


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

**Independent Auditors' Report and
Financial Statements
June 30, 2020**

APPROVED ON BEHALF OF THE BOARD OF REGENTS:



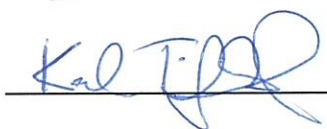


TABLE OF CONTENTS

Management's Responsibility for Financial Reporting	p1
Independent Auditors' Report	p2
Statement of Financial Position	p4
Statement of Fund Balances	p5
Statement of Revenues and Expenses	p6
Statement of Cash Flows	p7
Notes to the Financial Statements	p8

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.



Rev. Dr. Marc Jerry
President



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, 2020 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, 2020, and its financial performance and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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.

...continued

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 28, 2020
Regina, Saskatchewan

VIRTUS GROUP LP
Chartered Professional Accountants

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

**Statement of Financial Position
At June 30**

		2020				2019
	Notes	Operating	Restricted	Trust	Total	Total
Current assets:						
Cash, short term investments		\$ 3,918,994	\$ 1,760,208	\$ -	\$ 5,679,202	\$ 5,775,481
Accounts receivable		172,176	939	-	173,115	258,463
Prepaid expenses		106,281	-	-	106,281	96,796
Total current assets		4,197,451	1,761,147	-	5,958,598	6,130,740
Accrued pension benefit asset	8	83,000	-	-	83,000	233,000
Accrued market value of loan derivatives	6	-	(1,564,798)	-	(1,564,798)	(1,020,011)
Investments	9	1,937,808	5,181,120	5,399,118	12,518,046	12,034,780
Tangible capital assets	3	-	28,262,118	-	28,262,118	28,842,661
Due from (to) other funds		(162,645)	162,645	-	-	-
Total long term assets		1,858,163	32,041,085	5,399,118	39,298,366	40,090,430
Total assets		\$ 6,055,614	\$ 33,802,232	\$ 5,399,118	\$ 45,256,964	\$ 46,221,170
Current liabilities:						
Deposits		\$ 621,617	\$ -	\$ -	\$ 621,617	\$ 709,802
Accounts payable and accrued liabilities	4, 5	2,393,635	-	-	2,393,635	2,730,498
Deferred revenue		2,560,913	-	-	2,560,913	2,213,752
Current portion of long-term debt	6	-	760,686	-	760,686	738,326
Total current liabilities		5,576,165	760,686	-	6,336,851	6,392,378
Long term debt	6	-	11,190,855	-	11,190,855	11,951,541
Total liabilities		5,576,165	11,951,541	-	17,527,706	18,343,919
Fund balances:						
Restricted	2	-	5,540,113	5,399,118	10,939,231	11,195,707
Tangible capital assets		-	16,310,578	-	16,310,578	16,152,795
Unrestricted		479,449	-	-	479,449	528,749
Total fund balances		479,449	21,850,691	5,399,118	27,729,258	27,877,251
Total liabilities and fund balances		\$ 6,055,614	\$ 33,802,232	\$ 5,399,118	\$ 45,256,964	\$ 46,221,170

"See Accompanying Notes"

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

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

	2020					2019
	<u>Operating</u>	<u>Tangible Capital Assets</u>	<u>Restricted</u>	<u>Trust</u>	<u>Total</u>	<u>Total</u>
Fund balance - beginning	\$ 528,749	\$ 16,152,795	\$ 5,965,196	\$ 5,230,511	\$ 27,877,251	\$ 27,102,298
Excess (deficiency) of revenue over expenses	668,842	-	(985,442)	168,607	(147,993)	774,953
Transfer of fund balance	161,205	-	(161,205)	-	-	-
Tangible capital assets	(738,671)	738,671	-	-	-	-
Depreciation	-	(1,319,214)	1,319,214	-	-	-
Repayment of debt	(140,676)	738,326	(597,650)	-	-	-
Fund balance - ending	\$ 479,449	\$ 16,310,578	\$ 5,540,113	\$ 5,399,118	\$ 27,729,258	\$ 27,877,251

"See Accompanying Notes"

