

**Financial Statements of**

**MASTER'S COLLEGE AND SEMINARY**

**May 31, 2012**

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**McCOLL TURNER** LLP  
CHARTERED ACCOUNTANTS

## **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, 2012, 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 generally accepted accounting principles, 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 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 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, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

***McCull Turner LLP***

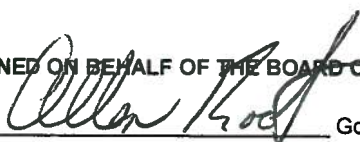
Licensed Public Accountants

Peterborough, Ontario  
October 5, 2012

**MASTER'S COLLEGE AND SEMINARY**  
**STATEMENT OF FINANCIAL POSITION**  
**May 31, 2012**

	Operating Fund \$	Restricted Fund \$	2012 \$	2011 \$
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and short term investments (note 3(c))	87,568	317,625	405,193	571,820
Accounts receivable (note 4)	495,289	-	495,289	283,634
Prepaid expenses	28,110	-	28,110	13,188
Interfund balances	14,195	(14,195)	-	-
Current portion of loans receivable (note 5)	310,547	9,894	320,441	318,524
	935,709	313,324	1,249,033	1,187,166
<b>LOANS RECEIVABLE</b> (note 5)	79,412	-	79,412	388,842
<b>EQUIPMENT</b> (note 6)	69,231	-	69,231	45,939
	1,084,352	313,324	1,397,676	1,621,947
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	153,969	-	153,969	118,156
Accrued salaries and benefits	118,357	-	118,357	96,988
Alumni funds held in trust	3,273	-	3,273	3,273
Interfund loans (note 7)	425,000	(425,000)	-	-
Demand notes payable (note 8)	1,845,377	-	1,845,377	2,070,377
Current portion of deferred revenue (note 9)	321,005	-	321,005	591,712
	2,866,981	(425,000)	2,441,981	2,880,506
<b>DEFERRED INCOME</b> (note 9)	646,317	-	646,317	669,070
	3,513,298	(425,000)	3,088,298	3,549,576
<b>FUND BALANCES</b>				
Unrestricted	(2,498,177)	-	(2,498,177)	(2,691,660)
Invested in equipment	69,231	-	69,231	45,939
Externally restricted	-	383,196	383,196	366,854
Endowments	-	355,128	355,128	351,238
	(2,428,946)	738,324	(1,690,622)	(1,927,629)
	1,084,352	313,324	1,397,676	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**  
**STATEMENT OF OPERATIONS AND FUND BALANCES**  
**Year Ended May 31, 2012**

	Operating Fund \$	Restricted Fund \$	2012 \$	2011 \$
<b>REVENUE</b>				
Donations	1,678,779	29,496	1,708,275	1,646,039
Tuition and fees	1,313,148	-	1,313,148	1,027,116
Residence	502,685	-	502,685	353,580
Other income	112,033	-	112,033	64,804
Interest	23,467	18,506	41,973	40,903
	<u>3,630,112</u>	<u>48,002</u>	<u>3,678,114</u>	<u>3,132,442</u>
<b>EXPENSES</b>				
Salaries and benefits	1,572,302	-	1,572,302	1,295,997
Other operating expenses	318,979	-	318,979	258,269
Academic support	465,522	-	465,522	381,494
Building occupancy	668,823	-	668,823	488,792
Student meal plans	222,300	-	222,300	153,557
Interest	103,550	-	103,550	111,355
Operating leases	10,000	-	10,000	13,505
Amortization	17,690	-	17,690	17,946
Scholarships	9,387	27,770	37,157	29,186
	<u>3,388,553</u>	<u>27,770</u>	<u>3,416,323</u>	<u>2,750,101</u>
<b>REVENUE OVER EXPENSES FOR THE YEAR BEFORE THE UNDERNOTED</b>				
	241,559	20,232	261,791	382,341
<b>OTHER INCOME AND EXPENSE</b>				
Yonge Street premises				
Lease expense	(674,865)	-	(674,865)	(699,543)
Sublease revenue	367,573	-	367,573	366,045
Peterborough property				
Maintenance expenses	-	-	-	(61,803)
Gain on sale of property	282,508	-	282,508	841,351
Moving expenses	-	-	-	(67,559)
	<u>(24,784)</u>	<u>-</u>	<u>(24,784)</u>	<u>378,491</u>
<b>EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR</b>				
	216,775	20,232	237,007	760,832
<b>FUND BALANCES - beginning of year</b>	(2,645,721)	718,092	(1,927,629)	(2,688,461)
<b>FUND BALANCES - end of year</b>	<u>(2,428,946)</u>	<u>738,324</u>	<u>(1,690,622)</u>	<u>(1,927,629)</u>

