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# MENNONITE BRETHREN BIBLICAL SEMINARY

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED MAY 31, 2012

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Independent Auditors' Report

Statement 1 – Statement of Financial Position

Statement 2 – Statement of Operations and Changes in Fund Balances

Statement 3 – Statement of Cash Flows

Notes to Financial Statements

Schedule 1 – Schedule of Expenses by Category



Barkman  
& Tanaka

Chartered  
Accountants



**Barkman  
& Tanaka**

Chartered Accountants

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2012 October 12

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## INDEPENDENT AUDITORS' REPORT

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To the Members of:

**Mennonite Brethren Biblical Seminary**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Mennonite Brethren Biblical Seminary which comprise the statement of financial position as at May 31, 2012 and the statements of operations and 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, 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.

### **Auditors' 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.

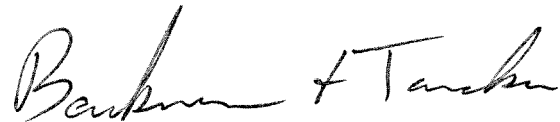
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mennonite Brethren Biblical Seminary as at May 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

**Other**

The previous year's comparative figures were unaudited and prepared by management.



**Chartered Accountants**



**Barkman  
& Tanaka**

Chartered  
Accountants

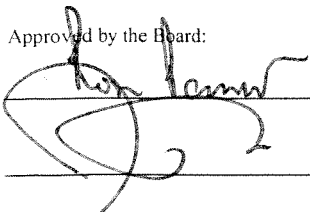
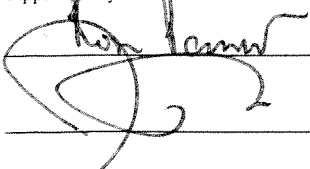
**MENNONITE BROTHERS BIBLICAL SEMINARY**  
 STATEMENT OF FINANCIAL POSITION  
 AS AT MAY 31, 2012

Statement 1

	General Fund	Restricted Fund	Endowment Fund	2012 Total	(Unaudited) 2011 Total
<b>ASSETS</b>					
<b>CURRENT</b>					
Cash and cash equivalents	\$ 146,123	\$ 21,102	\$ --	\$ 167,225	\$ 197,865
Accounts receivable	20,856	4,027	--	24,883	3,744
Due from Canadian Conference of Mennonite Brethren Churches (Note 3)	744,682	425,199	126,757	1,296,638	--
Current portion of loans receivable (Note 4)	--	65,645	--	65,645	--
	911,661	515,973	126,757	1,554,391	201,609
<b>LOANS RECEIVABLE (Note 4)</b>	--	403,870	--	403,870	--
<b>PROPERTY, PLANT AND EQUIPMENT (Note 5)</b>	19,140	--	--	19,140	--
	\$ 930,801	\$ 919,843	\$ 126,757	\$ 1,977,401	\$ 201,609
<b>LIABILITIES</b>					
<b>CURRENT</b>					
Accounts payable and accrued liabilities (Note 6)	\$ 61,814	\$ --	\$ --	\$ 61,814	124,606
Current portion of ACTS obligation (Notes 1 and 7)	11,265	--	--	11,265	9,394
	73,079	--	--	73,079	134,000
<b>ACTS OBLIGATION (Notes 1 and 7)</b>	3,518	--	--	3,518	11,111
	76,597	--	--	76,597	145,111
<b>FUND BALANCES - Statement 2</b>					
Restricted funds					
Internally restricted (Note 8)	--	815,242	--	815,242	--
Externally restricted (Note 8)	--	104,601	--	104,601	--
Endowment fund (Note 9)	--	--	126,757	126,757	--
Unrestricted	854,204	--	--	854,204	56,498
	854,204	919,843	126,757	1,900,804	56,498
	\$ 930,801	\$ 919,843	\$ 126,757	\$ 1,977,401	\$ 201,609

**COMMITMENT (Note 10)**

Approved by the Board:

