Grant Thornton

Financial Statements

MSC Canada

June 30, 2013

Contents

Independent Auditor's Report

Grant Thornton LLP
Suite 200
15 Allstate Parkway
Markham, ON
L3R 5B4

T +1 416 366 0100
F +1 905 475 8906
www.GrantThornton.ca

To the Members of
MSC Canada

We have audited the accompanying financial statements of MSC Canada, which comprise the statement of financial position as at June 30, 2013, and the statements of revenue and expenditures, changes in 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 (ASNPO), 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.

Independent Auditor's Report (continued)

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 MSC Canada as at June 30, 2013, 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.

Comparative information

Without modifying our opinion, we draw your attention to note 3 to the financial statements which describes that MSC Canada adopted Canadian accounting standards for not-for-profit organizations on July 1, 2012 with a transition date of July 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statement of financial position as at June 30, 2012 and July 1, 2011, and the statements of revenue and expenditures and changes in fund balances and cash flows for the year ended June 30, 2012 and related disclosures. As described in Note 3, these comparative periods were prepared and audited under Canadian generally accepted accounting principles in effect at the time. However since they were not prepared under the current standards, they are designated as unaudited.

Report on other legal and regulatory requirements

As required by the Corporations Act (Ontario), we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Grant Thornton LLP

Markham, Canada
October 19, 2013

Chartered Accountants
Licensed Public Accountants

MSC Canada
Statement of Financial Position
Year ended June 30, 2013

	Administrative Fund	Discretionary Fund	Trusts Fund	Designated Funds	June 30, 2013 Total	June 30, 2012 Total (unaudited)	July 1, 2011 Total (unaudited)
Assets							
Current							
Cash and cash equivalents	$ 148,685	$ 32,796	$ 14,636	$ 229,600	$ **425,717**	$ 1,822	$ 610,061
Short-term investments (Note 4)	-	823,380	366,000	609,632	**1,799,012**	2,372,730	2,895,383
Accounts receivable and accrued interest	11,465	5,270	4,307	5,982	**27,024**	26,462	69,293
Due from related party (Note 5)	-	-	82,056	-	**82,056**	75,000	-
Prepaid expenses	24,911	-	-	-	**24,911**	36,752	35,298
	185,061	861,446	466,999	845,214	**2,358,720**	2,512,766	3,610,035
Long-term							
Long-term investments (Note 6)	-	-	100,750	-	**100,750**	264,876	275,998
Property and equipment (Note 7)	820,836	-	-	-	**820,836**	823,413	847,479
	$ 1,005,897	$ 861,446	$ 567,749	$ 845,214	$ **3,280,306**	$ 3,601,055	$ 4,733,512
Liabilities							
Accounts payable and accrued liabilities	$ 46,270	$ -	$ -	$ -	$ **46,270**	$ 48,939	$ 30,319
Fund balances							
Unrestricted	138,791	861,446	-	-	**1,000,237**	1,313,966	2,327,214
Invested in property and equipment	820,836	-	-	-	**820,836**	823,412	847,479
Internally restricted	-	-	108,890	-	**108,890**	241,363	142,174
Externally restricted	-	-	458,859	845,214	**1,304,073**	1,173,375	1,386,326
	959,627	861,446	567,749	845,214	**3,234,036**	3,552,116	4,703,193
	$ 1,005,897	$ 861,446	$ 567,749	$ 845,214	$ **3,280,306**	$ 3,601,055	$ 4,733,512

On behalf of the Board

Russell Dutton Director

Director

See accompanying notes to the financial statements.

MSC Canada
Statement of Revenue and Expenditures
Year ended June 30, 2013

	Administrative Fund	Discretionary Fund	Trusts Fund	Designated Funds (Note 8)	2013 Total	2012 Total (unaudited)
Revenue						
Donations	$ 343,429	$ 352,331	$ 67,166	$ 8,962,901	**$ 9,725,827**	$ 9,094,467
Legacies	-	191,605	1,380	-	**192,985**	207,807
Investment income	-	42,462	144,178	23,867	**210,507**	71,438
	343,429	586,398	212,724	8,986,768	**10,129,319**	9,373,712
Expenditures						
Distribution to ministry	-	635,994	-	9,168,213	**9,804,207**	9,987,749
Missions support (publications, conferences, travel)	149,645	-	-	-	**149,645**	152,601
Administration						
Human resources	330,764	-	-	8,839	**339,603**	241,962
Office and miscellaneous	68,504	-	-	3,594	**72,098**	63,516
Professional fees	28,401	-	-	-	**28,401**	27,688
Facility	28,784	-	-	-	**28,784**	27,207
	606,098	635,994	-	9,180,646	**10,422,738**	10,500,723
Excess (deficiency) of revenue over expenditures before undernoted items	(262,669)	(49,596)	212,724	(193,878)	**(293,419)**	(1,127,011)
Amortization	(24,661)	-	-	-	**(24,661)**	(24,066)
Excess (deficiency) of revenue over expenditures	$ (287,330)	$ (49,596)	$ 212,724	$ (193,878)	**$ (318,080)**	$ (1,151,077)

