HOME CHURCH - RED DEER, ALBERTA

Financial Statements

Year Ended December 31, 2018

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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, 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 audit opinion.

(continues)

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, 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.

Edmonton, Alberta
April 4, 2019

CHARTERED PROFESSIONAL ACCOUNTANTS

HOME CHURCH - RED DEER, ALBERTA

Statement of Financial Position

December 31, 2018

	2018	2017
ASSETS		
CURRENT		
Cash	**$ 2,732,660**	$ 2,387,932
Marketable securities	**23,377**	22,959
Accounts receivable	**23,089**	17,590
Goods and services tax recoverable	**16,627**	15,456
Prepaid expenses and refundable deposit	**75,630**	64,705
Buildings in progress	**102,216**	54,007
Restricted funds *(Note 3)*	**2,451,785**	2,082,577
	5,425,384	4,645,226
PROPERTY AND EQUIPMENT *(Note 4)*	**6,934,742**	7,165,365
INTANGIBLE ASSETS *(Note 2)*	**7,672**	10,230
	$ 12,367,798	$ 11,820,821

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

HOME CHURCH - RED DEER, ALBERTA

Statement of Financial Position

December 31, 2018

	2018	2017
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 196,215**	$ 131,694
Employee deductions payable	**-**	21,361
Deferred contributions *(Note 3)*	**4,626,346**	4,260,594
Callable debt due in one year *(Note 5)*	**64,606**	66,697
Current portion of long-term debt *(Note 6)*	**5,571**	5,340
	4,892,738	4,485,686
Callable debt due thereafter *(Note 5)*	**1,184,776**	1,245,963
	6,077,514	5,731,649
LONG-TERM DEBT *(Note 6)*	**6,804**	12,375
	6,084,318	5,744,024
LEASE COMMITMENTS *(Note 7)*		
RETIREMENT OBLIGATION *(Note 8)*		
NET ASSETS		
INVESTED IN PROPERTY AND EQUIPMENT	**3,506,094**	3,667,202
UNRESTRICTED NET ASSETS	**2,777,386**	2,409,595
	6,283,480	6,076,797
	$ 12,367,798	$ 11,820,821

ON BEHALF OF THE BOARD

Director

Maynard Peterson *Director*

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

HOME CHURCH - RED DEER, ALBERTA

Statement of Operations

Year Ended December 31, 2018

	2018	2017
REVENUES		
Schedule of Revenues *(Schedule 1)*	**$ 5,487,222**	$ 5,493,506
Government grants	**1,428**	13,005
	5,488,650	5,506,511
EXPENSES		
Amortization of intangibles	**2,557**	2,557
Amortization of property and equipment	**294,112**	324,528
Automotive	**59,951**	45,894
Church ministries and programs *(Schedule 2)*	**2,644,381**	2,490,410
Insurance and property taxes	**93,551**	92,583
Interest and bank charges	**88,353**	81,160
Interest on callable debt	**59,541**	52,999
Interest on long-term debt	**648**	869
Office supplies and equipment	**146,295**	175,746
Professional fees	**80,544**	35,800
Rental	**158,172**	125,619
Salaries and benefits	**1,790,553**	1,783,861
Utilities	**160,296**	178,502
Training	**19,005**	12,822
	5,597,959	5,403,350
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FROM OPERATIONS	**(109,309)**	103,161
OTHER INCOME (EXPENSES)		
Gain on disposal of property and equipment	**180,664**	2,125
Insurance proceeds	**62,999**	2,373
Interest income	**39,887**	9,809
Loss on mortgage receivable	**-**	(200,000)
Unrealized foreign exchange gain/loss	**32,442**	-
	315,992	(185,693)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	**$ 206,683**	$ (82,532)

HOME CHURCH - RED DEER, ALBERTA

Statement of Changes in Net Assets

Year Ended December 31, 2018

	Invested in Property and Equipment	Unrestricted	**2018**	2017
NET ASSETS - BEGINNING OF YEAR	$ 3,667,202	$ 2,409,595	**$ 6,076,797**	$ 5,039,795
Excess (deficiency) of revenues over expenses	(222,393)	429,076	**206,683**	(82,532)
Investment in property and equipment	61,285	(61,285)	-	-
Direct increase in net assets	-	-	-	1,119,534
NET ASSETS - END OF YEAR	$ 3,506,094	$ 2,777,386	**$ 6,283,480**	$ 6,076,797

