Financial statements of

# Concordia Lutheran Theological Seminary - Ontario

June 30, 2010

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June 30, 2010

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# Auditors' Report

To the Board of Regents of
Concordia Lutheran Theological Seminary - Ontario

We have audited the balance sheets of Concordia Lutheran Theological Seminary - Ontario as at June 30, 2010 and the statements of income and changes in fund balances for the year then ended. These financial statements are the responsibility of the Seminary's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraphs, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many charitable organizations, the Seminary derives revenue from gifts, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Seminary and we were not able to determine whether any adjustments might be necessary to gifts revenue, excess of income over expenses (expenses over income), fund balances and assets.

Note 3 describes the amortization policy in regard to capital assets. Canadian generally accepted accounting principles would require that amortization be taken on all capital assets over their estimated useful life. In this respect, the financial statements are not in accordance with Canadian generally accepted accounting principles. The effect of this departure from Canadian generally accepted accounting principles has not been determined.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of gifts revenue, as described in the second preceding paragraph, and except for the effects of the failure to record amortization of capital assets as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Seminary as at June 30, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
August 10, 2010

# Concordia Lutheran Theological Seminary - Ontario

Operating Fund
Income statement and change in fund balance
year ended June 30, 2010

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Income** | | |
| Tuition fees | **154,468** | 150,542 |
| Grants | **205,200** | 205,200 |
| Gifts | **163,736** | 149,704 |
| Bequests | **94,332** | 64,748 |
| Gifts in kind | **4,902** | 920 |
| Interest and dividends | **999** | 999 |
| Gain (loss) on sale of investments | **31** | (276) |
| Sales | **30,943** | 32,455 |
| Subsidized project revenue | **34,698** | 14,233 |
| Donation from The Concordia Seminary Foundation - St. Catharines | **35,248** | 72,880 |
| Fundraising events | **21,160** | 6,669 |
| | **745,717** | 698,074 |
| Expenses | | |
| Salaries and benefits | **550,236** | 496,819 |
| Communications, development and official events | **17,410** | 21,681 |
| Travel | **19,194** | 22,200 |
| Postage, office, computer and telephone | **17,115** | 18,453 |
| Repairs and maintenance | **19,841** | 16,110 |
| Utilities | **14,974** | 18,803 |
| Security, land rental and insurance | **9,511** | 9,323 |
| Professional fees | **12,418** | 11,760 |
| Professional development | **2,557** | 2,586 |
| Other | **3,904** | 4,662 |
| Cost of sales | **17,732** | 18,375 |
| Library | **7,025** | 8,531 |
| Interest | **34,314** | 31,024 |
| Other financial | **10,049** | 10,439 |
| Subsidized project | **7,866** | 10,515 |
| Fundraising | **14,556** | 2,836 |
| Donation to Food Cupboard | **3,254** | 920 |
| | **761,956** | 705,037 |
| Excess of expenses over income | **(16,239)** | (6,963) |
| | | |
| Operating fund deficit, beginning of year | **(752,244)** | (738,617) |
| Purchase of capital assets | **(12,589)** | (6,664) |
| **Operating fund deficit, end of year** | **(781,072)** | (752,244) |

