

**Financial Statements of**

**MASTER'S COLLEGE AND SEMINARY**

**May 31, 2013 and 2012**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Governors  
Master's College and Seminary

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Master's College and Seminary, which comprise the statements of financial position as at May 31, 2013, May 30, 2012 and June 1, 2011 and the statements of operations and fund balances and cash flows for the years ended May 31, 2013 and 2012, 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 audits. We conducted our audits in accordance with Canadian generally accepted 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 auditors' 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements present fairly, in all material respects, the financial position of Master's College and Seminary as at May 31, 2013, May 30, 2012 and June 1, 2011, and the results of its operations and its cash flows for the years ended May 31, 2013 and 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

*McCull Turner LLP*

Licensed Public Accountants

Peterborough, Ontario  
September 30, 2013

**MASTER'S COLLEGE AND SEMINARY**  
**STATEMENTS OF FINANCIAL POSITION**  
 As at May 31, 2013 and 2012 and June 1, 2011

	Operating Fund	Restricted Fund	May 31, 2013	May 31, 2012	June 1, 2011
	\$	\$	\$	\$	\$
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and short term investments	316,015	428,470	744,485	405,193	571,820
Accounts receivable (note 5)	326,082	-	326,082	533,464	283,634
Prepaid expenses	46,193	-	46,193	28,110	13,188
Interfund balances	27,377	(27,377)	-	-	-
Current portion of loans receivable (note 6)	79,640	11,075	90,715	320,441	318,524
<b>LOANS RECEIVABLE (note 6)</b>	795,307	412,168	1,207,475	1,287,208	1,187,166
<b>EQUIPMENT (note 7)</b>	75,782	-	75,782	79,412	388,842
	871,089	412,168	1,283,257	1,435,851	1,621,947
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	124,912	-	124,912	192,144	118,156
Accrued salaries and benefits	127,731	-	127,731	118,357	96,988
Alumni funds held in trust	3,377	-	3,377	3,273	3,273
Interfund loans (note 8)	425,000	(425,000)	-	-	-
Demand notes payable (note 9)	1,570,377	-	1,570,377	1,845,377	2,070,377
Current portion of deferred income (note 10)	371,526	-	371,526	321,005	591,712
<b>DEFERRED INCOME (note 10)</b>	2,622,923	(425,000)	2,197,923	2,480,156	2,880,506
	331,861	-	331,861	646,317	669,070
	2,954,784	(425,000)	2,529,784	3,126,473	3,549,576
<b>FUND BALANCES</b>					
Unrestricted	(2,159,477)	-	(2,159,477)	(2,498,177)	(2,691,660)
Invested in equipment	75,782	-	75,782	69,231	45,939
Externally restricted	-	408,040	408,040	383,196	366,854
Endowments	-	429,128	429,128	355,128	351,238
	(2,083,695)	837,168	(1,246,527)	(1,690,622)	(1,927,629)
	871,089	412,168	1,283,257	1,435,851	1,621,947

SIGNED ON BEHALF OF THE BOARD OF GOVERNORS:

 Governor

 Governor

See accompanying notes to the financial statements

**MASTER'S COLLEGE AND SEMINARY**  
**STATEMENTS OF OPERATIONS AND FUND BALANCES**  
**Years Ended May 31, 2013 and 2012**

	Operating Fund \$	Restricted Fund \$	2013 \$	2012 \$
<b>REVENUE</b>				
Donations	1,755,457	75,000	1,830,457	1,708,275
Tuition and fees	1,466,744	-	1,466,744	1,313,148
Residence	536,977	-	536,977	502,685
Other income	121,156	-	121,156	112,033
Interest	10,688	54,746	65,434	41,973
	<u>3,891,022</u>	<u>129,746</u>	<u>4,020,768</u>	<u>3,678,114</u>
<b>EXPENSES</b>				
Salaries and benefits	1,585,984	-	1,585,984	1,572,302
Other operating expenses	362,167	-	362,167	318,979
Academic support	553,642	-	553,642	465,522
Building occupancy	667,425	-	667,425	668,823
Student meal plans	258,783	-	258,783	222,300
Interest	81,348	-	81,348	103,550
Operating leases	-	-	-	10,000
Amortization	20,818	-	20,818	17,690
Scholarships	19,061	30,902	49,963	37,157
	<u>3,549,228</u>	<u>30,902</u>	<u>3,580,130</u>	<u>3,416,323</u>
<b>REVENUE OVER EXPENSES FOR THE YEAR BEFORE THE UNDERNOTED</b>				
	<u>341,794</u>	<u>98,844</u>	<u>440,638</u>	<u>261,791</u>
<b>OTHER INCOME AND EXPENSE</b>				
Yonge Street premises				
Lease expense	(649,520)	-	(649,520)	(674,865)
Sublease revenue	370,469	-	370,469	367,573
Peterborough property				
Gain on sale of property (note 10)	282,508	-	282,508	282,508
	<u>3,457</u>	<u>-</u>	<u>3,457</u>	<u>(24,784)</u>
<b>EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR</b>				
	<u>345,251</u>	<u>98,844</u>	<u>444,095</u>	<u>237,007</u>
<b>FUND BALANCES - beginning of year</b>				
	<u>(2,428,946)</u>	<u>738,324</u>	<u>(1,690,622)</u>	<u>(1,927,629)</u>
<b>FUND BALANCES - end of year</b>				
	<u>(2,083,695)</u>	<u>837,168</u>	<u>(1,246,527)</u>	<u>(1,690,622)</u>

