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Mile Two Church Inc.

Financial Statements

July 31, 2018

Independent Auditors' Report

To the Members and Congregation of Mile Two Church Inc.:

We have audited the accompanying financial statements of Mile Two Church Inc., which comprise the statement of financial position as at July 31, 2018, and the statements of operations, changes in net assets 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 qualified audit opinion.

Basis for Qualified Opinion
In common with many charitable organizations, Mile Two Church Inc. derives income from the general public in the form of donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of revenues from this source was limited to the amounts recorded in the records of the organization and we were not able to determine whether any adjustments might be necessary to donation revenue, excess (deficiency) of revenue over expenses, current assets and net assets.

Qualified Opinion
In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Mile Two Church Inc. as at July 31, 2018 and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

[redacted]

[redacted]
Chartered Professional Accountants

[redacted]

Mile Two Church Inc.
Statement of Financial Position
As at July 31, 2018

		2018	2017
Assets			
Current			
Cash *(Note 4)*	460	172,916	85,210
Accounts receivable		1,126	4,567
Goods and Services Tax receivable	4120	4,029	7,261
Prepaid expenses	4170	3,994	3,088
Inventory	4150	1,755	2,397
		183,820	102,523
Capital assets *(Note 3)*		1,489,202	1,559,690
		1,673,022	1,662,213
Liabilities			
Current			
Accounts payable and accruals *(Note 5)*	4300	50,933	21,766
Wages payable		10,160	23,965
Deferred contributions *(Note 6)*	4310	90,327	34,497
Current portion of long-term debt		-	10,980
Current portion of pension payable *(Note 7)*		60,000	60,000
		211,420	151,208
Pension payable *(Note 7)*	$444000 line 4330	384,000	444,000
		595,420	595,208
Net Assets (Deficit)			
Invested in capital assets		1,489,202	1,548,710
Unrestricted deficit		(411,600)	(481,705)
		1,077,602	1,067,005
		1,673,022	1,662,213

Approved on behalf of the Board

[redacted]

Director [redacted]

[redacted]

Director

The accompanying notes are an integral part of these financial statements

[redacted]

Mile Two Church Inc.
Statement of Operations
For the year ended July 31, 2018

	2018	2017
Revenue		
Donations	**988,756**	1,135,167
Saskatchewan Education funding	**445,369**	384,650
Tuitions and fees	**208,757**	162,496
Seminars and projects	**35,715**	35,920
GST rebates	**16,447**	11,314
Uniform sales, net *(Note 8)*	**(361)**	803
Total revenue	**1,694,683**	1,730,350
Expenses		
Personnel		
Housing allowances	**45,000**	65,075
Wages and benefits	**1,019,314**	931,610
	1,064,314	996,685
Programs		
Automobile and travel	**8,566**	9,595
Educational	**75,298**	57,275
Fellowship	**22,531**	24,227
Missions	**66,774**	59,482
Seminars and speakers	**22,470**	21,893
Supplies, books and music	**61,012**	46,392
	256,651	218,864
Occupancy		
Insurance	**23,252**	21,568
Mortgage interest	**80**	3,301
Repairs and maintenance	**56,111**	43,234
Utilities	**76,236**	72,756
	155,679	140,859

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The accompanying notes are an integral part of these financial statements

Mile Two Church Inc.
Statement of Operations
For the year ended July 31, 2018

	2018	2017
Administration and general		
Advertising and promotion	3,729	6,718
Amortization	100,721	104,395
Audit and legal	10,560	10,800
Bad debts	13,630	2,618
Bank charges	13,370	19,617
Office and other	55,940	65,137
Staff development	10,992	8,047
	208,942	217,330
Total expenses	1,685,686	1,573,738
Excess of revenue over expenses before pension expense and other items	9,097	156,612
Pension expense *(Note 7)*	-	240,000
Excess (deficiency) of revenue over expenses before other items	9,097	(83,388)
Other items		
Gain on disposal of capital assets	1,500	-
Excess (deficiency) of revenue over expenses	10,597	(83,388)

