

# Evangelical Lutheran Church in Canada

Financial statements  
December 31, 2017



## Independent auditors' report

To the National Church Council of the  
**Evangelical Lutheran Church in Canada**

We have audited the accompanying financial statements of the **Evangelical Lutheran Church in Canada**, which comprise the statement of financial position as at December 31, 2017, and the statements of operations, changes in net assets 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 **Evangelical Lutheran Church in Canada** as at December 31, 2017, 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.

Winnipeg, Canada  
May 11, 2018

*Ernst & Young LLP*

Chartered Professional Accountants



# Evangelical Lutheran Church in Canada

## Statement of financial position

As at December 31

	2017	2016
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents <i>[note 3]</i>	296,001	414,086
Accounts and other receivables	283,064	348,849
Current portion of mortgages receivable <i>[note 5]</i>	277,028	1,052,364
Prepaid expenses	30,467	11,506
<b>Total current assets</b>	<b>886,560</b>	<b>1,826,805</b>
Investments <i>[note 4]</i>	21,379,136	20,630,659
Land held for future development <i>[note 2]</i>	784,050	784,050
Mortgages receivable <i>[note 5]</i>	802,126	649,010
Capital assets, net <i>[note 6]</i>	40,536	44,827
Funds held for Continuing Education Plan <i>[note 9]</i>	1,020,335	973,014
	<b>24,912,743</b>	<b>24,908,365</b>
<b>Liabilities and net assets</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	507,931	526,968
Current portion of certificates payable <i>[note 7]</i>	235,100	64,068
<b>Total current liabilities</b>	<b>743,031</b>	<b>591,036</b>
Certificates payable <i>[note 7]</i>	—	225,500
Deferred contributions <i>[note 8]</i>	748,369	826,556
Continuing Education Plan <i>[note 9]</i>	1,020,335	973,014
Other liabilities	89,610	96,640
<b>Total liabilities</b>	<b>2,601,345</b>	<b>2,712,746</b>
Contingencies and commitments <i>[note 17]</i>		
<b>Net assets</b>		
Endowments <i>[note 11]</i>	3,534,737	3,278,700
Internally restricted <i>[note 12]</i>	17,253,722	17,421,018
Unrestricted	1,522,939	1,495,901
<b>Total net assets</b>	<b>22,311,398</b>	<b>22,195,619</b>
	<b>24,912,743</b>	<b>24,908,365</b>

See accompanying notes

On behalf of the National Church Council:



Director



Director

# Evangelical Lutheran Church in Canada

## Statement of operations

Year ended December 31

	2017	2016
	\$	\$
<b>Revenue</b>		
Synods <i>[note 13]</i>	838,033	821,248
Directed income <i>[note 14]</i>	643,254	641,566
ELCIC Praise Appeal	30,467	52,592
Canada Lutheran <i>[note 15]</i>	228,996	229,669
Convention	186,655	1,372
Affiliated conferences and events	2,284	519,024
Investment income <i>[note 4]</i>	743,943	877,015
Donations – undesignated	36,575	37,603
	<b>2,710,207</b>	<b>3,180,089</b>
<b>Expenses <i>[note 16]</i></b>		
Global Ministries	85,626	77,353
National Ministries	665,733	744,062
Synodical Ministries <i>[note 5]</i>	410,213	926,314
Support to Ministries	112,655	96,594
Partnerships	113,954	112,206
Canada Lutheran	238,857	238,782
Convention	249,634	1,922
Salaries and benefits <i>[note 16]</i>	664,969	679,939
Affiliated conferences and events	31,645	524,594
Interest expense		
Short-term	7,156	4,431
Long-term	5,222	10,086
Amortization	13,158	11,848
	<b>2,598,822</b>	<b>3,428,131</b>
<b>Excess (deficiency) of revenue over expenses for the year</b>	<b>111,385</b>	<b>(248,042)</b>

