

MERCY SHIPS CANADA SOCIETY

FINANCIAL STATEMENTS

DECEMBER 31, 2019

INDEX

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	
FINANCIAL STATEMENTS	
STATEMENT OF OPERATIONS	1
STATEMENT OF CHANGES IN NET ASSETS	2
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF CASH FLOWS	4
NOTES TO THE FINANCIAL STATEMENTS	
SCHEDULE OF MANAGEMENT AND ADMINISTRATION EXPENDITURES	13

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of Mercy Ships Canada Society, which comprise the statement of financial position as at December 31, 2019, and the statement of operations, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Mercy Ships Canada Society as at December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

In common with many charitable organizations, Mercy Ships Canada Society derives revenue from donations the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of Mercy Ships Canada Society. Therefore, we were not able to determine whether any adjustments might be necessary to recorded donations, excess of revenues over expenses, cash flows from operations for the years ended December 31, 2019 and 2018, current assets as at December 31, 2019 and 2018, and net assets as at January 1 and December 31 for both the 2019 and 2018 years. Our audit opinion on the financial statements for the year ended December 31, 2019 was modified accordingly because of the possible effects of this scope limitation.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Mercy Ships Canada Society 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 not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing Mercy Ships Canada Society's financial reporting process.

* A Partnership of Incorporated Professionals

SANDY J. LEE LTD.  ADAM H. SHARPE LTD.  DOUGLAS K. DEBECK LTD.

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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 Mercy Ships Canada Society'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 Mercy Ships Canada Society'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 Mercy Ships Canada Society 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.

Report on Other Legal and Regulatory Requirements

As required by the Societies Act of British Columbia, we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements have been applied on a basis consistent with that of the preceding year.

Victoria, B.C.
November 26, 2020

Lee and Sharpe
Chartered Professional Accountants

MERCY SHIPS CANADA SOCIETY
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2019

	2019	2018
REVENUE		
General contributions	\$ 2,187,208	\$ 2,193,070
Contributed services	1,269,762	1,793,677
Miscellaneous	<u>279</u>	<u>343</u>
	<u>3,457,249</u>	<u>3,987,090</u>
EXPENDITURES		
Contributed services utilized	1,269,762	1,793,677
Fundraising operational activities	952,163	839,446
Crew program funding	373,480	371,706
Charitable operational activities	296,657	401,366
Management and administration	269,548	86,913
Programs	<u>102,977</u>	<u>107,723</u>
	<u>3,264,587</u>	<u>3,600,831</u>
Excess of revenue over expenditures before other items	192,662	386,259
Unrealized gains foreign exchange	504	4,145
Realized losses on disposal of marketable securities	(532)	(218)
Realized losses on foreign exchange	<u>(5,685)</u>	<u>-</u>
EXCESS OF REVENUE OVER EXPENDITURES FOR THE YEAR	<u>\$ 186,949</u>	<u>\$ 390,186</u>

(See accompanying notes)

MERCY SHIPS CANADA SOCIETY
STATEMENT OF CHANGES IN NET ASSETS
DECEMBER 31, 2019

	Unrestricted	Invested in Capital Assets	2019	2018
Balance, beginning of year	\$ 453,648	\$ 9,932	\$ 463,580	\$ 73,394
Excess of revenue over expenditures	192,075	(5,126)	186,949	390,186
Investment in capital assets	(4,206)	4,206	-	-
Net change in obligation under capital lease	<u>(1,052)</u>	<u>1,052</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 640,465</u>	<u>\$ 10,064</u>	<u>\$ 650,529</u>	<u>\$ 463,580</u>

(See accompanying notes)

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

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

	2019	2018
Current assets		
Cash	\$ 714,238	\$ 390,534
Accounts receivable (Note 4)	198,860	204,249
Due from Mercy Ships (Note 5)	-	204,145
Prepaid expenditures	<u>75,438</u>	<u>80,906</u>
	988,536	879,834
Capital assets (Note 7)	<u>14,090</u>	<u>15,011</u>
	<u>\$1,002,626</u>	<u>\$ 894,845</u>
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	\$ 323,071	\$ 112,808
Current portion of obligation under capital lease (Note 8)	1,333	1,052
Deferred donations (Note 11)	<u>25,000</u>	<u>313,380</u>
	<u>349,404</u>	<u>427,240</u>
Obligation under capital lease (Note 8)	<u>2,693</u>	<u>4,025</u>
Net assets		
Unrestricted	640,465	453,648
Invested in capital assets	<u>10,064</u>	<u>9,932</u>
	<u>650,529</u>	<u>463,580</u>
	<u>\$1,002,626</u>	<u>\$ 894,845</u>

