

Financial Statements of

**MERCY SHIPS CANADA
SOCIETY**

And Independent Auditor's Report thereon

Year ended December 31, 2022



KPMG LLP
800-730 View Street
Victoria, BC V8W 3Y7
Canada
Tel 250-480-3500 Fax
250-480-3539

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Mercy Ships Canada Society

Opinion

We have audited the financial statements of Mercy Ships Canada Society (the Entity), which comprise:

- the balance sheet as at December 31, 2022
- 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 December 31, 2022, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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 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 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.

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 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 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 the Entity 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.
- 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.

KPMG LLP

Chartered Professional Accountants

Victoria, Canada

June 19, 2023

MERCY SHIPS CANADA SOCIETY

Balance Sheet

December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 2,047,909	\$ 1,846,104
Accounts receivable (note 3)	230,031	182,191
Prepaid expenses	17,785	7,716
	<u>2,295,725</u>	<u>2,036,011</u>
Capital assets (note 4)	15,089	8,789
	<u>\$ 2,310,814</u>	<u>\$ 2,044,800</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 117,970	\$ 145,984
Current portion of capital lease obligation (note 6)	1,226	1,005
	<u>119,196</u>	<u>146,989</u>
Capital lease obligation (note 6)	5,568	-
	<u>124,764</u>	<u>146,989</u>
Net assets:		
Unrestricted	2,177,755	1,890,027
Invested in capital assets	8,295	7,784
	<u>2,186,050</u>	<u>1,897,811</u>
Commitments (note 7)		
	<u>\$ 2,310,814</u>	<u>\$ 2,044,800</u>

See accompanying notes to financial statements.

On behalf of the Board:

Lynda Beaudin

Alain Sekula

MERCY SHIPS CANADA SOCIETY

Statement of Operations

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Revenue:		
General contributions	\$ 3,082,496	\$ 2,328,094
Contributed services (note 8)	1,688,800	554,189
Interest and other income	19,353	4,008
	<u>4,790,649</u>	<u>2,886,291</u>
Expenses:		
Contributed services utilized	1,688,800	554,189
Programs	1,052,911	747,136
Charitable operational activities	629,384	549,534
Fundraising operational activities	497,585	428,880
Crew program funding	453,501	152,695
Management and administration	180,229	127,833
	<u>4,502,410</u>	<u>2,560,267</u>
Excess of revenue over expenses for the year	<u>\$ 288,239</u>	<u>\$ 326,024</u>

See accompanying notes to financial statements.

MERCY SHIPS CANADA SOCIETY

Statement of Changes in Net Assets

Year ended December 31, 2022, with comparative information for 2021

	Unrestricted	Invested in capital assets	Total 2022	Total 2021
Balance, beginning of year	\$ 1,890,027	\$ 7,784	\$ 1,897,811	\$ 1,571,787
Excess of revenue over expenses for the year	293,963	(5,724)	288,239	326,024
Investment in capital assets	(12,024)	12,024	-	-
Net change in obligation under capital lease	5,789	(5,789)	-	-
Balance, end of year	\$ 2,177,755	\$ 8,295	\$ 2,186,050	\$ 1,897,811

See accompanying notes to financial statements.

MERCY SHIPS CANADA SOCIETY

Statement of Cash Flows

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses for the year	\$ 288,239	\$ 326,024
Items not involving cash:		
Amortization	4,030	2,814
Loss on sale of capital assets	1,694	-
	293,963	328,838
Changes in non-cash operating working capital:		
Increase in accounts receivable	(47,840)	(72,176)
Increase (decrease) in prepaid expenses	(10,069)	35,673
Increase (decrease) in accounts payable and accrued liabilities	(28,014)	46,455
	208,040	338,790
Financing:		
Repayment of capital lease obligation	(1,405)	(1,687)
Investing:		
Purchase of capital assets	(4,830)	(2,032)
Increase in cash and cash equivalents	201,805	335,071
Cash and cash equivalents, beginning of year	1,846,104	1,511,033
Cash and cash equivalents, end of year	\$ 2,047,909	\$ 1,846,104
Non-cash transactions:		
Capital assets acquired by way of capital lease obligation	\$ 7,194	\$ -

See accompanying notes to financial statements.

MERCY SHIPS CANADA SOCIETY

Notes to Financial Statements

Year ended December 31, 2022

Nature of operations:

Mercy Ships Canada Society (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 provided certain requirements of the Income Tax Act are met.

