

Financial Statements of

LUTHER COURT SOCIETY

And Independent Auditors' Report thereon

Year ended March 31, 2020



KPMG LLP
St. Andrew's Square II
800-730 View Street
Victoria BC V8W 3Y7
Canada
Tel 250-480-3500
Fax 250-480-3539

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Luther Court Society

Opinion

We have audited the financial statements of Luther Court Society (the Entity), which comprise:

- the balance sheet as at March 31, 2020
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2020 and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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 these requirements.

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

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 private enterprises, 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 the 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 Entity'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 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's to cease to continue as a going concern.



Page 3

- 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
- 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.

Report on Other Legal and Regulatory Requirements

As required by Societies Act (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting financial statements in accordance with Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding period.

KPMG LLP

Chartered Professional Accountants

Victoria, Canada

June 4, 2020

LUTHER COURT SOCIETY

Balance Sheet

March 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 3,600,809	\$ 3,952,106
Accounts receivable	176,461	264,174
Inventories	90,236	73,788
Prepaid expenses	37,747	30,802
	<u>3,905,253</u>	<u>4,320,870</u>
Property and equipment (note 4)	6,819,207	6,606,892
Total assets	\$ 10,724,460	\$ 10,927,762
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 226,530	\$ 198,074
Government remittances payable	31,979	53,166
Accrued interest payable	13,678	13,678
Accrued sick and severance benefits (note 5)	461,500	492,817
Wages payable	508,372	458,534
Rental damage deposits	18,456	18,800
Current portion of mortgage payable (note 10)	131,062	104,455
	<u>1,391,577</u>	<u>1,339,524</u>
Forgivable loan payable (note 9)	68,713	61,986
Deferred grant and donation revenue (note 7)	298,952	182,798
Deferred capital contributions (note 8)	3,199,805	3,474,752
Mortgage loan (note 10)	2,437,118	2,606,134
Total liabilities	7,396,165	7,665,194
Net Assets		
Invested in property and equipment (note 11)	1,515,315	1,451,037
Externally restricted for replacement reserves (note 12)	528,086	469,917
Internally restricted (note 13)	450,590	450,546
Unrestricted	834,304	891,068
Total net assets	3,328,295	3,262,568
Total liabilities and net assets	\$ 10,724,460	\$ 10,927,762

Contingent liabilities (notes 6, 9 and 10)

Commitments (note 16)

Subsequent event (notes 10 and 20)

See accompanying notes to financial statements.

On behalf of the Board:



LUTHER COURT SOCIETY

Statement of Operations

Year ended March 31, 2020, with comparative information for 2019

	Care	Rental	Programs	Development	2020	2019
Revenue:						
Contribution - Ministry of Health	\$ 4,153,629	\$ -	\$ -	\$ -	\$ 4,153,629	\$ 3,959,686
Resident's and client fees	1,331,395	362,627	85,839	-	1,779,861	1,692,098
Grants	11,016	265,032	1,077,850	-	1,353,898	1,235,552
Rental income	-	425,387	-	-	425,387	409,525
Amortization of deferred contributions (note 8)	263,569	11,378	-	-	274,947	205,247
Interest and other income	27,125	7,846	6,838	21,047	62,856	99,180
Gift shop and cafe operations	-	-	-	52,283	52,283	51,641
Fundraising and donations	-	-	-	52,914	52,914	265,856
Mortgage forgiveness (note 10)	-	53,713	-	-	53,713	53,713
Rental subsidies	-	(3,308)	-	-	(3,308)	(1,518)
	5,786,734	1,122,675	1,170,527	126,244	8,206,180	7,970,980
Expenses:						
Salaries and wages	3,753,802	508,568	740,229	28,730	5,031,329	4,629,516
Employee benefits	1,054,941	119,466	170,965	-	1,345,372	1,202,269
Food and supplies	256,593	143,856	31,759	-	432,208	393,009
Service contracts	125,531	(3,902)	38,787	8,917	169,333	190,903
Amortization - furniture, fixtures, computers	176,044	73,398	11,160	-	260,602	240,912
Amortization - building (note 4)	148,900	66,752	-	-	215,652	188,819
Supplies	167,535	6,032	922	-	174,489	185,161
Utilities	38,932	71,282	48,540	-	158,754	154,260
Repairs and maintenance	105,973	33,087	-	-	139,060	177,994
Mortgage interest	87,169	41,412	-	-	128,581	121,833
Office	29,938	6,606	1,100	4,535	42,179	48,161
Donations	-	-	-	6,951	6,951	2,500
Gift shop and cafe operations	-	-	-	32,297	32,297	33,158
Professional fees	11,703	8,261	6,884	6,389	33,237	31,775
Insurance	7,867	13,255	5,150	700	26,972	22,778
Personnel development	5,360	-	-	-	5,360	18,791
Membership dues and fees	7,382	1,181	-	-	8,563	15,843
Board expenses	-	-	-	4,254	4,254	7,788
Transportation	560	-	-	-	560	536
	5,978,230	1,089,254	1,055,496	92,773	8,215,753	7,666,006
Excess (deficiency) of revenue over expenses	\$ (191,496)	\$ 33,421	\$ 115,031	\$ 33,471	\$ (9,573)	\$ 304,974