See accompanying notes to the financial statements

**MASTER'S COLLEGE AND SEMINARY**  
**STATEMENT OF CASH FLOWS**  
**Year Ended May 31, 2012**

	2012	2011
	\$	\$
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses for the year	237,007	760,832
Add (deduct) items not requiring an outlay of cash:		
Amortization	17,690	17,946
Gain on sale of property:		
Current	(260,777)	(841,351)
Deferred	(21,731)	(1,177,117)
	(27,811)	(1,239,690)
Changes in non-cash working capital items:		
Accounts receivable	(211,655)	(164,304)
Prepaid expenses	(14,922)	22,455
Accounts payable	35,813	(68,591)
Accrued salaries and benefits	21,369	9,162
Alumni funds held in trust	-	(2,500)
Deferred income	(10,952)	1,071,143
	(208,158)	(372,325)
<b>FINANCING ACTIVITIES</b>		
Repayment of bank loan	-	(1,340,000)
Repayment of long term debt	-	(60,459)
Net decrease in demand notes	(225,000)	(1,112)
	(225,000)	(1,401,571)
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(40,982)	(23,063)
Loan redemption (issuance)	307,513	(703,705)
Proceeds from sale of property and equipment	-	2,664,683
	266,531	1,937,915
<b>INCREASE (DECREASE) IN CASH FOR THE YEAR</b>	(166,627)	164,019
<b>CASH AND SHORT TERM INVESTMENTS - beginning of year</b>	571,820	407,801
<b>CASH AND SHORT TERM INVESTMENTS - end of year</b>	405,193	571,820

See accompanying notes to the financial statements

# MASTER'S COLLEGE AND SEMINARY

## NOTES TO THE FINANCIAL STATEMENTS

May 31, 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 generally accepted accounting principles. The more significant of these policies are summarized below. The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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

May 31, 2012

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

(d) *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

(e) *Contributed services*

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

(f) *Financial instruments*

The College's financial instruments are comprised of cash and short-term investments, accounts receivable, accounts payable, accrued salaries and benefits, demand notes payable and long term debt.

The carrying value of the College's cash and short-term investments, accounts receivable, bank loan, accounts payable, accrued salaries and benefits and demand notes payable approximates fair value due to their short-term maturities.

It is management's opinion that the College is not exposed to significant interest, currency or credit risks arising from its financial instruments.

(g) *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. OBJECTIVES, POLICIES AND PROCESSES FOR MANAGING CAPITAL

The College's capital is comprised of the amounts invested in property and equipment, unrestricted funds, restricted funds and endowment funds. The Board of Governors and officers of the College are responsible for the operation of the College and its finances. Capital and operating budgets are prepared by the College administration and reviewed by the finance committee of the College who present them to the Board of Governors for approval.

(a) *Unrestricted funds*

The Board of Governors' objective is to maintain an unrestricted fund balance to assist in the operation of the College, annual working capital requirements and the annual maintenance of the property and equipment, scholarships for students and the future development of the College. After the budget is approved by the Board of Governors, the officers of the College monitor the actual results against the budget.

# MASTER'S COLLEGE AND SEMINARY

## NOTES TO THE FINANCIAL STATEMENTS

May 31, 2012

### 3. OBJECTIVES, POLICIES AND PROCESSES FOR MANAGING CAPITAL (continued)

(b) *Invested in equipment*

Equipment is purchased and maintained by the officers of the College according to the approved budget.

The additions for the 2011-2012 fiscal year were \$40,982, which consisted of furniture and equipment and computer equipment.

(c) *Restricted funds*

There are two sources of restricted funds: donations and interest from invested endowments and other fund balances held by the College and interest from invested endowments held by the Pentecostal Assemblies of Canada. Depending on the nature of the restricted fund, appropriate staff is assigned with the responsibility of carrying out the objective of these funds. Where the funds are not required in the short-term, management invests their balances in accordance with Board policy which states that they be held in low risk financial instruments. During the year, the College redeemed \$150,000 of the \$325,000 GIC that was held in the restricted fund (note 7). The remaining investment is a \$175,000 GIC which bears interest at 3.20% and matures in July 2013.

(d) *Endowed funds*

The preservation of endowed funds held by the College is the responsibility of the officers of the College and the Board of Governors. Interest earned by the invested endowment funds is used to provide student scholarships.

