

HEART LAKE BAPTIST CHURCH

2018 FINANCIAL STATEMENTS

NETHERCOTT & COMPANY

Chartered Professional Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Members
Heart Lake Baptist Church

We have audited the accompanying financial statements of Heart Lake Baptist Church, which comprise the statement of financial position as at June 30, 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.

Auditor's 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, the Church derives revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Church and we were not able to determine whether any adjustments might be necessary for recorded donations, the excess of expenditures over revenues, cash flows from operating activities for the years ended June 30, 2018 and June 30, 2017, current assets as at June 30, 2018 and June 30, 2017, and net assets as at July 1 and June 30 for both 2018 and 2017. Our audit opinion on the financial statements for the year ended June 30, 2017 was modified accordingly, because of the possible effects of this scope limitation.

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 Heart Lake Baptist Church, as at June 30, 2018, 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.



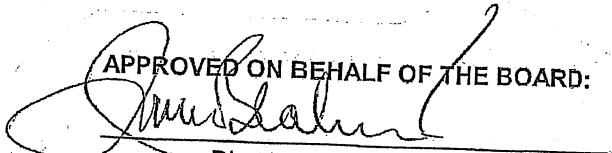
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North York, Ontario
October 16, 2018

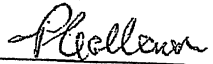
**HEART LAKE BAPTIST CHURCH
STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT		
Cash - general	\$ (1,944)	\$ 30,480
- restricted	33,252	28,625
- internally restricted for capital reserve and benevolent	33,650	41,458
HST recoverable	7,775	8,689
Summer student grant receivable	2,939	3,192
Prepaid expenses	<u>1,444</u>	<u>82</u>
	77,116	112,526
PROPERTY AND EQUIPMENT (Note 3)	<u>990,512</u>	<u>1,078,642</u>
	<u>\$ 1,067,628</u>	<u>\$ 1,191,168</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued	\$ 11,774	\$ 12,838
Government remittances payable	574	1,162
Deferred designated offerings (Note 4)	33,252	28,625
Current portion of long-term debt (Note 5)	<u>84,873</u>	<u>25,343</u>
	130,473	67,968
LONG-TERM DEBT, net of current portion (Note 5)	<u>449,600</u>	<u>534,481</u>
	<u>580,073</u>	<u>602,449</u>
NET ASSETS		
Invested in property and equipment	456,039	518,818
Internally restricted - capital reserve and benevolent fund	33,650	41,458
Unrestricted	<u>(2,134)</u>	<u>28,443</u>
	487,555	588,719
	<u>\$ 1,067,628</u>	<u>\$ 1,191,168</u>

APPROVED ON BEHALF OF THE BOARD:



Director



Director

**HEART LAKE BAPTIST CHURCH
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
REVENUES		
Offerings	\$ 305,248	\$ 320,573
B & G ministry offerings	26,800	26,800
Staff campaign	26,859	-
Rental income	27,381	19,903
Summer student grant	16,419	16,847
Other grant	3,498	-
Interest income	170	164
	<u>406,375</u>	<u>384,287</u>
EXPENDITURES		
Salaries and employee costs	206,048	193,297
Programs	61,329	74,822
Premises	60,296	66,782
B & G ministry	33,300	33,300
Administration	14,147	14,706
Capital reserve	13,620	-
Professional fees	11,289	10,442
Insurance	8,385	8,071
	<u>408,414</u>	<u>401,420</u>
EXCESS EXPENDITURES BEFORE AMORTIZATION	(2,039)	(17,133)
Amortization of property and equipment	<u>(99,125)</u>	<u>(97,117)</u>
NET EXCESS EXPENDITURES FOR YEAR	<u><u>\$ (101,164)</u></u>	<u><u>\$ (114,250)</u></u>

