

Financial Statements of

VERNON ALLIANCE CHURCH

(Unaudited)

Year ended June 30, 2011



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REVIEW ENGAGEMENT REPORT

To the Members of Vernon Alliance Church

We have reviewed the statement of financial position of Vernon Alliance Church as at June 30, 2011 and the statements of financial activity, changes in net assets, and cash flows for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the Church.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The letters are stylized and cursive.

Chartered Accountants

Vernon, Canada
September 20, 2011

VERNON ALLIANCE CHURCH

Statement of Financial Position
(Unaudited)

June 30, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash	\$ 148,760	\$ 189,711
Term deposit (note 2)	100,000	-
Accounts receivable	9,038	2,941
Prepaid expenses and deposits	2,919	4,631
	<u>260,717</u>	<u>197,283</u>
Capital assets (note 3)	2,205,574	2,208,652
Investment in pastors' housing (note 4)	37,750	37,750
	<u>\$ 2,504,041</u>	<u>\$ 2,443,685</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 41,344	\$ 25,774
Designated balances	41,923	51,719
Current portion of long-term debt (note 5)	393,017	516,032
Due to member (note 6)	200,000	200,000
	<u>676,284</u>	<u>793,525</u>
Deferred capital contributions (note 7)	10,728	12,491
Net assets (Schedule 2):		
Unrestricted	202,673	144,013
Restricted	12,527	13,527
Invested in capital assets (note 8)	1,601,829	1,480,129
	<u>1,817,029</u>	<u>1,637,669</u>
Commitment (note 9)		
Related party transactions (note 10)		
	<u>\$ 2,504,041</u>	<u>\$ 2,443,685</u>

See accompanying notes to financial statements.

On behalf of the Members:

Elder

Elder

VERNON ALLIANCE CHURCH

Statement of Financial Activity
(Unaudited)

Year ended June 30, 2011, with comparative figures for 2010

	2011	2010
Revenues:		
Offerings	\$ 1,105,835	\$ 1,104,667
Missions and other ministries offerings (Schedule 1)	359,004	417,787
Development fund offerings	238,188	34,916
Facilities rental	2,449	3,962
	<u>1,705,476</u>	<u>1,561,332</u>
Expenditures:		
Administration	185,657	165,833
Adult discipleship	87,302	130,755
Benevolent	46,834	12,700
Executive leadership	137,539	122,462
Facilities	234,351	195,991
Family ministries	98,808	114,112
Interest on long-term debt	15,029	15,484
Library resources	1,693	1,489
Marriage ministry	-	999
Missions and other ministries (Schedule 1)	360,323	417,787
Scholarship	1,000	2,000
Staff development and training	12,900	15,102
World concern	27,645	27,568
Worship and fellowship	127,333	131,858
Youth ministry	122,967	123,920
	<u>1,459,381</u>	<u>1,478,060</u>
Excess of revenue over expenditures before the undernoted	246,095	83,272
Other income (expenses):		
Amortization	(68,704)	(68,098)
Amortization of deferred capital contributions	1,764	1,720
Gain on disposal of capital assets	205	-
	<u>(66,735)</u>	<u>(66,378)</u>
Excess of revenues over expenditures	\$ 179,360	\$ 16,894

See accompanying notes to financial statements.

VERNON ALLIANCE CHURCH

Statement of Changes in Net Assets (Unaudited)

Year ended June 30, 2011, with comparative figures for 2010

2011	Unrestricted	Restricted	Investment in capital assets	Total
Net assets, beginning of year	\$ 144,013	\$ 13,527	\$ 1,480,129	\$ 1,637,669
Excess of revenues over expenditures	26,774	(1,000)	153,586	179,360
Investment in capital assets	(65,420)	-	65,420	-
Interfund transfers	97,306	-	(97,306)	-
Net assets, end of year	\$ 202,673	\$ 12,527	\$ 1,601,829	\$ 1,817,029

2010	Unrestricted	Restricted	Investment in capital assets	Total
Net assets, beginning of year	\$ 138,566	\$ 15,527	\$ 1,466,682	\$ 1,620,775
Excess of revenues over expenditures	66,134	(2,000)	(47,240)	16,894
Investment in capital assets	(67,264)	-	67,264	-
Interfund transfers	6,577	-	(6,577)	-
	\$ 144,013	\$ 13,527	\$ 1,480,129	\$ 1,637,669

See accompanying notes to financial statements.

VERNON ALLIANCE CHURCH

Statement of Cash Flows
(Unaudited)

Year ended June 30, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Excess of revenues over expenditures	\$ 179,360	\$ 16,894
Items not involving cash:		
Amortization	68,704	68,098
Gain on disposal of capital assets	(205)	-
Amortization of deferred capital contributions	(1,764)	(1,720)
Change in non-cash operating working capital	(98,612)	(11,072)
	147,484	72,200
Financing:		
Repayment of long-term debt	(123,015)	(12,561)
Investments:		
Decrease in investment in pastors' housing	-	450
Proceeds from disposal of capital assets	1,000	-
Purchase of capital assets	(66,420)	(67,264)
	(65,420)	(66,814)
Decrease in cash	(40,951)	(7,175)
Cash, beginning of year	189,711	196,886
Cash, end of year	\$ 148,760	\$ 189,711
Supplemental cash flow information:		
Interest paid	\$ 15,029	\$ 15,484
Non-cash financing and investing activities:		
Additions to capital assets received by way of deferred capital contributions	-	2,966

See accompanying notes to financial statements.