# Concordia Lutheran Theological Seminary - Ontario

Operating Fund
Balance sheet
as at June 30, 2010

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current assets | | |
| Investments (Note 4) | **27,000** | 27,000 |
| Accounts receivable | | |
| Students | **5,084** | 8,385 |
| Others | **2,462** | 2,231 |
| Accrued interest receivable | **112** | 112 |
| Inventory | **28,702** | 26,634 |
| Prepaid expenses | **4,051** | 2,453 |
| Due from Student Aid Fund | **749** | 991 |
| | **68,160** | 67,806 |
| Capital assets (Note 5) | **2,295,874** | 2,283,285 |
| | **2,364,034** | 2,351,091 |
| **Liabilities** | | |
| Current liabilities | | |
| Bank indebtedness (Note 6) | **186,949** | 188,149 |
| Accounts payable and accrued liabilities | **101,934** | 97,800 |
| Student deposits | **8,016** | 5,926 |
| Due to The Concordia Seminary Foundation - St. Catharines (Note 9) | **145,936** | 102,030 |
| Restricted funds | **1,397** | 21,145 |
| | **444,232** | 415,050 |
| Loan - Lutheran Church of Canada (Note 7) | **405,000** | 405,000 |
| | **849,232** | 820,050 |
| **Fund balance** | | |
| Invested in capital assets | **2,295,874** | 2,283,285 |
| Operating fund deficit | **(781,072)** | (752,244) |
| | **1,514,802** | 1,531,041 |
| | **2,364,034** | 2,351,091 |

Approved by the Board

____________________ Director

____________________ Director

# Concordia Lutheran Theological Seminary - Ontario

Student Aid Fund
Income statement and change in fund balance
year ended June 30, 2010

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Income** | | |
| Gifts | **71,145** | 47,806 |
| Interest and dividends | **7,299** | 7,739 |
| Donation from The Concordia Seminary Foundation - St. Catharines, Student Endowment Fund - regular fund | **14,500** | 28,000 |
| Donation from The Concordia Seminary Foundation - St. Catharines, Student Endowment Fund - Ontario Student Opportunity Trust Fund | **19,855** | 33,950 |
| | **112,799** | 117,495 |
| Expenses | | |
| Allocation to students - regular fund | **92,919** | 89,050 |
| Allocation to students - Ontario Student Opportunity Trust Fund | **19,855** | 33,950 |
| Bank charges | **28** | 29 |
| | **112,802** | 123,029 |
| Excess of expenses over income | **(3)** | (5,534) |
| Balance of fund, beginning of year | **179,262** | 184,796 |
| **Balance of fund, end of year** | **179,259** | 179,262 |

# Concordia Lutheran Theological Seminary - Ontario

Student Aid Fund
Balance sheet
as at June 30, 2010

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current assets | | |
| Cash | **17** | 14 |
| Investments (Note 4) | **177,000** | 177,000 |
| Accrued interest receivable | **2,991** | 3,239 |
| | **180,008** | 180,253 |
| **Liabilities** | | |
| Current liabilities | | |
| Due to Operating Fund | **749** | 991 |
| **Fund balance** | | |
| Student Aid Fund | **179,259** | 179,262 |
| | **180,008** | 180,253 |

## 1. Organization

Concordia Lutheran Theological Seminary - Ontario (the "Seminary") was incorporated in November, 1976 under the Laws of the Province of Ontario. The Organization operates a Seminary in St. Catharines, Ontario.

## 2. Changes in accounting policies

*Financial statements for not-for-profit organizations*

On July 1, 2009 the Seminary adopted the changes made to Sections 1540, 1751, 4400, 4460, and 4470 of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

Seciton 1540 and 1751 have been amended to include not-for-profit organizations within its scope. As a result, investing and financing activities are now to be presented separately.

Section 4400 has been amended in order to eliminate the requirement to treat net assets invested in capital assets as a separate component of net assets and, instead, permit a not-for-profit organization to present such an amount as a category of internally restricted net assets when it chooses to do so. It also clarifies that revenues and expenses must be recognized and presented on a gross basis when a not-for profit organization is acting as a principal in transactions.

Section 4460 has been amended to make the language in Section 4460 consistent with related party transactions, Section 3840.

Section 4470 establishes disclosure standards for a not-for-profit organization that classifies its expenses by function and allocates its expenses to a number of functions to which the expenses relate.

None of these amendments resulted in any changes to the financial statements.

