

Financial Statements

**Eastern Synod of the Evangelical Lutheran
Church in Canada**

December 31, 2010

INDEPENDENT AUDITORS' REPORT

To the Bishop and Directors of
Eastern Synod of the Evangelical Lutheran Church in Canada

We have audited the accompanying financial statements of the **Eastern Synod of the Evangelical Lutheran Church in Canada** ["the Synod"], which comprise the statement of financial position as at December 31, 2010 and the statements of operations, fund balances, cash flows and schedule of total offerings 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 generally accepted accounting principles, 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.

Auditors' 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 auditors' 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 auditors consider 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

As explained in note 2, the Synod incurs costs for post-retirement benefits for pastors and their spouses. The Synod accounts for such costs as they are paid, which is not in accordance with Canadian generally accepted accounting principles. During the year, the Synod accounted for \$92,963 [2009 - \$83,898] of such costs. These costs should be accounted for as the Synod becomes obliged to provide the post-retirement benefits. Although the amount has not been specifically determined, the unrecorded obligation would be material to these financial statements.

In our opinion, except for the matter described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Synod as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Kitchener, Canada,
May 10, 2011.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Eastern Synod of the Evangelical Lutheran Church in Canada

[Incorporated by Act of Parliament]

STATEMENT OF FINANCIAL POSITION

As at December 31

	Operating Fund \$	Special Purpose Fund \$	2010 Total \$	2009 Total \$
		<i>[note 2]</i>		
ASSETS				
Cash	145,810	82,946	228,756	262,415
Miscellaneous receivables and prepaid expenses	396,625	13,750	410,375	437,414
Due from Evangelical Lutheran Foundation of Eastern Canada ["ELFEC"] <i>[note 6]</i>	—	213,832	213,832	321,296
Accrued interest	—	3,781	3,781	3,781
Investments - at cost <i>[note 3]</i>	—	575,500	575,500	575,500
Current portion of loans receivable <i>[note 4]</i>	—	43,271	43,271	40,000
Total current assets	542,435	933,080	1,475,515	1,640,406
Long-term portion of loans receivable <i>[note 4]</i>	—	469,763	469,763	447,664
Capital assets, net <i>[note 5]</i>	—	970,566	970,566	1,061,369
	542,435	2,373,409	2,915,844	3,149,439
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	322,056	—	322,056	353,253
Due to ELFEC <i>[note 6]</i>	1,000	362,477	363,477	165,559
Total current liabilities	323,056	362,477	685,533	518,812
Deferred capital contributions <i>[note 9]</i>	—	99,742	99,742	104,175
Total liabilities	323,056	462,219	785,275	622,987
Fund balances				
Invested in capital assets	—	970,566	970,566	1,061,369
Endowments <i>[note 2]</i>	—	—	—	167,574
Externally restricted	—	562,530	562,530	576,797
Internally restricted	—	387,335	387,335	437,046
Unrestricted	219,379	(9,241)	210,138	283,666
Total fund balances	219,379	1,911,190	2,130,569	2,526,452
	542,435	2,373,409	2,915,844	3,149,439

See accompanying notes

On behalf of the Board:

Director

Eastern Synod of the Evangelical Lutheran Church in Canada

STATEMENT OF FUND BALANCES

Year ended December 31

	Operating Fund \$	Special Purpose Fund \$	2010 Total \$	2009 Total \$
Fund balances, beginning of year	240,048	2,286,404	2,526,452	2,391,151
Excess (deficiency) of revenue over expenses for the year	(20,669)	(379,169)	(399,838)	119,693
Transfer of property <i>[note 5]</i>	—	3,955	3,955	15,608
Fund balances, end of year	219,379	1,911,190	2,130,569	2,526,452

