

CHRISTIAN STEWARDSHIP SERVICES

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

CHRISTIAN STEWARDSHIP SERVICES
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YEAR ENDED JUNE 30, 2014

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Chartered Accountants
and Business Advisors

People Count

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of: Christian Stewardship Services

We have audited the accompanying financial statements of Christian Stewardship Services, which comprise the statement of financial position as at June 30, 2014 and the statements of changes in fund balances, revenues and expenditures - general fund, receipts and disbursements - restricted fund 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Christian Stewardship Services as at June 30, 2014 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.

Other Matter

The financial statements of the prior year were audited by the predecessor auditor with an audit report dated October 4, 2013. The predecessor auditor expressed an opinion which stated that the financial statements presented fairly in all material respects.

Guelph, Ontario
September 19, 2014

RLBLLP

Chartered Accountants
Licensed Public Accountants

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CHRISTIAN STEWARDSHIP SERVICES
 STATEMENT OF FINANCIAL POSITION
 AS AT JUNE 30, 2014

	2014	2013
ASSETS		
CURRENT		
Cash	\$ 100,758	\$ 228,703
Short term investments	103,270	0
Accounts receivable	27,686	21,329
Prepaid expenses	6,030	5,000
	<u>237,744</u>	<u>255,032</u>
CAPITAL ASSETS (note 4)	<u>11,300</u>	<u>11,574</u>
TOTAL GENERAL FUND ASSETS	<u>249,044</u>	<u>266,606</u>
RESTRICTED ASSETS - designated for restricted liabilities and reserves		
Restricted Assets - Deposits and endowments	40,562,076	31,872,334
Restricted Assets - Annuities	5,464,072	5,038,808
Total Investments (note 7)	<u>46,026,148</u>	<u>36,911,142</u>
	<u>\$ 46,275,192</u>	<u>\$ 37,177,748</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ <u>26,011</u>	\$ <u>27,970</u>
RESTRICTED LIABILITIES (note 8)		
Restricted Fund obligations - Deposits	35,315,943	27,154,555
Restricted Fund obligations - Endowments	5,210,290	4,679,240
Restricted Fund obligations - Annuities	4,886,213	4,432,548
Total Restricted Fund obligations	<u>45,412,446</u>	<u>36,266,343</u>
NET ASSETS		
UNRESTRICTED GENERAL FUND	223,033	238,635
RESTRICTED RESERVE (ANNUITIES)	577,859	606,260
RESTRICTED RESERVE (DEPOSITS)	35,843	38,540
	<u>836,735</u>	<u>883,435</u>
	<u>\$46,275,192</u>	<u>\$37,177,748</u>

APPROVED ON BEHALF OF THE BOARD:

 Director
 Director

See notes to the financial statements

CHRISTIAN STEWARDSHIP SERVICES
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
UNRESTRICTED GENERAL FUND		
NET ASSETS, beginning of year	\$ 238,635	\$ 176,668
Net (deficit) surplus for the year	<u>(15,602)</u>	<u>61,967</u>
NET ASSETS, end of year	<u>\$ 223,033</u>	<u>\$ 238,635</u>
RESTRICTED FUND RESERVE - ANNUITIES		
NET ASSETS, beginning of year	\$ 606,260	\$ 721,989
Transfers for the year	<u>(28,401)</u>	<u>(115,729)</u>
NET ASSETS, end of year	<u>\$ 577,859</u>	<u>\$ 606,260</u>
RESTRICTED FUND RESERVE - DEPOSITS		
NET ASSETS, beginning of year	\$ 38,540	\$ 65,011
Transfers for the year	<u>(2,697)</u>	<u>(26,471)</u>
NET ASSETS, end of year	<u>\$ 35,843</u>	<u>\$ 38,540</u>

