

Financial statements

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

December 31, 2015



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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, 2015, 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, 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.

Kitchener, Canada
May 18, 2016

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 \$	2015 Total \$	2014 Total \$
		<i>[note 2]</i>		
Assets				
Current				
Cash	273,009	210,755	483,764	365,160
Miscellaneous receivables and prepaid expenses	440,417	—	440,417	401,378
Due from Evangelical Lutheran Foundation of Eastern Canada ["ELFEC"] <i>[note 8]</i>	23,906	121,706	145,612	253,729
Accrued interest	—	2,870	2,870	2,870
Investments – at cost <i>[note 3]</i>	—	575,500	575,500	575,500
Current portion of loans receivable <i>[note 4]</i>	5,135	—	5,135	1,953
Total current assets	742,467	910,831	1,653,298	1,600,590
Long-term portion of loans receivable <i>[note 4]</i>	235,751	—	235,751	294,636
Capital assets, net <i>[note 5]</i>	—	867,078	867,078	914,604
	978,218	1,777,909	2,756,127	2,809,830
Liabilities and fund balances				
Current				
Accounts payable	242,349	—	242,349	225,020
Due to ELFEC <i>[note 8]</i>	—	154,350	154,350	120,634
Total current liabilities	242,349	154,350	396,699	345,654
Post-retirement benefits obligation <i>[note 6]</i>	1,338,124	—	1,338,124	1,345,249
Total liabilities	1,580,473	154,350	1,734,823	1,690,903
Fund balances				
Invested in capital assets	—	867,078	867,078	914,604
Endowments <i>[note 2]</i>	—	41,251	41,251	187,728
Externally restricted	—	558,333	558,333	570,235
Internally restricted	—	156,897	156,897	167,591
Operating fund	(602,255)	—	(602,255)	(721,231)
Total fund balances	(602,255)	1,623,559	1,021,304	1,118,927
	978,218	1,777,909	2,756,127	2,809,830

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 \$	2015 Total \$	2014 Total \$
Revenue				
Total offerings of member congregations <i>[schedule 1]</i>	1,494,207	461,414	1,955,621	1,931,823
Program support from other sources	55,905	—	55,905	79,534
Support for ministries and administrative <i>[note 8[a]]</i>	87,042	—	87,042	202,645
Donations, bequests and other receipts <i>[notes 5 and 11]</i>	1,500,000	381,176	1,881,176	189,687
Grants from the ELFEC <i>[note 8[b]]</i>	380,906	380,406	761,312	799,604
Lutheran Campus Ministry Local Council income	7,830	—	7,830	5,211
Allocated interest and other investment income	3,729	18,010	21,739	32,126
	3,529,619	1,241,006	4,770,625	3,240,630
Expenses				
Evangelical Lutheran Church in Canada	533,300	—	533,300	356,000
Waterloo Lutheran Seminary	416,000	—	416,000	416,000
Synodical programmatic committees	207,031	370,333	577,364	466,021
Other ministries and administration	887,638	47,586	935,224	1,162,502
Disbursements for special purpose fund projects <i>[note 8[c]]</i>	1,442,442	324,929	1,767,371	320,505
Disbursements of special purpose congregational offerings	—	461,414	461,414	483,369
Post-retirement benefits expense <i>[note 6]</i>	49,200	—	49,200	54,600
Lutheran Campus Ministry Local Council expenses	61,765	—	61,765	15,869
Amortization of capital assets <i>[note 5]</i>	—	66,610	66,610	67,663
	3,597,376	1,270,872	4,868,248	3,342,529
Deficiency of revenue over expenses for the year	(67,757)	(29,866)	(97,623)	(101,899)

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 \$	2015 Total \$	2014 Total \$
Fund balances, beginning of year	(721,231)	187,728	1,082,195	570,235	1,118,927	1,752,126
Adjustments to post-employment benefits	—	—	—	—	—	(425,100)
Adjusted fund balances, beginning of year	(721,231)	187,728	1,082,195	570,235	1,118,927	1,327,026
Reallocation of restricted funds <i>[note 7]</i>	186,733	(186,733)	—	—	—	—
Excess (deficiency) of revenue over expenses for the year	(67,757)	40,256	(58,220)	(11,902)	(97,623)	(101,899)
Adjustments to post-employment benefits <i>[note 6]</i>	—	—	—	—	—	(106,200)
Fund balances, end of year	(602,255)	41,251	1,023,975	558,333	1,021,304	1,118,927

