Financial Statements of

LUTHERAN CHURCH - CANADA PENSION PLAN

Years ended December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Lutheran Church - Canada

We have audited the accompanying financial statements of Lutheran Church - Canada Pension Plan, which comprise the statements of financial position as at December 31, 2017 and 2016, the statements of changes in net assets available for benefits and changes in pension obligations for the years then ended, and notes, comprising 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 pension plans, 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 audits. We conducted our audits 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 our 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, we 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 in our audits 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 Lutheran Church - Canada Pension Plan as at December 31, 2017 and 2016, and the changes in its net assets available for benefits and the changes in its pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Professional Accountants

June 19, 2018

Winnipeg, Canada

LUTHERAN CHURCH - CANADA PENSION PLAN

Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Cash	$ 393,060	$ 270,258
Accounts receivable	64,387	111,941
Goods and services taxes receivable	4,431	10,544
Contributions receivable from LCC Worker Benefit Services Inc.	35,784	21,240
Receivable from broker	824	10,478
	498,486	424,461
Investments (note 3)	78,874,768	73,275,073
	79,373,254	73,699,534
Liabilities		
Accounts payable and accrued liabilities	91,472	51,295
Net assets available for benefits - defined benefit plan	79,281,782	73,648,239
Actuarial value of pension obligations - defined benefit plan (note 4)	76,405,948	71,483,064
Excess of net assets available for benefits over pension obligations - defined benefit plan	$ 2,875,834	$ 2,165,175

See accompanying notes to financial statements.

On behalf of the Board:

H. Henderson

______________________________ Director

______________________________ Director

LUTHERAN CHURCH - CANADA PENSION PLAN

Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2017 and 2016

	2017			2016		
	Defined benefit plan	Defined contribution plan	Total	Defined benefit plan	Defined contribution plan	Total
Increase in assets:						
Contributions - employer	$ 3,089,661	$ 1,224,687	$ 4,314,348	$ 3,481,624	$ 1,254,799	$ 4,736,423
Contributions - employee	74,470	1,067,089	1,141,559	77,116	1,094,699	1,171,815
Investment income (note 5)	1,840,465	–	1,840,465	3,150,119	–	3,150,119
Unrealized investment gains, net of unrealized losses	1,818,830	–	1,818,830	669,463	–	669,463
Change in fair value of annuity	218,945	–	218,945	–	–	–
Realized investment gains, net of realized losses	2,818,037	–	2,818,037	2,183,903	–	2,183,903
	9,860,408	2,291,776	12,152,184	9,562,225	2,349,498	11,911,723
Decrease in assets:						
Pension benefits paid	3,351,711	2,290,744	5,642,455	3,893,946	2,336,030	6,229,976
Lump sum transfers to members	358,372	–	358,372	315,583	–	315,583
Administration expenses (note 6)	516,782	1,032	517,814	565,786	13,468	579,254
Payable to Concordia University of Edmonton	–	–	–	110,171	–	110,171
	4,226,865	2,291,776	6,518,641	4,885,486	2,349,498	7,234,984
Increase in net assets	5,633,543	–	5,633,543	4,676,739	–	4,676,739
Net assets available for benefits, beginning of year	73,648,239	–	73,648,239	68,971,500	–	68,971,500
Net assets available for benefits, end of year	$ 79,281,782	$ –	$79,281,782	$73,648,239	$ –	$73,648,239

See accompanying notes to financial statements.

LUTHERAN CHURCH - CANADA PENSION PLAN

Statements of Changes in Pension Obligations - Defined Benefit Plan

Years ended December 31, 2017 and 2016

	2017	2016
Actuarial value of pension obligations, beginning of year	$ 71,483,064	$ 71,205,957
Benefits accrued	242,352	321,286
Benefits paid	(3,710,083)	(4,209,528)
Interest on accrued benefits	4,192,222	4,165,349
Effect of change in actuarial discount rate	4,109,978	–
Effect of changes in other actuarial assumptions	(25,774)	–
Effect of experience losses	114,189	–
Actuarial value of pension obligations, end of year	$ 76,405,948	$ 71,483,064

See accompanying notes to financial statements.

