

LUTHERAN EAST DISTRICT

FINANCIAL STATEMENTS

JANUARY 31, 2022

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
STACEY A. CAMPBELL, BBA, CPA, CA
BRADLEY YPMA, BA, 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
WEBSITE: www.fammeandco.on.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lutheran East District
Kitchener, Ontario

Qualified Opinion

We have audited the financial statements of **Lutheran East District**, which comprise the statement of financial position as at **January 31, 2022** 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 East District** as at **January 31, 2022** 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 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, 2022 and 2021, current assets as at January 31, 2022 and 2021 and fund balances as at February 1 and January 31 for both the 2022 and 2021 year ends. Our audit opinion on the financial statements for the year ended January 31, 2021 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 overseeing 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.

Faurme + Co.

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

Stratford, Ontario
May 16, 2022

Lutheran East District
Statement of Financial Position
As at January 31, 2022

ASSETS

	Current Fund		Church Extension Fund	Endowment Fund	Total All Funds	
	Unrestricted	Restricted			2022	2021
Current Assets						
Cash	\$ 1,216,865	\$ -	\$ -	\$ -	\$ 1,216,865	\$ 586,766
Accounts receivable (net of allowance)	16,665	-	-	-	16,665	33,718
Interest receivable	-	-	169	-	169	7,723
Prepaid expenses	24,257	-	-	-	24,257	26,843
HST receivable	13,213	-	-	-	13,213	7,821
Non-Current Assets						
Investments (Note 5)	570,000	-	1,312,672	-	1,882,672	15,747,429
Church Extension Fund loans (Note 6)	-	-	66,789	-	66,789	3,337,784
Mortgage receivable, 2847162 Ontario Inc. 3.80%, payable \$ 3,865 monthly, due June, 2024	739,653	-	-	-	739,653	-
Property, plant and equipment (Note 8)	252,892	-	-	-	252,892	258,279
Other properties (Note 7)	-	-	369,044	-	369,044	1,170,187
	<u>\$ 2,833,545</u>	<u>\$ -</u>	<u>\$ 1,748,674</u>	<u>\$ -</u>	<u>\$ 4,582,219</u>	<u>\$ 21,176,550</u>

Approved on Behalf of the Board:

Director

Director

(See Accompanying Notes to the Financial Statements)

Lutheran East District
Statement of Financial Position
As at January 31, 2022

LIABILITIES AND FUND BALANCES

	Current Fund		Church	Endowment	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund	2022	2021
Current Liabilities						
Bank overdraft	\$ -	\$ -	\$ 383,223	\$ -	\$ 383,223	\$ 70,777
Accounts payable	54,213	-	-	-	54,213	46,000
Interest payable	-	-	1,161	-	1,161	291,102
Savings stamps (Note 9)	-	-	3,719	-	3,719	5,219
Savings deposits (Note 9)	-	-	55,240	-	55,240	1,993,783
Notes and savings certificates (Note 9)	-	-	106,880	-	106,880	15,897,304
Interfund balances	<u>1,737,142</u>	<u>(760,315)</u>	<u>(856,847)</u>	<u>(119,980)</u>	<u>-</u>	<u>-</u>
	<u>1,791,355</u>	<u>(760,315)</u>	<u>(306,624)</u>	<u>(119,980)</u>	<u>604,436</u>	<u>18,304,185</u>
Fund Balances (Deficit)	<u>1,042,190</u>	<u>760,315</u>	<u>2,055,298</u>	<u>119,980</u>	<u>3,977,783</u>	<u>2,872,365</u>
	<u>\$ 2,833,545</u>	<u>\$ -</u>	<u>\$ 1,748,674</u>	<u>\$ -</u>	<u>\$ 4,582,219</u>	<u>\$ 21,176,550</u>

(See Accompanying Notes to the Financial Statements)

Lutheran East District
Statement of Changes in Fund Balances (Deficit)
For the year ended January 31, 2022

