HOME CHURCH - RED DEER, ALBERTA

Financial Statements

Year Ended December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Members of Home Church - Red Deer, Alberta

We have audited the accompanying financial statements of Home Church - Red Deer, Alberta, which comprise the statement of financial position as at December 31, 2016, 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 audit opinion.

(continues)

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Basis for Qualified Opinion

In common with many charitable organizations, the Organization derives part of its revenue from donations, the completeness of which is not susceptible to 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 to contributions, excess of revenues over expenses, current assets and net assets.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Home Church - Red Deer, Alberta as at December 31, 2016, 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.

Faber LLP

Edmonton, Alberta
May 4, 2017

CHARTERED ACCOUNTANTS

HOME CHURCH - RED DEER, ALBERTA

Statement of Financial Position

December 31, 2016

	2016	2015
ASSETS		
CURRENT		
Cash	**$ 136,792**	$ 215,364
Marketable securities	**22,246**	21,751
Accounts receivable	**7,148**	5,824
Mortgage receivable *(Note 3)*	**1,195,000**	1,195,000
Goods and services tax recoverable	**39,750**	32,519
Prepaid expenses and refundable deposit *(Note 4)*	**156,592**	23,087
Buildings in progress	**42,702**	-
Restricted funds *(Note 5)*	**1,638,448**	1,914,952
	3,238,678	3,408,497
PROPERTY AND EQUIPMENT *(Note 6)*	**8,235,267**	7,218,618
INTANGIBLE ASSETS *(Note 2)*	**12,787**	15,900
	$ 11,486,732	$ 10,643,015

The accompanying notes are an integral part of these financial statements.

Statement of Financial Position

December 31, 2016

	2016	2015
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 153,316	$ 77,598
Deferred revenue	-	14,281
Deferred contributions *(Note 5)*	4,890,398	4,101,132
Callable debt due in one year *(Note 7)*	69,216	66,614
Current portion of long term debt *(Note 8)*	5,119	4,907
	5,118,049	4,264,532
Callable debt due thereafter *(Note 7)*	1,311,173	1,380,397
	6,429,222	5,644,929
LONG TERM DEBT *(Note 8)*	17,715	22,833
	6,446,937	5,667,762
LEASE COMMITMENTS *(Note 10)*		
RETIREMENT OBLIGATION *(Note 11)*		
NET ASSETS		
INVESTED IN PROPERTY AND EQUIPMENT	3,592,878	3,573,587
UNRESTRICTED	1,446,917	1,401,666
	5,039,795	4,975,253
	$ 11,486,732	$ 10,643,015

ON BEHALF OF THE BOARD

_____ *Director*

_____ *Director*

The accompanying notes are an integral part of these financial statements.

HOME CHURCH - RED DEER, ALBERTA

Statement of Operations

Year Ended December 31, 2016

	2016	2015
REVENUES		
Schedule of revenues and fund raising programs *(Schedule 1)*	$ **5,703,191**	$ 5,520,098
Government grants	**14,749**	5,549
	5,717,940	5,525,647
EXPENSES		
Amortization	**317,915**	248,984
Automotive	**34,679**	56,569
Church ministries and programs *(Schedule 2)*	**2,818,932**	2,647,730
Insurance and property taxes	**88,106**	78,211
Interest and bank charges	**73,926**	78,048
Interest on callable debt	**52,043**	22,724
Interest on long term debt	**1,082**	1,057
Office supplies and equipment	**192,200**	200,102
Professional fees	**39,097**	41,323
Rental	**141,402**	139,002
Salaries and benefits	**1,808,160**	1,768,404
Telephone and utilities	**155,834**	149,707
Training	**7,507**	4,500
	5,730,883	5,436,361
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FROM OPERATIONS	**(12,943)**	89,286
OTHER INCOME (EXPENSES)		
Insurance proceeds, theft of equipment	**97,316**	-
Interest income	**7,700**	9,881
Gain (Loss) on disposal of property and equipment	**(27,531)**	1,101,958
	77,485	1,111,839
EXCESS OF REVENUES OVER EXPENSES	$ **64,542**	$ 1,201,125

The accompanying notes are an integral part of these financial statements.

