

**LUTHERAN CHURCH - CANADA,  
EAST DISTRICT**

FINANCIAL STATEMENTS

JANUARY 31, 2019

JEFFREY R. SKUBOWIUS, BA, CPA, CA  
FRANKLIN H. FAMME, BBA, CMgr, CPA, CA  
BRADLEY J. W. McNEIL, BA, MAcc, CPA, CA  
STEPHEN VAN DEN HENGEL, BAcc, CPA, CA  
PETER D. BRICKMAN, BA, CPA, CA  
STEPHEN J. WARD, BA, MAcc, CPA, CA  
LYNN EIDT, BBA, CPA, CA  
MICHAEL P. B. JAREMCHENKO, BA, CFP, CPA, CA  
PHILLIP W. HART, BMath, MAcc, CPA, CA  
JUDD R. ATTRIDGE, BAcc, CPA, CA

125 ONTARIO STREET  
STRATFORD, ONTARIO N5A 3H1

STRATFORD 519-271-7581  
FAX 519-271-2737  
LONDON 519-432-1663  
FAX 519-432-7662  
ST. MARYS 519-284-1030  
FAX 519-284-4393

E-MAIL: [office@fammeandco.on.ca](mailto:office@fammeandco.on.ca)  
WEBSITE: [www.fammeandco.on.ca](http://www.fammeandco.on.ca)

## INDEPENDENT AUDITOR'S REPORT

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

### Qualified Opinion

We have audited the financial statements of **Lutheran Church - Canada, East District**, which comprise the statement of financial position as at **January 31, 2019** and the statements of operations, fund balances (deficit) and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of **Lutheran Church - Canada, East District** as at **January 31, 2019** 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

### Basis for Qualified Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of **Lutheran Church - Canada, East District** 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 those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

In common with many not-for-profit 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 and we were not able to determine whether any adjustments might be necessary to revenue, excess of revenue over expenditures and cash flows from operations for the years ended January 31, 2019 and 2018, current assets as at January 31, 2019 and 2018 and fund balances as at February 1 and January 31 for both the 2019 and 2018 year ends. Our audit opinion on the financial statements for the year ended January 31, 2018 was modified accordingly because of the possible effects of this limitation in scope.



## **INDEPENDENT AUDITORS' REPORT - continued**

### **Responsibilities of Management and Those Charged with Governance 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.

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 over seeing the entity's financial reporting process.

### **Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (a) 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.
- (b) 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.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (d) Conclude on the appropriateness of the entity'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 auditors' 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 auditors' report. However, future events or conditions may cause the entity to cease to continue as a going concern.

## INDEPENDENT AUDITORS' REPORT - continued

- (e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

*Farrine & Co.*

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

Stratford, Ontario  
April 2, 2019

**Lutheran Church - Canada, East District**  
**Statement of Financial Position**  
As at January 31, 2019

**ASSETS**

	<b>Current Fund</b>		<b>Church</b>	<b>Endowment</b>	<b>Total All Funds</b>	
	<b>Unrestricted</b>	<b>Restricted</b>	<b>Extension Fund</b>	<b>Fund</b>	<b>2019</b>	<b>2018</b>
<b>Current Assets</b>						
Cash	\$ -	\$ -	\$ 174,319	\$ -	\$ 174,319	\$ 292,487
Accounts receivable	177,039	-	-	-	177,039	93,323
Interest receivable	-	-	20,425	-	20,425	37,310
Prepaid expenses	86,410	-	-	-	86,410	37,297
HST receivable	24,089	-	-	-	24,089	19,915
<b>Non-Current Assets</b>						
Investments (Note 5)	570,000	-	23,655,562	-	24,225,562	26,275,455
Church Extension Fund loans (Note 6)	-	-	6,331,287	-	6,331,287	6,584,983
Advance sites (Note 7)	-	-	38,963	-	38,963	38,963
Property, plant and equipment (Note 9)	271,240	-	218	-	271,458	281,695
Other properties (Note 8)	-	-	1,565,382	-	1,565,382	1,678,763
	<u>\$ 1,128,778</u>	<u>\$ -</u>	<u>\$ 31,786,156</u>	<u>\$ -</u>	<u>\$ 32,914,934</u>	<u>\$ 35,340,191</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, 2019

