

**LUTHERAN CHURCH - CANADA,
EAST DISTRICT**

FINANCIAL STATEMENTS

JANUARY 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lutheran Church - Canada,
East District
Kitchener, Ontario

Report on the Financial Statements

We have audited the accompanying financial statements of **Lutheran Church - Canada, East District**, which comprise the statements of financial position as at **January 31, 2016** and the statements of operations, changes in fund balances (deficits) and cash flows for the year then ended and 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 not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 the auditors' 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, the auditor considers 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 is sufficient and appropriate to provide a basis for our qualified audit opinion.

INDEPENDENT AUDITORS' REPORT - continued

Basis for Qualified Opinion

In common with many charitable organizations, the organization derives cash revenue, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the organization. Therefore, we were not able to determine whether any adjustments might be necessary to revenue, excess of revenue over expenditures, cash flows from operations, assets and net assets.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of **Lutheran Church - Canada, East District** as at **January 31, 2016** and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Fammet Co.

Professional Corporation
Chartered Professional Accountants
*Authorized to practise public accounting by
the Chartered Professional Accountants of Ontario*

Stratford, Ontario
April 4, 2016

Lutheran Church - Canada, East District
Statement of Financial Position
As at January 31, 2016

ASSETS

	Current Fund		Church Extension Fund		Endowment Fund	Total All Funds	
	Unrestricted	Restricted	Unrestricted	Restricted	2016	2015	
Current Assets							
Cash	\$ 225,961	\$ -	\$ 1,512,844	\$ -	\$ -	\$ 1,738,805	\$ 3,273,757
Accounts receivable	151,982	-	-	-	-	151,982	104,923
Interest receivable	-	-	253,823	-	-	253,823	298,688
Prepaid expenses	38,893	-	-	-	-	38,893	35,512
HST receivable	15,995	-	-	-	-	15,995	26,734
Non-Current Assets							
Investments (Note 4)	570,000	-	22,405,330	-	-	22,975,330	21,748,081
Church Extension Fund loans (Note 5)	-	-	6,983,575	-	-	6,983,575	7,240,584
Advance sites (Note 6)	-	-	38,963	-	-	38,963	52,020
Property, plant and equipment (Note 8)	188,382	-	14,791	-	-	203,173	209,765
Other properties (Note 7)	-	-	1,831,745	-	-	1,831,745	1,944,643
Due from Current Fund - Unrestricted	-	634,367	599,544	-	119,980	1,353,891	1,481,802
Due from Endowment Fund	-	-	-	-	-	-	5,362
	<u>\$ 1,191,213</u>	<u>\$ 634,367</u>	<u>\$ 33,640,615</u>	<u>\$ 119,980</u>	<u>\$ 35,586,175</u>	<u>\$ 36,421,871</u>	

Approved on Behalf of the Board:

Director

Director

(See Accompanying Notes to the Financial Statements)

Lutheran Church - Canada, East District
Statement of Financial Position
As at January 31, 2016

LIABILITIES AND FUND BALANCES

	Current Fund			Church Extension Fund		Endowment Fund	Total All Funds	
	Unrestricted	Restricted		Fund	Fund	Fund	2016	2015
Current Liabilities								
Accounts payable	\$ 26,079	\$ -	\$ 51,322	\$ -	\$ -	\$ -	\$ 77,401	\$ 661,775
Interest payable	-	-	428,753	-	-	-	428,753	382,904
Accounts payable - Department for Outreach	-	-	990,902	-	-	-	990,902	1,403,571
Long-Term Liabilities								
Savings stamps (Note 9)	-	-	45,886	-	-	-	45,886	46,121
Savings deposits (Note 9)	-	-	3,315,152	-	-	-	3,315,152	2,759,804
Notes and savings certificates (Note 9)	-	-	25,182,693	-	-	-	25,182,693	23,517,772
Due to Current Fund - Restricted	634,367	-	-	-	-	-	634,367	686,337
Due to Church Extension Fund	599,544	-	-	-	-	-	599,544	800,827
Due to Endowment Fund	119,980	-	-	-	-	-	119,980	-
	1,379,970	-	30,014,708	-	-	-	31,394,678	30,259,111
	(188,757)	634,367	3,625,907	119,980			4,191,497	6,162,760
Fund Balances (Deficit)	\$ 1,191,213	\$ 634,367	\$ 33,640,615	\$ 119,980	\$ -	\$ -	\$ 35,586,175	\$ 36,421,871