See accompanying notes to financial statements.

LUTHER COURT SOCIETY

Statement of Changes In Net Assets

Year ended March 31, 2020, with comparative information for 2019

	Invested in property and equipment (note 11)	Restricted funds		Unrestricted	2020	2019
		Replacements (note 12)	Internally restricted (note 13)			
Balance, beginning of year	\$ 1,451,037	\$ 469,917	\$ 450,546	\$ 891,068	\$ 3,262,568	\$ 3,027,976
Excess (deficiency) of revenues over expenses	-	-	-	(9,573)	(9,573)	304,974
Amortization of property and equipment, net	(201,307)	-	-	201,307	-	-
Invested in property and equipment	265,585	-	-	(265,585)	-	-
Remeasurement of accrued sick and severance benefits (note 5)	-	-	-	75,300	75,300	(70,382)
Interest income	-	1,649	44	(1,693)	-	-
Replacement reserve provision (note 12)	-	56,520	-	(56,520)	-	-
	\$ 1,515,315	\$ 528,086	\$ 450,590	\$ 834,304	\$ 3,328,295	\$ 3,262,568

See accompanying notes to financial statements.

LUTHER COURT SOCIETY

Statement of Cash Flows

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ (9,573)	\$ 304,974
Items not involving cash:		
Amortization - building	215,652	188,819
Amortization - furniture, fixtures, computers	260,602	240,912
Amortization of deferred capital contributions	(274,947)	(205,247)
Mortgage forgiveness	(53,713)	(53,713)
Sick and severance benefits expense	50,983	48,771
Loss on disposal of capital assets	-	490
	189,004	525,006
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	87,713	(193,704)
Increase in inventories	(16,448)	(8,171)
(Increase) decrease in prepaid expenses	(6,945)	27,268
Increase in accounts payable and accrued liabilities	28,456	29,002
(Decrease) increase in government remittances payable	(21,187)	32,840
Decrease in accrued interest payable	-	(587)
Increase in wages payable	49,838	60,718
(Decrease) increase in rental damage deposits	(344)	2,423
Increase (decrease) in deferred grant and donation revenue	116,154	(35,359)
	426,241	439,436
Financing:		
Deferred capital contributions	-	31,164
Repayment of mortgage payable	(88,696)	(50,441)
Increase in forgivable loan payable	6,727	36,185
Sick and severance benefits paid	(7,000)	(22,115)
	(88,969)	(5,207)
Investing:		
Purchase of property and equipment	(688,569)	(983,541)
Decrease in cash and cash equivalents	(351,297)	(549,312)
Cash and cash equivalents, beginning of year	3,952,106	4,501,418
Cash and cash equivalents, end of year	\$ 3,600,809	\$ 3,952,106

See accompanying notes to financial statements.

LUTHER COURT SOCIETY

Notes to Financial Statements

Year ended March 31, 2020

1. Nature and purpose of the Society:

Luther Court Society (the "Society") is incorporated under the Society Act of British Columbia and transitioned into the new Societies Act on June 22, 2017. The Society is a non-profit organization formed to administer to the needs of the elderly by providing care, accommodation and programs for their physical, social, mental, spiritual, recreational and health needs.

The Society is a registered charity under the Income Tax Act and as such is not subject to taxation.