See accompanying notes to the financial statements

**MASTER'S COLLEGE AND SEMINARY**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended May 31, 2013 and 2012**

	2013	2012
	\$	\$
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses for the year	444,095	237,007
Add (deduct) items not requiring an outlay of cash:		
Amortization	20,818	17,690
Gain on sale of property:		
Current	(282,508)	(260,777)
Deferred	-	(21,731)
	182,405	(27,811)
Changes in non-cash working capital items:		
Accounts receivable	207,382	(211,655)
Prepaid expenses	(18,083)	(14,922)
Accounts payable	(67,230)	35,813
Accrued salaries and benefits	9,374	21,369
Alumni funds held in trust	104	-
Deferred income	18,572	(10,952)
	332,524	(208,158)
<b>FINANCING ACTIVITIES</b>		
Net decrease in demand notes	(275,000)	(225,000)
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(27,370)	(40,982)
Loan redemption	309,138	307,513
	281,768	266,531
<b>INCREASE (DECREASE) IN CASH FOR THE YEAR</b>	339,292	(166,627)
<b>CASH AND SHORT TERM INVESTMENTS - beginning of year</b>	405,193	571,820
<b>CASH AND SHORT TERM INVESTMENTS - end of year</b>	744,485	405,193

See accompanying notes to the financial statements

# MASTER'S COLLEGE AND SEMINARY

## NOTES TO THE FINANCIAL STATEMENTS

Years Ended May 31, 2013 and 2012

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### 1. PURPOSE AND GOVERNING STATUTES

The College is a degree granting educational institution whose Mission is to create a learning community that provides programs and services which equip Pentecostal leaders for ministry. The College is incorporated in the Province of Ontario by special statute as an educational institution. It is a not-for-profit corporation subject to the Ontario Corporations Act, the Charities Accounting Act and the Charitable Gifts Act. The College is a registered charity within the meaning of the Income Tax Act (Canada) and, as such, is exempt from income taxes.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations. The more significant of these policies are summarized below. The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### (a) *Fund accounting*

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts are maintained in accordance with the principles of the restricted fund method of accounting. Under these principles, resources are classified for accounting purposes into funds that are in accordance with particular activities or objectives specified. The funds are classified as follows:

- i) Operating fund - includes results of day-to-day operating transactions financed principally by student fees and donations, as well as property and equipment and related long-term debt transactions, including revenue and expenses related to the leasing of property; and
- ii) Endowment and other externally restricted funds - includes assets contributed for specified purposes as designated by the donors. Endowment funds consist of donor contributions for which the principal cannot be encroached upon the College.

#### (b) *Recognition of revenue and expenses*

The financial statements of the College have been prepared on the accrual basis of accounting. Revenue and expenses are applicable only to the current year; student fees received and payments made in advance are deferred until a subsequent year. Private donations, other than those matched by a major donor, are recorded only when received. Donations that are matched are recorded when the original donation is received, provided ultimate collection is reasonably assured. Funding from supporting districts is recorded in the fiscal year to which they relate.

#### (c) *Interfund transfers*

Transfers between funds are made when resources of one fund have been authorized to finance activities and acquisitions in another fund.

# MASTER'S COLLEGE AND SEMINARY

## NOTES TO THE FINANCIAL STATEMENTS

Years Ended May 31, 2013 and 2012

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Financial assets and liabilities*

Financial assets and liabilities are originally measured at fair value. Financial assets that are equity instruments quoted in an active market are subsequently recorded at fair value at each reporting period with changes in fair value recognized in net income for the year. All other financial assets and liabilities are subsequently measured at amortized cost.

Transaction costs incurred on the recognition of financial assets and liabilities that are subsequently measured at fair value are recognized in income in the period incurred. Transaction costs incurred on the recognition of financial assets and liabilities that are subsequently measured at amortized cost are recognized over the life of the instrument.

(e) *Cash and short term investments*

Cash and short term investments are defined as cash on hand and short-term investment with maturity dates of less than one year.