Statement of Cash Flows

Year Ended December 31, 2018

	2018	2017
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	$ 206,683	$ (82,532)
Items not affecting cash:		
Loss on mortgage receivable	-	200,000
Amortization of property and equipment	294,112	324,528
Gain on disposal of assets	(180,664)	(2,125)
Amortization of intangibles	2,557	2,557
Direct increase in net assets	-	1,119,534
	322,688	1,561,962
Changes in non-cash working capital:		
Accounts receivable	(5,499)	(4,112)
Mortgage receivable	-	995,000
Goods and services tax payable (recoverable)	(1,171)	24,294
Prepaid expenses and refundable deposit	(10,925)	91,887
Accounts payable and accrued liabilities	64,521	(943)
Employee deductions payable	(21,361)	686
Deferred contributions	365,752	(629,804)
	391,317	477,008
Cash flow from operating activities	714,005	2,038,970
INVESTING ACTIVITIES		
Marketable securities	(418)	(713)
Buildings in progress	(48,209)	(11,305)
Purchase of property and equipment	(183,210)	(223,504)
Proceeds on disposal of property and equipment	300,384	971,000
Cash flow from investing activities	68,547	735,478
FINANCING ACTIVITIES		
Repayment of callable debt	(63,277)	(67,729)
Repayment of long-term debt	(5,340)	(5,119)
Cash flow used by financing activities	(68,617)	(72,848)
INCREASE IN CASH FLOW	713,935	2,701,600
Cash - beginning of year	4,470,509	1,768,909
CASH - END OF YEAR	$ 5,184,444	$ 4,470,509
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest paid	$ 148,542	$ 135,028
CASH CONSISTS OF:		
Cash	$ 2,732,660	$ 2,387,932
Restricted funds	2,451,785	2,082,577
	$ 5,184,445	$ 4,470,509

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 under consideration 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
Coffee bar equipment	20%	declining balance method
Computer equipment	30%	declining balance method
Furniture and fixtures	20%	declining balance 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

Intangible assets consist of website developments recorded at cost and are amortized straight-line over five years. 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 ministries and have been incorporated in the local countries, only transfers are now recorded.

In 2018 Home Church - Red Deer, Alberta operated in Canada as well as Burundi, Congo, Ghana, India, Kenya, Malawi, Rwanda 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 appropriate period to match the expenses to the revenues.

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. 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 $4,626,346 (2016 - $4,260,594) consists of $2,451,785 (2017 - $2,082,577) in deferred contributions and $2,174,561 (2016 - $2,178,017) in deferred property and equipment purchased with restricted funds.

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	**2018 Net book value**	2017 Net book value
Land	$ 2,369,794	$ -	**$ 2,369,794**	$ 2,410,522
Buildings	6,073,653	2,116,860	**3,956,793**	4,074,924
Coffee bar equipment	11,042	10,655	**387**	484
Computer equipment	122,959	66,290	**56,669**	63,437
Furniture and fixtures	446,811	306,906	**139,905**	155,890
Outdoor equipment	71,236	25,543	**45,693**	49,255
Roadway and parking lot	213,388	36,241	**177,147**	178,263
Sound equipment	436,470	343,040	**93,430**	117,760
Television equipment	17,524	17,374	**150**	343
Vehicles	387,265	292,491	**94,774**	114,487
	$ 10,150,142	$ 3,215,400	**$ 6,934,742**	$ 7,165,365

5. CALLABLE DEBT

	2018	2017
Servus Credit Union loan bearing interest at prime plus 1.5% per annum, with monthly interest only payments. The loan matures on March 1, 2019 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
Servus Credit Union loan bearing interest at prime plus 1% per annum, repayable in monthly blended payments of $3,000. The loan matures on April 1, 2019 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.	62,661	95,006

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5. CALLABLE DEBT *(continued)*

	2018	2017
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, assignment of rents, and a $3,000,000 continuous demand mortgage over Lot 1, Block 1, Plan 8821039 Red Deer County, and 11124-15 Street NE Calgary. Loan is callable on demand.	625,127	646,007
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, assignment of rents, and a $3,000,000 continuous demand mortgage over Lot 1, Block 1, Plan 8821039 Red Deer County, and 11124-15 Street NE Calgary. Loan is callable on demand.	303,901	313,954
	1,249,382	1,312,660
Principal due in one year	(64,606)	(66,697)
	$ 1,184,776	$ 1,245,963

Principal repayment terms are approximately:

2019	$ 64,606
2020	61,200
2021	33,862
2022	35,488
2023	37,193
Thereafter	1,017,033
	$ 1,249,382

6. LONG-TERM DEBT

	2018	2017
Bank of Montreal 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 a 2013 Nissan Murano pledged as security.	$ 12,375	$ 17,715
Amounts payable within one year	(5,571)	(5,340)
	$ 6,804	$ 12,375

Principal repayment terms are approximately:

2019	$ 5,571
2020	5,812
2021	992
	$ 12,375

7. LEASE COMMITMENTS

Operating Leases

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

1. Roynat Lease - Commenced February 14, 2018 and expires on February 14, 2023. Photocopier operating lease payments, including applicable taxes, of $10,260 are expected in 2019.

