

MERCY SHIPS CANADA SOCIETY

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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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, 2017 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, 2017 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

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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 27, 2018

Lee and Sharpe

Chartered Professional Accountants

MERCY SHIPS CANADA SOCIETY
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017

	2017	2016
REVENUE		
General contributions	\$ 2,301,295	\$ 1,569,330
Contributed services	1,362,014	1,516,316
Miscellaneous	<u>3,587</u>	<u>3,352</u>
	<u>3,666,896</u>	<u>3,088,998</u>
EXPENDITURES		
Programs	1,439,430	46,986
Contributed services utilized	1,362,014	1,516,316
Fundraising activities	1,098,048	802,723
Outreach projects funding	498,341	296,923
Crew program funding	187,000	274,717
External project funding	<u>41,486</u>	<u>77,318</u>
	<u>4,626,319</u>	<u>3,014,983</u>
Excess (deficiency) of revenue over expenditures before other items	(959,423)	74,015
General and administrative expenditures (Schedule)	(99,318)	(144,858)
Gain (loss) on disposal of capital assets	-	(1,535)
Gains (losses) on disposal of investments	<u>(467)</u>	<u>4,032</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES FOR THE YEAR	<u>\$ (1,059,208)</u>	<u>\$ (68,346)</u>

(See accompanying notes)

Audited

MERCY SHIPS CANADA SOCIETY
STATEMENT OF CHANGES IN NET ASSETS
DECEMBER 31, 2017

	Unrestricted	Invested in Capital Assets	2017	2016
Balance, beginning of year	\$ 1,121,415	\$ 11,188	\$ 1,132,603	\$ 1,200,949
Excess (deficiency) of				
revenue over expenditures	(1,052,029)	(7,179)	(1,059,208)	(68,346)
Investment in capital assets	(11,549)	11,549	-	-
Net change in obligation				
under capital lease	<u>(591)</u>	<u>591</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 57,246</u>	<u>\$ 16,149</u>	<u>\$ 73,395</u>	<u>\$ 1,132,603</u>

(See accompanying notes)

Audited


MERCY SHIPS CANADA SOCIETY
(Incorporated under the laws of the Society Act of British Columbia)

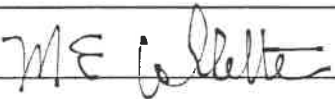
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

	2017	2016
Current assets		
Cash	\$ 188,350	\$1,155,228
Accounts receivable	88,511	129,638
Prepaid expenditures	<u>95,396</u>	<u>44,253</u>
	372,257	1,329,119
Capital assets (Note 4)	<u>22,058</u>	<u>17,688</u>
	<u>\$ 394,315</u>	<u>\$1,346,807</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 315,012	\$ 207,704
Current portion of obligation under capital lease (Note 5)	<u>831</u>	<u>800</u>
	<u>315,843</u>	<u>208,504</u>
Obligation under capital lease (Note 5)	<u>5,077</u>	<u>5,700</u>
Net assets		
Unrestricted	57,246	1,121,415
Invested in capital assets	<u>16,149</u>	<u>11,188</u>
	<u>73,395</u>	<u>1,132,603</u>
	<u>\$ 394,315</u>	<u>\$1,346,807</u>

Approved by the Directors





(See accompanying notes)

Audited

MERCY SHIPS CANADA SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess revenue (deficiency) over expenditures for the year	\$ (1,059,208)	\$ (68,346)
Item not involving cash		
Amortization	7,179	3,567
Loss on sale of capital assets	<u>-</u>	<u>1,535</u>
	<u>(1,052,029)</u>	<u>(63,244)</u>
Cash provided by (used for) non-cash working capital items		
Marketable securities	-	22,462
Accounts receivable	41,127	(47,498)
Prepaid expenditures	(51,142)	(8,025)
Accounts payable and accrued liabilities	<u>107,306</u>	<u>(15,153)</u>
	<u>97,291</u>	<u>(48,214)</u>
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES		
Change in obligation under capital lease	<u>(591)</u>	<u>1,282</u>
CASH FLOWS PROVIDED (USED FOR) INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	-	3,591
Acquisition of capital assets	<u>(11,549)</u>	<u>(11,154)</u>
	<u>(11,549)</u>	<u>(7,563)</u>
INCREASE (DECREASE) DURING THE YEAR	(966,878)	(117,739)
CASH RESOURCES, beginning of year	<u>1,155,228</u>	<u>1,272,967</u>
CASH RESOURCES, end of year	<u>\$ 188,350</u>	<u>\$ 1,155,228</u>