See accompanying notes to the financial statements.

MSC Canada
Statement of Changes in Fund Balances

Year ended June 30, 2013

	Administrative Fund	Discretionary Fund	Trusts Fund	Designated Funds (Note 8)	2013 Total	2012 Total (unaudited)
Fund balances, beginning of year	$ 1,024,955	$ 1,112,423	$ 700,144	$ 714,594	**$ 3,552,116**	$ 4,703,193
Excess (deficiency) of revenue over expenditures	(287,330)	(49,596)	212,724	(193,878)	**(318,080)**	(1,151,077)
Interfund transfers from Discretionary Fund (note 9)	218,902	(459,328)	-	240,426	**-**	-
Interfund transfers from Trusts Fund	3,100	257,947	(345,119)	84,072	**-**	-
Fund balances, end of year	$ 959,627	$ 861,446	$ 567,749	$ 845,214	**$ 3,234,036**	$ 3,552,116

See accompanying notes to the financial statements.

MSC Canada
Statement of Cash Flows

Year ended June 30, 2013

	2013	2012 (unaudited)
Increase (decrease) in cash and cash equivalents		
Operating		
Deficiency of revenue over expenditures	**$ (318,080)**	$ (1,151,077)
Items not affecting cash		
Amortization of property and equipment	**24,661**	24,066
Gain on sale of property and equipment (note 7)	**(296,551)**	-
Receipt of donated investments	**(94,295)**	(91,159)
Realized gain/loss on investments	**(140,404)**	7,515
Unrealized gain/loss on investments	**(767)**	3,134
	(825,436)	(1,207,521)
Change in non-cash working capital items		
Accounts receivable and accrued interest	**(562)**	42,831
Due from related party	**(7,056)**	(75,000)
Prepaid expenses	**11,841**	(1,454)
Accounts payable and accrued liabilities	**(2,669)**	18,620
	1,554	(15,003)
	(823,882)	(1,222,524)
Investing		
Purchase of property and equipment	**(22,085)**	-
Proceeds on sale of property and equipment (note 7)	**296,552**	-
Proceeds on sale of investments	**973,310**	614,285
	1,247,777	614,285
Increase (decrease) in cash and cash equivalents	**423,895**	(608,239)
Cash and cash equivalents		
Beginning of year	**1,822**	610,061
End of year	**$ 425,717**	$ 1,822
Cash and cash equivalents		
Cash and outstanding cheques	**$ 126,841**	$ (31,739)
B2B Trust high interest investment account	**4,606**	23,766
Money market and investment savings account	**294,270**	9,795
	$ 425,717	$ 1,822

See accompanying notes to the financial statements.

1. Purpose of the Organization

The primary purpose of MSC Canada (the “Organization”) is to aid, support, and assist Christian missionary endeavours throughout the world. MSC Canada is incorporated under the Ontario Corporations Act as a corporation without share capital. It is a registered charity under the Income Tax Act and is a member of the Canadian Council of Christian Charities.

2. Summary of significant accounting policies

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO), the more significant of which are outlined below.

Fund accounting

Separate funds are maintained to account for and to report on the separate activities or objectives as determined by funders or by resolution of the Board of Directors (the “Board”). For financial statement purposes, the funds have been grouped into the following categories:

Administrative Fund

The Administrative Fund accounts for the administrative activities of the Organization. Contributions restricted for administration are included in this fund.

Discretionary Fund

The Discretionary Fund accounts for donations and legacies that are to be used for the mission of the Organization at the discretion of the Board. The funds that are used for the support of missionaries and related ministry projects are shown as expenditures in the fund.

Trusts Fund

The Trusts Fund accounts for donations restricted by the donor as to the period in which the funds are to be spent. The Trusts Fund also includes internally restricted funds transferred at the discretion of the Board which are subject to the period in which the funds are to be spent.

