

**LUTHERAN EAST DISTRICT**  
FINANCIAL STATEMENTS  
JANUARY 31, 2023

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## 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, 2023** and the statements of operations, fund balances 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, 2023** 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, 2023 and 2022, current assets as at January 31, 2023 and 2022, and fund balances as at February 1 and January 31 for both the 2023 and 2022 year ends. Our audit opinion on the financial statements for the year ended January 31, 2022 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.
- (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.

## INDEPENDENT AUDITORS' REPORT - continued

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.



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

Stratford, Ontario  
May 24, 2023



**Lutheran East District**  
**Statement of Financial Position**  
As at January 31, 2023

**ASSETS**

	2023	2022
<b>Current Assets</b>		
Cash	\$ 256,129	\$ 1,216,865
Accounts receivable (net of allowance)	25,848	16,665
Interest receivable	6,001	169
Prepaid expenses	13,735	24,257
HST receivable	37,284	13,213
Guaranteed Investment Certificates - rates between 2.25% - 4.45%, maturing between June, 2023 and December, 2023	<u>1,284,581</u>	<u>604,512</u>
	<b>\$ 1,623,578</b>	<u><b>1,875,681</b></u>
<b>Non-Current Assets</b>		
Kindred Credit Union member shares - <i>at cost</i>	30	-
The RaeLipskie Partnership equities and bonds - <i>at market value</i>	-	1,278,160
Church Extension Fund loans (Note 6)	-	66,789
Mortgage receivable - 2847162 Ontario Inc. 3.80%, payable \$ 3,865 monthly, due June, 2024	720,602	739,653
Property, plant and equipment (Note 8)	248,121	252,892
Other properties (Note 7)	<u>-</u>	<u>369,044</u>
	<u><b>968,753</b></u>	<u><b>2,706,538</b></u>
	<b>\$ <u>2,592,331</u></b>	<b>\$ <u>4,582,219</u></b>

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, 2023

**LIABILITIES**

	2023	2022
<b>Current Liabilities</b>		
Bank overdraft	\$ -	\$ 383,223
Accounts payable	225,000	54,213
Interest payable	1,047	1,161
Savings stamps, non-interest bearing, due on demand	3,663	3,719
Savings deposits, non-interest bearing, due on demand	52,033	55,240
Notes and savings certificates, non-interest bearing, due on demand	<u>89,779</u>	<u>106,880</u>
	<b>\$ 371,522</b>	<u>604,436</u>

**FUND BALANCES**

Unrestricted	2,031,970	1,042,190
Restricted	188,839	760,315
Church Extension Fund	-	2,055,298
Endowment	<u>-</u>	<u>119,980</u>
	<u><b>2,220,809</b></u>	<u>3,977,783</u>
	<b>\$ <u>2,592,331</u></b>	<b>\$ <u>4,582,219</u></b>

(See Accompanying Notes to the Financial Statements)

**Lutheran East District**  
**Statement of Changes in Fund Balances**  
For the year ended January 31, 2023

	Current Funds		Church Extension	Endowment	Total all Funds	
	Unrestricted	Restricted	Fund	Fund	2023	2022
<b>Fund balances - beginning of year</b>	\$ 1,042,190	\$ 760,315	\$ 2,055,298	\$ 119,980	\$ 3,977,783	\$ 2,872,365
Distribution of surplus to East Region congregations (Note 2)	(500,000)	-	-	-	(500,000)	-
Transfer to Lutheran Church Canada (Note 2, Note 3d)	(225,000)	-	-	(119,980)	(344,980)	-
Increase (decrease) in fund balances for the year	<u>(340,518)</u> (23,328)	<u>(1,476)</u> 758,839	<u>-</u> 2,055,298	<u>-</u> -	<u>(341,994)</u> 2,790,809	<u>1,105,418</u> 3,977,783
Interfund transfers (Note 3c, Note 9)	<u>2,055,298</u>	<u>(570,000)</u>	<u>(2,055,298)</u>	<u>-</u>	<u>(570,000)</u>	<u>-</u>
<b>Fund balances - end of year</b>	<u>\$ 2,031,970</u>	<u>\$ 188,839</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,220,809</u>	<u>\$ 3,977,783</u>

(See Accompanying Notes to the Financial Statements)