CHRISTIAN STEWARDSHIP SERVICES
STATEMENT OF REVENUES AND EXPENSES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	2014 Budget (note 5)	2014	2013
REVENUES			
Partner fees	\$ 245,140	\$ 242,078	\$ 237,558
School sponsor fees	32,000	34,320	29,131
Administration fees	305,000	313,810	265,896
Consulting fees	10,000	7,756	0
Portfolio management fees	75,500	78,695	68,677
Gift disbursement fees	25,000	11,852	16,817
Partnership activity completion fees	0	0	9,800
Donations to CSS	1,500	355	203
Cost recovery and consultation	7,000	12,335	13,034
Interest and other income	900	4,076	944
	<u>702,040</u>	<u>705,277</u>	<u>642,060</u>
EXPENDITURES			
Advertising and marketing	18,000	21,063	5,949
Amortization	4,000	2,877	4,872
Board meetings	4,500	3,402	3,963
Insurance	5,000	2,533	3,049
Interest and bank charges	1,000	938	192
Membership fees	5,000	4,855	3,108
Office expenses	11,200	14,330	11,632
Office equipment and computer upgrade	2,000	4,018	5,112
Professional and consulting fees	13,500	32,545	16,529
Rent	17,440	16,863	16,635
Salaries	560,400	554,636	457,785
Staff education	10,000	4,450	7,083
Telephone	10,000	10,780	9,801
Travel	40,000	47,289	34,070
Uncollectible accounts	0	300	313
	<u>702,040</u>	<u>720,879</u>	<u>580,093</u>
(DEFICIT) SURPLUS FROM GENERAL OPERATIONS	<u>\$ 0</u>	<u>\$ (15,602)</u>	<u>\$ 61,967</u>

CHRISTIAN STEWARDSHIP SERVICES

STATEMENT OF RECEIPTS AND DISBURSEMENTS - RESTRICTED FUND

FOR THE YEAR ENDED JUNE 30, 2014

	Deposits and Endowments	Annuities	Total 2014	Total 2013
RECEIPTS				
Deposit agreements	\$ 7,135,986	\$ 0	\$ 7,135,986	\$ 4,229,951
Annuities	0	585,000	585,000	275,000
Bequests	326,431	0	326,431	136,849
Endowments	575,106	0	575,106	342,236
Life insurance premiums	154,992	0	154,992	155,492
Donations of life insurance	203,185	0	203,185	60,922
Designated gifts	3,256,404	0	3,256,404	1,137,151
	<u>11,652,104</u>	<u>585,000</u>	<u>12,237,104</u>	<u>6,337,601</u>
INCOME				
Investment income	2,520,038	416,417	2,936,455	1,741,398
Change in fair market value of investments (note 6)	(44,697)	(39,618)	(84,315)	379,035
	<u>2,475,341</u>	<u>376,799</u>	<u>2,852,140</u>	<u>2,120,433</u>
	<u>14,127,445</u>	<u>961,799</u>	<u>15,089,244</u>	<u>8,458,034</u>
DISBURSEMENTS				
Paid to agreement holders	2,287,100	0	2,287,100	2,387,288
Gifts disbursed to charities	2,604,576	39,278	2,643,854	2,319,984
Annuity payments	0	479,316	479,316	481,278
Administration and management fees	391,036	17,941	408,977	354,827
Life insurance premiums	154,992	0	154,992	155,492
	<u>5,437,704</u>	<u>536,535</u>	<u>5,974,239</u>	<u>5,698,869</u>
Excess of receipts over disbursements	8,689,741	425,264	9,115,005	2,759,165
Transfer from reserve	2,697	28,401	31,098	142,200
	<u>8,692,438</u>	<u>453,665</u>	<u>9,146,103</u>	<u>2,901,365</u>
RESTRICTED LIABILITIES, beginning of year	<u>31,833,795</u>	<u>4,432,548</u>	<u>36,266,343</u>	<u>33,364,978</u>
RESTRICTED LIABILITIES, end of year	<u>\$ 40,526,233</u>	<u>\$ 4,886,213</u>	<u>\$ 45,412,446</u>	<u>\$ 36,266,343</u>