(See Accompanying Notes to the Financial Statements)

Lutheran Church - Canada, East District
Statement of Changes in Fund Balances (Deficit)

For the year ended January 31, 2016

	Current Fund		Church Extension		Endowment Fund		Total All Funds	
	Unrestricted	Restricted	Fund	Fund	Fund	Fund	2016	2015
Fund balances - beginning of year	\$ 81,439	\$ 681,718	\$ 5,279,623	\$ 119,980	\$ 119,980	\$ 6,162,760	\$ 5,941,261	
Increase (decrease) in fund balances for the year	<u>(270,196)</u>	<u>(47,351)</u>	<u>(1,653,716)</u>	-	-	<u>(1,971,263)</u>	<u>221,499</u>	
Fund balances (deficit) - end of year	<u>\$ (188,757)</u>	<u>\$ 634,367</u>	<u>\$ 3,625,907</u>	<u>\$ 119,980</u>	<u>\$ 119,980</u>	<u>\$ 4,191,497</u>	<u>\$ 6,162,760</u>	

(See Accompanying Notes to the Financial Statements)

Lutheran Church - Canada, East District
Statement of Operations

For the year ended January 31, 2016

	Current Fund		Church		Endowment Fund	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund		2016	2015
Support, Revenue and Other Additions							
Support							
District congregations	\$ 1,013,995	\$ -	\$ -	\$ -	\$ -	\$ 1,013,995	\$ 1,059,377
World mission projects	33,479	-	-	-	-	33,479	34,554
Housing grant - (Note 10)	50,000	-	-	-	-	50,000	50,000
Special missions	1,930	-	-	-	-	1,930	2,095
Revenue							
Individuals and agencies	23,318	12,587	-	-	-	35,905	226,493
Interest income - loans	-	-	263,914	-	-	263,914	310,176
Investment income and market value appreciation of investments (Note 3(c))	648	19,669	-	-	-	20,317	1,848,660
Moving assessments	-	3,187	-	-	-	3,187	7,970
Realized gains on investments	-	-	237,628	-	-	237,628	250,303
Net gain on disposal of Church Extension Fund properties	-	-	32,142	-	-	32,142	-
Other	<u>8,478</u>	<u>3,288</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,766</u>	<u>5,961</u>
	<u>1,131,848</u>	<u>38,731</u>	<u>533,684</u>	<u>-</u>	<u>-</u>	<u>1,704,263</u>	<u>3,795,589</u>

(See Accompanying Notes to the Financial Statements)

Lutheran Church - Canada, East District
Statement of Operations
For the year ended January 31, 2016

	Current Fund		Church		Endowment Fund	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund		2016	2015
Balance carried forward	\$ 1,131,848	\$ 38,731	\$ 533,684	\$ -	\$ -	\$ 1,704,263	\$ 3,795,589
Expenditures and Other Deductions							
Designated							
Lutheran Church - Canada	529,800	-	-	-	-	529,800	500,871
World mission projects	25,040	-	-	-	-	25,040	34,554
Grant to unrestricted (Outreach) (Note 10)	-	-	50,000	-	-	50,000	50,000
Program Services							
Missions and ministries	464,628	-	-	-	-	464,628	352,638
Parish services	11,724	-	-	-	-	11,724	10,057
Special projects	2,803	86,082	-	-	-	88,885	36,398
Surplus allocation to							
Department for Outreach (Note 12)	-	-	-	-	-	-	392,670
Administration	364,817	-	-	-	-	364,817	343,187
Amortization	3,232	-	5,743	-	-	8,975	8,758
Operations - Church Extension Fund	-	-	321,562	-	-	321,562	220,436
Interest	-	-	986,732	-	-	986,732	907,374
Lutheran Service Book	-	-	7,980	-	-	7,980	-
Market value depreciation of investments (Note 3(c))	-	-	686,246	-	-	686,246	-
Surplus allocation to							
member congregations (Note 12)	-	-	14,330	-	-	14,330	490,837
Write-down on interest receivable	-	-	-	-	-	-	226,310
Surplus allocation to							
subsidized properties (Note 12)	-	-	14,807	-	-	14,807	-
Contribution to Lutheran Church Canada	-	-	100,000	-	-	100,000	-
	<u>1,402,044</u>	<u>86,082</u>	<u>2,187,400</u>	<u>-</u>	<u>-</u>	<u>3,675,526</u>	<u>3,574,090</u>
Increase (decrease) in fund balances for the year	\$ <u>(270,196)</u>	\$ <u>(47,351)</u>	\$ <u>(1,653,716)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(1,971,263)</u>	\$ <u>221,499</u>