**HEART LAKE BAPTIST CHURCH
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018**

	2018			
	Invested in property and equipment	Internally restricted - capital reserve and benevolent fund	Unrestricted	Total
Balance, beginning of year	\$ 518,818	\$ 41,458	\$ 28,443	\$ 588,719
Net excess revenues (expenditures) for year	(99,125)	(15,808)	13,769	(101,164)
Transfer to capital reserve	-	8,000	(8,000)	-
Purchase of property and equipment	10,995	-	(10,995)	-
Long-term debt repaid	<u>25,351</u>	<u>-</u>	<u>(25,351)</u>	<u>-</u>
Balance, end of year	<u>\$ 456,039</u>	<u>\$ 33,650</u>	<u>\$ (2,134)</u>	<u>\$ 487,555</u>

	2017			
	Invested in property and equipment	Internally restricted - capital reserve and benevolent fund	Unrestricted	Total
Balance, beginning of year	\$ 576,917	\$ 42,149	\$ 83,903	\$ 702,969
Net excess revenues (expenditures) for year	(97,117)	(2,393)	(14,740)	(114,250)
Transfer to capital reserve	-	10,000	(10,000)	-
Purchase of property and equipment	17,189	(8,298)	(8,891)	-
Long-term debt repaid	<u>21,829</u>	<u>-</u>	<u>(21,829)</u>	<u>-</u>
Balance, end of year	<u>\$ 518,818</u>	<u>\$ 41,458</u>	<u>\$ 28,443</u>	<u>\$ 588,719</u>

**HEART LAKE BAPTIST CHURCH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
CASH PROVIDED BY (USED FOR)		
Operating activities		
Excess expenditures for year	\$ (101,164)	\$ (114,250)
Amortization	99,125	97,117
 Change in non-cash working capital items		
HST recoverable	914	1,376
Summer student grant receivable	253	(1,224)
Prepaid expenses	(1,362)	6,519
Accounts payable and accrued	(1,064)	(3,306)
Government remittances payable	(588)	(203)
Deferred designated offerings	4,627	9,055
	<u>741</u>	<u>(4,916)</u>
 Financing activities		
Repayment of long-term debt	(25,351)	(21,829)
 Investing activities		
Purchase of property and equipment	<u>(10,995)</u>	<u>(17,189)</u>
 DECREASE IN CASH DURING YEAR	(35,605)	(43,934)
 Cash, beginning of year	<u>100,563</u>	<u>144,497</u>
 CASH, END OF YEAR	\$ <u>64,958</u>	\$ <u>100,563</u>
 Cash consists of:		
Cash - general	\$ (1,944)	\$ 30,480
- restricted	33,252	28,625
- internally restricted for capital reserve and benevolent	<u>33,650</u>	<u>41,458</u>
	<u>\$ 64,958</u>	<u>\$ 100,563</u>

**HEART LAKE BAPTIST CHURCH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

1. ORGANIZATION

Heart Lake Baptist Church (the "Church") has a vision and mission that reflects a passion for God and a heart for people. The Church is affiliated as a member Church with the Canadian Baptists of Ontario and Quebec (the CBOQ). The Church was incorporated by letters patent under the Canada Corporations Act on November 18, 2005 and is a registered charitable organization, and as such, is exempt from income taxes. A Certificate of Continuance was granted to Heart Lake Baptist Church on July 8, 2014 under the CNFPA.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

Revenue Recognition

The Church follows the deferral method of accounting for offerings. Restricted offerings and grants are recognized as revenue in the fiscal year in which the related expenditures are incurred. Unrestricted offerings and grants are recognized as revenue when received or receivable. Rental and interest income is recognized as revenue when earned.

Property and equipment

Property and equipment is recorded at cost and is being amortized over its estimated useful life on a straight-line basis as follows:

Buildings & land improvement	-	4 to 6 percent
Furniture & equipment	-	20 percent
Computer equipment	-	30 percent

Contributed goods, property and services

Contributed goods and property are recorded in the accounts at fair market value as at the date of contribution. Because of the difficulty in determining their fair value, the value of contributed services is not recognized in the financial statements.

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 statement of financial position date and the reported amounts of revenue and expenditures during the fiscal year. Actual results could differ from those estimates.