See accompanying notes

Eastern Synod of the Evangelical Lutheran Church in Canada

STATEMENT OF OPERATIONS

Year ended December 31

	Operating Fund \$	Special Purpose Fund \$	2010 Total \$	2009 Total \$
REVENUE				
Total offerings of member congregations <i>[schedule]</i>	2,246,047	—	2,246,047	2,118,983
Program support from other sources	363,594	—	363,594	340,320
Support for ministries and administrative	279,762	—	279,762	99,088
Donations, bequests and other receipts	—	260,470	260,470	167,862
Grants from ELFEC	221,977	213,832	435,809	803,130
Allocated interest and other investment income				
Special purpose fund	—	44,198	44,198	41,188
	3,111,380	518,500	3,629,880	3,570,571
Less congregational offerings for special purposes <i>[schedule]</i>	(646,522)	—	(646,522)	(463,420)
Net revenue for Synod programs	2,464,858	518,500	2,983,358	3,107,151
EXPENSES				
Evangelical Lutheran Church in Canada	376,958	—	376,958	387,365
Waterloo Lutheran Seminary	380,000	—	380,000	384,000
Synodical programmatic committees	561,213	—	561,213	568,181
Other ministries and administration	1,167,356	—	1,167,356	995,979
Disbursements for special purpose fund projects	—	802,911	802,911	553,769
Amortization	—	94,758	94,758	98,164
	2,485,527	897,669	3,383,196	2,987,458
Excess (deficiency) of revenue over expenses for the year	(20,669)	(379,169)	(399,838)	119,693

See accompanying notes

Eastern Synod of the Evangelical Lutheran Church in Canada

STATEMENT OF CASH FLOWS

Year ended December 31

	2010	2009
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	(399,838)	119,693
Add (deduct) items not involving current payment of cash		
Amortization of capital assets	94,758	98,164
Amortization of deferred capital contributions [note 9]	(4,433)	(4,434)
Accretion of implicit interest on loans receivable [note 4]	(25,000)	(25,000)
Net changes in non-cash working capital balances		
related to operations [note 8]	301,224	(492,571)
Cash used in operating activities	(33,289)	(304,148)
INVESTING ACTIVITIES		
Advance of loans receivable	(10,000)	(30,000)
Receipts from loans receivable	9,630	13,800
Sale of investments	—	25,536
Cash provided by (used in) investing activities	(370)	9,336
Net increase (decrease) in cash during the year	(33,659)	(294,812)
Cash, beginning of year	262,415	557,227
Cash, end of year	228,756	262,415

See accompanying notes

Eastern Synod of the Evangelical Lutheran Church in Canada

SCHEDULE OF TOTAL OFFERINGS

Years ended December 31

	2010	2009
	\$	\$
Offerings for Synod programs		
Regular benevolence and subscriptions	1,561,835	1,595,911
Directed gifts	34,858	44,665
	1,596,693	1,640,576
Offerings - Eastern Synod Lutheran	2,832	14,987
Total offerings for Synod programs	1,599,525	1,655,563
Offerings for special purposes		
Global Hunger / C.L.W.R.	462,675	338,275
Canadian Missions	24,458	16,541
Lutheran Campus Ministry	19,628	17,413
Waterloo Lutheran Seminary	17,458	33,673
Synod camps	37,969	41,675
Other	84,334	15,843
	646,522	463,420
Total offerings of member congregations	2,246,047	2,118,983

See accompanying notes

Eastern Synod of the Evangelical Lutheran Church in Canada

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. PURPOSE OF THE ORGANIZATION

The purpose of the Eastern Synod of the Evangelical Lutheran Church in Canada [the "Synod"] is to facilitate and advance the mission of the Evangelical Lutheran Church in Canada in Ontario, Quebec and the Maritime provinces. The Synod is a registered charity under the Income Tax Act (Canada) and is exempt from income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund accounting

The accounts of the Synod are maintained in accordance with the principles of fund accounting, a procedure by which resources for various purposes are classified in accordance with activities or objectives as specified by donors or limitations imposed by the Synod Council. For financial reporting purposes, the Synod has combined funds with similar characteristics into two major fund groups as follows:

[i] Operating

This fund accounts for amounts received, amounts expended and funds available to be spent on the general operations and administration of the Synod.

[ii] Special purpose

This fund accounts for donations, grants, bequests and other income received; amounts expended and amounts available to be spent for certain restricted purposes as dictated by the donor or appropriated by the Synod. In some cases only the income from these funds may be expended and the principal amount must be permanently endowed.