Designated Funds

The Designated Funds account for the Organization’s program delivery activities. These activities include workers and projects inside and outside Canada, missions and practical work teams, container shipping ministry, relief and development, retired missionaries and missionary education assistance. Donations are typically designated by the donor for one or more of these activities and expenditures are made for these special purposes. Discretionary funds allocated for special purposes are added to the Designated Funds by way of a transfer between funds. Once this is done, by policy these funds may not be transferred back to the Discretionary Fund.

Use of estimates

The preparation of financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenditures during the fiscal year. Actual results could differ from these estimates.

2. Summary of significant accounting policies – continued

Investments

Investments held by the Organization are managed as individual portfolios within the separate funds. Earnings on investments include interest, dividends, realized and unrealized gains and losses, less portfolio management fees. Investments are segregated between discretionary, restricted and trusts funds.

Property and equipment

Purchased property and equipment are recorded at cost and amortized on a straight-line basis over their estimated useful life as follows:

Office and warehouse condominium	50 years
Furniture and equipment	5 years
Computer equipment	3 years
Vehicles	5 years

Revenue recognition

The Organization follows the restricted fund method of accounting for contributions. Restricted donations related to administration are deferred and recognized as revenue of the Administrative Fund in the fiscal year in which the related expenses are incurred. Unrestricted donations are recognized as revenue of the Discretionary Fund in the fiscal year in which they are received or receivable. All other restricted donations and legacies are recognized as revenue of the appropriate fund in the fiscal year in which they are received or receivable. Investment income is recognized as it is earned.

Contributed materials and services

Donated materials are recorded at fair value when this information is readily available, otherwise they are not recorded.

Contributed property and equipment are recognized at a nominal value when fair value at the date of contribution cannot be practicably determined. Gains or losses on the sale of contributed property and equipment are recorded in the fiscal year of the sale.

Financial instruments

The Organization's financial instruments are comprised of cash and cash equivalents, short-term investments, accounts receivable, due from related party, long-term investments and accounts payable.

Financial assets or liabilities obtained in arms-length transactions are initially measured at their fair value and financial assets or liabilities obtained in non-arms-length transactions are initially measured at their exchange amount. The Organization subsequently measures all financial instruments at amortized cost except for investments which are recorded at fair value. Unrealized gains or losses are reflected in the statement of revenue and expenditures as investment income.

2. Summary of significant accounting policies – continued

Cash equivalents

Cash equivalents consist principally of money market funds and other highly liquid instruments with original maturities of three months or less.

3. First-time adoption of Canadian accounting standards for not-for-profit organizations

These financial statements are the first financial statements for which the Organization applied Canadian accounting standards for not-for-profit organizations (ASNPO). Comparative period information was prepared in accordance with ASNPO and the provisions set out in Section 1501 of the Canadian Institute of Chartered Accountants Handbook - First-time adoption by not-for-profit organizations.

The date of transition to ASNPO is July 1, 2011. The Organization's transition to ASNPO has had no impact on the opening fund balances as at July 1, 2011 or the statements of revenue and expenditures and fund balances or cash flows for the year ended June 30, 2012. As a result, the reconciliations and disclosures required by Section 1501 - First-Time adoption for not-for-profit organizations are not necessary and have not been presented in these financial statement notes.

The statements of financial position at June 30, 2012 and July 1, 2011, and the statements of revenue and expenditures and changes in fund balances and cash flows for the year ended June 30, 2012, were audited under the previous Canadian generally accepted accounting principles. They have not been audited under the ASNPO framework and, accordingly, are required to be designated as unaudited.

4. Short-term investments

	June 30, 2013	June 30, 2012 (unaudited)	July 1, 2011 (unaudited)
Stewards Canada bonds, redeemable on demand, 3.50%	**$ 641,000**	$ 700,000	$ 800,000
Guaranteed investment certificates and term deposits	**320,000**	1,100,927	1,343,366
Corporate bonds and Real Estate Investment Trusts	**317,082**	327,648	365,150
Mutual funds	**278,288**	54,653	51,010
Various dividend paying common and preferred shares	**222,641**	189,501	335,857
Strategic investments (non-interest bearing)	**20,001**	1	-
	$ 1,799,012	$ 2,372,730	$ 2,895,383

5. Due from related party and related party transactions

	June 30, 2013	June 30, 2012 (unaudited)	July 1, 2011 (unaudited)
Due from related party	$ 82,056	$ 75,000	$ -

During the prior fiscal year, the Organization signed a loan agreement with Christian Centre BEREA, a related party in Slovakia for 60,000 EUR ($75,000 CAD). The Canadian dollar equivalent value at June 30, 2013 is $82,056. The loan is interest-free, unsecured and due September 15, 2020.