The accompanying notes are an integral part of these financial statements

Mile Two Church Inc.
Statement of Changes in Net Assets
For the year ended July 31, 2018

	Invested in Capital Assets	*Unrestricted*	*2018*	*2017*
Net assets (deficit), beginning of year	1,548,710	(481,705)	1,067,005	1,150,393
Excess (deficiency) of revenue over expenses	(99,221)	109,818	10,597	(83,388)
Transfers for capital asset purchases	30,233	(30,233)	-	-
Payments of long-term debt	10,980	(10,980)	-	-
Proceeds on sale of capital assets	(1,500)	1,500	-	-
Net assets (deficit), end of year	1,489,202	(411,600)	1,077,602	1,067,005

The accompanying notes are an integral part of these financial statements

Mile Two Church Inc.
Statement of Cash Flows
For the year ended July 31, 2018

	2018	2017
Cash provided by (used for) the following activities		
Operating		
Excess (deficiency) of revenue over expenses	10,597	(83,388)
Amortization	100,721	104,395
Gain on disposal of capital assets	(1,500)	-
	109,818	21,007
Changes in working capital accounts		
Accounts receivable	3,441	3,063
Goods and Services Tax receivable	3,232	(3,597)
Prepaid expenses	(906)	3,801
Inventory	642	(718)
Accounts payable and accruals	29,167	411
Wages payable	(13,805)	(1,826)
Source deductions payable	-	(17,421)
Deferred contributions	55,830	13,403
	187,419	18,125
Financing		
Repayment of long-term debt	(10,980)	(143,159)
Increase in pension payable	-	240,000
Decrease in pension payable	(60,000)	(60,000)
	(70,980)	36,841
Investing		
Purchase of capital assets	(30,233)	(23,831)
Proceeds on disposal of capital assets	1,500	-
	(28,733)	(23,831)
Increase in cash resources	87,706	31,135
Cash resources, beginning of year	85,210	54,075
Cash resources, end of year	172,916	85,210

The accompanying notes are an integral part of these financial statements

1. Incorporation and nature of the organization

Mile Two Church Inc. (the "Organization") changed its name from Saskatoon Christian Centre Inc. effective March 12, 2018.

The Organization was organized for the propagation of the Gospel of Jesus Christ through preaching, teaching and missionary outreach. It was incorporated under the Non-Profit Corporation Act of Saskatchewan, formerly the Societies Act, on October 17, 1977. Therefore, it is required to report annually to Saskatchewan Justice, Corporations Branch.

The Organization is a Registered Charity under the Income Tax Act and as such is exempt from income taxes and is able to issue donation receipts for income tax purposes. In order to maintain its status as a registered charity under the Act, the Organization must meet certain requirements within the act and to annually file a "Registered Charity Information and Public Information Return" with Canada Revenue Agency, Charities Directorate. In the opinion of management, these requirements have been met.

The Organization holds regular weekly worship services and other ministry programs for its members thoughout the week. It also operates the Legacy Christian Academy, a private school from Kindergarten to Grade 12.

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations, and include the following significant accounting policies:

Cash and cash equivalents

Cash and cash equivalents include balances with banks.

Inventory

Inventory is comprised of Legacy Christian Centre merchandise for resale. It is recorded at the lower of cost and net realizable value, on a first-in-first out basis.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution if fair value can be reasonably determined.

Amortization is provided using methods and rates intended to amortize the cost of capital assets over their estimated useful lives.

	Method	Rate
Buildings	declining balance	4 %
Automotive	straight-line	5-10 years
Equipment	straight-line	5-20 years

Long-lived assets

Long-lived assets consist of capital assets with finite useful lives. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

When the Organization determines that a long-lived asset no longer has any long-term service potential to the Organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Write-downs are not reversed.

2. **Significant accounting policies** *(Continued from previous page)*

Revenue recognition

The Organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. 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.

Government funding is recognized as it becomes receivable under the terms of applicable funding agreements.

Tuition revenue is recognized in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Seminar revenue is recognized when the related seminars are delivered.

Other revenue is recognized when earned.