**LIABILITIES AND FUND BALANCES**

	Current Fund		Church	Endowment	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund	2019	2018
<b>Current Liabilities</b>						
Bank overdraft	\$ 78,242	\$ -	\$ -	\$ -	\$ 78,242	\$ -
Accounts payable	20,648	-	47,752	-	68,400	66,765
Interest payable	-	-	461,222	-	461,222	470,492
Deferred partner to partner revenue	-	-	-	-	-	-
Savings stamps (Note 10)	-	-	5,065	-	5,065	5,106
Savings deposits (Note 10)	-	-	3,786,714	-	3,786,714	4,008,945
Notes and savings certificates (Note 10)	-	-	24,481,335	-	24,481,335	25,130,123
Interfund balances	<u>1,455,940</u>	<u>(1,952,194)</u>	<u>616,234</u>	<u>(119,980)</u>	<u>-</u>	<u>-</u>
	1,554,830	(1,952,194)	29,398,322	(119,980)	28,880,978	29,681,431
<b>Fund Balances (Deficit)</b>	<u>(426,052)</u>	<u>1,952,194</u>	<u>2,387,834</u>	<u>119,980</u>	<u>4,033,956</u>	<u>5,658,760</u>
	<u>\$ 1,128,778</u>	<u>\$ -</u>	<u>\$ 31,786,156</u>	<u>\$ -</u>	<u>\$ 32,914,934</u>	<u>\$ 35,340,191</u>

(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, 2019

	Current Funds		Church	Endowment	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund	2019	2018
<b>Fund balances (deficit) - beginning of year</b>	(311,439)	2,163,606	3,686,613	119,980	5,658,760	6,387,796
Increase (decrease) in fund balances for the year	<u>(171,390)</u>	<u>(200,164)</u>	<u>(1,347,456)</u>	<u>-</u>	<u>(1,719,010)</u>	<u>(729,036)</u>
	(482,829)	1,963,442	2,339,157	119,980	3,939,750	5,658,760
Interfund transfers (Note 14)	<u>56,777</u>	<u>(11,248)</u>	<u>48,677</u>	<u>-</u>	<u>94,206</u>	<u>-</u>
<b>Fund balances (deficit) - end of year</b>	<u>\$ (426,052)</u>	<u>\$ 1,952,194</u>	<u>\$ 2,387,834</u>	<u>\$ 119,980</u>	<u>\$ 4,033,956</u>	<u>\$ 5,658,760</u>

(See Accompanying Notes to the Financial Statements)

# Lutheran Church - Canada, East District

## Statement of Operations

For the year ended January 31, 2019

	Current Fund		Church	Endowment	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund	2019	2018
<b>Support, Revenue and Other Additions</b>						
<b>Support</b>						
District congregations	\$ 883,805	\$ -	\$ -	\$ -	\$ 883,805	\$ 1,074,702
Partner to Partner matching	58,586	-	-	-	58,586	69,510
World mission projects	21,120	-	-	-	21,120	23,772
Housing grant (Note 11)	45,833	-	-	-	45,833	50,000
Special missions	1,720	-	-	-	1,720	1,113
Administration services (Note 12)	76,900	-	-	-	76,900	75,990
<b>Revenue</b>						
Individuals and agencies	313,898	8,333	-	-	322,231	23,750
Interest income - loans	-	-	209,486	-	209,486	205,602
Investment income and market value appreciation of investments (Note 4(c))	327	-	-	-	327	1,060,117
Moving assessments	-	16,397	-	-	16,397	11,104
Realized gains on investments	-	-	-	-	-	82,198
Other	1,133	-	75,343	-	76,476	3,635
	<u>1,403,322</u>	<u>24,730</u>	<u>284,829</u>	<u>-</u>	<u>1,712,881</u>	<u>2,681,493</u>

(See Accompanying Notes to the Financial Statements)