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

**Statement of Revenues and Expenses
For the Year Ended June 30**

	2020				2019
	<u>Operating</u>	<u>Restricted</u>	<u>Trust</u>	<u>Total</u>	<u>Total</u>
Revenues:					
Tuition fees	\$ 6,361,233	\$ -	\$ -	\$ 6,361,233	\$ 6,063,669
Grants					
Government of Saskatchewan	6,502,233	-	-	6,502,233	6,938,970
Other	-	-	-	-	45,532
Ancillaries	2,367,378	-	-	2,367,378	2,975,194
Other revenues	2,207,318	768,634	123,418	3,099,370	3,566,060
Donations	281,203	392,750	237,236	911,189	1,194,897
	<u>17,719,365</u>	<u>1,161,384</u>	<u>360,654</u>	<u>19,241,403</u>	<u>20,784,322</u>
Expenses:					
Academic and library	8,464,951	19,668	442,338	8,926,957	8,911,804
Administration	2,122,923	3,022	-	2,125,945	2,187,539
Student services	1,468,786	-	-	1,468,786	1,373,539
Physical plant	2,651,297	41,658	-	2,692,955	2,949,789
Food services	1,754,723	-	-	1,754,723	1,981,596
Advancement and communications	466,123	-	-	466,123	452,793
Interest on debt	66,203	457,615	-	523,818	559,335
Depreciation	-	1,319,214	-	1,319,214	1,276,519
	<u>16,995,006</u>	<u>1,841,177</u>	<u>442,338</u>	<u>19,278,521</u>	<u>19,692,914</u>
Excess (deficiency) of revenues over expenses from operations before the following:	<u>724,359</u>	<u>(679,793)</u>	<u>(81,684)</u>	<u>(37,118)</u>	<u>1,091,408</u>
Non-operating items:					
Net change in unrealized gain on investments	94,483	239,138	250,291	583,912	313,216
Net change in unrealized loss on loan derivatives	-	(544,787)	-	(544,787)	(498,671)
Net change in accrued benefit plan asset	(150,000)	-	-	(150,000)	(131,000)
	<u>(55,517)</u>	<u>(305,649)</u>	<u>250,291</u>	<u>(110,875)</u>	<u>(316,455)</u>
Excess (deficiency) of revenues over expenses	<u>\$ 668,842</u>	<u>\$ (985,442)</u>	<u>\$ 168,607</u>	<u>\$ (147,993)</u>	<u>\$ 774,953</u>

"See Accompanying Notes"

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

**Statement of Cash Flows
For the Year Ended June 30**

	<u>2020</u>	<u>2019</u>
Operating activities:		
(Deficiency) excess of revenues over expenses	\$ (147,993)	\$ 774,953
Non cash items in the above:		
Depreciation	1,319,214	1,276,519
Net change in unrealized gain on investments	(583,912)	(313,216)
Net change in unrealized loss on loan derivatives	544,787	498,671
Net change in accrued pension benefit asset	150,000	131,000
Change in working capital balances	<u>(2,024)</u>	<u>2,881,337</u>
Cash provided by operating activities	<u>1,280,072</u>	<u>5,249,264</u>
Financing activities:		
Repayment of long term debt	<u>(738,326)</u>	<u>(716,934)</u>
Cash provided by (used for) financing activities	<u>(738,326)</u>	<u>(716,934)</u>
Investing activities:		
Purchase of tangible capital assets	(738,671)	(1,088,235)
Disposition / (purchase) of investments	<u>100,646</u>	<u>(594,713)</u>
Cash used for investing activities	<u>(638,025)</u>	<u>(1,682,948)</u>
Increase (decrease) in cash, short term investments	(96,279)	2,849,382
Cash, short term investments, beginning of year	<u>5,775,481</u>	<u>2,926,099</u>
Cash, short term investments, end of year	<u>\$ 5,679,202</u>	<u>\$ 5,775,481</u>
Cash, short term investments consist of:		
Cash	\$ 4,653,948	\$ 4,154,714
Short term investments	<u>1,025,254</u>	<u>1,620,767</u>
	<u>\$ 5,679,202</u>	<u>\$ 5,775,481</u>

"See Accompanying Notes"

LUTHER COLLEGE, REGINA
UNIVERSITY AND HIGH SCHOOL
Notes to the Financial Statements
June 30, 2020

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. This legislation was superseded by The Luther College Act, 2018 that was assented on December 5, 2018. Luther College is governed by a Board of Regents with a corporate membership drawn from current and past regents, local church representatives, students, parents, faculty and staff of the College. An annual general meeting is convened at the College.