Approved by the Directors

A. Sekula

(See accompanying notes)

MERCY SHIPS CANADA SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess revenue over expenditures for the year	\$ 186,949	\$ 390,186
Item not involving cash		
Amortization	5,126	7,047
Unrealized gains on foreign exchange	<u>(504)</u>	<u>(4,145)</u>
	<u>191,571</u>	<u>393,088</u>
Cash provided by (used for) non-cash working capital items		
Accounts receivable	5,388	(115,738)
Due from Mercy Ships	204,145	(200,000)
Prepaid expenditures	5,468	14,489
Accounts payable and accrued liabilities	210,770	(202,204)
Deferred donations	<u>(288,380)</u>	<u>313,380</u>
	<u>137,391</u>	<u>(190,073)</u>
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES		
Change in obligation under capital lease	<u>(1,052)</u>	<u>(831)</u>
CASH FLOWS PROVIDED (USED FOR) INVESTING ACTIVITIES		
Acquisition of capital assets	<u>(4,206)</u>	<u>-</u>
INCREASE DURING THE YEAR	323,704	202,184
Cash, beginning of year	<u>390,534</u>	<u>188,350</u>
Cash, end of year	<u>\$ 714,238</u>	<u>\$ 390,534</u>

(See accompanying notes)

MERCY SHIPS CANADA SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 1 - Organization and Purpose

The Society was incorporated under the Society Act of British Columbia, Canada on July 13, 1989. 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.

The purpose of the Society is to alleviate the suffering of the poor, regardless of race, gender or religious background in developing nations around the world, following the model of Jesus, by mobilizing people and resources from across Canada to carry out programs and projects:

1. To develop and promote public health by:
 - (a) operating one or more hospital ships, in whole or in part;
 - (b) conducting medical and health care programs ashore in related facilities;
 - (c) providing medical, surgical, eye, dental, health and related support services;
 - (d) acquiring and distributing, medicine, medical equipment and supplies, fuel, tools and any related materials necessary to deliver basic care for the above-referenced hospital ships, land-based programs and related facilities;
 - (e) offering specialized training to local health care professionals;
 - (f) reducing malnutrition and increasing food security by improving skills and practices in agriculture and horticulture;
 - (g) and providing construction and renovation services to local health care infrastructure, including hospitals, clinics and medical training facilities to improve surgical capabilities.

2. To advance education through the provision of medical and surgical training to local health professionals and medical leadership development.

Note 2 - Accounting Policies

The financial statements of the Society are prepared in accordance with Canadian accounting standards not-for-profit organizations in Part III of the CPA Canada Handbook and include the following significant accounting policies:

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note 2 - Accounting Policies (continued)

Fund Accounting

To ensure observance of the limitations and restrictions placed on the use of resources available to the Society, the accounts of the Society are maintained in accordance with the principles of fund accounting following the deferral method of accounting. Accordingly, resources are classified for accounting and reporting purposes into the following funds:

- (h) Unrestricted fund accounts for the Society's fundraising, administrative and program activities. These funds are unrestricted resources available to the Society for immediate use.
- (i) Invested in capital assets fund represents internally restricted net book value of all capital assets, less any related debt.

Revenue Recognition

The Society follows the deferral method of accounting for general contributions. 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. Contributed goods, materials and securities are recognized at their fair market value when received.

Amortization Method

Capital assets are recorded at cost less amortization and impairment. When conditions indicate that a capital asset is impaired, the net carrying amount of the capital asset is written down to the asset's fair value or replacement cost. Amortization is determined on a declining balance basis as follows:

Furniture and equipment	20%
Equipment under capital lease	20%

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 amortization of capital assets, contributed services and allocation of expenses. 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. Contributed services are measured at the fair value based on the occupation rates from Job Bank, an employment website operated by Employment and Social Development Canada. The amount of contributed services recognized as offsetting revenues and expenses on the Statement of Operations in the current year is \$1,269,762 (2018 - \$1,793,677).