CHRISTIAN STEWARDSHIP SERVICES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
(Deficit) surplus from general operations for the year	\$ (15,602)	\$ 61,967
Items not requiring an outlay of cash		
Amortization	2,877	4,872
Transfer from reserve	<u>(31,098)</u>	<u>(142,200)</u>
	(43,823)	(75,361)
Changes in non-cash working capital		
Accounts receivable	(6,357)	(3,018)
Prepaid expenses	(1,030)	0
Accounts payable and accrued liabilities	<u>(1,959)</u>	<u>4,680</u>
	<u>(53,169)</u>	<u>(73,699)</u>
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Additions to capital assets	(2,604)	(8,405)
Restricted assets	(8,736,276)	(5,801,002)
Restricted liabilities	9,134,980	2,901,365
Short term investments	<u>(103,270)</u>	<u>0</u>
	<u>292,830</u>	<u>(2,908,042)</u>
NET INCREASE (DECREASE) IN CASH	239,661	(2,981,741)
NET CASH, BEGINNING OF YEAR	<u>1,425,376</u>	<u>4,407,117</u>
NET CASH, END OF YEAR	<u>\$ 1,665,037</u>	<u>\$ 1,425,376</u>
CASH CONSISTS OF:		
Cash	\$ 100,758	\$ 228,703
Cash - restricted	<u>1,564,279</u>	<u>1,196,673</u>
	<u>\$ 1,665,037</u>	<u>\$ 1,425,376</u>

CHRISTIAN STEWARDSHIP SERVICES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. NATURE OF ORGANIZATION

Christian Stewardship Services is a not for profit organization incorporated under the laws of Ontario without share capital and is a registered charity under the Income Tax Act. Christian Stewardship Services is exempt from income tax. Its purpose is to provide financial counselling services and educational seminars to individuals in order to promote and encourage Christian principles of giving and stewardship, as well as, acting as an investment portfolio manager which provides mortgages to qualified Christian organizations and manages funds on behalf of its investors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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) REVENUE RECOGNITION

The organization follows the restricted fund method of accounting for contributions in which externally restricted contributions are recognized upon receipt in the appropriate fund corresponding to the purpose for which they were contributed. Externally restricted contributions of the general fund are recognized as revenue when the related expenditure occurs. Unrestricted contributions are recognized in the general fund when received or receivable and collection is reasonably assured.

(b) INVESTMENTS

The organization accounts for its investments quoted in an active market at fair value without any adjustment for transaction costs it may incur on the sale or other disposal.

(c) CAPITAL ASSETS

Capital assets are recorded at cost and amortized on the basis of their estimated useful life using the following methods and rates:

Furniture and equipment	- 20 % declining balance basis
Computer hardware	- 30 % declining balance basis
Leasehold improvements	- 5 years straight line basis
Computer software	- 30 % declining balance basis

Amortization is recorded at 50% of the above rates in the year of addition.

(d) IMPAIRMENT OF LONG LIVED ASSETS

Long lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

CHRISTIAN STEWARDSHIP SERVICES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles for not for profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant areas requiring management's estimates include collectibility of mortgages and loans and the actuarial liabilities of the Restricted Fund annuities. Actual results could differ from those estimates.

The organization's policy is to obtain an actuarial valuation of the Restricted Fund annuities every three years. A report on the actuarial liabilities as of June 30, 2013 followed accepted actuarial practices in Canada. This report made assumptions regarding mortality, rate of return on investments, reinvestment of the provincial bonds, future interest rates, administration expenses and future inflation rates.

(f) FINANCIAL INSTRUMENTS

Measurement of financial instruments

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

The organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for bonds and equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in net surplus.

Financial assets measured at amortized cost include cash, accounts receivable, mortgages, loans, deposit agreements, short term investments, annuities and endowments.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, restricted fund deposit obligations and restricted fund annuity obligations.

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. If an impairment has occurred, the carrying amount of financial assets measured at amortized cost is reduced to the greater of the discounted future cash flows expected or the proceeds that could be realized from the sale of the financial asset. The amount of the write-down is recognized in net surplus. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net surplus.

