

MERCY SHIPS CANADA SOCIETY

FINANCIAL STATEMENTS

DECEMBER 31, 2016

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## 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, 2016 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, 2016 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.

\* A Partnership of Incorporated Professionals

SANDY J. LEE LTD.

ADAM H. SHARPE LTD.

DOUGLAS K. DEBECK LTD.

201 - 4400 Chatterton Way (The Aspen)

Victoria, B.C. V8X 5J2

Phone: 250-386-8834

Fax: 250-381-1667

**Report on Other Legal and Regulatory Requirements**

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.  
March 21, 2017

*Lee and Sharpe*  
Chartered Professional Accountants

**MERCY SHIPS CANADA SOCIETY**  
**STATEMENT OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2016**

	2016	2015
<b>REVENUE</b>		
Contributed services	\$ 1,516,316	\$ 1,320,435
General contributions	1,260,189	1,601,435
Crew project fund	283,484	406,679
Project and programs fees	25,657	77,025
Miscellaneous	<u>3,352</u>	<u>2,593</u>
	<u>3,088,998</u>	<u>3,408,167</u>
<b>EXPENDITURES</b>		
Contributed services utilized	1,516,316	1,320,435
Fundraising activities	802,723	406,835
Outreach projects funding	296,923	356,654
Crew program funding	274,717	414,572
External project funding	77,318	56,000
Programs	<u>46,986</u>	<u>116,725</u>
	<u>3,014,983</u>	<u>2,671,221</u>
Excess of revenue over expenditures before other items	74,015	736,946
General and administrative expenditures (Schedule)	144,858	139,659
Gains on disposal of investments	4,032	-
Gain (loss) on disposal of capital assets	(1,535)	-
Unrealized gain (loss) on marketable securities	<u>-</u>	<u>(3,642)</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES FOR THE YEAR</b>	<u>\$ (68,346)</u>	<u>\$ 593,645</u>

(See accompanying notes)

Audited

**MERCY SHIPS CANADA SOCIETY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**DECEMBER 31, 2016**

	Unrestricted	Invested in Capital Assets	2016	2015
Balance, beginning of year	\$ 1,190,940	\$ 10,009	\$ 1,200,949	\$ 607,304
Excess (deficiency) of				
revenue over expenditures	(63,244)	(5,102)	(68,346)	593,645
Investment in capital assets	(7,563)	7,563	-	-
Net change in obligation				
under capital lease	<u>1,282</u>	<u>(1,282)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 1,121,415</u>	<u>\$ 11,188</u>	<u>\$ 1,132,603</u>	<u>\$ 1,200,949</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, 2016**

	<b>2016</b>	<b>2015</b>
<b>Current assets</b>		
Cash	\$1,155,228	\$1,272,967
Marketable securities	-	22,462
Accounts receivable	129,638	82,140
Prepaid expenditures	<u>44,253</u>	<u>36,228</u>
	1,329,119	1,413,797
<b>Capital assets (Note 4)</b>	<u>17,688</u>	<u>15,227</u>
	<u><b>\$1,346,807</b></u>	<u><b>\$1,429,024</b></u>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 207,704	\$ 222,857
Current portion of obligation under capital lease (Note 5)	<u>800</u>	<u>1,627</u>
	<u>208,504</u>	<u>224,484</u>
<b>Obligation under capital lease (Note 5)</b>	<u>5,700</u>	<u>3,591</u>
<b>Net assets</b>		
Unrestricted	1,121,415	1,190,940
Invested in capital assets	<u>11,188</u>	<u>10,009</u>
	<u>1,132,603</u>	<u>1,200,949</u>
	<u><b>\$1,346,807</b></u>	<u><b>\$1,429,024</b></u>

Approved by the Directors

*Meurette*  
*J.H. Bulmer*

(See accompanying notes)

Audited

MERCY SHIPS CANADA SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess revenue (deficiency) over expenditures for the year	\$ (68,346)	\$ 593,645
Item not involving cash		
Amortization	3,567	3,615
Loss on sale of capital assets	<u>1,535</u>	<u>-</u>
	<u>(63,244)</u>	<u>597,260</u>
Cash provided by (used for) non-cash working capital items		
Marketable securities	22,462	195,568
Accounts receivable	(47,498)	(15,417)
Prepaid expenditures	(8,025)	1,898
Accounts payable and accrued liabilities	<u>(15,153)</u>	<u>191,020</u>
	<u>(48,214)</u>	<u>373,069</u>
<b>CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>		
Change in obligation under capital lease	<u>1,282</u>	<u>(1,525)</u>
<b>CASH FLOWS PROVIDED (USED FOR) INVESTING ACTIVITIES</b>		
Proceeds on disposal of property, plant and equipment	3,591	-
Acquisition of capital assets	<u>(11,154)</u>	<u>-</u>
	<u>(7,563)</u>	<u>-</u>
<b>INCREASE (DECREASE) DURING THE YEAR</b>	(117,739)	968,804
CASH RESOURCES, beginning of year	<u>1,272,967</u>	<u>304,163</u>
CASH RESOURCES, end of year	<u>\$ 1,155,228</u>	<u>\$ 1,272,967</u>

(See accompanying notes)

Audited



**MERCY SHIPS CANADA SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

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 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.

