

Financial statements

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

December 31, 2016



Building a better
working world

Independent auditors' report

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

We have audited the accompanying financial statements of **Eastern Synod of the Evangelical Lutheran Church in Canada**, which comprise the statements of financial position as at December 31, 2016, and the statements of operations, fund balances 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.

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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **Eastern Synod of the Evangelical Lutheran Church in Canada** as at December 31, 2016 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.

Kitchener, Canada
May 24th, 2017

Ernst + Young LLP

Chartered Professional 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 \$	2016 Total \$	2015 Total \$
		<i>[note 2]</i>		
Assets				
Current				
Cash	381,109	(376,364)	4,745	483,764
Miscellaneous receivables and prepaid expenses	414,309	—	414,309	440,417
Due from Evangelical Lutheran Foundation of Eastern Canada ["ELFEC"] <i>[note 8]</i>	149,745	396,967	546,712	145,612
Accrued interest	—	376	376	2,870
Investments — at cost <i>[note 3]</i>	—	75,500	75,500	575,500
ELFEC Managed Fund <i>[note 3] and 8[c]</i>	—	458,872	458,872	—
Current portion of loans receivable <i>[note 4]</i>	—	—	—	5,135
Total current assets	945,163	555,351	1,500,514	1,653,298
Long-term portion of loans receivable <i>[note 4]</i>	—	228,750	228,750	235,751
Capital assets, net <i>[note 5]</i>	—	807,372	807,372	867,078
	945,163	1,591,473	2,536,636	2,756,127
Liabilities and fund balances				
Current				
Accounts payable	240,965	—	240,965	242,349
Due to ELFEC <i>[note 8]</i>	—	55,488	55,488	154,350
Total current liabilities	240,965	55,488	296,453	396,699
Post-retirement benefits obligation <i>[note 6]</i>	1,333,530	—	1,333,530	1,338,124
Total liabilities	1,574,495	55,488	1,629,983	1,734,823
Fund balances				
Invested in capital assets	—	807,372	807,372	867,078
Endowments <i>[note 2]</i>	—	20,701	20,701	41,251
Externally restricted	—	81,564	81,564	558,333
Internally restricted	—	626,348	626,348	156,897
Operating fund	(629,332)	—	(629,332)	(602,255)
Total fund balances	(629,332)	1,535,985	906,653	1,021,304
	945,163	1,591,473	2,536,636	2,756,127

See accompanying notes

On behalf of the Board:

Director

Director

Eastern Synod of the Evangelical Lutheran Church in Canada

Statement of operations

Year ended December 31

	Operating fund	Special purpose fund	2016 Total	2015 Total
	\$	\$	\$	\$
Revenue				
Total offerings of member congregations <i>[schedule 1]</i>	1,458,021	504,670	1,962,691	1,955,621
Program support from other sources	175,118	—	175,118	55,905
Support for ministries and administrative <i>[note 8[a]]</i>	216,659	—	216,659	87,042
Donations, bequests and other receipts <i>[notes 5 and 11]</i>	517,063	88,902	605,965	1,881,176
Grants from the ELFEC <i>[note 8[b]]</i>	356,745	396,966	753,711	761,312
Lutheran Campus Ministry Local Council income	834	—	834	7,830
Allocated interest and other investment income	658	20,890	21,548	21,739
	2,725,098	1,011,428	3,736,526	4,770,625
Expenses				
Evangelical Lutheran Church in Canada	437,100	—	437,100	533,300
Waterloo Lutheran Seminary	416,000	—	416,000	416,000
Synodical programmatic committees	332,703	365,631	698,334	577,364
Other ministries and administration	1,027,150	28,584	1,055,734	935,224
Disbursements for special purpose fund projects <i>[note 8[c]]</i>	30,000	584,854	614,854	1,767,371
Disbursements of special purpose congregational offerings	—	504,670	504,670	461,414
Post-retirement benefits <i>[note 6]</i>	48,600	—	48,600	49,200
Lutheran Campus Ministry Local Council expenses	10,622	—	10,622	61,765
Amortization of capital assets <i>[note 5]</i>	—	65,263	65,263	66,610
	2,302,175	1,549,002	3,851,177	4,868,248
Excess (deficiency) of revenue over expenses for the year	422,923	(537,574)	(114,651)	(97,623)

