

**LUTHER COLLEGE, REGINA
UNIVERSITY and HIGH SCHOOL
Regina, Saskatchewan**

**Independent Auditors' Report and
Financial Statements
June 30, 2019**

APPROVED ON BEHALF OF THE BOARD OF REGENTS:

Original document signed by Daryl Nelson, Treasurer,
and Karl Tiefenbach, Board Chair

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Board of Regents of Luther College
Regina, Saskatchewan

Management has responsibility for preparing the accompanying financial statements and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with Canadian accounting standards for not-for-profit organizations.

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained.

The Board of Regents is responsible for overseeing the business affairs of Luther College and also has the responsibility for approving the financial statements. The Board of Regents has delegated certain of these responsibilities to its Audit Committee, including the responsibility for reviewing the annual financial statements and meeting with management and auditors on matters relating to the financial process.

External auditors appointed by the Board of Regents audit the financial statements and report directly to the members. Their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

Original document signed by Dr. Bryan Hillis, President,
and Mark Duke, CPA, CMA, Director of Finance



INDEPENDENT AUDITORS' REPORT

To the Board of Regents of Luther College

Opinion

We have audited the accompanying financial statements of Luther College which comprise the statement of financial position as at June 30, 2019 and the statements of fund balances, revenues and expenses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2019, and its financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the College in accordance with the ethical requirements that are relevant to our audit of the financial statements in Saskatchewan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the College or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the College's financial reporting process.

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INDEPENDENT AUDITORS' REPORT continued

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

September 30, 2019

Regina, Saskatchewan

Virtus Group LLP

Chartered Professional Accountants

**LUTHER COLLEGE, REGINA
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Regina, Saskatchewan

Statement of Financial Position
At June 30

		2019				2018
	Notes	Operating	Restricted	Trust	Total	Total
Current assets:						
Cash, short term investments		\$ 4,154,714	\$ 1,620,767	\$ -	\$ 5,775,481	\$ 2,926,099
Accounts receivable		245,513	12,950	-	258,463	1,040,428
Prepaid expenses		96,796	-	-	96,796	110,569
Total current assets		4,497,023	1,633,717	-	6,130,740	4,077,096
Accrued pension benefit asset	8	233,000	-	-	233,000	364,000
Accrued market value of loan derivatives	6	-	(1,020,011)	-	(1,020,011)	(521,340)
Investments		1,754,306	5,049,963	5,230,511	12,034,780	11,126,851
Tangible capital assets	3	-	28,842,661	-	28,842,661	29,030,944
Due from (to) other funds		(301,528)	301,528	-	-	-
Total long term assets		1,685,778	33,174,141	5,230,511	40,090,430	40,000,455
Total assets		\$ 6,182,801	\$ 34,807,858	\$ 5,230,511	\$ 46,221,170	\$ 44,077,551
Current liabilities:						
Deposits		\$ 709,802	\$ -	\$ -	\$ 709,802	\$ 607,829
Accounts payable and accrued liabilities	4, 5	2,730,498	-	-	2,730,498	2,206,116
Deferred revenue		2,213,752	-	-	2,213,752	754,507
Current portion of long-term debt	6	-	738,326	-	738,326	716,934
Total current liabilities		5,654,052	738,326	-	6,392,378	4,285,386
Long term debt	6	-	11,951,541	-	11,951,541	12,689,867
Total liabilities		5,654,052	12,689,867	-	18,343,919	16,975,253
Fund balances:						
Restricted	2	-	5,965,196	5,230,511	11,195,707	10,917,143
Tangible capital assets		-	16,152,795	-	16,152,795	15,624,145
Unrestricted		528,749	-	-	528,749	561,010
Total fund balances		528,749	22,117,991	5,230,511	27,877,251	27,102,298
Total liabilities and fund balances		\$ 6,182,801	\$ 34,807,858	\$ 5,230,511	\$ 46,221,170	\$ 44,077,551

"See Accompanying Notes"