VERNON ALLIANCE CHURCH

Notes to Financial Statements
(Unaudited)

Year ended June 30, 2011

Vernon Alliance Church (the "Church") is incorporated under the Societies Act of British Columbia. The Church is a registered charity under the Income Tax Act and is exempt from income taxes provided certain requirements of the Income Tax Act are met. The Church is a reporting organization of the Christian and Missionary Alliance in Canada, Canadian Pacific District (the "Alliance"), which is incorporated under the Societies Act of British Columbia.

1. Significant accounting policies:

(a) Basis of presentation:

The Church's financial position currently indicates a significant working capital deficiency caused by a portion of the long-term debt being due in the next fiscal year. The Church intends to refinance the current portion of the long-term debt when it becomes due and therefore these financial statements have been prepared on a going concern basis, which contemplates the discharge of the Church's liabilities in the ordinary course of operations.

(b) Capital assets:

Capital assets consist of property and equipment and are recorded at cost less accumulated amortization. Amortization is provided using the declining balance basis at the following annual rates:

Asset	Rate
Building	3%
Sound studio	10%
Furniture, fixtures and equipment	15%
Computer equipment	25%
Signs	15%

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

VERNON ALLIANCE CHURCH

Notes to Financial Statements (continued)
(Unaudited)

Year ended June 30, 2011

1. Significant accounting policies (continued):

(c) Revenue recognition:

The Church follows the deferral method of accounting for contributions.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions, including designated balances, are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

(d) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the year. Significant items subject to such estimates and assumptions including the carrying value of capital assets and investment in pastors' housing. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

(e) Financial instruments:

The Church designated its financial instruments as follows:

- cash as held for trading;
- accounts receivable and investments in pastors' housing as loans and receivables;
- accounts payable and accrued liabilities, due to member and long-term debt as other financial liabilities.

The Church has elected to defer applying Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how an entity manages those risks. The Church has elected to continue to apply the financial instrument disclosures and presentation standards in accordance with Section 3861.

VERNON ALLIANCE CHURCH

Notes to Financial Statements (continued)
(Unaudited)

Year ended June 30, 2011

1. Significant accounting policies (continued):

(f) Accounting pronouncements issued but not yet effective:

In December 2010, the CICA issued Part III of the CICA Handbook - Accounting Standards for Not-For-Profit Organizations. The standards provide non-profit organizations the choice of applying accounting standards for private enterprise supplemented by the Part III standards unique to not-for-profit organizations, or International Financial Reporting Standards. The new standards are applicable to annual financial statements relating to fiscal years beginning on or after January 1, 2012.

The Church is in the process of reviewing the impact of these standards on its reporting framework and financial statements. The Church does not expect that the adoption of these new standards will have a material impact on its financial statements.

2. Term deposit:

The term deposit bears interest at 1% per year and matures on August 16, 2011.

3. Capital assets:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 741,627	\$ -	\$ 741,627	\$ 741,627
Building	2,113,042	815,359	1,297,683	1,294,536
Sound studio	38,316	9,133	29,183	32,425
Furniture, fixtures and equipment	432,037	330,150	101,887	104,669
Computer equipment	134,339	100,189	34,150	34,167
Signs	2,000	956	1,044	1,228
	<u>\$ 3,461,361</u>	<u>\$ 1,255,787</u>	<u>\$ 2,205,574</u>	<u>\$ 2,208,652</u>

The land and buildings are owned by the Alliance but are purchased, maintained and operated by the Church.

VERNON ALLIANCE CHURCH

Notes to Financial Statements (continued)
(Unaudited)

Year ended June 30, 2011

4. Investment in pastors' housing:

The Church has invested funds in residences for the pastors. The investment is unsecured and bears no interest. When the pastor sells the residence the Church requires the investment to be repaid and receives a pro-rata share of the resulting gain, if any, from the sale.

5. Long-term debt:

	2011	2010
Mortgage, bearing interest at prime plus 0.5% per annum, repayable in monthly payments of \$2,337 and secured by land and building. Due May 1, 2012.	\$ 393,017	\$ 406,032
Mortgage	-	110,000
	393,017	516,032
Less current portion	(393,017)	(516,032)
	\$ -	\$ -

The current portion of long-term debt includes mortgage amounts due within the next fiscal year, which is the entire balance of a particular mortgage. The Church intends and expects to re-finance the mortgage at terms similar to the existing mortgage when it becomes due; however, no specific arrangements have been made by the Church. Accordingly, the portions due within the next fiscal year have been classified as a current liability.