*EIC-173*

On July 1, 2009, the Seminary adopted EIC-173, *Credit risk and the fair value of financial assets and financial liabilities* issued by the Emerging Issues Committee. This abstract requires that an entity's own credit risk (for financial liabilities) and the credit risk of the counterparty (for financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this abstract did not have a material impact on the financial statements.

*Future accounting change:*

<u>New accounting framework</u>

Presently there is an exposure draft for Financial Reporting by Private Not-for-Profit Organizations. The Accounting Standards Board proposes to give private not-for-profit organizations the choice of adopting International Financial Reporting Standards or to follow the new standards applicable to not-for-profit organizations which include the 4400 series. The proposed changes will apply to fiscal years beginning on or after January 1, 2012. The Seminary currently plans to adopt the new accounting standards for not-for-profit organizations for its fiscal year beginning on July 1, 2012, however the impact of this transition has not yet been determined.

## 3. Significant accounting policies

The Seminary has elected to use the exemption provided by the CICA permitting not-for-profit organizations not to apply Sections 3862 and 3863 of the CICA Handbook which would otherwise have applied to the financial statements of the Seminary for the year ended June 30, 2010. The Seminary applies the requirements of Section 3861 of the CICA Handbook.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, except that capital assets are not amortized as noted below, and reflect the following significant accounting policies:

*Accrual accounting*

The Seminary uses the accrual method of accounting whereby revenues are recognized as income when earned and expenditures are recognized as expenses when incurred.

*Financial instruments*

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Seminary's designation of such instruments. Settlement date accounting is used.

*Classification*

| | |
|---|---|
| Cash | Held for trading |
| Investments | |
| Mutual funds | Available-for-sale |
| Term deposits | Available-for-sale |
| Accounts receivable | Loans and receivables |
| Bank indebtedness | Held for trading |
| Accounts payable and accrued liabilities | Other liabilities |
| Due to The Concordia Seminary Foundation – St. Catharines | Other liabilities |
| Loan – Lutheran Church-Canada | Other liabilities |

*Held for trading*

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

Financial liabilities designated as held for trading are those non-derivative financial liabilities that the Seminary elects to designate on initial recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held for trading assets.

*Available-for-sale*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Except as mentioned below, available-for-sale financial assets are carried at fair value with unrealized gains and losses included in the Operating Fund until realized when the cumulative gain or loss is transferred to other income.

Available-for-sale financial assets that do not have quoted market prices in an active market are recorded at cost.

Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method.

**3. Significant accounting policies (continued)**

*Loans and receivables*

Loans and receivables are accounted for at amortized cost using the effective interest method.

*Other liabilities*

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

*Effective interest method*

The Seminary uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

*Inventory*

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price less the estimated costs necessary to make the sale.

*Capital assets*

Capital assets are reported at cost. Amortization is not recorded.

*Fund accounting*

The Seminary uses fund accounting to record and report its activities. The restrictions on the funds were determined by the Board of Regents.

The Operating Fund accounts for the Seminary's educational and administrative activities. This fund reports unrestricted resources and restricted operating grants.

The Student Aid Fund reports only restricted resources that are to be used for student aid purposes.

*Revenue recognition*

The Seminary records gifts as income in the year they are received. Bequests are recognized as income once they have been designated by the Board of Regents.

*Donated materials or services*

Donated materials or services are included in income at an amount equivalent to the fair value of the materials or services provided. The appropriate capital assets or expense accounts are also adjusted to reflect the fair value of the materials and services received.

*Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates include the valuation of accounts receivable.

