Financial Statements of

LUTHERAN CHURCH - CANADA PENSION PLAN

And Independent Auditor’s Report thereon

Year ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Lutheran Church - Canada

Opinion

We have audited the financial statements of Lutheran Church - Canada Pension Plan (the "Entity"), which comprise the statement of financial position as at December 31, 2022, the statements of changes in net assets available for benefits and changes in pension obligations - defined benefit plan for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2022, and its changes in net assets available for benefits and its changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

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 auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada 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.

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 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.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’s financial reporting process.

Auditor’s Responsibilities for the Audit of 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 the 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 Entity'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 Entity'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 Entity 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.

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

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada
June 26, 2023

LUTHERAN CHURCH - CANADA PENSION PLAN

Statement of Financial Position

December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Cash	$ 1,131,826	$ 1,536,170
Accounts receivable	32,903	69,100
Goods and services taxes receivable	5,748	6,693
	1,170,477	1,611,963
Investments (note 3)	37,792,502	93,198,297
	38,962,979	94,810,260
Liabilities		
Accounts payable and accrued liabilities	115,320	320,681
Payable to LCC Worker Benefit Services Inc.	134,077	250,977
	249,397	571,658
Net assets available for benefits - defined benefit plan	38,713,582	94,238,602
Actuarial value of pension obligations - defined benefit plan (note 4)	34,378,030	87,726,568
Subsquent event (note 9)		
Excess of net assets available for benefits over pension obligations - defined benefit plan	$ 4,335,552	$ 6,512,034

See accompanying notes to financial statements.

On behalf of the Board:

GK Henderson Director

Director

LUTHERAN CHURCH - CANADA PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2022, with comparative information for 2021

	2022			2021		
	Defined benefit plan	Defined contribution plan	Total	Defined benefit plan	Defined contribution plan	Total
Increase in assets:						
Contributions - employer	$ 2,139,165	$ 1,116,073	$ 3,255,238	$ 1,995,606	$ 1,091,229	$ 3,086,835
Contributions - employee	29,839	919,699	949,538	35,372	925,860	961,232
Investment income - pooled funds	1,148,748	–	1,148,748	1,837,825	–	1,837,825
Change in fair value of annuity	2,596,671	–	2,596,671	1,018,656	–	1,018,656
Realized investment gains, net of realized losses	2,101,488	–	2,101,488	9,398,698	–	9,398,698
	8,015,911	2,035,772	10,051,683	14,286,157	2,017,089	16,303,246
Decrease in assets:						
Unrealized investment losses, net of unrealized gains	4,468,769	–	4,468,769	2,444,858	–	2,444,858
Pension benefits paid	3,734,271	2,035,772	5,770,043	3,935,765	2,017,089	5,952,854
Lump sum transfers to members	105,459	–	105,459	876,592	–	876,592
Buy-out annuity (note 3)	54,585,144	–	54,585,144	–	–	–
Administration expenses (note 5)	647,288	–	647,288	653,656	–	653,656
	63,540,931	2,035,772	66,576,703	7,910,871	2,017,089	9,927,960
Increase (decrease) in net assets	(55,525,020)	–	(55,525,020)	6,375,286	–	6,375,286
Net assets available for benefits, beginning of year	94,238,602	–	94,238,602	87,863,316	–	87,863,316
Net assets available for benefits, end of year	$ 38,713,582	$ –	$ 38,713,582	$ 94,238,602	$ –	$ 94,238,602

See accompanying notes to financial statements.

