

Souls Harbour Rescue Mission

Financial Statements

June 30, 2020

Souls Harbour Rescue Mission
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June 30, 2020

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A Member Firm of The AC Group of Independent Accounting Firms Limited

Independent Auditor's Report

To the Members of
Souls Harbour Rescue Mission

Qualified Opinion

We have audited the financial statements of Souls Harbour Rescue Mission, which comprise the statement of financial position as at June 30, 2020, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Souls Harbour Rescue Mission as at June 30, 2020 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.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the organization derives revenue from fundraising activities 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 the organization. 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 years ended June 30, 2020 and 2019, current assets as at June 30, 2020 and 2019, and net assets as at July 1 and June 30 for both the 2020 and 2019 years. Our audit opinion on the financial statements for the year ended June 30, 2019 was modified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASNPO, 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.

Independent Auditor's Report, continued

In preparing the financial statements, management is responsible for assessing the organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ♦ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit 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 organization's internal control.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ♦ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.

Independent Auditor's Report, continued

- ♦ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Bedford, Nova Scotia
November 29, 2020

RGH Inc.
Chartered Professional Accountants, Licensed
Public Accountants

Souls Harbour Rescue Mission
Statement of Financial Position
June 30

	2020	2019
ASSETS		
CURRENT		
Cash	\$ 896,809	\$ 459,795
Accounts receivable	56,204	-
Prepaid expenses	1,827	1,822
Government remittances receivable	34,967	58,784
	989,807	520,401
PROPERTY, PLANT AND EQUIPMENT (note 3)	1,349,904	1,231,627
DEFERRED LEASE COST (note 4)	228,938	277,500
	\$ 2,568,649	\$ 2,029,528
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 71,252	\$ 26,273
Canada Emergency Business Account (note 5)	40,000	-
Current portion of long-term debt	39,979	44,456
Current portion of capital lease obligation	9,540	9,540
	160,771	80,269
LONG-TERM DEBT (note 6)	578,506	718,673
CAPITAL LEASE OBLIGATION (note 7)	2,385	11,926
	741,662	810,868
SUBSEQUENT EVENTS (note 8)		
NET ASSETS	1,826,987	1,218,660
	\$ 2,568,649	\$ 2,029,528

On behalf of the Board

_____ Member

See accompanying notes to the financial statements

Souls Harbour Rescue Mission
Statement of Operations
Year ended June 30

	2020	2019
REVENUES		
General Donations	\$ 1,503,488	\$ 997,765
Mission Mart Revenue	923,544	716,905
Grant Revenue	134,017	238,691
	2,561,049	1,953,361
EXPENDITURES		
Wages and benefits	752,621	625,490
Rent	459,750	233,805
Advertising and promotion	295,076	253,551
Office and administration	66,527	70,291
Amortization	59,891	45,121
Utilities	55,638	55,269
Repairs and maintenance	38,128	42,854
Interest and bank charges	26,702	12,357
Interest on long-term debt	23,252	33,381
Professional fees	22,705	8,963
Insurance	14,183	13,392
Telephone and internet	9,094	9,467
Subscriptions, permits and licenses	8,154	9,503
Travel and automotive	8,120	14,378
Property taxes	3,037	4,128
	1,842,878	1,431,950
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER ITEMS	718,171	521,411
OTHER EXPENSES (INCOME)		
Gain on foreign exchange	-	(2,094)
Rental income	(4,500)	(6,800)
Ministry	114,344	66,349
	109,844	57,455
EXCESS OF REVENUES OVER EXPENDITURES	\$ 608,327	\$ 463,956

See accompanying notes to the financial statements

Souls Harbour Rescue Mission
Statement of Changes in Net Assets
Year ended June 30

	2020	2019
BALANCE, BEGINNING OF YEAR	\$ 1,218,660	\$ 754,704
Excess of revenues over expenditures	<u>608,327</u>	<u>463,956</u>
BALANCE, END OF YEAR	\$ 1,826,987	\$ 1,218,660

