

MERCY SHIPS CANADA SOCIETY

FINANCIAL STATEMENTS

DECEMBER 31, 2018

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## INDEPENDENT AUDITORS' REPORT

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

### ***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, 2018, 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, 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.

### ***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, 2018 and 2017, current assets as at December 31, 2018 and 2017, and net assets as at January 1 and December 31 for both the 2018 and 2017 years. Our audit opinion on the financial statements for the year ended December 31, 2017 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

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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.

Victoria, B.C.  
June 5, 2019

*Lee and Sharpe*  
Chartered Professional Accountants

**MERCY SHIPS CANADA SOCIETY**

**STATEMENT OF OPERATIONS**

**YEAR ENDED DECEMBER 31, 2018**

	<b>2018</b>	<b>2017</b>
<b>REVENUE</b>		
General contributions	\$ 2,193,070	\$ 2,301,295
Contributed services	1,793,677	1,362,014
Miscellaneous	<u>343</u>	<u>3,587</u>
	<u>3,987,090</u>	<u>3,666,896</u>
<b>EXPENDITURES</b>		
Contributed services utilized	1,793,677	1,362,014
Fundraising activities	839,446	1,098,048
Outreach projects funding	552,570	498,341
Crew program funding	220,502	187,000
Programs	107,723	1,439,430
External project funding	<u>-</u>	<u>41,486</u>
	<u>3,513,918</u>	<u>4,626,319</u>
Excess (deficiency) of revenue over expenditures before other items	473,172	(959,423)
General and administrative expenditures (Schedule)	(86,913)	(99,318)
Unrealized gains foreign exchange	4,145	-
Realized losses on disposal of marketable securities	<u>(218)</u>	<u>(467)</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES FOR THE YEAR</b>	<u>\$ 390,186</u>	<u>\$ (1,059,208)</u>

(See accompanying notes)

Audited

**MERCY SHIPS CANADA SOCIETY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**DECEMBER 31, 2018**

	<b>Unrestricted</b>	<b>Invested in Capital Assets</b>	<b>2018</b>	<b>2017</b>
Balance, beginning of year	\$ 57,246	\$ 16,149	\$ 73,395	\$ 1,132,603
Excess (deficiency) of revenue over expenditures	397,233	(7,047)	390,186	(1,059,208)
Net change in obligation under capital lease	<u>(831)</u>	<u>831</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 453,648</u>	<u>\$ 9,933</u>	<u>\$ 463,581</u>	<u>\$ 73,395</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, 2018**

	<b>2018</b>	<b>2017</b>
<b>Current assets</b>		
Cash	\$ 390,534	\$ 188,350
Accounts receivable	204,249	88,511
Due from Mercy Ships (Note 4)	204,145	-
Prepaid expenditures	<u>80,906</u>	<u>95,396</u>
	879,834	372,257
<b>Capital assets (Note 6)</b>	<u>15,011</u>	<u>22,058</u>
	<u>\$ 894,845</u>	<u>\$ 394,315</u>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 112,807	\$ 315,012
Current portion of obligation under capital lease (Note 8)	1,052	831
Deferred donations (Note 9)	<u>313,380</u>	<u>-</u>
	427,239	315,843
<b>Obligation under capital lease (Note 8)</b>	<u>4,025</u>	<u>5,077</u>
<b>Net assets</b>		
Unrestricted	453,648	57,246
Invested in capital assets	<u>9,933</u>	<u>16,149</u>
	463,581	73,395
	<u>\$ 894,845</u>	<u>\$ 394,315</u>

Approved by the Directors


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(See accompanying notes)

Audited

**MERCY SHIPS CANADA SOCIETY**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2018**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess revenue (deficiency) over expenditures for the year	\$ 390,186	\$ (1,059,208)
Item not involving cash		
Amortization	<u>7,047</u>	<u>7,179</u>
	<u>397,233</u>	<u>(1,052,029)</u>
Cash provided by (used for) non-cash working capital items		
Accounts receivable	(115,738)	41,127
Due from Mercy Ships	(204,145)	-
Prepaid expenditures	14,489	(51,142)
Accounts payable and accrued liabilities	(202,204)	107,306
Deferred donations	<u>313,380</u>	<u>-</u>
	<u>(194,218)</u>	<u>97,291</u>
<b>CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>		
Change in obligation under capital lease	<u>(831)</u>	<u>(591)</u>
<b>CASH FLOWS PROVIDED (USED FOR) INVESTING ACTIVITIES</b>		
Acquisition of capital assets	<u>-</u>	<u>(11,549)</u>
<b>INCREASE (DECREASE) DURING THE YEAR</b>	<b>202,184</b>	<b>(966,878)</b>
<b>CASH RESOURCES, beginning of year</b>	<u>188,350</u>	<u>1,155,228</u>
<b>CASH RESOURCES, end of year</b>	<u>\$ 390,534</u>	<u>\$ 188,350</u>

(See accompanying notes)

Audited



**MERCY SHIPS CANADA SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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 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 generally accepted accounting principles using the accrual basis of accounting in which the financial effect of transactions and events is recognized in the period in which they occur, regardless of whether there has been a receipt or payment of cash. Significant accounting policies adopted by the Society are as follows:

**MERCY SHIPS CANADA SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

Note 2 - Accounting Policies (continued)

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.