(See Accompanying Notes to the Financial Statements)

Lutheran Church - Canada, East District
Statement of Cash Flows

For the year ended January 31, 2016

	Current Fund		Church		Endowment Fund	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund		2016	2015
Cash Provided By (Used In):							
Operating Activities							
Increase (decrease) in fund balances for the year	\$ (270,196)	\$ (47,351)	\$ (1,653,716)	\$ -	\$ -	\$ (1,971,263)	\$ 221,499
Decrease (increase) in accounts receivable	(49,425)	-	2,366	-	-	(47,059)	(17,439)
Decrease (increase) in interest receivable	-	-	44,067	798	-	44,865	231,928
Decrease (increase) in prepaid expenses	(3,381)	-	-	-	-	(3,381)	(2,615)
Decrease (increase) in HST receivable	10,739	-	-	-	-	10,739	6,027
Increase (decrease) in accounts payable	11,823	(4,619)	(591,578)	-	-	(584,374)	447,448
Increase (decrease) in interest payable	-	-	45,849	-	-	45,849	36,684
Increase (decrease) in accounts payable	-	-	(412,669)	-	-	(412,669)	392,670
Department for Outreach	3,232	-	5,743	-	-	8,975	8,758
Amortization	-	-	(32,142)	-	-	(32,142)	-
Gain on disposal of parsonage	(297,208)	(51,970)	(2,592,080)	798	-	(2,940,460)	1,324,960
Investing Activities							
Decrease in loans receivable	-	-	257,009	-	-	257,009	1,744,081
Proceeds from advance sites	-	-	45,000	-	-	45,000	-
Decrease (increase) in other properties	-	-	(17,168)	-	-	(17,168)	1,650
Purchase property, plant and equipment	(2,383)	-	-	-	-	(2,383)	(5,834)
Proceeds from disposal of parsonage	-	-	132,125	-	-	132,125	-
Increase in advance sites	-	-	(1,860)	-	-	(1,860)	-
	(2,383)	-	415,106	-	-	412,723	1,739,897
	(299,591)	(51,970)	(2,176,974)	798	-	(2,527,737)	3,064,857

(See Accompanying Notes to the Financial Statements)

Lutheran Church - Canada, East District
Statement of Cash Flows
For the year ended January 31, 2016

	Current Fund		Church		Endowment Fund	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund		2016	2015
Balance carried forward	\$ (299,591)	\$ (51,970)	\$ (2,176,974)	\$ 798	\$ (2,527,737)	\$ 3,064,857	
Financing Activities							
Increase (decrease) in savings stamps	-	-	(235)	-	(235)	27	
Increase (decrease) in savings deposits	-	-	555,348	-	555,348	(316,443)	
Proceeds from notes and savings certificates	-	-	1,664,921	-	1,664,921	2,682,230	
	-	-	2,220,034	-	2,220,034	2,365,814	
Increase (decrease) in cash and cash equivalents	(299,591)	(51,970)	43,060	798	(307,703)	5,430,671	
Cash and cash equivalents - beginning of year	(258,339)	686,337	24,474,658	119,182	25,021,838	19,591,167	
Cash and cash equivalents - end of year	<u>(557,930)</u>	<u>634,367</u>	<u>24,517,718</u>	<u>119,980</u>	<u>24,714,135</u>	<u>25,021,838</u>	
Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents comprise the following statement of financial position balances:							
Cash	225,961	-	1,512,844	-	1,738,805	3,273,757	
Investments	570,000	-	22,405,330	-	22,975,330	21,748,081	
Due from (to) other funds	(1,353,891)	634,367	599,544	119,980	-	-	
	<u>(557,930)</u>	<u>634,367</u>	<u>24,517,718</u>	<u>119,980</u>	<u>24,714,135</u>	<u>25,021,838</u>	

(See Accompanying Notes to the Financial Statements)

Lutheran Church - Canada, East District
Notes to the Financial Statements
For the year ended January 31, 2016

1. Purpose of the Organization

The Lutheran Church - Canada, East District advances funds to congregations or mission stations which may be admitted to membership and builds, founds and establishes churches and other institutions, all for the purpose of preaching the Gospel of Jesus Christ. The organization provides guidance and instruction for growth of the Christian faith in Ontario, Quebec and the Atlantic provinces of Canada.