LUTHERAN CHURCH - CANADA PENSION PLAN

Notes to Financial Statements

Years ended December 31, 2017 and 2016

Lutheran Church - Canada Pension Plan (the Plan) is comprised of the Defined Benefit Pension Plan (DBPP) and Defined Contribution Pension Plan (DCPP). Members hired after December 31, 2011 participate in the DCPP only. Effective January 1, 2013, the DBPP members, with the exception of members age 55 or older whose age and years of service equaled 80 points as of December 31, 2012, were transferred into the DCPP. While these transferred DBPP members will not earn any further service benefits under the DBPP after December 31, 2012, their pre-January 1, 2013 benefit obligations will continue to grow within the DBPP through future salary increases. Members age 55 or older whose age and years of service equaled 80 points as of December 31, 2012 continue their membership in the DBPP and earn further service benefits under the DBPP. These members are required to make contributions of 4 percent of earnings to the DBPP.

A description of each component is summarized as follows.

1. Description of Plans:

(i) Defined Benefit Pension Plan:

The following description of the DBPP is a summary only. For more complete information, reference should be made to the DBPP Agreement.

(a) General:

The DBPP was a non-contributory defined benefit pension plan covering employees of the participating employers including Lutheran Church - Canada (LCC), the DBPP's Sponsor. The DBPP was established on January 1, 1989.

(b) Funding policy:

Employers participating in the DBPP fund the benefits determined under the DBPP. The determination of the value of these benefits is made on the basis of an actuarial valuation (note 4).

LUTHERAN CHURCH - CANADA PENSION PLANS

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

1. Description of Plans (continued):

(c) Service pension:

A service pension is available based on 1.25 percent of final average monthly earnings (average of the highest 60 consecutive months during the last 240 months of credited service) up to the final average monthly Year's Maximum Pensionable Earnings (YMPE) for the year of retirement and the two previous calendar years, plus 1.6 percent of the final average monthly earnings in excess of the final average monthly YMPE, multiplied by credited years of service.

(d) Survivor’s pension:

If a member dies before retirement, a benefit is paid to the surviving spouse or to their beneficiary if there is no surviving spouse. If a member’s death occurs after retirement, the benefit paid to the surviving spouse is paid according to the form of pension chosen at the time of retirement.

(e) Normal retirement:

Normal retirement accrues on the first of the month coincident with or immediately following the attainment of age 65.

(f) Early retirement:

Unreduced early retirement:

Members who are at least age 62 and whose age plus years of credited service is equal to at least 85 points (age of member plus years of service) at the time of retirement, may retire without a reduction to their pension.

Reduced early retirement:

A member who retires at or after age 60 will have their normal retirement pension reduced by 0.55 percent for each month that their early retirement date precedes their normal retirement date. A member who retires between age 55 and 60, will have their normal retirement pension reduced by 33 percent plus an additional 0.27 percent for each month that their early retirement date precedes the first day of the month following their 60th birthday.

LUTHERAN CHURCH - CANADA PENSION PLANS

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

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1. Description of Plans (continued):

(g) Postponed retirement:

Retirement benefits cannot be postponed beyond the end of the year in which a member turns 71 years of age.

(h) Vested termination benefit:

Unless otherwise stipulated by the pension regulations, a member will immediately be entitled to total pension benefits earned to the date of termination under four alternative forms of payment.

(i) Income taxes:

The DBPP is a registered Pension Trust and is not subject to income taxes.

(ii) Defined Contribution Pension Plan:

(a) General:

The DCPP was initially established to encourage members to participate and enhance their registered pension plan benefit by providing them with the opportunity to contribute and therefore enhance the future benefit payments from their registered pension plan.

The provisions of the DCPP are set out in the contract agreement with the service provider.

(b) Funding policy:

Subject to Sections 2.02, 2.03 and 2.04 of the Lutheran Church - Canada Pension Plan document, each calendar year or portion thereof, a member may contribute to the DCPP, by regular payroll deduction, up to a maximum of 4 percent of compensation. Commencing January 1, 2013, employers contribute 6 percent of a members' compensation to the DCPP provided that member is also required by the DCPP provisions to make contributions of 4 percent of compensation to the DCPP.