See accompanying notes

## Evangelical Lutheran Church in Canada

### Statement of changes in net assets

	Endowments	Internally restricted	Unrestricted	Total
	\$	\$	\$	\$
<b>Net assets, December 31, 2016</b>	3,278,700	17,421,018	1,495,901	22,195,619
Excess of revenue over expenses for the year	—	—	111,385	111,385
Net change in internally restricted <i>[note 12]</i>	—	76,347	(76,347)	—
Endowment contributions, including restricted investment returns	4,394	—	—	4,394
Transfer of unrestricted reserves to internally restricted reserves <i>[note 12]</i>	—	8,000	(8,000)	—
Transfer of previously restricted reserves to endowments <i>[note 11]</i>	250,000	(250,000)	—	—
Transfer of undesignated bequests to internal endowments as per National Church Council approved policy <i>[note 11]</i>	1,643	(1,643)	—	—
<b>Net assets, December 31, 2017</b>	<b>3,534,737</b>	<b>17,253,722</b>	<b>1,522,939</b>	<b>22,311,398</b>

See accompanying notes

## Evangelical Lutheran Church in Canada

### Statement of cash flows

Year ended December 31

	2017	2016
	\$	\$
<b>Operating activities</b>		
Excess (deficiency) of revenue over expenses for the year	111,385	(248,042)
Add charges for non-cash items		
Amortization	13,158	11,848
	<u>124,543</u>	<u>(236,194)</u>
Changes in non-cash working capital balances related to operations		
Accounts and other receivables	65,785	54,938
Prepaid expenses	(18,961)	19,013
Accounts payable and accrued liabilities	(19,037)	78,733
Net change in deferred contributions	(78,187)	(113,429)
Net change in other liabilities	(7,030)	(11,156)
<b>Cash provided by (used in) operating activities</b>	<u>67,113</u>	<u>(208,095)</u>
<b>Investing activities</b>		
Mortgage principal payments received	622,220	810,195
Purchase of capital assets	(8,867)	(23,781)
Additions to land held for future development	—	(1,790)
Increase in funds held for Continuing Education Plan	(47,321)	(72,159)
Net increase in investments	(748,477)	(15,766)
<b>Cash provided by (used in) investing activities</b>	<u>(182,445)</u>	<u>696,699</u>
<b>Financing activities</b>		
Endowment contributions	4,394	(12,467)
Decrease in certificates payable	(54,468)	(591,143)
Net contributions to Continuing Education Plan	47,321	72,159
<b>Cash used in financing activities</b>	<u>(2,753)</u>	<u>(531,451)</u>
<b>Net decrease in cash during the year</b>	<b>(118,085)</b>	<b>(42,847)</b>
Cash and cash equivalents, beginning of year	<u>414,086</u>	<u>456,933</u>
<b>Cash and cash equivalents, end of year</b>	<u>296,001</u>	<u>414,086</u>

See accompanying notes

# Evangelical Lutheran Church in Canada

## Notes to financial statements

December 31, 2017

### 1. Purpose of organization

The Evangelical Lutheran Church in Canada ["ELCIC"] is a national organization, the mission of which, as an expression of the universal Church and as an instrument of the Holy Spirit, is to bring the Gospel of Jesus Christ to people in Canada and around the world through the proclamation of the Word and the administration of the Sacraments and through service in Christ's name. ELCIC was incorporated in Canada on December 12, 1985 under the provisions of the *Evangelical Lutheran Church in Canada Act* and is a registered charity under the *Income Tax Act* (Canada).

### 2. Summary of significant accounting policies

The financial statements of ELCIC have been prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies described below.

#### Revenue recognition

ELCIC follows the deferral method of accounting for contributions. Contributions are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

- Unrestricted contributions are recognized as revenue when initially recorded in the accounts.
- Externally restricted contributions, except endowment contributions, are initially recorded in the accounts as deferred contributions and are recognized as revenue in the year in which the related expenses are recognized.
- Externally restricted endowment contributions are recognized as direct increases to net assets when recorded in the accounts.

Investment income, which consists of interest, dividends, and realized and unrealized gains or losses, is recorded in the statement of operations, except to the extent that it is externally restricted, in which case it is accounted for based on the restrictions imposed on the funds. Restricted investment income that is available for spending is initially recorded in deferred contributions and is recognized as revenue in the year in which the related expenses are incurred. Investment income earned on externally restricted endowments, in excess of the amount made available for spending, is recorded as a direct increase of endowments or is a part of deferred contributions in the program the endowment supports.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and short-term deposits with maturities [at time of purchase] of less than 90 days. Cash and investments meeting the definition of cash and cash equivalents that are held for investing rather than liquidity purposes are classified as long-term investments.

