

MERCY SHIPS CANADA SOCIETY

FINANCIAL STATEMENTS

DECEMBER 31, 2014

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LEE and SHARPE*
CHARTERED ACCOUNTANTS
INDEPENDENT AUDITORS' REPORT

To the Members of Mercy Ships Canada Society ("the Society")

We have audited the accompanying financial statements of Mercy Ships Canada Society, which comprise the statement of financial position as at December 31, 2014 and the statement of operations, statement of changes in net assets and statement of cash flows for the year ended, and 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, Mercy Ships Canada Society derives part of its revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of revenue from this source was limited to accounting for the amounts recorded in the records of the Society and we were not able to determine whether any adjustments might be necessary to revenue, excess of revenue over expenditures, current assets and net assets.

Qualified Opinion

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of donations referenced in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2014 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. As required by the Society Act of British Columbia, we report that in our opinion these principles have been applied on a basis consistent with that of the preceding year.

Victoria, B.C.
April 7, 2015

Lee and Sharpe
Chartered Accountants

* A Partnership of Incorporated Professionals

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MERCY SHIPS CANADA SOCIETY
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2014

	2014	2013
REVENUE		
Contributed services	\$ 1,025,978	\$ 879,572
General contributions	1,003,831	848,913
Crew project fund	389,316	342,200
Project and programs fees	96,266	199,498
Miscellaneous	<u>7,214</u>	<u>21,226</u>
	<u>2,522,605</u>	<u>2,291,409</u>
EXPENDITURES		
Contributed services utilized	1,025,978	879,572
Crew program funding	358,151	344,406
Fundraising activities	318,459	274,209
Programs	289,283	288,243
Outreach projects funding	262,148	262,845
External project funding	<u>47,000</u>	<u>-</u>
	<u>2,301,019</u>	<u>2,049,275</u>
Excess of revenue over expenditures before other items	221,586	242,134
General and administrative expenditures (Schedule)	80,583	75,372
Unrealized gains on investments	(1,244)	-
Loss on disposal of capital assets	<u>-</u>	<u>5,760</u>
EXCESS OF REVENUE OVER EXPENDITURES FOR THE YEAR	<u>\$ 142,247</u>	<u>\$ 161,002</u>

(See accompanying notes)

Audited

MERCY SHIPS CANADA SOCIETY
STATEMENT OF CHANGES IN NET ASSETS

DECEMBER 31, 2014

	Unrestricted	Invested in Capital Assets	2014	2013
Balance, beginning of year	\$ 452,734	\$ 12,323	\$ 465,057	\$ 304,055
Excess (deficiency) of revenue over expenditures	146,144	(3,897)	142,247	161,002
Investment in capital assets	(2,244)	2,244	-	-
Net change in obligation under capital lease	<u>(1,429)</u>	<u>1,429</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 595,205</u>	<u>\$ 12,099</u>	<u>\$ 607,304</u>	<u>\$ 465,057</u>

(See accompanying notes)

Audited

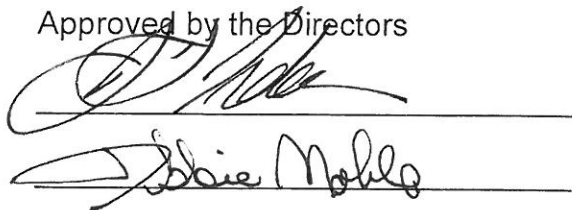
MERCY SHIPS CANADA SOCIETY
(Incorporated under the laws of the Society Act of British Columbia)

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2014

	2014	2013
Current assets		
Cash	\$ 304,163	\$ 448,303
Marketable securities	218,030	-
Accounts receivable	66,723	29,319
Prepaid expenditures	<u>38,126</u>	<u>15,463</u>
	627,042	493,085
Capital assets (Note 4)	<u>18,842</u>	<u>20,495</u>
	<u>\$ 645,884</u>	<u>\$ 513,580</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 31,837	\$ 40,351
Current portion of obligation under capital lease (Note 5)	<u>1,525</u>	<u>1,429</u>
	<u>33,362</u>	<u>41,780</u>
Obligation under capital lease (Note 5)	<u>5,218</u>	<u>6,743</u>
Net assets		
Unrestricted	595,205	452,734
Invested in capital assets	<u>12,099</u>	<u>12,323</u>
	<u>607,304</u>	<u>465,057</u>
	<u>\$ 645,884</u>	<u>\$ 513,580</u>

