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# **MENNONITE BRETHREN BIBLICAL SEMINARY**

## **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MAY 31, 2014**

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Independent Auditors' Report

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Statement 2 – Statement of Operations and Changes in Fund Balances

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Schedule 1 – Schedule of Expenses by Category



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2014 October 6

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## INDEPENDENT AUDITORS' REPORT

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To the Members of the  
**Mennonite Brethren Biblical Seminary**

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

We have audited the accompanying financial statements of the Mennonite Brethren Biblical Seminary which comprise the statement of financial position as at May 31, 2014 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 the Mennonite Brethren Biblical Seminary as at May 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Accountants



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& Tanaka

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Accountants

**MENNONITE BRETHREN BIBLICAL SEMINARY**  
STATEMENT OF FINANCIAL POSITION  
AS AT MAY 31, 2014

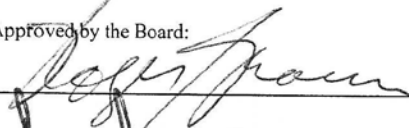

Statement 1

	General Fund	Restricted Fund	Endowment Fund	2014 Total	2013 Total
<b>ASSETS</b>					
<b>CURRENT</b>					
Cash and cash equivalents	\$ 114,533	\$ 37,164	\$ --	\$ 151,697	\$ 110,623
Accounts receivable (Note 6)	38,561	3,400	--	41,961	44,869
Interest receivable	15,385	--	--	15,385	14,895
GST recoverable	19,475	--	--	19,475	16,758
Deposit with Canadian Conference of Mennonite Brethren Churches (Note 3)	651,495	582,305	133,457	1,367,257	1,331,076
Current portion of loans receivable (Note 4)	--	69,130	--	69,130	66,630
	839,449	691,999	133,457	1,664,905	1,584,851
<b>LOANS RECEIVABLE (Note 4)</b>	--	326,662	--	326,662	361,963
<b>PROPERTY, PLANT AND EQUIPMENT (Note 5)</b>	6,854	--	--	6,854	12,996
	\$ 846,303	\$ 1,018,661	\$ 133,457	\$ 1,998,421	\$ 1,959,810
<b>LIABILITIES</b>					
<b>CURRENT</b>					
Accounts payable and accrued liabilities (Note 6)	\$ 29,579	\$ --	\$ --	\$ 29,579	\$ 11,419
Unearned revenue	--	--	--	--	16,650
ACTS obligation	--	--	--	--	12,191
	29,579	--	--	29,579	40,260
<b>FUND BALANCES - Statement 2</b>					
Restricted funds					
Internally restricted (Note 7)	--	896,531	--	896,531	876,401
Externally restricted (Note 7)	--	122,130	--	122,130	86,706
Endowment fund (Note 8)	--	--	133,457	133,457	132,457
Unrestricted	816,724	--	--	816,724	823,986
	816,724	1,018,661	133,457	1,968,842	1,919,550
	\$ 846,303	\$ 1,018,661	\$ 133,457	\$ 1,998,421	\$ 1,959,810

**COMMITMENT (Note 9)**

**CONTINGENT LIABILITY (Note 10)**

Approved by the Board:

  
\_\_\_\_\_  
  
\_\_\_\_\_

Director

Director



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& Tanaka**

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**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MAY 31, 2014**