Revenue and expense recognition

The Synod follows the restricted fund method of accounting for contributions. Unrestricted donations are recognized as revenue when received. Restricted contributions are recognized as revenue of the appropriate restricted fund. Contributions for endowment are recognized as revenue of the externally restricted fund.

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Investments

Investment certificates are valued at amortized cost using the effective interest rate method. Transactions are recorded on a trade-date basis and transaction costs are expensed as incurred.

Loans receivable

Loans receivable are initially recorded at fair value and then carried at amortized cost using the effective interest rate method and the interest rate implied in the fair value determination.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization of capital assets is provided on a straight-line basis over the following periods:

Computer hardware and photocopier	3 years
Computer software	3 years
Office building and furniture and equipment	25 years
Vehicles	3 - 4 years
Edgewood assets	5 - 25 years
Lutherlyn assets	10 years
Meadowvale assets	25 years

Financial instruments

All financial instruments are initially recorded on the statement of financial position at fair value. They are subsequently valued at fair value or amortized cost depending on the classification selected for the financial instrument. Financial assets are classified as either "held-for-trading", "held-to-maturity", or "loans and receivables" and financial liabilities are classified as either "held-for-trading" or "other liabilities". Financial assets and liabilities classified as held-for-trading are measured at fair value with the change in fair value recorded in the statement of operations. Financial assets classified as held-to-maturity or loans and receivables and financial liabilities classified as other liabilities are subsequently measured at amortized cost using the effective interest rate method.

Eastern Synod of the Evangelical Lutheran Church in Canada

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

The Synod has classified its financial instruments as follows:

- Cash and short-term deposits, bonds and equity investments are classified as held-for-trading;
- Guaranteed investment certificates are classified as held-to-maturity;
- Miscellaneous receivables, accrued interest, loans receivable and due from ELFEC are classified as loans and receivables; and
- Accounts payable, due to ELFEC are classified as other liabilities.

The Synod is subject to credit risk with respect to its miscellaneous receivables, loans receivable and amounts due from ELFEC. The maximum credit risk is the fair value of these receivables.

Post-retirement benefits

The Synod provides benefits to certain pastors and their spouses after retirement. These costs are charged to the expense accounts as incurred, which is not in accordance with Canadian generally accepted accounting principles, which requires such costs to be accounted for at the time such benefits are paid for. A post-retirement benefit obligation should be determined using the projected benefit method prorated on services. This method involves the use of the market interest rate at the measurement date on high-quality debt instruments as the discount rate and management's best estimates regarding assumptions about retirement age, termination rates, mortality rates and expected health care costs. The expected long-term return on pension benefit plan assets would be calculated using market-related asset values. The net actuarial gain or loss and the past service cost would be amortized on a straight-line basis over the average remaining service life of the active employees calculated using the corridor method. A valuation allowance would be recorded against a plan surplus if the surplus exceeds unamortized past service costs and unamortized actuarial losses. Due to the complexity of the calculation, the amount is not readily determinable. However, the amount would be material to the financial statements.

During the year, the Synod incurred \$92,963 [2009 - \$83,898] in benefit costs, most of which relates to obligations assumed at an earlier date.

Related party transactions

Related party transactions are in the normal course of operations and are initially measured at fair value.

Eastern Synod of the Evangelical Lutheran Church in Canada

NOTES TO FINANCIAL STATEMENTS

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3. INVESTMENTS

Investment certificates issued by the Evangelical Lutheran Church in Canada are carried at amortized cost of \$575,500 [2009 - \$575,500]. The terms to maturity for these investments range from January 2011 to February 2013.

4. LOANS RECEIVABLE

Loans receivable consist of the following:

	2010	2009
	\$	\$
Loan receivable from Waterloo Lutheran Seminary, Waterloo	500,000	500,000
Loan receivable from Westside Lutheran Church, Barrie	50,000	50,000
Loan receivable from Faith Lutheran Church, Elliot Lake	34,264	42,664
Loan receivable from Meadowvale Lutheran Church, Mississauga	40,000	40,000
Loan receivable from staff member	8,770	—
	633,034	632,664
Less reduction in carrying value to recognize interest implied in the face value	(120,000)	(145,000)
Net carrying value	513,034	487,664
Less current portion	43,271	40,000
	469,763	447,664

The loan receivable from Waterloo Lutheran Seminary is due December 7, 2014. The fair value of the loan was measured at its present value, using an effective interest rate of 7.1%. Implied interest income on the loan will be recognized at 7.1% over the life of the loan, with a corresponding recognition of interest income in each future period. Interest income earned during 2010 was \$25,000 [2009 - \$25,000].