LUTHERAN CHURCH - CANADA PENSION PLAN

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

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1. Description of Plans (continued):

(c) Income taxes:

The DCPP is a non-registered benefit plan and is not subject to income taxes.

2. Significant accounting policies:

(a) Basis of preparation:

The Plan follows Canadian accounting standards for pension plans for accounting policies related to its investment portfolio and pension obligations. In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, the Plan complies on a consistent basis with Canadian accounting standards for private enterprises.

These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the sponsor and plan members. Only the net assets of the Plan and obligations to the members eligible to participate in the Plan have been included in these financial statements. These financial statements do not portray the funding requirements of the Plan or the benefit security of the individual plan members.

As disclosed in note 4, the financial position at December 31, 2017 for the DBPP is an estimate based on the most recent actuarial valuation as of December 31, 2017. The actuarial valuation indicates that the DBPP has a going concern surplus of $163,000 (2016 - $2,632,000) and a statutory solvency deficiency of $19,709,000 (2016 - $13,654,000). At the forbearance of the Province of Alberta Superintendent of Pensions, the DBPP is currently not required to fund the solvency deficiency.

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LUTHERAN CHURCH - CANADA PENSION PLAN

2. Significant accounting policies (continued):

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and investments are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Plan has elected not to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the straight-line method.

(c) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Plan uses closing market price for fair value measurement. When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

All changes in fair value, other than interest and dividend income, are recognized in the statement of changes in net assets available for benefits within unrealized and realized investment gains and losses.

Fair values of investments are determined as follows:

Bonds, mortgages and equities are valued at year-end closing market prices.

LUTHERAN CHURCH - CANADA PENSION PLAN

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

2. Significant accounting policies (continued):

Pooled investment funds are valued at the unit values supplied by the fund administrator, which represents the Plan's proportionate share of underlying net assets at fair values determined using year-end closing market prices.

Investments in derivative financial instruments, being forward foreign exchange contracts, are valued at year end quoted market prices where available. Where quoted prices are not available, values are determined using pricing models, which taken into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

Alternative investments are recorded at fair value determined by the external manager. A number of valuation methodologies are considered in arriving at the fair value of unquoted investments, including internal or external valuation models, which may include discounted cash flow analyses. The most appropriate methodology to determine fair value is chosen on an investment by investment basis. Any control, size, liquidity or other discounts or premiums on the investment are considered by the external manager in their determination of fair value.

Annuity buy-in insurance policies are purchased to cover a portion of DBPP retirees with fair value of the annuity buy-in determined based on the solvency pension obligation associated with covered DBPP retirees.

(d) Foreign currency translation:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Canadian dollars at the exchange rate at that date.

Foreign currency differences arising on retranslation are recognized in the statement of changes in net assets available for benefits within unrealized investment gains and losses.

(e) Investment transactions and income recognition:

(i) Investment transactions:

Investment transactions are accounted for on a trade date basis.

LUTHERAN CHURCH - CANADA PENSION PLAN

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

2. Significant accounting policies (continued):

(ii) Income recognition:

Investment income has been accrued as reported by the issuer of the pooled funds and bonds. Dividend income from publicly traded securities is recorded as of the ex-dividend date. Interest income has been accrued as earned.

(f) Contributions:

Contributions from employers and employees are recorded on an accrual basis.

(g) Benefits:

Benefit payments to members, termination refunds to former members, and transfer payments to other plans are recorded in the period in which they are paid or payable. Any benefit payment accruals not paid are reflected in accounts payable and accrued liabilities.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets during the year. Significant items subject to such estimates and assumptions include the determination of the actuarial value of pension obligations. Actual results could differ from those estimates.