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:

- (i) 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.

- (ii) To advance education through the provision of medical and surgical training to local health professionals and medical leadership development.

MERCY SHIPS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2022

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook. The Society's significant accounting policies are as follows:

(a) Fund accounting:

Resources are classified for accounting and reporting purposes into the following funds:

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

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposits which are highly liquid with original maturities of less than three months, or cashable on demand.

(c) Revenue recognition:

The Society follows the deferral method of accounting for general contributions, which includes donations.

Contributions that are unrestricted are recorded as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted contributions are recognized as revenue in the year in which related expenditures are incurred.

MERCY SHIPS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2022

1. Significant accounting policies (continued):

(d) Capital assets:

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:

Asset	Rate
Furniture , equipment and computers	20%
Equipment under capital lease	20%

(e) Use of estimates:

The preparation of the financial statements 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 date of the financial statements and the reported amounts of revenue and expenses during the year. Items subject to such estimates and assumptions include 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. Actual results could differ from those estimates.

(f) 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 note 12.

(g) 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. See note 8.

MERCY SHIPS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2022

2. Cash and cash equivalents:

The major components of cash and cash equivalents are as follows:

	2022	2021
Cash	\$ 1,047,909	\$ 577,104
Cashable GICs	1,000,000	1,269,000
	<u>\$ 2,047,909</u>	<u>\$ 1,846,104</u>

3. Accounts receivable:

	2022	2021
General contributions receivable	\$ 203,896	\$ 166,517
Public service bodies' rebate receivable	19,149	13,894
Interest receivable on cashable GICs	6,986	1,780
	<u>\$ 230,031</u>	<u>\$ 182,191</u>

General contributions receivable consist of cash donations that were recognized by the Society in 2022, but were received in 2023.

4. Capital assets:

	2022		2021	
	Cost	Accumulated amortization	Net book value	Net book value
Furniture, equipment and computers	\$ 69,265	\$ 60,651	\$ 8,614	\$ 6,872
Equipment under capital lease	7,194	719	6,475	1,917
	<u>\$ 76,459</u>	<u>\$ 61,370</u>	<u>\$ 15,089</u>	<u>\$ 8,789</u>

MERCY SHIPS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2022

5. Accounts payable and accrued liabilities:

	2022	2021
Trade payables	\$ 108,843	\$ 136,656
Vacation and employee benefits payable	8,536	8,806
Government remittances payable	591	522
	<u>\$ 117,970</u>	<u>\$ 145,984</u>

Trade payables primarily consists of an invoice from Mercy Ships, a global US based charity and non-profit faith based corporation, which makes up 31% (2021 - 47%) of the total payables. The remaining portion of the Society's trade payables primarily includes accrued audit fees and salaries payable.

6. Capital lease obligation:

The Society has financed a photocopier by entering into a capital leasing arrangement. Capital lease repayments are due as follows:

	2022	2021
2022	\$ -	\$ 2,153
2023	1,432	1,076
2024	1,432	-
2025	1,432	-
2026	1,432	-
2027	1,432	-
2028	239	-
Total minimum lease payments	7,399	3,229
Less amount representing interest	605	71
Present value of net minimum capital lease payments	6,794	3,158
Less current portion of obligations under capital lease	1,226	1,005
	<u>\$ 5,568</u>	<u>\$ 2,153</u>

Interest of \$328 (2022 - \$465) relating to the capital lease obligation has been included in expenses.

MERCY SHIPS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2022

7. Commitments:

As at December 31, 2022, the Society has agreed to contribute approximately \$746,000 toward medical, laboratory and other equipment for specific projects under the terms of the Joint Programs Agreement, which requires that progress reports be provided on a quarterly basis and provides the Society the right to withhold the transfer of any monies, services and/or other resources, as applicable, for the projects if the projects are not being conducted to its satisfaction.

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

2023	\$	22,085
2024		7,435
	\$	29,520

8. Contributed services:

Contributed services are measured at the estimated fair value based on occupation rates from an independent external source. The amount of contributed services recognized as offsetting revenues and expenses on the Statement of Operations in the current year is \$1,688,800 (2021 - \$554,189).

9. Financial risks and concentration of risk:

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 cash equivalents and accounts receivable. The financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

MERCY SHIPS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2022

9. Financial risks and concentration of risk (continued):

(a) 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 prepaid expenses and accounts payable and accrued liabilities are exposed to foreign exchange fluctuations. As at December 31, 2022, \$30,579 (2021 - \$69,776) in accounts payable and accrued liabilities are denominated in US dollars.

