

Financial Statements of

**MERCY SHIPS CANADA  
SOCIETY**

And Independent Auditor's Report thereon

Year ended December 31, 2023



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## **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 statement of financial position as at December 31, 2023
- 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, 2023 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 auditors' 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 auditors' 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.



*Mercy Ships Canada Society*

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- 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 auditors' 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 auditors' 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.

### ***Report on Other Legal and Regulatory Requirements***

As required by Section 117(1)(b) of the Societies Act (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting financial statements in accordance with applicable financial reporting framework have been applied on a basis consistent with that of the preceding period.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slanted font. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants

Victoria, Canada

June 1, 2024

# MERCY SHIPS CANADA SOCIETY

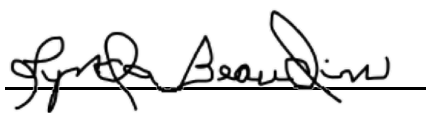
## Statement of Financial Position

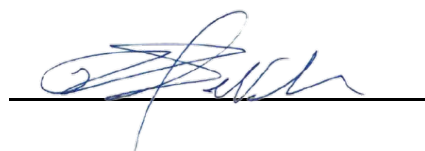
December 31, 2023, with comparative information for 2022

	2023	2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 2)	\$ 2,131,977	\$ 2,047,909
Accounts receivable (note 3)	303,462	230,031
Prepaid expenses	47,124	17,785
	<u>2,482,563</u>	<u>2,295,725</u>
Capital assets (note 4)	11,709	15,089
	<u>\$ 2,494,272</u>	<u>\$ 2,310,814</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 151,388	\$ 117,970
Current portion of capital lease obligation (note 6)	1,267	1,226
	<u>152,655</u>	<u>119,196</u>
Capital lease obligation (note 6)	4,300	5,568
	<u>156,955</u>	<u>124,764</u>
Net assets:		
Unrestricted	2,331,175	2,177,755
Invested in capital assets	6,142	8,295
	<u>2,337,317</u>	<u>2,186,050</u>
Commitments (note 7)		
	<u>\$ 2,494,272</u>	<u>\$ 2,310,814</u>

See accompanying notes to financial statements.

On behalf of the Board:

  
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# MERCY SHIPS CANADA SOCIETY

## Statement of Operations

Year ended December 31, 2023, with comparative information for 2022

	2023	2022
Revenue:		
General contributions	\$ 2,558,970	\$ 3,082,496
Contributed services (note 8)	1,098,507	1,688,800
Interest and other income	65,634	19,353
	<u>3,723,111</u>	<u>4,790,649</u>
Expenses:		
Contributed services utilized	1,098,507	1,688,800
Programs	710,042	1,052,911
Charitable operational activities	610,047	629,384
Fundraising operational activities	580,648	497,585
Crew program funding	342,653	453,501
Management and administration	229,947	180,229
	<u>3,571,844</u>	<u>4,502,410</u>
Excess of revenue over expenses for the year	<u>\$ 151,267</u>	<u>\$ 288,239</u>

See accompanying notes to financial statements.

## MERCY SHIPS CANADA SOCIETY

### Statement of Changes in Net Assets

Year ended December 31, 2023, with comparative information for 2022

	Unrestricted	Invested in capital assets	Total 2023	Total 2022
Balance, beginning of year	\$ 2,177,755	\$ 8,295	\$ 2,186,050	\$ 1,897,811
Excess of revenue over expenses for the year	155,605	(4,338)	151,267	288,239
Purchase of capital assets	(768)	768	-	-
Net change in obligation under capital lease	(1,417)	1,417	-	-
<b>Balance, end of year</b>	<b>\$ 2,331,175</b>	<b>\$ 6,142</b>	<b>\$ 2,337,317</b>	<b>\$ 2,186,050</b>

See accompanying notes to financial statements.

## MERCY SHIPS CANADA SOCIETY

### Statement of Cash Flows

Year ended December 31, 2023, with comparative information for 2022

	2023	2022
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses for the year	\$ 151,267	\$ 288,239
Items not involving cash:		
Amortization	4,148	4,030
Loss on sale of capital assets	-	1,694
	<u>155,415</u>	<u>293,963</u>
Changes in non-cash operating working capital:		
Increase in accounts receivable	(73,431)	(47,840)
Increase (decrease) in prepaid expenses	(29,339)	(10,069)
Increase (decrease) in accounts payable and accrued liabilities	33,418	(28,014)
	<u>86,063</u>	<u>208,040</u>
Financing:		
Repayment of capital lease obligation	(1,227)	(1,405)
Investing:		
Purchase of capital assets	(768)	(4,830)
Increase in cash and cash equivalents	84,068	201,805
Cash and cash equivalents, beginning of year	2,047,909	1,846,104
Cash and cash equivalents, end of year	<u>\$ 2,131,977</u>	<u>\$ 2,047,909</u>

See accompanying notes to financial statements.



# MERCY SHIPS CANADA SOCIETY

## Notes to Financial Statements

Year ended December 31, 2023

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### **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, 2023

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### 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, 2023

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### 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%

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(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, 2023

#### 2. Cash and cash equivalents:

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

	2023	2022
Cash	\$ 431,651	\$ 1,047,909
Cashable GICs	1,700,326	1,000,000
	<u>\$ 2,131,977</u>	<u>\$ 2,047,909</u>

#### 3. Accounts receivable:

	2023	2022
General contributions receivable	\$ 236,417	\$ 203,896
Public service bodies' rebate receivable	2,696	19,149
Interest receivable on cashable GICs	64,349	6,986
	<u>\$ 303,462</u>	<u>\$ 230,031</u>

General contributions receivable consist of cash donations that were recognized by the Society in 2023, but were received in 2024.

