

Financial Statements of

**VERNON ALLIANCE
CHURCH**

And Independent Practitioners' Review Engagement
Report thereon

Years ended June 30, 2019 and 2018
(Unaudited)



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INDEPENDENT PRACTITIONERS' REVIEW ENGAGEMENT REPORT

To the Members of Vernon Alliance Church

We have reviewed the accompanying financial statements of Vernon Alliance Church, which comprise the statement of financial position as at June 30, 2019 and 2018, the statements of operations, and statements of cash flows for the years then ended, and notes, comprising 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 private enterprises, 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.

Practitioners' Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these financial statements.



Page 2

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects, the financial position of Vernon Alliance Church as at June 30, 2019 and 2018, and its results of operations and its cash flows for the years then ended in accordance with Canadian accounting standards for not-for-profit organizations.

A handwritten signature in black ink, appearing to read 'KPMG LLP'.

Chartered Professional Accountants

Vernon, Canada

November 1, 2019

VERNON ALLIANCE CHURCH

Statement of Financial Position

June 30, 2019 and 2018
(Unaudited)

	2019	2018
Assets		
Current assets:		
Cash	\$ 298,591	\$ 166,283
Term deposit	154,972	151,730
Accounts receivable	2,984	10,800
Prepaid expenses	7,057	5,844
	<u>463,604</u>	<u>334,657</u>
Capital assets (note 2)	2,273,442	2,296,542
Investment in pastors' housing (note 3)	29,775	30,375
	<u>\$ 2,766,821</u>	<u>\$ 2,661,574</u>

Liabilities

Current liabilities:		
Accounts payable and accrued liabilities	\$ 33,585	\$ 34,660
Designated balances	169,897	103,135
Current portion of long-term debt (note 4)	17,639	192,077
	<u>221,121</u>	<u>329,872</u>
Long-term debt (note 4)	157,757	-
Deferred capital contributions (note 5)	337,028	354,513
	<u>715,906</u>	<u>684,385</u>
Net Assets:		
(Schedule 2)		
Unrestricted	289,897	227,237
Investment in capital assets (note 6)	1,761,018	1,749,952
	<u>2,050,915</u>	<u>1,977,189</u>
Related party transactions (note 8)		
Commitments (note 9)		
Subsequent Events (note 12)		
	<u>\$ 2,766,821</u>	<u>\$ 2,661,574</u>

See accompanying notes to financial statements.

On behalf of the Members:

_____ Elder

_____ Elder

VERNON ALLIANCE CHURCH

Statement of Changes in Net Assets Earnings

Years ended June 30, 2019 and 2018

(Unaudited)

	2019	2018
Revenue:		
Offerings	\$ 1,368,100	\$ 1,377,100
Missions and other ministries offerings (Schedule 1)	408,258	514,291
Development fund offerings	33,794	51,601
Facilities rental	4,009	3,473
	<u>1,814,161</u>	<u>1,946,465</u>
General and administrative expenses:		
Administration	200,710	188,780
Adult discipleship	124,335	122,223
Benevolent	113,461	63,473
Executive leadership	169,339	168,472
Facilities	235,029	294,846
Family ministries	115,000	108,938
IT and creative arts	65,795	45,549
Interest on long-term debt	6,223	8,164
Library resources	1,777	1,643
Mission and other ministries (Schedule 1)	408,258	514,291
Marriage ministry	5,000	-
Scholarship	1,000	2,000
Staff development and training	15,859	22,487
World Concern	34,203	34,428
Worship and fellowship	90,299	100,293
Youth ministry	99,651	132,770
	<u>1,685,939</u>	<u>1,808,357</u>
Excess of revenues over expenses before the undernoted	128,222	138,108
Other income (expense):		
Amortization of capital assets	(81,733)	(72,196)
Amortization of deferred capital contributions	27,242	18,277
	<u>(54,491)</u>	<u>(53,919)</u>
Net earnings	\$ 73,731	\$ 84,189

See accompanying notes to financial statements.

VERNON ALLIANCE CHURCH

Statement of Changes in Net Assets

Years ended June 30, 2019 and 2018
(Unaudited)

	Unrestricted	Investment in capital assets	2019 Total	2018 Total
Net assets, beginning of year	\$ 227,235	\$ 1,749,949	\$ 1,977,187	\$ 1,893,000
Excess (deficiency) of revenues over expenses	134,428	(60,697)	73,731	84,189
Investment in capital assets	(58,634)	58,634	-	-
Deferred capital contributions	9,757	(9,757)	-	-
Interfund transfers	(22,889)	22,889	-	-
Net assets, end of year	\$ 289,897	\$ 1,761,018	\$ 2,050,918	\$ 1,977,189

See accompanying notes to financial statements.