Approved by the Directors



(See accompanying notes)

Audited

MERCY SHIPS CANADA SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2014

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess revenue over expenditures for the year	\$ 142,247	\$ 161,002
Item not involving cash		
Amortization	3,897	2,852
Loss on sale of capital assets	<u>-</u>	<u>5,760</u>
	146,144	169,614
Cash provided by (used for) non-cash working capital items		
Marketable securities	(218,030)	-
Accounts receivable	(37,404)	24,580
Prepaid expenditures	(22,663)	20,949
Accounts payable and accrued liabilities	<u>(8,514)</u>	<u>11,337</u>
	(140,467)	226,480
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES		
Change in obligation under capital lease	(1,429)	3,184
CASH FLOWS (USED) FOR INVESTING ACTIVITIES		
Acquisition of capital assets	<u>(2,244)</u>	<u>(8,900)</u>
INCREASE (DECREASE) DURING THE YEAR	(144,140)	220,764
CASH RESOURCES, beginning of year	<u>448,303</u>	<u>227,539</u>
CASH RESOURCES, end of year	<u>\$ 304,163</u>	<u>\$ 448,303</u>

(See accompanying notes)

Audited

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 - Organization and Purpose

The Society was incorporated under the Society Act of British Columbia, Canada on July 13, 1989. The purpose of the Society is to organize, recruit and train volunteers and staff and raise funds for medical, surgical, construction and agricultural projects in developing nations.

Note 2 - Accounting Policies

Revenue Recognition

Grants, donations and other contributions to the Society are accounted for under the deferral method of accounting. Accordingly, restricted contributions are recognized as revenue in the year in which related expenditures are incurred and unrestricted contributions are recognized at the earlier of when received or when collection is reasonably assured. Endowment contributions received whereby restrictions are placed by the donor as to the use of the funds are recorded as direct increases to net assets.

Capital Assets

Amortization method

Capital assets are recorded at cost. Amortization is determined on a declining balance basis as follows:

Furniture and equipment	20%
Equipment under capital lease	20%

Income Tax Status

The Society is a Registered Charity as determined with reference to Paragraph 149 (1)(f) of the Income Tax Act of Canada and is therefore exempt from tax on its income.

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 2 - Accounting Policies, continued

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 and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from these estimates. Significant financial statement items that require the use of estimates are as follows: amortization of capital assets, accounts payable and accrued liabilities and obligation under capital lease. These estimates are reviewed periodically and adjustments are made, as appropriate, in the statement of operations in the year they become known.

Contributed Services

Contributed services are recognized if the services received require specialized skills or certifications that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The amount of contributed services recognized as an offsetting revenue and expense item in the current year is \$1,076,722 (2013 - \$902,951).

Change in Accounting Policy

During the year the Society changed its policy retroactively to recognize contributed services provided by volunteers. The comparative figures have been adjusted to reflect this change and there is no change to opening net assets.

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 2 - Accounting Policies, continued

Allocation of Expenses

Certain general and administrative expenditures are allocated to fundraising activities and outreach projects funding based on effort and resources used as follows:

Allocation to fundraising activities

		2014		2013
Wages and benefits	46%	\$ 148,805	53%	\$ 143,184
Occupancy costs	46%	15,517	53%	17,304
Insurance, licenses and dues	46%	12,013	53%	2,238
Office and miscellaneous	46%	9,390	53%	17,043
Professional fees	46%	4,162	53%	4,883
Telephone and internet	46%	2,551	53%	2,069
Advertising	46%	1,887	53%	226
Amortization	46%	1,808	53%	1,512
Postage and courier	46%	<u>1,543</u>	53%	<u>944</u>
		<u>\$ 197,676</u>		<u>\$ 189,403</u>