3. Investments:

The investments as at December 31 are as follows:

	2017	2016
Pooled funds:		
Short-term investments	$ –	$ 1,504,835
Bonds	–	16,010,920
Canadian equities	17,649,103	21,485,197
Foreign equities	26,235,153	22,673,297
Real estate	4,524,107	2,487,750
Mortgages	8,883,000	9,000,000
Buy-in annuity	21,516,945	–
Alternative investments	66,460	113,074
	$ 78,874,768	$ 73,275,073

3. Investments (continued):

During fiscal 2017, DBPP purchased a buy-in annuity for retirees for $22,446,733. Future cash flows from the annuity will match the amount and timing of benefits payable by the Plan, substantially mitigating the exposure to future volatility in the related pension obligation associated with the annuity. At December 31, 2017, reflecting the buy-in annuity, 22 percent of the DBPP obligation was fully hedged against future discount rate and longevity risk (potential increases in life expectancy of DBPP retirees).

4. Pension obligations - DBPP:

The actuarial value of pension obligations was determined by Ellement Consulting Group, the actuary, using the projected unit credit actuarial cost method prorated on service and the Board of Directors best estimate assumptions. The latest valuation filed is as of December 31, 2017. The next valuation will be filed as of December 31, 2020.

The assumptions used in the actuarial value of pension obligations are going concern assumptions adopted by the Board of Directors and were developed by reference to expected long-term market conditions. The significant long-term actuarial assumptions used in the valuation were:

(a) the average rate of compensation increase was assumed to be 2.75 percent (2016 - 3.0 percent); and

(b) the discount rate for accrued pension benefits and the asset rate of return were assumed to be 5.5 percent (2016 - 6.0 percent).

Since the intention is the DBPP continues into the future indefinitely, the obligations of the DBPP are calculated by using the going concern actuarial basis. As underlying conditions change over time, going concern assumptions adopted by the Board of Directors may also change, which could cause a material change in the actuarial value of pension obligations.

For funding purposes, the actuarial value of net assets available for benefits has been determined at amounts that reflect long-term market trends (consistent with assumptions underlying the actuarial value of pension obligations). This valuation is based on a three year moving average market method. Under this method, all experience gains and losses are averaged over a three year period.

LUTHERAN CHURCH - CANADA PENSION PLAN

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

4. Pension obligations - DBPP (continued):

The financial position at December 31, 2017 is an estimate based on the most recent filed actuarial valuation report as at December 31, 2017. The actuarial valuation report indicates that there is a going concern surplus of $163,000 (2016 - $2,632,000 based on an extrapolation of the most recent filed valuation report as at December 31, 2014). The going concern surplus is calculated utilizing the average fair value of assets for the last three fiscal years which resulted in reduction of $2,713,000 (2016 - addition of $467,000) from the net assets available for benefits as disclosed in the statement of financial position. The actuarial valuation report at December 31, 2017 also indicated that there was a statutory solvency deficiency of $19,709,000 (2016 - $13,654,000 based on the extrapolation). At the forbearance of the Province of Alberta Superintendent of Pensions, the DBPP is currently not required to fund the solvency deficiency.

5. Investment income:

	2017	2016
Pooled funds	$ 1,814,169	$ 2,916,402
Alternative investments	26,296	233,717
	$ 1,840,465	$ 3,150,119

6. Administration expenses - DBPP:

	2017	2016
Investment management fees	$ 211,665	$ 233,249
Custodial fees	31,729	36,480
Consulting fees	66,967	100,125
Salaries and benefits	112,883	111,320
Other	93,538	84,612
	$ 516,782	$ 565,786

6. Administration expenses - DBPP (continued):

Administration expenses, except for investment management fees, custodial fees and consulting fees, represent management's estimate of the Plan's share of office and administrative expenses incurred by LCC Worker Benefit Services Inc. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

7. Capital management:

The main objective of the Plan is to sustain a certain level of net assets in order to meet the pension obligations of the DBPP. The DBPP fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (the SIPP), which is reviewed annually by the Board of Directors of the Plan. The DBPP manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employer and employee contributions) in accordance with the approved SIPP. Increases in net assets are a direct result of investment income generated by investments held by the DBPP and contributions into the DBPP by the employers and employees. The main use of net assets is for benefit payments to eligible DBPP members.

The primary risk the DBPP faces is that the DBPP's asset growth and contribution rates will be insufficient to cover the DBPP's liabilities (funding risk) resulting in an unfunded liability (funding deficiency). If a funding deficiency reaches a certain level, or persists, it may need to be eliminated through contribution rate increases, pension benefit reductions or a combination of the two.