2. Significant accounting policies:

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The Society's significant accounting policies are as follows:

(a) Basis of presentation:

Revenues and expenses related to the Care, Programs, Rental and Development units are reported on the statement of operations separately. Each unit represents the following:

Care:

Care consists of Complex Care. The Society's Complex Care is accredited and licensed to provide services to 60 residents. This involves 24 hour nursing care for clients with complex medical and/or dementia needs. Clients are referred by the Vancouver Island Health Authority (VIHA or Island Health).

Programs:

Programs consists of the Adult Day Program (a day program for seniors living in the community) and Home Support (in-home nursing and living assistance).

Rental:

Rental consists of 58 apartments of which 28 are independent living and internally income subsidized, and 30 are designated for assisted living (housing with in-home support services). The assisted living clients are referred by Island Health.

Development:

Development consists of fundraising and donations activities.

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

2. Significant accounting policies (continued):

(b) Property and equipment:

The land and building are recorded at cost. Amortization of the Care Unit's portion of building and renovation costs is shown on the original building cost on a sinking fund basis at 8% over 50 years and on the Complex Care and Independent Living renovation costs over 35 years. Other property and equipment are recorded at cost and are being amortized on a straight line basis over their estimated useful life from 3 to 30 years.

(c) Inventories:

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(d) Revenue recognition:

The Society follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized in revenue when received or if receipt is reasonably assured.

(e) Pledges and donations receivable:

Pledges and donations receivable are recorded in the accounts only when received. Designated or restricted donations are recognized as revenue when used for the directed purpose.

(f) B.C. Housing Replacement Reserves:

B.C. Housing replacement reserves are accounted for in accordance with the B.C. Housing Financial Responsibilities Guide. This requires that contributions from B.C. Housing for replacement reserves be recognized as revenue when they are received and then transferred to externally restricted replacement reserves. The replacement reserves are increased by interest earned on these funds and reduced by purchases of eligible items included in B.C. Housing's Standardized List of Replacement Reserve items.

(g) Contributed materials and services:

The Society receives contributions of both materials and services. Due to the difficulty in determining their fair value, contributed services are not recognized in the financial statements. Contributed materials are recognized in the financial statements at fair value.

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

2. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management's best estimates as additional information becomes available in the future.

(i) Employee benefits:

Benefits that accrue to employees, such as sick and severance, are accrued as the employees render services to earn the benefits, based on estimates of the expected future settlements. All gains and losses and other special events are immediately recognized as they arise. Re-measurements and other items are accounted as a direct increase in net assets in the statement of financial position.

The Society and its employees contribute to a multiple-employer plan for health related benefits, administered by the Healthcare Benefit Trust and to the Municipal Pension Plan, a multi-employer defined benefit plan for pension benefits. Contributions to the plans are expensed as incurred.

(j) Financial instruments:

The Society initially measures its financial assets and financial liabilities at fair value. The Society subsequently measures all its financial assets and financial liabilities at amortized cost, except for cash and cash equivalents and investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at amortized cost include accounts receivable.

Financial liabilities measured at amortized cost include accounts payable, accrued interest payable, wages payable, accrued sick and severance benefits payable, rental damage deposits, and mortgages payable.

The carrying value of the Society's cash and cash equivalents, accounts receivable, accounts payable and other accrued and current liabilities approximate their fair value due to the relatively short periods to maturity of the instruments.

The carrying value of the Society's mortgages payable approximate their fair value, based on current interest rates.

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

3. Cash and cash equivalents:

Cash and cash equivalents include externally and internally restricted funds as follows:

	2020	2019
Replacement reserve (note 12)	\$ 528,086	\$ 469,917
Internally restricted (note 13)	450,590	450,546
Grants and donations (notes 7 and 8)	831,758	1,274,270
Tenant damage deposits	18,456	18,800
Funds on hand	1,771,919	1,738,573
	<u>\$ 3,600,809</u>	<u>\$ 3,952,106</u>

4. Property and equipment:

	2020		
	Cost	Accumulated amortization	Net book value
Land	\$ 311,349	\$ -	\$ 311,349
Building	4,221,060	1,169,717	3,051,343
Furniture and fixtures	3,983,623	2,778,067	1,205,556
Computer	96,420	82,145	14,275
Building improvements	3,458,202	1,221,518	2,236,684
	<u>\$ 12,070,654</u>	<u>\$ 5,251,447</u>	<u>\$ 6,819,207</u>