VERNON ALLIANCE CHURCH

Statement of Cash Flows

Years ended June 30, 2019 and 2018

(Unaudited)

	2019	2018
Cash provided by (used in):		
Operations:		
Excess of revenues over expenses	\$ 73,731	\$ 84,189
Items not involving cash:		
Amortization of capital assets	81,733	72,196
Amortization of deferred capital contributions	(27,242)	(18,277)
Change in non-cash operating working capital	69,045	31,578
	197,267	169,686
Financing:		
Repayment of long-term debt	(16,681)	(107,671)
Deferred capital contributions	9,756	159,819
	(6,925)	52,148
Investing:		
Decrease in investment in pastors' housing	600	600
Purchase of capital assets	(58,634)	(179,243)
Investment in term deposit	-	(150,000)
	(58,034)	(328,643)
Increase (decrease) in cash	132,308	(106,809)
Cash, beginning of year	166,283	273,092
Cash, end of year	\$ 298,591	\$ 166,283

See accompanying notes to financial statements.

VERNON ALLIANCE CHURCH

Notes to Financial Statements

Years ended June 30, 2019 and 2018
(Unaudited)

Vernon Alliance Church (the "Church") is a reporting organization in the Canada Pacific District of the Christian and Missionary Alliance in Canada ("CMAC"), which is incorporated under the Society's 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.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations ("ASNPO"). Management's significant accounting policies are as follows:

(a) 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%

When a capital asset no longer contributes to the Church's ability to provide services, its carrying amount is written down to its residual value, if any.

The carrying amount of an item of property and equipment is tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount is not recoverable and exceeds its fair value.

VERNON ALLIANCE CHURCH

Notes to Financial Statements (continued)

Years ended June 30, 2019 and 2018
(Unaudited)

1. Significant accounting policies (continued):

(b) 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 that are amortized are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets. Contributions restricted for the purchase of capital assets that will not be amortized are recognized as direct increases to net 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.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Church has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

In the case of financial instruments that originate as a result of related party transactions, initial measurement will be at exchange amount or carrying value in accordance with Section 3840, Related Party Transactions, rather than fair value. If the sole relationship is in the capacity of management, the parties involved are deemed to be unrelated for purposes of section 3856, Financial Instruments and as such, transaction will be initially measured at fair value.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment.

VERNON ALLIANCE CHURCH

Notes to Financial Statements (continued)

Years ended June 30, 2019 and 2018
(Unaudited)

1. Significant accounting policies (continued):

(d) Use of estimates:

The preparation of financial statements in conformity with ASNPO 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.

2. Capital assets:

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 741,629	\$ -	\$ 741,629	\$ 741,629
Building	2,426,078	1,140,924	1,285,154	1,298,869
Sound studio	40,405	26,783	13,622	15,135
Furniture, fixtures and equipment	711,119	513,981	197,138	219,384
Computer equipment	188,804	153,190	35,614	21,190
Signs	2,000	1,715	285	335
	<u>\$ 4,110,035</u>	<u>\$ 1,836,593</u>	<u>\$ 2,273,442</u>	<u>\$ 2,296,542</u>

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

3. 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.

VERNON ALLIANCE CHURCH

Notes to Financial Statements (continued)

Years ended June 30, 2019 and 2018
(Unaudited)

4. Long-term debt:

	2019	2018
Mortgage, bearing interest 3.79% per annum, repayable in monthly blended payments of \$2,000 and secured by land and building. Due May 1, 2021.	\$ 175,396	\$ 192,077
Less current portion	(17,639)	(192,077)
	<u>\$ 157,757</u>	<u>\$ -</u>

Assuming the loan continues to be refinanced with similar terms, regular principal repayments over the next five years are estimated as follows:

2020	\$ 17,639
2021	18,345
2022	19,044
2023	19,779
2024	20,542
Thereafter	80,047
	<u>\$ 175,396</u>

VERNON ALLIANCE CHURCH

Notes to Financial Statements (continued)

Years ended June 30, 2019 and 2018
(Unaudited)

5. 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.