**LUTHER COLLEGE, REGINA
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Regina, Saskatchewan**

**Statement of Fund Balances
For the Year Ended June 30**

	2019					2018
	<u>Operating</u>	<u>Tangible Capital Assets</u>	<u>Restricted</u>	<u>Trust</u>	<u>Total</u>	<u>Total</u>
Fund balance - beginning	\$ 561,010	\$ 15,624,145	\$ 5,888,560	\$ 5,028,583	\$ 27,102,298	\$ 25,307,023
Excess (deficiency) of revenue over expenses	1,010,573	-	(437,548)	201,928	774,953	1,795,275
Transfer of fund balance	186,077	-	(186,077)	-	-	-
Tangible capital assets	(1,088,235)	1,088,235	-	-	-	-
Depreciation	-	(1,276,519)	1,276,519	-	-	-
Repayment of debt	(140,676)	716,934	(576,258)	-	-	-
Fund balance - ending	\$ 528,749	\$ 16,152,795	\$ 5,965,196	\$ 5,230,511	\$ 27,877,251	\$ 27,102,298

"See Accompanying Notes"

**LUTHER COLLEGE, REGINA
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**Statement of Revenues and Expenses
For the Year Ended June 30**

	2019				2018
	<u>Operating</u>	<u>Restricted</u>	<u>Trust</u>	<u>Total</u>	<u>Total</u>
Revenues:					
Tuition fees	\$ 6,063,669	\$ -	\$ -	\$ 6,063,669	\$ 5,695,180
Grants					
Government of Saskatchewan	6,938,970	-	-	6,938,970	6,534,071
Other	45,532	-	-	45,532	138,679
Ancillaries	2,975,194	-	-	2,975,194	3,014,261
Other revenues	2,225,552	1,157,882	182,626	3,566,060	3,284,321
Donations	326,232	564,337	304,328	1,194,897	1,020,416
	<u>18,575,149</u>	<u>1,722,219</u>	<u>486,954</u>	<u>20,784,322</u>	<u>19,686,928</u>
Expenses:					
Academic and library	8,460,320	32,653	418,831	8,911,804	8,595,359
Administration	2,186,812	727	-	2,187,539	2,093,553
Student services	1,373,539	-	-	1,373,539	1,334,069
Physical plant	2,949,789	-	-	2,949,789	2,331,929
Food services	1,981,596	-	-	1,981,596	1,881,794
Advancement and communications	452,793	-	-	452,793	467,442
Interest on debt	74,566	484,769	-	559,335	551,005
Depreciation	-	1,276,519	-	1,276,519	1,246,618
	<u>17,479,415</u>	<u>1,794,668</u>	<u>418,831</u>	<u>19,692,914</u>	<u>18,501,769</u>
Excess (deficiency) of revenues over expenses from operations before the following:	<u>1,095,734</u>	<u>(72,449)</u>	<u>68,123</u>	<u>1,091,408</u>	<u>1,185,159</u>
Non-operating items:					
Net change in unrealized gain on investments	45,839	133,572	133,805	313,216	(15,775)
Net change in unrealized loss on loan derivatives	-	(498,671)	-	(498,671)	484,891
Net change in accrued benefit plan asset	(131,000)	-	-	(131,000)	141,000
	<u>(85,161)</u>	<u>(365,099)</u>	<u>133,805</u>	<u>(316,455)</u>	<u>610,116</u>
Excess (deficiency) of revenues over expenses	<u>\$ 1,010,573</u>	<u>\$ (437,548)</u>	<u>\$ 201,928</u>	<u>\$ 774,953</u>	<u>\$ 1,795,275</u>

"See Accompanying Notes"

**LUTHER COLLEGE, REGINA
UNIVERSITY and HIGH SCHOOL
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**Statement of Cash Flows
For the Year Ended June 30**

	<u>2019</u>	<u>2018</u>
Operating activities:		
Excess of revenues over expenses	\$ 774,953	\$ 1,795,275
Non cash items in the above:		
Depreciation	1,276,519	1,246,618
Net change in unrealized gain on investments	(313,216)	15,775
Net change in unrealized loss on loan derivatives	498,671	(484,891)
Net change in accrued pension benefit asset	131,000	(141,000)
Change in working capital balances	<u>2,881,337</u>	<u>(949,539)</u>
Cash provided by operating activities	<u>5,249,264</u>	<u>1,482,238</u>
Financing activities:		
Repayment of long term debt	(716,934)	(648,886)
Receipt of Loan	<u>-</u>	<u>588,745</u>
Cash provided by (used for) financing activities	<u>(716,934)</u>	<u>(60,141)</u>
Investing activities:		
Purchase of tangible capital assets	(1,088,235)	(2,218,901)
(Purchase) / disposition of investments	<u>(594,713)</u>	<u>317,781</u>
Cash used for investing activities	<u>(1,682,948)</u>	<u>(1,901,120)</u>
Increase (decrease) in cash, short term investments	2,849,382	(479,023)
Cash, short term investments, beginning of year	<u>2,926,099</u>	<u>3,405,122</u>
Cash, short term investments, end of year	<u>\$ 5,775,481</u>	<u>\$ 2,926,099</u>
Cash, short term investments consist of:		
Cash	\$ 4,154,714	\$ 1,974,810
Short term investments	<u>1,620,767</u>	<u>951,289</u>
	<u>\$ 5,775,481</u>	<u>\$ 2,926,099</u>