LUTHERAN CHURCH - CANADA PENSION PLAN

Statement of Revenue and Expenditures and Net Assets

Year ended December 31, 2022, with comparative information for 2021

	2022			2021		
	Pension Obligations			Pension Obligations		
	Going concern	Buy-in annuity	Total	Going concern	Buy-in annuity	Total
Actuarial value of obligations, beginning of year	$ 36,174,336	$ 51,552,232	$ 87,726,568	$ 60,791,375	$ 18,912,575	$ 79,703,950
Purchase of buy-in annuity	(3,493,000)	4,011,020	518,020	(25,882,678)	34,288,449	8,405,771
Benefits accrued	126,817	–	126,817	150,332	–	150,332
Benefits paid	(318,387)	(3,521,343)	(3,839,730)	(2,525,206)	(2,287,150)	(4,812,356)
Interest on accrued benefits	1,888,264	2,543,236	4,431,499	3,640,513	855,374	4,495,887
Effect of experience losses	–	–	–	–	(217,016)	(217,016)
Conversion to buy-out annuity (notes 3 and 4)	–	(54,585,144)	(54,585,144)	–	–	–
Actuarial value of obligations, end of year	$ 34,378,030	$ –	$ 34,378,030	$ 36,174,336	$ 51,552,232	$ 87,726,568

See accompanying notes to financial statements.

LUTHERAN CHURCH - CANADA PENSION PLAN

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 benefits will continue to grow from 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. Effective January 1, 2013, these members were required to make contributions of 4 percent of earnings to the DBPP, prior to that the plan had been non-contributory.

During fiscal 2020, the Plan received approval from the Alberta Regulator to be registered as a Non-Collectively Bargained Multi-Employer Pension Plan (NCBMEPP), which is how the plan for a number of years had administratively and functionally operated. The intent of receiving this formal designation was to ensure all employers understand their rights and obligations. The designation clarifies that each employer in the plan is responsible for funding the pension obligation of the church workers that served them, for the time that they served. The biggest implication for members occurs when an employer withdraws from the plan and is unable to pay their funding shortfall. Members in this case will have their benefits reduced based proportionally on the assets that are available.

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 Text.

(a) General:

The DBPP is a 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 PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2022

1. Description of Plans (continued):

(c) Service pension:

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

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:

Vesting is immediate, meaning members are immediately entitled to the total pension benefits earned to their 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.

(j) 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 plan text.

(b) Funding policy:

Employers are required to contribute 6 percent of a members' compensation to the DCPP and members' are also required to make required contributions of 4 percent of compensation to the DCPP. Members may also make optional contributions up to a maximum of 4 percent of compensation by regular payroll deduction.

(c) Income taxes:

The DCPP is a 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, 2022 for the DBPP is an estimate based on the extrapolation of the actuarial valuation as of December 31, 2019. The extrapolation of the actuarial valuation indicates that the DBPP has a going concern surplus of $4,585,000 (2021 - $1,052,000) and a statutory solvency excess of $2,011,846 (2021 – statutory solvency deficiency of $5,982,000) at December 31, 2022.

(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.

2. Significant accounting policies (continued):

(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.

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.

2. Significant accounting policies (continued):

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.

(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.

2. Significant accounting policies (continued):

(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:

	2022	2021
Pooled funds:		
Canadian equities	$ 8,985,083	$ 10,065,101
Foreign equities	14,064,531	14,080,956
Real estate	6,679,194	6,218,548
Mortgages	8,008,417	11,198,751
Buy-in annuity	–	51,552,232
Alternative investments	55,277	82,709
	$ 37,792,502	$ 93,198,297

The DBPP had invested in a buy-in annuity for retirees where future cash flows from the annuity would match the amount and timing of benefits payable by the DBPP, substantially mitigating the exposure to future volatility in the related pension obligation associated with the annuity. The buy-in annuity was valued on a solvency basis.

During fiscal 2022, DBPP purchased an additional buy-in annuity for retirees for $4,011,020 (2021 - 34,288,449) valued on a solvency basis. During fiscal 2022, the buy-in annuity aggregating $54,585,144 was converted into a group annuity buy-out. A buy-out annuity is a contract under which the benefit liability risks are transferred from DBPP to the insurer. As a result, the investments and related pension obligations at the value of the buy-out annuity of $54,585,144 was transferred to the insurer during fiscal 2022.