	2019	2018
Balance, beginning of year	\$ 354,513	\$ 212,972
Additions for the year	9,757	159,819
Amortization for the year	(27,242)	(18,278)
Balance, end of year	\$ 337,028	\$ 354,513

6. Investment in capital assets:

	2019	2018
Capital assets	\$ 2,273,442	\$ 2,296,542
Deferred capital contributions	(337,028)	(354,513)
Long-term debt	(175,396)	(192,077)
	\$ 1,761,018	\$ 1,749,952

7. 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. As at June 30, 2019, the balance on the line of credit is \$Nil (2018 - \$Nil).

VERNON ALLIANCE CHURCH

Notes to Financial Statements (continued)

Years ended June 30, 2019 and 2018
(Unaudited)

8. Related party transactions:

	2019	2018
CMAC National missions and projects	\$ 81,192	\$ 69,532
CMAC District missions and projects	117,530	116,477
Advance to CMAC investment fund	-	150,000
CMAC investment fund income	3,242	1,730
Insurance expenses paid to CMAC	4,381	4,397
Sponsorships and donations to CMAC's Eagle Bay Camp	27,895	29,782
	<u>\$ 234,240</u>	<u>\$ 371,918</u>

Included in accounts payable is \$6,190 (2018 - \$9,294) due to CMAC.

These transactions are in the normal course of operation and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. Commitment:

The Church has entered into an operating lease of a photocopier and is committed to minimum annual lease payments as follows:

2020	\$ 8,137
2021	8,137
2022	2,034
	<u>\$ 18,308</u>

10. Employee Pension Plan

The Church and its employees contribute to the Alliance Retiral Fund, a multi-employer defined contribution pension plan. The costs are expensed as incurred.

VERNON ALLIANCE CHURCH

Notes to Financial Statements (continued)

Years ended June 30, 2019 and 2018
(Unaudited)

11. Financial instruments and concentration of risk:

(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.

(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.

(d) Concentration of risk:

The Church is heavily dependent on the amount of offerings from the congregation to continue operations. A decline in local or national economic conditions, consumer-spending levels, increased austerity measures, or other adverse conditions could lead to reduced revenue and potential reductions in programming and service levels.

12. Subsequent events

The entity has entered into a lease agreement that will commence in July 2019, related to photocopier equipment and is committed to a minimum annual lease payment of \$9,322 until December 2025. This lease will supersede the lease commitment in note 9.

VERNON ALLIANCE CHURCH

Schedule 1 - Mission and Other Ministries Revenue and Expenditures

Years ended June 30, 2019 and 2018
(Unaudited)

	2019	2018
Offerings:		
Church ministries	\$ 154,248	\$ 273,403
Benevolent ministries	146,444	124,340
Special missions projects	41,698	44,516
Foreign missions	52,632	57,908
Home missions	10,379	10,777
Other designated offerings	2,857	3,347
Total offerings	\$ 408,258	\$ 514,291
Expenditures:		
Church ministries	\$ 154,248	\$ 273,403
Benevolent ministries	146,444	124,340
Special missions projects	41,698	44,516
Foreign missions	52,632	57,908
Home missions	10,379	10,777
Other designated offerings	2,857	3,347
Total expenditures	\$ 408,258	\$ 514,291

VERNON ALLIANCE CHURCH

Schedule 2 - Net Asset Classification of Financial Position

Year ended June 30, 2018
(Unaudited)

	Unrestricted	Invested in capital assets	Total
Assets			
Current assets:			
Cash	\$ 298,591	\$ -	\$ 298,591
Accounts receivable	2,984	-	2,984
Prepaid expenses and deposits	7,057	-	7,057
Term deposit	154,972	-	154,972
	463,604	-	463,604
Capital assets	-	2,273,442	2,273,442
Investment in pastors' housing	29,775	-	29,775
Total assets	493,379	2,273,442	2,766,821

Liabilities

Current liabilities:			
Accounts payable and accrued liabilities	33,585	-	33,585
Designated balances	169,897	-	169,897
Current portion of long-term debt	-	17,639	17,639
	203,482	17,639	221,121
Long-term debt	-	157,757	157,757
Deferred capital contributions	-	337,028	337,028
Total liabilities	203,482	512,424	715,906

Net Assets

Total net assets	\$ 289,897	\$ 1,761,018	\$ 2,050,915
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