Allocation of Expenses

Certain management and administration expenditures are allocated to fundraising operational activities and charitable operational activities based on estimate of effort and resources used related to each area of activity shown in Schedule A.

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 and accrued liabilities and due from Mercy Ships.

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. The Society's main credit risks relate to its accounts receivable, prepaid expenditures and due from Mercy Ships. It is management's opinion the Society is not exposed to significant credit risks arising from its financial instruments.

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's due from Mercy Ships and accounts payable and accrued liabilities are exposed to foreign exchange fluctuations. As at December 31, 2019, no balance (2018 - \$204,145) due from Mercy Ships and \$35,598 (2018 - nil) accounts payable and accrued liabilities are denominated in US dollars and converted into Canadian dollars.

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 4 - Accounts Receivable

	2019	2018
General contributions receivable	\$ 178,764	\$ 185,603
Public service bodies' rebate receivable	<u>20,096</u>	<u>18,646</u>
	<u>\$ 198,860</u>	<u>\$ 204,249</u>

General contributions receivable consist of cash donations that were recognized by the Society in 2019, but were collected in January of the 2020 year.

Note 5 - Due from Mercy Ships

In 2018, the Society advanced funds to Mercy Ships. The funds are non-interest bearing, unsecured and were repaid in full in 2019.

Mercy Ships is an incorporated non-profit faith-based organization carrying on a worldwide ministry to assist the poor in developing nations by providing medical, social and spiritual healing through various medical programs and activities, including the operation of hospital ships, infrastructure programs and training programs. Mercy Ships is registered with the United States Internal Revenue Service as 501(c)3 tax-exempt religious non-partial organization under the Internal Revenue Code of the U.S.A.

Note 6 - Economic Interest

The Society has entered into a Joint Programs Agreement with Mercy Ships, an independent US non-profit religious corporation, whereby Mercy Ships provides services to the Society in furtherance of the charitable purposes of the Society. During the year, \$304,417 (2018 - \$347,885) was transferred through the Joint Programs Committee under the terms of the Agreement to Mercy Ships.

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 7 - Capital Assets

	Cost	Accumulated Amortization	Net Book Value	
			2019	2018
Furniture and equipment \$	62,402	\$ 51,307	\$ 11,095	\$ 11,267
Equipment under capital lease	<u>6,500</u>	<u>3,505</u>	<u>2,995</u>	<u>3,744</u>
	<u>\$ 68,902</u>	<u>\$ 54,812</u>	<u>\$ 14,090</u>	<u>\$ 15,011</u>

Note 8 - Obligation under Capital Lease

	2019	2018
2019	\$ -	\$ 2,153
2020	2,153	2,153
2021	2,153	2,153
2022	<u>1,076</u>	<u>1,076</u>
Total minimum lease payments	5,382	7,535
Less: amount representing interest at 23.8%	<u>(1,356)</u>	<u>(2,458)</u>
Present value of net minimum capital lease payments	4,026	5,077
Less: current portion	<u>(1,333)</u>	<u>(1,052)</u>
	<u>\$ 2,693</u>	<u>\$ 4,025</u>

Note 9 - Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note 10 - Lease Commitment

The Society rents office space that has a lease expiration date of April 30, 2024. The minimum annual lease payments are as follows:

2020	\$ 20,992
2021	21,211
2022	21,539
2023	22,085
2024	<u>7,435</u>
	<u>\$ 93,262</u>

Note 11 - Deferred Revenue

In 2018, the Society received a gift in the amount of \$313,380, which was subject to specific purposes by the donor. In 2019, the Society fully returned the gift to the donor, because it was unable to utilize the gift for the intended purpose.

In 2019, the Society received a contribution of \$25,000 that must be used to purchase, install and test specialized laser equipment. By December 31, 2019, none of this contribution had been used for its intended purpose.

Note 12 - Remuneration of Employees

In 2019, the Society paid a total remuneration of \$240,264 (2018 - \$194,614) to two employees (2018 - one employee) whose remuneration, including salaries and benefits, was greater than \$75,000. The total remuneration paid includes severance and retiring allowances of \$79,070 (2018 - \$102,287).

