

CANADIAN SOUTHERN BAPTIST SEMINARY
Financial Statements
Year Ended December 31, 2013

Draft

INDEPENDENT AUDITOR'S REPORT

To the Members of Canadian Southern Baptist Seminary

We have audited the accompanying financial statements of Canadian Southern Baptist Seminary, which comprise the statements of financial position as at December 31, 2013 and the statements of operation and changes in fund balances and cash flows for the years ended December 31, 2013, 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 in our audits is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

In common with many not-for-profit organizations, Canadian Southern Baptist Seminary derives revenue from donations the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of Canadian Southern Baptist Seminary. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the year ended December 31, 2013, current assets and net assets as at December 31, 2013

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Independent Auditor's Report to the Members of Canadian Southern Baptist Seminary *(continued)*

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 Canadian Southern Baptist Seminary as at December 31, 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.

April 18, 2014

Chartered Accountants

Draft

CANADIAN SOUTHERN BAPTIST SEMINARY
Statement of Financial Position
December 31, 2013

	General Funds	Other Restricted	Capital Restricted	Endowment Funds	TOTALS 2013	TOTALS 2012
ASSETS						
CURRENT						
Cash	\$ 170,416	\$ 177,303	\$ 173,838	\$ 2,200	\$ 523,757	\$ 693,597
Accounts receivable	22,654	4,998	988	-	28,640	65,781
GST recoverable	2,250	-	-	-	2,250	2,797
Inventory	44,624	-	-	-	44,624	50,569
Prepays and deposits	80,055	3,594	-	-	83,649	57,517
	319,999	185,895	174,826	2,200	682,920	870,261
INVESTMENTS (at CNBC Foundation)	-	1,776,348	-	106,771	1,883,119	1,702,895
PROPERTY & EQUIPMENT (Note 4)	-	-	3,496,099	-	3,496,099	3,706,228
	\$ 319,999	\$ 1,962,243	\$ 3,670,925	\$ 108,971	\$ 6,062,138	\$ 6,279,384
LIABILITIES AND FUND BALANCES						
CURRENT LIABILITIES						
Accounts payable	\$ 60,406	\$ 26,551	-	-	\$ 86,957	\$ 107,800
Deferred revenue	19,047	-	-	-	19,047	15,352
Demand loans (Note 5)	-	-	539,759	-	539,759	424,673
	79,453	26,551	539,759	-	645,763	547,825
FUND BALANCES						
Endowment (Note 6)	-	-	-	108,971	108,971	99,419
Restricted (Note 7)	-	1,935,692	174,826	-	2,110,518	2,108,976
Invested in property and equipment	-	-	2,956,340	-	2,956,340	3,281,557
Unrestricted	240,546	-	-	-	240,546	241,607
	240,546	1,935,692	3,131,166	108,971	5,416,375	5,731,559
	\$ 319,999	\$ 1,962,243	\$ 3,670,925	\$ 108,971	\$ 6,062,138	\$ 6,279,384

ON BEHALF OF THE BOARD

_____ Trustee

_____ Trustee

CANADIAN SOUTHERN BAPTIST SEMINARY
Statement of Operation and Changes in Fund Balances
Year Ended December 31, 2013

	General Funds	Other Restricted	Capital Restricted	Endowment Funds	TOTALS 2013	TOTALS 2012
REVENUES						
NAMB (Note 8)	\$ 164,064	\$ -	\$ -	\$ -	\$ 164,064	\$ 165,000
CNBC (Note 1)	61,472	-	-	-	61,472	59,773
Contributions and gifts	296,898	53,688	-	250	350,836	830,242
BMI (Note 8)	127,123	-	-	-	127,123	118,713
Student fees	301,883	-	-	-	301,883	261,577
Rental revenue	403,946	-	-	-	403,946	301,090
Bookstore and other sales	117,597	-	-	-	117,597	209,844
Investment income - CNBC Foundation	-	179,301	-	10,782	190,083	80,930
Investment income - other	266	3,278	2,615	-	6,159	5,136
Other Income	32,239	1,646	5,191	-	39,076	22,279
	1,505,488	237,913	7,806	11,032	1,762,239	2,054,584
EXPENSES						
Administrative offices	317,851	113,508	-	-	431,359	456,587
Institutional advancement offices	258,972	-	-	-	258,972	258,809
Academic services	430,563	67,912	-	-	498,475	473,720
Campus services	573,312	-	-	-	573,312	627,888
Amortization	-	-	253,037	-	253,037	256,744
Interest	-	-	13,762	-	13,762	18,031
Other	-	46,772	254	1,480	48,506	59,982
	1,580,698	228,192	267,053	1,480	2,077,423	2,151,761
NET OPERATIONS - prior to transfers	(75,210)	9,721	(259,247)	9,552	(315,184)	(97,177)
TRANSFERS						
Capital	(22,851)	(20,050)	42,901	-	-	-
Operating	(4,325)	52,827	(48,502)	-	-	-
Interest	(13,762)	-	13,762	-	-	-
Debt repayment (advances)	115,086	-	(115,086)	-	-	-
	74,148	32,777	(106,925)	-	-	-
NET REVENUES (EXPENDITURES)	(1,062)	42,498	(366,172)	9,552	(315,184)	(97,177)
FUND BALANCES - beginning of year	241,608	1,893,194	3,497,338	99,419	5,731,559	5,828,736
FUND BALANCES - end of year	\$ 240,546	\$ 1,935,692	\$ 3,131,166	\$ 108,971	\$ 5,416,375	\$ 5,731,559