**Lutheran Church - Canada, East District**  
**Statement of Operations**  
For the year ended January 31, 2019

	Current Fund		Church	Endowment	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund	2019	2018
<b>Balance carried forward</b>	\$ <u>1,403,322</u>	\$ <u>24,730</u>	\$ <u>284,829</u>	\$ <u>-</u>	\$ <u>1,712,881</u>	\$ <u>2,681,493</u>
<b>Expenditures and Other Deductions</b>						
<b>Designated</b>						
Lutheran Church - Canada	424,648	-	-	-	424,648	500,000
World mission projects	21,120	-	-	-	21,120	23,772
Grant to unrestricted (Outreach) (Note 11)	-	-	45,833	-	45,833	50,000
Administration services (Note 12)	-	-	76,900	-	76,900	75,990
<b>Program Services</b>						
Missions and ministries	643,139	-	-	-	643,139	672,746
Parish services	16,004	-	-	-	16,004	14,934
Special projects	1,133	200,846	-	-	201,979	135,527
Partner to partner program	-	-	58,581	-	58,581	69,510
Administration	461,520	-	-	-	461,520	415,134
Amortization	7,148	-	3,089	-	10,237	11,026
Operations - Church Extension Fund	-	-	187,902	-	187,902	197,122
Interest	-	-	963,264	-	963,264	1,056,568
Lutheran Service Book	-	-	2,424	-	2,424	-
Market value depreciation of investments (Note 4(c))	-	-	152,277	-	152,277	-
Impairment realized on Church Extension Fund loans	-	-	-	-	-	168,200
Contribution to Lutheran Church Canada	-	24,048	-	-	24,048	20,000
Loss on disposal of asset	-	-	71,703	-	71,703	-
Property expenditures	-	-	70,312	-	70,312	-
	<u>1,574,712</u>	<u>224,894</u>	<u>1,632,285</u>	<u>-</u>	<u>3,431,891</u>	<u>3,410,529</u>
<b>Increase (decrease) in fund     balances for the year</b>	\$ <u>(171,390)</u>	\$ <u>(200,164)</u>	\$ <u>(1,347,456)</u>	\$ <u>-</u>	\$ <u>(1,719,010)</u>	\$ <u>(729,036)</u>

(See Accompanying Notes to the Financial Statements)

# Lutheran Church - Canada, East District

## Statement of Cash Flows

For the year ended January 31, 2019

	Current Fund		Church	Endowment	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund	2019	2018
<b>Cash Provided By (Used In):</b>						
<b>Operating Activities</b>						
Increase (decrease) in fund balances for the year	\$ (171,390)	\$ (200,164)	\$ (1,347,456)	\$ -	\$ (1,719,010)	\$ (729,036)
Interfund transfers	56,777	(11,248)	48,677	-	94,206	-
Decrease (increase) in accounts receivable	(83,716)	-	-	-	(83,716)	39,454
Decrease (increase) in interest receivable	-	-	16,885	-	16,885	166,117
Decrease (increase) in prepaid expenses	(49,113)	-	-	-	(49,113)	1,672
Decrease (increase) in HST receivable	(4,174)	-	-	-	(4,174)	(11,435)
Increase (decrease) in accounts payable	3,042	-	(1,407)	-	1,635	4,188
Increase (decrease) in interest payable	-	-	(9,270)	-	(9,270)	(9,791)
Increase (decrease) in deferred partner to partner revenue	-	-	-	-	-	(29,555)
Amortization	7,148	-	3,089	-	10,237	11,026
Loss on disposal of property	-	-	(240)	-	(240)	-
	<u>(241,426)</u>	<u>(211,412)</u>	<u>(1,289,722)</u>	<u>-</u>	<u>(1,742,560)</u>	<u>(557,360)</u>
<b>Investing Activities</b>						
Decrease in loans receivable	-	-	253,696	-	253,696	110,958
Increase in other properties	-	-	(11,442)	-	(11,442)	(9,434)
Purchase property, plant and equipment	-	-	-	-	-	(83,535)
Proceeds from disposal of parsonage	-	-	125,063	-	125,063	-
Decrease (increase) in investments	-	-	2,049,893	-	2,049,893	551,554
	<u>-</u>	<u>-</u>	<u>2,417,210</u>	<u>-</u>	<u>2,417,210</u>	<u>569,543</u>
	<u>(241,426)</u>	<u>(211,412)</u>	<u>1,127,488</u>	<u>-</u>	<u>674,650</u>	<u>12,183</u>

(See Accompanying Notes to the Financial Statements)

