

# **Lutherwood**

Financial Statements  
**March 31, 2020**



## *Independent auditor's report*

To the Board of Governors of Lutherwood

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### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Lutherwood (the Organization) as at March 31, 2020 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.

#### **What we have audited**

The Organization's financial statements comprise:

- the statement of financial position as at March 31, 2020;
- the statement of changes in net assets for the year then ended;
- the statement of operations for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

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### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.



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

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.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Ontario

June 23, 2020

**Lutherwood**  
Statement of Financial Position  
As at March 31, 2020

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	2020 \$	2019 \$
<b>Assets</b> (note 12)		
<b>Current assets</b>		
Cash and cash equivalents	2,212,445	2,350,532
Short-term investments	1,738,848	1,616,750
Accounts receivable (note 9)	2,478,144	2,697,371
Inventory	43,160	46,325
Loan receivable from Lutherwood Child and Family Foundation (note 9)	15,833	1,515,935
Prepaid expenses	317,458	375,181
	<hr/>	<hr/>
	6,805,888	8,602,094
<b>Loan receivable from Lutherwood Child and Family Foundation</b> (note 9)	1,496,241	-
<b>Property, plant and equipment</b> (note 3)	966,160	14,970,553
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	9,268,289	23,572,647
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<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (notes 7 and 9)	2,687,575	3,582,134
Deferred revenue (note 4)	2,576,095	1,634,058
Long-term debt – current portion (note 5)	36,943	505,457
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	5,300,613	5,721,649
<b>Long-term debt</b> (note 5)	57,932	14,727,640
<b>Deferred contributions</b> (note 6)	564,659	462,141
	<hr/>	<hr/>
	5,923,204	20,911,430
	<hr/>	<hr/>
<b>Net assets</b>		
Net assets invested in property, plant and equipment	402,268	181,879
Net assets internally restricted	417,764	595,019
Net assets externally restricted	-	310,222
Unrestricted net assets	2,525,053	1,574,097
	<hr/>	<hr/>
	3,345,085	2,661,217
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	9,268,289	23,572,647
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<b>Commitments</b> (note 8)		

**Approved by the Board of Governors**

\_\_\_\_\_ Governor \_\_\_\_\_ Governor

The accompanying notes are an integral part of these financial statements.

## Lutherwood

### Statement of Changes in Net Assets

For the year ended March 31, 2020

	Invested in property, plant and equipment \$	Internally restricted \$	Externally restricted \$	Unrestricted \$	Total \$
<b>Fund balances – March 31, 2018</b>	(399,639)	572,033	260,210	119,525	552,129
Excess of revenues over expenses (expenses over revenues)	(751,369)	22,986	50,012	2,787,459	2,109,088
Proceeds on sale of assets	1,515,935	-	-	(1,515,935)	-
Gain on sale of assets	(1,001,854)	-	-	1,001,854	-
Investment in property, plant and equipment	487,755	-	-	(487,755)	-
Deferred contributions	(52,676)	-	-	52,676	-
Repayment of long-term debt	388,683	-	-	(388,683)	-
Change in working capital related to property, plant and equipment	(4,956)	-	-	4,956	-
<b>Fund balances – March 31, 2019</b>	181,879	595,019	310,222	1,574,097	2,661,217
Excess of revenues over expenses (expenses over revenues)	(313,721)	(177,255)	(310,222)	1,485,066	683,868
Proceeds on sale of assets (note 9)	4,388,281	-	-	(4,388,281)	-
Gain on sale of assets	(5,288,640)	-	-	5,288,640	-
Investment in property, plant and equipment	461,359	-	-	(461,359)	-
Asset transfer (note 9)	(14,099,308)	-	-	14,099,308	-
Deferred contributions	(167,400)	-	-	167,400	-
Repayment of long-term debt	15,138,222	-	-	(15,138,222)	-
Change in working capital related to property, plant and equipment	101,596	-	-	(101,596)	-
<b>Fund balances – March 31, 2020</b>	402,268	417,764	-	2,525,053	3,345,085

The accompanying notes are an integral part of these financial statements.