See accompanying notes

Eastern Synod of the Evangelical Lutheran Church in Canada

Statement of fund balances

Year ended December 31

	Operating fund \$	Endowment fund \$	Internally restricted fund \$	Externally restricted fund \$	2016 Total \$	2015 Total \$
Fund balances, beginning of year	(602,255)	41,251	1,023,975	558,333	1,021,304	1,118,927
Reallocation of unrestricted funds <i>[note 7]</i>	(450,000)	—	450,000	—	—	—
Excess (deficiency) of revenue over expenses for the year	422,923	(20,550)	(40,255)	(476,769)	(114,651)	(97,623)
Fund balances, end of year	(629,332)	20,701	1,433,720	81,564	906,653	1,021,304

See accompanying notes

Eastern Synod of the Evangelical Lutheran Church in Canada

Statement of cash flows

Year ended December 31

	2016	2015
	\$	\$
Operating activities		
Deficiency of revenue over expenses for the year	(114,651)	(97,623)
Add (deduct) items not involving current payment of cash		
Amortization of capital assets	65,263	66,610
Accretion of implicit interest on loans receivable <i>[note 4]</i>	(6,750)	(6,500)
Post-retirement benefits expense <i>[note 6]</i>	48,600	49,200
Net change in non-cash working capital balances related to operations <i>[note 10]</i>	(472,744)	120,123
Post-retirement benefits plan funding <i>[note 6]</i>	(53,194)	(56,325)
Cash provided by (used in) operating activities	(533,476)	75,485
Investing activities		
Purchase of capital assets	(5,557)	(19,084)
Decrease in investments	41,128	—
Decrease in loans receivable	18,886	62,203
Cash provided by (used in) investing activities	54,457	43,119
Net increase (decrease) in cash during the year	(479,019)	118,604
Cash, beginning of year	483,764	365,160
Cash, end of year	4,745	483,764

See accompanying notes

Eastern Synod of the Evangelical Lutheran Church in Canada

Notes to financial statements

December 31, 2016

1. Purpose of the Synod

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. Significant accounting policies

These financial statements were prepared in accordance with Part III of the CPA Canada Handbook – *Accounting*, "Accounting Standards for Not-for-Profit Corporations", which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies described hereafter.

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, and 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. Donations and grants are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions are recognized as revenue of the appropriate restricted fund. Contributions for endowment are recognized as revenue of the externally restricted fund.

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.

Eastern Synod of the Evangelical Lutheran Church in Canada

Notes to financial statements

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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
Office building and furniture and equipment	25 years
Vehicles	3 - 4 years
Delton Glebe Counselling Centre property	25 years
Edgewood assets	5 - 25 years
Lutherlyn assets	10 years
Camp Mush-a-Mush assets	10 - 25 years

Financial instruments

It is management's opinion that the Synod is not exposed to significant interest rate risk or currency risk arising from its financial instruments.

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 extended health care benefits to certain retired pastors, diaconal ministers, clergy and their spouses after retirement.

The post-retirement benefit obligation is actuarially 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 at the discount rate and management's best estimates regarding assumptions about retirement age, termination rates, mortality rates and expected health care costs.

Related party transactions

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

3. Investments

Investment certificates issued by the Evangelical Lutheran Church in Canada are carried at amortized cost of \$75,500 [2015 – \$575,500]. This investment matures February 11, 2018.

The ELFEC Managed Fund was established in 2016 to hold funds that will be used towards the Synod's commitment to Waterloo Lutheran Seminary's capital fundraising campaign [note 9] and is recorded at amortized cost of \$458,872.