Note 13 - Subsequent Events

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the Society are not known at this time. These impacts could include potential future decreases in funding and the viability of ongoing operations.

MERCY SHIPS CANADA SOCIETY
SCHEDULE OF EXPENSE ALLOCATION

DECEMBER 31, 2019

2019

	Fundraising Operational Activities	Charitable Operational Activities	Unallocated Management & Administration Expenditures	Total Management & Administration Expenditures
Wages and benefits	42 %	25 %	33 %	100 %
Accounting and legal	15 %	70 %	15 %	100 %
Bank and collection fees	76 %	24 %	0 %	100 %
Occupancy costs	42 %	32 %	26 %	100 %
Travel	57 %	25 %	18 %	100 %
Office and miscellaneous	42 %	32 %	26 %	100 %
Postage and courier	42 %	32 %	26 %	100 %
Telephone and internet	42 %	32 %	26 %	100 %
Insurance, licenses and dues	42 %	32 %	26 %	100 %
Interest on capital lease	42 %	32 %	26 %	100 %
Amortization	42 %	32 %	26 %	100 %

	Fundraising Operational Activities	Charitable Operational Activities	Unallocated Management & Administration Expenditures	Total Management & Administration Expenditures
Wages and benefits	\$ 274,204	\$ 168,473	\$ 217,361	\$ 660,038
Accounting and legal	13,584	64,677	13,584	91,845
Bank and collection fees	51,992	16,070	-	68,062
Occupancy costs	19,061	14,338	11,947	45,346
Travel	21,834	9,382	6,892	38,108
Office and miscellaneous	15,676	11,791	9,825	37,292
Postage and courier	6,879	5,174	4,312	16,365
Telephone and internet	4,245	3,193	2,661	10,099
Insurance, licenses and dues	2,113	1,590	1,325	5,028
Interest on capital lease	463	348	290	1,101
Amortization	2,155	1,621	1,351	5,127
	<u>\$ 412,206</u>	<u>\$ 296,657</u>	<u>\$ 269,548</u>	<u>\$ 978,411</u>

Unallocated management and administration expenditures represent the portion of total management and administration expenditures incurred during the year that were not allocated to fundraising operational activities and charitable operational activities.

MERCY SHIPS CANADA SOCIETY
SCHEDULE OF EXPENSE ALLOCATION
DECEMBER 31, 2019

2018

	Fundraising Operational Activities	Charitable Operational Activities	Unallocated Management & Administration Expenditures	Total Management & Administration Expenditures
Wages and benefits	39 %	51 %	10 %	100 %
Accounting and legal	39 %	51 %	10 %	100 %
Bank and collection fees	100 %	0 %	0 %	100 %
Occupancy costs	39 %	51 %	10 %	100 %
Travel	50 %	50 %	0 %	100 %
Office and miscellaneous	39 %	51 %	10 %	100 %
Postage and courier	39 %	51 %	10 %	100 %
Telephone and internet	39 %	51 %	10 %	100 %
Insurance, licenses and dues	39 %	51 %	10 %	100 %
Interest on capital lease	39 %	51 %	10 %	100 %
Amortization	39 %	51 %	10 %	100 %

	Fundraising Operational Activities	Charitable Operational Activities	Unallocated Management & Administration Expenditures	Total Management & Administration Expenditures
Wages and benefits	\$ 271,098	\$ 356,881	\$ 69,522	\$ 697,501
Accounting and legal	12,252	16,129	3,142	31,523
Bank and collection fees	56,097	-	-	56,097
Occupancy costs	14,964	19,699	3,838	38,501
Travel	6,360	6,360	-	12,720
Office and miscellaneous	24,873	32,744	6,379	63,996
Postage and courier	6,289	8,279	1,613	16,181
Telephone and internet	2,799	3,685	718	7,202
Insurance, licenses and dues	3,379	4,449	867	8,695
Interest on capital lease	514	676	132	1,322
Amortization	2,739	3,606	702	7,047
	<u>\$ 401,364</u>	<u>\$ 452,508</u>	<u>\$ 86,913</u>	<u>\$ 940,785</u>

Unallocated management and administration expenditures represent the portion of total management and administration expenditures incurred during the year that were not allocated to fundraising operational activities and charitable operational activities.