# Lutherwood

## Statement of Operations

For the year ended March 31, 2020

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	2020	2019
	\$	\$
<b>Revenues</b>		
Ministry of Community and Social Services and Ministry of Children's Services	5,862,329	5,638,570
Ministry of Children and Youth Services	2,084,222	2,086,135
Ministry of Labour, Training and Skills Development	4,395,189	5,175,024
Service Canada	60,842	30,328
Regional Municipality of Waterloo	5,818,958	5,222,445
Ministry of Health and Long-term Care	1,322,798	1,301,598
Ministry of the Attorney General	337,755	339,368
Ministry of Citizenship and Immigration / Citizenship and Immigration Canada	359,659	464,683
Government funding-other	-	31,624
Seniors' Services	8,661,099	8,504,280
Lutherwood Child and Family Foundation (note 9)	1,884,749	1,548,895
Fee for service	2,765,889	2,403,163
Amortization of deferred contributions	52,723	527,075
Contribution revenue (note 3)	5,288,533	6,134,065
Miscellaneous	240,507	255,808
	<hr/>	<hr/>
	39,135,252	39,663,061
<b>Expenses</b>		
Salaries and benefits	21,987,088	20,091,855
Cost of goods and services	559,074	582,814
Participant costs	1,643,139	2,003,333
Travel	162,841	168,889
Staff development	151,546	209,092
Building occupancy	3,815,794	2,351,583
Purchased services	2,406,769	2,353,636
Program expenses	1,645,889	1,607,033
Professional services	194,046	203,183
Advertising and promotion	67,536	94,977
Office expenses	604,204	679,253
Interest	150,954	797,670
Amortization of property, plant and equipment	366,444	1,278,444
Contribution expense (note 9)	4,696,060	5,132,211
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	38,451,384	37,553,973
<b>Excess of revenues over expenses</b>	<hr/>	<hr/>
	683,868	2,109,088

The accompanying notes are an integral part of these financial statements.

# Lutherwood

## Statement of Cash Flows

For the year ended March 31, 2020

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	2020 \$	2019 \$
<b>Cash and cash equivalents provided by (used in)</b>		
<b>Operating activities</b>		
Excess of revenues over expenses	683,868	2,109,088
Amortization of property, plant and equipment	366,444	1,278,444
Loss on disposal of property, plant and equipment and deferred contributions	(900,252)	514,080
Amortization of deferred contributions related to property, plant and equipment	(52,723)	(527,075)
	97,337	3,374,537
Net change in non-cash working capital	347,690	(945,179)
	445,027	2,429,358
<b>Investing activities</b>		
Purchases of property, plant and equipment	(481,456)	(366,122)
Purchase of short-term investments	(122,098)	(1,602,902)
Loan receivable from Lutherwood Child and Family Foundation	3,861	(1,515,935)
	(599,693)	(3,484,959)
<b>Financing activities</b>		
Repayment of long-term debt	(150,821)	(388,683)
Deferred contributions received	167,400	52,676
	(16,579)	(336,007)
<b>Decrease in cash and cash equivalents</b>	(138,087)	(1,391,608)
<b>Cash and cash equivalents – Beginning of year</b>	2,350,532	3,742,140
<b>Cash and cash equivalents – End of year</b>	2,212,445	2,350,532
<b>Supplemental disclosure</b>		
Interest paid	150,954	797,670

The accompanying notes are an integral part of these financial statements.



# Lutherwood

## Notes to Financial Statements

March 31, 2020

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### 1 Purpose of the Organization

Lutherwood, (the Organization) founded in the Christian community, to inspire hope and strengthen lives by offering high quality mental health, employment and housing services.

Lutherwood is incorporated without share capital under the Laws of Ontario, as a not-for-profit organization and is a registered charity under the Income Tax Act.

### 2 Basis of accounting

#### Accounting principles

The Organization prepares its financial statements in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

Lutherwood follows the deferral method of accounting for contributions towards property, plant and equipment.

#### Fund accounting

The internally restricted fund represents monies set aside to provide innovation, flexibility and stability in service delivery, both currently and in the future. In addition, this fund is to ensure the retention of highly skilled staff, to supplement employee benefit costs, to provide assistance with renovation costs of agency facilities, to assist in the replacement of equipment required in the delivery of service to clients, and for other purposes as determined from time to time by the Board of Governors.

#### Restricted Funds

Externally Restricted Funds include a Mortgage Escrow account with First National Bank of \$nil (2019 – \$310,222). The balance of the Mortgage Escrow account was transferred to Lutherwood Child and Family Foundation to accompany the asset transfer noted in note 9.

Internally Restricted Funds include the following amounts:

- Capital Reserve for 141 Father David Bauer Drive of \$115,047 (2019 – \$292,302);
- Employee Welfare Reserve of \$165,144 (2019 – \$165,144);
- General Capital Reserve of \$137,573 (2019 – \$137,573).

# Lutherwood

## Notes to Financial Statements

March 31, 2020

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### Revenue recognition

Restricted contributions are recognized as revenue of the appropriate fund in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue of the appropriate fund when received or receivable if the amount to be received can be reasonably estimated and collectability is reasonably assured.

Lutherwood recognizes revenue when it is realized or realizable and earned. Lutherwood considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the product has been delivered or the services have been provided to the customer, the sales price is fixed or determinable and collectability is reasonably assured.