See accompanying notes to the financial statements

Souls Harbour Rescue Mission
Statement of Cash Flows
Year ended June 30

	2020	2019
OPERATING ACTIVITIES		
Excess of revenues over expenditures	\$ 608,327	\$ 463,956
Adjustment for		
Amortization	<u>59,891</u>	<u>45,121</u>
	668,218	509,077
Change in non-cash working capital items		
Accounts receivable	(56,204)	-
Prepaid expenses	(5)	(876)
Government remittances receivable	23,817	14,590
Accounts payable and accrued liabilities	44,979	15,583
Deferred revenue	-	(10,000)
Canada Emergency Business Account	<u>40,000</u>	<u>-</u>
	<u>720,805</u>	<u>528,374</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(178,170)	(468,057)
Deferred lease cost	<u>48,564</u>	<u>22,500</u>
	<u>(129,606)</u>	<u>(445,557)</u>
FINANCING ACTIVITIES		
Repayment of callable debt	-	(680,127)
Repayment of long-term debt	(184,644)	(34,637)
Proceeds of long-term debt	-	797,766
Repayment of capital lease obligation	(9,541)	(7,155)
Proceeds of capital lease obligation	<u>-</u>	<u>28,621</u>
	<u>(194,185)</u>	<u>104,468</u>
NET INCREASE IN CASH	397,014	187,285
CASH, BEGINNING OF YEAR	<u>459,795</u>	<u>272,510</u>
CASH, END OF YEAR	<u>\$ 856,809</u>	<u>\$ 459,795</u>

See accompanying notes to the financial statements

1. Nature of operations

Souls Harbour Rescue Mission is a not-for-profit organization. The mission is aimed at providing food, shelter, and basic hygiene necessities to homeless and low income senior citizens in the Halifax area. Souls Harbour also rescues people from poverty, addiction and despair, by offering emergency help, such as food and clothing, life-changing programs, and the Gospel Message.

The mission is a registered charity and therefore exempt from tax under the Canadian Income Tax Act.

2. Significant accounting policies

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations. The precise determination of many assets and liabilities is dependent on future events. As a result, the preparation of financial statements for a period involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates and approximations. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized as follows.

(a) Cash

Cash consists of balances with financial institutions.

(b) Deferred lease costs

Deferred lease costs are amortized on a straight-line basis over the term of the lease.

(c) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the purchase cost method.

2. Significant accounting policies, continued

(d) Property, plant and equipment

Property, plant and equipment are recorded at cost. The organization provides for amortization using the declining balance method at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates are as follows:

Buildings	4%
Equipment	20%
Computer equipment	50%
Computer software	50%
Signs	20%
Asset under capital lease	20%

(e) Revenue recognition

The organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

Externally restricted contributions for the purchase of property, plant and equipment that will be amortized are recorded as deferred capital contributions and recognized as revenue on the same basis as the amortization expense related to the acquired property, plant and equipment. Externally restricted contributions for the purchase of property, plant and equipment that will not be amortized are recognized as direct increases in net assets to the Investment in Capital Assets balance.

Revenue from sale of clothing is recognized when the goods are delivered, services are rendered, amounts become collectible, persuasive evidence of an arrangement exists and collection is reasonably assured.

(f) Donated material and services

Donated capital and investments are recorded in the financial statements at fair value on the date of the donation. Donated materials and services are not recorded because the fair market value is not readily determinable. With the exception of volunteer time, such material and services are not significant.

Souls Harbour Rescue Mission
Notes to the Financial Statements
June 30, 2020

2. Significant accounting policies, continued

3. Property, plant and equipment

	2020		2019	
	Cost	Accumulated amortization	Net	Net
Land	\$ 309,600	\$ -	\$ 309,600	\$ 309,600
Buildings	1,066,019	113,015	953,004	812,982
Equipment	71,295	36,465	34,830	41,168
Computer equipment	4,841	3,601	1,240	2,481
Computer software	7,978	6,167	1,811	3,622
Signs	40,017	11,205	28,812	36,015
	1,499,750	170,453	1,329,297	1,205,868
Asset under capital lease	28,621	8,014	20,607	25,759
	\$ 1,528,371	\$ 178,467	\$ 1,349,904	\$ 1,231,627

4. Deferred lease cost

	2020		2019	
Deferred lease cost	\$ 228,938		\$ 277,500	

Deferred lease costs consists of \$25,000 and \$275,000 paid to Banc Holdings Inc. to be used towards the construction cost of the building, and are used as a reduction off of the lease payments from \$17 to \$15 per square foot of the leased premises. These costs are amortized on a straight-line basis over the term of the lease. The term of the lease is for a period of 10 years commencing on October 1, 2018. The organization has the option to purchase the property at any time during the lease term for \$2,930,000.

5. Canada Emergency Business Account

iNova Credit Union Canada Emergency Business Account. 0.00% interest and no payments until December 31, 2022. Beginning January 1, 2023, interest accrues at 5% per annum, payable monthly. Up to \$10,000 is forgivable if the balance of the loan is repaid on or before December 31, 2022. Loan must be repaid by December 31, 2025.