HOME CHURCH - RED DEER, ALBERTA

Statement of Changes in Net Assets

Year Ended December 31, 2016

	Invested in Property and Equipment	Unrestricted	**2016**	2015
NET ASSETS - BEGINNING OF YEAR	$ 3,573,587	$ 1,401,666	**$ 4,975,253**	$ 4,187,676
Excess of revenues over expenses	(237,319)	301,861	**64,542**	1,201,125
Investment in property and equipment	256,610	(256,610)	-	-
Transfer to deferred contributions (Note 4)	-	-	-	(413,548)
NET ASSETS - END OF YEAR	$ 3,592,878	$ 1,446,917	**$ 5,039,795**	$ 4,975,253

The accompanying notes are an integral part of these financial statements.

HOME CHURCH - RED DEER, ALBERTA

Statement of Cash Flows

Year Ended December 31, 2016

	2016	2015
OPERATING ACTIVITIES		
Excess of revenues over expenses	$ 64,542	$ 1,201,125
Items not affecting cash:		
Amortization of property and equipment	317,915	248,984
Gain (Loss) on disposal of property and equipment	27,531	(1,101,958)
	409,988	348,151
Changes in non-cash working capital:		
Accounts receivable	(1,324)	(1,362)
Mortgage receivable	-	(1,195,000)
Inventory	-	953
Goods and services tax recoverable	(7,231)	24,248
Prepaid expenses and refundable deposit	(133,505)	52,793
Accounts payable and accrued liabilities	75,718	13,845
Buildings in progress	(42,702)	267,683
Deferred income	(14,281)	6,031
Deferred contributions	789,266	1,100,399
Transfer to deferred contributions	-	(413,548)
	665,941	(143,958)
Cash flow from operating activities	1,075,929	204,193
INVESTING ACTIVITIES		
Purchase of marketable securities	(495)	(360)
Purchase of property and equipment	(1,354,189)	(1,902,663)
Proceeds on disposal of property and equipment	7,995	1,204,500
Purchase of intangible assets	(12,787)	-
Cash flow used by investing activities	(1,359,476)	(698,523)
FINANCING ACTIVITIES		
Proceeds from callable debt financing	-	1,040,000
Proceeds from long term financing	-	31,673
Net repayment of callable debt	(66,622)	(34,420)
Repayment of long term debt	(4,907)	(3,933)
Cash flow from (used by) financing activities	(71,529)	1,033,320
INCREASE (DECREASE) IN CASH FLOW	(355,076)	538,990
Cash - beginning of year	2,130,316	1,591,326
CASH - END OF YEAR	$ 1,775,240	$ 2,130,316
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest paid	$ 127,051	$ 101,829
CASH CONSISTS OF:		
Cash	$ 136,792	$ 215,364
Restricted funds	1,638,448	1,914,952
	$ 1,775,240	$ 2,130,316

The accompanying notes are an integral part of these financial statements.

1. PURPOSE OF THE CHURCH

The purpose of the Organization is to promote the teachings of the Lord Jesus Christ and the Truth contained in the entire Word of God; to assist in preaching and spreading the gospel throughout the world; to provide a place of Christian worship, work and fellowship, for all who seek the New Testament pattern; to impart religious instruction and give educational services to children and adults of all ages; to conduct Gospel services; to accept tithes and offerings, bequests and contributions for the promotion of Christian work at home and abroad; to provide social care, health and medical care, community support, the relief of poverty, protection, and emergency services for the underprivileged and at risk, including education and housing, and to train people to reach their potential, including microloans and business training.

The church was incorporated under the Religious Societies Land Act of the Province of Alberta, November 1972. It is a registered charity under section 149(f) of the Income Tax Act and, as such, is exempt from paying income tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Cash

Cash consists of cash on hand and cash held on deposit at financial institutions. The carrying amount approximates fair value.

Marketable securities

Marketable securities consist of cash invested in a real estate income trust. The intent is that the investment will be used to start a retirement fund. The provisions of the retirement fund are currently being drafted by the Organization.

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

Property and equipment

Property and equipment are stated at cost less accumulated amortization. Contributed property and equipment are recorded at fair value at the date of contribution. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Buildings	4%	declining balance method
CD development costs	30%	declining balance method
Coffee bar equipment	20%	declining balance method
Computer equipment	30%	declining balance method
Furniture and fixtures	20%	declining balance method
Leasehold improvements	4 years	straight-line method
Outdoor equipment	20 years	straight-line method
Roadway and parking lot	4%	declining balance method
Sound equipment	30%	declining balance method
Television equipment	30%	declining balance method
Vehicles	30%	declining balance method

The Organization regularly reviews its property and equipment to eliminate obsolete items. Government grants are treated as a reduction of property and equipment cost.