### Donated goods and services

Donated goods are recorded as in-kind revenue in the financial statements as the fair market value or the gift received. Donated volunteer time and labour is not recognized in the financial statements because of the difficulty in determining the fair market value.

### Cash and cash equivalents

Cash and cash equivalents include Membership Shares with Kindred Credit Union of \$77,895 (2019 – \$77,258).

### Short-term investments

Short-term investments consist of Guaranteed Investment Certificates (GICs) with maturities of between three months and one year. Interest on these GICs range from 0.95% to 1.97%.

### Property, plant and equipment

Purchased property, plant and equipment are recorded at cost. Contributed property, plant and equipment are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis over the assets' estimated useful lives as follows:

Building improvements	10 – 20 years
Equipment and furniture	3 – 10 years
Pavement	20 years
Leasehold improvements	5 years
Automotive equipment	5 years

The Organization does not take amortization on its fine art collection.

A policy has been adopted whereby costs and accumulated depreciation relating to assets no longer in use and equipment completely written off will be removed from the accounting records.

# Lutherwood

## Notes to Financial Statements

March 31, 2020

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### Measurement uncertainty

The preparation of financial statements in conformity with accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

### Financial instruments

The Organization's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, loan receivable from Lutherwood Child and Family Foundation, accounts payable and long-term debt.

The Organization records its financial instruments initially at fair value and subsequently they are recorded at amortized cost.

The aggregate amount of financial instruments recorded at amortized cost is an asset of \$5,159,061 (2019 – \$10,634,643).

Financial assets are tested for impairment at the end of each reporting period where there are indications that the assets may be impaired. Any excess of the carrying amount of the financial assets over the recoverable amount is recorded as an impairment charge. A previously recognized impairment charge may be reversed in future periods.

### 3 Property, plant and equipment

			2020
	Cost	Accumulated amortization	Net
	\$	\$	\$
Building improvements	441,151	58,384	382,767
Equipment and furniture	1,944,418	1,458,884	485,534
Pavement	19,339	9,428	9,911
Leasehold improvements	887,368	862,097	25,271
Automotive equipment	66,722	65,420	1,302
Fine Art	61,375	-	61,375
	<u>3,420,373</u>	<u>2,454,213</u>	<u>966,160</u>

# Lutherwood

## Notes to Financial Statements

March 31, 2020

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			<b>2019</b>
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Land	731,250	-	731,250
Buildings	19,772,825	7,531,819	12,241,006
Building improvements	1,531,483	406,308	1,125,175
Equipment and furniture	2,331,088	1,693,078	638,010
Pavement	53,473	18,190	35,283
Leasehold improvements	1,140,513	1,004,478	136,035
Automotive equipment	66,722	64,303	2,419
Fine Art	61,375	-	61,375
	<u>25,688,729</u>	<u>10,718,176</u>	<u>14,970,553</u>

In the current year and prior year, certain assets were transferred to Lutherwood Child and Family Foundation (the Foundation). Refer to note 9 for further details.

#### 4 Deferred revenue

Deferred revenue includes year to date unspent or carry forward funding from the following resources:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Sunshine resident deposits	749,816	710,769
Directed donations and grants	995,647	194,775
Region of Waterloo	770,842	659,196
Ministry of Community and Social Service	15,995	15,995
Other	43,795	53,323
	<u>2,576,095</u>	<u>1,634,058</u>

# Lutherwood

## Notes to Financial Statements

March 31, 2020

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### 5 Long-term debt

	2020 \$	2019 \$
First charge/mortgage on land at 141 Father David Bauer Drive in favour of First National Financial Corporation due May 1, 2040, interest calculated at 5.465%, monthly payments of \$80,888 including principal and interest	-	12,224,511
Unsecured promissory note in favour of the Foundation due March 31, 2019, amortized over 22 years, interest calculated at 4%, monthly payments of \$19,941 including principal and interest	-	2,695,690
Unsecured promissory note in favour of the Foundation due December 1, 2021, interest calculated at 4%, monthly payments of \$368 including principal and interest	7,458	11,492
Unsecured promissory note in favour of the Foundation due December 1, 2023, interest calculated at 4%, monthly payments of \$916 including principal and interest	38,210	47,470
Unsecured promissory note in favour of the Foundation due October 1, 2027, interest calculated at 4%, monthly payments of \$2,097 including principal and interest	-	182,523
Unsecured promissory note in favour of the Foundation due April 1, 2022, interest calculated at 4%, monthly payments of \$2,055 including principal and interest	49,207	71,411
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	94,875	15,233,097
Less: Current portion	36,943	505,457
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	57,932	14,727,640

# Lutherwood

## Notes to Financial Statements

March 31, 2020

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### 6 Deferred contributions related to property, plant and equipment

Deferred contributions related to property, plant and equipment fund include the unamortized portions of contributed property, plant and equipment and restricted contributions with which Lutherwood's property, plant and equipment were originally purchased.