## 4. Investments

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| **Operating Fund** | | |
| *Available for sale:* | | |
| TD Guaranteed Investment Certificate (cost $27,000 (2009 - $27,000)) | **27,000** | 27,000 |
| **Student Aid Fund** | | |
| *Available for sale:* | | |
| TD Guaranteed Investment Certificates (cost $177,000 (2009 - $177,000)) | **177,000** | 177,000 |
| | **204,000** | 204,000 |

## 5. Capital assets

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Building | **1,415,057** | 1,415,057 |
| Furniture and equipment | **410,187** | 410,187 |
| Computers | **34,979** | 34,979 |
| Office equipment | **28,372** | 23,837 |
| Library | **396,138** | 388,084 |
| Library equipment | **11,141** | 11,141 |
| | **2,295,874** | 2,283,285 |

## 6. Line of credit

The operating line of credit bears interest at the prime rate plus 0.5 % and is secured by a general security agreement and investments held in the Operating and Student Aid Funds. The authorized line of credit is $204,000. There is $187,510 advanced on this line at June 30, 2010 (2009 - $191,545).

## 7. Loan

Loan is not secured and has a maturity date of August 31, 2011.

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Lutheran Church-Canada Financial Ministries<br>0% interest from September 1, 2004 to August 31, 2005<br>0% interest from September 1, 2005 to August 31, 2006<br>3% interest from September 1, 2006 to August 31, 2007<br>4% interest from September 1, 2007 to August 31, 2008<br>6% interest from September 1, 2008 to August 31, 2009<br>6% interest from September 1, 2009 to August 31, 2010<br>7% interest from September 1, 2010 to August 31, 2011<br>interest paid annually, due August 31, 2011. | **405,000** | 405,000 |

Included in interest expense is an amount equal to $24,300 (2009 - $22,924).

## 8. Lease commitment

The Seminary entered into a land lease with Brock University at an annual rental of $500 until the year 2031, with an option to renew the lease for an additional 49 years at a rate to be determined at that time.

## 9. Related party transactions

During the year, the Seminary had transactions with The Concordia Seminary Foundation – St. Catharines, an organization that has an economic interest in the Seminary.

Transactions for the year include:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Donation from The Concordia Seminary Foundation - St. Catharines | | |
| General endowment fund | **35,248** | 72,880 |
| Student endowment fund | **34,355** | 61,950 |
| | **69,603** | 134,830 |

At year end, the Seminary had balances owing to the Foundation as follows:

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Due to The Concordia Seminary Foundation - St. Catharines | **145,936** | 102,030 |

## 10. Economic dependence

The Seminary is economically dependent on the Concordia Seminary Foundation – St. Catharines for assistance. The assistance received from the Concordia Seminary Foundation – St. Catharines during the year is included in Note 9.

## 11. Capital disclosures

The Seminary's objective in managing its capital is to maintain a level sufficient to provide for the normal operating requirements of the various programs offered by the Seminary to ensure appropriate quantity and quality of those programs. The Seminary receives funding from various sources which are allocated to the various programs based on the priorities identified by the Board of Regents.

The Board of Regents monitors on an on-going basis the level of capital maintained by the Seminary.

## 12. Statement of cash flows

A statement of cash flows has not been included in these financial statements because its inclusion would not add significant information.

During the year, the Seminary paid interest of $24,439 (2009 - $31,024).

## 13. Financial instruments

*Credit risk*

The Seminary is exposed to credit risk from customers. However, the Seminary's business has a number of diverse customers, which minimizes concentration of credit risk.

*Interest rate risk*

The Seminary is subject to interest rate risk due to changes to the prime rate since the bank indebtedness bears a variable interest rate.

The loan payable to Lutheran Church Canada bears a fixed, stepped interest rate. Consequently, the cash flow exposure is not significant.

*Fair value*

Based on management's best estimates, the carrying value of investments, accounts receivable, accrued interest receivable, bank indebtedness, accounts payable and accrued liabilities, student deposits, and amounts due to the Concordia Seminary Foundation – St. Catharines represent the fair value of these amounts at June 30, 2010 due to their short-term maturity.

The fair value of long-term debt is determined using the present value of future cash flows under current financing agreements, based on the Seminary's current estimated borrowing rate for loans with similar terms and conditions. The fair value of the long-term debt is $429,210 at June 30, 2010 ($460,446 at June 30, 2009).