

MERCY SHIPS CANADA SOCIETY

FINANCIAL STATEMENTS

DECEMBER 31, 2015

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LEE and SHARPE*
CHARTERED PROFESSIONAL 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, 2015 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, 2015 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 20, 2016

Lee and Sharpe
Chartered Professional Accountants

* A Partnership of Incorporated Professionals

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MERCY SHIPS CANADA SOCIETY
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2015

	2015	2014
REVENUE		
General contributions	\$ 1,601,435	\$ 1,003,831
Contributed services	1,320,435	1,025,978
Crew project fund	406,679	389,316
Project and programs fees	77,025	96,266
Miscellaneous	<u>2,593</u>	<u>7,214</u>
	<u>3,408,167</u>	<u>2,522,605</u>
EXPENDITURES		
Contributed services utilized	1,320,435	1,025,978
Crew program funding	414,572	358,151
Fundraising activities	406,835	318,459
Outreach projects funding	356,654	262,148
Programs	119,264	289,283
External project funding	<u>56,000</u>	<u>47,000</u>
	<u>2,673,760</u>	<u>2,301,019</u>
Excess of revenue over expenditures before other items	734,407	221,586
General and administrative expenditures (Schedule)	137,120	80,583
Unrealized gain (loss) on marketable securities	<u>(3,642)</u>	<u>1,244</u>
EXCESS OF REVENUE OVER EXPENDITURES FOR THE YEAR	<u>\$ 593,645</u>	<u>\$ 142,247</u>

(See accompanying notes)

Audited

MERCY SHIPS CANADA SOCIETY
STATEMENT OF CHANGES IN NET ASSETS

DECEMBER 31, 2015

	Unrestricted	Invested in Capital Assets	2015	2014
Balance, beginning of year	\$ 595,205	\$ 12,099	\$ 607,304	\$ 465,057
Excess (deficiency) of revenue over expenditures	597,260	(3,615)	593,645	142,247
Net change in obligation under capital lease	<u>(1,525)</u>	<u>1,525</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 1,190,940</u>	<u>\$ 10,009</u>	<u>\$ 1,200,949</u>	<u>\$ 607,304</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, 2015

	2015	2014
Current assets		
Cash	\$1,315,595	\$ 304,163
Marketable securities	22,462	218,030
Accounts receivable	39,512	66,723
Prepaid expenditures	<u>36,228</u>	<u>38,126</u>
	1,413,797	627,042
Capital assets (Note 4)	<u>15,227</u>	<u>18,842</u>
	<u>\$1,429,024</u>	<u>\$ 645,884</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 222,857	\$ 31,837
Current portion of obligation under capital lease (Note 5)	<u>1,627</u>	<u>1,525</u>
	<u>224,484</u>	<u>33,362</u>
Obligation under capital lease (Note 5)	<u>3,591</u>	<u>5,218</u>
Net assets		
Unrestricted	1,190,940	595,205
Invested in capital assets	<u>10,009</u>	<u>12,099</u>
	<u>1,200,949</u>	<u>607,304</u>
	<u>\$1,429,024</u>	<u>\$ 645,884</u>

Approved by the Directors





(See accompanying notes)

Audited

MERCY SHIPS CANADA SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess revenue over expenditures for the year	\$ 593,645	\$ 142,247
Item not involving cash		
Amortization	<u>3,615</u>	<u>3,897</u>
	597,260	146,144
Cash provided by (used for) non-cash working capital items		
Marketable securities	195,568	(218,030)
Accounts receivable	27,211	(37,404)
Prepaid expenditures	1,898	(22,663)
Accounts payable and accrued liabilities	<u>191,020</u>	<u>(8,514)</u>
	1,012,957	(140,467)
CASH FLOWS USED FOR FINANCING ACTIVITIES		
Change in obligation under capital lease	(1,525)	(1,429)
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Acquisition of capital assets	<u>-</u>	<u>(2,244)</u>
INCREASE (DECREASE) DURING THE YEAR	1,011,432	(144,140)
CASH RESOURCES, beginning of year	<u>304,163</u>	<u>448,303</u>
CASH RESOURCES, end of year	<u>\$ 1,315,595</u>	<u>\$ 304,163</u>

(See accompanying notes)

Audited

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015

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

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:

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, 2015

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 offsetting revenues and expenses on the Statement of Operations in the current year is \$ 1,320,435 (2014 - \$ 1,025,978).