(f) *Equipment*

Equipment is recorded at cost or, in the case of donated assets, at fair market value on the date of the donation.

Assets are amortized on a straight-line basis over their estimated useful lives as follows:

Furniture and equipment	10 years
Computer equipment	4 years
Vehicles	2 years

(g) *Contributed services*

Because of the difficulty in determining their fair value, contributed services are not recognized in these financial statements.

(h) *Sale and leaseback of property*

The amount of the gain on the sale of the property to be recognized at the time of the sale consists of the excess of the gain on sale over the present value of the minimum lease payments over the term of the lease. The remainder of the gain is deferred and amortized over the 60 month term of the lease which ends on July 31, 2015.

# MASTER'S COLLEGE AND SEMINARY

## NOTES TO THE FINANCIAL STATEMENTS

Years Ended May 31, 2013 and 2012

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### 3. ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

Effective June 1, 2012, the College adopted the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook – Accounting, electing to adopt the new accounting framework: Canadian Accounting Standards for Not-for-Profit Organizations (ASNPO). These are the College's first financial statements prepared in accordance with ASNPO and the transitional provisions of Section 1501, First-time Adoption by Not-for-Profit Organizations have been applied. Section 1501 requires retrospective application of the accounting standards with certain elective exemptions and limited retrospective exceptions. The accounting policies set out in the significant accounting policies note have been applied in preparing the financial statements for the year ended May 31, 2013, the comparative information for the year ended May 31, 2012 and the opening ASNPO statement of financial position at June 1, 2011 (the College's date of transition).

The College issued financial statements for the year ended May 31, 2012 using generally accepted accounting principles prescribed by CICA Handbook – Accounting. The adoption of ASNPO did not result in any adjustments to the previously reported assets, liabilities, fund balances, results of operations and cash flows of the College.

### 4. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

#### (a) *Measurement*

The College's financial assets and liabilities are comprised of cash and short term investments, accounts receivable, loans receivable, accounts payable, accrued salaries and benefits and demand notes payable. The cash and short term investments, accounts receivable, accounts payable and accrued salaries and benefits are recorded at original cost, which approximates fair value due to their short term maturities. The loans receivable and demand notes payable are also recorded at original cost which approximates fair value due to the market rates of interest being charged on the instruments.

#### (b) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The College is not exposed to significant interest rate risk.

Short term investments consist of a Guaranteed Investment Certificate maturing July 2013 with an effective yield of 3.2% per annum. Included in loans receivable is a vendor-take back loan maturing August 2013, earning interest at a fixed rate of 4.25% per annum. The demand notes payable consist of promissory notes yielding annual interest rates ranging from 3.2 to 5.0%. A change in market interest rates has no impact on cash flows of these instruments as all of the interest rates are fixed.



# MASTER'S COLLEGE AND SEMINARY

## NOTES TO THE FINANCIAL STATEMENTS

Years Ended May 31, 2013 and 2012

### 4. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

#### (c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge the obligation. The College is exposed to credit risk in the event of non-performance by counterparties in connection with its accounts receivable. The maximum exposure to credit risk is the carrying value of accounts receivable. Accounts receivable are non-interest bearing and generally due within 30 days. The College measures its exposure to credit risk based on how long amounts have been outstanding. An impairment allowance is recorded based on a sliding scale percentage and applied to the aged balance. At year end, there was a provision for doubtful accounts in the amount of \$22,882 (2012 - \$160,968).

### 5. ACCOUNTS RECEIVABLE

Accounts receivable are as follows:

	2013	2012
	\$	\$
Student accounts receivable (net of allowance for doubtful accounts)	121,341	124,989
Donations	150,000	171,128
Realty tax rebate	21,346	-
HST/GST rebates	25,432	209,436
Other	7,963	27,911
	326,082	533,464

A campaign began in 2012 to raise gifts of up to \$600,000 to aid in the repayment of debt obligations. Each year, the amount of gifts raised by the College will be matched for up to an additional \$600,000 grant, which is being held in trust from a single donor. During 2013, \$150,000 (2012 - \$125,686) was raised for debt repayment and the matching amount has been included in donations receivable. As at year-end, the total amount raised to date for this campaign was \$275,686. The College has until December 31, 2014 to raise these funds.