The organization is a registered charity which is not taxable under Section 149(1)(f) of the Income Tax Act and may issue income tax receipts to donors.

2. Fund Accounting

The Lutheran Church - Canada, East District uses Fund accounting in these financial statements. The purpose of each individual Fund is as follows:

(a) Unrestricted General Fund

To administer the receipt and disbursement of general donor designated mission contributions within the congregations for the general support of District and Synodical mission programs as well as administrative costs.

(b) Restricted Fund

To administer the receipt and disbursement of specifically designated Funds by groups and individuals. These Funds may be designated by the individual, Board of Directors or the Lutheran Church - Canada, East District Handbook. The disbursements are made in accordance with the designation of each specific gift or Fund.

(c) Church Extension Fund

This Fund is to receive member investor dollars to support low-cost financing of new construction or major repairs for congregations or for other building projects related to the ministry of a congregation or the district or to address other financial needs identified by the Board of Directors which impact on the mission and ministry of the East District. The expenditures from this Fund are generally the costs associated with the operation of this Fund including an allocation of administrative costs associated with the operation of this Fund.

(d) Endowment Fund

To administer the receipt of special donor or Board-designated Funds to provide for the long-term support of Funds to the Unrestricted Fund. The principal investment is to remain intact and the earnings from this investment are used annually to support the work carried out in the Unrestricted Fund.

Lutheran Church - Canada, East District
Notes to the Financial Statements
For the year ended January 31, 2016

3. Accounting Policies

These financial statements have been prepared from information available within the guidelines of Canadian accounting standards for not-for-profit organizations summarized below:

(a) Fund Accounting

Lutheran Church - Canada, East District follows the restricted Fund method of accounting for contributions.

(b) Amortization

Amortization of buildings, furniture and equipment is calculated using the straight-line method at the annual rates of 5% for buildings and 20% for furniture and equipment.

(c) Investments

Investments in the Current - Unrestricted, Current - Restricted and Church Extension funds are recorded at quoted market values that represent fair value. The change in value is recognized in the statement of operations in the year in which the change occurs at the quoted market price.

Investments in the Endowment fund have been recorded at cost due to the long-term nature of these investments and the restrictions on the fund.

(d) Advance Sites and Other Properties

Advance sites and other properties are recorded at cost. Cost includes the original cost of the property as well as applicable legal fees, taxes and disbursements associated with the purchase. Where a property is rented out to third parties, the related income and expenses are charged against the fund balance during the year.

Current market value of the advance sites may be different from the present carrying value. No adjustment has been recorded to the carrying value.

(e) Pension Plan

The pension plan is a single-employer plan and it covers full-time employees. The cost of the pension benefits is the employer's required contribution provided in exchange for the employees' services rendered in the year.

(f) Contributed Services

Volunteers contribute significant hours to assist Lutheran Church - Canada, East District in carrying out its service delivery activities. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

(g) Revenue Recognition

The organization follows the deferral method of accounting for contributions. Revenue which contains conditions as to its use (restricted contributions) is deferred until the conditions are fulfilled. Revenue not containing conditions as to its use is recognized when received.

Lutheran Church - Canada, East District

Notes to the Financial Statements

For the year ended January 31, 2016

3. Accounting Policies (continued)

(h) Use of Estimates

Preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that could affect amounts reported as assets, liabilities, revenues and expenses. Due to measurement uncertainty, results could differ from those estimates.

(i) Financial Instruments

A financial asset is any asset that is cash; a contractual right to receive cash from another party; or an equity instrument of another entity. A financial liability is any liability that is a contractual obligation to deliver cash to another party.

Financial assets and liabilities are initially measured at fair value, except for certain non-arm's length transactions. Subsequently, financial assets and financial liabilities are measured at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in excess of revenue over expenditures.