4. Pension obligations - DBPP:

The extrapolation of the actuarial value of pension obligations of DBPP at December 31, 2022 (extrapolated form the most recently completed and filed actuarial valuation at December 31, 2019) 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 next valuation will be filed effective March 31, 2023 (note 9).

The buy-in annuity which was included in the obligation was valued on a solvency basis to match the value of the buy-in annuity investment, which was also valued on a solvency basis. During the year ended December 31, 2022, the buy-in annuity was converted into a buy-out annuity and transferred to the insurer (note 3).

The assumptions used in the going concern actuarial value of pension obligations are 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 (2021 - 2.75 percent); and

(b) the discount rate for accrued pension benefits and the asset rate of return were assumed to be 5.50 percent (2021 - 5.50 percent).

Since the intention is that the DBPP will continue into the future indefinitely, the obligations of the DBPP, excluding the portion related to the buy-in annuity, 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.

The assumptions used in the actuarial value of pension obligations for the buy-in annuity at December 31, 2021 were based on solvency assumptions with a discount rate of 2.83 percent.

During fiscal 2022, the Plan had entered into Participating Employer Withdrawal Agreements with four employers (2021 - five employers) which specifically quantified the covenants agreed upon for facilitating the withdrawal as a participating employer in the Plan. In accordance with the Participating Employer Withdrawal Agreements, the employers made a contribution for their share of the actuarial value of pension obligations which was reflected as a withdrawal from the Plan in the respective fiscal year.

LUTHERAN CHURCH - CANADA PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2022

4. Pension obligations - DBPP (continued):

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 five year moving average market method. Under this method, all experience gains and losses are averaged over a five year period.

The financial position at December 31, 2022 is an estimate based on the most recent filed actuarial valuation report as at December 31, 2019. The extrapolation of the actuarial valuation report at December 31, 2022 indicates that there is a going concern surplus of $4,585,000 (2021 - $1,052,000). The going concern surplus is calculated utilizing the average fair value of assets for the last five fiscal years which resulted in an increase of $249,000 (2021 - reduction of $5,460,000) from the net assets available for benefits as disclosed in the statement of financial position. The extrapolation of the actuarial valuation report at December 31, 2022 also indicated that there was a statutory solvency excess of $2,011,846 (2021 - statutory solvency deficiency of $5,982,000).

5. Administration expenses - DBPP:

	2022	2021
Investment management fees	$ 189,138	$ 234,444
Custodial fees	48,673	44,399
Consulting fees	141,865	112,770
Salaries and benefits	126,812	120,977
Legal	22,757	24,643
Other	118,043	116,423
	$ 647,288	$ 653,656

5. Administration expenses - DBPP (continued):

Administration expenses, except for investment management fees, custodial fees, consulting fees, and legal 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.

6. 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 (SIPP), which is reviewed every two years by the Board of Directors of LCC Worker Benefit Services Inc. The Board of Directors of LCC Worker Benefit Services Inc. 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, and
- 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.

7. 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. The COVID-19 pandemic and the geopolitical situation in Europe have created global economic disruption and uncertainty. The Plan is monitoring developments relating to these events and continuing to assess the ongoing impact on the Plan’s investments. The situation is dynamic and ultimate duration and magnitude of the impact on the economy and the financial effect on the Plan is not known at this time.

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, 2022 and December 31, 2021, DBPP did not hold any investments that would result in interest rate risk to the Plan.

(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.

7. Risk management (continued):

At December 31, 2022, the DBPP is exposed to fluctuations in the U.S. dollar, British Pound, Euros, Japanese Yen, Swiss Franc and other currencies.