Statement 2

	General Fund	Restricted Fund	Endowment Fund	2014 Total	2013 Total
<b>REVENUE</b>					
Donations:					
Denomination support (Note 6)	\$ 200,000	\$ 58,461	\$ --	\$ 258,461	\$ 232,154
Individuals	237,435	--	--	237,435	225,008
Congregations	181,788	--	--	181,788	210,708
Endowment	--	--	1,000	1,000	2,200
Other:					
ACTS recovery (Notes 1 and 6)	159,139	--	--	159,139	145,322
CMU recovery (Note 6)	79,486	--	--	79,486	39,842
Investment income	24,451	24,538	--	48,989	46,022
	882,299	82,999	1,000	966,298	901,256
<b>EXPENDITURES</b>					
Shared costs of ACTS (Notes 1 and 6)	340,863	--	--	340,863	326,123
Executive administration	148,368	--	--	148,368	139,627
Fundraising	129,991	--	--	129,991	105,752
Shared costs of Canadian Mennonite University (Note 6)	126,293	--	--	126,293	94,878
Other administration charges	87,939	--	--	87,939	91,863
Student recruitment	58,144	--	--	58,144	38,332
Student financial aid	--	27,420	--	27,420	26,000
Board related expenses	26,273	--	--	26,273	20,683
Learning for life	5,366	--	--	5,366	--
Distance education	2,600	--	--	2,600	--
Bad debts on loans receivable (recovered)	--	25	--	25	(21,523)
Start up costs	--	--	--	--	61,625
Foreign exchange loss (gain)	(36,276)	--	--	(36,276)	(850)
	889,561	27,445	--	917,006	882,510
<b>NET REVENUE (EXPENDITURES) FOR THE YEAR</b>	(7,262)	55,554	1,000	49,292	18,746
<b>FUND BALANCES, BEGINNING OF YEAR</b>	823,986	963,107	132,457	1,919,550	1,900,804
<b>FUND BALANCES, END OF YEAR</b>	\$ 816,724	\$ 1,018,661	\$ 133,457	\$ 1,968,842	\$ 1,919,550



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**MENNONITE BRETHREN BIBLICAL SEMINARY**

Statement 3

 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED MAY 31, 2014

	General Fund	Restricted Fund	Endowment Fund	2014 Total	2013 Total
<b>CASH PROVIDED BY (APPLIED TO):</b>					
<b>OPERATING ACTIVITIES</b>					
Net revenue (expenditures) for the year	\$ (7,262)	\$ 55,554	\$ 1,000	\$ 49,292	\$ 18,746
Items not involving cash:					
- Bad debt and discount on loans receivable	--	25	--	25	(29,293)
- Amortization	6,144	--	--	6,144	6,144
	(1,118)	55,579	1,000	55,461	(4,403)
Changes to non-cash working capital	(2,219)	3,403	--	1,184	(56,091)
	(3,337)	58,982	1,000	56,645	(60,494)
<b>FINANCING ACTIVITIES</b>					
ACTS obligation	(12,191)	--	--	(12,191)	(2,592)
<b>INVESTING ACTIVITIES</b>					
Loans receivable	--	32,801		32,801	40,922
Deposit with Canadian Conference of Mennonite Brethren Churches	28,808	(63,989)	(1,000)	(36,181)	(34,438)
	28,808	(31,188)	(1,000)	(3,380)	6,484
<b>CHANGE IN CASH</b>	13,280	27,794	--	41,074	(56,602)
<b>CASH, BEGINNING OF YEAR</b>	101,253	9,370	--	110,623	167,225
<b>CASH, END OF YEAR</b>	\$ 114,533	\$ 37,164	\$ --	\$ 151,697	\$ 110,623


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# MENNONITE BRETHREN BIBLICAL SEMINARY

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED MAY 31, 2014

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#### 1. OPERATIONS

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Mennonite Brethren Biblical Seminary (MBBS) is a graduate theological school of the Canadian Conference of Mennonite Brethren Churches (CCMBC).

The Seminary was incorporated under the B.C. Society Act in June 1998 in order to facilitate expansion by MBBS Inc. into British Columbia. As of March 31, 2013, MBBS began operating under the authority of the Mennonite Brethren Biblical Seminary Act of the Province of B.C.

MBBS participates as a partner in a consortium of four schools known as the Associated Canadian Theological Schools (ACTS) on the campus of Trinity Western University (TWU). The four members of ACTS are MBBS, Northwest Baptist Seminary, Canadian Baptist Seminary, and Trinity Western Seminary. The consortium is accredited by the Association of Theological Schools, and offers one diploma program, seven masters degree programs and a doctor of ministry program all in theological studies. These programs are designed to provide personal and spiritual enrichment, equip people for professional Christian service and enable research in biblical and 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 Graduate School of Theology and Ministry at CMU.

The Seminary is a registered charity under the Income Tax Act of Canada and is exempt from income taxes.

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#### 2. SIGNIFICANT ACCOUNTING POLICIES

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The 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 reports unrestricted funds.

The Restricted Fund reports restricted assets and restricted fund balances.

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, 2014**

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

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b) Revenue Recognition

Donations, ACTS and CMU recovery are recognized as revenue 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 90 days from the date that they were acquired.

d) Financial Instruments

(i) Measurement

The Seminary initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs attributable to the instrument.