Property and equipment acquired during the year but not placed into use are not amortized until they are placed into use.

Intangible assets not subject to amortization

Intangible assets consist of website developments recorded at cost and are not amortized as they have an indefinite useful life until replaced. Intangible assets are tested annually for impairment.

Callable debt

The Organization's demand loans are classified as current liabilities because the lender has the right to demand repayment within one year.

International Affiliated Churches

Beginning January 1, 2012 the Organization recorded transfers only to international locations. In prior years the international locations' revenues and expenses were all reflected in Home Church - Red Deer, Alberta's records. As these locations are no longer emerging locations and incorporation happens in the local countries, only transfers are now recorded.

In 2016, Home Church - Red Deer, Alberta operated in Canada as well as Congo, India, Kenya, Rwanda, Malawi, Nepal and Turkey.

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

Revenue Recognition

Home Church - Red Deer, Alberta 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 with no provision being made for pledged contributions which are outstanding.

Home Church - Red Deer, Alberta also receives tuition income and other fees related to their bible college. The income and fees are deferred until the semester to which they relate commences.

Foreign currency translation

The Organization's foreign subsidiaries are integrated foreign operations. Currency translations into Canadian dollars are made as follows:

a) monetary assets and liabilities at the rates of exchange prevailing at the balance sheet date;

b) non-monetary items at rates prevailing when they are acquired;

Contributed services

Volunteers contribute a substantial number of hours every year to assist the Organization in carrying out its service delivery activities. Due to the difficulty in determining their fair value, contributed services are not recognized in the financial statements.

Financial instruments policy

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

Measurement uncertainty

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 amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

3. MORTGAGE RECEIVABLE

The property on 4410 - 47 Ave in Olds, Alberta was sold to 1892355 Alberta Ltd. in consideration of the sum of $1,195,000. The mortgage receivable was to be paid to the Organization on or before August 31, 2016. The mortgagee has defaulted on the terms of the mortgage and is presently working to secure alternative financing to be able to meet this obligation. Home Church has first title on the mortgaged property and sees this default as presenting minimal risk to the organization.

4. PREPAID EXPENSES AND REFUNDABLE DEPOSIT

The church has made a $120,000 refundable deposit on the purchase of 4.8 acres of land in Olds. Alberta.

5. RESTRICTED FUNDS / DEFERRED CONTRIBUTIONS

Restricted funds and deferred contributions relate to cash received from external sources to be used for church projects and programs which are externally restricted by the donors. Deferred contributions of $4,890,398 (2015 - $4,101,132) consists of $1,638,448 (2015 - $1,914,952) in deferred contributions and $3,251,950 (2015 - $2,186,180) in deferred property and equipment purchased with restricted funds.

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	**2016 Net book value**	2015 Net book value
Land	$ 3,366,027	$ -	**$ 3,366,027**	$ 3,361,184
Buildings	5,974,432	1,893,871	**4,080,562**	3,060,537
CD development costs	-	-	**-**	4,306
Coffee bar equipment	11,042	10,437	**606**	757
Computer equipment	166,694	98,366	**68,329**	36,437
Furniture and fixtures	453,750	267,058	**186,692**	216,554
Outdoor equipment	71,236	18,419	**52,817**	56,378
Roadway and parking lot	213,388	33,963	**179,425**	180,636
Sound equipment	539,336	402,569	**136,767**	127,432
Television equipment	27,076	26,586	**490**	699
Vehicles	389,986	226,434	**163,552**	173,698
	$ 11,212,967	$ 2,977,703	**$ 8,235,267**	$ 7,218,618

7. CALLABLE DEBT

	2016	2015
Servus Credit Union loan bearing interest at prime plus 1% per annum, repayable in monthly interest only payments. The loan matures on December 31, 2020 and is secured by a general security agreement providing a charge over all present and after acquired assets and a continuous demand mortgage over Lot 1, block 1, plan 8821039 Red Deer County and 11124-15 Street NE Calgary. Loan is callable on demand.	$ 257,693	$ 257,693

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7. CALLABLE DEBT *(continued)*

