

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
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YEAR ENDED DECEMBER 31, 2022

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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, 2022 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, 2022 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 Evangelical Lutheran Foundation of Eastern Canada 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 Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation'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.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Guelph, Ontario
April 24, 2023



Chartered Professional Accountants
Licensed Public Accountants

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2022

| | 2022 | 2021 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT | | |
| Cash and cash equivalents | \$ 6,205,386 | \$ 5,858,066 |
| Accounts receivable | 34,533 | 37,774 |
| Donated life insurance policies | 13,188 | 13,188 |
| Due from the Eastern Synod (note 7) | 152,580 | 170,129 |
| Investments (note 4) | <u>64,422,097</u> | <u>63,362,793</u> |
| | <u>\$ 70,827,784</u> | <u>\$ 69,441,950</u> |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | \$ 21,887 | \$ 34,482 |
| Due to the Eastern Synod (note 7) | 359,579 | 382,924 |
| Partner funds (loss) income (note 9) | (2,302,821) | 4,503,862 |
| Partner funds capital (note 9) | <u>48,185,302</u> | <u>40,385,696</u> |
| | <u>46,263,947</u> | <u>45,306,964</u> |
| NET ASSETS | | |
| FUND BALANCES | | |
| Endowment | 17,977,715 | 16,762,569 |
| Restricted | 6,527,842 | 7,318,940 |
| Unrestricted | <u>58,280</u> | <u>53,477</u> |
| | <u>24,563,837</u> | <u>24,134,986</u> |
| | <u>\$ 70,827,784</u> | <u>\$ 69,441,950</u> |

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2022

| | Endowment Fund | Restricted Fund | Unrestricted Funds | 2022 Total | 2021 Total |
|---|-----------------------------|----------------------------|-------------------------------|-----------------------------|-----------------------------|
| FUND BALANCES, beginning of year | \$ 16,762,569 | \$ 7,318,940 | \$ 53,477 | \$ 24,134,986 | \$ 21,824,397 |
| Interfund transfers (note 8) | 10,528 | 156,519 | (167,047) | 0 | 0 |
| Excess (deficiency) of revenue and grants over expenses for the year | <u>1,204,618</u> | <u>(947,617)</u> | <u>171,850</u> | <u>428,851</u> | <u>2,310,589</u> |
| FUND BALANCES, end of year | <u>\$ 17,977,715</u> | <u>\$ 6,527,842</u> | <u>\$ 58,280</u> | <u>\$ 24,563,837</u> | <u>\$ 24,134,986</u> |

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2022

| | Endowment Fund | Externally Restricted Fund | Unrestricted Funds | 2022 Total | 2021 Total |
|---|---------------------|----------------------------------|-----------------------|-------------------|---------------------|
| REVENUE | | | | | |
| Donations (note 6 and 7) | \$ 2,453,000 | \$ 224,780 | \$ 0 | \$ 2,677,780 | \$ 249,498 |
| Investment (loss) gain (note 4) | (650,935) | (294,877) | 0 | (945,812) | 2,680,927 |
| Donations-in-kind (note 6) | 0 | 0 | 237,098 | 237,098 | 637,675 |
| Administrative fees (note 7 and 9) | 0 | 0 | 429,437 | 429,437 | 374,087 |
| | <u>1,802,065</u> | <u>(70,097)</u> | <u>666,535</u> | <u>2,398,503</u> | <u>3,942,187</u> |
| EXPENSES | | | | | |
| Planned giving | 0 | 0 | 12,462 | 12,462 | 5,398 |
| Human resources contracts | 0 | 0 | 83,104 | 83,104 | 80,295 |
| Office and administration (note 7) | 89,395 | 33,255 | 159,866 | 282,516 | 272,720 |
| | <u>89,395</u> | <u>33,255</u> | <u>255,432</u> | <u>378,082</u> | <u>358,413</u> |
| GRANTS | | | | | |
| To the Eastern Synod (note 7) | 479,906 | 838,673 | 14,189 | 1,332,768 | 618,223 |
| To other charities | 28,146 | 5,592 | 225,064 | 258,802 | 654,962 |
| | <u>508,052</u> | <u>844,265</u> | <u>239,253</u> | <u>1,591,570</u> | <u>1,273,185</u> |
| EXCESS (DEFICIENCY) OF REVENUE AND GRANTS OVER EXPENSES for the year | <u>\$ 1,204,618</u> | <u>\$ (947,617)</u> | <u>\$ 171,850</u> | <u>\$ 428,851</u> | <u>\$ 2,310,589</u> |