**Lutheran East District**  
**Statement of Operations**  
For the year ended January 31, 2023

	2023	2022
<b>Revenue</b>		
Individuals and agencies	\$ 8,732	\$ 19,782
Interest income - bank	16,513	31
Interest income - loans	28,320	129,024
Investment income and market value appreciation of investments (Note 4(c))	-	1,008,786
Moving assessments	-	872
Net gain on disposal of Church Extension Fund properties	231,676	708,922
Rent	<u>6,177</u>	<u>5,023</u>
	<b>\$ 291,418</b>	<b><u>1,872,440</u></b>
<b>Expenditures</b>		
Special projects	59,279	35,000
Amortization	4,771	5,387
Investment management fees (recovery)	(24,378)	57,008
Maintenance - properties formerly of the CEF	4,858	38,294
Interest	73	299,497
Market value depreciation of investments (Note 4(c))	74,792	-
Bad debts (recovery)	(733)	8,160
Contribution to Lutheran Church - Canada	265,000	165,000
Moving fund	1,476	-
Wages	34,427	63,912
Employee pension and benefits	153,408	21,686
Building maintenance and utilities	16,096	11,988
Professional fees	19,247	28,640
Insurance	15,858	17,159
Administration	<u>9,238</u>	<u>15,291</u>
	<b><u>633,412</u></b>	<b><u>767,022</u></b>
Increase (decrease) in fund balances for the year	<b>\$ <u>(341,994)</u></b>	<b>\$ <u>1,105,418</u></b>

(See Accompanying Notes to the Financial Statements)



**Lutheran East District**  
**Statement of Cash Flows**  
For the year ended January 31, 2023

	2023	2022
<b>Cash Provided By (Used In):</b>		
<b>Operating Activities</b>		
Increase (decrease) in fund balances for the year	\$ (341,994)	\$ 1,105,418
Items not requiring cash		
Amortization of property, plant and equipment	4,771	5,387
Gain on disposal of property	(231,676)	(708,922)
Decrease (increase) in accounts receivable	(9,183)	17,053
Decrease (increase) in HST receivable	(24,071)	(5,392)
Decrease (increase) in interest receivable	(5,832)	7,554
Decrease (increase) in prepaid expenses	10,522	2,586
Increase (decrease) in accounts payable and accrued liabilities	170,787	8,213
Increase (decrease) in interest payable	<u>(114)</u>	<u>(289,941)</u>
	<b>\$ (426,790)</b>	<b><u>141,956</u></b>
<b>Investing Activities</b>		
Decrease in loans receivable	85,840	2,531,342
Increase in other properties	(672)	(5,158)
Proceeds from disposal of other properties	601,392	1,515,223
Decrease in investments	<u>598,061</u>	<u>13,864,757</u>
	<b>1,284,621</b>	<b><u>17,906,164</u></b>
<b>Financing Activities</b>		
Decrease in savings stamps	(56)	(1,500)
Decrease in savings deposits	(3,207)	(1,938,543)
Payments on notes and savings certificates	(17,101)	15,790,424)
Transfers to East Region congregations	(500,000)	-
Transfers to Lutheran Church - Canada	(344,980)	-
Transfer of fund balances	<u>(570,000)</u>	<u>-</u>
	<b><u>(1,435,344)</u></b>	<b><u>17,730,467)</u></b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(577,513)</b>	<b>317,653</b>
<b>Cash and cash equivalents - beginning of year</b>	<b><u>833,642</u></b>	<b><u>515,989</u></b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ <u>256,129</u></b>	<b>\$ <u>833,642</u></b>
<b>Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents comprise the following balance sheet amounts:</b>		
Cash	256,129	1,216,865
Bank overdraft	<u>-</u>	<u>(383,223)</u>
	<b>\$ <u>256,129</u></b>	<b>\$ <u>833,642</u></b>

(See Accompanying Notes to the Financial Statements)

**Lutheran East District**  
**Notes to the Financial Statements**  
For the year ended January 31, 2023

**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)(1) 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.

During the year the Board of Directors approved a plan to distribute the surplus funds of the District half to Lutheran Church - Canada and half to member congregations of the District on a pro rata basis based on their communicant membership. During the year the first instalment of these funds was paid in the amount of \$ 225,000 to Lutheran Church - Canada and \$ 500,000 to member congregations. The remainder will be paid before dissolution.

