

THE PENTECOSTAL ASSEMBLIES OF CANADA
NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

THE PENTECOSTAL ASSEMBLIES OF CANADA
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YEAR ENDED DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Members of: The Pentecostal Assemblies of Canada

Opinion

We have audited the accompanying non-consolidated financial statements of The Pentecostal Assemblies of Canada, which comprise the non-consolidated statement of financial position as at December 31, 2019 and the non-consolidated statements of changes in operating and fund balances, operating fund activities, trust fund and property fund activities and 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, these non-consolidated financial statements present fairly, in all material respects, the financial position of The Pentecostal Assemblies of Canada as at December 31, 2019 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 of Opinion

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 opinion.

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

Management is responsible for the preparation and fair presentation of the non-consolidated 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 non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, management is responsible for assessing the organization's ability to continue as a going concern, disclosing, as applicable, matters related to a 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 non-consolidated 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 non-consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the non-consolidated financial statements is located at RLB LLP's website at: www.rlb.ca/additional-auditor-responsibilities-non-consolidated. This description forms part of our auditor's report.



Guelph, Ontario
March 11, 2020

Chartered Professional Accountants
Licensed Public Accountants
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THE PENTECOSTAL ASSEMBLIES OF CANADA
NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

	Operating Funds	Trust Funds (note 16)	Property Funds	2019 Total	2018 Total
ASSETS					
CURRENT					
Cash (note 23)	\$ 867,379	\$ 0	\$ 0	\$ 867,379	\$ 3,998,575
Accounts receivable	161,203	107,887	0	269,090	304,925
Due from (to) other funds	9,012	(9,012)	0	0	0
Inventory and prepaids	95,520	0	0	95,520	70,228
Interfund investment (note 13)	5,621,654	(5,621,654)	0	0	0
Due from related parties (note 20)	0	0	0	0	312,267
Current portion of mission loans receivable (note 9)	0	818,294	0	818,294	738,794
	<u>6,754,768</u>	<u>(4,704,485)</u>	<u>0</u>	<u>2,050,283</u>	<u>5,424,789</u>
Mission loans receivable (note 9)	0	7,719,364	0	7,719,364	8,748,370
Long term investments (note 10)	3,984,941	10,140,361	0	14,125,302	10,535,278
Property, land and equipment (note 11)	0	0	2,445,838	2,445,838	2,503,559
Trust fund - land (note 11)	0	3,000,000	0	3,000,000	3,000,000
Long term investments held to fund annuities (note 8)	0	1,792,838	0	1,792,838	1,647,228
Preferred shares held in PFSG (note 17)	0	1,928,373	0	1,928,373	1,787,523
Investment in PFSG (note 17)	1,335	0	0	1,335	1,468
Investment in CSC (note 18)	1,997	0	0	1,997	1
	<u>\$ 10,743,041</u>	<u>\$ 19,876,451</u>	<u>\$ 2,445,838</u>	<u>\$ 33,065,330</u>	<u>\$ 33,648,216</u>
LIABILITIES					
CURRENT					
Accounts payable and accrued liabilities	\$ 321,623	\$ 347,789	\$ 0	\$ 669,412	\$ 725,920
Due to related parties (note 20)	423,346	0	0	423,346	0
Current portion of loans payable (note 12)	0	252,195	0	252,195	301,996
	<u>744,969</u>	<u>599,984</u>	<u>0</u>	<u>1,344,953</u>	<u>1,027,916</u>
Gift annuities and agreements (note 8)	0	1,270,283	0	1,270,283	1,384,986
Revocable gift agreements (note 14)	0	4,000	0	4,000	4,000
Global worker repatriation (note 15)	0	983,443	0	983,443	926,878
Loans payable (note 12)	0	1,063,001	0	1,063,001	1,898,784
	<u>744,969</u>	<u>3,920,711</u>	<u>0</u>	<u>4,665,680</u>	<u>5,242,564</u>
FUND BALANCES					
Operations	63,661	0	0	63,661	59,336
Internally restricted					
- shared funding	4,757,622	0	0	4,757,622	4,775,268
- other funds	716,894	0	0	716,894	231,497
Externally restricted					
- designated funds	4,459,895	0	0	4,459,895	5,044,168
- trust funds	0	15,955,740	0	15,955,740	15,791,824
Invested in property and equipment	0	0	2,445,838	2,445,838	2,503,559
	<u>9,998,072</u>	<u>15,955,740</u>	<u>2,445,838</u>	<u>28,399,650</u>	<u>28,405,652</u>
	<u>\$ 10,743,041</u>	<u>\$ 19,876,451</u>	<u>\$ 2,445,838</u>	<u>\$ 33,065,330</u>	<u>\$ 33,648,216</u>