4. Investments

Details of the investments are as follows:

	Interest Rate	Maturity Date	Recorded Value	
			2016	2015
Guaranteed Investment Certificates, Commercial Paper and Treasury Bills	0.40% to 3.5%	08/10/16 to 12/31/16	\$ 603,296	\$ 894,032
Lutheran Foundation Canada - Equities and bonds (at Fair Market Value)			4,072,277	4,207,080
FI Capital Ltd. - Equities and bonds (at Fair Market Value)			<u>18,299,757</u>	<u>16,646,969</u>
			<u>\$ 22,975,330</u>	<u>\$ 21,748,081</u>
Allocation:				
Current Fund - Unrestricted			570,000	570,000
Church Extension Fund (at Fair Market Value)			22,405,330	21,137,081
Endowment Fund	Fair Market Value	2016 - \$ 0 2015 - \$ 41,000	<u>-</u>	<u>41,000</u>
			<u>\$ 22,975,330</u>	<u>\$ 21,748,081</u>

Lutheran Church - Canada, East District
Notes to the Financial Statements
For the year ended January 31, 2016

5. Church Extension Fund Loans

Church Extension Fund loans and receivables as at January 31, 2016 are classified as follows:

	Balance			Balance	Interest
	Jan. 31/15	Increase	Decrease	Jan. 31/16	Received
Self-Supporting Congregations - Loans					
Good Shepherd, Barrie					
Loan - Daycare	\$ 1,158,598	\$ -	\$ 43,005	\$ 1,115,593	\$ 39,436
Grace, Pembroke					
Loan - Church	318,799	950	-	319,749	-
Christ The King, Port Rowan					
Loan - Church	194,850	-	-	194,850	6,550
Christ Risen, Kanata					
Loan - Church	34,723	-	4,962	29,761	1,538
Resurrection, St. Catharines					
Loan - Church	10,262	-	2,946	7,316	489
Faith, Kitchener					
Loan - Church	293,364	-	26,086	267,278	15,527
Good Shepherd, London					
Loan - Church	14,942	-	14,942	-	347
Redeemer, Monkton					
Loan - Church	29,749	-	4,518	25,231	1,517
Grace, Oshawa					
Loan - Church	94,039	-	11,165	82,874	4,436
St. John's, Port Colborne					
Loan - Church					
Re: School	4,047	-	4,047	-	54
Redeemer, St. Thomas					
Loan - Church	81,591	-	6,307	75,284	4,314
St. Peter's, Simcoe					
Loan - Church	114,393	-	30,315	84,078	5,476
Messiah, Waterloo					
Loan - Church	297,116	-	13,641	283,475	14,459
First, Windsor					
Loan - Church					
Re: School	<u>964,010</u>	<u>-</u>	<u>40,373</u>	<u>923,637</u>	<u>39,799</u>
	3,610,483	950	202,307	3,409,126	133,942

Lutheran Church - Canada, East District
Notes to the Financial Statements
For the year ended January 31, 2016

5. Church Extension Fund Loans (continued)

	Balance			Balance	Interest
	Jan. 31/15	Increase	Decrease	Jan. 31/16	Received
Self-Supporting Congregations - Loans					
Balance carried forward	\$ 3,610,483	\$ 950	\$ 202,307	\$ 3,409,126	\$ 133,942
Redeemer, Waterloo					
Loan - Church	155,224	200,000	217,559	137,665	10,686
Concordia, Fonthill					
Loan - Church	45,986	-	-	45,986	1,500
Peace, Tillsonburg					
Loan - Church	1,280,676	-	69,415	1,211,261	61,717
Hope, Kitchener					
Loan - Church	821,988	25,000	11,352	835,636	35,341
Grace, Kitchener					
Loan - Church	4,713	-	4,713	-	35
Our Saviour, London					
Loan - Church	5,000	-	-	5,000	-
Pilgrim, Hamilton					
Loan - Church	20,865	-	9,821	11,044	897
Trinity, Niagara-on-the-Lake					
Loan - Church	15,000	5,000	-	20,000	-
Our Saviour, Niagara Falls					
Loan - Church	5,000	10,685	-	15,685	-
Christ, Harrow					
Loan - Church	<u>6,938</u>	<u>-</u>	<u>2,128</u>	<u>4,810</u>	<u>301</u>
	<u>5,971,873</u>	<u>241,635</u>	<u>517,295</u>	<u>5,696,213</u>	<u>244,419</u>
Subsidized Congregations - Loans					
Good Shepherd, Moncton					
Loan - Church	1,130,103	53,673	-	1,183,776	40,193
Southampton, Southampton					
Loan - Church	60,153	-	7,046	53,107	3,246
Redeemer, Sudbury					
Loan - Church	47,489	-	2,628	44,861	2,423
Christ, Timmins					
Loan - Church	<u>30,966</u>	<u>-</u>	<u>25,348</u>	<u>5,618</u>	<u>562</u>
	<u>1,268,711</u>	<u>53,673</u>	<u>35,022</u>	<u>1,287,362</u>	<u>46,424</u>
Total Loans	<u>\$ 7,240,584</u>	<u>\$ 295,308</u>	<u>\$ 552,317</u>	<u>\$ 6,983,575</u>	<u>\$ 290,843</u>