	Current Funds		Church	Endowment	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund	2022	2021
As previously reported	\$ (509,395)	\$ 1,962,275	\$ 2,226,833	\$ 119,980	\$ 3,799,693	\$ 4,775,776
Prior period adjustment (Note 12)	<u>-</u>	<u>(768,325)</u>	<u>(159,003)</u>	<u>-</u>	<u>(927,328)</u>	<u>(927,328)</u>
Fund balances (deficit) - beginning of year	(509,395)	1,193,950	2,067,830	119,980	2,872,365	3,848,448
Increase (decrease) in fund balances for the year	<u>22,974</u>	<u>(199,128)</u>	<u>1,281,572</u>	<u>-</u>	<u>1,105,418</u>	<u>(976,083)</u>
	<u>(486,421)</u>	<u>994,822</u>	<u>3,349,402</u>	<u>119,980</u>	<u>3,977,783</u>	<u>2,872,365</u>
Interfund transfers (Note 11)	<u>1,528,611</u>	<u>(234,507)</u>	<u>(1,294,104)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances (deficit) - end of year	<u>\$ 1,042,190</u>	<u>\$ 760,315</u>	<u>\$ 2,055,298</u>	<u>\$ 119,980</u>	<u>\$ 3,977,783</u>	<u>\$ 2,872,365</u>

(See Accompanying Notes to the Financial Statements)

Lutheran East District
Statement of Operations
For the year ended January 31, 2022

	Current Fund		Church	Endowment	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund	2022	2021
Support, Revenue and Other Additions						
Revenue						
Individuals and agencies	\$ 19,782	\$ -	\$ -	\$ -	\$ 19,782	\$ 45,446
Interest income - loans	16,708	-	112,316	-	129,024	154,085
Investment income and market value appreciation of investments (Note 4(c))	31	-	1,008,786	-	1,008,817	159
Moving assessments	-	872	-	-	872	68
Net gain on disposal of Church Extension Fund properties	-	-	708,922	-	708,922	53,400
Rent	-	-	5,023	-	5,023	61,007
	<u>36,521</u>	<u>872</u>	<u>1,835,047</u>	<u>-</u>	<u>1,872,440</u>	<u>314,165</u>

(See Accompanying Notes to the Financial Statements)

Lutheran East District
Statement of Operations
For the year ended January 31, 2022

	Current Fund		Church		Total All Funds	
	Unrestricted	Restricted	Extension	Endowment	2022	2021
			Fund	Fund		
Balance carried forward	\$ <u>36,521</u>	\$ <u>872</u>	\$ <u>1,835,047</u>	\$ <u>-</u>	\$ <u>1,872,440</u>	\$ <u>314,165</u>
Expenditures and Other Deductions						
Program Services						
Special projects	-	35,000	-	-	35,000	25,919
Administration	-	-	158,676	-	158,676	221,701
Amortization	5,387	-	-	-	5,387	6,178
Operations - Church Extension Fund	-	-	95,302	-	95,302	115,985
Interest	-	-	299,497	-	299,497	659,960
Market value depreciation of investments (Note 4(c))	-	-	-	-	-	204,931
Allowance for doubtful accounts	8,160	-	-	-	8,160	10,720
Impairment (recovery) realized on Church Extension Fund assets	-	-	-	-	-	(6,890)
Contribution to Lutheran Church Canada	-	165,000	-	-	165,000	-
Property expenditures	-	-	-	-	-	51,744
	<u>13,547</u>	<u>200,000</u>	<u>553,475</u>	<u>-</u>	<u>767,022</u>	<u>1,290,248</u>
Increase (decrease) in fund balances for the year	\$ <u>22,974</u>	\$ <u>(199,128)</u>	\$ <u>1,281,572</u>	\$ <u>-</u>	\$ <u>1,105,418</u>	\$ <u>(976,083)</u>

(See Accompanying Notes to the Financial Statements)

Lutheran East District
Statement of Cash Flows
For the year ended January 31, 2022