# Evangelical Lutheran Church in Canada

## Notes to financial statements

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### Financial instruments

The value of investments recorded in the financial statements is determined as follows:

- Fixed income bonds and short-term notes are recorded at fair value, which is determined based on valuation techniques.
- Deposit accounts and guaranteed investment certificates are initially recorded at fair value and subsequently measured at their amortized cost.
- Equities traded in active markets are recorded at fair value based on quoted market prices.

Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Other financial instruments, including accounts and other receivables and accounts payable and accrued liabilities, are initially recorded at fair value and subsequently measured at cost, net of any provisions for impairment.

### Land held for future development

Land is held for future development of church property sites through the Church Extension Capital Fund Program [the "CECF"]. Land held for future development is recorded at the lower of cost and net realizable value.

### Mortgages receivable and rebates

Mortgages receivable are initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method, less any reduction for impairment. Rebates payable on mortgages receivable and to the Synods as defined in note 5 are accrued in the period that the related interest is earned if the amounts are known.

### Capital assets

Capital assets are carried at cost less accumulated amortization. Amortization is calculated on a straight-line basis over their estimated useful lives of the capital assets, less any residual values, as follows:

#### Tangible

Furniture	10 years
Equipment	5 years

#### Intangible

Computer database	10 years
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### Contributed materials and services

Volunteers contribute a significant number of hours each year to assist ELCIC in carrying out its mission. Because of the difficulty in determining their fair value, contributed materials and services are not recognized in the financial statements.



# Evangelical Lutheran Church in Canada

## Notes to financial statements

December 31, 2017

### Pension plan

Contributions to the multi-employer defined contribution pension plan are recorded on an accrual basis.

### Certificates payable

Certificates payable are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.

### Allocation of expenses

ELCIC expenses directly related to programs are allocated to each program within the statement of operations. General support costs, except some salaries, are not allocated and are included within the Support to Ministries, and Governance and National Ministries programs based on the nature of the expenses. Salaries are allocated proportionately based on personnel hours spent on the specific programs.

### 3. Credit facility

ELCIC has a revolving line of credit in the amount of \$350,000 available through an overdraft facility on the current bank account. A general security agreement exists for the line of credit which bears interest at the bank's prime rate. As at December 31, 2017 and 2016, there was no balance outstanding on the credit facility.

### 4. Investments

Investments are shown at carrying values, which are estimated to be equal to the fair market value. Investments consist of the following:

	2017	2016
	\$	\$
Short-term notes	<b>340,969</b>	302,968
Deposit accounts	<b>1,496,375</b>	1,355,252
Equities	<b>6,986,936</b>	4,138,537
Fixed income bonds and preferred shares	<b>7,671,016</b>	9,949,754
Guaranteed investment certificates	<b>4,883,840</b>	4,884,148
	<b>21,379,136</b>	20,630,659

Investment income consists of the following:

	2017	2016
	\$	\$
Interest income	<b>454,631</b>	466,611
Dividend income	<b>85,385</b>	63,630
Interest on mortgages receivable	<b>58,673</b>	88,932
Realized and unrealized gains	<b>215,293</b>	323,045
	<b>813,982</b>	942,218
Less income on investments held for endowment <i>[note 11]</i>	<b>70,039</b>	65,203
	<b>743,943</b>	877,015

# Evangelical Lutheran Church in Canada

## Notes to financial statements

December 31, 2017

### 5. Mortgages receivable

Mortgages receivable consist of funds provided to congregations and affiliated organizations of ELCIC by the CECF and the ELCIC Lutheran Investment Funds and Endowments Program ["LIFE"] to finance land acquisition, new church construction or church renovation projects.

