

Lutherwood

Financial Statements
March 31, 2018



June 19, 2018

Independent Auditor's Report

To the Board of Governors of Lutherwood

We have audited the accompanying financial statements of Lutherwood, which comprise the statement of financial position as at March 31, 2018 and the statements of changes in net assets, operations, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lutherwood as at March 31, 2018 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Lutherwood
Statement of Financial Position
As at March 31, 2018

	2018 \$	2017 \$
Assets (notes 5 and 12)		
Current assets		
Cash and cash equivalents	3,755,988	2,376,926
Accounts receivable (note 9)	2,026,330	1,682,125
Inventory	29,097	29,767
Prepaid expenses	257,548	178,827
	6,068,963	4,267,645
Property, plant and equipment (note 3)	22,409,387	22,686,062
	28,478,350	26,953,707
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 7 and 9)	3,698,174	2,684,403
Deferred revenue (note 4)	1,535,662	1,531,977
Long-term debt - current portion (note 5)	460,094	421,272
	5,693,930	4,637,652
Long-term debt (note 5)	15,161,686	15,421,780
Deferred contributions (note 6)	7,070,605	7,236,402
	27,926,221	27,295,834
Net assets		
Net assets invested in property, plant and equipment	(399,639)	(579,764)
Net assets internally restricted	572,033	990,964
Net assets externally restricted	260,210	210,210
Unrestricted net assets	119,525	(963,537)
	552,129	(342,127)
	28,478,350	26,953,707

Commitments (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, 2018

	Invested in property, plant and equipment \$	Internally restricted \$	Externally restricted \$	Unrestricted \$	Total \$
Fund balances - March 31, 2016	(336,247)	275,650	-	(542,362)	(602,959)
Excess of revenues over expenses (expenses over revenues)	(789,826)	655	-	1,050,003	260,832
Investment in property, plant and equipment	693,493	-	-	(693,493)	-
Deferred contributions	(391,585)	-	-	391,585	-
Repayment of long-term debt	305,173	-	-	(305,173)	-
Change in working capital related to property, plant and equipment	(60,772)	-	-	60,772	-
Transfers (refer note 2 "restricted funds")	-	714,659	210,210	(924,869)	-
Fund balances - March 31, 2017	(579,764)	990,964	210,210	(963,536)	(342,127)
Excess of revenues over expenses (expenses over revenues)	(759,470)	(418,931)	50,000	2,022,657	894,256
Investment in property, plant and equipment	952,525	-	-	(952,525)	-
Deferred contributions	(303,932)	-	-	303,932	-
Repayment of long-term debt	221,272	-	-	(221,272)	-
Change in working capital related to property, plant and equipment	69,730	-	-	(69,730)	-
Fund balances - March 31, 2018	(399,639)	572,033	260,210	119,525	552,129

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

Lutherwood

Statement of Operations

For the year ended March 31, 2018

	2018 \$	2017 \$
Revenues		
Ministry of Community and Social Services and Ministry of Children's Services	6,878,275	5,812,817
Ministry of Children and Youth Services	2,086,029	2,086,912
Ministry of Advanced Education and Skills Development	4,792,645	6,126,004
Service Canada	90,763	135,042
Regional Municipality of Waterloo	3,201,946	2,939,412
Ministry of Health and Long-term Care	1,301,194	1,280,166
Ministry of the Attorney General	337,755	337,755
Ministry of Citizenship and Immigration / Citizenship and Immigration Canada	298,786	224,750
Government funding-other	130,970	125,181
Seniors' Services	7,470,733	7,285,871
Lutherwood Child and Family Foundation	2,078,738	1,056,010
Fee for service	1,748,500	1,687,346
Amortization of deferred contributions	469,729	489,283
Miscellaneous	272,177	218,712
	<u>31,158,240</u>	<u>29,805,261</u>
Expenses		
Salaries and benefits	17,864,335	17,376,344
Cost of goods / services	556,996	492,668
Participant costs	1,896,302	2,684,780
Travel	143,302	148,471
Staff development	255,983	187,031
Building occupancy	2,238,539	2,065,550
Purchased services	2,784,632	1,990,940
Program expenses	1,528,794	1,370,663
Professional services	210,193	190,830
Advertising and promotion	97,524	128,439
Office expenses	645,052	798,601
Interest	813,133	831,003
Amortization of property, plant and equipment	1,229,199	1,279,109
	<u>30,263,984</u>	<u>29,544,429</u>
Excess of revenues over expenses	<u>894,256</u>	<u>260,832</u>