	2019		
	Cost	Accumulated amortization	Net book value
Land	\$ 311,349	\$ -	\$ 311,349
Building	3,231,274	1,048,028	2,183,246
Furniture and fixtures	4,379,693	2,526,778	1,852,915
Computer	81,537	72,831	8,706
Building improvements	3,378,231	1,127,555	2,250,676
	<u>\$ 11,382,084</u>	<u>\$ 4,775,192</u>	<u>\$ 6,606,892</u>

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

4. Property and equipment (continued):

Amortization of the building and building improvements is as follows:

	2020	2019
Original building cost	\$ 88,696	\$ 94,856
Complex Care renovation	88,764	55,771
Independent Living renovation	38,192	38,192
	\$ 215,652	\$ 188,819

5. Employee future benefits:

(a) Accrued sick and severance benefits:

Certain employees with ten or more years of service having reached a certain age are entitled to receive special payments upon retirement as specified by collective or employment agreements. These payments are based upon accumulated sick leave credits and entitlements for each year of service. The liabilities for amounts which may become payable to retiring employees have been determined by the Island Health based on an estimate by an independent actuarial valuation. The valuation was performed at the measurement date of March 31, 2019 and extrapolated to March 31, 2020.

Information about the sick leave and severance is as follows:

	2020	2019
Accrued sick and severance benefits:		
Sick leave benefits	\$ 162,698	\$ 173,213
Severance benefits	298,802	319,604
Accrued sick and severance benefits	\$ 461,500	\$ 492,817

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

5. Employee future benefits (continued):

(a) Accrued sick and severance benefits (continued):

The accrued benefit obligation for the retirement allowance reported on the statement of financial position is as follows:

	2020	2019
Unfunded obligation, beginning of year	\$ 492,817	\$ 395,779
Current service cost	35,700	35,712
Interest cost	15,283	13,059
Benefits paid	(7,000)	(22,115)
Remeasurement recognized in net assets	(75,300)	70,382
Unfunded obligation, end of year	\$ 461,500	\$ 492,817

The significant actuarial assumptions adopted in measuring the Society's accrued sick and severance liabilities are as follows:

	2020	2019
Discount rate	3.60 %	3.10 %
Rate of compensation increase	2.50 %	2.50 %

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

5. Employee future benefits (continued):

(b) Municipal Pension Plan:

The Society and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2018, the plan has about 205,000 active members and approximately 101,000 retired members.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent valuation for the Municipal Pension Plan as at December 31, 2018, indicated a \$2,866 million funding surplus for basic pension benefits on a going concern basis. The next valuation will be as at December 31, 2021, with results available in 2022.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

During the year, the Society paid \$377,640 (2019 - \$362,071) for employer contributions while employees contributed \$333,428 (2019 - \$314,367) to the plan.

(c) Employee healthcare benefits:

The Society and its employees contribute to the Healthcare Benefit Trust (the "Trust"), a multiple employer plan. The Trust administers long-term disability, group life insurance, accidental death and dismemberment, extended health and dental claims for certain employee groups of the Society and other provincially funded organizations.

The net trust asset or liability of the pool in which the Society participates is recorded by Island Health as at March 31, 2020. The Society's share of the net trust position is not reflected in these financial statements.

Contributions to the Trust of \$443,477 (2019 - \$398,686) were expensed during the year.

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

6. Special leave credits:

Under the terms of its current labour contracts, the Society is required to provide paid special leave credits, which may be accumulated by each employee to a maximum of 180 hours. As these credits are only available in specified circumstances, the Society records only a portion of the potential liability based upon utilization experience. At March 31, 2020 the Society has included in wages payable an accrual of \$67,006 (2019 - \$61,060) relating to this potential liability.

Using wages rates in effect at March 31, 2020 the Society's maximum liability for this accrued entitlement would be approximately \$268,023 (2019 - \$244,238).

7. Deferred grants and donations revenues:

The Society receives grants from the Province of B.C. and Island Health to fund its operations and capital improvements. It also receives designated donations which are not recognized as revenue until spent. Funds unspent at the year-end are deferred for use in a future year.