(b) 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 and prepaid expenses. It is management's opinion the Society is not exposed to significant credit risks arising from its financial instruments.

(c) 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.

Other than as noted, there have been no changes to risk exposure in the last year.

10. Joint Programs Agreement:

The Society has entered into a Joint Programs Agreement with Mercy Ships. Mercy Ships provides services to the Society in furtherance of the charitable purposes of the Society. During the year, \$1,050,916 (2021 - \$744,444) was transferred from the Society to Mercy Ships through the Joint Programs Committee under the terms of the Agreement.

MERCY SHIPS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2022

11. Remuneration:

Under the British Columbia Societies Act, there is a requirement to disclose the remuneration paid to all directors, to the highest paid employees who are paid at least \$75,000 annually, and to all contractors who are paid at least \$ 75,000 annually.

In 2022, the Society paid a total remuneration of \$375,724 (2021 - \$174,036) to four employees (2021 - two employee) whose remuneration, including salaries and benefits, was greater than \$75,000.

MERCY SHIPS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2022

12. Expense allocation:

2022	Fundraising Operational Activities	Charitable Operational Activities	Management and Administration	Total
Wages and benefits	20%	62%	18%	100%
Accounting and legal	32%	32%	35%	100%
Office and miscellaneous	23%	61%	17%	100%
Bank and collection fees	75%	25%	0%	100%
Occupancy costs	23%	61%	17%	100%
Travel	22%	57%	22%	100%
Postage and courier	23%	61%	17%	100%
Telephone and Internet	23%	61%	17%	100%
Insurance, licenses and dues	30%	33%	36%	100%
Interest on capital lease	23%	61%	17%	100%
Amortization	23%	61%	17%	100%

2022	Fundraising Operational Activities	Charitable Operational Activities	Management and Administration	Total
Wages and benefits	\$ 146,714	\$ 451,753	\$ 127,619	\$ 726,086
Accounting and legal	9,449	9,449	10,287	29,185
Office and miscellaneous	14,804	39,413	10,713	64,930
Bank and collection fees	45,408	15,480	-	60,888
Occupancy costs	9,500	25,293	6,875	41,668
Travel	6,848	18,067	6,850	31,765
Postage and courier	1,866	4,968	1,350	8,184
Telephone and internet	1,127	3,001	816	4,944
Insurance, licenses and dues	2,298	2,542	2,771	7,611
Interest on capital lease	75	199	54	328
Amortization	994	2,646	719	4,359
	239,083	572,811	168,054	979,948
Directly attributable costs	258,502	56,573	12,175	327,250
	\$ 497,585	\$ 629,384	\$ 180,229	\$ 1,307,198

MERCY SHIPS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2022

12. Expense allocation:

2021	Fundraising Operational Activities	Charitable Operational Activities	Management and Administration	Total
Wages and benefits	17%	69%	14%	100%
Accounting and legal	32%	36%	32%	100%
Office and miscellaneous	41%	35%	24%	100%
Bank and collection fees	79%	21%	0%	100%
Occupancy costs	18%	68%	14%	100%
Travel	21%	21%	58%	100%
Postage and courier	18%	68%	14%	100%
Telephone and Internet	18%	68%	14%	100%
Insurance, licenses and dues	30%	30%	40%	100%
Interest on capital lease	18%	68%	14%	100%
Amortization	18%	68%	14%	100%

2021	Fundraising Operational Activities	Charitable Operational Activities	Management and Administration	Total
Wages and benefits	\$ 103,730	\$ 430,380	\$ 89,268	\$ 623,378
Accounting and legal	10,023	15,693	10,023	35,739
Office and miscellaneous	24,827	21,136	13,964	59,927
Bank and collection fees	54,632	14,136	-	68,768
Occupancy costs	7,299	27,194	5,616	40,109
Travel	1,499	1,499	4,240	7,238
Postage and courier	1,907	7,105	1,467	10,479
Telephone and internet	938	3,495	722	5,155
Insurance, licenses and dues	1,598	1,598	2,074	5,270
Interest on capital lease	85	315	65	465
Amortization	512	1,908	394	2,814
	207,050	524,459	127,833	859,342
Directly attributable costs	221,830	25,075	-	246,905
	\$ 428,880	\$ 549,534	\$ 127,833	\$ 1,106,247