The DBPP's net funded position can change relatively quickly if there are changes in the value of the investments or liabilities. Either can result in a mismatch between the DBPP's assets and its liabilities. The most significant contributors to funding risk are:

- increase or decline in interest rates
- decline in long-term investment rates of return
- changes in stock market indices affecting market values of investments
- unexpected increases in inflation and salary escalation

The DBPP's liabilities are affected by non-economic factors like changes in member demographics. The DBPP's assets are subject to financial instrument risks which are explained in more detail in note 8 to these financial statements.

8. Risk management:

The DBPP is exposed to a variety of financial risks as a result of its investment activities and has policies and procedures that govern the management of market, credit and liquidity risk. The Board of Directors establish a target asset mix among interest bearing instruments and Canadian and foreign equities to ensure diversification across asset classes. This strategy is provided to the investment managers who implement and monitor it to ensure the policies are met.

(a) Market risk:

(i) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Plan invests in interest-bearing financial assets. The DBPP is exposed to the risk that the value of such financial assets will fluctuate due to changes in the prevailing levels of market interest rates. The DBPP's exposure to interest rate risk is concentrated in its investments in pooled bond and fixed income funds. To manage the DBPP's interest rate risk, appropriate guidelines on the weighting and duration for fixed income investments are set by the Board of Directors and monitored by the investment managers on a quarterly basis. As at December 31, 2017, DBPP did not hold any investments that would result in interest rate risk to the Plan. At December 31, 2016, if the prevailing interest rates were raised or lowered by 100 basis points, with all other factors held constant, net assets at December 31, 2016 would likely have decreased or increased, respectively, by approximately $1,169,000.

As annuity payments into DBPP are based upon specific pension payments there is no impact of changes in the interest rates to cash flows. The fair value of the annuity will change as a result of changes in the valuation on a solvency basis. The fair value will increase by $2,158,000 for 1 percent decrease in the discount rate.

(ii) Foreign currency risk:

Foreign currency exposure arises from the DBPP holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. The DBPP and its investment managers have the ability to utilize derivative instruments to mitigate foreign currency risk, subject to the approval of the Board of Directors. At December 31, 2017, the DBPP is exposed to fluctuations in the U.S. dollar, British Pound, Euros, Japanese Yen, Swiss Franc and other currencies.

8. Risk management (continued):

The DBPP's exposure to foreign currencies to Canadian dollars is shown below:

As at December 31, 2017	Actual currency exposure	%
Canadian	$ 53,147,598	67.10
U.S. dollar	12,961,307	16.33
British Pound	3,018,218	3.80
Euros	3,753,478	4.73
Japanese Yen	1,185,678	1.49
Swiss Franc	686,150	0.86
Other currencies	4,515,399	5.69
	$ 79,267,828	100.00

As at December 31, 2016	Actual currency exposure	%
Canadian	$ 51,154,211	69.56
U.S. dollar	12,480,123	16.97
British Pound	2,224,528	3.02
Euros	3,191,752	4.34
Japanese Yen	1,398,889	1.90
Swiss Franc	719,429	0.98
Other currencies	2,376,399	3.23
	$ 73,545,331	100.00

A 10 percent increase or decrease in exchange rates at December 31, 2017, with all other variables held constant, would have resulted in a change in unrealized gains (losses) of approximately $2,612,000 (2016 - $2,239,000).

(iii) Other price risk:

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

LUTHERAN CHURCH - CANADA PENSION PLAN

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

8. Risk management (continued):

To manage the DBPP's other price risk, appropriate guidelines on asset diversification to address specific security, geographic, sector and investment manager risks are set by the Board of Directors and monitored by the investment managers on a quarterly basis. As at December 31, 2017, a decline of 10 percent in equity values, with all other variables held constant, would have impacted the DBPP's equity investments by an approximate unrealized loss of $4,388,000 (2016 - $4,416,000).