Eastern Synod of the Evangelical Lutheran Church in Canada

Notes to financial statements

December 31, 2016

4. Loans receivable

Loans receivable consist of the following:

	2016 \$	2015 \$
Loan receivable from non-interest bearing loans	270,600	285,600
Loan receivable from interest bearing loans	—	18,886
	270,600	304,486
Less reduction in carrying value to recognize interest implied in the face value	21,250	28,000
Less allowance for loans receivable	20,600	35,600
Net carrying value	228,750	240,886
Less current portion	—	5,135
	228,750	235,751

The loan receivable from Waterloo Lutheran Seminary is due December 31, 2019. The fair value of the loan was measured at its present value, using an effective interest rate of 3.0%. Implied interest income on the loan will be recognized at 3.0% over the life of the loan, with a corresponding recognition of interest income in each future period. Interest income earned during 2016 was \$6,750 [2015 – \$6,500], offset by a reduction in carrying value to recognize interest implied.

The above-mentioned loans receivable are not secured by collateral.

5. Capital assets

[a] Capital assets consist of the following:

	2016		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Computer hardware and photocopier	20,365	20,365	—
Office furniture and equipment	47,636	30,486	17,150
Office building	676,673	418,620	258,053
Vehicles	29,608	29,608	—
Delton Glebe Counselling Centre property	206,920	18,049	188,871
Edgewood assets	573,318	455,339	117,979
Lutherlyn assets	193,598	105,265	88,333
Camp Mush-a-Mush assets	193,358	56,372	136,986
	1,941,476	1,134,104	807,372

Eastern Synod of the Evangelical Lutheran Church in Canada

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December 31, 2016

	2015		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Computer hardware and photocopier	20,365	17,627	2,738
Office furniture and equipment	47,636	28,580	19,056
Office building	676,673	391,553	285,120
Vehicles	29,608	29,608	—
Delton Glebe Counselling Centre property	206,920	13,536	193,384
Edgewood assets	573,318	450,099	123,219
Lutherlyn assets	188,041	91,088	96,953
Camp Mush-a-Mush assets	193,358	46,750	146,608
	1,935,919	1,068,841	867,078

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

	2016	2015
	\$	\$
Balance, beginning of year	867,078	914,604
Transfer of property	5,557	19,084
Purchase of capital assets	—	—
Amortization of capital assets	(65,263)	(66,610)
Balance, end of year	807,372	867,078

The Synod currently owns the following properties: Bear Lake, Ontario; Toronto, Ontario [Christ]; Elliot Lake, Ontario [Faith]; and Shantz Station, Ontario [Trinity]. These properties were all acquired in previous years for a nominal amount.

During 2016, St. John's, Riverside Heights was closed and the property transferred to the Eastern Synod for a nominal amount.

During 2013, the Synod repurposed the Lutheran Campus Ministry property to house the Delton Glebe Counselling Centre. Included in the Delton Glebe Counselling Centre assets is land carried at \$94,116 [2015 – \$94,116], which is not subject to amortization.

During 2016, the Synod terminated the lease agreement for the Edgewood property with Edgewood Camp and Conference Centre. The property is being prepared for sale. Included in the Edgewood assets is land carried at \$33,512 [2015 – \$33,512], which is not subject to amortization.

Included in the Lutherlyn assets is land carried at \$48,549 [2015 – \$48,549], which is not subject to amortization.

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Lutherlyn transferred a new cabin roof and another water softener to the Synod in 2016 at an original cost of \$5,557. Lutherlyn transferred a water softener and heating system as well as a back-up generator to the Synod in 2015 with a carrying value of \$15,683.

Camp Mush-a-Mush transferred a new cabin roof to the Synod in 2015 with a carrying value of \$3,401.

Included in the Camp Mush-a-Mush assets is land carried at \$76,680 [2015 – \$76,680], which is not subject to amortization.

The Delton Glebe Counselling Centre property, Lutherlyn assets, Camp Mush-a-Mush assets and Shantz Station, Ontario [Trinity] assets are held for leasing purposes.

6. Post-retirement benefits

The Synod provides extended health care benefits to certain retired pastors, diaconal ministers, clergy and their spouses after retirement if the retirees attain the age of 65 prior to January 1, 2013 and meet certain eligibility requirements.