(g) CONTRIBUTED SERVICES

During the year, a number of volunteers contribute a significant amount of their time. Because of the difficulty in determining the fair value, contributed services are not recorded in the financial statements.

CHRISTIAN STEWARDSHIP SERVICES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) FUND ACCOUNTING

General fund

The general fund reports resources available for the organization's counselling and education programs and administrative activities.

Restricted fund

The restricted fund reports the receipts and disbursements relating to the deposit agreements, designated gifts, remainder trusts, life insurance policies, endowments and annuities. The restricted fund disbursements are made according to the agreements made with each individual donor. A brief description of the major funds follows:

- i) The deposit agreements are revocable and the interest earned is shared between the deposit holder and their preferred charities or can be paid entirely to charity.
- ii) Designated gifts are general gifts given to the organization that still need to be distributed to charities in the future.
- iii) Remainder trusts allow the donor to continue to receive income. At some future date, the principal will be disbursed to the charity stipulated in the agreement.
- iv) The organization is the beneficiary of the life insurance policies. The life insurance proceeds will be distributed to the charities selected by the donor of the policy upon their death.
- v) Endowments are irrevocable gifts which may perpetually pay annual interest income or pay interest and capital to the charities stipulated in the agreement according to the agreed schedule of distribution.
- i) The annuities are charitable gift annuities which pay an annual guaranteed lifetime income, with any residual upon death being given to the charities designated in the agreement.

3. FINANCIAL INSTRUMENTS

The organization's financial instruments consist of cash, temporary investments, accounts receivable, accounts payable and accrued liabilities, callable debt, due to related company and long term debt. Unless otherwise noted, it is management's opinion that the organization is not exposed to significant interest, credit, currency, liquidity, or other price risks arising from these financial instruments.

The extent of the organization's exposure to these risks did not change in 2014 compared to the previous period.

The organization does not have a significant exposure to any individual customer or counterpart.

Transacting in financial instruments exposes the organization to certain financial risks and uncertainties. These risks include:

Credit risk

The organization is exposed to credit risk which may result from failure to collect loans, mortgages or interest charges. This risk is mitigated by obtaining security in excess of the loan amounts, by monitoring the organization's payment history and by limiting the proportion of total loans to a single entity.

CHRISTIAN STEWARDSHIP SERVICES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

3. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The organization's liabilities bear interest at the average rate of return on its investment portfolio. Accordingly, it is management's opinion that the organization is not exposed to significant interest rate risk.

Currency risk

The organization holds foreign equities and other investments which exposes it to the risk of fluctuating exchange rates. This risk is mitigated by limiting the organization's exposure to foreign investments. As at June 30, 2014, foreign investments constituted 10.4% (2013 - 4.3%) of the organization's Restricted Fund investments. Foreign investments are quoted in Canadian dollars through the related portfolios. As such, any gains or losses of exchange are captured in the fair market value adjustments made to those investments.

Market risk

A portion of the organization's investments consist of Canadian and foreign equities. These portfolio investments are subject to market fluctuations that impact the organization's rate of return on investment and the amounts it is able to pay depositors and annuitants. This risk is mitigated by monitoring the performance of the portfolio and by redirecting these equities to fixed rate loans, mortgages and bonds when appropriate.

Liquidity risk

Liquidity risk is the risk that the organization will encounter difficulty in meeting obligations associated with financial liabilities. The organization controls liquidity risk by management of working capital, cash flows and the availability of borrowing facilities.

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net 2014	Net 2013
Furniture and equipment	\$ 4,598	\$ 3,395	\$ 1,203	\$ 1,269
Equipment	19,931	15,321	4,610	3,982
Leasehold improvements	2,169	1,783	386	579
Computer software	<u>8,206</u>	<u>3,105</u>	<u>5,101</u>	<u>5,744</u>
	<u>\$ 34,904</u>	<u>\$ 23,604</u>	<u>\$ 11,300</u>	<u>\$ 11,574</u>

5. BUDGET

The budget figures are unaudited and are presented for information purposes only.