THE PENTECOSTAL ASSEMBLIES OF CANADA

NON-CONSOLIDATED STATEMENT OF CHANGES IN OPERATING AND FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2019

	Operations (note 2) <i>unrestricted</i>	Shared Funding (note 4) <i>internally restricted</i>	Designated Internal (note 4) <i>internally restricted</i>	Designated External (note 4) <i>externally restricted</i>	2019 Total	2018 Total
NET ASSETS, beginning of year	\$ 59,336	\$ 4,775,268	\$ 231,497	\$ 5,044,168	\$10,110,269	\$ 8,176,592
Interfund transfers (note 7)	(140,118)	(168,348)	308,550	(134,774)	(134,690)	(334,009)
Net revenues over expenses (expenses over revenues) for the year	<u>144,443</u>	<u>150,702</u>	<u>176,847</u>	<u>(449,499)</u>	<u>22,493</u>	<u>2,267,686</u>
NET ASSETS, end of year	<u>\$ 63,661</u>	<u>\$ 4,757,622</u>	<u>\$ 716,894</u>	<u>\$ 4,459,895</u>	<u>\$ 9,998,072</u>	<u>\$10,110,269</u>

THE PENTECOSTAL ASSEMBLIES OF CANADA
NON-CONSOLIDATED STATEMENT OF OPERATING FUND ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Operations (note 2)	Shared Funding (note 4)	Designated Funds (note 4)	2019 Total	2018 Total
REVENUES (note 5)					
Donations - shared funding					
International Missions	\$ 0	\$ 11,153,286	\$ 0	\$ 11,153,286	\$ 10,943,248
Mission Canada	0	1,003,744	0	1,003,744	865,411
Donations (note 20)	2,052,528	0	6,367,940	8,420,468	9,441,105
Fellowship tithe	1,556,667	0	0	1,556,667	1,559,272
Sales and services (note 20)	1,252,528	0	281,732	1,534,260	1,629,476
Bequests	77,631	0	541,073	618,704	626,463
Investment revenues	469,869	0	58,264	528,133	528,704
Credential fees	492,033	0	0	492,033	483,695
	<u>5,901,256</u>	<u>12,157,030</u>	<u>7,249,009</u>	<u>25,307,295</u>	<u>26,077,374</u>
EXPENSES					
International Missions	2,429,005	11,052,011	5,718,188	19,199,204	17,872,063
Fellowship Services (note 6, 22)	2,618,456	0	1,611,947	4,230,403	4,291,472
Mission Canada	711,215	954,317	191,526	1,857,058	1,643,383
	<u>5,758,676</u>	<u>12,006,328</u>	<u>7,521,661</u>	<u>25,286,665</u>	<u>23,806,918</u>
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) FROM OPERATIONS					
	142,580	150,702	(272,652)	20,630	2,270,456
Loss on investment in PFSG (note 17)	(133)	0	0	(133)	(2,770)
Gain on investment in CSC (note 18)	1,996	0	0	1,996	0
NET (EXPENSES OVER REVENUES) REVENUES OVER EXPENSES for the year					
	144,443	150,702	(272,652)	22,493	2,267,686
Interfund transfers (note 7)	(140,118)	(168,348)	173,776	(134,690)	(334,009)
NET (EXPENSES OVER REVENUES) REVENUES OVER EXPENSES for the year after transfers					
	<u>\$ 4,325</u>	<u>\$ (17,646)</u>	<u>\$ (98,876)</u>	<u>\$ (112,197)</u>	<u>\$ 1,933,677</u>

THE PENTECOSTAL ASSEMBLIES OF CANADA

NON-CONSOLIDATED STATEMENT OF TRUST FUND AND PROPERTY FUND ACTIVITIES AND
CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2019