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 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

LUTHER COLLEGE, REGINA
UNIVERSITY AND HIGH SCHOOL
Notes to the Financial Statements
June 30, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$491,788 (2019 - \$825,226) from the Restricted General Fund primarily to fund renovations and other building improvements. Net interest earned on the restricted investments for the year was \$126,345 (2019 - \$168,773). The restricted fund balance at June 30 consists of the following:

	<u>2020</u>	<u>2019</u>
High School capital campaign	\$ 1,753,974	\$ 1,767,644
Market value of loan derivative	(1,564,798)	(1,020,011)
Provision for renewal of facilities not funded by government*	4,252,099	4,177,654
Faculty development	1,098,838	1,039,909
	<u>\$ 5,540,113</u>	<u>\$ 5,965,196</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 are recognized in the year they are received or receivable if the amounts can be reasonably determined and there is reasonable expectation of collection.

d) Tangible capital assets

Tangible capital assets are recorded at cost less accumulated depreciation.

**LUTHER COLLEGE, REGINA
UNIVERSITY AND HIGH SCHOOL**
Notes to the Financial Statements
June 30, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Assets under construction are not depreciated until they are put into use.

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.

The College's recognized financial instruments include cash, accounts receivable, investments, due from (to) other funds, accounts payable and accrued liabilities, accrued market value of loan derivative, and long term debt.

**LUTHER COLLEGE, REGINA
UNIVERSITY AND HIGH SCHOOL**
Notes to the Financial Statements
June 30, 2020

3. TANGIBLE CAPITAL ASSETS

Tangible capital assets consist of the following at June 30:

	High School	University	Total Cost	Accumulated Depreciation	Net Book Value 2020	Net Book Value 2019
Land	\$ 27,979	\$ -	\$ 27,979	\$ -	\$ 27,979	\$ 27,979
Buildings	22,441,429	14,250,148	36,691,577	10,013,476	26,678,101	26,289,228
Assets under construction	35,770	145,542	181,312	-	181,312	1,101,503
Equipment	1,329,493	1,909,128	3,238,621	1,863,895	1,374,726	\$ 1,423,951
Total	\$ 23,834,671	\$ 16,304,818	\$ 40,139,489	\$ 11,877,371	\$ 28,262,118	\$ 28,842,661

At June 30, 2020 artwork included in equipment is \$58,462 (2019 - \$58,462).

The buildings of the university campus are built upon property leased from the University of Regina. The previous lease term expired during the year and has been renewed for a 30-year period which ends April 30, 2050. 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 (from)/to the University of Regina as follows:

	<u>2020</u>	<u>2019</u>
Operating costs	\$ 62,055	\$ 17,796
Fees (receivable) / payable	<u>(19,305)</u>	<u>31,458</u>
Total	<u>\$ 42,750</u>	<u>\$ 49,254</u>

**LUTHER COLLEGE, REGINA
UNIVERSITY AND HIGH SCHOOL**
Notes to the Financial Statements
June 30, 2020

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

The College provides for employee vacation pay entitlements and benefits, 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	Employee Benefits	Total
Balance, June 30, 2019	\$ 357,416	\$ 325,845	\$ 306,532	\$ 210,708	\$ 1,200,501
Increase (decrease) during the year	(63,030)	(4,282)	34,121	70,088	36,897
Balance, June 30, 2020	\$ 294,386	\$ 321,563	\$ 340,653	\$ 280,796	\$ 1,237,398

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, 2020, the line of credit was not used (2019 - 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, 2020, the line of credit was not used (2019 - nil).

b) Credit cards

The College has an authorized credit limit of \$200,000 (2019 - \$150,000) on CIBC Aventura Visa cards to be used for the purchase and payment of goods and services. The annual interest rate for this credit is 19.99%. At June 30, 2020 the outstanding balance was \$18,125 (2019 - \$45,282).

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.

**LUTHER COLLEGE, REGINA
UNIVERSITY AND HIGH SCHOOL**
Notes to the Financial Statements
June 30, 2020

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, 2020 is \$9,778,984 (2019 - \$10,277,555). The balance under the Swap Agreements at June 30, 2020 is \$9,778,984 (2019 - \$10,277,555).