Uniform sales are recognized when the related goods are sold.

Contributed materials and services

Contributions of materials and services are recognized both as contributions and expenses in the statement of operations when a fair value can be reasonably estimated and when the materials and services are used in the normal course of the Organization's operations and would otherwise have been purchased.

Measurement uncertainty (use of estimates)

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 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 reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. An allowance for doubtful accounts was not deemed necessary in the current year. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of capital assets. Deferred contributions are recorded based on management's analysis of the balance at year end of unspent contributions externally restricted for future delivery of programming and tuition.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in excess (deficiency) of revenue over expenses in the periods in which they become known.

Financial instruments

The Organization recognizes its financial instruments when the Organization becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management.

At initial recognition, the Organization may irrevocably elect to subsequently measure any financial instrument at fair value. The Organization has not made such an election during the year.

The Organization subsequently measures all investments at fair value. Fair value is determined by published price quotations. All other financial assets and liabilities are subsequently measured at amortized cost.

Transaction costs and financing fees directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in the excess of revenues over expenses for the current period. Conversely, transaction costs and financing fees are added to the carrying amount for those financial instruments subsequently measured at cost or amortized cost.

3. **Capital assets**

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	Cost	Accumulated amortization	Net book value
			2018
Land	158,951	-	158,951
Buildings	3,032,670	2,044,243	988,427
Automotive	70,791	4160 40,193	30,598
Equipment	1,314,010	1,002,784	311,226
	4,576,422	**3,087,220**	**1,489,202**

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	Cost	Accumulated amortization	Net book value
			2017
Land	158,951	-	158,951
Buildings	3,032,670	2,003,059	1,029,611
Automotive	73,791	36,114	37,677
Equipment	1,299,647	966,196	333,451
	4,565,059	3,005,369	1,559,690

4. **Cash**

The Organization has an operating line of credit facility with [redacted] to a limit of $100,000, secured by a general security agreement. Interest is payable monthly at prime plus 1% on any outstanding balance. In addition, it has a [redacted] account with [redacted] with a limit of $44,000. As at July 31, 2018 the bank operating line of credit balance was $Nil (2017 - $Nil) and the [redacted] balance was $1,341 (2017- $Nil). Prime rate as at July 31, 2018 was 3.70%.

5. **Accounts payable and accruals**

	2018	2017
Trade payables	25,863	9,986
Source deductions	13,185	-
Accrued payables	11,885	11,780
	50,933	21,766

6. **Deferred contributions**

Deferred contributions consist of unspent contributions externally restricted for delivery of programming and tuition. Recognition of these amounts as revenue is deferred to periods when the specified expenditures are made. Changes in the deferred contribution balance are as follows:

	2018	2017
Balance, beginning of year	34,497	21,094
Add: deferred amounts received	94,492	34,497
Less: amount recognized as revenue	(38,662)	(21,094)
Balance, end of year	**90,327**	34,497

7. Pension payable

The Organization has entered into agreements with former employees to provide retirement allowances.

	2018	*2017*
First agreement		
Balance, beginning of year	**288,000**	324,000
Amounts paid during the year	**(36,000)**	(36,000)
	252,000	288,000
Second agreement		
Balance, beginning of year	**216,000**	-
Amounts agreed upon during the year	**-**	240,000
Amounts paid during the year	**(24,000)**	(24,000)
	192,000	216,000
Less: current portion	**(60,000)**	(60,000)
	384,000	444,000

8. Uniform sales, net

Uniform sales are reflected at a net amount determined as follows:

	2018	*2017*
Uniform sales	**1,241**	905
Cost of goods sold	**(1,602)**	(102)
	(361)	803

9. Financial instruments

The Organization, as part of its operations, carries a number of financial instruments. It is management's opinion that the Organization is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk.

The Organization is exposed to interest rate cash flow risk with respect to its line of credit which is subject to floating interest at prime plus 1% (2017 – prime plus 1%). It is management's opinion that due to the minimal outstanding balance of the line of credit thoughout the year, that this does not represent a significant risk to the Organization.