	Trust Funds (note 16)		Property Fund	
	2019	2018	2019	2018
REVENUES				
Donations	\$ 203,000	\$ 130,000	\$ 0	\$ 0
Interest income	933,873	900,461	0	0
Actuarial adjustment on annuities	<u>164,702</u>	<u>186,451</u>	<u>0</u>	<u>0</u>
	<u>1,301,575</u>	<u>1,216,912</u>	<u>0</u>	<u>0</u>
EXPENSES				
Amortization	0	0	117,058	113,321
Distributions to other ministries	627,780	141,881	0	0
Benefit payments	212,732	225,705	0	0
Interest expense (note 12)	312,993	340,120	0	0
Trust funds management fee	8,203	7,792	0	0
Administrative expenses	<u>51,304</u>	<u>38,319</u>	<u>0</u>	<u>0</u>
	<u>1,213,012</u>	<u>753,817</u>	<u>117,058</u>	<u>113,321</u>
Net increase (decrease) in funds	88,563	463,095	(117,058)	(113,321)
Fund balances, beginning of year	15,791,824	15,028,729	2,503,559	2,582,871
Interfund transfers (note 7)	<u>75,353</u>	<u>300,000</u>	<u>59,337</u>	<u>34,009</u>
Fund balances, end of year	<u>\$ 15,955,740</u>	<u>\$ 15,791,824</u>	<u>\$ 2,445,838</u>	<u>\$ 2,503,559</u>

THE PENTECOSTAL ASSEMBLIES OF CANADA
NON-CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Excess of operating revenues over expenses for the year	\$ 22,493	\$ 2,267,686
Net increase in trust funds	88,563	463,095
Net decrease in property fund	<u>(117,058)</u>	<u>(113,321)</u>
	(6,002)	2,617,460
Items not requiring an outlay of cash		
Amortization	117,058	113,321
Investment in PFSG	133	2,770
Investment in CSC	<u>(1,996)</u>	<u>0</u>
	109,193	2,733,551
Changes in non-cash working capital		
Accounts receivable	35,835	(49,567)
Inventory and prepaids	(25,292)	28,456
Due from/to related parties	735,613	(540,194)
Accounts payable and accrued liabilities	<u>(56,508)</u>	<u>196,628</u>
	<u>798,841</u>	<u>2,368,874</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Gift annuities issued	(114,703)	(1,450)
Global worker repatriation	56,565	82,583
Repayment of loans payable	<u>(885,584)</u>	<u>(399,761)</u>
	<u>(943,722)</u>	<u>(318,628)</u>
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Mission loans receivable	949,506	775,612
Long term investments held to fund annuities	(145,610)	(56,139)
Long term investments	(3,590,024)	408,095
Purchase of property and equipment	(59,337)	(34,009)
Preferred shares in PFSG	<u>(140,850)</u>	<u>(100,000)</u>
	<u>(2,986,315)</u>	<u>993,559</u>
NET (DECREASE) INCREASE IN CASH	(3,131,196)	3,043,805
NET CASH, BEGINNING OF YEAR	<u>3,998,575</u>	<u>954,770</u>
NET CASH, END OF YEAR	<u>\$ 867,379</u>	<u>\$ 3,998,575</u>

THE PENTECOSTAL ASSEMBLIES OF CANADA
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

1. NATURE OF ORGANIZATION

The Pentecostal Assemblies of Canada (the "PAOC") was established by letters patent issued by the federal government on May 17, 1919 and is a registered charity with the Canada Revenue Agency, and, as such, is exempt from income tax. Its purpose is to:

- (a) conduct public worship;
- (b) provide places of worship;
- (c) provide a basis of fellowship among Christians of like faith approving all scriptural teaching, method and conduct;
- (d) organize and conduct schools of religious instruction;
- (e) carry on charitable and philanthropic work of every kind;
- (f) carry on missional work for the spreading of the gospel;
- (g) publish, sell and distribute Christian literature;
- (h) collect, solicit and accept funds or other subscriptions for carrying on the work of the organization, and for any other religious or benevolent purposes;
- (i) exercise any of the powers usually conferred on duly incorporated benevolent societies by either federal or provincial authorities; and
- (j) to exercise the right to own, hold in trust, use, sell, convey, mortgage, lease or otherwise dispose of such property, real or personal, as may be needed for the execution of the work and to invest and keep invested such funds as may be placed at its disposition for the furtherance of the objectives of the PAOC, and to dispose of the entire undertaking of the organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Fund accounting

The organization's accounts follow the principles of restricted fund accounting, under which resources for particular purposes are classified, for accounting and reporting, into funds corresponding to those purposes.