	Current Fund		Church	Endowment	Total All Funds	
	Unrestricted	Restricted	Fund	Fund	2022	2021
Cash Provided By (Used In):						
Operating Activities						
Increase (decrease) in fund balances for the year	\$ 22,974	\$ (199,128)	\$ 1,281,572	\$ -	\$ 1,105,418	\$ (976,083)
Interfund transfers	1,528,611	(1,002,832)	(525,779)	-	-	-
Decrease (increase) in accounts receivable	17,053	-	-	-	17,053	82,286
Decrease (increase) in interest receivable	-	-	7,554	-	7,554	5,073
Decrease (increase) in prepaid expenses	2,586	-	-	-	2,586	16,981
Decrease (increase) in HST receivable	(5,392)	-	-	-	(5,392)	26,350
Increase (decrease) in accounts payable	17,234	-	(9,021)	-	8,213	(109,766)
Increase (decrease) in interest payable	-	-	(289,941)	-	(289,941)	(125,205)
Decrease (increase) in assets held for resale	-	-	-	-	-	1,038,179
Amortization	5,387	-	-	-	5,387	6,178
Gain on disposal of property	-	-	(708,922)	-	(708,922)	(53,400)
	<u>1,588,453</u>	<u>(1,201,960)</u>	<u>(244,537)</u>	<u>-</u>	<u>141,956</u>	<u>(89,407)</u>
Investing Activities						
Decrease (increase) in loans receivable	(739,653)	-	3,270,995	-	2,531,342	334,770
Proceeds from advance sites	-	-	-	-	-	50,820
Increase in other properties	-	-	(5,158)	-	(5,158)	(18,836)
Proceeds from disposal of other property	-	-	1,515,223	-	1,515,223	463,794
Decrease in investments	-	-	13,864,757	-	13,864,757	6,675,843
	<u>(739,653)</u>	<u>-</u>	<u>18,645,817</u>	<u>-</u>	<u>17,906,164</u>	<u>7,506,391</u>
	<u>848,800</u>	<u>(1,201,960)</u>	<u>18,401,280</u>	<u>-</u>	<u>18,048,120</u>	<u>7,416,984</u>

(See Accompanying Notes to the Financial Statements)

Lutheran East District
Statement of Cash Flows
For the year ended January 31, 2022

	Current Fund		Church	Endowment	Total All Funds	
	Unrestricted	Restricted	Extension Fund	Fund	2022	2021
Balance carried forward	\$ 848,800	\$ (1,201,960)	\$ 18,401,280	\$ -	\$ 18,048,120	\$ 7,416,984
Financing Activities						
Increase (decrease) in savings stamps	-	-	(1,500)	-	(1,500)	177
Increase (decrease) in savings deposits	-	-	(1,938,543)	-	(1,938,543)	(976,215)
Payments on notes and savings certificates	-	-	(15,790,424)	-	(15,790,424)	(6,020,749)
	-	-	(17,730,467)	-	(17,730,467)	(6,996,787)
Increase (decrease) in cash and cash equivalents	848,800	(1,201,960)	670,813	-	317,653	420,197
Cash and cash equivalents - beginning of year	(1,369,077)	1,962,275	(197,189)	119,980	515,989	95,792
Cash and cash equivalents - end of year	\$ (520,277)	\$ 760,315	\$ 473,624	\$ 119,980	\$ 833,642	\$ 515,989
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	1,216,865	-	-	-	1,216,865	586,766
Bank overdraft	-	-	(383,223)	-	(383,223)	(70,777)
Interfund balances	(1,737,142)	760,315	856,847	119,980	-	-
	\$ (520,277)	\$ 760,315	\$ 473,624	\$ 119,980	\$ 833,642	\$ 515,989

(See Accompanying Notes to the Financial Statements)

Lutheran East District
Notes to the Financial Statements
For the year ended January 31, 2022

1. Purpose of the Organization

Lutheran 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 not-for-profit corporation incorporated in Canada without share capital and is not taxable under Section 149(1)(l) of the Income Tax Act and may issue income tax receipts to donors.

2. Cease of Operations

Notice was sent to members of the corporation dated June 1, 2020 indicating that the organization was ceasing operations of the Church Extension Fund as of January 31, 2022. In particular, the Church Extension Fund would be refunding all investor obligations and all CEF loans due would be called September 30, 2021. All other assets of the corporation, which includes the current fund and the endowment fund, are to be liquidated to satisfy the liabilities of the organization. Remaining funds, if any, will be distributed to related Lutheran organizations at the discretion of the Board of Directors. The assets of the restricted fund will be distributed at the discretion of the Board of Directors.

3. Fund Accounting

Lutheran 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 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. Under the new restructured format, the Endowment Fund has been consolidated with the Unrestricted General Fund.