 \_\_\_\_\_ Director  
 \_\_\_\_\_ Director



**Barkman & Tanaka**

Chartered Accountants

**MENNONITE BROTHERS BIBLICAL SEMINARY**  
**STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MAY 31, 2012**

Statement 2

	General Fund	Restricted Fund	Endowment Fund	2012 Total	(Unaudited) 2011 Total
<b>REVENUE</b>					
Donations:					
Congregations	\$ 232,652	\$ --	\$ --	\$ 232,652	\$ 243,264
Individuals	211,230	51,454	--	262,684	205,086
Endowment	--	--	51,454	51,454	--
Denomination support (Note 6)	200,000	15,578	--	215,578	10,191
ACTS recovery (Notes 1 and 6)	140,040	--	--	140,040	130,575
Other:					
Tuition (Note 6)	8,833	--	--	8,833	--
Program revenue	--	--	--	--	14,075
Investment income	6,707	19,122	--	25,829	3,317
	799,462	86,154	51,454	937,070	606,508
<b>EXPENDITURES</b>					
Shared costs of ACTS (Notes 1 and 6)	302,888	--	--	302,888	134,935
Fundraising	129,405	--	--	129,405	107,665
Other administration charges	90,284	--	--	90,284	148,224
Executive administration	80,413	--	--	80,413	140,818
Board related expenses	46,107	--	--	46,107	27,346
Shared costs of Canadian Mennonite University (Note 6)	43,902	--	--	43,902	--
Bad debts on student loans	--	41,494	--	41,494	--
Student recruitment	36,460	--	--	36,460	28,305
Foreign exchange loss	10,360	--	--	10,360	--
Student financial aid	--	9,530	--	9,530	13,500
	739,819	51,024	--	790,843	600,793
<b>EXCESS OF REVENUE OVER EXPENDITURES BEFORE UNDERNOTED</b>	59,643	35,130	51,454	146,227	5,715
Assets transferred from MBBS Inc. (Note 6)	720,098	902,678	75,303	1,698,079	--
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	779,741	937,808	126,757	1,844,306	5,715
<b>INTERFUND TRANSFER</b>					
Administration fees	17,965	(17,965)	--	--	--
<b>CHANGES IN FUND BALANCES</b>	797,706	919,843	126,757	1,844,306	5,715
<b>FUND BALANCES, BEGINNING OF YEAR</b>	56,498	--	--	56,498	50,783
<b>FUND BALANCES, END OF YEAR</b>	\$ 854,204	\$ 919,843	\$ 126,757	\$ 1,900,804	\$ 56,498

**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MAY 31, 2012**

Statement 3

					(Unaudited)	
	General Fund	Restricted Fund	Endowment Fund	<b>2012 Total</b>	<b>2011 Total</b>	
<b>CASH PROVIDED BY (APPLIED TO):</b>						
<b>OPERATING ACTIVITIES</b>						
Excess of revenue over expenditures	\$ 779,741	\$ 937,808	\$ 126,757	\$ 1,844,306	\$	5,715
Items not involving cash:						
- Loans receivable transferred from MBBS Inc. (Note 6)	--	(469,515)	--	(469,515)		--
- Amortization	3,071	--	--	3,071		--
	782,812	468,293	126,757	1,377,862		5,715
Changes to non-cash working capital	(79,904)	(4,027)	--	(83,931)		47,097
	702,908	464,266	126,757	1,293,931		52,812
<b>FINANCING ACTIVITIES</b>						
ACTS obligation	(5,722)	--	--	(5,722)		--
Interfund transfers	17,965	(17,965)	--	--		--
	12,243	(17,965)	--	(5,722)		--
<b>INVESTING ACTIVITIES</b>						
Advances to Canadian Conference of Mennonite Brethren Churches	(744,682)	(425,199)	(126,757)	(1,296,638)		--
Purchase of property, plant and equipment	(22,211)	--	--	(22,211)		--
	(766,893)	(425,199)	(126,757)	(1,318,849)		--
<b>CHANGE IN CASH</b>	(51,742)	21,102	--	(30,640)		52,812
<b>CASH, BEGINNING OF YEAR</b>	197,865	--	--	197,865		145,053
<b>CASH, END OF YEAR</b>	\$ 146,123	\$ 21,102	\$ --	\$ 167,225	\$	197,865