The Seminary subsequently measures all its financial assets and 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 the statement of operations in the period incurred.

Financial assets measured at amortized cost include cash and cash equivalents, accounts receivable, interest receivable, deposits with CCMBC and loans receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, and ACTS obligation.

(ii) Transaction costs

Transaction costs are recognized in the statement of operations in the period incurred, except for financial instruments that will be subsequently measured at amortized cost. Transaction costs associated with financial instruments measured at amortized cost are capitalized and are included in the acquisition costs or deducted against proceeds on disposal.





**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2014**

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

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d) Financial Instruments (Cont'd)

(iii) 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 the 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.

e) Property, Plant and Equipment

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

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

f) Foreign Currency Transactions

The Seminary uses the temporal method to translate its foreign currency transactions. Under this method, monetary balance sheet items are translated at the exchange rates in effect at year-end and non-monetary items are translated at historical exchange rates. Revenue and expenses are translated at the exchange rates in effect on the transaction dates or at the average exchange rates of the period. Translation gains or losses are included in the statement of operations.

g) Use of Estimates

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 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.



**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2014**

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**3. DEPOSIT WITH CANADIAN CONFERENCE OF MENNONITE BRETHREN CHURCHES**

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The investments with CCMBC bear interest at 2.5% per annum. Interest is payable semi-annually and the investments are redeemable at any time without penalty.

As of May 31, 2014, the Seminary has interest receivable of \$15,385 (2013 - \$14,895) from CCMBC.

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**4. LOANS RECEIVABLE**

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	2014	2013
Loans:		
- Interest free	\$465,358	\$487,879
- 3% to 6% per annum	6,974	24,228
	472,332	512,107
Allowance for doubtful accounts	(51,408)	(51,408)
	420,924	460,699
Discount to net present value	(25,132)	(32,106)
	395,792	428,593
Current portion	(69,130)	(66,630)
	\$326,662	\$361,963

The loans receivable are from Canadian and American students who were enrolled in the Mennonite Brethren Biblical Seminary, Inc. (Fresno) graduate program prior to 2011. 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 the individual loan amounts. The loans made to students who belong to the Mennonite Brethren denomination are interest free, while other student loans bear interest between 3% and 6% per annum. The interest-free loans have been discounted using a 2% interest rate.

There have been no new loans issued since 2011.

**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2014**

**5. PROPERTY, PLANT AND EQUIPMENT**

	2014		2013	
	Cost	Accum. Amort.	Cost	Accum. Amort.
Computer equipment and software	\$ 16,808	\$ 14,006	\$ 16,808	\$ 8,404
Furniture and equipment	5,403	1,351	5,403	811
	<u>\$ 22,211</u>	<u>\$ 15,357</u>	<u>\$ 22,211</u>	<u>\$ 9,215</u>
Net Book Value		<u>\$ 6,854</u>		<u>\$ 12,996</u>

**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.

As of May 31, 2014, the Seminary had the following balances with ACTS:

	2014	2013
Accounts receivable	<u>\$ 22,860</u>	<u>\$ 4,678</u>
Accounts payable and accrued liabilities	<u>\$ 15,715</u>	<u>\$ --</u>

During the year, the Seminary had the following transactions with ACTS. These transactions were made in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed upon by the related parties.

	2014	2013
ACTS recovery	<u>\$159,139</u>	<u>\$145,322</u>
Shared costs of ACTS	<u>\$340,863</u>	<u>\$326,123</u>

**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2014**

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**6. RELATED PARTY TRANSACTIONS (Cont'd)**

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- b) MBBS has an affiliation agreement with the Canadian Mennonite University (CMU).

During the year, the Seminary had the following transactions with CMU. These transactions were made in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed upon by the related parties.

	2014	2013
CMU recovery	\$ 79,486	\$ 39,842
Shared costs of CMU	\$126,293	\$ 94,878

- c) The CCMBC has the right to appoint the majority of the Seminary's board of directors. During the year, the Seminary received \$200,000 (2013 - \$200,000) in support from CCMBC for general purposes, CCMBC also contributed \$50,000 (2013 - \$Nil) to accelerate a project that will provide non-credit educational courses to the Mennonite Brethren constituency and \$8,461 (2013 - \$32,154) for scholarships.