**Lutheran Church - Canada, East District**  
**Statement of Cash Flows**  
For the year ended January 31, 2019

	Current Fund		Church	Endowment	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund	2019	2018
Balance carried forward	\$ (241,426)	\$ (211,412)	\$ 1,127,488	\$ -	\$ 674,650	\$ 12,183
<b>Financing Activities</b>						
Increase (decrease) in savings stamps	-	-	(41)	-	(41)	106
Increase (decrease) in savings deposits	-	-	(222,231)	-	(222,231)	1,000,924
Proceeds from (payments on) notes and savings certificates	-	-	(648,788)	-	(648,788)	(1,070,420)
	<u>-</u>	<u>-</u>	<u>(871,060)</u>	<u>-</u>	<u>(871,060)</u>	<u>(69,390)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	(241,426)	(211,412)	256,428	-	(196,410)	(57,207)
<b>Cash and cash equivalents - beginning of year</b>	<u>(1,292,756)</u>	<u>2,163,606</u>	<u>(698,343)</u>	<u>119,980</u>	<u>292,487</u>	<u>349,694</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ (1,534,182)</u>	<u>\$ 1,952,194</u>	<u>\$ (441,915)</u>	<u>\$ 119,980</u>	<u>\$ 96,077</u>	<u>\$ 292,487</u>
<b>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:</b>						
Cash	-	-	174,319	-	174,319	292,487
Bank overdraft	(78,242)	-	-	-	(78,242)	-
Interfund balances	<u>(1,455,940)</u>	<u>1,952,194</u>	<u>(616,234)</u>	<u>119,980</u>	<u>-</u>	<u>-</u>
	<u>\$ (1,534,182)</u>	<u>\$ 1,952,194</u>	<u>\$ (441,915)</u>	<u>\$ 119,980</u>	<u>\$ 96,077</u>	<u>\$ 292,487</u>

(See Accompanying Notes to the Financial Statements)



**Lutheran Church - Canada, East District**  
**Notes to the Financial Statements**  
For the year ended January 31, 2019

**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. Change in Operations**

As of January 1, 2019, The Lutheran Church - Canada East District is no longer working with The Lutheran Church - Canada as one of three (3) separate district corporations to deliver ministerial services to the members of Lutheran Church - Canada. In co-ordination with this change, the Lutheran Church - Canada East District board of directors disbursed certain restricted and operating funds to organizations that were congruent with the original designation from the donees.

**3. 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. Many funds have or will be distributed and reallocated in order to best meet the use for which they were originally given under the new restructured format.

(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. Going forward the earnings will be used annually as a grant for mission work carried out by the synod.

**Lutheran Church - Canada, East District**  
**Notes to the Financial Statements**  
For the year ended January 31, 2019

**4. 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.

(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. The properties are held in trust for each individual congregation, so when the congregation has the financial ability to retain the property, it is transferred at its carrying value.

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 restricted fund method of accounting for contributions. Revenue is segregated by type of owner restriction and is recognized when received.



**Lutheran Church - Canada, East District**  
**Notes to the Financial Statements**  
For the year ended January 31, 2019

**4. 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 expenditures. 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.

**5. Investments**

Details of the investments are as follows:

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Recorded Value</b>	
			<b>2019</b>	<b>2018</b>
Guaranteed Investment Certificates, Commercial Paper and Treasury Bills	0.40% to 3.5%	08/10/19 to 12/31/19	\$ 603,563	\$ 603,563
The RaeLipske Partnership - Equities and bonds (at Fair Market Value)			<u>23,621,999</u>	<u>25,671,892</u>
			<u>\$ 24,225,562</u>	<u>\$ 26,275,455</u>
Allocation:				
Current Fund - Unrestricted			570,000	570,000
Church Extension Fund (at Fair Market Value)			<u>23,655,562</u>	<u>25,705,455</u>
			<u>\$ 24,225,562</u>	<u>\$ 26,275,455</u>



# Lutheran Church - Canada, East District

## Notes to the Financial Statements

For the year ended January 31, 2019

### 6. Church Extension Fund Loans

Church Extension Fund loans and receivables as at January 31, 2019 are classified as follows:

	Balance Jan. 31/18	Increase	Decrease	Balance Jan. 31/19	Interest Received
<b>Self-Supporting Congregations - Loans</b>					
Good Shepherd, Barrie					
Loan - Daycare	\$ 1,025,308	\$ -	\$ 47,524	\$ 977,784	\$ 34,818
Good Shepherd, Barrie					
Loan - Daycare	69,186	-	-	69,186	700
Good Shepherd, Barrie					
Loan - Daycare	-	30,000	-	30,000	-
Grace, Pembroke					
Loan - Church	250,000	12,357	262,357	-	-
Christ The King, Port Rowan					
Loan - Church	194,850	-	-	194,850	10,800
Christ The King, Port Rowan					
Loan - Church	20,000	-	2,525	17,475	1,075
Resurrection, St. Catharines					
Loan - Church	-	11,000	-	11,000	-
Faith, Kitchener					
Loan - Church	209,624	-	36,932	172,692	11,428
Good Shepherd, London					
Loan - Church	-	16,000	16,000	-	298
Redeemer, Monkton					
Loan - Church	15,388	-	4,876	10,512	656
Redeemer, Monkton					
Loan - Church	-	5,000	-	5,000	-
Grace, Oshawa					
Loan - Church	58,713	-	58,713	-	2,415
Redeemer, St. Thomas					
Loan - Church	61,487	12,900	7,260	67,127	3,361
St. Peter's, Simcoe					
Loan - Church	15,431	-	15,431	-	272
Messiah, Waterloo					
Loan - Church	49,688	-	33,605	16,083	2,373
First, Windsor					
Loan - Church					
Re: School	881,054	400,008	30,631	1,250,431	48,790
	<u>2,850,729</u>	<u>487,265</u>	<u>515,854</u>	<u>2,822,140</u>	<u>116,986</u>

# Lutheran Church - Canada, East District

## Notes to the Financial Statements

For the year ended January 31, 2019

### 6. Church Extension Fund Loans (continued)

	<b>Balance Jan. 31/18</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance Jan. 31/19</b>	<b>Interest Received</b>
<b>Self-Supporting Congregations - Loans</b>					
<b>Balance carried forward</b>	\$ 2,850,729	\$ 487,265	\$ 515,854	\$ 2,822,140	\$ 116,986
Redeemer, Waterloo					
Loan - Church	350,861	-	8,794	342,067	18,860
Concordia, Fonthill					
Loan - Church	32,083	-	732	31,351	1,118
Peace, Tillsonburg					
Loan - Church	949,503	-	89,031	860,472	47,614
Hope, Kitchener					
Loan - Church	783,451	-	29,972	753,479	31,651
Our Saviour, London					
Loan - Church	5,000	-	-	5,000	-
Pilgrim, Hamilton					
Loan - Church	12,023	-	10,045	1,978	530
Trinity, Niagara-on-the-Lake					
Loan - Church	20,000	-	1,390	18,610	622
Our Saviour, Niagara Falls					
Loan - Church	50,685	-	2,500	48,185	-
Christ, Harrow					
Loan - Church	2,451	-	1,278	1,173	102
Christ Our Hope, Collingwood					
Loan - Church	173,759	-	22,992	150,767	8,705
Southampton, Southampton					
Loan - Church	48,013	-	48,013	-	2,341
	<u>5,278,558</u>	<u>487,265</u>	<u>730,601</u>	<u>5,035,222</u>	<u>228,529</u>
<b>Subsidized Congregations - Loans</b>					
Good Shepherd, Moncton					
Loan - Church	1,240,024	-	-	1,240,024	-
Redeemer, Sudbury					
Loan - Church	18,350	-	4,198	14,152	853
Christ, Timmins					
Loan - Church	48,051	-	6,162	41,889	2,460
	<u>1,306,425</u>	<u>-</u>	<u>10,360</u>	<u>1,296,065</u>	<u>3,313</u>
<b>Total Loans</b>	<u>\$ 6,584,983</u>	<u>\$ 487,265</u>	<u>\$ 740,961</u>	<u>\$ 6,331,287</u>	<u>\$ 231,842</u>

## **Lutheran Church - Canada, East District**

### **Notes to the Financial Statements**

For the year ended January 31, 2019

#### **7. Advance Sites**

Advance sites as at January 31, 2019 are classified as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>Jan. 31/18</b>	<b>Increase</b>	<b>Decrease</b>	<b>Jan. 31/19</b>
Collingwood, Highway 26	\$ <u>38,963</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>38,963</u>

The board has authorized the sale of the last remaining advance site to be completed in the following fiscal year.