For the first fiscal year commencing on or after January 1, 2014, the new Section 3463 under Part III of the CPA Canada Handbook - Accounting will apply. Therefore, the new standard was applied to the Synod's financial statements effective January 1, 2014, with comparative figures presented for the fiscal 2013 financial statements, resulting in the actuarial revaluation being recognized directly in fund balances in the statement of financial position rather than in the statement of operations, and presented as a separately identified line item in the statement of fund balances. It had an impact to fund balances in 2013 of \$425,100 and an impact to fund balances in 2014 of \$106,200.

The Synod retained the services of Morneau Shepell Ltd., a third-party firm, to perform a valuation of post-employment benefits as at January 1, 2014. The Synod measures its accrued benefit obligation for accounting purposes as at December 31 of each year. The Synod does not have any assets specifically designated to cover the accrued benefit obligation.

Information about the Synod's post-retirement benefits plan as at December 31 is as follows:

	2016	2015
	\$	\$
Accrued benefit obligation, beginning of year	1,338,124	1,345,249
Interest cost	48,600	49,200
Actuarial revaluation	—	—
Benefits paid	(53,194)	(56,325)
Accrued benefit obligation, end of year	1,333,530	1,338,124

Eastern Synod of the Evangelical Lutheran Church in Canada

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The significant actuarial assumptions adopted in measuring the Synod's post-retirement benefits obligation and benefits cost are as follows:

	2016	2015
	\$	\$
Discount rate	3.75%	3.75%
Health care cost trend rate	6.50%	6.75%
Ultimate health care cost trend rate	5.00%	5.00%
Ultimate trend rate reached in year	2022	2022

7. Interfund transfer

In 2016, an undesignated bequest of \$500,000 was received from the Emily Brown Estate [note 11]. This was originally recorded as an increase to the operating fund. During the year, \$450,000 was designated as internally restricted to create the ELFEC Managed Fund [note 3]. The fund and the income it generates is used to support the Synod's commitment to Waterloo Lutheran Seminary's capital fundraising campaign.

In 2015, \$186,733 was reclassified from an endowment fund to operations. This change is reflected on the statement of fund balances. This fund was generated from the proceeds resulting from the sale of land and buildings that were transferred to the Synod. The income generated from this fund is used to support Synod operations.

8. Related party transactions

The Synod is related to the ELFEC, a foundation whose directors are elected by the Synod Council. The ELFEC is a registered charity that supports and furthers 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 by encouraging generous giving, prudently investing assets entrusted to it and granting money to Lutheran charities that respond creatively and effectively to God's call to ministry.

The following is a summary of transactions during the year:

- [a] The Synod provides use of its facilities and administrative services to the ELFEC for which it receives a fee of \$13,067 [2015 – \$12,900] annually under the terms of the office facilities agreement. This amount is included in support for ministries and administrative revenue on the statement of operations.
- [b] The Synod receives grants from the ELFEC as approved by the Board of Directors. Total grants to the Synod for the year were \$753,711 [2015 – \$761,312].
- [c] During the year, the Synod transferred to the ELFEC \$30,000 from the operating fund [2015 – \$1,442,442] and \$492,988 from the special purpose fund [2015 – \$71,908] of 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. The Synod also transferred \$450,000 to ELFEC for the ELFEC Managed Fund [note 3].

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Amounts due to/from ELFEC are as follows:

	2016 \$	2015 \$
Due from ELFEC	546,712	145,612
Due to ELFEC	(55,488)	(154,350)

9. Controlled entities

The Synod controls Lutheran Homes Kitchener-Waterloo ["LHKW"] and Waterloo Lutheran Seminary ["WLS"].

The purpose of LHKW is to provide and operate non-profit residential accommodation and facilities incidental thereto, exclusively for persons of low/modest income, senior citizens of low/modest income, and disabled persons of low/modest income. LHKW is a registered charity, incorporated under the laws of Ontario and exempt from income taxes under section 149 of the *Income Tax Act* (Canada). The Synod Bishop appoints one individual to LHKW's Board of Directors and the Synod Council appoints the remaining directors.