Allocation to outreach projects funding

		2014		2013
Wages and benefits	35%	\$ 111,603	26%	\$ 70,241
Occupancy costs	35%	11,638	26%	8,489
Insurance, licenses and dues	35%	9,010	26%	1,098
Office and miscellaneous	35%	7,042	26%	8,361
Professional fees	35%	3,121	26%	2,395
Telephone and internet	35%	1,914	26%	1,015
Advertising	35%	1,415	26%	111
Amortization	35%	1,356	26%	742
Postage and courier	35%	<u>1,157</u>	26%	<u>463</u>
		<u>\$ 148,256</u>		<u>\$ 92,915</u>

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 3 - Financial Instruments

The Society initially measures its financial assets and financial liabilities at fair value. It subsequently measures all of its financial assets and liabilities at amortized cost, except for marketable securities that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of operations. The financial assets subsequently measured at amortized cost include cash and accounts receivable. The financial liabilities measured at amortized cost include accounts payable, accrued liabilities and obligation under capital lease.

Liquidity risk

Liquidity risk is the risk that the society does not have sufficient financial resources to meet obligations as they fall due, or can only obtain such resources at excessive cost. The risk arises from mismatches in timing of cash flows. Funding risk arises when the necessary liquidity to fund asset growth cannot be obtained at the expected terms when required. It is management's opinion the Society is not exposed to significant liquidity risks arising from its financial instruments.

Credit risk

Credit risk is the risk of loss resulting from failure of a borrower to honour its financial or contractual obligation. Credit risk arises in the Society's investment activities. It is management's opinion the Society is not exposed to significant credit risks arising from its financial instruments.

Note 4 - Capital Assets

	Cost	Accumulated Amortization	Net Book Value	
			2014	2013
Furniture and equipment \$	41,994	\$ 29,560	\$ 12,434	\$ 12,485
Equipment under capital lease	8,900	2,492	6,408	8,010
	<u>\$ 50,894</u>	<u>\$ 32,052</u>	<u>\$ 18,842</u>	<u>\$ 20,495</u>

Audited

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 5 - Obligation under Capital Lease

	2014	2013
2014	\$ -	\$ 1,920
2015	1,920	1,920
2016	1,920	1,920
2017	1,920	1,920
2018	<u>1,920</u>	<u>1,920</u>
Total minimum lease payments	7,680	9,600
Less: amount representing interest at 6.5%	<u>(937)</u>	<u>(1,428)</u>
Present value of net minimum capital lease payments	6,743	8,172
Less: current portion	<u>(1,525)</u>	<u>(1,429)</u>
	<u>\$ 5,218</u>	<u>\$ 6,743</u>

Note 6 - Lease Commitment

The Society rents office space with minimum annual lease payments as follows:

2015	\$ 19,352
2016	20,008
2017	20,664
2018	<u>20,664</u>
	<u>\$ 80,688</u>

Note 7 - Capital Management

The capital structure of the Society consists of an investment in capital assets and unrestricted net assets. The primary objectives of the Society's capital management are to ensure that it maintains adequate resources to support the activities of the Society and minimizes the risks to the stability of cash flow from operations.

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 8 - Economic Interest

The Society has entered into a contract agreement with Mercy Ships, a non-profit religious corporation with which it shares an economic interest. During the year, \$635,792 (2013 - \$625,101) was paid under the terms of the contract to Mercy Ships. The payments have been recorded at their carrying amounts.

MERCY SHIPS CANADA SOCIETY

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENDITURES

DECEMBER 31, 2014

	2014	2013
Wages and benefits	\$ 60,291	\$ 56,733
Occupancy costs	6,287	6,856
Insurance, licenses and dues	4,867	887
Office and miscellaneous	3,804	6,753
Professional fees	1,686	1,935
Telephone and internet	1,034	820
Advertising	765	89
Postage and courier	625	374
Interest on capital lease	491	326
Amortization	<u>733</u>	<u>599</u>
	<u>\$ 80,583</u>	<u>\$ 75,372</u>