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

As at December 31, 2022	Actual currency exposure	%
Canadian	$ 25,196,841	64.74
U.S. dollar	6,591,451	16.93
British Pound	1,441,185	3.70
Euros	2,860,757	7.35
Japanese Yen	555,835	1.43
Swiss Franc	207,313	0.53
Other currencies	2,070,946	5.32
	$ 38,924,328	100.00

As at December 31, 2021	Actual currency exposure	%
Canadian	$ 80,781,427	85.27
U.S. dollar	7,279,786	7.68
British Pound	1,117,191	1.18
Euros	2,251,936	2.38
Japanese Yen	432,037	0.46
Swiss Franc	401,375	0.42
Other currencies	2,470,715	2.61
	$ 94,734,467	100.00

A 10 percent increase or decrease in exchange rates at December 31, 2022, with all other variables held constant, would have resulted in a change in unrealized gains (losses) of approximately $1,373,000 (2021 - $1,395,000).

(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).

7. 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, 2022, 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 $2,304,961 (2021 - $2,415,000).

(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 utilizes multiple counterparties and those that have a high credit rating in order to minimize credit risk.

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 2022 or 2021.

(c) Liquidity risk:

Liquidity risk is the possibility that investments in the DBPP cannot be readily converted into cash when required under both normal and stressed conditions. 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.

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8. 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.

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 cash and investments:

December 31, 2022	Level 1	Level 2	Level 3	Total
Cash	$ 1,131,826	$ –	$ –	$ 1,131,826
Pooled funds:				
Canadian equities	–	8,985,083	–	8,985,083
Foreign equities	–	14,064,531	–	14,064,531
Mortgages	–	8,008,417	–	8,008,417
Real estate	–	–	6,679,194	6,679,194
Alternative investments	–	–	55,277	55,277
	$ 1,131,826	$ 31,058,031	$ 6,734,471	$ 38,924,328

December 31, 2021	Level 1	Level 2	Level 3	Total
Cash	$ 1,536,170	$ –	$ –	$ 1,536,170
Pooled funds:				
Canadian equities	–	10,065,101	–	10,065,101
Foreign equities	–	14,080,956	–	14,080,956
Mortgages	–	11,198,751	–	11,198,751
Real estate	–	–	6,218,548	6,218,548
Buy-in annuity	–	–	51,552,232	51,552,232
Alternative investments	–	–	82,709	82,709
	$ 1,536,170	$ 35,344,808	$ 57,853,489	$ 94,734,467

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Notes to Financial Statements (continued)

Year ended December 31, 2022

8. Fair value of financial instruments (continued):

At December 31, 2022 and 2021, 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, 2020	$ 24,206,256
Purchases	36,917,859
Disposals	(2,600,000)
Payments made by insurer of annuity	(2,287,199)
Current period change in fair value of investments	1,616,573
Balance, December 31, 2021	57,853,489
Purchases	4,011,020
Payments made by insurer of annuity	(3,521,343)
Current period change in fair value of investments	2,976,449
Conversion to buy-out annuity	(54,585,144)
Balance, December 31, 2022	$ 6,734,471

9. Subsequent event:

In June 2022, the convention delegates of LCC passed a resolution based on the recommendation of the Board of Directors of LCC to enter into a Memorandum of Agreement (MOA) with Colleges of Applied Arts and Technology Pension Plan (CAAT) to merge the DBPP into CAAT. The participating employers of the DBPP have appointed LCC to facilitate the merger with CAAT.

In September 2022, LCC entered into a MOA with CAAT to merge the DBPP into CAAT with an effective date of April 1, 2023. In March 2023, LCC signed a participation agreement with CAAT which included a listing of participating employers of the DBPP. The active and inactive members of the DBPP have also unanimously consented to the merger.

The merger with CAAT and transfer of the assets of the DBPP to CAAT requires approval from the Alberta Pension Regulator with approval expected by late August or early September 2023. The pension obligation on transfer is not expected to be materially different from the pension obligation at December 31, 2022.

Once the DBPP assets are transferred to CAAT, LCC will proceed with a full-wind up of the Plan and begin the process of transferring members their DCPP assets. The full-wind up of the Plan is expected to occur before the end of fiscal 2023.