#### [a] Mortgages receivable

	Current portion	Long-term portion	Total mortgages receivable
	\$	\$	\$
<b>CECF</b>			
Mortgage at 4.5% maturing December 31, 2020	53,624	812,126	865,750
Allowance for uncollectable interest	—	(10,000)	(10,000)
	53,624	802,126	855,750
<b>LIFE</b>			
Mortgage at 4% maturing July 31, 2018	223,404	—	223,404
	277,028	802,126	1,079,154

#### [b] Rebates and investments

A mortgage interest rebate is paid to congregations provided that all CECF mortgage repayments have been made in full and on time. For the first five years from the date of the original mortgage, the rebate is 90% of the mortgage interest paid by that congregation. Congregations with mortgages held for more than five years receive a rebate each year as follows: year 6 at 75%; year 7 at 60%; year 8 at 45%; year 9 at 30%; and year 10 at 15%. After year 10, congregations receive no mortgage interest rebate. For 2017, mortgage interest rebates were \$24,910 [2016 – \$40,804] and recorded as part of Synodical Ministries' expense.

The CECF investments earn investment income on balances that are invested according to the investment policy of ELCIC. The CECF Advisory Board allocates 90% of the investment income on CECF funds to the Synods. These funds are restricted for "Canadian Mission" initiatives at the Synodical level. The formula for allocation is based on 50% split equally among the Synods and 50% allocated on the baptized membership of the Synods using the most recent statistical year-end report. The current year rebate was \$413,717 [2016 – \$468,911]. In 2016, the CECF Advisory Board set up an internally restricted net asset fund for the purpose of giving the Synods investment rebate stability. This policy sets a minimum and maximum amount to be paid to the Synods annually until the internally restricted net asset fund reaches a balance of \$500,000. As a result, for 2017 the interest rebates paid to the Synods were \$250,000 [2016 – \$250,000] and recorded as part of Synodical Ministries' expense. The Synod rebate stability fund balance at the end of 2017 was \$382,628 [2016 – \$218,911] [note 12].

Evangelical Lutheran Church in Canada

Notes to financial statements

December 31, 2017

6. Capital assets

	2017		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
<b>Tangible</b>			
Furniture	50,400	25,005	25,395
Equipment	69,676	54,535	15,141
	<u>120,076</u>	<u>79,540</u>	<u>40,536</u>
<b>Intangible</b>			
Computer database	441,145	441,145	—
	<u>561,221</u>	<u>520,685</u>	<u>40,536</u>
	2016		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
<b>Tangible</b>			
Furniture	41,709	20,978	20,731
Equipment	69,500	45,404	24,096
	<u>111,209</u>	<u>66,382</u>	<u>44,827</u>
<b>Intangible</b>			
Computer database	441,146	441,146	—
	<u>552,355</u>	<u>507,528</u>	<u>44,827</u>

Costs of \$96,326 related to tenant improvements incurred in the 2013 fiscal year were covered by the landlord's tenant improvement allowance.

7. Certificates payable

Investment certificates are issued to contributors who wish to provide funds to LIFE for the purpose of granting mortgages as described in note 5. The certificates are issued either on a cashable basis or for a five-year term, at the option of each investor. Certificate holders receive interest payments annually at varying interest rates ranging from 1.0% to 2.5% in accordance with LIFE policy or accrue interest on the original deposit balance.

	2017	2016
	\$	\$
Total certificates payable	235,100	289,568
Less current portion	235,100	64,068
	<u>—</u>	<u>225,500</u>

## Evangelical Lutheran Church in Canada

### Notes to financial statements

December 31, 2017

In March 2013, the National Church Council approved the wind-down of the LIFE mortgages and certificates program over a five-year period from 2013 to 2018.

#### 8. Deferred contributions

Deferred contributions relate to externally restricted funding received or generated in the current or prior periods to fund expenses in future periods. Amounts for the Canada Lutheran are subscription fees related to 2018 issues of the magazine. The total amounts are as follows:

	Global Ministries \$	National Ministries \$	Synodical Ministries \$	Canada Lutheran \$	ELCIC Women of Faith Fund \$	Total \$
<b>Balance,</b>						
<b>December 31, 2016</b>	199,331	278,556	115,182	54,743	178,744	826,556
Amounts received during the year	—	190,938	6,603	64,122	2,684	264,347
Amounts recognized as revenue during the year	2,736	242,609	—	54,743	42,446	342,534
<b>Balance,</b>						
<b>December 31, 2017</b>	<b>196,595</b>	<b>226,885</b>	<b>121,785</b>	<b>64,122</b>	<b>138,982</b>	<b>748,369</b>

#### 9. Continuing Education Plan

ELCIC established the Continuing Education Plan ["CEP"] for employees working with congregations and agencies affiliated with ELCIC. Contributions are received from the employers at a rate of 2/3 contributed by the employer and 1/3 contributed by the employee. Funds can be withdrawn by the employee for educational purposes that further the employee's goals for ministry and serve the employer's goals for mission.