**Barkman  
& Tanaka**

Chartered  
Accountants

**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2012**

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**1. OPERATIONS**

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Mennonite Brethren Biblical Seminary is a graduate theological school of the Canadian Conference of Mennonite Brethren Churches (CCMBC). Until the current year, the Seminary was operated as part of Mennonite Brethren Biblical Seminary Inc. (MBBS Inc.), a non-profit corporation registered in Fresno, California and co-owned by the U.S. Conference of Mennonite Brethren Churches and CCMBC. MBBS Inc. operated a campus in Fresno, CA. MBBS Inc. was dissolved during the current year and certain assets were donated to MBBS (Note 6).

The Seminary was incorporated as a legal entity in Canada in June 1998 under the B.C. Society Act in order to facilitate expansion by MBBS Inc. into British Columbia. The ownership of this legal entity was transferred from MBBS Inc. to CCMBC in 2011.

MBBS participates as a partner in a consortium of five schools known as the Associated Canadian Theological Schools (ACTS) on the campus of Trinity Western University (TWU). The five members of ACTS are MBBS, Northwest Baptist Seminary, Canadian Baptist Seminary, Canadian Pentecostal Seminary, and Trinity Western University. The consortium offers eight degree programs that prepare people for professional Christian service and research in theological studies.

The Seminary is also affiliated with the Canadian Mennonite University (CMU) in Winnipeg, Manitoba. It is involved in two masters degree programs in theological studies and Christian ministry through the recently organized Graduate School of Theology and Ministry at CMU.

The Seminary is a registered charity and is exempt from income taxes.

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**2. SIGNIFICANT ACCOUNTING POLICIES**

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

a) Fund Accounting

The Seminary follows the restricted fund method of accounting for contributions.

The General Fund accounts for the Seminary's general and administrative activities and unrestricted funds.

The Restricted Fund reports restricted assets and restricted net assets for the purposes disclosed in Note 8. Investment income from the endowment fund is reported in this fund.

The Endowment Fund is a restricted fund which accounts for the endowments of the Seminary.



**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2012**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

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b) Revenue Recognition

Donations are recognized as revenue of the appropriate fund when the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income is recognized when earned.

c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and guaranteed investment certificates with maturity dates of less than one year from the date that they were acquired.

d) Financial Instruments

Measurement

At acquisition

The Seminary initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions.

Subsequent to acquisition

The Seminary measures all of its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in net income.

The financial assets measured at amortized cost include cash and cash equivalents, term deposits, account receivables, interest receivable, and loans receivable.

The financial liabilities measured at amortized cost include accounts payable and accrued liabilities and ACTS obligation.

Transaction Costs

The transaction costs and financial fees associated with these financial instruments are carried at amortized cost and recorded as adjustments to the initial fair value.

The transaction costs of the investments in publicly-traded companies are expensed as they are incurred.





**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2012**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

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d) Financial Instruments (Cont'd)

Impairment

When there is an indication of an impairment in value and the impairment is determined to have occurred, the carrying amount of a financial asset measured at amortized cost is reduced to the greater of the discounted future expected cash flow or the proceeds that could be realized from sale of the financial asset. Such impairments can be subsequently reversed if the value of the financial asset subsequently improves. Impairment adjustments are recognized in net income.

Risks

Transacting in financial instruments exposes the Seminary to certain financial risks and uncertainties. These risks include interest rate risk, foreign currency risk, credit risk, liquidity risk, and market risk.

The Seminary has loans receivable from students and former students and investments with CCMBC that expose the Seminary to interest rate risk.