CHRISTIAN STEWARDSHIP SERVICES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

6. CHANGE IN FAIR MARKET VALUE OF INVESTMENTS

The organization records all bonds and equity instruments that are quoted in an active market at fair market value. The change from one year to the next is recorded through the specified restricted fund balance as outlined below. The changes in fair market value for the year ended, June 30, 2014 are as follows:

	Deposits	Annuities	Total
June 30, 2013			
Fair market value	\$ 7,431,366	\$ 3,790,324	\$ 11,221,690
Cost	<u>6,919,319</u>	<u>3,548,343</u>	<u>10,467,662</u>
Excess	<u>512,047</u>	<u>241,981</u>	<u>754,028</u>
June 30, 2014			
Fair market value	11,460,698	4,095,932	15,556,630
Cost	<u>10,993,348</u>	<u>3,893,569</u>	<u>14,886,917</u>
Excess	<u>467,350</u>	<u>202,363</u>	<u>669,713</u>
Total decrease in FMV	<u>\$ (44,697)</u>	<u>\$ (39,618)</u>	<u>\$ (84,315)</u>

7. RESTRICTED FUND INVESTMENTS

	2014	2013
Provincial bonds	\$ 1,295,429	\$ 2,795,272
Institutional mortgages and loans	28,090,331	23,854,396
Cash - restricted	1,564,279	1,196,673
Life insurance policies	965,652	762,466
Accrued interest receivable	9,600	58,510
Accrued receivable	4,874	6,207
Less: deferred income to be distributed	(20,549)	(31,871)
Less: reserve for possible losses on loans and mortgages	<u>(144,669)</u>	<u>(98,420)</u>
	<u>31,764,947</u>	<u>28,543,233</u>
Investments held by fund manager		
Cash and equivalents	1,777,758	388,244
Government and corporate bonds	5,416,997	3,788,143
Canadian equities	2,439,958	1,460,078
U.S. and international equities	<u>4,626,488</u>	<u>2,731,444</u>
	<u>14,261,201</u>	<u>8,367,909</u>
	<u>\$ 46,026,148</u>	<u>\$ 36,911,142</u>

The current portion of these restricted fund investments, the portion that is due by the end of the next fiscal year is \$2,078,700 (2013 - \$5,618,893).

The bonds have maturity dates from 2014 to 2017 and coupon rates ranging from 6.00% to 8.50%, which approximates their yield rates. Bonds held by the fund manager earn from 1.33% to 9.98% and have maturity dates between 2014 and 2045.

Loans and mortgages mature at various dates from July 2014 to June 2020 and earn interest at rates that range from 5.0% to 8.0%.

CHRISTIAN STEWARDSHIP SERVICES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

8. RESTRICTED FUND DEPOSIT OBLIGATIONS

	2014	2013
Deposit agreements	\$ 30,201,322	\$ 24,344,263
Deferred annuities	31,550	29,837
Designated gifts	3,645,834	1,752,426
Remainder trusts	127,756	127,645
Life insurance policies	965,651	762,466
Excess of distributions over investment earnings	<u>343,830</u>	<u>137,918</u>
	35,315,943	27,154,555
Endowments	5,210,290	4,679,240
Annuities	<u>4,886,213</u>	<u>4,432,548</u>
	<u>\$ 45,412,446</u>	<u>\$ 36,266,343</u>

9. RESTRICTED FUND RESERVE - ANNUITIES

A report on the actuarial liabilities of the annuities was received in September 2013. This report indicated that the actuarial liabilities exceeded the carrying value of the Restricted Fund annuity assets by \$487. The liability for the current year was calculated as follows:

Present value of annuity payments	\$ 3,427,276
Present value of gift remainders	1,911,439
Present value of future administration expenses	<u>144,078</u>
Total liabilities	5,482,793
Total assets	<u>5,464,072</u>
Assets less liabilities	<u>\$ (18,721)</u>