See accompanying notes

Eastern Synod of the Evangelical Lutheran Church in Canada

Statement of cash flows

Year ended December 31

	2015	2014
	\$	\$
Operating activities		
Deficiency of revenue over expenses for the year	(97,623)	(101,899)
Add (deduct) items not involving current payment of cash		
Amortization of capital assets	66,610	67,663
Accretion of implicit interest on loans receivable <i>[note 4]</i>	(6,500)	17,927
Post-retirement benefits expense <i>[note 6]</i>	49,200	54,600
Net change in non-cash working capital balances related to operations <i>[note 10]</i>	120,123	107,557
Post-retirement benefits plan funding <i>[note 6]</i>	(56,325)	(60,253)
Cash provided by operating activities	75,485	85,595
Investing activities		
Purchase of capital assets	(19,084)	(36,199)
Decrease in loans receivable	62,203	16,858
Cash provided by (used in) investing activities	43,119	(19,341)
Net increase in cash during the year	118,604	66,254
Cash, beginning of year	365,160	298,906
Cash, end of year	483,764	365,160

See accompanying notes

Eastern Synod of the Evangelical Lutheran Church in Canada

Notes to financial statements

December 31, 2015

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 Chartered Professional Accountants of Canada Handbook – Accounting Standards for Not-for-Profit Organizations, 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.

Eastern Synod of the Evangelical Lutheran Church in Canada

Notes to financial statements

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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
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 \$575,500 [2014 – \$575,500]. The terms to maturity for these investments range from January 2016 to February 2018.

Eastern Synod of the Evangelical Lutheran Church in Canada

Notes to financial statements

December 31, 2015

4. Loans receivable

Loans receivable consist of the following:

	2015 \$	2014 \$
Loan receivable from non-interest bearing loans	285,600	265,000
Loan receivable from interest bearing loans	18,886	81,089
	304,486	346,089
Less reduction in carrying value to recognize interest implied in the face value	28,000	34,500
Less allowance for loans receivable	35,600	15,000
Net carrying value	240,886	296,589
Less current portion	5,135	1,953
	235,751	294,636

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 2015 was \$6,500 [2014 – \$16,573], 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:

	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

Eastern Synod of the Evangelical Lutheran Church in Canada

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December 31, 2015

	2014		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Computer hardware and photocopier	20,365	14,896	5,469
Office furniture and equipment	47,636	26,675	20,961
Office building	676,673	364,487	312,186
Vehicles	29,608	29,608	—
Delton Glebe Counselling Centre property	206,920	9,024	197,896
Edgewood assets	573,318	443,274	130,044
Lutherlyn assets	172,357	77,138	95,219
Camp Mush-a-Mush assets	189,957	37,128	152,829
	<u>1,916,834</u>	<u>1,002,230</u>	<u>914,604</u>

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

	2015	2014
	\$	\$
Balance, beginning of year	914,604	946,068
Transfer of property	19,084	—
Purchase of capital assets		36,199
Amortization of capital assets	(66,610)	(67,663)
Balance, end of year	867,078	914,604

The Synod currently owns the following properties: Bear Lake, Ontario; Toronto, Ontario [Christ]; Elliot Lake, Ontario [Faith]; Kirkland Lake, Ontario [Finnish] and Shantz Station, Ontario [Trinity]. These properties were all acquired in previous years 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 [2014 – \$94,116], which is not subject to amortization.

Included in the Edgewood assets is land carried at \$33,512 [2014 – \$33,512], which is not subject to amortization.

Included in the Lutherlyn assets is land carried at \$48,549 [2014 – \$48,549], which is not subject to amortization.

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.

Eastern Synod of the Evangelical Lutheran Church in Canada

Notes to financial statements

December 31, 2015

Included in the Camp Mush-a-Mush assets is land carried at \$76,680 [2014 – \$76,680], which is not subject to amortization.