"See Accompanying Notes"

LUTHER COLLEGE, REGINA
UNIVERSITY AND HIGH SCHOOL
Notes to the Financial Statements
June 30, 2019

1. GENERAL

Luther College officially opened on January 5, 1914 and was incorporated by the Saskatchewan Legislature through *An Act to Incorporate Luther College, Regina* assented March 31, 1969 with a subsequent amendment through Bill No. 04 of 1996. Luther College is a school affiliated with the Evangelical Lutheran Church in Canada and is governed by a Board of Regents.

On December 5, 2018, Luther College's new Act (The Luther College Act, 2018) received Royal Assent in the Saskatchewan legislature. The new Act was prepared by the Luther College Board of Regents and approved by the College's membership at the national convention of the Evangelical Lutheran Church in Canada (ELCIC). There are no significant changes for the College's operations except that the College's corporate membership will now be drawn from current and past regents, local church representatives, students, parents, faculty and staff of the College. Also, the College's annual general meeting will be convened at the College instead of being part of the national assembly of the ELCIC.

The College operates separate high school and university campuses for the purpose of providing a liberal arts education to high school and university students within the context of the Christian values and traditions of the Lutheran Church. Various aspects of financing and operations are subject to control by the Saskatchewan Provincial Government through the Ministries of Education and Advanced Education.

The high school campus is an associate member of the Saskatchewan School Boards Association. The university campus is a federated college of the University of Regina and member of Universities Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. These standards require management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. The financial statements have been prepared using the following policies:

a) Fund accounting

The accounts of the College are reported on a fund basis. A fund is defined as a self-balancing accounting entity set up to show the assets held against

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

the capital of the fund or trust monies received for certain specific designated purpose(s). The Funds used by the College are the Operating, Restricted and Trust Funds. The Restricted Fund accounts for the activities described below in b). The Trust Fund accounts for contributions that are endowment funds or contributions designated by the contributor for scholarships. The Operating Fund accounts for all of the other financial activities of the College.

b) Restricted fund

During the year, there were net transfers of \$825,226 (2018 - \$763,913) from the Restricted General Fund primarily to fund the University kitchen renovation, completion of the residence renovation and other building improvements. Net interest earned on the restricted investments for the year was \$168,773 (2018 - \$175,329). The restricted fund balance at June 30 consists of the following:

	<u>2019</u>	<u>2018</u>
High School capital campaign	\$ 1,767,644	\$ 1,948,552
Market value of loan derivative	(1,020,011)	(521,340)
Strategic initiatives fund	-	54,079
Provision for renewal of facilities not funded by government*	4,177,654	3,400,006
Faculty development	1,039,909	1,007,263
	<u>\$ 5,965,196</u>	<u>\$ 5,888,560</u>

* Includes residence, cafeteria and other ancillary facilities and equipment.

c) Revenue recognition

Tuition fees, ancillary service income and grants are recognized as revenue in the year to which they relate. General donations are recorded as revenue in the year they are received. Restricted contributions (i.e. restrictions placed on the use of the funds by the contributor) to the general fund are recognized as revenue the year the expenses they relate to are incurred. Donations and other revenues of the Trust Fund are recognized in the year they are received or receivable if the amounts can be reasonably determined and there is reasonable expectation of collection.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Tangible capital assets

Tangible capital assets are recorded at cost less accumulated depreciation. Depreciation is on a straight-line basis based on the following estimated useful lives:

Buildings	40 years
Equipment	3 to 10 years

Works of art are not depreciated.

e) Financial instruments - recognition and measurement

Financial assets and financial liabilities are recorded on the statement of financial position when the College becomes party to the contractual provisions of the financial instrument. All financial instruments are required to be recognized at fair value upon initial recognition, except for certain related party transactions. Measurement in subsequent periods of equity instruments is at fair value. All other financial assets and financial liabilities are subsequently measured at amortized cost adjusted by transaction costs, which are amortized over the expected life of the instrument.