Souls Harbour Rescue Mission
Notes to the Financial Statements
June 30, 2020

6. Long-term debt

	2020	2019
iNova Credit Union 4.50% loan, payable \$937 monthly including interest, due on demand	\$ -	\$ 117,639
iNova Credit Union 4.00% loan, payable \$2,959 monthly including interest, due on demand	347,238	363,098
iNova Credit Union 4.75% loan, payable \$2,334 monthly including interest, due on demand	271,247	282,392
	618,485	763,129
Less current portion	39,979	44,456
Due beyond one year	\$ 578,506	\$ 718,673

The organization is required to meet a specified debt service coverage ratio of not less than 1.20:1 under its lending agreement and the financial institution requires postponement of advances.. The organization is in compliance with these covenants as of the balance sheet date

- (a) General security agreement to be registered under PPSA
- (b) Collateral mortgage registered on property located at 5568 Cunard Street, Halifax, Nova Scotia
- (c) Collateral mortgage registered on property located at 136 Pleasant Street, Bridgewater, Nova Scotia
- (d) Collateral mortgage registered on property located at 130 King Street, Truro, Nova Scotia
- (e) Assignment of credit balances for \$59,450

Estimated principal repayments are as follows:

2021	\$ 39,979
2022	41,648
2023	43,391
2024	45,212
2025	47,113
Subsequent years	401,142
	\$ 618,485

Souls Harbour Rescue Mission
Notes to the Financial Statements
June 30, 2020

6. Long-term debt, continued

7. Capital lease obligation

	2020	2019
Accurate Leasing capital lease contract with POS equipment pledged as security, repayable in monthly installments of \$795 with a maturity date of October 2021 and a purchase option of \$10.00 at maturity	\$ 11,925	\$ 21,466
Less current portion	9,540	9,540
Due beyond one year	\$ 2,385	\$ 11,926
Estimated principal repayments are as follows:		
2021	\$ 9,540	
2022	2,385	
	\$ 11,925	

8. Subsequent event

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic, which continues to spread in Canada and around the world.

As a result of the pandemic, there has been increased foot traffic across all locations not including Mission Mart. Donation amounts and cost per meals have increased to follow the health guidelines set out by the government including packaging and sealing the meals and other safety regulations. Mission Mart store closed doors on March 20 and reopened in July 2020.

As at November 20, 2020, management is of the opinion their business is considered essential service and they continue to operate as per status quo, with the exception of implementing required health guidelines to the daily operations. It is the management's opinion that in the unlikely event of a negative fallout due to the pandemic, it would be minimal and likely short lived.

Given the circumstances related to the COVID-19 pandemic, we are unable to estimate with any certainty the potential impact on the Organization's operations as at the date of these financial statements.

9. Wages and benefits

During the year, the Organization received Canada Emergency Wage Subsidy in the amount of \$132,904 and the 10% Temporary Wage Subsidy in the amount of \$17,899. The amounts have been included as a reduction to wages and benefits expense.

10. Financial instruments risks and uncertainties

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

10. Financial instruments risks and uncertainties, continued

(a) Foreign exchange risk

The organization is exposed to foreign exchange risk in United States dollars. Foreign exchange risk is the risk that the exchange rate that was in effect on the date that an obligation in a foreign currency was made to the organization by a customer, or that an obligation in a foreign currency was made to the organization to a supplier, is different at the time of settlement than it was at time that the obligation was determined. The organization reduces its exposure to foreign exchange risk by carefully monitoring exchange rates on obligations that are made to the organization and engaging in hedges when there is a significant risk of exchange rate movement. The organization did not have any hedges at the time that the financial statements were issued. The organization does not utilize financial instruments to manage its foreign exchange risk. The organization maintains adequate foreign currency balances in its bank provided by its customers that discharged their obligations to the organization in the related currency, to discharge its related foreign currency obligations. In the opinion of management the foreign exchange risk exposure to the company is low and is not material.

(b) Liquidity risk

The organization does have a liquidity risk in the accounts payable and accrued liabilities of \$71,252 (2019 - \$26,273). Liquidity risk is the risk that the organization cannot repay its obligations when they become due to its creditors. The organization reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the organization is low and is not material.

(c) Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount, such as a debt instrument held with a floating interest rate. The organization is exposed to cash flow risk given they have two outstanding mortgages that require monthly payments to be made.