CANADIAN SOUTHERN BAPTIST SEMINARY

Statement of Cash Flows

Year Ended December 31, 2013

	General Funds	Other Restricted	Capital Restricted	Endowment Funds	TOTALS 2013	TOTALS 2012
OPERATING ACTIVITIES						
Excess (Deficiency) of revenues over expenses	\$ (1,062)	\$ 42,498	\$ (366,172)	\$ 9,552	\$ (315,184)	\$ (97,177)
Items not affecting cash:						
Amortization - capital restricted	-	-	253,037	-	253,037	256,744
	(1,062)	42,498	(113,135)	9,552	(62,147)	159,567
Changes in non-cash working capital:						
Accounts receivable	36,192	1,659	(712)	-	37,139	(4,236)
Inventory	5,945	-	-	-	5,945	10,029
Accounts payable and accrued liabilities	(21,280)	439	-	-	(20,841)	30,553
Deferred revenue	3,695	-	-	-	3,695	1,438
Prepaid expenses	(26,132)	-	-	-	(26,132)	(801)
GST payable (receivable)	547	-	-	-	547	59
	(1,033)	2,098	(712)	-	353	37,042
Cash flow from operating activities	(2,095)	44,596	(113,847)	9,552	(61,794)	196,609
INVESTING ACTIVITIES						
Purchase of equipment	-	-	(42,908)	-	(42,908)	(8,700)
Investments at CNBC Foundation	-	(172,322)	-	(7,902)	(180,224)	(129,743)
Cash flow from (used by) investing activities	-	(172,322)	(42,908)	(7,902)	(223,132)	(138,443)
FINANCING ACTIVITY						
Draws on (repayment of) demand loans	-	-	115,086	-	115,086	(108,901)
INCREASE (DECREASE) IN CASH FLOW	(2,095)	(127,726)	(41,669)	1,650	(169,840)	(50,735)
Cash - beginning of year	172,511	305,029	215,507	550	693,597	744,332
CASH - END OF YEAR	\$ 170,416	\$ 177,303	\$ 173,838	\$ 2,200	\$ 523,757	\$ 693,597

CANADIAN SOUTHERN BAPTIST SEMINARY

Notes to Financial Statements

Year Ended December 31, 2013

1. ORGANIZATION

The Canadian Southern Baptist Seminary (the "organization"), a wholly controlled subsidiary organization of the Canadian National Baptist Convention (the "CNBC"), provides services pursuant to the Canadian Southern Baptist Seminary Act. On July 6, 1988, the Canadian Southern Baptist Seminary was incorporated by private members petition in the Legislative Assembly of Alberta. The organization is a charitable organization registered under the Income Tax Act and as such is exempt from income tax.

The purpose of the organization is to provide training and theological education of pastors and other church workers to carry out the Great Commission of the Lord Jesus Christ in and through local churches throughout the world.

The organization consists of students who are from member churches and other evangelical churches, administrative staff and faculty instructors. The organization is governed by a Board of Trustees elected by messengers of cooperating churches of the CNBC. The President, as Chief Executive Officer, is appointed to handle the organization's affairs and carry on the general operations of the organization.

While the organization earns revenue from those registered in its programs, the continued operation of the organization is dependent on the donations of interested individuals and the support of the Convention.

2. SIGNIFICANT ACCOUNTING POLICIES

The organization follows Canadian accounting standards for not for profit organizations the more significant being:

Going concern

Management assesses regularly whether there are any events or conditions that may cast significant doubt upon the organization's ability to continue as a going concern. Management is not aware of any such material uncertainties. Accordingly, these financial statements have been prepared using the going concern assumption. The continued operation of the organization is dependent on the continued support of interested individuals & organizations.

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CANADIAN SOUTHERN BAPTIST SEMINARY

Notes to Financial Statements

Year Ended December 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund accounting

The organization follows the restricted fund method of accounting for donations. A description of the purposes for the various funds is as follows:

(a) Unrestricted general funds are used by the Board of Trustees to carry on the general operations of the organization. The general fund consists primarily of organization approved budget items for programs and administration. The principal sources of support and contributions are from supporting churches, the CNBC, the International Mission Board and the North American Mission Board of the Southern Baptist Convention.