Fair value is the amount at which a financial instrument could be exchanged at arm's length between willing, unrelated parties in an open market. Changes in fair values of financial assets and financial liabilities measured at fair value are recognized in the statement of operations.

When there is an indication of impairment and such impairment is determined to have occurred, the carrying amount of financial assets measured at amortized cost is reduced to the greater of the discounted cash flows expected or the proceeds that could be realized from sale of the financial asset. Such impairments can be subsequently reversed if the value improves.

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Notes to the Financial Statements
June 30, 2019

3. TANGIBLE CAPITAL ASSETS

Tangible capital assets consist of the following at June 30:

	High School	University	Total Cost	Accumulated Depreciation	Net Book Value 2019	Net Book Value 2018
Land	\$ 27,979	\$ -	\$ 27,979	\$ -	\$ 27,979	\$ 27,979
Buildings	22,314,541	13,129,353	35,443,894	9,154,666	26,289,228	26,430,420
Expansion/Renovation	-	1,101,503	1,101,503	-	1,101,503	1,101,503
Equipment	1,306,800	1,762,037	3,068,837	1,644,886	1,423,951	\$ 1,471,042
Total	\$ 23,649,320	\$ 15,992,893	\$ 39,642,213	\$ 10,799,552	\$ 28,842,661	\$ 29,030,944

At June 30, 2019 artwork included in equipment is \$58,462 (2018 - \$58,462).

The buildings of the university campus are built upon property owned by the University of Regina. The College has leased this property for a 30-year period which ends April 30, 2020. At the end of the term, but with 6 months prior notice, the College has the option to extend the lease for a further term of 30 years at a rent of \$10.00.

The College is a joint beneficiary to the mineral rights on 1,118 titled mineral acres in the Province of Saskatchewan. As each of the two owners of the properties passes away, that donor's share of the mineral rights will be transferred to Luther College. There is no exploration or development of these properties underway or planned in the near future and so it is not possible to assign a value to this gift. It is not recorded in the financial records of the College.

4. ACCOUNTS PAYABLE

Accounts payable includes amounts owing to the University of Regina as follows:

	<u>2019</u>	<u>2018</u>
Infrastructure services payable	\$ -	\$ 40,140
Fees payable	<u>31,548</u>	<u>115,005</u>
Total	<u>\$ 31,548</u>	<u>\$ 155,145</u>

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5. VACATION PAY, SALARY, DISABILITY AND ACADEMIC BENEFITS ACCRUALS

The College provides for employee vacation pay entitlements, and other academic faculty benefits. These benefits are accrued at their present value as follows and are included in accounts payable and accrued liabilities on the Statement of Financial Position:

	Vacation Pay	Academic Benefits	Deferred Salaries	Short-term Disability	Total
Balance, June 30, 2018	\$ 356,461	\$ 179,727	\$ 433,866	\$ 118,096	\$ 1,088,150
Increase (decrease) during the year	955	146,118	(127,334)	92,612	112,351
Balance, June 30, 2019	\$ 357,416	\$ 325,845	\$ 306,532	\$ 210,708	\$ 1,200,501

6. LOANS PAYABLE

a) Line of credit

The High School has an authorized revolving line of credit of \$200,000 at the Canadian Imperial Bank of Commerce. The interest rate for this line of credit is prime plus 0%. At June 30, 2019, the line of credit was not used (2018 - nil).

The University has an authorized revolving line of credit of \$200,000 at the Canadian Imperial Bank of Commerce. The interest rate for this line of credit is prime plus 0%. At June 30, 2019, the line of credit was not used (2018 - nil).

b) Credit cards

The College has an authorized credit limit of \$150,000 (2018 - \$150,000) on Corporate Classic Visa cards to be used for the purchase and payment of goods and services. The annual interest rate for this credit is 18.5%. At June 30, 2019 the outstanding balance was \$45,282 (2018 - \$34,806).

c) CIBC Demand Instalment Take-out Loan

The purpose of this loan is to provide long-term financing of the High School campus expansion/renovation. It was executed on April 30, 2014.