Lutheran Church - Canada, East District
Notes to the Financial Statements
For the year ended January 31, 2016

6. Advance Sites

Advance sites as at January 31, 2016 are classified as follows:

	Balance			Balance
	Jan. 31/15	Increase	Decrease	Jan. 31/16
Gloucester Site, Ottawa	\$ 13,057	\$ 356	\$ 13,413	\$ -
Collingwood, Highway 26	<u>38,963</u>	<u>-</u>	<u>-</u>	<u>38,963</u>
Total	<u>\$ 52,020</u>	<u>\$ 356</u>	<u>\$ 13,413</u>	<u>\$ 38,963</u>

7. Church Extension Fund Properties

Church Extension Fund properties as at January 31, 2016 are classified as follows:

	Balance			Balance
	Jan. 31/15	Increase	Decrease	Jan. 31/16
Properties Leased/Provided to Congregations				
Good Shepherd, Amherstburg				
Support property				
- Parsonage	\$ 129,082	\$ 3,823	\$ 6,448	\$ 126,457
St. Paul's, Cobourg				
Leased property - Church	129,536	3,792	11,043	122,285
Support property				
- Parsonage	129,684	381	130,065	-
Berea-By-The-Water, Goderich				
Leased property - Church	122,317	17,542	3,397	136,462
Grace, Kincardine				
Leased property - Church	371,853	11,087	6,499	376,441
- Parsonage	188,150	5,609	4,391	189,368
Good Shepherd, Moncton				
Leased property - Church	241,264	7,573	2,471	246,366
Living Faith, Orangeville				
Leased property - Church	421,984	12,581	3,372	431,193
Christ Our Hope, Collingwood				
Leased property - Church	<u>210,773</u>	<u>6,163</u>	<u>13,763</u>	<u>203,173</u>
Total	<u>\$ 1,944,643</u>	<u>\$ 68,551</u>	<u>\$ 181,449</u>	<u>\$ 1,831,745</u>

Lutheran Church - Canada, East District

Notes to the Financial Statements

For the year ended January 31, 2016

8. Property, Plant and Equipment

	2016		2015	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Head Office				
Land	\$ 179,837	\$ -	\$ 179,837	\$ -
Building	306,082	303,619	306,082	303,037
Equipment	138,610	132,528	136,227	129,878
Furniture and fixtures	<u>15,571</u>	<u>15,571</u>	<u>15,571</u>	<u>15,571</u>
	<u>\$ 640,100</u>	<u>\$ 451,718</u>	<u>\$ 637,717</u>	<u>\$ 448,486</u>
Net Book Value			<u>\$ 189,231</u>	
	<u>\$ 188,382</u>			
CEF Equipment				
	<u>\$ 28,712</u>	<u>\$ 13,921</u>	<u>\$ 28,712</u>	<u>\$ 8,178</u>
Net Book Value			<u>\$ 20,534</u>	
	<u>\$ 14,791</u>			

9. Investor Obligations

Investor obligations consist of the following:

	2016	2015
Savings stamps - due on demand, interest free	<u>\$ 45,886</u>	<u>\$ 46,121</u>
Savings deposits - due on demand, semi-annual interest	<u>\$ 3,315,152</u>	<u>\$ 2,759,804</u>
Notes and savings certificates - due on demand, annual interest	<u>\$ 25,182,693</u>	<u>\$ 23,517,772</u>

10. Grant to Department for Outreach

On October 11, 1996, the Board of Directors approved an annual allocation of up to \$ 50,000 from the Church Extension Fund operating income to the Department for Outreach, Current Fund, to cover parsonage rent or housing allowances in lieu of purchasing property. For the current year, a \$ 50,000 (2015 - \$ 50,000) allocation has been shown by the Church Extension Fund as an expenditure and other deductions on the statement of operations. These amounts have been recorded by the Current Fund as support, revenue and other additions - housing grant - in the amount of \$ 50,000 (2015 - \$ 50,000) on the statement of operations.