(b) Restricted funds account for amounts given for specific purposes.

(c) Capital funds account for amounts contributed by donors for specific capital purposes, designated funds expended for the organization's capital additions and for funds obtained through financing of the additions to the facilities.

(d) Endowment funds account for amounts contributed by donors for funds whose principal amounts are retained in perpetuity in order to provide investment earnings to be expended for organization operations or other designated purposes.

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 unrealised 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.

Cash and cash equivalents

Cash and cash equivalents consist primarily of bank accounts and deposits with an original maturity date of purchase of three months or less. Because of the short term maturity of these investments, their carrying amount approximates fair value.

Funds invested with CNBC Foundation

All marketable securities are carried at fair value.

Inventory

Inventory is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis.

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CANADIAN SOUTHERN BAPTIST SEMINARY

Notes to Financial Statements

Year Ended December 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Land development costs	20 years	straight-line method
Buildings and improvements	30 years	straight-line method
Student housing complex	30 years	straight-line method
Water storage tanks	20 years	straight-line method
Library books	10 years	straight-line method
Machinery and equipment	10 years	straight-line method
Furniture and fixtures	10 years	straight-line method
Library and computer equipment	5 years	straight-line method
Automotive	10 years	straight-line method

The organization regularly reviews its property and equipment to eliminate obsolete items.

Revenue Recognition

- Unrestricted contributions from donors are recognized as revenue in the general fund when received. Restricted contributions are recognized as revenue of the specific restricted fund or, when a restricted fund does not exist, as deferred contributions and brought into income when the related expense is incurred.
- Tuition for student fees is recognized upon commencement of the academic program.
- Rental revenue is recognized as revenue in the period in which it is earned.
- Investment income is recorded as earned and includes fair value adjustments to financial assets.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they became known.

Significant estimates included in these financial statements include amortization of property and equipment, valuation of inventory and ability to collect on accounts receivable.

Allocated expenses

The organization had no fundraising or donation soliciting activities during the year and incurred no relating expenses in this regard. All general expenses are included in general fund administrative offices costs.

CANADIAN SOUTHERN BAPTIST SEMINARY

Notes to Financial Statements

Year Ended December 31, 2013

3. FINANCIAL INSTRUMENTS

The organization's financial instruments consist of cash, accounts receivable, investments (including CNBC Foundation investments which are primarily invested in marketable securities), accounts payable and demand loans.

Investments are adjusted to fair value at each reporting date (determined by reference to price available on public trading markets). All other financial instruments are recorded at amortized cost and are reviewed each year for indications of impairment.

Interest rate risk

The organization is exposed to interest rate risk with respect to its demand debt. Interest is calculated at the bank prime rate plus 0.77% and is accordingly subject to fluctuation.

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The organization is exposed to credit risk from student receivables. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The organization has a significant number of smaller amount student receivables which minimizes concentration of credit risk.

Currency Risk

Currency risk is the risk to the organization's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The organization is exposed to foreign currency exchange risk on cash, accounts receivable, and accounts payable held in U.S. dollars. The organization does not use derivative instruments to reduce its exposure to foreign currency risk.

4. PROPERTY & EQUIPMENT

	Cost	Accumulated amortization	2013 Net book value	2012 Net book value
Land - cost	\$ 142,500	\$ -	\$ 142,500	\$ 142,500
Land improvements	1,357,811	361,891	995,920	1,028,557
Buildings	2,469,298	1,791,044	678,254	753,342
Housing	3,568,372	1,969,549	1,598,823	1,708,092
Library Books	255,323	231,945	23,378	21,139
Furniture and equipment	532,008	495,983	36,025	21,815
Technology and computer equipment	331,313	329,891	1,422	2,824
Machinery and equipment	193,110	174,726	18,384	22,609
Motor vehicles	88,902	87,509	1,393	5,350
	<u>\$ 8,938,637</u>	<u>\$ 5,442,538</u>	<u>\$ 3,496,099</u>	<u>\$ 3,706,228</u>

CANADIAN SOUTHERN BAPTIST SEMINARY

Notes to Financial Statements

Year Ended December 31, 2013

5. DEMAND LOANS

	<u>2013</u>	<u>2012</u>
Demand loan facilities which bear interest at the prime rate plus 0.77%, repayable in monthly principal and interest payments of \$4,350. The loan expires July 2017.	\$ 120,391	\$ 167,093
Demand loan facilities which bear interest at the prime rate plus 0.77%, repayable in monthly principal and interest payments of \$6,250. The loan expires January 2018.	191,150	257,580
Revolving operating loan facilities which bear interest at the prime rate plus 0.77%, with a facility of up to \$400,000. The loan is payable on demand and for operating cash flow purposes. The loan expires June 30, 2014.	<u>228,218</u>	-
	<u>\$ 539,759</u>	<u>\$ 424,673</u>

Security pledged for all loans consists of demand promissory notes, general security agreement covering all present and future acquired property and equipment and a first mortgage covering land owned by the organization.