The loan receivable from Meadowvale Lutheran Church is due December 1, 2011. The loan is non-interest bearing and is measured at its face value.

The loan receivable from the staff member bears interest of 3% and is due August 31, 2013.

The remaining loans [Westside Lutheran Church and Faith Lutheran Church] are both non-interest bearing loans with no determined repayment schedules. The difference between book value and fair value of these loans is not material to the financial statements.

The above mentioned loans receivable are not secured by collateral.

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NOTES TO FINANCIAL STATEMENTS

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5. CAPITAL ASSETS

[a] Capital assets consist of the following:

	Cost	Accumulated amortization	Net book value
2010	\$	\$	\$
Computer hardware and photocopier	56,838	56,838	—
Computer software	9,814	9,814	—
Office furniture and equipment	47,636	19,053	28,583
Office building	640,546	256,219	384,327
Vehicles	10,346	10,346	—
Lutheran Campus Ministry property	123,116	—	123,116
Edgewood assets	533,056	338,082	194,974
Lutherlyn assets	137,178	34,295	102,883
Meadowvale assets	147,766	11,083	136,683
	1,706,296	735,730	970,566

	Cost	Accumulated amortization	Net book value
2009	\$	\$	\$
Computer hardware and photocopier	56,838	56,370	468
Computer software	9,814	9,814	—
Office furniture and equipment	47,636	17,148	30,488
Office building	640,546	230,597	409,949
Vehicles	10,346	9,311	1,035
Lutheran Campus Ministry property	123,116	—	123,116
Edgewood assets	529,101	285,651	243,450
Lutherlyn assets	137,178	25,431	111,747
Meadowvale assets	147,766	6,650	141,116
	1,702,341	640,972	1,061,369

Eastern Synod of the Evangelical Lutheran Church in Canada

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

[b] The change in the net book value of capital assets is due to the following:

	2010	2009
	\$	\$
Balance, beginning of year	1,061,369	1,143,925
Transfer of property	3,955	15,608
Amortization of capital assets	(94,758)	(98,164)
Balance, end of year	970,566	1,061,369

Amortization of capital assets during the year was \$94,758 [2009 - \$98,164].

All capital asset additions during the year were non-cash additions.

The Synod currently owns the following properties: Bear Lake, Ontario; Toronto, Ontario [Redeemer]; Toronto, Ontario [St. Andrew's Latvian/Estonian]; Toronto, Ontario [Christ]; Windsor, Ontario [Christ]; Elliot Lake, Ontario [Faith] and Shantz Station, Ontario [Trinity]. These properties were all acquired in previous years for a nominal amount. The fair value of these properties is not currently accounted for in the assets of the funds as this amount, and marketability of the underlying property, is not readily determinable.

The Lutheran Campus Ministry property of \$123,116 [2009 - \$123,116] consists of land, which is not subject to amortization.

Included in the Edgewood assets is land carried at \$33,512 [2009 - \$33,512], which is not subject to amortization.

Included in the Lutherlyn assets is land carried at \$48,549 [2009 - \$48,549], which is not subject to amortization.

Included in the Meadowvale assets is land carried at \$36,941 [2009 - \$36,941], which is not subject to amortization.

Eastern Synod of the Evangelical Lutheran Church in Canada

NOTES TO FINANCIAL STATEMENTS

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6. RELATED PARTY TRANSACTIONS

The Synod is related to the Evangelical Lutheran Foundation in Canada ["ELFEC"], a foundation whose directors are elected by the Synod Council.