6. Long-term investments

	2013	2012 (unaudited)	2011 (unaudited)
Trusts Fund			
Cash surrender value of life insurance policies	$ 14,167	$ 149,026	$ 120,194
Manulife Balanced Fund	47,616	74,453	106,900
London Life guaranteed income annuity contract with guaranteed payments until November 8, 2015	12,667	17,337	21,982
Austrian bank investment contract bearing interest at 5.00%, maturing October 1, 2017	26,300	24,060	26,922
	$ 100,750	$ 264,876	$ 275,998

7. Property and equipment

			2013	2012 (unaudited)	2011 (unaudited)
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value	Net Book Value
Office and warehouse condominium	$ 897,417	$ 87,920	**$ 809,497**	$ 810,264	$ 827,876
Furniture and equipment	26,667	17,428	**9,239**	12,481	17,395
Computer equipment	6,520	4,420	**2,100**	667	1,334
Vehicles	4,369	4,369	**-**	-	873
Asset held for sale	-	-	**-**	1	1
	$ 934,973	$ 114,137	**$ 820,836**	$ 823,413	$ 847,479

During fiscal 2011, the Organization received a donation of a Church property from a registered charity. The property at 143 Glenmorris Street, Cambridge, Ontario consists of a Church building and land, as well as furniture and equipment. The donation was recorded at a nominal value of $1. The property was sold during fiscal 2013. Proceeds, net of costs, of $296,552 is recorded as donations revenue.

8. Designated funds

	June 30, 2012	**Receipts**	**Expenditures**	**Transfers from (to) Discretionary**	**Transfers from Trusts**	**June 30, 2013**
Relief and development	$ 340,205	$ 884,342	$ 935,420	$ 50,801	$ -	**$ 339,928**
Missions and ministry	183,489	7,519,721	7,573,628	-	84,072	**213,654**
Emergency guarantees	75,500	-	-	-	-	**75,500**
Accts	41	170,883	190,344	21,596	-	**2,176**
Retired missionaries and home workers	27,667	59,005	232,000	147,580	-	**2,252**
Team workers	59,790	156,837	137,825	(33,526)	-	**45,276**
Short-tem missions	17,746	193,400	61,804	12,675	-	**162,017**
Missionary education assistance	10,156	2,580	49,625	41,300	-	**4,411**
	$ 714,594	$ 8,986,768	$ 9,180,646	$ 240,426	$ 84,072	**$ 845,214**

9. Internal transfers

The $459,328 (2012 - $466,673) transferred from the Discretionary Fund to the Administrative Fund and the Designated Funds was authorized by the Board for the following purposes:

- to cover administration costs
- to cover the increase in need for relief and development assistance
- to support retired missionaries and missionary education

Certain trust funds that are restricted to time have now become available for disbursement, and therefore were transferred to funds to be disbursed in future periods.

10. Foreign operations, assets and measurement uncertainty

The Organization has consistently followed the policy of expensing all costs for overseas operations, property and equipment through distribution to ministry expenditures, unless these amounts represent advances which are to be repaid to the Organization. This policy is based upon the practice that such assets, while generally redeployable under the direction of the Organization, are not always accessible for redeployment due to foreign property regulations, international fund transfer and foreign currency exchange limitations. Accordingly, these assets are not included in the financial statements.

11. Financial instruments

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 funding obligation. This risk is mitigated by the Organization through ensuring revenue is derived from qualified sources. The allowance for doubtful accounts in relation to accounts receivable is $Nil (2012 - $Nil, 2011 - $Nil).

Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with financial liabilities. The Organization is therefore exposed to liquidity risk with respect to its accounts payable. The Organization reduces its exposure to liquidity risk by ensuring that it documents when authorized payments are due and maintains adequate cash reserves to pay vendors. Included in accounts payable and accrued liabilities are government remittances owing of $Nil (2012 - $Nil, 2011 - $Nil).

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 Organization is exposed to interest rate price risk with respect to investments with fixed interest rates.

11. Financial instruments - continued

Market price risk

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices whether those changes are caused by factors specific to the individual financial instrument issuer, or factors affecting all similar financial instruments traded in the market. The Organization is exposed to market price risk on its investments in equities quoted in an active market since changes in market prices could result in changes in the fair value of these instruments.