6. Due to member:

A member has provided a loan to the Church, which is unsecured, non-interest bearing. Repayment of \$50,000 is due on September 1, 2011 with the remaining amount due on November 1, 2011. The Church has the option to not pay the remaining amount, however, the outstanding balance bears interest at the market rate.

VERNON ALLIANCE CHURCH

Notes to Financial Statements (continued)
(Unaudited)

Year ended June 30, 2011

7. Deferred capital contributions:

Deferred capital contributions represent the unamortized and unspent amounts of donation received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of financial activity on the same basis as the related assets are amortized.

	2011	2010
Balance, beginning of year	\$ 12,491	\$ 11,245
Capital funding receipts	-	2,966
	12,491	14,211
Amortization for the year	(1,763)	(1,720)
	\$ 10,728	\$ 12,491

8. Investment in capital assets:

	2011	2010
Invested in capital assets is calculated as follows:		
Capital assets	\$ 2,205,574	\$ 2,208,652
Deferred capital contributions	(10,728)	(12,491)
	2,194,846	2,196,161
Long-term debt	(393,017)	(516,032)
Due to member	(200,000)	(200,000)
	\$ 1,601,829	\$ 1,480,129

VERNON ALLIANCE CHURCH

Notes to Financial Statements (continued)
(Unaudited)

Year ended June 30, 2011

9. Commitment:

The Church has entered into an operating lease of a photocopier and is committed to minimum annual lease payment for the next five years as follows:

2012	\$	7,306
2013		7,306
2014		7,306
2015		7,306
2016		7,306

10. Related party transactions:

The Church contributed \$27,645 (2010 - \$27,568) to the Alliance. Included in accounts payable is \$2,790 (2010 - \$8,745) due to the Alliance. These transactions are in the normal course of operation.

11. Credit facility:

The Church has available a \$300,000 operating line of credit with the Vantage One Credit Union. The line of credit bears interest at 0.50% above the credit union's prime lending rate and is secured by a charge against the Church's real property.

12. Financial instruments:

(a) Fair value:

The carrying value of cash, term deposit, accounts receivable, accounts payable and accrued liabilities and long-term debt approximate their fair value due to the relatively short periods to maturity of these items or due to a market rate of interest attached to their repayment. The fair value of the investment in pastor's housing and the amount due to member is not determinable due to the lack of a market for similar financial instruments.

VERNON ALLIANCE CHURCH

Notes to Financial Statements (continued)
(Unaudited)

Year ended June 30, 2011

12. Financial instruments (continued):

(b) Credit risk:

The maximum credit risk exposure for each financial asset is the carrying amount of that asset.

(c) Cash flow risk:

Certain debts are subject to interest rate cash flow risk as the required cash flow to service the debt will fluctuate as a result of the variable lending rate. The Church did not employ interest rate hedging activities during the period, allowing any outstanding debts to generally float at market rates of interest.

VERNON ALLIANCE CHURCH

Missions and Other Ministries Revenue and Expenditures
(Unaudited)

Schedule 1

Year ended June 30, 2011, with comparative figures for 2010

	2011	2010
Offerings:		
Church ministries	\$ 146,832	\$ 164,063
Benevolent ministries	100,954	107,120
Special missions projects	50,603	85,871
Foreign missions	46,959	47,011
Home missions	9,256	8,902
Other designated offerings	4,400	4,820
	<hr/>	<hr/>
	\$ 359,004	\$ 417,787

	2011	2010
Expenditures:		
Church ministries	\$ 148,151	\$ 164,063
Benevolent ministries	100,954	107,120
Special missions projects	50,603	85,871
Foreign missions	46,959	47,011
Home missions	9,256	8,902
Other designated offerings	4,400	4,820
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	\$ 360,323	\$ 417,787

VERNON ALLIANCE CHURCH

Net Asset Classification of Financial Position
(Unaudited)

Schedule 2

Year ended June 30, 2011

	Unrestricted	Restricted	Invested in capital assets	Total
Assets				
Current assets:				
Cash	\$ 135,233	\$ 13,527	\$ -	\$ 148,760
Term deposit	100,000	-	-	100,000
Accounts receivable	9,038	-	-	9,038
Prepaid expenses and deposits	2,919	-	-	2,919
	247,190	13,527	-	260,717
Capital assets	-	-	2,205,574	2,205,574
Investment in pastors' housing	37,750	-	-	37,750
Total assets	\$ 284,940	\$ 13,527	\$ 2,205,574	\$ 2,504,041

Liabilities

Current liabilities:				
Accounts payable and accrued liabilities	\$ 41,343	\$ -	\$ -	\$ 41,343
Designated balances	41,923	-	-	41,923
Current portion of long-term debt	-	-	393,017	393,017
Due to member	-	-	200,000	200,000
	83,266	-	593,017	676,283
Deferred capital contributions	-	-	10,728	10,728
Total liabilities	\$ 83,266	\$ -	\$ 603,745	\$ 687,011

Net Assets

	\$ 201,674	\$ 13,527	\$ 1,601,829	\$ 1,817,030
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