The investment policy objective is to preserve the capital of the funds while earning the best possible interest income in accordance with Board of Governors policy. It is also the objective of the Board of Governors to increase the amount of endowment funds.

### 4. ACCOUNTS RECEIVABLE

Accounts receivable are as follows:

	2012	2011
	\$	\$
Student accounts receivable (net of allowance for doubtful accounts)	86,814	59,738
Realty tax rebate	-	43,535
Donations	171,128	55,248
HST/GST rebates	209,436	107,939
Other	27,911	17,174
	<u>495,289</u>	<u>283,634</u>

A campaign began during the year 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. At as year end, \$125,686 was raised for debt repayment and the matching amount has been included in donations receivable. The College has until December 31, 2014 to raise these funds.



# MASTER'S COLLEGE AND SEMINARY

## NOTES TO THE FINANCIAL STATEMENTS

May 31, 2012

### 5. LOANS RECEIVABLE

Loans receivable are as follows:

	2012	2011
	\$	\$
McKay Fund and Student Assistance Fund loans, non-interest bearing, due on demand	9,894	19,867
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	389,960	687,499
	399,854	707,366
Less payments to be received within one year classified as a current asset	(320,442)	(318,524)
	79,412	388,842

### 6. EQUIPMENT

Equipment and related accumulated amortization is classified as follows:

		2012		2011
		\$		\$
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and equipment	72,626	39,778	32,848	18,402
Computer equipment	74,289	37,906	36,383	27,537
Vehicles	15,601	15,601	-	-
	162,516	93,285	69,231	45,939

Equipment additions for the year ended May 31, 2012 included \$19,775 (2011 - \$Nil) in furniture and equipment and \$21,206 (2011 - \$23,062) in computer equipment.

### 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 the year, the College redeemed \$150,000 of the \$325,000 GIC that was held in the restricted fund. The funds were used to repay the promissory note from the Pentecostal Financial Services Group (note 8) 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

May 31, 2012

### 8. DEMAND NOTES PAYABLE

Notes payable consist of the following:

	2012	2011
	\$	\$
Promissory note from Pentecostal Financial Services Group, unsecured, bearing interest at 7.5%, redeemable on demand	-	150,000
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 rates 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	1,475,000	1,550,000
Demand note	10,500	10,500
	<u>1,845,377</u>	<u>2,070,377</u>

During the year, total interest of \$89,937 (2011 - \$98,161) incurred on the promissory notes has been charged to interest expense, of which \$18,042 was forgiven.

### 9. DEFERRED INCOME

Deferred income consists of the following:

	2012	2011
	\$	\$
Current		
Deferred donations	4,255	6,800
Deferred student fees	34,242	41,627
Deferred gain on sale of Peterborough property	282,508	543,285
	<u>321,005</u>	<u>591,712</u>
Long term		
Property rental deposit	31,661	31,661
Deferred donation for equipment	2,555	3,577
Deferred gain on sale of Peterborough property	612,101	633,832
	<u>646,317</u>	<u>669,070</u>
	<u>967,322</u>	<u>1,260,782</u>

# MASTER'S COLLEGE AND SEMINARY

## NOTES TO THE FINANCIAL STATEMENTS

May 31, 2012

### 10. 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:

	\$
2013	805,218
2014	696,484
2015	675,059
2016	116,643
	<u>2,293,404</u>

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.

During the year, the College amended the operating lease with its landlord for campus and office space by extending the initial lease term from three to five years with a new ending date of July 31, 2015. Further, the College leased additional administrative office space of approximately 3,500 square feet beginning September 1, 2011 which increased the annual minimum rent from \$595,000 to \$640,000. Also, the option period to extend the lease was amended from two years to five years.

A second amendment with the College and its landlord was signed May 1, 2012 whereby additional classroom space was added to the leased area, which increased the annual minimum rent from \$640,000 to \$644,500 effective September 1, 2012. Also included in this amendment was the addition of dormitory space to be provided to the College commencing September 1, 2012. No additional minimum rent will be charged for the additional space.

### 11. SUBSEQUENT EVENTS

(a) *Realty taxes*

Subsequent to year end, the College was approved by the City of Peterborough to be exempt from property taxes beginning January 1, 2012. The total property taxes charged to the College from January 1, 2012 to the fiscal year ended May 31, 2012 was \$25,410. These charges were reversed by the Peterborough landlord, Argyle Investment Company Inc., in June 2012 when the approval was passed.

(b) *Promissory note renewals*

Subsequent to year end, all outstanding promissory notes (note 8) were renewed at a rate of 3.5%.

### 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.