The changes for the year in the deferred contributions balance are as follows:

	2020 \$	2019 \$
Balance – Beginning of year	462,141	7,070,605
Amounts received:		
Ministry of Community and Social Services and Ministry of Children's Services	-	18,000
The Foundation	167,400	21,513
Other	-	13,163
Recognized deferred contributions on disposal of assets	(12,159)	(6,134,065)
Amounts amortized to revenue	(52,723)	(527,075)
Balance – End of year	<u>564,659</u>	<u>462,141</u>

### 7 Government remittances

At March 31, 2020, the Organization has outstanding government remittances payable including amounts for federal and provincial sales tax, payroll taxes, health taxes, and workers' safety insurance premiums of \$108,636 (2019 – \$120,791). None of these remittances are in arrears.

### 8 Commitments

The following is a schedule of future minimum lease payments for facility rentals and computer equipment:

	\$
2021	2,439,342
2022	150,109
2023	125,541
2024	29,340
	<u>2,744,332</u>

# Lutherwood

## Notes to Financial Statements

March 31, 2020

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### 9 Related party transactions

Included in accounts receivable is \$750,349 (2019 – \$181,863) owing from the Foundation. Included in accounts payable is \$6,627 (2019 – \$500) owing to the Foundation. The Foundation uses the services of Lutherwood to provide premiere housing services to seniors. The cost of these services amounted to \$782,324 (2019 – \$631,476). In addition, the Foundation paid construction management fees of \$517 (2019 – \$1,791) and charged premise rent of \$7,797 (2019 – \$7,543) to Lutherwood. Lutherwood received grants of \$1,884,749 (2019 – \$1,548,895) from the Foundation.

On March 29, 2019, the Organization transferred assets with a net book value of \$6,648,146 to the Foundation at fair value of \$7,650,000. The related deferred contributions of \$6,134,065 were recognized as contribution revenue. In 2019, the Foundation provided a loan receivable of \$1,515,935 in exchange for these assets. The terms of the loan were finalized in December 2019, as described below.

On June 29, 2019, the Organization transferred assets with a net book value of \$14,099,308 to a the Foundation at fair value of \$19,400,000. The related deferred contributions of \$12,159 were recognized as contribution revenue. The resulting loan receivable of \$4,388,281 in exchange for these assets was gifted to Lutherwood Child and Family Foundation and recorded as a contribution expense.

	2020	2019
	\$	\$
Unsecured loan receivable from the Foundation due December 1, 2059, interest calculated at 4%, monthly payments of \$6,336 including principal and interest	1,512,074	1,515,935
Less: Current principal payments	15,833	1,515,935
	<u>1,496,241</u>	<u>-</u>

### 10 Economic dependence

Lutherwood relies on funding from provincial and federal ministries to operate a significant number of its programs. Consequently, Lutherwood's ability to continue operating these programs is subject to variability inherent in the Ministry and Municipal funding agencies.

# Lutherwood

## Notes to Financial Statements

March 31, 2020

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### 11 Financial instruments

#### Credit risk

The Organization is exposed to credit risk from its cash and cash equivalents, short-term investments and accounts receivable. Management considers its exposure to credit risk attributable to cash and cash equivalents and short-term investments to be low as they are held in major financial institutions. Accounts receivable bear low risk as they are amounts from government agencies.

#### Interest rate risk

Certain credit facilities bear interest at variable rates. Consequently, Lutherwood is exposed to interest rate risk associated with these liabilities.

### 12 Credit facilities

Lutherwood has established an operating line of credit of up to \$1,000,000 bearing interest at prime due on demand. This facility is secured by the following:

- a) All of Lutherwood's present personal property and all personal property acquired in the future.
- b) Debenture security for \$2,500,000 conveying a first fixed charge over the property at 285 Benjamin Road, Waterloo plus acknowledged assignment of fire and other perils insurance, with loss payable to the lender.

At March 31, 2020, \$nil (2019 – \$nil) of this credit facility has been utilized.

### 13 Significant event

On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Organization's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors that management is not currently able to predict. The Organization receives significant funding from Provincial and Federal ministries, for which to date the funders have confirmed funding moving forward and have allowed some flexibility in the costs incurred, targets to be maintained and traditional reporting deadlines. Other potential impacts include, but are not limited to, additional costs for responding to COVID-19 including personal protective equipment required to facilitate the programs and services the Organization provides, potential shortages of personnel and additional program costs to serve clients virtually. In addition to this, there is potential impacts to the seniors population and occupancy rates, which would have a potential impact on the senior services revenues earned by the Organization. Management believes the Organization is taking appropriate actions to respond to the pandemic; however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available for issuance.