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

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Statement of Cash Flows

For the year ended March 31, 2018

	2018 \$	2017 \$
Cash and cash equivalents provided by (used in)		
Operating activities		
Excess of revenues over expenses	894,256	260,832
Amortization of property, plant and equipment	1,229,199	1,279,109
Amortization of deferred contributions related to property, plant and equipment	(469,729)	(489,283)
	<u>1,653,726</u>	<u>1,050,658</u>
Net change in non-cash working capital	478,464	(876,574)
	<u>2,132,190</u>	<u>174,084</u>
Investing activities		
Cash purchases of property, plant and equipment	(835,788)	(507,027)
Financing activities		
Repayment of long-term debt	(221,272)	(305,173)
Deferred contributions received	303,932	391,585
	<u>82,660</u>	<u>86,412</u>
Increase (decrease) in cash and cash equivalents	1,379,062	(246,531)
Cash and cash equivalents - Beginning of year	<u>2,376,926</u>	<u>2,623,457</u>
Cash and cash equivalents - End of year	<u>3,755,988</u>	<u>2,376,926</u>
Supplemental disclosure		
Interest paid	813,133	831,003

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

Lutherwood

Notes to Financial Statements

March 31, 2018

1 Purpose of the organization

Lutherwood, (the “organization”) founded in the Christian community, is dedicated to building better futures with individuals, families and communities.

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 \$260,210 (2017 - \$210,210).

Internally Restricted Funds include the following amounts:

- Capital Reserve for 141 Father David Bauer Drive of \$270,055 (2017 - \$689,659)
- Employee Welfare Reserve of \$165,144 (2017 - \$165,144)
- General Capital Reserve of \$136,834 (2017 - \$136,161)

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.

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Notes to Financial Statements

March 31, 2018

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 \$76,650 (2017- \$76,141) and a Guaranteed Investment Certificate with TD Canada Trust of \$13,848 (2017-\$13,816).

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:

Buildings	40 years
Building improvements	10 - 20 years
Swimming pool	40 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.

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.

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Notes to Financial Statements

March 31, 2018

Financial instruments

The organization's financial instruments consist of cash and cash equivalents, accounts receivable, 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 a liability of \$13,537,636 (2017 - \$14,468,404).

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

	2018		
	Cost \$	Accumulated amortization \$	Net \$
Land	808,052	-	808,052
Buildings	26,593,871	9,547,529	17,046,342
Building improvements	3,874,364	1,021,129	2,853,235
Swimming pool	170,640	103,469	67,171
Equipment and furniture	3,394,675	2,155,429	1,239,246
Pavement	285,384	114,342	171,042
Leasehold improvements	1,434,895	1,277,258	157,637
Automotive equipment	66,722	61,435	5,287
Fine Art	61,375	-	61,375
	<u>36,689,978</u>	<u>14,280,591</u>	<u>22,409,387</u>

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Notes to Financial Statements

March 31, 2018

			2017
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Land	808,052	-	808,052
Buildings	26,593,871	8,900,265	17,693,606
Building improvements	3,272,034	806,833	2,465,201
Swimming pool	170,640	101,230	69,410
Equipment and furniture	3,123,272	1,854,820	1,268,452
Pavement	257,358	103,056	154,302
Leasehold improvements	1,432,087	1,276,329	155,758
Automotive equipment	66,722	56,816	9,906
Fine Art	61,375	-	61,375
	<u>35,785,411</u>	<u>13,099,349</u>	<u>22,686,062</u>

4 Deferred revenue

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

	2018	2017
	\$	\$
Sunshine resident deposits	655,107	555,201
Directed donations and grants	438,176	517,495
Region of Waterloo	231,467	247,995
Ministry of Citizenship and Immigration	71,731	-
Ministry of Advanced Education and Skills Development	45,154	-
Ministry of Education	15,785	111,067
Other	78,242	100,219
	<u>1,535,662</u>	<u>1,531,977</u>