8. Deferred capital contributions:

Deferred capital contributions represent contributions restricted to acquiring property and equipment. Deferred capital contributions are amortized on the same basis as the related property and equipment. The changes in deferred capital contributions balance for the year are as follows:

	Care	Rental	Programs	2020	2019
Spent contributions:					
Beginning balance	\$ 2,334,316	\$ 48,964	\$ -	\$ 2,383,280	\$ 1,942,003
Contributions spent	558,666	-	-	558,666	646,524
Amortized to revenue	(263,569)	(11,378)	-	(274,947)	(205,247)
Ending balance	2,629,413	37,586	-	2,666,999	2,383,280
Unspent contributions:					
Beginning balance	1,091,472	-	-	1,091,472	1,706,832
Contributions	-	-	-	-	31,164
Contributions spent	(558,666)	-	-	(558,666)	(646,524)
Ending balance	532,806	-	-	532,806	1,091,472
Total contributions	\$ 3,162,219	\$ 37,586	\$ -	\$ 3,199,805	\$ 3,474,752

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

9. Forgivable loan payable:

The Society was granted a loan from the B.C. Housing Management Commission (BCHMC) of up to \$185,469 (\$66,500 granted in fiscal 2018, and an additional \$118,969 granted in fiscal 2019) for the proposed development of the intergenerational housing project. At March 31, 2020 \$68,713 (2019 - \$61,986) has been advanced on the loan. If the Society does not receive a Loan Commitment within three years the proposal will be cancelled and the loan will be forgiven. If the Society receives a Loan Commitment from BCHMC the total amount advanced will be repaid to BCHMC in full from the proceeds of the initial advance of the approved mortgage.

10. Mortgages payable:

	2020	2019
First mortgage (a)	\$ 1,607,258	\$ 1,695,953
Second mortgage (b)	840,229	878,422
Third mortgage (c)	120,693	136,214
	2,568,180	2,710,589
Less current portion	131,062	104,455
	\$ 2,437,118	\$ 2,606,134

(a) First mortgage - B.C. Housing Management Commission:

	2020	2019
B.C. Housing Management Commission (BCHMC), monthly payments of \$22,003 including interest at 9.875% per annum, secured by the Society's land and building, due April 1, 2029	\$ -	\$ 1,771,190
Less federal capital contribution	-	75,237
	-	1,695,953
B.C. Housing Management Commission (BCHMC), no monthly payments, interest accrues at prime less 1.75% per annum, secured by the Society's land and building, due April 1, 2029	1,607,258	-
	\$ 1,607,258	\$ 1,695,953

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

10. Mortgages payable (continued):

(a) First mortgage - B.C. Housing Management Commission (continued):

The Society receives an annual interest reduction grant or mortgage supplement from the BCHMC which reduces the effective mortgage rate from 9.875% per annum to 8% per annum. In the current year, this interest rate reduction grant amounted to be \$46,755 (2019 - \$46,755). This is included in mortgage interest on the statement of operations.

When the facility was constructed, the Society received a federal capital contribution of \$373,075 which is subject to continued compliance with the terms and conditions of its BCHMC mortgage and operating agreement. This grant was for 10% of the estimated construction cost of the project net of other grants and rebates.

On March 1, 2020, BCHMC paid out the mortgage balance of \$1,591,499 and provided the Society with a first priority demand mortgage loan with interest at prime minus 1.75% (until BCHMC could arrange third-party financing). At pay-out, the unearned portion of the federal capital contribution grant was \$67,775 and all compliance terms and conditions for the grant were waived. Mortgage interest and financing costs totaling \$15,758 are included in the statement of operations and will be paid on refinancing.

On May 1, 2020, BCHMC refinanced the mortgage with a third party financial institution in the amount of \$1,631,468 at a fixed rate of 3.67% per annum over five years. The estimated principal payments over the next 5 years under these terms are as follows:

	Amount
2021	\$ 131,062
2022	162,608
2023	168,631
2024	174,876
2025	181,353
	<hr/> <hr/> \$ 818,530 <hr/> <hr/>

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

10. Mortgages payable (continued):

(b) Second mortgage - B.C. Housing Management Commission:

The Society converted a portion of its building to accommodate residents funded under the Independent Living B.C. Program. It received a second forgivable mortgage from BCHMC secured on the Society's land and building. Payments of principal and interest will not be required as long as the Society uses part of its land and building to provide affordable housing and services to eligible occupants. If the Society complies with the mortgage terms, 1/35th of the mortgage will be forgiven each year (\$38,192 per annum). Should default occur, the mortgage will become due and payable on demand with interest at the then prime rate plus 2% per annum.