The CEP funds are financially administered and managed by ELCIC Group Services Inc. ["GSI"].

	2017 \$	2016 \$
<b>Balance, beginning of year</b>	<b>973,014</b>	900,855
Contributions received	<b>275,665</b>	267,928
Withdrawals	<b>(228,344)</b>	(195,769)
<b>Balance, end of year</b>	<b>1,020,335</b>	973,014

On retirement or termination of employment, any remaining employee contribution [1/3 portion] is refunded. Any remaining employer contribution [2/3 portion] is transferred from the CEP Member Accounts to the CEP Advance-Study Fund.

## Evangelical Lutheran Church in Canada

### Notes to financial statements

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#### 10. Pension plan

ELCIC and its employees make contributions to the Pension Plan for Clergy and Lay Workers of the Evangelical Lutheran Church in Canada [the "Pension Plan"], a multi-employer defined contribution pension plan administered by GSI. Pension contributions by ELCIC to the Pension Plan for the year were \$49,419 [2016 – \$44,560].

#### 11. Endowments

Endowments represent resources that are required by the donor to be maintained by ELCIC on a permanent basis.

Endowment net assets consist of the following:

	2017	2016
	\$	\$
<b>LIFE</b>		
Externally restricted endowments held, restricted income	<b>368,867</b>	365,400
Funds restricted for endowment purposes by the National Church Council, unrestricted income	<b>3,165,870</b>	2,913,300
	<b>3,534,737</b>	3,278,700

Endowment income for the year consists of \$70,039 [2016 – \$65,203] and was allocated as follows:

	2017	2016
	\$	\$
To be retained in endowments	<b>4,353</b>	4,267
To be paid out to Lutheran organizations [a part of accounts payable]	<b>540</b>	857
Recorded to deferred contributions	<b>1,511</b>	1,511
Recorded within directed income for specified programs [note 14]	<b>63,635</b>	58,568
	<b>70,039</b>	65,203

The National Church Council approved the transfer of \$250,000 of previously restricted Life mortgages and certificate net assets to the ELCIC general endowment program.

By National Church Council approved resolution, 25% of undesignated bequests are allocated to the ELCIC general endowment program. In 2017, the amount of undesignated bequests allocated to the ELCIC general endowment program was \$1,643 [2016 – \$5,073]. The income earned on these ELCIC endowment amounts is unrestricted.

# Evangelical Lutheran Church in Canada

## Notes to financial statements

December 31, 2017

### 12. Internally restricted net assets

[i] Internally restricted net assets consist of the following:

	2017	2016
	\$	\$
Operations		
Net assets to support specific programs	620,131	643,575
Net assets to support operations	325,000	325,000
	<b>945,131</b>	968,575
CECF		
Land held for future development	784,050	784,050
Net assets to support church extension national initiatives	—	19,328
Net assets to support mortgage financing and land acquisition	13,924,006	13,881,506
Synod rebate stability	382,628	218,911
	<b>15,090,684</b>	14,903,795
LIFE		
Net assets to support annuities	12,995	19,822
Net assets to support LIFE mortgages and certificates <i>[note 11]</i>	324,898	562,403
Net assets to support special projects	282,518	366,512
Net assets to support national grants	597,496	596,611
Net assets to support Global Mission	—	3,300
	<b>1,217,907</b>	1,548,648
	<b>17,253,722</b>	17,421,018

## Evangelical Lutheran Church in Canada

### Notes to financial statements

December 31, 2017

- [ii] Internally restricted excess (deficiency) of revenue over expenses as summarized in the statement of changes in net assets consists of the following:

	2017	2016
	\$	\$
Operations		
Canada Lutheran	(9,862)	(9,110)
Convention	24,521	(550)
Affiliated conferences and events	(30,614)	(12,507)
Other program support	(15,488)	(9,065)
	<u>(31,443)</u>	<u>(31,232)</u>
CECF		
Net operations	186,889	231,614
Synod Mission Initiative Funding <i>[note 16[c]]</i>	—	(500,000)
	<u>186,889</u>	<u>(268,386)</u>
LIFE		
Net operations	(79,099)	35,214
<b>Internally restricted excess (deficiency) of revenue over expenses for the year</b>	<u><b>76,347</b></u>	<u><b>(264,404)</b></u>

- [iii] During the year, \$8,000 of unrestricted net assets were internally restricted as part of the 2017 budget approved by resolution of National Church Council to support operating specific programs.