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.

**MERCY SHIPS CANADA SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

Note 2 - Accounting Policies (continued)

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 offsetting revenues and expenses on the Statement of Operations in the current year is \$ 1,793,677 (2017 - \$ 1,362,014 ).

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

		<b>2018</b>		<b>2017</b>
Wages and benefits	39%	\$ 271,098	42%	\$ 224,146
Office and miscellaneous	39%	24,873	42%	13,328
Occupancy costs	39%	14,964	42%	15,544
Professional fees	39%	12,252	42%	15,487
Postage and courier	39%	6,289	42%	6,384
Insurance, licenses and dues	39%	3,379	42%	3,392
Telephone and internet	39%	2,799	42%	3,581
Amortization	39%	2,739	42%	3,038
Interest on capital lease	39%	514	42%	632
Advertising	39%	-	42%	940
		<u>\$ 338,907</u>		<u>\$ 286,472</u>

**MERCY SHIPS CANADA SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

Note 2 - Accounting Policies, continued

Allocation to outreach projects funding		2018	2017
Wages and benefits	51%	\$ 356,881	43% \$ 227,836
Office and miscellaneous	51%	32,744	43% 13,547
Occupancy costs	51%	19,699	43% 15,800
Professional fees	51%	16,129	43% 15,742
Postage and courier	51%	8,279	43% 6,489
Insurance, licenses and dues	51%	4,449	43% 3,448
Telephone and internet	51%	3,685	43% 3,640
Amortization	51%	3,606	43% 3,088
Interest on capital lease	51%	676	43% 642
Advertising	51%	-	43% 955
		<u>\$ 446,148</u>	<u>\$ 291,187</u>

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.

**MERCY SHIPS CANADA SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

Note 3 - Financial Instruments, continued

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.

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 balance due from Mercy Ships is exposed to foreign exchange fluctuations. As at December 31, 2018, \$204,145 (2017 - nil) due from Mercy Ships is denominated in US dollars and converted into Canadian dollars.

Note 4 - Due from Mercy Ships

During the year, the Society advanced funds to Mercy Ships. The funds 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.

**MERCY SHIPS CANADA SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

Note 5 - 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, \$347,885 (2017 - \$1,578,252) was transferred through the Joint Programs Committee under the terms of the Agreement to Mercy Ships.

Note 6 - Capital Assets

	Cost	Accumulated Amortization	Net Book Value	
			2018	2017
Furniture and equipment \$	58,197	\$ 46,930	\$ 11,267	\$ 17,378
Equipment under capital lease	<u>6,500</u>	<u>2,756</u>	<u>3,744</u>	<u>4,680</u>
	<u>\$ 64,697</u>	<u>\$ 49,686</u>	<u>\$ 15,011</u>	<u>\$ 22,058</u>

Note 7 - 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:

2019	\$ 20,883
2020	20,992
2021	21,211
2022	21,539
2023	22,085
2024	<u>7,435</u>
	<u>\$ 114,145</u>

**MERCY SHIPS CANADA SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

Note 8 - Obligation under Capital Lease

	2018	2017
2018	\$ -	\$ 2,153
2019	2,153	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	7,535	9,688
Less: amount representing interest at 23.8%	<u>(2,458)</u>	<u>(3,780)</u>
Present value of net minimum capital lease payments	5,077	5,908
Less: current portion	<u>(1,052)</u>	<u>(831)</u>
	<u>\$ 4,025</u>	<u>\$ 5,077</u>

Note 9 - Deferred Revenue

During the year, the Society received a gift in the amount of \$313,380, which was subject to specific purposes by the donor. As at December 31, 2018 none of the gift was able to be utilized for the intended purpose.

Note 10 - 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, 2018**

Note 11 - Remuneration of Employees

In 2018, the Society paid one employee \$194,614 including his annual salary of \$92,327, including a retiring allowance of \$102,287 in recognition of past service, retroactivity, accrued pay and vacation pay.



## MERCY SHIPS CANADA SOCIETY

## SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENDITURES

DECEMBER 31, 2018

	2018	2017
Wages and benefits	\$ 69,522	\$ 77,710
Office and miscellaneous	6,379	4,621
Occupancy costs	3,838	5,389
Accounting and legal	3,142	5,369
Postage and courier	1,613	2,213
Insurance, licenses and dues	867	1,176
Telephone and internet	718	1,242
Interest on capital lease	132	219
Advertising	-	326
Amortization	<u>702</u>	<u>1,053</u>
	<u>\$ 86,913</u>	<u>\$ 99,318</u>

The expenditures above contain 10% (2017 - 15%) of the total general and administrative expenses for the year. The remaining 90% (2017 - 85%) have been allocated to fundraising and outreach project expenditures as outlined in Note 2.