The Seminary has cash of \$95,914 (2011 - \$Nil) and loans receivable of \$345,651 (2011 - \$Nil) that are denominated in \$US currency, thus resulting in currency risk.

The Seminary has loans receivable of \$469,515 (2011 - \$Nil) that are subject to liquidity and credit risk.

Unless otherwise noted above, it is management's opinion that the Seminary is not exposed to significant interest rate, foreign currency, credit, liquidity or market risk.

e) Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost and amortization has been provided at the following rates:

Computers and software	3 years	Straight-line method
Furniture and equipment	10years	Straight-line method

f) Foreign Currency Transactions

The Seminary uses the temporal method to translate its foreign currency transactions. Monetary assets and liabilities are translated at year-end rates, non-monetary items at historical rates and the revenues and expenses are at the average rate for the year. The exchange gains or losses from foreign exchange transactions are included in the statement of income.



**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2012**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

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g) Use of Estimates

The preparation of financial statements in conformity with accounting standards for not-for-profit organization 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 include providing for an allowance for doubtful loans receivable, a discount rate for interest free loans receivable and amortization of property, plant and equipment. Actual results could differ from these estimates.

h) Contributed Services

Volunteers contribute hundreds of hours per year to assist the Seminary in carrying out its various activities. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

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**3. DUE FROM CANADIAN CONFERENCE OF MENNONITE BRETHREN CHURCHES**

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The investments with the Canadian Conference of Mennonite Brethren Churches bear interest at 3% per annum. The interest rates are negotiable and payable semi-annually in June and December. The investments are redeemable at any time without penalty. As of May 31, 2012, the Seminary had interest receivable of \$13,367 from the Conference and this amount has been included in accounts receivable.

**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2012**

**4. LOANS RECEIVABLE**

The loans receivable consist of loans made to U.S. and Canadian students who have been enrolled in the Seminary's graduate program. The student loan repayments begin six months after graduation or upon termination of their student status. Students have one to ten years to repay these loans based on individual loan amounts. The loans made to students who belong to the Mennonite Brethren denomination are interest free, while other student loans bear interest from 3% to 6% per annum. Interest free loans have been discounted using a 2% interest rate.

	2012	2011
Loans without interest	\$550,654	\$ --
Loans - 3-6% per annum	33,411	--
Total loans receivable	584,065	--
Allowance for doubtful accounts	(74,674)	--
	509,391	--
Discount to net present value	(39,876)	--
	469,515	--
Current portion	(65,645)	--
	\$403,870	\$ --

**5. PROPERTY, PLANT AND EQUIPMENT**

	2012		2011	
	Cost	Accum. Amort.	Cost	Accum. Amort.
Computers and software	\$ 16,808	\$ 2,801	\$ --	\$ --
Furniture and equipment	5,403	270	--	--
	\$ 22,211	\$ 3,071	\$ --	\$ --
Net Book Value		\$ 19,140		\$ --

**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2012**

**6. RELATED PARTY TRANSACTIONS**

- a) MBBS is a member of the Associated Canadian Theological Schools. The member seminaries provide subsidies to the consortium which collects all tuition and pays the operating costs of ACTS.

At year-end, MBBS owed ACTS \$ 2,868 (2011 - \$Nil) for these net subsidies and the amount has been included in accounts payable and accrued liabilities.

During the year, the Seminary had the following transactions with ACTS at amounts agreed upon by the parties:

	2012	2011
Costs recovered	<u>\$140,040</u>	<u>\$ --</u>
Shared costs	<u>\$302,888</u>	<u>\$ --</u>

- b) During the year, MBBS entered into an affiliation agreement with the Canadian Mennonite University (CMU). It is involved in two masters degree programs in theological studies and Christian ministry through the recently organized Graduate School of Theology and Ministry at CMU.