(c) Third mortgage - B.C. Housing Management Commission:

The Society was granted a third forgivable mortgage from BCHMC for an electrical distribution upgrade, secured on the Society's land and building. At March 31, 2020 \$155,208 (2019 - \$155,208) has been advanced on the loan. Payments of principal and interest will not be required as long as the Society uses part of its land and building to provide affordable housing and services to eligible occupants. If the Society complies with the mortgage terms, 1/10th of the mortgage will be forgiven at the end of each year of the mortgage term (2020 - \$15,521; 2019 - \$15,521). Should default occur, the mortgage will become due and payable on demand with interest at the then prime rate plus 2% per annum.

11. Net assets invested in property and equipment:

Net assets invested in property and equipment represent the original cost of capital assets less related debt, capital contributions and amortization to date. The Society's investment in property and equipment is calculated as follows:

	2020	2019
Property and equipment (note 4)	\$ 6,819,207	\$ 6,606,892
Less amounts financed by:		
Mortgages payable (note 10)	2,568,180	2,710,589
Forgivable loan payable (note 9)	68,713	61,986
Deferred capital contributions - spent (note 8)	2,666,999	2,383,280
	<u>5,303,892</u>	<u>5,155,855</u>
	<u>\$ 1,515,315</u>	<u>\$ 1,451,037</u>

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

12. Net assets externally restricted for replacement reserves:

	Care	Rental	2020	2019
Balance, beginning of year	\$ 261,402	\$ 208,515	\$ 469,917	\$ 413,516
Provision (current year reserve)	25,200	31,320	56,520	56,520
Interest	867	782	1,649	3,998
Reserve expenses	-	-	-	(4,117)
Balance, end of year	\$ 287,469	\$ 240,617	\$ 528,086	\$ 469,917

The operating agreement with the B.C. Housing Management Commission requires the Society to maintain a replacements reserve to be used only for the cost of replacing property and equipment. The Society transfers an annually approved amount to this reserve. For the current year, amounts of \$25,200 from Care and \$31,320 from Rentals (total \$56,520; 2019 - \$56,520) were transferred from general funds to the reserve bank accounts.

During the year, the B.C. Housing replacement reserves were fully funded and maintained in accordance with the operating agreements and all interest accruing on the funds has been recorded.

13. Net assets internally restricted:

An internally restricted reserve totaling \$23,022 (2019 - \$22,978) has been maintained for the payment of annual property taxes; however, the Society's property has received a property tax exemption for years 2016 through 2020.

An internally restricted reserve totaling \$105,154 (2019 - \$105,154) has been maintained in the Building Improvement Fund for future capital improvements to the building.

An internally restricted reserve totaling \$322,414 (2019 - \$322,414) has been maintained to keep record of the funds received as bequests and then spent on special projects.

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

14. Endowment funds:

The Society established a Hosted Endowment Fund (Luther Court Society Legacy Fund) with The Victoria Foundation on November 21, 2012. The funds are managed for the benefit of the Society and are held permanently. Gifts are made from time to time as determined by the Society or in accordance with the wishes of contributors. The Fund earns investment income in accordance with the Investment Policy of the Victoria Foundation. Distributions from the Fund are determined by the Distribution Policy of The Victoria Foundation.

The endowments are reported in the Luther Court Society Legacy Fund by The Victoria Foundation and are not reflected in the Society's net assets.

The balance in the Luther Court Society Legacy Fund is as follows:

	2020	2019
Beginning balance	\$ 37,197	\$ 31,090
Contributions	9,975	15,026
Grants paid	(11,133)	(10,999)
Net investment returns	(2,167)	2,080
Ending balance	\$ 33,872	\$ 37,197

15. Residents' trust funds:

Trust funds held for residents amounting to \$12,035 at March 31, 2020, (2019 - \$12,788) and the related liabilities are not included in these financial statements.