### 13. Synods

During the year, ELCIC received benevolence contributions from the Synods as follows:

	2017	2016
	\$	\$
Eastern Synod	390,900	387,100
Saskatchewan Synod	110,131	104,280
Synod of Alberta and the Territories	153,552	139,596
Manitoba/Northwestern Ontario Synod	124,800	131,622
British Columbia Synod	58,650	58,650
	<u>838,033</u>	<u>821,248</u>

## Evangelical Lutheran Church in Canada

### Notes to financial statements

December 31, 2017

#### 14. Directed income

During the year, ELCIC recognized directed income as follows:

	2017	2016
	\$	\$
Operations		
Global Ministries		
Global Missions	82,325	74,053
National Ministries		
Colleges and church schools	3,372	2,473
Worship	39,930	25,755
Compassionate justice	183,099	216,209
Special projects	35,758	28,280
Communications	9,000	903
Information technology	(115)	4,835
Reformation Challenge	198,139	202,381
Synodical Ministries		
Youth	255	1,005
Stewardship	1,875	1,440
Leadership	14,736	15,070
Partnerships		
Ecumenical relationships	—	5,487
	<b>568,374</b>	<b>577,891</b>
CECF		
National initiatives	3,888	3,779
Bequest	19,902	—
LIFE		
Bequests	6,570	20,293
ELCIC Women of Faith Fund	44,520	39,603
	<b>643,254</b>	<b>641,566</b>

#### 15. Canada Lutheran

The Canada Lutheran magazine received a grant from the Canada Periodical Fund, Aid to Publishers Component for \$67,876 [2016 – \$58,562]. This grant is applied for and granted annually by the Government of Canada.



# Evangelical Lutheran Church in Canada

## Notes to financial statements

December 31, 2017

### 16. Expenses

[a] Program and administration expenses for 2017 are categorized as follows:

- Global Ministries include Global Mission program costs, Partner Churches, and the Companion Synod Program.
- National Ministries include the National Church Council, audit and legal fees, Conference of Bishops, special projects for the Faith, Order and Doctrine and the Global Mission Task Force, Reformation Challenge, bursary support to colleges and church schools, worship, compassionate justice, communications, information technology, and travel.
- Synodical Ministries include Canadian mission, leadership, stewardship, and youth.
- Support to Ministries includes office and administration expenses including rent, telephones, and insurance.
- Partnerships include Lutheran as well as ecumenical relationships. Lutheran relationships include the Lutheran World Federation and the Lutheran Council in Canada. Ecumenical relationships include the Joint Anglican/Lutheran Commission as well as relations with other denominations.
- Canada Lutheran includes expenses and staff costs for producing the magazine of ELCIC. The Canada Lutheran is self-funded through subscriptions, advertising revenue and federal grants.
- Convention includes expenses for the biennial national convention. The convention is self-funded through registration fees and sponsorships.
- Affiliated conferences and events include the Canadian Lutheran Anglican Youth Gathering, the National Worship Conference, the Diaconal Formation Event, the National Youth Project, and the Cora Martinson Memorial Fund. These conferences and events are self-funded by registration fees and other conference and event revenue.

[b] Program salary expenses are as follows:

	2017	2016
	\$	\$
Salaries and benefits	<b>664,969</b>	679,939
Canada Lutheran	<b>153,948</b>	155,406
Convention	<b>30,695</b>	—
Other – worship	<b>160</b>	856
	<b>849,772</b>	836,201

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- [c] Synod Mission Initiative Funding is provided to each synod for support in Canadian mission initiatives to participate in God's mission in our changing context. Funds will be used for activities that are experimental in spirit and genuinely seek to explore what it means to participate in God's mission in the world today. A total of nil was paid to the synods in 2017 [2016 – \$500,000]. A commitment of an additional \$250,000 will be paid in each 2018 and 2019.