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

| | 2022 | 2021 |
|---|---------------------|---------------------|
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| Excess of revenue and grants over expenses for the year | \$ 428,851 | \$ 2,310,589 |
| Items not requiring an outlay of cash | | |
| Unrealized (loss) gain on investments | <u>(3,315,136)</u> | <u>(5,601,899)</u> |
| | (2,886,285) | (3,291,310) |
| Changes in non-cash working capital | | |
| Accounts receivable | 3,241 | (9,271) |
| Due from the Eastern Synod | 17,549 | 455,632 |
| Due to the Eastern Synod | (23,345) | 117,934 |
| Accounts payable and accrued liabilities | <u>(12,595)</u> | <u>(12,935)</u> |
| | <u>(2,901,435)</u> | <u>(2,739,950)</u> |
| CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | | |
| Partner funds capital | 7,799,606 | 11,699,221 |
| Partner funds income | (6,806,683) | 1,438,685 |
| Purchase of investments | (18,767,368) | (11,498,204) |
| Sale of investments | <u>21,023,200</u> | <u>4,988,000</u> |
| | <u>3,248,755</u> | <u>6,627,702</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 347,320 | 3,887,752 |
| NET CASH AND CASH EQUIVALENTS, beginning of year | <u>5,858,066</u> | <u>1,970,314</u> |
| NET CASH AND CASH EQUIVALENTS, end of year | <u>\$ 6,205,386</u> | <u>\$ 5,858,066</u> |

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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 Eastern 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] Externally 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, 2022

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.

Administrative fees are charged on a quarterly basis to restricted, endowed and partner 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) 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.

(e) FINANCIAL INSTRUMENTS

The Foundation initially measures its financial assets and liabilities at fair value.

The Foundation subsequently measures all its financial assets and financial liabilities at amortized cost, unless otherwise noted below.

Investments in equity instruments that are quoted in an active market are measured at fair value. Changes in fair value are recognized in revenue.

Cost in a related party transaction with no repayment terms is determined using the consideration transferred or received by the Foundation in the transaction.

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.

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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 2022 compared to the previous period except to the extent outline in note 9.

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

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Foundation is exposed to other price risk on portfolio investments, which include investments in shares and bonds.

4. INVESTMENTS

The Foundation's funds are invested in bonds and guaranteed investment certificates, 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:

| | Value | Unrealized gain (loss) |
|--|----------------------|-----------------------------------|
| Bonds and guaranteed investment certificates | \$ 21,890,484 | \$ (1,253,695) |
| Alternative products | 16,751,431 | 387,409 |
| Canadian real estate | 1,500,000 | 0 |
| Investment bonds | 849,365 | 0 |
| Canadian and foreign equities | <u>23,430,817</u> | <u>4,181,422</u> |
| | <u>\$ 64,422,097</u> | <u>\$ 3,315,136</u> |

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.

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

6. DONATIONS

The Foundation received donations from the following sources during the year:

| | 2022 | 2021 |
|------------------------------------|---------------------|-------------------|
| In Kind donations from individuals | \$ 237,098 | \$ 637,675 |
| Donations from individuals | 75,200 | 210 |
| Donations from other charities | 0 | 79,159 |
| Donations from related party | <u>2,602,580</u> | <u>170,129</u> |
| | <u>\$ 2,914,878</u> | <u>\$ 887,173</u> |

7. TRANSACTIONS WITH THE EASTERN SYNOD

Transactions with the Eastern 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 Eastern Synod are unsecured, interest free, with no set terms of repayment.

- (a) The Foundation is provided with facilities and administrative services from the Eastern Synod. Under the terms of the office facilities agreement, the Foundation paid \$13,300 for the 2022 fiscal year (2021 - \$13,300).
- (b) The Foundation provides the Eastern Synod grants as approved by the Board of Directors. Total grants to the Eastern Synod for the year were \$1,332,768 (2021 - \$618,223). Included in the total grants to the Eastern Synod, the Foundation also forwarded grants in the amount of \$36,000 (2021 - \$32,800) directly to other charities, on behalf of the Eastern Synod.
- (c) The Foundation charged an administrative fee set at 0.13% per quarter on the funds transferred by the Eastern Synod either in 2008 or subsequently. The amount for 2022 totalled \$112,409 (2021 - \$111,595).
- (d) At year end, the Foundation had receivables of \$152,580 (2021 - \$170,129) from the Eastern Synod for funds received from donors, which were designated for investment purposes. The Foundation also had payables of \$359,579 (2021 - \$382,924) to the Eastern Synod for year end grant requests.

8. INTERFUND TRANSFERS

During the year, the Foundation elected to transfer funds from unrestricted fund to the restricted funds based on a financial planning policy and transferred funds between endowment and restricted based on the underlying contracts and agreements in place for those funds.

9. PARTNER 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 \$48,185,302 (2021 - \$40,385,696), have been collaboratively invested with the Foundation's assets in the investment portfolio. The organizations retain ownership of the assets and have the option of terminating the agreements with due notice. The Foundation collects administrative fees equal to 0.25% of market value per quarter, unless the market value of the fund exceeds \$500,000, at which point the Foundation's policy prescribes slightly reduced fees ranging from 0.23% to 0.15% at various dollar thresholds.

EVANGELICAL LUTHERAN FOUNDATION OF EASTERN CANADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

10. MATERIAL UNCERTAINTY DUE TO COVID-19

During the year and subsequent to year end, the Novel Coronavirus (COVID-19) significantly impacted the economy in Canada and globally. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of business disruption and the related financial impact cannot be reasonably estimated at this time. This may impact timing and amounts realized on the Foundations assets.