**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. This Fund ceased operations in 2022 and the remaining assets and liabilities have been combined with those of the Unrestricted General Fund.



**Lutheran East District**  
**Notes to the Financial Statements**  
For the year ended January 31, 2023

**3. Fund Accounting (continued)**

(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. Pursuant to the criteria which established this Fund, the balance of the Endowment was transferred to Lutheran Church - Canada during the year.

**4. Accounting Policies**

These financial statements have been prepared in accordance with 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 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.

(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.

**Lutheran East District**  
**Notes to the Financial Statements**  
For the year ended January 31, 2023

**4. Accounting Policies (continued)**

(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. Comparative Figures**

Certain of the 2022 figures on the balance sheet and the statement of operations have been reclassified to conform to the 2023 financial statement presentation.

**6. Church Extension Fund Loans**

Church Extension Fund loans and receivables as at January 31, 2023 are classified as follows:

	<b>Balance</b>			<b>Balance</b>	<b>Interest</b>
	<b>Jan. 31/22</b>	<b>Increase</b>	<b>Decrease</b>	<b>Jan. 31/23</b>	<b>Received</b>
Our Saviour, Niagara Falls Loan					
- Church	\$ 43,185	\$ -	\$ 43,185	\$ -	\$ -
Christ, Timmins Loan - Church	<u>23,604</u>	<u>-</u>	<u>23,604</u>	<u>-</u>	<u>96</u>
<b>Total Loans</b>	<b><u>\$ 66,789</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 66,789</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 96</u></b>

**7. Church Extension Fund Properties**

Church Extension Fund properties as at January 31, 2023 are classified as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>Jan. 31/22</b>	<b>Increase</b>	<b>Decrease</b>	<b>Jan. 31/23</b>
<b>Properties Leased/Provided to Congregations</b>				
St. Paul's, Cobourg Leased property - Church	\$ 87,296	\$ 672	\$ 87,968	\$ -
Good Shepherd, Moncton Leased property - Church	<u>281,748</u>	<u>-</u>	<u>281,748</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 369,044</u></b>	<b><u>\$ 672</u></b>	<b><u>\$ 369,716</u></b>	<b><u>\$ -</u></b>



**Lutheran East District**  
**Notes to the Financial Statements**  
For the year ended January 31, 2023

**8. Property, Plant and Equipment**

	2023		2022	
	<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	331,984	400,268	327,213
Equipment	171,642	171,642	142,930	142,930
Furniture and fixtures	<u>15,571</u>	<u>15,571</u>	<u>15,571</u>	<u>15,571</u>
	<u>\$ 767,318</u>	<u>\$ 519,197</u>	<u>\$ 738,606</u>	<u>\$ 485,714</u>
<b>Net Book Value</b>	<u>\$ 248,121</u>		<u>\$ 252,892</u>	
<b>CEF Equipment</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,712</u>	<u>\$ 28,712</u>

**9. Interfund Transfers**

In 2010 the board of directors approved a transfer of funds in the amount of \$ 570,000 from the Church Extension Fund to the Current Fund to be used to support mission and ministry in the East District. This was recorded ultimately as a portion of the Restricted Fund balance and an offsetting Interfund Receivable in the Current Fund (Unrestricted). The funds have been used in the current year to pay amounts relating to French ministry, domestic missions, and other mission and ministry projects. This has been recorded as a decrease in Restricted Fund balance and a decrease in Current Fund (Unrestricted) assets.

**10. Unclaimed CEF Accounts**

Included in the savings stamps, savings deposits, and notes and savings certificates liabilities is an amount of \$ 145,475 (2022 - \$ 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.

**11. 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%.

**12. Contingent Liabilities**

As at January 31, 2023, Lutheran East District has outstanding letters of credit totalling \$ 31,831 (2022 - \$ 31,831) which have been issued as collateral security for ongoing operational activities.

**Lutheran East District**  
**Notes to the Financial Statements**  
For the year ended January 31, 2023

**13. Subsequent Events**

Subsequent to year end, the District reached an agreement to sell the office building for \$ 1,025,000. The closing date for this agreement is September 6, 2023.

**14. 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. 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.

**15. 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.