During the year, the Seminary had the following transactions with CMU at amounts agreed upon by the parties:

	2012	2011
Tuition	<u>\$ 8,833</u>	<u>\$ --</u>
Shared costs	<u>\$ 43,902</u>	<u>\$ --</u>

- c) The CCMBC has the right to appoint the majority of the Seminary's board of directors. During the year the Seminary received \$215,578 (2011 - \$10,191) in donations from CCMBC.

- d) Prior to 2012, the Seminary was operated as part of the Mennonite Brethren Biblical Seminary Inc. (MBBS Inc.), a non-profit corporation registered in Fresno, California

During the year, MBBS Inc. transferred their ownership of its Canadian operation to the Canadian Conference of Mennonite Brethren Churches. Upon final dissolution, the Seminary received \$1,698,079 in assets from MBBS Inc. including \$469,515 of loans receivable from students and former students.

**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2012**

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**7. ACTS OBLIGATION**

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The Seminary has agreed to assume responsibility for a portion of ACTS accumulated deficit.

	2012	2011
Due to ACTS, without interest, annual payments of \$9,493, due April 30, 2014	\$ 14,783	\$ --
Current portion	(11,265)	--
	<u>\$ 3,518</u>	<u>\$ --</u>

The aggregate amounts of indebtedness maturing during the next two years are as follows:

Due in 2013	\$ 11,265
Due in 2014	<u>3,518</u>
	<u>\$ 14,783</u>

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**8. FUND BALANCES - RESTRICTED**

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	2012	2011
Internally restricted net assets consist of:		
Student loans	\$776,364	\$ --
Student financial aid	<u>38,878</u>	<u>--</u>
	<u>\$815,242</u>	<u>\$ --</u>
Externally restricted net assets consist of:		
Funds restricted for Scholarships	<u>\$104,601</u>	<u>\$ --</u>

**MENNONITE BRETHREN BIBLICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MAY 31, 2012**

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**9. FUND BALANCES – ENDOWMENT**

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Endowment Fund investments are restricted as follows:

- a) John and Kathryn Froese – The investment income is to be used to honour outstanding communicators of the Gospel at Mennonite Brethren Biblical Seminary.
  - b) Nathan Paul Toews Fund – The investment income is to be used for scholarships to students preparing for a career in the Christian ministry through the Mennonite Brethren denomination.
  - c) Rueben and Emma Baerg Estate Bequest - The investment income is to be used for the development and ministry of the Seminary.
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**10. COMMITMENT**

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The Seminary is committed to giving two years notice to ACTS in the event they decide to withdraw from the consortium.

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**11. ALLOCATION OF EXPENSES**

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The Seminary has adopted the requirements of the new CICA Handbook Section 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations*, which establishes standards for disclosing information about costs allocated between funds.

The Seminary allocates costs, not directly attributable to a fund, based on the time spent.



**MENNONITE BROTHERS BIBLICAL SEMINARY**  
**SCHEDULE OF EXPENSES BY CATEGORY**  
**FOR THE YEAR ENDED MAY 31, 2012**

Schedule I

	General Fund	Restricted Fund	Endowment Fund	2012 Total	(Unaudited) 2011 Total
<b>EXPENDITURES</b>					
Salary and benefits	\$ 408,270	\$ --	\$ --	\$ 408,270	\$ 327,774
Shared costs of ACTS	141,145	--	--	141,145	134,935
Professional and legal fees	64,251	--	--	64,251	--
Advertising and promotion	49,964	--	--	49,964	28,305
Bad debts on student loans	--	41,494	--	41,494	--
Travel	41,125	--	--	41,125	79,580
Miscellaneous	12,321	--	--	12,321	2,345
Foreign exchange loss	10,360	--	--	10,360	--
Student financial aid	--	9,530	--	9,530	13,500
Office supplies	4,567	--	--	4,567	7,629
Amortization	3,072	--	--	3,072	--
Insurance	2,778	--	--	2,778	2,906
Professional development	1,000	--	--	1,000	2,845
Interest and bank charges	966	--	--	966	974
	\$ 739,819	\$ 51,024	\$ --	\$ 790,843	\$ 600,793