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Notes to Financial Statements

March 31, 2018

5 Long-term debt

	2018 \$	2017 \$
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	12,525,691	12,811,062
Unsecured promissory note in favour of Lutherwood Child and Family Foundation due March 31, 2019, amortized over 22 years, interest calculated at 4%, monthly payments of \$19,941 including principal and interest	2,824,355	2,947,983
Unsecured promissory note in favour of Lutherwood Child and Family Foundation due December 1, 2021, interest calculated at 4%, monthly payments of \$368 including principal and interest	15,367	19,092
Unsecured promissory note in favour of Lutherwood Child and Family Foundation due December 1, 2023, interest calculated at 4%, monthly payments of \$916 including principal and interest	56,367	64,915
Unsecured promissory note in favour of Lutherwood Child and Family Foundation due October 27, 2017, interest calculated at 4%, monthly payments of \$2,097 including principal and interest	200,000	-
	<hr/> 15,621,780	<hr/> 15,843,052
Less: Current portion	460,094	421,272
	<hr/> 15,161,686	<hr/> 15,421,780

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Lutherwood has established a first charge/mortgage to finance construction of the building at 141 Father David Bauer Drive (the Property). The security for this facility shall cover all assets and revenues relating to the Property including:

- a) A registered first mortgage;
- b) An assignment of rents;
- c) A general security agreement over all inventory, equipment, vehicles, book debts, and other amounts of any nature or kind arising from the Property;
- d) Guarantee(s) of Lutherwood Child and Family Foundation on a joint and several basis; and
- e) An assignment of ancillary agreements.

Principal repayments required in each of the next five fiscal years and thereafter ending March 31 are:

	\$
2019	460,094
2020	483,253
2021	507,600
2022	531,787
2023	555,561
Thereafter	<u>13,083,485</u>
	<u>15,621,780</u>

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.

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Notes to Financial Statements

March 31, 2018

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

	2018 \$	2017 \$
Balance - Beginning of year	7,236,402	7,334,100
Amounts received:		
Ministry of Community and Social Services and Ministry of Children's Services	178,600	158,000
Youth Justice		11,500
Lutherwood Child and Family Foundation	116,268	19,892
Citizenship and Immigration Canada		116,507
Ministry of Advanced Education & Skills Development	9,064	85,686
Amounts amortized to revenue	<u>(469,729)</u>	<u>(489,283)</u>
Balance - End of year	<u>7,070,605</u>	<u>7,236,402</u>

7 Government remittances

At March 31, 2018, 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 \$120,791 (2017 - \$34,477). 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:

	\$
2019	618,784
2020	163,230
2021	49,377
2022	32,447
2023	<u>8,699</u>
	<u>872,537</u>

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Notes to Financial Statements

March 31, 2018

9 Related party transactions

Included in accounts receivable is \$151,912 (2017 - \$21,517) owing from Lutherwood Child and Family Foundation. Included in accounts payable is \$14,579 (2017 - \$20,000) owing to Lutherwood Child and Family Foundation. Lutherwood Child and Family Foundation uses the services of Lutherwood to provide premiere services to seniors. The cost of these services amounted to \$230,073 (2017 - \$232,465). In addition, Lutherwood Child and Family Foundation paid construction management fees of \$5,117 (2017 - \$10,869) and charged premise rent of \$7,289 (2017 - \$7,027) to Lutherwood. Lutherwood Child and Family Foundation also purchased services from Lutherwood in the amount of \$48,600 (2017 - \$48,500) and received grants of \$2,078,738 (2017 - \$965,602) from the Foundation.

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 political system.

11 Financial instruments

Credit risk

The organization is exposed to credit risk from its cash and cash equivalents and accounts receivable. Management considers its exposure to credit risk attributable to cash and cash equivalents 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, 2018, \$nil (2017 - \$nil) of this credit facility has been utilized.

Lutherwood

Notes to Financial Statements

March 31, 2018

13 Comparative figures

Comparative figures have been reclassified to conform to the current year's presentation.