Lutheran East District
Notes to the Financial Statements
For the year ended January 31, 2022

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 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) Other Properties

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 other properties 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 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 East District
Notes to the Financial Statements
For the year ended January 31, 2022

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:

	Interest Rate	Maturity Date	Recorded Value	
			2022	2021
Guaranteed Investment				
Certificates, Commercial				
Paper and Treasury Bills	0.2%	08/11/2022	\$ 604,512	\$ 604,375
The RaeLipske Partnership				
- Equities and bonds				
(at Fair Market Value)			<u>1,278,160</u>	<u>15,143,054</u>
			<u>\$ 1,882,672</u>	<u>\$ 15,747,429</u>
Allocation:				
Current Fund - Unrestricted			570,000	570,000
Church Extension Fund				
(at Fair Market Value)			<u>1,312,672</u>	<u>15,177,429</u>
			<u>\$ 1,882,672</u>	<u>\$ 15,747,429</u>

Lutheran East District
Notes to the Financial Statements
For the year ended January 31, 2022

6. Church Extension Fund Loans

Church Extension Fund loans and receivables as at January 31, 2022 are classified as follows:

	<u>Balance</u> <u>Jan. 31/21</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>Jan. 31/22</u>	<u>Interest</u> <u>Received</u>
Self-Supporting Congregations - Loans					
Good Shepherd, Barrie					
Loan - Daycare	\$ 879,645	\$ -	\$ 879,645	\$ -	\$ 30,167
Good Shepherd, Barrie					
Loan - Daycare	30,000	-	30,000	-	-
Christ The King, Port Rowan					
Loan - Church	193,500	-	193,500	-	6,219
Christ The King, Port Rowan					
Loan - Church	11,892	-	11,892	-	358
Faith, Kitchener					
Loan - Church	116,723	-	116,723	-	4,861
Redeemer, Monkton					
Loan - Church	4,500	-	4,500	-	-
Redeemer, St. Thomas					
Loan - Church	52,440	-	52,440	-	1,311
First, Windsor					
Loan - Church					
Re: School	<u>773,336</u>	<u>-</u>	<u>773,336</u>	<u>-</u>	<u>34,850</u>
	2,062,036	-	2,062,036	-	77,766

Lutheran East District
Notes to the Financial Statements
For the year ended January 31, 2022

6. Church Extension Fund Loans (continued)

	<u>Balance</u> <u>Jan. 31/21</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>Jan. 31/22</u>	<u>Interest</u> <u>Received</u>
Self-Supporting Congregations - Loans					
Balance carried forward	\$ 2,062,036	\$ -	\$ 2,062,036	\$ -	\$ 77,766
Redeemer, Waterloo					
Loan - Church	317,906	-	317,906	-	1,632
Concordia, Fonthill					
Loan - Church	29,548	-	29,548	-	836
Peace, Tillsonburg					
Loan - Church	778,149	-	778,149	-	18,819
Our Saviour, London					
Loan - Church	5,000	-	5,000	-	-
Our Saviour, Niagara Falls					
Loan - Church	48,185	-	5,000	43,185	-
Christ Our Hope, Collingwood					
Loan - Church	51,152	836	51,988	-	216
Zion, Augsburg/Eganville					
Loan - Church	<u>10,000</u>	<u>10,765</u>	<u>20,765</u>	<u>-</u>	<u>425</u>
	<u>3,301,976</u>	<u>11,601</u>	<u>3,270,392</u>	<u>43,185</u>	<u>99,694</u>
Subsidized Congregations - Loans					
Redeemer, Sudbury					
Loan - Church	5,076	-	5,076	-	147
Christ, Timmins					
Loan - Church	<u>30,732</u>	<u>-</u>	<u>7,128</u>	<u>23,604</u>	<u>1,494</u>
	<u>35,808</u>	<u>-</u>	<u>12,204</u>	<u>23,604</u>	<u>1,641</u>
Total Loans	<u>\$ 3,337,784</u>	<u>\$ 11,601</u>	<u>\$ 3,282,596</u>	<u>\$ 66,789</u>	<u>\$ 101,335</u>

Lutheran East District
Notes to the Financial Statements
For the year ended January 31, 2022

7. Church Extension Fund Properties

Church Extension Fund properties as at January 31, 2022 are classified as follows:

	<u>Balance</u> <u>Jan. 31/21</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>Jan. 31/22</u>
Properties Leased/Provided to Congregations				
St. Paul's, Cobourg				
Leased property - Church	\$ 97,212	\$ 2,184	\$ 12,100	\$ 87,296
Berea-By-The-Water, Goderich				
Leased property - Church	144,486	2,710	147,196	-
Grace, Kincardine - Parsonage	208,516	3,128	211,644	-
Good Shepherd, Moncton				
Leased property - Church	275,844	6,204	300	281,748
Living Faith, Orangeville				
Leased property - Church	<u>444,129</u>	<u>3,332</u>	<u>447,461</u>	<u>-</u>
Total	<u>\$ 1,170,187</u>	<u>\$ 17,558</u>	<u>\$ 818,701</u>	<u>\$ 369,044</u>