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**7. FUND BALANCES - RESTRICTED**

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	2014	2013
Internally restricted net assets consist of:		
Student loans	\$850,592	\$833,647
Student financial aid	45,939	42,754
	<u>\$896,531</u>	<u>\$876,401</u>
Externally restricted net assets consist of:		
Funds restricted for scholarships	\$ 72,130	\$ 86,706
Funds restricted for non-credit educational courses	50,000	--
	<u>\$122,130</u>	<u>\$ 86,706</u>



**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2014**

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**8. FUND BALANCES – ENDOWMENT**

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Endowment Fund investments of \$133,457 are restricted as follows:

- a) \$44,832 (2013 - \$44,832) from John and Kathryn Froese – The investment income is to be used to honour outstanding communicators of the Gospel at Mennonite Brethren Biblical Seminary.
  - b) \$37,170 (2013 - \$36,170) from 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) \$51,455 (2013 - \$51,455) from Rueben and Emma Baerg Estate - The investment income is to be used for the development and ministry of the Seminary.
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**9. COMMITMENT**

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

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**10. CONTINGENT LIABILITY**

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On April 25, 2014, the Canadian Pentecostal Seminary (CPS) left the ACTS consortium and owed \$202,801 to ACTS. CPS and ACTS have developed a repayment plan for the balance owing.

In the event that CPS is unable to make payments towards this outstanding debt, the Seminary is contingently liable for \$50,700 of the balance.

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**11. FINANCIAL RISKS AND CONCENTRATION OF RISK**

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The Seminary is exposed to various risks through its financial instruments. The following provides a measure of the Seminary's risk exposure as at May 31, 2014.

There has been no significant change to the risk exposure from the previous year.

**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2014**

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**11. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)**

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Liquidity risk:

Liquidity risk is the risk that the Seminary will encounter difficulty in meeting obligations associated with liabilities. The Seminary's ability to meet obligations depends on the receipt of donations, the collection of its accounts receivable and loans receivable, and the liquidity of its investments. The Seminary controls liquidity risk by managing its working capital and cash flows.

Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Seminary's main credit risk relates to its accounts receivable and loans receivable. The Seminary maintains, if deemed necessary, provision for potential credit losses, and any such losses to date have been within management's expectations.

Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Consequently, certain assets and liabilities are subject to foreign exchange fluctuations.

As at May 31, 2014, the Seminary has cash and cash equivalents of \$37,164 (2013 - \$9,270) and loans receivable of \$311,811 (2013 - \$308,366) that are denominated in \$US currency, thus resulting in currency risk.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Seminary is exposed to interest rate risk on its deposits with CCMBC, loans receivable and ACTS obligation.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Seminary is not exposed to other price risk.

Concentration of risk:

The Seminary has investments of \$1,367,257 (2013 - \$1,331,076) with CCMBC which result in a concentration of risk.

**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MAY 31, 2014**

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**12. ALLOCATION OF EXPENSES**

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



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**MENNONITE BRETHREN BIBLICAL SEMINARY**  
**SCHEDULE OF EXPENSES BY CATEGORY**  
**FOR THE YEAR ENDED MAY 31, 2014**

Schedule 1

	General Fund	Restricted Fund	Endowment Fund	2014 Total	2013 Total
<b>EXPENDITURES</b>					
Salary and benefits	\$ 616,660	\$ --	\$ --	\$ 616,660	\$ 523,879
Shared costs of ACTS	150,879	--	--	150,879	145,686
Professional fees	42,210	--	--	42,210	67,056
Advertising and promotion	37,152	--	--	37,152	65,816
Travel	43,537	--	--	43,537	43,059
Student financial aid	--	27,420	--	27,420	26,000
Miscellaneous	13,136	--	--	13,136	6,164
Office supplies	8,893	--	--	8,893	8,567
Amortization	6,143	--	--	6,143	6,144
Office furniture and Equipment	3,350	--	--	3,350	8,878
Insurance	2,302	--	--	2,302	2,358
Interest and bank charges	1,374	--	--	1,374	976
Professional development	201	--	--	201	300
Bad debts on loans receivable (recovered)	--	25	--	25	(21,523)
Foreign exchange loss (gain)	(36,276)	--	--	(36,276)	(850)
	\$ 889,561	\$ 27,445	\$ --	\$ 917,006	\$ 882,510



**Barkman  
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