The loan is structured as follows:

1. Canadian dollar loan – interest at prime; and
2. Banker's Acceptances – 1 month BA rate + stamping fee of 125 basis points, floating.

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6. LOANS PAYABLE (continued)

The required payments are as follows:

1. Banker's Acceptances are repayable at each maturity (maximum six months) and are rolled over at maturity; and
2. The loan is repayable in monthly blended payments of principal and interest amortized over 20 years.

The floating interest rate on the Demand Construction Take-out Loan was fixed by way of a Swap Agreement documented under an ISDA Master Agreement ("the Swap Agreement") satisfactory to CIBC with mutual puts every 5 years.

On November 29, 2012 a Swap Agreement in the amount of \$7,000,000 was executed. The interest rate is 4.06% per annum and the monthly payment of principal and interest is \$42,640 with the first payment due May 30, 2014.

On June 28, 2013 a Swap Agreement in the amount of \$5,500,000 was executed. The interest rate is 4.84% per annum and the monthly payment of principal and interest is \$35,813 with the first payment due May 30, 2014.

The effective date of each Swap Agreement is April 30, 2014. The balance on the Demand Construction Take-out Loan at June 30, 2019 is \$10,277,555 (2018 - \$10,754,732). The balance under the Swap Agreements at June 30, 2019 is \$10,277,555 (2018 - \$10,754,732).

- e) In accordance with generally accepted accounting principles, Luther College has recorded a net unrealized loss, in the amount of \$498,671, on the derivative instruments implicit in the Swap Agreements described in note 6(d). These losses are derived from decrease in markets interest rates that occurred since the Swap Agreements were executed. Should market interest rates rise, these losses will be reduced and could ultimately become gains. In signing the Swap Agreements, it was the intention of the College to minimize exposure to fluctuations in market interest rates over the 20 year life of the construction loan, not to speculate in the derivatives market. Accordingly, it is not the intention of the College to realize either these losses or potential future gains in the derivatives market.

- f) CIBC Demand Instalment Term loan – High School Campus

The purpose of this loan is to provide long-term financing for costs associated with the High School campus expansion and renovation.

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6. LOANS PAYABLE (continued)

The loan is a Canadian dollar non-revolving Instalment Loan at prime interest rate. The \$990,799 loan is amortized over 10 years. Monthly principal payments of \$8,257 plus interest began on November 1, 2014. The College has the option to repay any principal outstanding under this facility at any time without penalty.

At June 30, 2019 the balance outstanding was \$536,682 (2018 - \$635,762).

g) CIBC Demand Instalment Term loan – University Campus

The purpose of this loan is to provide long-term financing for costs associated with the University residence renovation.

The loan is a Canadian dollar non-revolving Instalment Loan at prime interest rate, amortized over 15 years. Monthly principal payments of \$11,723 plus interest began on November 1, 2017. The College has the option to repay any principal outstanding under this facility at any time without penalty.

At June 30, 2019 the balance outstanding was \$1,875,630 (2018 – \$2,016,306).

7. OPERATING LEASES

The College has operating lease obligations for photocopying equipment at the high school campus. The lease is for 66 months, with quarterly payments of \$1,785 (\$7,140 / year).

8. PENSION PLANS

Employees of the University campus are eligible to participate in the University of Regina's Non-Academic Pension Plan or the Academic and Administrative Pension Plan. These plans are administered by the University of Regina. Employees hired before January 1, 2000 participate in defined benefit final average pension plans. Employees hired after January 1, 2000 participate in defined contribution plans. The cost of the defined contribution plans is expensed as earned by employees.

The College and employee each contribute 7.5% and 8.75% of the employee's gross salary to the Academic and Administrative plan or Non-Academic pension plan respectively. The College records its contributions to the pension plans as an expense. The expense recorded in 2019 was \$324,098 (2018 - \$347,888).