WLS is an institution of the Eastern Synod of the Evangelical Lutheran Church in Canada, federated with Wilfrid Laurier University. The purpose of the WLS is to provide for the scholarly study of the Christian faith, especially in its Lutheran understanding, and for the education of persons in and for Christian ministry, especially in the Lutheran Church and the Canadian context. WLS is a registered charity under the *Income Tax Act* (Canada) and exempt from income taxes. The Synod Council appoints members to the Seminary's Board of Governors according to the terms determined by the seminary. The Seminary's property, both real and personal, is held by the Board of Governors in trust for and under the guidance of the Synod.

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 is as follows:

Eastern Synod of the Evangelical Lutheran Church in Canada

Notes to financial statements

December 31, 2016

	2016	
	Lutheran Homes Kitchener-Waterloo \$	Waterloo Lutheran Seminary \$
Financial position		
Total assets	32,184,954	13,306,856
Total liabilities	26,221,141	2,478,933
Total net assets	5,963,813	10,827,923
Results of operations		
Total revenue	14,361,517	3,105,480
Total expenses	13,718,460	2,460,133
Investment income (loss)	—	(246,076)
Excess of revenue over expenses for the year	643,057	399,271
Cash flows		
Cash provided by operating activities	1,120,052	448,964
Cash used in financing and investing activities	(1,356,983)	(515,244)
Net decrease in cash during the year	(236,931)	(66,280)
	2015	
	Lutheran Homes Kitchener-Waterloo \$	Waterloo Lutheran Seminary \$
Financial position		
Total assets	32,415,802	12,947,570
Total liabilities	27,095,557	2,434,402
Total net assets	5,320,245	10,513,168
Results of operations		
Total revenue	13,809,981	2,624,117
Total expenses	13,455,624	2,270,858
Investment income	—	810,937
Excess of revenue over expenses for the year	354,357	1,164,196
Cash flows		
Cash provided by operating activities	1,331,899	1,219,742
Cash used in financing and investing activities	(1,841,113)	(1,567,361)
Net decrease in cash during the year	(509,214)	(347,619)

Eastern Synod of the Evangelical Lutheran Church in Canada

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December 31, 2016

The financial statements for WLS are prepared as at April 30, 2016. In the eight-month period ended December 31, 2016, there have been no transactions out of the ordinary.

During 2016, the Synod committed \$1,000,000 to WLS's capital fundraising campaign for major renovations and upgrading of its existing facility with payments of \$250,000 to be made in each of 2017, 2018, 2019 and 2020. The payment in 2020 is contingent on WLS repaying the \$250,000 interest free loan to the Synod.

10. Statement of cash flows

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

	2016	2015
	\$	\$
Decrease (increase) in miscellaneous receivables, prepaid expenses and accrued interest	28,602	(39,039)
Net change in amounts due to/from ELFEC	(499,962)	141,833
Increase (decrease) in accounts payable	(1,384)	17,329
	(472,744)	120,123

11. Non-recurring receipts

In 2016, the Synod received non-recurring donations from estates totalling nil for the special purpose fund and \$500,000 for the operating fund, and \$30,000 [gross proceeds] from the sale of property. These receipts are recorded in donations, bequests and other receipts on the statement of operations.

In 2015, the Synod received non-recurring donations from estates totalling nil for the special purpose fund and \$1,500,000 for the operating fund. These receipts are recorded in donations, bequests and other receipts on the statement of operations.

Schedule of offerings

Year ended December 31

	2016 \$	2015 \$
Offerings for Synod programs		
Regular benevolence	1,458,021	1,488,270
Offerings – Eastern Synod Lutheran	—	5,937
Total offerings for Synod programs	1,458,021	1,494,207
Offerings for special purposes		
Canadian Lutheran World Relief	321,219	368,173
Lutheran Campus Ministry	4,298	3,250
Waterloo Lutheran Seminary	13,010	10,063
Synod camps	28,122	46,927
Praise appeal	10,461	10,389
Global missions	11,583	15,876
Reformation challenge	108,333	—
Other	7,644	6,736
Total offerings for special purposes	504,670	461,414
Total offerings of member congregations	1,962,691	1,955,621

This schedule excludes offerings in the amount of \$19,920 [2015 – \$49,148] that were remitted for designated synodical ministries that are already included in donations, bequests and other receipts in the statement of operations.

See accompanying notes