The Delton Glebe Counselling Centre property, Edgewood assets, 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 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:

	2015	2014
	\$	\$
Accrued benefit obligation, beginning of year	1,345,249	1,244,702
Interest cost	49,200	54,600
Actuarial revaluation	—	106,200
Benefits paid	(56,325)	(60,253)
Accrued benefit obligation, end of year	1,338,124	1,345,249

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

	2015 \$	2014 \$
Discount rate	3.75%	4.50%
Health care cost trend rate	6.75%	7.00%
Ultimate health care cost trend rate	5.00%	5.00%
Ultimate trend rate reached in year	2022	2022

7. Interfund transfer

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.

In 2014, \$184,597 was reclassified from an internally restricted fund to an endowment fund as approved by the Board. This change is reflected on the statement of fund balances.

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 ELFEC, 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 \$12,900 [2014 – \$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 \$761,312 [2014 – \$799,604].
- [c] During the year, the Synod transferred to the ELFEC \$1,442,442 from the operating fund [2014 – \$nil] and \$71,908 from the special purpose fund [2014 – \$120,634] 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.

Eastern Synod of the Evangelical Lutheran Church in Canada

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Amounts due to/from ELFEC are as follows:

	2015 \$	2014 \$
Due from ELFEC	145,612	253,729
Due to ELFEC	(154,350)	(120,634)

9. Controlled entities

The Synod controls Lutheran Homes Kitchener-Waterloo 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 is as follows:

	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 increase (decrease) in cash during the year	(509,214)	(347,619)

Eastern Synod of the Evangelical Lutheran Church in Canada

Notes to financial statements

December 31, 2015

	2014	
	Lutheran Homes Kitchener-Waterloo	Waterloo Lutheran Seminary
	\$	\$
Financial position		
Total assets	33,071,962	11,570,788
Total liabilities	28,097,303	2,433,971
Total net assets	4,974,659	9,136,817
Results of operations		
Total revenue	13,780,638	2,279,413
Total expenses	13,237,700	2,310,944
Investment income	—	807,556
Excess of revenue over expenses for the year	542,938	776,025
Cash flows		
Cash provided by operating activities	1,637,063	769,152
Cash used in financing and investing activities	(1,333,464)	(451,519)
Net increase cash during the year	303,599	317,633

The financial statements for Waterloo Lutheran Seminary are prepared as at April 30, 2015. In the eight-month period ended December 31, 2015, there have been no transactions out of the ordinary.

10. Statement of cash flows

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

	2015	2014
	\$	\$
Decrease in miscellaneous receivables, prepaid expenses and accrued interest	(39,039)	16,592
Net change in amounts due to/from ELFEC	141,833	225,258
Decrease in accounts payable	17,329	(134,293)
	120,123	107,557

Eastern Synod of the Evangelical Lutheran Church in Canada

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December 31, 2015

11. Non-recurring receipts

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.

In 2014, the Synod received non-recurring donations from estates totalling \$27,842 [\$26,650 for the special purpose fund and \$1,192 for the operating fund], and \$30,000 from the sale of property. These receipts are recorded in donations, bequests and other receipts on the statement of operations.

12. Comparative figures

Certain figures in the comparative statements have been restated to conform with the current year's presentation.

Schedule of offerings

Year ended December 31

	2015	2014
	\$	\$
Offerings for Synod programs		
Regular benevolence	1,488,270	1,444,484
Offerings – Eastern Synod Lutheran	5,937	3,970
Total offerings for Synod programs	1,494,207	1,448,454
Offerings for special purposes		
Canadian Lutheran World Relief	368,173	374,304
Lutheran Campus Ministry	3,250	5,142
Waterloo Lutheran Seminary	10,063	16,112
Synod camps	46,927	28,720
Praise appeal	10,389	37,166
Global missions	15,876	17,636
Other	6,736	4,289
Total offerings for special purposes	461,414	483,369
Total offerings of member congregations	1,955,621	1,931,823

This schedule excludes offerings in the amount of \$49,148 [2014 – \$37,322] 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