**MASTER'S COLLEGE AND SEMINARY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Years Ended May 31, 2013 and 2012**

**6. LOANS RECEIVABLE**

Loans receivable are as follows:

	2013 \$	2012 \$
McKay Fund and Student Assistance Fund loans, non-interest bearing, due on demand	11,075	9,894
Vendor take-back loan, earning interest at 4.25% per annum calculated semi-annually, blended quarterly payments of \$80,252 commencing November 2010 and ending August 2013	79,640	389,960
	90,715	399,854
Less payments to be received within one year classified as a current asset	(90,715)	(320,442)
	-	79,412

**7. EQUIPMENT**

Equipment and related accumulated amortization is classified as follows:

	May 31, 2013		May 31, 2012	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Furniture and equipment	91,910	46,028	72,626	39,778
Computer equipment	82,374	52,474	74,289	37,906
Vehicles	15,601	15,601	15,601	15,601
	189,885	114,103	162,516	93,285
Net book value		<u>75,782</u>		<u>69,231</u>

Equipment additions for the year ended May 31, 2013 included \$19,284 (2012 - \$19,775) in furniture and equipment and \$8,085 (2012 - \$21,206) in computer equipment.

**8. INTERFUND LOANS**

The interfund loan balance consists of amounts that have been advanced by the restricted fund for the use of the operating fund. During 2012, the College redeemed \$150,000 of the \$325,000 GIC that was held in the restricted fund. The funds were used to repay a promissory note from the Pentecostal Financial Services Group which was a liability of the operating fund. As a result, a loan was established in the amount of \$150,000 payable from the operating fund to the restricted fund. Further, an additional \$275,000 loan payable was established from the operating fund to the restricted fund that consists of funds that were advanced to the operating fund over a number of years. Both of these loans bear interest at 3.2% and have no specific terms of repayment.

# MASTER'S COLLEGE AND SEMINARY

## NOTES TO THE FINANCIAL STATEMENTS

Years Ended May 31, 2013 and 2012

### 9. DEMAND NOTES PAYABLE

Notes payable consist of the following:

	2013	2012
	\$	\$
Promissory note from Western Ontario District of the Pentecostal Assemblies of Canada, bearing interest at 5.0%, due on demand	359,877	359,877
Promissory notes from various individuals, bearing interest at a rate of 3.2% (2012 - ranging from 3.5% to 5.0%), due on demand, guaranteed by the Western Ontario and Eastern Ontario Districts of the Pentecostal Assemblies of Canada	1,200,000	1,475,000
Demand note	10,500	10,500
	<u>1,570,377</u>	<u>1,845,377</u>

During the year, total interest of \$67,752 (2012 - \$89,937) incurred on the promissory notes has been charged to interest expense, of which \$17,994 (2012 - \$18,042) was forgiven.

### 10. DEFERRED INCOME

Deferred income consists of the following:

	2013	2012
	\$	\$
Current		
Deferred donations	15,238	4,255
Deferred student fees	42,119	34,242
Property rental deposit	31,661	-
Deferred gain on sale of Peterborough property	282,508	282,508
	<u>371,526</u>	<u>321,005</u>
Long term		
Property rental deposit	-	31,661
Deferred donation for equipment	2,268	2,555
Deferred gain on sale of Peterborough property	329,593	612,101
	<u>331,861</u>	<u>646,317</u>
	<u>703,387</u>	<u>967,322</u>

# MASTER'S COLLEGE AND SEMINARY

## NOTES TO THE FINANCIAL STATEMENTS

Years Ended May 31, 2013 and 2012

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### 11. PENSION PLAN

Some current and former employees of the College are members of The Pension Fund (1969) of the Pentecostal Assemblies of Canada (PAOC). The PAOC is a multi-employer final average pay contribution pension plan. Employer contributions made to the plan by the College during the year amounted to current employee costs of \$47,967 (2012 - \$37,772) plus a special payment of \$50,763 for current and former employees. These amounts are included in salaries and benefits of the operating fund on the statements of operations and fund balances.

The PAOC's valuations filed with the Financial Services Commission of Ontario dated September 30, 2011 resulted in a going concern deficit of \$10,565,931. Participating employers are required to make special payments regarding the going concern deficit of which the College's portion is \$50,763 per year for the next ten years.

### 12. COMMITMENTS

The College is committed under operating leases for campus space and equipment and service agreements extending for various periods to December 2015. Future minimum payments required are as follows:

	\$
2014	686,079
2015	664,654
2016	116,751
	<hr/>
	1,467,484

The operating lease for the Peterborough facility has been co-signed by the Western Ontario and Eastern Ontario Districts of the Pentecostal Assemblies of Canada.

### 13. SUBSEQUENT EVENT

In July 2013, the lease and sub lease at the premises of 3080 Yonge Street were completed. As part of the lease agreement, the College is required to bring the premises back to its original condition. Demolition work for the project was completed in September 2013 and cost \$75,000.

### 14. ECONOMIC DEPENDENCE

The College is dependent on financial support from the Western Ontario, Eastern Ontario, Quebec and Maritime districts of the Pentecostal Assemblies of Canada. Financial support may take the form of donations, loans and guarantees.

**MASTER'S COLLEGE AND SEMINARY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Years Ended May 31, 2013 and 2012**

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**15. COMPARATIVE FIGURES**

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