8. Property, Plant and Equipment

	2022		2021	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Head Office				
Land	\$ 179,837	\$ -	\$ 179,837	\$ -
Building	400,268	327,213	400,268	322,258
Equipment	142,930	142,930	142,930	142,498
Furniture and fixtures	<u>15,571</u>	<u>15,571</u>	<u>15,571</u>	<u>15,571</u>
	<u>\$ 738,606</u>	<u>\$ 485,714</u>	<u>\$ 738,606</u>	<u>\$ 480,327</u>
Net Book Value	<u>\$ 252,892</u>		<u>\$ 258,279</u>	
CEF Equipment	<u>\$ 28,712</u>	<u>\$ 28,712</u>	<u>\$ 28,712</u>	<u>\$ 28,712</u>

Lutheran East District
Notes to the Financial Statements
For the year ended January 31, 2022

9. Investor Obligations

Investor obligations consist of the following:

	2022	2021
Savings stamps - due on demand, interest free	\$ <u>3,719</u>	\$ <u>5,219</u>
Savings deposits - due on demand, semi-annual interest	\$ <u>55,240</u>	\$ <u>1,993,783</u>
Notes and savings certificates - due on demand, annual interest	\$ <u>106,880</u>	\$ <u>15,897,304</u>

10. Pension Plan

Lutheran 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 \$ 13,896 (2021 - \$ 9,728) which is included in administration expenses.

In prior years, the District participated in a multi-employer defined benefit plan based on the organization's percentage of pensionable earnings as calculated by the pension plan's actuaries. Having withdrawn from the plan, the District is waiting for the determination of the final pension plan deficit liability. The liability is estimated at \$ 152,025, but will be evaluated and recorded when the actuarial valuation is completed in December, 2022.

11. Interfund Transfers

During the year, the Board of Directors approved the reallocation of certain 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.

12. Prior Period Adjustment

It was discovered during the year that CEF investor obligations were understated in the amount of \$ 927,328. Of this amount, \$ 768,325 pertained to the District's internal funds held in the Restricted Fund and managed through the CEF. An adjustment was made to the 2021 Statement of Changes in Fund Balances to account for the understatement along with corresponding adjustments to the CEF liability accounts. This adjusted the financial statements to agree to the amounts tracked through the District's database of CEF investors.

13. Unclaimed CEF accounts

Included in the CEF investor obligations is an amount of \$ 23,494 which has been identified as owing to certain investors who have been unable to be located by the District. In accordance with Canadian securities law, this amount will be included in a trust account to be created on dissolution of the District.

Lutheran East District
Notes to the Financial Statements
For the year ended January 31, 2022

14. Bank Overdraft or Line of Credit

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

15. Contingent Liabilities

As at January 31, 2022, Lutheran East District has outstanding letters of credit totalling \$ 31,831 (2021 - \$ 31,831) which have been issued as collateral security for ongoing operational activities.

16. 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.

17. 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.

18. 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 East District
Notes to the Financial Statements
For the year ended January 31, 2022

19. 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.

Lutheran East District
Notes to the Financial Statements
For the year ended January 31, 2022

20. Interest Rate Risk

Lutheran 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.

21. Impact of COVID-19 Pandemic

In March, 2020, the World Health Organization declared COVID-19 a pandemic which remains in effect as of January 31, 2022. As a result, some government services were temporarily suspended, international travel was limited and health authorities advised individuals to practice "social distancing".

The Provincial government has instituted a COVID response framework utilizing a stepped approach to public health and safety measures, with accompanying restrictions on businesses, organizations and the general public for each step. Restrictions are to be gradually lifted according to Provincial vaccination rates and key public health and health care indicators. As a result, these restrictions are subject to change.

It is uncertain how long these conditions may continue and an estimate of any future financial impact on the organization cannot be made.

As at January 31, 2022, the organization has experienced no significant adverse impact on revenue, cash flows, working capital levels or liability balances, which may have a direct impact on the organization's operating results and financial position in the future.

Governments and banks have introduced several monetary and fiscal measures designed to stabilize economic conditions. The success of these measures is not currently determinable.