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015

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

		2015		2014
Wages and benefits	45%	\$ 147,815	46%	\$ 148,805
Office and miscellaneous	45%	29,251	46%	9,390
Professional fees	45%	25,161	46%	4,162
Occupancy costs	45%	15,333	46%	15,517
Insurance, licenses and dues	45%	3,535	46%	12,013
Telephone and internet	45%	3,500	46%	2,551
Postage and courier	45%	3,378	46%	1,543
Amortization	45%	1,448	46%	1,808
Advertising	46%	<u>157</u>	46%	<u>1,887</u>
		<u>\$ 229,578</u>		<u>\$ 197,676</u>

Allocation to outreach projects funding

		2015		2014
Wages and benefits	28%	\$ 92,630	35%	\$ 111,603
Office and miscellaneous	28%	18,330	35%	7,042
Professional fees	28%	15,767	35%	3,121
Occupancy costs	28%	9,609	35%	11,638
Insurance, licenses and dues	28%	2,215	35%	9,010
Telephone and internet	28%	2,194	35%	1,914
Postage and courier	28%	2,117	35%	1,157
Amortization	28%	907	35%	1,356
Advertising	28%	<u>98</u>	35%	<u>1,415</u>
		<u>\$ 143,867</u>		<u>\$ 148,256</u>

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015

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	
			2015	2014
Furniture and equipment \$	41,994	\$ 31,893	\$ 10,101	\$ 12,434
Equipment under capital lease	<u>8,900</u>	<u>3,774</u>	<u>5,126</u>	<u>6,408</u>
	<u>\$ 50,894</u>	<u>\$ 35,667</u>	<u>\$ 15,227</u>	<u>\$ 18,842</u>

Audited

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 5 - Obligation under Capital Lease

	2015	2014
2015	\$ -	\$ 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	5,760	7,680
Less: amount representing interest at 6.5%	<u>(542)</u>	<u>(937)</u>
Present value of net minimum capital lease payments	5,218	6,743
Less: current portion	<u>(1,627)</u>	<u>(1,525)</u>
	<u>\$ 3,591</u>	<u>\$ 5,218</u>

Note 6 - Lease Commitment

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

2016	\$ 20,008
2017	20,664
2018	<u>20,664</u>
	<u>\$ 61,336</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, 2015

Note 8 - Economic Interest

The Society has entered into a contact for services agreement with Mercy Ships, a 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, \$517,199 (2014 - \$635,792) was transferred under the terms of the contract to Mercy Ships. The payments have been recorded at their carrying amounts.

Note 9 - Contingencies

The Society is subject to an audit from the Canada Revenue Agency (the "Agency") for the 2011 and 2012 fiscal periods. The Society has responded to the Agency's inquiries and management does not expect there will be an impact to the Society. Therefore, no provision for this matter has been recognized in the financial statements.

MERCY SHIPS CANADA SOCIETY

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENDITURES

DECEMBER 31, 2015

	2015	2014
Wages and benefits	\$ 88,032	\$ 60,291
Office and miscellaneous	17,022	3,804
Accounting and legal	14,984	1,686
Occupancy costs	9,132	6,287
Insurance, licenses and dues	2,105	4,867
Telephone and internet	2,085	1,034
Postage and courier	2,012	625
Interest on capital lease	395	491
Advertising	93	765
Amortization	<u>1,260</u>	<u>733</u>
	<u>\$ 137,120</u>	<u>\$ 80,583</u>