6. ENDOWMENT FUNDS

	<u>2013</u>	<u>2012</u>
Yew-Teck Chung Memorial Scholarship Fund	\$ 34,720	\$ 31,880
DLH Scholarship Fund	24,657	22,253
Percy and Marion Lee Religious Education Scholarship Fund	13,903	12,738
Len Koster Memorial Scholarship	12,315	11,112
Encouragement Fund	11,490	10,550
The Randall Harper Preaching Award	5,912	5,515
Blackaby Chair for Spiritual leadership	5,974	5,371
	<u>\$ 108,971</u>	<u>\$ 99,419</u>

CANADIAN SOUTHERN BAPTIST SEMINARY

Notes to Financial Statements

Year Ended December 31, 2013

7. RESTRICTED FUNDS

	2013	2012
Restricted Funds		
General restricted fund	\$732,198	\$770,019
Faculty restricted fund	292,784	263,217
Hale Scholarship	239,725	219,331
Funded reserve	204,559	202,734
McGough Seminary Day fund	59,096	55,129
Osborne/Miller Scholarship fund	57,000	51,746
Madam Min-Tuck Chen Memorial Scholarship	37,096	34,161
Madalene Cain Scholarship	35,186	32,343
Heng-Lan Cheng Memorial Scholarship fund	34,773	31,433
Blackaby Spiritual Leadership Award	31,628	29,384
The Jimmie & Dolores Nelson Memorial Adjunct Professor fund	29,613	27,623
Nehemiah fund	22,773	26,363
Library fund	24,028	24,212
Muriel F Blackwell Childhood Education Scholarship	19,930	18,153
TBM Scholarship fund	16,828	15,628
Current Scholarship fund	10,666	14,666
Stephen Gover Memorial First Nations/Metis Scholarship fund	11,713	10,930
The Brandon Harvest Baptist Church Scholarship	11,307	10,565
General Scholarship fund	11,238	10,504
Morales Evangelism Award	11,434	10,042
David & Judi Young Scholarship	8,455	7,901
Justice Award fund	6,855	6,363
Blackaby Leadership Lecture Series	8,142	6,341
Price Memorial Scholarship	5,124	4,606
Miscellaneous fund	7,636	3,962
Academic/Administration fund	4,260	3,860
Student Services fund	1,645	1,979
	\$1,935,692	\$1,893,195
Capital Fund		
Technology fund	\$90,137	135,323
Spears Seminary Recreation fund	80,721	79,777
Capital fund	3,968	681
	\$174,826	\$215,781
Grand total	\$2,110,518	\$2,108,976

CANADIAN SOUTHERN BAPTIST SEMINARY

Notes to Financial Statements

Year Ended December 31, 2013

8. RELATED PARTIES

The Seminary received support from the following related parties during the year:

The **North American Mission Board** (NAMB) is an agency of the Southern Baptist Convention. This agency assists Southern Baptists in the United States and Canadian National Baptists in Canada in their task of fulfilling the Great Commission in the United States, Canada and their territories through a North American strategy for sharing Christ, starting churches and sending missionaries, in cooperation with Acts 1:8 Partners. In keeping with its strategy NAMB has assumed responsibility for funding one of the professorships at the Canadian Southern Baptist Seminary (CSBS).

The Nehemiah Professor of Church Planting is paid directly by NAMB and is jointly supervised by NAMB and CSBS. NAMB does not have any influence in the day-to-day operations nor the creation and implementation of policies at CSBS. Their role is one of support in helping CSBS achieve its purpose of training God-called men and women for twenty-first century leadership in tough places. The Seminary funded all expenses from surplus Nehemiah funds in prior years.

Blackaby Ministries International (BMI) is an organization that focuses on three key areas of Christian ministry: Experiencing God: Helping people to experience God; Revival: Helping people and churches return to God; and Spiritual Leadership: Helping church, business and family leaders move people on to God's agenda. BMI was founded by Henry T. Blackaby (now president emeritus) and is now led by Richard G. Blackaby (president).

Because of the decades long work of the Blackaby family in Canada helping to establish what is now the Canadian National Baptist Convention and the Canadian Southern Baptist Seminary, the family chooses to partner now with the seminary to ensure that the purpose of the school is accomplished. The organization exercises no influence over CSBS in any regard. It is strictly an organization in voluntary partnership with this institution.

9. DEFERRED GIFTS

The organization is the owner of certain life insurance policies totaling \$120,000 which have been gifted by donors. Charitable donation receipts have been issued by the organization to the donors for the premiums which they have paid on the policies.