#### **8. Church Extension Fund Properties**

Church Extension Fund properties as at January 31, 2019 are classified as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>Jan. 31/18</b>	<b>Increase</b>	<b>Decrease</b>	<b>Jan. 31/19</b>
<b>Properties Leased/Provided to Congregations</b>				
Good Shepherd, Amherstburg				
Support property				
- Parsonage	\$ 128,274	\$ -	\$ 128,274	\$ -
St. Paul's, Cobourg				
Leased property - Church	112,649	2,820	10,619	104,850
Berea-By-The-Water, Goderich				
Leased property - Church	139,210	6,144	2,400	142,954
Grace, Kincardine				
Leased property - Church	395,229	9,876	2,400	402,705
- Parsonage	199,916	4,992	-	204,908
Good Shepherd, Moncton				
Leased property - Church	259,356	6,480	-	265,836
Living Faith, Orangeville				
Leased property - Church	<u>444,129</u>	<u>-</u>	<u>-</u>	<u>444,129</u>
<b>Total</b>	<b>\$ <u>1,678,763</u></b>	<b>\$ <u>30,312</u></b>	<b>\$ <u>143,693</u></b>	<b>\$ <u>1,565,382</u></b>



# Lutheran Church - Canada, East District

## Notes to the Financial Statements

For the year ended January 31, 2019

### 9. Property, Plant and Equipment

	2019		2018	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
<b>Head Office</b>				
Land	\$ 179,837	\$ -	\$ 179,837	\$ -
Building	400,268	312,106	400,268	307,030
Equipment	142,930	139,689	142,930	137,617
Furniture and fixtures	<u>15,571</u>	<u>15,571</u>	<u>15,571</u>	<u>15,571</u>
	<u>\$ 738,606</u>	<u>\$ 467,366</u>	<u>\$ 738,606</u>	<u>\$ 460,218</u>
<b>Net Book Value</b>	<u>\$ 271,240</u>		<u>\$ 278,388</u>	
<b>CEF Equipment</b>	<u>\$ 28,712</u>	<u>\$ 28,494</u>	<u>\$ 28,712</u>	<u>\$ 25,405</u>
<b>Net Book Value</b>	<u>\$ 218</u>		<u>\$ 3,307</u>	

### 10. Investor Obligations

Investor obligations consist of the following:

	2019	2018
Savings stamps - due on demand, interest free	\$ <u>5,065</u>	\$ <u>5,106</u>
Savings deposits - due on demand, semi-annual interest	\$ <u>3,786,714</u>	\$ <u>4,008,945</u>
Notes and savings certificates - due on demand, annual interest	\$ <u>24,481,335</u>	\$ <u>25,130,123</u>

### 11. 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 \$ 45,833 (2018 - \$ 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 \$ 45,833 (2018 - \$ 50,000) on the statement of operations.

### 12. Administration Services

The Board of Directors approved an annual allocation of \$ 76,900 worth of administration services, the approximated fair market value, that has been shown by the Church Extension Fund as an expenditure and other deductions on the statement of operations and as revenue in the Unrestricted Current Fund.

## **Lutheran Church - Canada, East District**

### **Notes to the Financial Statements**

For the year ended January 31, 2019

#### **13. 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 \$ 78,337 (2018 - \$ 87,178) which is included in administration expenses.

#### **14. Interfund Transfers**

During the year, the Board of Directors approved the reallocation of certain restricted fund balances to cover deficits in the Unrestricted and Church Extension Funds. The expenses associated to these fund allocations, if applicable, are reflected on their respective fund's statement of operations. The income covering reallocations are accounted for as changes in fund balances, and the change in asset or liability balances are reflected on their respective line of the Statement of Financial Position.

#### **15. 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%. The bank overdraft as at January 31, 2019 includes outstanding cheques totalling \$ 152,479.

#### **16. Contingent Liabilities**

As at January 31, 2019, The Lutheran Church - Canada, East District has outstanding letters of credit totalling \$ 31,831 (2018 - \$ 31,831) which have been issued as collateral security for ongoing operational activities.

#### **17. Comparative Figures**

Certain of the 2018 figures on the statement of operations have been reclassified to conform to the 2019 financial statement presentation.

#### **18. 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. Due to a fluctuating real estate market, it is difficult to determine the fair value of all properties. As such, through due diligence, the values are based on current third party valuations and adjustments are made when deemed appropriate.

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.



## **Lutheran Church - Canada, East District**

### **Notes to the Financial Statements**

For the year ended January 31, 2019

#### **19. 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.

#### **20. 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.

#### **21. 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.



**Lutheran Church - Canada, East District**  
**Notes to the Financial Statements**  
For the year ended January 31, 2019

**21. Market Risk (continued)**

(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.

**22. 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.