,783</u>	<u>\$ 4,602,796</u>	<u>\$ 42,226</u>	<u>\$12,977,805</u>	<u>\$11,085,397</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2012

	Endowment Fund	Restricted Fund	Unrestricted Funds	2012 Total	2011 Total
REVENUE					
Donations	\$ 706,577	\$ 556,804	\$ 12,100	\$ 1,275,481	\$ 1,647,418
Investment gain	526,829	239,870	61	766,760	243,172
Donations-in-kind	0	292,480	110,540	403,020	198,667
Management fees	0	0	95,300	95,300	7,287
	<u>1,233,406</u>	<u>1,089,154</u>	<u>218,001</u>	<u>2,540,561</u>	<u>2,096,544</u>
EXPENSES					
Planned giving	0	0	5,763	5,763	5,633
Employment contracts	0	0	51,139	51,139	49,891
Office and administration (note 8)	59,298	27,012	32,489	118,799	30,884
	<u>59,298</u>	<u>27,012</u>	<u>89,391</u>	<u>175,701</u>	<u>86,408</u>
GRANTS					
To the Synod (note 8)	271,180	92,180	0	363,360	673,414
To other charities	0	0	109,092	109,092	185,603
	<u>271,180</u>	<u>92,180</u>	<u>109,092</u>	<u>472,452</u>	<u>859,017</u>
EXCESS OF REVENUE OVER EXPENSES AND GRANTS for the year					
	<u>\$ 902,928</u>	<u>\$ 969,962</u>	<u>\$ 19,518</u>	<u>\$ 1,892,408</u>	<u>\$ 1,151,119</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Excess of revenue over expenses and grants for the year	\$ 1,892,408	\$ 1,151,119
Items not requiring an outlay of cash		
Unrealized (gain) loss on investments	(398,113)	93,457
Non cash donations	<u>0</u>	<u>(13,188)</u>
	1,494,295	1,231,388
Changes in non-cash working capital		
Accounts receivable	(1,693)	(3,682)
Cash surrender value of donated life insurance policies	0	13,188
Due from the Synod	326,871	(490,660)
Accrued interest	4,441	(980)
Due to the Synod	(232,473)	159,752
Accounts payable and accrued liabilities	<u>342</u>	<u>(931)</u>
	<u>1,591,783</u>	<u>908,075</u>
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Managed funds capital	261,801	205,411
Managed funds income	41,358	(21,559)
Purchase of investments	(2,166,191)	(1,754,053)
Sale of investments	<u>723,037</u>	<u>644,018</u>
	<u>(1,139,995)</u>	<u>(926,183)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	451,788	(18,108)
NET CASH AND CASH EQUIVALENTS, beginning of year	<u>381,936</u>	<u>400,044</u>
NET CASH AND CASH EQUIVALENTS, end of year	<u>\$ 833,724</u>	<u>\$ 381,936</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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.

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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

Measurement of financial instruments

The organization initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions. The organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in bonds and equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at amortized cost include cash, accounts receivable, accrued interest and due from the Synod.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, due to the Synod, managed funds capital and managed funds income.

The organization's financial assets measured at fair value include investments and donated life insurance policies.

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. If an impairment has occurred, the carrying amount of financial assets measured at amortized cost is reduced to the greater of the discounted future cash flows expected or the proceeds that could be realized from the sale of the financial asset. The amount of the write-down is recognized in net surplus. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net surplus.

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) **FINANCIAL INSTRUMENTS (continued)**

Transaction costs

The organization recognizes its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

3. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING

The organization has elected to apply the Canadian accounting standards for not for profit organizations (ASNPO) contained in Part III of the CICA Handbook.

These financial statements for the year ended December 31, 2012 are the first financial statements for which the entity has applied Canadian accounting standards for not for profit organizations. These financial statements are in compliance with the Canadian accounting standards for not for profit organizations and the provisions set out in First-Time Adoption, Section 1501 for first-time adopters of this basis of accounting.

The impact of adopting these standards was accounted for in fund balances at the date of transition, January 1, 2011, being the date of the first fiscal period for comparison purposes.

Opening statement of financial position

There are no differences between the statement of financial position as at December 31, 2010 based on previous financial statements for the year then ended, which were prepared according to Canadian generally accepted accounting standards contained in Part V of the CICA Handbook and the statement of financial position prepared upon first time adoption of Canadian accounting standards for not for profit organizations contained in Part III of the CICA Handbook at the date of transition, January 1, 2011.

As a result, there have been no changes to the opening fund balances as at the date of transition, January 1, 2011, or to net revenue over expenses and grants, as a result of prior period adjustments, for the year ended December 31, 2010. Accordingly, the opening statement of financial position has not been presented.

4. FINANCIAL INSTRUMENTS

The organization's financial instruments consist of cash, accounts receivable, donated life insurance policies, due to/from the Synod, accrued interest, investments, accounts payable and accrued liabilities, managed funds income and managed funds capital. Unless otherwise noted, it is management's opinion that the organization is not exposed to significant interest, credit, currency, liquidity, or other price risks arising from these financial instruments.

The extent of the organization's exposure to these risks did not change in 2012 compared to the previous period.

The organization does not have a significant exposure to any individual customer or counterpart.

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 gain (loss)
Bonds	\$ 7,175,941	\$ (66,565)
Canadian equities	4,115,766	382,148
Foreign equities	<u>1,404,184</u>	<u>82,530</u>
	<u>\$ 12,695,891</u>	<u>\$ 398,113</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.

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

The Foundation defines capital as its unrestricted fund balance, which was \$42,226 at year-end [2011 - \$22,708]. 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, 2012, the Foundation has met its objective of having sufficient liquid resources to meet its current obligations.

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

8. TRANSACTIONS WITH THE SYNOD

Transactions with the Synod are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the two parties. 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. The Foundation paid \$14,000 for the 2012 fiscal year.
- [b] The Foundation provides the Synod grants as approved by the Board of Directors. Total grants to the Synod for the year were \$363,360 [2011 - \$673,414].
- [c] The Foundation received payments from the Synod for Lutheran Planned Giving Services. The amount for 2012 totalled \$0 [2011 - \$74,000]. This payment was replaced effective January 1, 2012 with an administrative fee set at 0.19% of market value per quarter on the funds transferred by the Synod either in 2008 or subsequently. The amount for 2012 totalled \$95,300.
- [d] During the year, the Foundation received \$527,266 [2011 - \$854,137] from the Synod for funds received from donors, which were designated for investment purposes.

9. MANAGED FUNDS

These are funds owned by 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 \$963,726 (2011 - \$701,925) 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 collects management fees equal to 0.25% of market value per 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.

10. COMPARATIVE FIGURES

Certain figures presented for comparative purposes have been reclassified to conform to the current year's presentation.