

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
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YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2018 and the statements of fund balances, operations and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not for profit organizations.

Basis of Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the organization's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at RLB LLP's website at: www.rlb.ca/additional-auditor-responsibilities. This description forms part of our auditor's report.

A handwritten signature in black ink that reads "RLB LLP".

Guelph, Ontario
March 7, 2019

Chartered Professional Accountants
Licensed Public Accountants

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EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	2018	2017
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 4,081,049	\$ 1,936,047
Accounts receivable	36,764	62,481
Donated life insurance policies	13,188	13,188
Due from the Synod (note 6)	34,465	399,959
Investments (note 4)	<u>31,738,741</u>	<u>29,979,918</u>
	<u>\$ 35,904,207</u>	<u>\$ 32,391,593</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 18,065	\$ 46,483
Due to the Synod (note 6)	300,253	279,017
Managed funds income (note 8)	(286,278)	1,150,164
Managed funds capital (note 8)	<u>18,670,854</u>	<u>13,566,175</u>
	<u>18,702,894</u>	<u>15,041,839</u>
NET ASSETS		
FUND BALANCES		
Endowment	12,108,276	12,319,221
Restricted	5,029,564	4,975,991
Unrestricted	<u>63,473</u>	<u>54,542</u>
	<u>17,201,313</u>	<u>17,349,754</u>
	<u>\$ 35,904,207</u>	<u>\$ 32,391,593</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF FUND BALANCES
FOR THE ENDED DECEMBER 31, 2018

	Endowment Fund	Restricted Fund	Unrestricted Funds	2018 Total	2017 Total
FUND BALANCES, beginning of year	\$12,319,221	\$ 4,975,991	\$ 54,542	\$17,349,754	\$15,839,498
Interfund transfers (note 7)	(175,048)	182,476	(7,428)	0	0
Excess of (expenses over revenue and grants) revenue over expenses and grants for the year	<u>(35,897)</u>	<u>(128,903)</u>	<u>16,359</u>	<u>(148,441)</u>	<u>1,510,256</u>
FUND BALANCES, end of year	<u>\$12,108,276</u>	<u>\$ 5,029,564</u>	<u>\$ 63,473</u>	<u>\$17,201,313</u>	<u>\$17,349,754</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF OPERATIONS
FOR THE ENDED DECEMBER 31, 2018

	Endowment Fund	Restricted Fund	Unrestricted Funds	2018 Total	2017 Total
REVENUE					
Donations (note 6)	\$ 535,363	\$ 453,283	\$ 8,000	\$ 996,646	\$ 904,271
Investment gain	(45,119)	(20,845)	0	(65,964)	1,459,257
Donations-in-kind	0	0	251,394	251,394	632,028
Management fees (note 6)	0	0	213,791	213,791	201,052
	<u>490,244</u>	<u>432,438</u>	<u>473,185</u>	<u>1,395,867</u>	<u>3,196,608</u>
EXPENSES					
Planned giving	0	0	11,523	11,523	13,603
Employment contracts	0	0	64,443	64,443	62,863
Office and administration (note 6)	75,833	29,012	125,772	230,617	205,031
	<u>75,833</u>	<u>29,012</u>	<u>201,738</u>	<u>306,583</u>	<u>281,497</u>
GRANTS					
To the Synod (note 6)	428,607	523,996	0	952,603	894,668
To other charities	21,701	8,333	255,088	285,122	510,187
	<u>450,308</u>	<u>532,329</u>	<u>255,088</u>	<u>1,237,725</u>	<u>1,404,855</u>
EXCESS OF (EXPENSES OVER REVENUE AND GRANTS) REVENUE OVER EXPENSES AND GRANTS for the year					
	<u>\$ (35,897)</u>	<u>\$ (128,903)</u>	<u>\$ 16,359</u>	<u>\$ (148,441)</u>	<u>\$ 1,510,256</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF CASH FLOWS
FOR THE ENDED DECEMBER 31, 2018

	2018	2017
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Excess of (expenses over revenue and grants) revenue over expenses and grants for the year	\$ (148,441)	\$ 1,510,256
Items not requiring an outlay of cash		
Unrealized loss (gain) on investments	<u>2,240,130</u>	<u>(1,197,249)</u>
	2,091,689	313,007
Changes in non-cash working capital		
Accounts receivable	25,717	(3,685)
Due from the Synod	365,494	(344,471)
Due to the Synod	21,236	(267,695)
Accounts payable and accrued liabilities	<u>(28,418)</u>	<u>35,362</u>
	<u>2,475,718</u>	<u>(267,482)</u>
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Managed funds capital	5,104,679	1,268,527
Managed funds income	(1,436,442)	671,912
Purchase of investments	(12,920,598)	(12,128,610)
Sale of investments	<u>8,921,645</u>	<u>11,295,115</u>
	<u>(330,716)</u>	<u>1,106,944</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,145,002	839,462
NET CASH AND CASH EQUIVALENTS, beginning of year	<u>1,936,047</u>	<u>1,096,585</u>
NET CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,081,049</u>	<u>\$ 1,936,047</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE ENDED DECEMBER 31, 2018