11. Pension Plan

The Lutheran Church - Canada, East District provides pension benefits for its full-time employees through participation in the Lutheran Church Canada Pension Plan, which is a single employer plan established by Lutheran Church Canada. The contributions to the plan during the year, for its employees, was \$ 59,857 (2015 - \$ 33,029) which is included in administration expenses.

Lutheran Church - Canada, East District
Notes to the Financial Statements
For the year ended January 31, 2016

12. Surplus Allocation

Pursuant to a Board of Directors' resolution, a change to the Church Extension Fund (CEF) surplus policy was made whereby an additional \$ 14,330 was allocated to certain member congregations and an additional \$ 14,807 to certain subsidized properties in the fiscal year to remain consistent with the policies previously introduced by the Board of Directors.

13. Bank Overdraft or Line of Credit

The Lutheran Church - Canada, East District has available a \$ 50,000 line of credit. The line of credit bears interest at prime plus 3%.

14. Comparative Figures

Certain of the 2015 figures on the statement of operations have been reclassified to conform to the 2016 financial statement presentation.

15. Credit Risk

Credit risk is the risk of financial loss to the District if a debtor fails to make payments of interest and principal when due. The District is exposed to this risk related to its debt holdings in its investment portfolio and its reliance on member churches to make loan repayments to the Church Extension Fund.

The District's investment policy limits bonds, debentures and certificates to those issued by federal, provincial or municipal governments (or guaranteed by federal or provincial governments), trust companies and chartered banks. All fixed income portfolios are regularly measured for performance and monitored by management on a regular basis.

Accounts receivable are short-term in nature and are not subject to material credit risk.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures and methods used to measure the risk.

16. Liquidity Risk

Liquidity risk is the risk that the District will not be able to meet all cash outflow obligations as they come due. The District mitigates this risk by monitoring cash activities and expected outflows.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures and methods used to measure the risk.

17. Capital Management

The District's objectives with respect to capital management is to safeguard the existing capital while still utilizing the base capital for the overall betterment of the organization. A significant portion of the capital controlled by the District is maintained in various investments and real estate properties held by the District. Investment policies have been established to limit the risks associated with the investments. Insurance policies are obtained on an annual basis to protect the real estate assets of the District. For the purpose of capital management, the District has defined capital as the cumulative total of the fund balances maintained by the District.

Being a not-for-profit organization, the District measures the financial strength of the organization by its ability to provide as much funding for the purpose of the organization while preserving the accumulated capital of the District.

Lutheran Church - Canada, East District

Notes to the Financial Statements

For the year ended January 31, 2016

18. Market Risk

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The District's investment policy operates within the guidelines determined and applied by the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in equities to that of Board approval. A maximum of 40% of the District's total assets are to be invested in equities with the remaining assets to be held as bonds and short-term securities.

(a) **Currency Risk**

Currency risk relates to the negative impact of adverse changes in foreign exchange rates due to the District's need to convert currencies at various points in time.

The District's foreign exchange risk is related to its stock and mutual fund holdings. Foreign currency changes are monitored by management.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures and methods used to measure the risk.

(b) **Interest Rate Risk**

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The District is exposed to this risk through its interest-bearing investments as well as its interest bearing loans and mortgages receivable.

The objective and policies and procedures for managing interest rate risk is to manage the investment portfolio in such a way that the investment maturity is laddered over a period of years. The interest bearing loans and mortgage receivables have varying maturity dates over a period of five years.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures and methods used to measure the risk.

(c) **Equity Risk**

Equity risk is the uncertainty associated with the valuation of assets arising from change in equity markets. The District is exposed to this risk through its equity holdings within its investment portfolio. The District's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index, United States stocks with fair values that move with the S&P 500 Index and international stocks that move with stock exchanges in Europe, Australia and the Far East.

In accordance with its investment policy, the District limits its holdings in equities to that of Board approval.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures and methods used to measure the risk.

19. Interest Rate Risk

The Lutheran Church - Canada, East District is subject to changes in interest rates through both the investments that they hold as well as the loans that have been advanced. Changes in interest rates on the open market have a direct impact on the operations of the entity.