2. Pitney Bowes Leasing - Commenced May 30, 2013 and expired on May 30, 2018.

8. 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.

9. COVENANTS

The mortgage agreement between Servus Credit Union Ltd. and the Organization requires that an Annual Debt Service Coverage Ratio of no less than 1.25:1 is maintained. For the purpose of this calculation, Debt Service Coverage includes the excess (deficiency) of revenues over expenses of the Organization plus amortization and interest divided by current principal and interest payments encompassing all loans of the Organization. For the year ended December 31, 2018, the Organization has complied with this covenant.

10. 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.

A line of credit with a maximum principal amount of $50,000 which bears 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.

11. RELATED PARTY TRANSACTIONS

Lease revenues

Destiny Christian School Society entered into a month to month lease arrangement with Home Church - Red Deer, Alberta for school buildings in 2004. The lease arrangement is at an amount equal to the monthly mortgage payments on the school buildings. During the current year, this was 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 $44,833 (2017 - $47,089) 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 $10,726 for rentals and other expenses (2017 - $29,737).

During the year, $10,725 (2017 - $16,800) 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.

12. 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 9. The organization is exempt from paying taxes under section 149(1) 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, 2018 and 2017 which were audited by another firm of Chartered Professional Accountants are as follows:

(continues)

12. CONTROLLED NOT-FOR-PROFIT ORGANIZATIONS *(continued)*

Destiny Christian School Society

	2018	2017
Financial Position		
Total assets	**$ 361,581**	$ 357,976
Total liabilities	**$ 56,887**	$ 78,793
Total net assets	**304,694**	279,183
	$ 361,581	$ 357,976
Results from operations		
Total revenues	**$ 1,311,166**	$ 1,300,155
Total expenses	**(1,285,655)**	(1,240,493)
Excess of revenue over expenses	**$ 25,511**	$ 59,662
Cash flows		
Cash from operations	**$ 44,802**	$ 81,667
Cash used in financing activities	**(58,648)**	(88,839)
Cash used in investing activities	**(3,983)**	(3,788)
(Decrease) increase in cash	**$ (17,829)**	$ (10,960)

13. SUBSEQUENT EVENTS

On January 11, 2019, the church agreed to purchase five additional rooms in a building in Turkey that is partially owned by the church for a price of $229,900 CAD (950,000 TL).

14. 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.

15. FINANCIAL INSTRUMENTS

The Organization utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the Organization 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 Organization is exposed to interest rate risk primarily through its floating rate callable debt as described in Note 5.

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 Organization is exposed to foreign exchange rate risk primarily through its missionary operations overseas.

HOME CHURCH - RED DEER, ALBERTA

Schedule of Revenues *(Schedule 1)*

Year Ended December 31, 2018

	2018	2017
REVENUES		
General offering	**$ 3,216,907**	$ 3,406,968
Missions	**1,365,795**	1,242,854
Seminars, conferences and events	**230,523**	248,698
Heart for Home	**298,415**	223,364
Apostolic	**78,920**	86,625
Rent and administration	**94,210**	85,572
Bible college	**98,032**	63,855
Alms	**48,641**	58,194
Love offering	**32,704**	36,532
Youth and young adults	**8,028**	18,940
Merchandise sales	**4,606**	11,077
Coffee bar sales	**8,802**	8,256
Children's ministry	**1,639**	2,571
	$ 5,487,222	$ 5,493,506

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

Year Ended December 31, 2018

	2018	2017
EXPENSES		
Missions	**$ 1,476,335**	$ 1,417,111
Seminars, conferences and events	**262,249**	296,648
Building	**212,254**	197,425
Travel	**166,475**	137,770
Entertainment and hospitality	**94,902**	78,971
Bible college	**80,454**	70,917
Alms	**62,872**	64,098
Youth and young adults	**24,724**	48,892
Children's ministry	**42,614**	47,364
Honorariums	**56,361**	36,531
Gifts and flowers	**37,516**	35,561
Advertising	**68,025**	23,577
Donations	**51,558**	16,813
Merchandise cost of sales	**1,725**	12,420
Coffee bar cost of sales	**6,317**	6,312
	$ 2,644,381	$ 2,490,410