Financial Statements of

MASTER'S COLLEGE AND SEMINARY

May 31, 2014

Table of Contents

McCOLL TURNER LLP
CHARTERED ACCOUNTANTS

McCOLL TURNER LLP
CHARTERED ACCOUNTANTS

362 Queen Street
Peterborough, ON
K9H 3J6

P: 705.743.5020
F: 705.743.5081
E: info@mccollturner.com
www.mccollturner.com

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 statement of financial position as at May 31, 2014 and the statements of operations and fund balances and cash flows for the year then 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 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 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, 2014, 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.

McColl Turner LLP

Licensed Public Accountants

Peterborough, Ontario
October 29, 2014

MASTER'S COLLEGE AND SEMINARY

STATEMENT OF FINANCIAL POSITION

May 31, 2014

	Operating Fund $	Restricted Fund $	2014 $	2013 $
ASSETS				
CURRENT ASSETS				
Cash and short term investments	258,551	459,525	718,076	744,485
Accounts receivable (note 4)	324,584	-	324,584	326,082
Prepaid expenses	6,194	-	6,194	46,193
Interfund balances	51,093	(51,093)	-	-
Loans receivable (note 5)	-	10,423	10,423	90,715
	640,422	418,855	1,059,277	1,207,475
CAPITAL ASSETS (note 6)	63,473	-	63,473	75,782
	703,895	418,855	1,122,750	1,283,257
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	119,967	-	119,967	124,912
Accrued salaries and benefits	148,075	-	148,075	127,731
Alumni funds held in trust	2,877	-	2,877	3,377
Interfund loans (note 7)	425,000	(425,000)	-	-
Demand notes payable (note 8)	1,245,377	-	1,245,377	1,570,377
Current portion of deferred income (note 9)	336,090	-	336,090	371,526
	2,277,386	(425,000)	1,852,386	2,197,923
DEFERRED INCOME (note 9)	49,353	-	49,353	331,861
	2,326,739	(425,000)	1,901,739	2,529,784
FUND BALANCES				
Unrestricted	(1,686,317)	-	(1,686,317)	(2,159,477)
Invested in equipment	63,473	-	63,473	75,782
Externally restricted	-	499,164	499,164	483,040
Endowments	-	344,691	344,691	354,128
	(1,622,844)	843,855	(778,989)	(1,246,527)
	703,895	418,855	1,122,750	1,283,257

SIGNED ON BEHALF OF THE BOARD OF GOVERNORS:

________________ Governor

________________ Governor

See accompanying notes to the financial statements

MASTER'S COLLEGE AND SEMINARY

STATEMENT OF OPERATIONS AND FUND BALANCES

Year Ended May 31, 2014

	Operating Fund $	Restricted Fund $	2014 $	2013 $
REVENUE				
Donations	1,686,253	-	1,686,253	1,830,457
Tuition and fees	1,549,193	-	1,549,193	1,466,744
Residence	563,009	-	563,009	536,977
Other income	116,709	-	116,709	121,156
Interest	611	44,650	45,261	65,434
	3,915,775	44,650	3,960,425	4,020,768
EXPENSES				
Salaries and benefits	1,662,705	-	1,662,705	1,585,984
Other operating expenses	315,257	-	315,257	362,167
Academic support	583,530	-	583,530	553,642
Building occupancy	675,803	-	675,803	667,425
Student meal plans	286,520	-	286,520	258,783
Interest	70,239	-	70,239	81,348
Amortization	21,515	-	21,515	20,818
Scholarships	24,408	37,963	62,371	49,963
	3,639,977	37,963	3,677,940	3,580,130
REVENUE OVER EXPENSES FOR THE YEAR BEFORE THE UNDERNOTED	275,798	6,687	282,485	440,638
OTHER INCOME AND EXPENSE				
Yonge Street premises				
Lease expense	(162,665)	-	(162,665)	(649,520)
Sublease revenue	65,210	-	65,210	370,469
Peterborough property				
Gain on sale of property (note 9)	282,508	-	282,508	282,508
	185,053	-	185,053	3,457
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	460,851	6,687	467,538	444,095
FUND BALANCES - beginning of year	(2,083,695)	837,168	(1,246,527)	(1,690,622)
FUND BALANCES - end of year	(1,622,844)	843,855	(778,989)	(1,246,527)