	2016	2015
Servus Credit Union loan bearing interest at prime plus 1% per annum, repayable in monthly blended payments of $2,973. The loan matures on January 30, 2031 and is secured by a general security agreement providing a charge over all present and after acquired assets and a continuous demand mortgage over Lot 1, block 1, plan 8821039 Red Deer County, 11124-15 Street NE Calgary, a promissory note, and assignment of fire insurance on Lot 1, Block 1, Plan 8821039 with first right to loss payable. Loan is callable on demand.	126,628	157,105
Servus Credit Union loan bearing interest at prime plus 1% per annum, repayable in monthly blended payments of $4,146. The loan matures on October 1, 2020 and is secured by a general security agreement providing charge over all present and after acquired assets and a $3,000,000 continuous demand mortgage over Lot 1, Block1, Plan 8821039 Red Deer County, and 11124-15 Street NE Calgary. Loan is callable on demand.	670,367	694,750
Servus Credit Union loan bearing interest at prime plus 1% per annum, repayable in monthly blended payments of $2,007. The loan matures on October 1, 2020 and is secured by a general security agreement providing charge over all present and after acquired assets and a $3,000,000 continuous demand mortgage over Lot 1, Block1, Plan 8821039 Red Deer County, and 11124-15 Street NE Calgary. Loan is callable on demand.	325,701	337,463
	1,380,389	1,447,011
Principal due in one year	(69,216)	(66,614)
	$ 1,311,173	$ 1,380,397

Principal repayment terms are approximately:

2017	$ 69,216
2018	71,919
2019	74,727
2020	70,035
2021	43,602
Thereafter	1,050,890
	$ 1,380,389

8. LONG TERM DEBT

	2016	2015
BMO - Nissan loan bearing interest at 4.24% per annum, repayable in monthly blended payments of $499. The loan matures on February 28, 2021 and is secured by a general security agreement with the asset pledged as security.	**$ 22,834**	$ 27,740
Amounts payable within one year	**(5,119)**	(4,907)
	$ 17,715	$ 22,833

Principal repayment terms are approximately:

2017	$ 5,119
2018	5,340
2019	5,571
2020	5,812
2021	992
	$ 22,834

9. COVENANTS

The mortgage agreement between Credit Service Union Ltd. and the Organization requires that an Annual Debt Service Coverage Ratio of no less than 1.25:1 is maintained. For the year ended December 31, 2016, the Organization has complied with this covenant.

10. LEASE COMMITMENTS

Operating Leases

The Organization has entered into various operating leases with total estimated minimum annual payments as follows:

1. Roynat Lease - Commenced December 3, 2013 and expires on December 3, 2018. Photocopier operating lease payments, including applicable taxes, of $10,260 are expected in 2017.

2. Pitney Bowes Leasing - Commenced May 30, 2013 and expires May 30, 2018. Operating lease payments, including applicable taxes, of $3,246 are expected in 2017.

11. RETIREMENT OBLIGATION

Under the retirement program, the Organization is committed to lifetime retirement payments for two employees equal to the beneficiaries' salary at the time of their retirement. The details have not been determined as indicated in Note 2 for marketable securities.

12. BANK INDEBTEDNESS

The Organization has available the following credit facilities which were not in use at either of the past two yearends:

A line of credit with a maximum principal amount of $157,000 which bears interest at prime plus 1.25% and is secured by real property and a general security agreement.

Two separate credit lines with maximum principal amounts of $50,000 and $20,000 both of which bear interest at prime plus 2.00%, secured by a general security agreement providing a charge over all present and after acquired assets and a continuous demand mortgage over Lot 1, Block 1, Plan 88201039, Red Deer County and 11124-15 Street NE Calgary.

13. RELATED PARTY TRANSACTIONS

Related Party Transactions

Lease revenues

Destiny Christian School Society has entered into a month to month lease arrangement with Home Church - Red Deer, Alberta for school buildings. The previous lease commencing January 2000 and expiring in 2004 has continued on a month to month basis since 2004. The lease arrangement is at an amount equal to the monthly mortgage payments on the school buildings. During the current year, this is set at $3,000 per month. This lease amount is considered to be at fair value by management.

Administrative and office reimbursements

During the year, Home Church - Red Deer, Alberta invoiced Destiny Christian School Society in the amount of $45,993 (2015 - $100,337) for various administrative and office expenses. These charges have offset the expenses incurred by Home Church - Red Deer, Alberta on behalf of Destiny Christian School Society. During the year Destiny Christian School Society invoiced Home Church - Red Deer, Alberta in the amount of $14,454 for administrative and office expenses (2015 - $42,895).