Internally restricted - capital reserve and benevolent fund

The capital reserve fund has been established by the Church Council for the purpose of setting funds aside for emergencies, and capital items that may need to be replaced in the future. The benevolent fund has been established by the Church Council to meet those needs as they arise.

**HEART LAKE BAPTIST CHURCH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments

The Church's financial instruments are comprised of cash, summer student grant receivable, accounts payable, and long-term debt. Financial assets or liabilities are initially measured at their fair value and subsequently measured at amortized cost.

3. PROPERTY AND EQUIPMENT

Property and equipment are comprised as follows:

	2018			2017
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings & land improvement	\$ 2,314,450	\$ 1,341,693	\$ 972,757	\$ 1,066,352
Furniture & equipment	18,465	6,939	11,526	7,616
Computer equipment	14,099	7,870	6,229	4,674
Total	<u>\$ 2,347,014</u>	<u>\$ 1,356,502</u>	<u>\$ 990,512</u>	<u>\$ 1,078,642</u>

Buildings include Purchased Building of \$683,883 and Constructed Building of \$1,630,567.

4. DEFERRED DESIGNATED OFFERINGS

Deferred designated offerings includes funds raised during the fiscal year to support missionaries working in Guatemala. The funds are spent as needed for the support of B & G ministry.

In addition, offerings have been raised for the missions trip held in fiscal 2019 and the associate pastor position.

	July 1, 2017	Offerings	Expenditures	June 30, 2018
B & G ministry	\$ 16,935	\$ 26,816	\$ 26,800	\$ 16,951
Missions trip	-	700	-	700
Staff campaign	11,690	30,770	26,859	15,601
	<u>\$ 28,625</u>	<u>\$ 58,286</u>	<u>\$ 53,659</u>	<u>\$ 33,252</u>

**HEART LAKE BAPTIST CHURCH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

5. LONG-TERM DEBT

	<u>2018</u>	<u>2017</u>
Mortgage payable to the Canadian Baptists of Ontario and Quebec, bearing interest at 4.74%, repayable in monthly principal and interest payments of \$3,867, due July 1, 2022, and secured by the constructed building.	\$ 474,273	\$ 497,824
Mortgage payable to Canadian Baptists of Ontario and Quebec (transferred from Yorkminster Park Baptist Church in fiscal 2018), interest-free and repayable in semi-annual instalments of \$900, due March 31, 2019, and secured by the constructed building	<u>60,200</u>	<u>62,000</u>
	534,473	559,824
Less current portion	<u>84,873</u>	<u>25,343</u>
Due beyond one year	<u>\$ 449,600</u>	<u>\$ 534,481</u>

The minimum principal repayments over the next five fiscal years are as follows:

2019	\$ 84,873
2020	25,856
2021	27,096
2022	28,396
Subsequent years	<u>368,252</u>
	<u>\$ 534,473</u>

Interest on the above long-term debt amounted to \$22,857 (2017 - \$26,380) for the fiscal year.

6. LEASE COMMITMENT

The Church is committed under an operating lease for a photocopier effective until fiscal 2021. Future minimum annual payments required are as follows:

2019	\$ 3,174
2020	3,174
2021	<u>1,587</u>
	<u>\$ 7,935</u>

**HEART LAKE BAPTIST CHURCH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

7. FINANCIAL INSTRUMENTS

The Church's main financial instruments risk exposure is detailed as follows:

(a) 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 meet its obligation. This risk is mitigated by the Church through ensuring revenue is derived from qualified sources.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Church is exposed to liquidity risk with respect to its accounts payable. The Church reduces its exposure to liquidity risk related to accounts payable by ensuring that it documents when authorized payments are due and maintaining adequate cash reserves to meet obligations.

(c) 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 Church is exposed to interest rate risk on its fixed interest rate mortgage as the value of this financial instrument fluctuates due to changes in market interest rates.

There are no changes in the assessment of the above risks from the prior year.