- e) In accordance with generally accepted accounting principles, Luther College has recorded a net unrealized loss, in the amount of \$544,787, on the derivative instruments implicit in the Swap Agreements described in note 6(d). These losses are derived from decrease in market interest rates that occurred since the Swap Agreements were executed. Should market interest rates rise, these losses may 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.

**LUTHER COLLEGE, REGINA
UNIVERSITY AND HIGH SCHOOL**
Notes to the Financial Statements
June 30, 2020

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, 2020 the balance outstanding was \$437,602 (2019 - \$536,682).

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, 2020 the balance outstanding was \$1,734,954 (2019 – \$1,875,630).

All demand loans have been classified as long term as management does not have any information indicating they will be called in the next year.

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 2020 was \$344,151 (2019 - \$324,098).

**LUTHER COLLEGE, REGINA
UNIVERSITY AND HIGH SCHOOL**
Notes to the Financial Statements
June 30, 2020

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, 2018 for the Academic and Administrative plan. Extrapolation reports to April 30, 2020 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, 2020 for the Academic Plan and Non-Academic Plans.

Information on the defined benefit plan is as follows:

Academic and Administrative	<u>2020</u>	<u>2019</u>
Plan assets at fair value	\$ 8,774,000	\$ 8,650,000
Benefit obligation	(7,580,000)	(7,508,000)
Valuation allowance	(934,000)	(821,000)
Net pension surplus	<u>\$ 260,000</u>	<u>\$ 321,000</u>
 Non-Academic	 <u>2020</u>	 <u>2019</u>
Plan assets at fair value	\$ 3,074,000	\$ 2,933,000
Benefit obligation	(3,251,000)	(3,021,000)
Net pension surplus (deficiency)	<u>(\$177,000)</u>	<u>(\$88,000)</u>
 Accrued pension benefit asset	 <u>\$ 83,000</u>	 <u>\$ 233,000</u>

**LUTHER COLLEGE, REGINA
UNIVERSITY AND HIGH SCHOOL**
Notes to the Financial Statements
June 30, 2020

8. PENSION PLANS (continued)

Significant actuarial assumptions adopted:

	<u>2020</u>	<u>2019</u>
Discount rate	5.85% - 5.90%	6.20% - 6.30%
Expected long-term rate of return on plan assets	5.85% - 5.90%	6.20% - 6.30%
Rate of compensation increase	1.50% - 3.00%	1.50% - 3.00%
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 2020 were \$65,101 (2019 - \$60,910).

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. INVESTMENTS

The investments of the College include:

	<u>2020</u>	<u>2019</u>
Mutual Funds		
Fixed income	6,024,043	6,048,631
Canadian equity	2,215,362	2,435,367
US equity	2,493,366	2,004,845
International equity	1,412,163	1,230,291
Cash & equivalent	(17,867)	(17,363)
Alternative investments	384,511	326,541
ELCIC	6,468	6,468
Total	12,518,046	12,034,780

10. 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:

**LUTHER COLLEGE, REGINA
UNIVERSITY AND HIGH SCHOOL**
Notes to the Financial Statements
June 30, 2020

10. FINANCIAL RISK MANAGEMENT (continued)

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, \$437,602, University campus, \$1,734,954) 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.

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.

11. 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.

12. OTHER FUNDING

The College received \$222,200 funding for a two-year period ending June 30, 2019 from the Community Initiatives Fund to support the Non-Profit Voluntary Sector Studies Network at Luther College's university campus. \$89,247 in unused funding was repaid to the Community Initiatives Fund during the year.

13. COVID-19

On March 11, 2020, the World Health Organization declared a global pandemic for the COVID-19 virus. The College is following health advisories and mandatory requirements from local, provincial and national health and government organizations. As a result, the College closed its facilities to the public in late March 2020 and continued delivering instruction online. The high school campus resumed classes in person on September 8, 2020. The university campus continues to deliver

**LUTHER COLLEGE, REGINA
UNIVERSITY AND HIGH SCHOOL**
Notes to the Financial Statements
June 30, 2020

instruction online. The financial impact on the College, and its ongoing operations due to the pandemic, is unknown.