During the year, $16,800 (2015 - $32,200) was transferred from the Destiny Christian School Society to Home Church - Red Deer, Alberta. The amounts transferred are to be used for the School's future building projects.

All of the above noted transactions were measured at the exchange amount which was the amount of consideration established and agreed to by the related parties.

14. CONTROLLED NOT-FOR-PROFIT ORGANIZATIONS

The Board of Directors of the Destiny Christian School Society consists of board members approved by Home Church - Red Deer, Alberta. The purpose of Destiny Christian School Society is to provide Christ-centred education from preschool through grade nine. The organization is exempt from paying taxes under section 149(l) of the Income Tax Act.

Destiny Christian School Society has not been consolidated in Home Church - Red Deer, Alberta's financial statements. Financial summaries of Destiny Christian School Society audited financial statements of August 31, 2016 and 2015 which were audited by another firm of Chartered Accountants are as follows:

Destiny Christian School Society

	2016	2015
Financial Position		
Total assets	**$ 306,645**	$ 306,243
Total liabilities	**$ 87,124**	$ 95,830
Total net assets	**219,521**	210,413
	$ 306,645	$ 306,243
Results from operations		
Total revenues	**$ 1,210,527**	$ 1,163,259
Total expenses	**(1,201,419)**	(1,131,078)
Excess of revenue over expenses	**$ 9,108**	$ 32,181
Cash flows		
Cash from operations	**$ 28,879**	$ 80,939
Cash from financing activities	**(13,193)**	14,115
Cash used in investing activities	**(3,639)**	(75,710)
Increase in cash	**$ 12,047**	$ 19,344

15. CAPITAL DISCLOSURES

The Organization's objectives when managing capital are:

- to safeguard the Organization's ability to continue to fulfill their mission as outlined in Note 1 above.
- to maintain a low risk profile, consistent with the goals of many not-for-profit organizations.

The Organization manages capital on the basis of annual budgets prepared, contributions received for capital purposes, and cash flow available to complete capital projects. The church's goal is to ensure that capital assets provide adequate security to cover any debt related to them. There are no externally imposed capital requirements or covenants on debt.

16. FINANCIAL INSTRUMENTS

The church utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the church is not exposed to significant interest, or credit risks arising from these financial instruments, and the carrying amounts approximate fair values.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. The church is exposed to interest rate risk primarily through its floating rate callable debt as described in Note 7.

Foreign exchange rate risk

Foreign exchange rate risk is the risk that the value of a financial instrument might be adversely affected by a change in foreign currency exchange rates. The church is exposed to foreign exchange rate risk primarily through its missionary operations overseas.

17. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

Schedule of Revenues and Fund Raising Programs *(Schedule 1)*

Year Ended December 31, 2016

	2016	2015
REVENUES		
Alms	$ 60,636	$ 103,014
Apostolic	86,863	65,650
Bible college	67,824	74,061
Children's ministry	2,086	2,286
Coffee bar sales	7,177	7,359
General offering	3,317,695	3,591,454
Love offering	41,525	13,499
Merchandise sales	21,752	-
Missions	1,167,893	1,132,563
Partnership	604,882	140,337
Rent and administration	80,567	81,724
Seminars, conferences and events	208,335	276,125
Youth and young adults	35,956	32,026
	$ 5,703,191	$ 5,520,098

The accompanying notes are an integral part of these financial statements.

Schedule of Expenses for Church Ministries and Programs *(Schedule 2)*

Year Ended December 31, 2016

	2016	2015
EXPENSES		
Advertising	$ 70,007	$ 48,979
Alms	73,115	86,862
Bible college	63,567	59,000
Building	368,200	151,453
Children's ministry	32,547	42,028
Coffee bar cost of sales	5,511	6,010
Donations	67,383	47,164
Entertainment and hospitality	97,854	118,189
Gifts and flowers	75,790	30,067
Honorariums	36,991	54,238
Merchandise cost of sales	15,813	-
Missions	1,393,472	1,448,715
Seminars, conferences and events	322,975	364,220
Travel	161,336	150,659
Youth and young adults	34,371	40,146
	$ 2,818,932	$ 2,647,730

The accompanying notes are an integral part of these financial statements.