(b) Credit risk:

The DBPP is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. All transactions in listed securities are settled upon delivery using approved investment managers. The risk of default is considered minimal, as delivery of securities sold is only made once the investment manager has received payment. Payment is made on a purchase once the securities have been received by the investment manager. The trade will fail if either party fails to meet its obligation. The DBPP utilized multiple counterparties and those that have a high credit rating in order to minimize credit risk. The breakdown of the DBPP's fixed income portfolio by credit ratings from various rating agencies is presented below:

	2017		2016	
Credit rating	Fair value	Coupon rate	Fair value	Coupon rate
AAA	$ –	–	$ 7,504,124	2.5%
AA	–	–	5,267,345	3.5%
A	–	–	4,744,286	4.5%
	$ –	–	$ 17,515,755	

The annuity has limited credit risk as it was purchased from a Canadian insurance company with a S&P rating of AA and the insurance company is a member of Assuris. Assuris is a not-for-profit organization that protects Canadian policyholders should their life insurance company fail to meet its obligations to participants. Every life insurance company authorized to sell insurance policies in Canada is require by the federal, provincial and territories regulators, to become a member of Assuris. Credit risk associated with contributions receivable is minimized due to their nature. No provision for doubtful contributions has been recorded in either 2017 or 2016.

8. Risk management (continued):

(c) Liquidity risk:

Liquidity risk is the possibility that investments in the DBPP cannot be readily converted into cash when required. The DBPP may be subject to liquidity constraints because of insufficient volume in the markets for the securities of the DBPP or the securities may be subject to legal or contractual restrictions on their resale. Liquidity risk is managed by investing the majority of the DBPP's assets, other than the annuity, in investments that are traded in an active market and can be readily disposed. The annuity has limited liquidity risk as annuity receipts are intended to match outgoing retiree payments for a portion of the DBPP membership.

The table below summarizes the fair value by the earliest contractual maturity of the DBPP's fixed income investments:

	2017	2016
Less than one year	$ –	$ 1,486,157
One to five years	–	7,242,649
After five years	–	8,786,949
Total fair value	$ –	$ 17,515,755

9. Fair value of financial instruments:

The determination of the fair value of investments is as described in note 2(c) with fair values of investments disclosed in note 3.

The DBPP's assets which are recorded at fair value have been categorized into three levels, depending on the inputs used for valuation. The hierarchy of inputs is summarized below:

Level 1 quoted prices in active markets for identical assets or liabilities;

Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs for the asset or liability that are not based on observable market data

LUTHERAN CHURCH - CANADA PENSION PLAN

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

9. Fair value of financial instruments (continued):

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following is a summary of the inputs used as of December 31 in valuing the DBPP's investments:

December 31, 2017	Level 1	Level 2	Level 3	Total
Cash	$ 393,060	$ –	$ –	$ 393,060
Pooled funds:				
Canadian equities	–	17,649,103	–	17,649,103
Foreign equities	–	26,235,153	–	26,235,153
Mortgages	–	8,883,000	–	8,883,000
Real estate	–	–	4,524,107	4,524,107
Buy-in annuity	–	–	21,516,945	21,516,945
Alternative investments	–	–	66,460	66,460
	$ 393,060	$ 52,767,256	$ 26,107,512	$ 79,267,828

December 31, 2016	Level 1	Level 2	Level 3	Total
Cash	$ 270,258	$ –	$ –	$ 270,258
Pooled funds:				
Short-term investments	–	1,504,835	–	1,504,835
Bonds	–	16,010,920	–	16,010,920
Canadian equities	–	21,485,197	–	21,485,197
Foreign equities	–	22,673,297	–	22,673,297
Mortgages	–	9,000,000	–	9,000,000
Real estate	–	–	2,487,750	2,487,750
Alternative investments	–	–	113,074	113,074
	$ 270,258	$ 70,674,249	$ 2,600,824	$ 73,545,331

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9. Fair value of financial instruments (continued):

At December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2.

The reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

Balance, December 31, 2015	$	140,477
Purchases		2,400,000
Current period change in fair value of investments		60,347
Balance, December 31, 2016		2,600,824
Purchases		24,046,734
Payments made by insurer of annuity		(961,357)
Current period change in fair value of investments		421,311
Balance, December 31, 2017	$	26,107,512