

**EVANGELICAL LUTHERAN FOUNDATION OF
EASTERN CANADA**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
INDEX TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

	Page
INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS	
Statement of Financial Position	4
Statement of Fund Balances	5
Statement of Operations	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 - 11



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, 2015 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 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 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, 2015 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.

Guelph, Ontario
March 12, 2016

Chartered Professional Accountants
Licensed Public Accountants

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015

	2015	2014
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 1,180,512	\$ 621,745
Accounts receivable	36,015	14,629
Donated life insurance policies	13,188	13,188
Due from the Synod (note 6)	154,350	118,934
Investments (note 4)		
Long term investments	13,876,360	8,927,160
Equities - at market value	<u>11,518,459</u>	<u>6,474,639</u>
	<u>\$ 26,778,884</u>	<u>\$ 16,170,295</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 9,082	\$ 19,481
Due to the Synod (note 6)	145,612	253,729
Managed funds income (note 8)	(317,853)	54,025
Managed funds capital (note 8)	<u>11,781,087</u>	<u>1,483,829</u>
	<u>11,617,928</u>	<u>1,811,064</u>
NET ASSETS		
FUND BALANCES		
Endowment	10,860,403	10,605,884
Restricted	4,288,386	3,709,021
Unrestricted	<u>12,167</u>	<u>44,326</u>
	<u>15,160,956</u>	<u>14,359,231</u>
	<u>\$ 26,778,884</u>	<u>\$ 16,170,295</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Endowment Fund	Restricted Fund	Unrestricted Funds	2015 Total	2014 Total
FUND BALANCES, beginning of year	\$10,605,884	\$ 3,709,021	\$ 44,326	\$14,359,231	\$14,195,414
Interfund transfers (note 7)	487,131	(316,876)	(170,255)	0	0
(Shortfall) excess of revenue over expenses and grants for the year	<u>(232,612)</u>	<u>896,241</u>	<u>138,096</u>	<u>801,725</u>	<u>163,817</u>
FUND BALANCES, end of year	<u>\$10,860,403</u>	<u>\$ 4,288,386</u>	<u>\$ 12,167</u>	<u>\$15,160,956</u>	<u>\$14,359,231</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2015

	Endowment Fund	Restricted Fund	Unrestricted Funds	2015 Total	2014 Total
REVENUE					
Donations (note 6)	\$ 133,192	\$ 1,389,869	\$ 16,000	\$ 1,539,061	\$ 175,071
Investment gain	7,405	(5,271)	0	2,134	810,508
Donations-in-kind	0	0	290,764	290,764	224,438
Management fees (note 6)	0	0	160,522	160,522	124,038
	<u>140,597</u>	<u>1,384,598</u>	<u>467,286</u>	<u>1,992,481</u>	<u>1,334,055</u>
EXPENSES					
Planned giving	0	0	11,684	11,684	6,671
Employment contracts	0	0	58,226	58,226	55,978
Office and administration (note 6)	70,981	24,013	79,685	174,679	170,644
	<u>70,981</u>	<u>24,013</u>	<u>149,595</u>	<u>244,589</u>	<u>233,293</u>
GRANTS					
To the Synod (note 6)	296,967	464,344	0	761,311	804,383
To other charities	5,261	0	179,595	184,856	132,562
	<u>302,228</u>	<u>464,344</u>	<u>179,595</u>	<u>946,167</u>	<u>936,945</u>
(SHORTFALL) EXCESS OF REVENUE OVER EXPENSES AND GRANTS for the year	<u>\$ (232,612)</u>	<u>\$ 896,241</u>	<u>\$ 138,096</u>	<u>\$ 801,725</u>	<u>\$ 163,817</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Excess of revenue over expenses and grants for the year	\$ 801,725	\$ 163,817
Items not requiring an outlay of cash		
Unrealized gain on investments	<u>(1,083,623)</u>	<u>(271,326)</u>
	(281,898)	(107,509)
Changes in non-cash working capital		
Accounts receivable	(21,386)	537
Due from the Synod	(35,416)	299,300
Due to the Synod	(108,117)	(522,858)
Accounts payable and accrued liabilities	<u>(10,399)</u>	<u>6,245</u>
	<u>(457,216)</u>	<u>(324,285)</u>
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Managed funds capital	10,297,258	445,349
Managed funds income	(371,877)	(29,879)
Purchase of investments	(18,772,027)	(16,150,720)
Sale of investments	<u>9,862,629</u>	<u>14,541,309</u>
	<u>1,015,983</u>	<u>(1,193,941)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	558,767	(1,518,226)
NET CASH AND CASH EQUIVALENTS, beginning of year	<u>621,745</u>	<u>2,139,971</u>
NET CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,180,512</u>	<u>\$ 621,745</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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 YEAR ENDED DECEMBER 31, 2015

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 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 and cash equivalents, accounts receivable, donated life insurance policies 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.

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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 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. FINANCIAL INSTRUMENTS

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 their financial instruments.

The organization 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 organization's exposure to these risks did not change in 2015 compared to the previous period.

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

4. INVESTMENTS

The organization'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 Value	Unrealized (loss) gain
Bonds	\$ 13,876,360	\$ (155,199)
Canadian and foreign equities	<u>11,518,459</u>	<u>(928,424)</u>
	<u>\$ 25,394,819</u>	<u>\$ (1,083,623)</u>

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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 organization is provided with facilities and administrative services from the Synod. Under the terms of the office facilities agreement, the organization paid \$12,900 for the 2015 fiscal year (2014 - \$12,900).
- [b] The organization provides the Synod grants as approved by the Board of Directors. Total grants to the Synod for the year were \$761,311 (2014 - \$804,383).
- [c] The organization charged an administrative fee set at 0.19% of market value in the first quarter, decreased to 0.15% per quarter afterwards, on the funds transferred by the Synod either in 2008 or subsequently. The amount for 2015 totalled \$91,335 (2014 - \$108,412).
- [d] At year end, the organization had receivables of \$154,350 (2014 - \$118,934) from the Synod for funds received from donors, which were designated for investment purposes. The organization also had payables of \$145,612 (2014 - \$253,729) to the Synod for year end grant requests.

7. INTERFUND TRANSFERS

During the year, the organization elected to eliminate various restricted funds, resulting in transfers to other restricted or endowment funds. Additionally, the organization elected to transfer surplus unrestricted funds to restricted and endowment funds in the year.

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 \$11,781,087 (2014 - \$1,483,829), 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 0.17% 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.

9. COMPARATIVE FIGURES

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