16. Commitments:

During 2018, the Society entered into an agreement with M'Akola Development Services for consulting services for a proposed development project. The Society is currently in Phase 1 and has committed to pre-development and proposal services up to \$100,200. Contingent upon receiving funding from BCHMC, the total approved contract price is \$324,564. At March 31, 2020, \$58,060 (2019 - \$32,537) has been incurred.

During 2019, the Society entered into an agreement with Studio 531 Architects Inc. for architectural services for a proposed development project. The Society is currently in the design development stage and has committed up to \$45,940. Contingent upon receiving funds from BCHMC, the total approved contract price is \$436,500. At March 31, 2020, \$54,838 (2019 - \$37,711) has been incurred.

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

17. Remuneration of employees:

Under the new Societies Act, which came into effect November 28, 2016, societies must disclose remuneration paid to directors, and to employees and contractors whose remuneration was greater than \$75,000 for the fiscal year.

During the year, there were seven employees who met this criterion, and the total amount of remuneration paid to these persons was \$678,255 (during the prior year, there were five employees who met this criterion, and the total remuneration paid to these persons was \$525,159). The Board of Directors receive no remuneration for their services other than reimbursement of expenses.

18. Risk management:

The Society has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The risks that arise from transaction financial instruments include credit risk, currency risk, interest rate risk, liquidity risk and other price risk. There have been no significant changes in the Society's risk exposure from the prior year.

(a) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. Financial instruments that potentially subject the Society to credit risk consist primarily of accounts receivable. Accounts receivables are not concentrated with any single party, and therefore the Society is not subject to any significant concentration of credit risk.

(b) Currency risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Society is not exposed to significant currency risks arising from its financial instruments.

(c) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments that potentially subject the Society to interest rate risk consist primarily of mortgages payable. The Society manages the risk of future cash flows by having its mortgages payable at fixed rates of interest.

LUTHER COURT SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2020

18. Risk management (continued):

(d) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Cash flow from operations provides a substantial portion of the Society's cash requirements. The Society is not exposed to significant liquidity risks.

(e) Other price risk:

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Society is not exposed to significant other price risk.

19. Economic dependency:

The operations of the Society are dependent on continuing funding from the Province of B.C. Ministry of Health. The Society is currently receiving a per diem rate based on occupancy, with no minimum guarantee.

20. Subsequent events:

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. As the situation is dynamic and the ultimate duration and magnitude of the impact of the economy are not known, an estimate of the financial effect on the Society is not practical at this time.

LUTHER COURT SOCIETY

Schedule of Housing Operations - Rental Assisted Living

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Revenue:		
Tenant rent	\$ 225,907	\$ 216,195
Other revenue	6,372	6,417
	<u>232,279</u>	<u>222,612</u>
Expenses:		
Mortgage interest and principal	55,240	55,240
Salaries and wages - building staff	28,840	27,065
Amounts transferred to replacement reserves	21,600	21,600
Salaries and wages - maintenance	30,491	29,285
General utilities	24,712	25,049
Water and sewer	10,041	9,671
Garbage removal	8,307	8,172
General maintenance	6,019	21,131
Grounds maintenance	4,458	3,875
Audit	4,406	4,587
Insurance	4,245	3,585
General administrative	2,302	4,521
Telephone	1,590	1,560
	<u>202,251</u>	<u>215,341</u>
Net income for the year	30,028	7,271
Accumulated fund, balance at beginning of year	10,692	3,421
Accumulated fund, balance at end of year	<u>\$ 40,720</u>	<u>\$ 10,692</u>

LUTHER COURT SOCIETY

Schedule of Changes in Externally Restricted Replacement Reserves - B.C. Housing

Year ended March 31, 2020, with comparative information for 2019

	Rental			2020	2019
	Care	Assisted living	Independent		
Balance, beginning of year	\$ 261,402	\$ 46,771	\$ 161,744	\$ 469,917	\$ 413,516
Add:					
Transfer from operations for the year	25,200	21,600	9,720	56,520	56,520
Interest income	867	175	607	1,649	3,998
Less:					
Amounts expended on replacement reserve	-	-	-	-	4,117
Balance, end of year	\$ 287,469	\$ 68,546	\$ 172,071	\$ 528,086	\$ 469,917
Purchase of replacement items for the year consists of:					
Appliances	\$ -	\$ -	\$ -	\$ -	3,277
Flooring	-	-	-	-	840
	\$ -	\$ -	\$ -	\$ -	4,117