MASTER'S COLLEGE AND SEMINARY

STATEMENT OF CASH FLOWS

Year Ended May 31, 2014

	2014 $	2013 $
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	467,538	444,095
Add (deduct) items not requiring an outlay of cash:		
Amortization	21,515	20,818
Gain on sale of property	(282,508)	(282,508)
	206,545	182,405
Changes in non-cash working capital items:		
Accounts receivable	1,498	207,382
Prepaid expenses	39,999	(18,083)
Accounts payable	(4,945)	(67,230)
Accrued salaries and benefits	20,344	9,374
Alumni funds held in trust	(500)	104
Deferred income	(35,436)	18,572
	227,505	332,524
FINANCING ACTIVITIES		
Net decrease in demand notes	(325,000)	(275,000)
INVESTING ACTIVITIES		
Purchase of capital assets	(9,206)	(27,370)
Loan redemption	80,292	309,138
	71,086	281,768
INCREASE (DECREASE) IN CASH FOR THE YEAR	(26,409)	339,292
CASH AND SHORT TERM INVESTMENTS - beginning of year	744,485	405,193
CASH AND SHORT TERM INVESTMENTS - end of year	718,076	744,485

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. Significant items subject to such estimates include the allowance for doubtful accounts and the useful life of capital assets. 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 capital assets 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Financial assets and liabilities*

Financial assets and liabilities are originally measured at fair value and are subsequently measured at amortized cost.

(e) *Cash and short term investments*

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

(f) *Capital assets*

Capital assets are 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
Leasehold improvements	Term of the lease

(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.

3. 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.

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Risks

The College is exposed to various risks associated with its financial instruments as described below. Unless otherwise noted, there has been no change in risk exposure from the prior year.

(i) 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 May 2015 with an effective yield of 1.6% per annum. The demand notes payable consist of promissory notes yielding annual interest rates ranging from 3.5 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.

(ii) 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 $30,323 (2013 - $22,882).

4. ACCOUNTS RECEIVABLE

Accounts receivable are as follows:

	2014 $	2013 $
Student accounts receivable (net of allowance for doubtful accounts)	86,640	121,341
Donations	186,063	150,000
Realty tax rebate	21,245	21,346
HST rebates	22,822	25,432
Other	7,814	7,963
	324,584	326,082

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 2014, $175,000 (2013 - $150,000) 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 $450,686 (2013 - $275,686). The College has until December 31, 2016 to raise these funds.

5. LOANS RECEIVABLE

Loans receivable are as follows:

	2014 $	2013 $
McKay Fund and Student Assistance Fund loans, non-interest bearing, due on demand	10,423	11,075
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
	10,423	90,715

6. CAPITAL ASSETS

Capital assets and related accumulated amortization is classified as follows:

	May 31, 2014		May 31, 2013	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Furniture and equipment	96,179	53,359	91,910	46,028
Computer equipment	84,765	66,659	82,374	52,474
Vehicles	-	-	15,601	15,601
Leasehold improvements in progress	2,547	-	-	-
	183,491	120,018	189,885	114,103
Net book value		63,473		75,782

7. 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.

8. DEMAND NOTES PAYABLE

Notes payable consist of the following:

	2014 $	2013 $
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 3.5% (2013 - 3.2%), due on demand, guaranteed by the Western Ontario and Eastern Ontario Districts of the Pentecostal Assemblies of Canada	875,000	1,200,000
Demand note	10,500	10,500
	1,245,377	1,570,377

During the year, total interest of $56,558 (2013 - $67,752) incurred on the promissory notes has been charged to interest expense, of which $nil (2013 - $17,994) was forgiven.

9. DEFERRED INCOME

Deferred income consists of the following:

	2014 $	2013 $
Current		
Deferred donations	14,505	15,238
Deferred student fees	39,077	42,119
Property rental deposit	-	31,661
Deferred gain on sale of Peterborough property	282,508	282,508
	336,090	371,526
Long term		
Deferred donation for equipment	2,268	2,268
Deferred gain on sale of Peterborough property	47,085	329,593
	49,353	331,861
	385,443	703,387

10. 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 $53,086 (2013 - $47,967) 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 statement of operations and fund balances.

The PAOC's valuations filed with the Financial Services Commission of Ontario dated September 30, 2013 resulted in a going concern deficit of $8,273,008. 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 nine years.

11. COMMITMENTS

The College is committed under operating leases for campus space and equipment and service agreements extending for various periods to April 2017. Future minimum payments required are as follows:

	$
2015	694,717
2016	188,901
2017	66,138
	949,756

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.

12. 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.