### 17. Contingencies and commitments

#### [a] Loan guarantees

##### *LutherCare Communities*

By agreement dated December 1976, ELCIC granted LutherCare Communities [Lutheran Sunset Home of Saskatoon] the right to purchase a Saskatoon block of land for nominal consideration until May 2077. ELCIC holds title to this land and in the prior year, ELCIC was the guarantor of certain mortgages that were granted to LutherCare Communities. During the year, the mortgages were refinanced and ELCIC is no longer the guarantor.

#### [b] Operating lease

On January 31, 2013, ELCIC entered into a 10-year lease in partnership with Canadian Lutheran World Relief at a new location, effective May 1, 2013. Total commitments over the remaining term of the lease are estimated to be \$387,178 [2016 – \$454,597], inclusive of annual operating costs. The future estimated annual minimum payments for the next five years under this operating lease are as follows:

	\$
2018	69,540
2019	71,204
2020	72,413
2021	73,659
2022	74,941

The estimated annual lease payments are based on \$10.00 per square foot for the first five years of the lease, increasing to \$10.50 per square foot after 2017, plus the tenant's proportionate share of annual operating costs, which are subject to fluctuation, set at \$12.91 per square foot in 2018 [2017 – \$12.91].

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### 18. Related party transactions and controlled interest

ELCIC is the sole member of GSI. GSI is incorporated under the *Corporations Act* (Manitoba) as a not-for-profit organization and falls under paragraph 149(1)(1) of the *Income Tax Act* (Canada). Pursuant to certain terms outlined in its Articles of Incorporation, GSI's operations are restricted to assist ELCIC and other entities associated with ELCIC by administering the Pension Plan and facilitating the provision of employment benefit programs and services to such entities for their employees. ELCIC appoints the members of GSI's Board of Directors.

GSI has not been consolidated in ELCIC's financial statements. Financial summaries of this unconsolidated entity as at December 31, 2017 and 2016 and for the years then ended, which do not include the assets or obligations of the Pension Plan, are as follows:

#### ELCIC Group Services Inc.

	2017	2016
	\$	\$
<b>Financial position</b>		
Total assets	2,559,689	2,166,854
Total liabilities	762,450	284,312
<b>Total net assets</b>	<b>1,797,239</b>	<b>1,882,542</b>
<b>Results of operations</b>		
Total revenue	871,763	1,052,744
Total expenses	957,066	1,016,111
<b>Excess (deficiency) of revenue over expenses for the year</b>	<b>(85,303)</b>	<b>36,633</b>
<b>Cash flows</b>		
Cash provided by (used in) operating activities	406,896	(183,817)
Cash provided by (used in) investing and financing activities	251,010	(865,559)
<b>Net increase (decrease) in cash</b>	<b>657,906</b>	<b>(1,049,376)</b>
Cash, beginning of year	32,535	1,081,911
<b>Cash, end of year</b>	<b>690,441</b>	<b>32,535</b>

Included in total assets above is \$1,385,000 [2016 – \$1,650,000] of restricted cash expected to fund benefits offered by GSI to subscribing employers and/or plan members.

GSI is the Administrator of the ELCIC Pension Plan, which is registered with the Canada Revenue Agency and with the Financial Services Commission of Ontario, Registration Number 0533240.

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### 19. Financial instruments

ELCIC is exposed to various financial risks through transactions in financial instruments.

#### Currency risk

ELCIC is exposed to currency risk with respect to its underlying holdings in investments denominated in foreign currencies because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign investments against the Canadian dollar.

#### Credit risk

ELCIC is exposed to credit risk in connection with its accounts and other receivables, mortgages receivable and its short-term and fixed income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation.

#### Interest rate risk

ELCIC is exposed to interest rate risk with respect to its fixed income investments, certificates payable, and mortgages receivable because the fair value will fluctuate due to changes in market interest rates.

#### Other price risk

ELCIC is exposed to other price risk through changes in market prices [other than changes arising from interest rate or currency risks] in connection with its investments in equity securities.