The following is a summary of transactions during the year:

- [a] The Synod provides use of its facilities and administrative services to ELFEC. The Synod is reimbursed for expenses incurred on behalf of ELFEC, in addition to receiving \$15,000 annually under the terms of the office facilities agreement, which is included in Support for ministries and administration on the Statement of Operations.
- [b] The Synod receives grants from ELFEC as approved by the Board of Directors. Total grants to the Synod for year were \$435,809 [2009 - \$803,130].
- [c] The Synod pays ELFEC for the contracted services of Lutheran Planned Giving. The expense for 2010 totalled \$73,000 [2009 - \$72,000], which is included in Other ministries and administration on the Statement of Operations.
- [d] During the year, the Synod transferred \$285,425 [2009 - \$118,027] to ELFEC funds received from donors, which were designated for investment purposes and are included in Disbursements for special purpose fund projects on the Statement of Operations.

Amounts due to/from ELFEC are as follows:

	2010	2009
	\$	\$
Due from ELFEC	213,832	321,296
Due to ELFEC	(363,477)	(165,559)

Eastern Synod of the Evangelical Lutheran Church in Canada

NOTES TO FINANCIAL STATEMENTS

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7. CONTROLLED ENTITIES

The Synod controls Lutheran Homes Kitchener-Waterloo, Lutheran Campus Ministry/Eastern Canada and Waterloo Lutheran Seminary. None of the controlled entities have been consolidated in these financial statements. The restrictions on the resources of the controlled entities are represented by the identification of separate funds in those entities [capital funds, internally and externally restricted funds, and trust and endowment funds]. Summarized information from the most recent audited financial statements of these non-consolidated entities indicates the following:

	<u>2010</u>	
	<u>Lutheran Homes Kitchener-Waterloo \$</u>	<u>Waterloo Lutheran Seminary \$</u>
Financial position		
Total assets	33,200,503	7,855,358
Total liabilities	(29,063,560)	(2,289,472)
Total net assets	4,136,943	5,565,886
Results of operations		
Total revenue	12,837,361	1,667,490
Total expenses	(12,625,362)	(1,489,483)
Investment income	—	708,535
Excess of revenue over expenses for the year	211,999	886,542
Cash flows		
Cash provided by operating activities	856,643	293,348
Cash used in financing and investing activities	(757,949)	(460,516)
Net decrease in cash during the year	(98,694)	(167,168)

Camp Mush-a-Mush is operated and owned by the Synod, and maintains its own accounts. Unaudited financial statements for Camp Mush-a-Mush are available separately to the Synod's members. The total net assets of Camp Mush-a-Mush, at the most recent reporting date, are \$138,995 [2009 - \$119,605].

Eastern Synod of the Evangelical Lutheran Church in Canada

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

8. STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2010	2009
	\$	\$
Decrease (increase) in miscellaneous receivables and prepaid expenses	27,039	(392,683)
Net change in amounts due to (from) related parties	305,382	(112,541)
(Decrease) increase in accounts payable	(31,197)	12,653
Cash provided by (used in) operating activities	301,224	(492,571)

9. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of donations that have been used for the purchase of capital assets. The amortization of deferred capital contributions is recorded in Allocated interest and other investment income in the special purpose fund on the Statement of Operations. The changes in the balance of deferred capital contributions are as follows:

	2010	2009
	\$	\$
Balance, beginning of year	104,175	108,609
Amortization of deferred capital contributions	(4,433)	(4,434)
Balance, end of year	99,742	104,175

Eastern Synod of the Evangelical Lutheran Church in Canada

NOTES TO FINANCIAL STATEMENTS

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10. CAPITAL MANAGEMENT

In managing capital, the Synod focuses on liquid resources available for operations. The Synod'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, 2010, the Synod has met its objective of having sufficient liquid resources to meet its current obligations.

11. SUBSEQUENT EVENTS

Effective January 1, 2011, the Lutheran Campus Foundation of Ontario transferred two properties to the Synod. A market valuation will be done in 2011 to establish their fair market value for recording as an asset of the Synod.

Effective December 30, 2010, Camp Mush-a-Mush became incorporated, and the assets [except those required for programs and maintenance] were transferred to the Synod on January 1, 2011. Included in the Camp Mush-a-Mush assets is land carried at \$48,680, which is not subject to amortization. In 2011 the net assets of Camp Mush-a-Mush will be included as assets of the Synod.

12. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 financial statements.