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, 2016**

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 \$ 1,516,316 (2015 - \$ 1,320,435 ).

**MERCY SHIPS CANADA SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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

		<b>2016</b>		<b>2015</b>
Wages and benefits	50%	\$ 212,337	45%	\$ 147,815
Office and miscellaneous	50%	15,806	45%	29,251
Professional fees	50%	59,846	45%	25,161
Occupancy costs	50%	17,300	45%	15,333
Insurance, licenses and dues	50%	3,337	45%	3,535
Telephone and internet	50%	6,345	45%	3,500
Postage and courier	50%	4,516	45%	3,378
Amortization	50%	1,785	45%	1,448
Advertising	50%	1,103	45%	157
		<u>\$ 322,375</u>		<u>\$ 229,578</u>

Allocation to outreach projects funding

		<b>2016</b>		<b>2015</b>
Wages and benefits	28%	\$ 116,732	28%	\$ 92,630
Office and miscellaneous	28%	8,690	28%	18,330
Professional fees	28%	32,900	28%	15,767
Occupancy costs	28%	9,510	28%	9,609
Insurance, licenses and dues	28%	1,835	28%	2,215
Telephone and internet	28%	3,488	28%	2,194
Postage and courier	28%	2,483	28%	2,117
Amortization	28%	981	28%	907
Advertising	28%	606	28%	98
		<u>\$ 177,225</u>		<u>\$ 143,867</u>

# MERCY SHIPS CANADA SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 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

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	
			<b>2016</b>	<b>2015</b>
Furniture and equipment \$	46,648	\$ 34,810	\$ 11,838	\$ 10,101
Equipment under capital lease	<u>6,500</u>	<u>650</u>	<u>5,850</u>	<u>5,126</u>
	<u>\$ 53,148</u>	<u>\$ 35,460</u>	<u>\$ 17,688</u>	<u>\$ 15,227</u>

Audited

**MERCY SHIPS CANADA SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

Note 5 - Obligation under Capital Lease

	<b>2016</b>	<b>2015</b>
2016	\$ -	\$ 1,920
2017	1,788	1,920
2018	1,788	1,920
2019	1,788	-
2020	1,788	-
2021	1,788	-
2022	<u>894</u>	<u>-</u>
Total minimum lease payments	9,834	5,760
Less: amount representing interest at 16.1% (2015 - 6.5%)	<u>(3,334)</u>	<u>(542)</u>
Present value of net minimum capital lease payments	6,500	5,218
Less: current portion	<u>(800)</u>	<u>(1,627)</u>
	<u>\$ 5,700</u>	<u>\$ 3,591</u>

Note 6 - Lease Commitment

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

2017	\$ 20,664
2018	20,664
2019	<u>6,888</u>
	<u>\$ 48,216</u>

# MERCY SHIPS CANADA SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 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.

### Note 8 - Economic Interest

The Society has entered into a joint programs 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, \$304,065 (2015 - \$517,199) was transferred under the terms of the agreement to Mercy Ships. The payments have been recorded at their carrying amounts.

### Note 9 - Remuneration of Employees

During the year, the Society paid the National Director total remuneration of \$98,294 (2015 - \$94,131).

### Note 10 - Comparative Figures

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

## MERCY SHIPS CANADA SOCIETY

## SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENDITURES

DECEMBER 31, 2016

	2016	2015
Wages and benefits	\$ 95,220	\$ 88,032
Accounting and legal	26,837	14,984
Occupancy costs	7,758	9,132
Office and miscellaneous	7,088	17,022
Telephone and internet	2,845	2,085
Postage and courier	2,025	2,012
Insurance, licenses and dues	1,496	2,105
Advertising	495	93
Interest on capital lease	293	395
Travel	-	2,539
Amortization	801	1,260
	<u>\$ 144,858</u>	<u>\$ 139,659</u>

The expenditures above contain 22% (2015 - 27%) of the total general and administrative expenses for the year. The remaining 78% (2015 - 73%) have been allocated to fundraising and outreach project expenditures as outlined in Note 2.