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June 30, 2019

8. PENSION PLANS (continued)

Actuarial valuations are completed at least every 3 years as prescribed by statute. The most recent actuarial valuation report was December 31, 2017 for the Non-Academic plan and December 31, 2016 for the Academic and Administrative plan. Extrapolation reports to April 30, 2019 for each plan have also been provided. The College funds the plans based on the amounts recommended by the actuary, with minimum amounts specified in accordance with the plans and in the collective bargaining agreements.

The assets, including any potential surplus in the plan, are for the benefit of the members and their beneficiaries. There is no provision that allows for the withdrawal of surplus by the College.

The cost of defined benefit pensions is determined using the projected benefit method prorated on services, management's best estimate of expected long-term rate of return on plan assets, salary escalation and inflation. The discount rate is determined by reference to market interest rates on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

This cost is expensed as employees provide services. Past service costs arising from plan amendments and changes in assumptions are recognized and expensed in the year that they arise. Experience gains and losses and gains or losses arising from plan curtailments and settlements are recognized in the year in which they occur. For purposes of calculating the expected return on plan assets, pension assets are valued at fair value at April 30, 2019 for the Academic Plan and Non-Academic Plans.

Information on the defined benefit plan is as follows:

Academic and Administrative	<u>2019</u>	<u>2018</u>
Plan assets at fair value	\$ 8,650,000	\$ 9,453,000
Benefit obligation	(7,508,000)	(7,877,000)
Valuation allowance	<u>(821,000)</u>	<u>(1,198,000)</u>
Net pension surplus	<u>\$ 321,000</u>	<u>\$ 378,000</u>
 Non-Academic	 <u>2019</u>	 <u>2018</u>
Plan assets at fair value	\$ 2,933,000	\$ 3,490,000
Benefit obligation	<u>(3,021,000)</u>	<u>(3,504,000)</u>
Net pension surplus (deficiency)	<u>(\$88,000)</u>	<u>(\$14,000)</u>
 Accrued pension benefit asset	 <u>\$ 233,000</u>	 <u>\$ 364,000</u>

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8. PENSION PLANS (continued)

Significant actuarial assumptions adopted:

	<u>2019</u>	<u>2018</u>
Discount rate	6.20% - 6.30%	5.80% - 5.95%
Expected long-term rate of return on plan assets	6.20% - 6.30%	5.80% - 5.95%
Rate of compensation increase	1.50% - 3.00%	2.75%
Inflation	2.25%	2.25%

Support staff at the high school participate in a group registered retirement savings plan (RRSP). The College and employee each contribute amounts equal to 4% of the employee's gross salary to the RRSP. The College's contributions to the RRSP become the property of the employee and the College is not liable for any future benefits. The College's contributions to this plan in 2019 were \$60,910 (2018 - \$61,050).

High School faculty are members of the Saskatchewan Teachers' Retirement Plan, a defined benefit plan administered by the Province of Saskatchewan. The College does not contribute to, nor have any liabilities related to this plan.

9. FINANCIAL RISK MANAGEMENT

The College has a risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The significant financial risks to which the College is exposed are:

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The College's exposure to interest rate risk is limited to the long-term debt. The interest rate on this debt is variable; therefore, the College may face increasing interest costs in an increasing interest rate market. The College mitigated its risk on the demand construction take-out loan by entering into an Interest Rate Swap Agreement with the Canadian Imperial Bank of Commerce (CIBC). The demand installment term loans (High School campus, \$536,682, University campus, \$1,875,630) are not hedged and therefore are exposed to interest rate risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The College's exposure to liquidity risk is dependent on the receipt of funds from its operations, external borrowings and other related sources.

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9. FINANCIAL RISK MANAGEMENT (continued)

Funds from these sources are primarily used to finance working capital and capital expenditure requirements, and are considered adequate to meet the College's financial obligations.

10. INCOME TAX STATUS

Luther College is an incorporated non-profit organization and registered charity within the meaning of section 149(1)(f) of the *Income Tax Act (Canada)* and is exempt from income taxes.

11. OTHER FUNDING

The Community Initiatives Fund approved funding support of \$222,200 for the Non-Profit Voluntary Sector Studies Network at Luther College's university campus. This funding was provided for a two-year period which ended June 30, 2019. At June 30, 2019, there was \$89,247 in unused funding which will be repaid to the Community Initiatives Fund.

12. COMPARATIVE FIGURES

Certain prior year's comparative figures have been reclassified or adjusted to conform to the current year's basis of presentation.