#### 4. Capital assets:

	2023		2022	
	Cost	Accumulated amortization	Net book value	Net book value
Furniture, equipment and computers	\$ 70,033	\$ 63,504	\$ 6,529	\$ 8,614
Equipment under capital lease	7,194	2,014	5,180	6,475
	<u>\$ 77,227</u>	<u>\$ 65,518</u>	<u>\$ 11,709</u>	<u>\$ 15,089</u>

## MERCY SHIPS CANADA SOCIETY

### Notes to Financial Statements (continued)

Year ended December 31, 2023

#### 5. Accounts payable and accrued liabilities:

	2023	2022
Trade payables	\$ 149,378	\$ 108,843
Vacation and employee benefits payable	841	8,536
Government remittances payable	1,169	591
	<u>\$ 151,388</u>	<u>\$ 117,970</u>

Trade payables primarily consists of an invoice from Mercy Ships International (note 12), which makes up 38% (2022 - 31%) 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:

	2023	2022
2023	\$ -	\$ 1,432
2024	1,432	1,432
2025	1,432	1,432
2026	1,432	1,432
2027	1,432	1,432
2028	239	239
Total minimum lease payments	5,967	7,399
Less amount representing interest	400	605
Present value of net minimum capital lease payments	5,567	6,794
Less current portion of obligations under capital lease	1,267	1,226
	<u>\$ 4,300</u>	<u>\$ 5,568</u>

Interest of \$190 (2022 - \$328) relating to the capital lease obligation has been included in expenses.

# MERCY SHIPS CANADA SOCIETY

## Notes to Financial Statements (continued)

Year ended December 31, 2023

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### 7. Commitments:

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

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2024	\$ 7,435
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### 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 \$1,098,507 (2022 - \$1,688,800).

### 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, 2023

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### 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, 2023, \$41,538 (2022 - \$30,579) 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. 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 2023, the Society paid a total remuneration of \$473,565 (2022 - \$375,724) to five employees (2022 - four employees) whose remuneration, including salaries and benefits, was greater than \$75,000.

## MERCY SHIPS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended December 31, 2023

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### 11. Related party transactions:

Mercy Ships International ("MSI") is a non-profit corporation incorporated in California, USA, domiciled in the State of Texas and exempt from income taxation under Section 501(c)(3) of the U.S. Internal Revenue Code. MSI can appoint directors to the Board of the Society. A License Agreement, Umbrella Agreement and Joint Programs Agreements have been created to establish the relationship between the Society and MSI. Under the Joint Programs Agreement, MSI and the Society undertake joint programs, including specific projects and activities such as facilitating volunteer crew members serving on the hospital ships that are mutually agreed upon. MSI provides services to the Society, furthering our collective mission. Our Society's relationship with MSI is multifaceted. Throughout the year, we also engaged in various types of transactions, including payments for longer-term crew, fundraising cultivation and acquisition, digital media communication, and marketing and communications. In total, we paid MSI \$1,136,969 (2022 - \$1,570,038) for these programs and services, demonstrating our commitment to supporting the mission.

The Society is a member delegate of Mercy Ships Global Association ("MSGA"). The MSGA is a humanitarian, non-profit association established in accordance with Article 60 ff of the Civil Code of Switzerland with offices in Lausanne, Switzerland. It is a registered charitable organization under the laws of Switzerland. MSGA aims to support the activities of Mercy Ships' hospital ships worldwide, support the development of Mercy Ships entities, and support and coordinate raising financial, human, and in-kind resources worldwide. MSGA is related to MSI and, hence a related party of the Society. Transactions between the Society and MSGA include payments for website maintenance, development and search engine optimization, consulting fees for fundraising and communications, and association fees. During the year, payments of \$60,340 (2022 - \$47,817) were made to MSGA.



# MERCY SHIPS CANADA SOCIETY

## Notes to Financial Statements (continued)

Year ended December 31, 2023

### 12. Expense allocation:

2023	Charitable Operational Activities	Fundraising Operational Activities	Management and Administration	Total
Wages and benefits	56 %	22 %	22 %	100 %
Accounting and legal	31	37	31	100
Office and miscellaneous	56	22	22	100
Bank and collection fees	30	70	-	100
Occupancy costs	56	22	22	100
Travel	51	24	25	100
Postage and courier	56	22	22	100
Telephone and Internet	56	22	22	100
Insurance, licenses and dues	33	33	34	100
Interest on capital lease	56	22	22	100
Amortization	56	22	22	100

2023	Charitable Operational Activities	Fundraising Operational Activities	Management and Administration	Total
Wages and benefits	447,386	173,148	171,525	792,059
Accounting and legal	9,736	11,677	9,736	31,149
Office and miscellaneous	34,213	13,322	13,019	60,554
Bank and collection fees	20,480	46,798	-	67,278
Occupancy costs	24,269	9,285	9,400	42,954
Travel	23,766	11,414	11,417	46,597
Postage and courier	5,084	1,980	1,935	8,999
Telephone and Internet	3,250	1,265	1,237	5,752
Insurance, licenses and dues	2,666	2,666	2,666	7,998
Interest on capital lease	107	42	41	190
Amortization	2,344	913	892	4,149
	573,301	272,510	221,868	1,067,679
Directly attributable costs	36,746	308,138	8,079	352,963
	610,047	580,648	229,947	1,420,642

# MERCY SHIPS CANADA SOCIETY

## Notes to Financial Statements (continued)

Year ended December 31, 2023

### 13. Expense allocation (continued):

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

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