(See accompanying notes)

Audited

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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:

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; and
 - (g) 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, 2017

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, 2017

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 \$ 1,362,014 (2016 - \$ 1,516,316).

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

		2017		2016
Wages and benefits	42%	\$ 224,146	50%	\$ 212,337
Occupancy costs	42%	15,544	50%	17,300
Professional fees	42%	15,487	50%	59,846
Office and miscellaneous	42%	13,328	50%	15,806
Postage and courier	42%	6,384	50%	4,516
Telephone and internet	42%	3,581	50%	6,345
Insurance, licenses and dues	42%	3,392	50%	3,337
Advertising	42%	940	50%	1,103
Interest on capital lease	42%	632	50%	-
Amortization	42%	3,038	50%	1,785
		<u>\$ 286,472</u>		<u>\$ 322,375</u>

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 2 - Accounting Policies, continued

Allocation to outreach projects funding		2017		2016
Wages and benefits	43%	\$ 227,836	28%	\$ 116,732
Occupancy costs	43%	15,800	28%	9,510
Professional fees	43%	15,742	28%	32,900
Office and miscellaneous	43%	13,547	28%	8,690
Postage and courier	43%	6,489	28%	2,483
Telephone and internet	43%	3,640	28%	3,488
Insurance, licenses and dues	43%	3,448	28%	1,835
Advertising	43%	955	28%	606
Interest on capital lease	43%	642	28%	-
Amortization	43%	<u>3,088</u>	28%	<u>981</u>
		<u>\$ 291,187</u>		<u>\$ 177,225</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, 2017

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.

Note 4 - Capital Assets

	Cost	Accumulated Amortization	Net Book Value	
			2017	2016
Furniture and equipment \$	58,197	\$ 40,819	\$ 17,378	\$ 11,838
Equipment under capital lease	<u>6,500</u>	<u>1,820</u>	<u>4,680</u>	<u>5,850</u>
	<u>\$ 64,697</u>	<u>\$ 42,639</u>	<u>\$ 22,058</u>	<u>\$ 17,688</u>

MERCY SHIPS CANADA SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 5 - Obligation under Capital Lease

	2017	2016
2017	\$ -	\$ 2,085
2018	2,153	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	9,688	11,773
Less: amount representing interest at 23.8%	<u>(3,780)</u>	<u>(5,273)</u>
Present value of net minimum capital lease payments	5,908	6,500
Less: current portion	<u>(831)</u>	<u>(800)</u>
	<u>\$ 5,077</u>	<u>\$ 5,700</u>

Note 6 - Lease Commitment

The Society rents office space that has a lease expiration date of April 30, 2019. The minimum annual lease payments are as follows:

2018	\$ 20,664
2019	<u>6,888</u>
	<u>\$ 27,552</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.

Note 8 - 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, \$1,578,252 (2016 - \$304,065) 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 \$102,287 (2016 - \$98,294).

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, 2017

	2017	2016
Wages and benefits	\$ 77,710	\$ 95,220
Occupancy costs	5,389	7,758
Accounting and legal	5,369	26,837
Office and miscellaneous	4,621	7,088
Postage and courier	2,213	2,025
Telephone and internet	1,242	2,845
Insurance, licenses and dues	1,176	1,496
Advertising	326	495
Interest on capital lease	219	293
Amortization	<u>1,053</u>	<u>801</u>
	<u>\$ 99,318</u>	<u>\$ 144,858</u>

The expenditures above contain 15% (2016 - 22%) of the total general and administrative expenses for the year. The remaining 85% (2016 - 78%) have been allocated to fundraising and outreach project expenditures as outlined in Note 2.