1. PURPOSE OF THE ORGANIZATION

The declared purpose of the Evangelical Lutheran Foundation of Eastern Canada [the "Foundation"] is "to operate exclusively as a charity to support and further the life, work and mission of the Eastern Synod of the Evangelical Lutheran Church in Canada, its congregations and affiliated institutions, and other faith-based organizations with similar purposes, which are qualified donees within the meaning of section 248(1) of the Income Tax Act". 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, or in accordance with directives issued by the Board of Directors.

[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 ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) REVENUE RECOGNITION

The Foundation follows the restricted fund method of accounting for contributions. Contributions are recognized in revenue when received or receivable if the amount to be received can be reasonably estimated and collection is assured.

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.

Management fees are charged on a quarterly basis to restricted, endowed and managed funds based on the market value of the investments in each fund.

(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 initial 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) CASH AND CASH EQUIVALENTS

The Foundation's policy is to disclose bank balances under cash and cash equivalents, including treasury bills with short term maturities held in the investment portfolios.

(f) FINANCIAL INSTRUMENTS

Measurement of financial instruments

The Foundation initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions. The Foundation subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments 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 and cash equivalents, accounts receivable, donated life insurance policies, due from the Synod, investments in Canadian real estate and investment bonds.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and due to the Synod.

The Foundation's financial assets measured at fair value include investments in bonds and equity instruments. Financial liabilities measured at fair value include managed funds, where the total of capital and income equals their fair value.

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) FINANCIAL INSTRUMENTS (continued)

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.

Transaction costs

The Foundation 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. FINANCIAL INSTRUMENTS

Unless otherwise noted, it is management's opinion that the Foundation is not exposed to significant interest, credit, currency, liquidity, or other price risks arising from the financial instruments.

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.

The extent of the Foundation's exposure to these risks did not change in 2018 compared to the previous period.

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

4. INVESTMENTS

The Foundation's funds are invested in bonds, Canadian and foreign equity securities, Canadian real estate and investment bonds. The bond and equity 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 values of the Foundation's investments are summarized below:

	Market Value	Unrealized (loss) gain
Bonds and guaranteed investment certificates	\$ 13,646,173	\$ (76,588)
Canadian real estate	1,500,000	0
Investment bonds	579,190	0
Canadian and foreign equities	<u>16,013,378</u>	<u>(2,163,542)</u>
	<u>\$ 31,738,741</u>	<u>\$ (2,240,130)</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE ENDED DECEMBER 31, 2018

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. 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. Under the terms of the office facilities agreement, the Foundation paid \$13,300 for the 2018 fiscal year (2017 - \$13,300).

[b] The Foundation provides the Synod grants as approved by the Board of Directors. Total grants to the Synod for the year were \$952,603 (2017 - \$894,668). During the year, the Foundation also forwarded grants in the amount of \$9,600 directly to other charities, on behalf of the Synod.

[c] The Foundation charged an administrative fee set at 0.15% per quarter on the funds transferred by the Synod either in 2008 or subsequently. The amount for 2018 totalled \$98,878 (2017 - \$94,266).

[d] At year end, the Foundation had receivables of \$34,465 (2017 - \$399,959) from the Synod for funds received from donors, which were designated for investment purposes. The Foundation also had payables of \$300,253 (2017 - \$279,017) to the Synod for year end grant requests.

[e] During 2016, the Eastern Synod opened a managed fund with the Foundation in the amount of \$450,000, which is charged a fee of 0.15% per quarter on the managed funds. In 2018, the Eastern Synod withdrew an additional \$250,000 from its managed funds. As of year end 2018, the fund balance is \$237,260 (2017 - \$490,172).

7. INTERFUND TRANSFERS

During the year, the Foundation elected to transfer funds from endowment to restricted to transfer excess income back to the proper funds. Additionally, the Foundation transferred an amount from the unrestricted fund to the restricted fund based on a financial planning policy.

8. MANAGED FUNDS

These are funds owned by congregations and other organizations related to the Eastern Synod or another synod of the Evangelical Lutheran Church in Canada (ELCIC) for which the income and capital is designated for the benefit of these organizations. Under the terms of the agreements, the organizations' contributed assets, worth a total of \$18,670,854 (2017 - \$13,566,175), were pooled with the Foundation's assets in the investment portfolio. The organizations 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, except for funds managed on behalf of Waterloo Lutheran Seminary, which are charged 0.15% per quarter, funds managed on behalf of two congregations, which are charged 0.23% 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.