Operating Funds

Operating Funds include Operations, Shared Funding and Designated Funds. Operations consist of donations, other revenues, and related expenditures pertaining to the operations of the organization which are not included in other funds. Shared Funding includes donations designated for the approved budgets of Global and Mission Canada Workers. Designated Funds include donations designated for approved PAOC projects.

THE PENTECOSTAL ASSEMBLIES OF CANADA
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trust Funds

Trust Funds are comprised of endowment funds and externally restricted funds. The income earned on these accounts represent either unrestricted, restricted or endowment amounts. Income and expenditures are recognized in accordance with specifications made by the donor subject to their initial approval by the PAOC at the time of donation.

Property Fund

The Property Fund consists of assets, liabilities, donations, amortization and gains and losses related to the property and equipment of the PAOC.

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. Unrestricted donations, bequests and fellowship tithes are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Designated donations are recognized as revenue of the appropriate designated fund in the year received.

Contributions of encroachable capital are recognized as revenue of the Trust Funds in the year received.

Sales and service and credential fees are recorded as services are performed. Interest revenue is recorded as earned.

Inventory

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

Property and equipment

Property and equipment are recorded at cost less amortization. Contributed property and equipment are recorded at fair value at the date of contribution unless fair value is not easily determinable. Amortization commences in the year subsequent to the year in which the asset is purchased or received and is calculated to depreciate the cost of the assets over their estimated useful lives on a straight-line basis as follows:

International office building	2.5%
Furniture, fixtures and office equipment	10%
Computer equipment	50%

THE PENTECOSTAL ASSEMBLIES OF CANADA
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the year. Significant estimates requiring the use of management estimates and assumptions relate to the useful lives of property, land and equipment and the fair value of the annuity liability. Actual results could differ from these estimates.

Allocation of administration expenditures

The PAOC allocates the following expenditures to departments of the organization based on the following:

- Accounting – based on functions used
- Computers / information technology – based on number of users and usage
- Premises – based on square footage used
- Human resources support and reception – based on number of staff and the number of calls received

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 of its financial assets and liabilities at amortized cost.

The mortgages held to fund annuities, loans and mortgages receivable and loans payable are measured at amortized cost using the effective interest method, with gains and losses recognized in the excess of revenue over expenditures when the asset or liability is repaid or written off. The effective interest method allocates the interest income or expense over the term of the investment or debt, using the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial instrument, to the net carrying amount of the financial asset or financial liability.

Gift annuities and gift agreements, revocable gift agreements, and the Global Worker repatriation balance in the Trust Funds are subsequently measured at fair value, with gains and losses recognized immediately in the excess of revenue over expenditures.

THE PENTECOSTAL ASSEMBLIES OF CANADA
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 excess of revenue over expenditures. 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 excess of revenue over expenditures.

Foreign operations, assets and measurement uncertainty

The PAOC has consistently followed the policy of expensing all costs for overseas operations, and property and equipment through International Missions expenditures, unless these amounts represent advances which are to be repaid to the PAOC. This policy is based upon the practice that such assets, while generally redeployable under the direction of the International Missions Committee, are not always accessible for redeployment due to foreign property titling regulations, and international fund transfer and foreign currency exchange limitations. While the PAOC may specifically assign title to national ministries overseas, it generally retains control of title while considering an orderly transfer of assets to stable national ministries overseas. Accordingly, these assets and operations are not included in the financial statements.

Contributed services

The value of contributed services is not reflected in these financial statements as the fair value of these services cannot be reasonably estimated.

Investment in subsidiaries

Following CPA Canada Handbook Section 4450, reporting controlled and related entities by not for profit organizations, the long term investments in subsidiaries have been accounted for using the equity method of accounting as well as providing the appropriate disclosure.

3. RELATED PARTY TRANSACTIONS

The following are organizations related to the PAOC:

Pentecostal Financial Services Group Inc.

Pentecostal Financial Services Group Inc. ("PFSG") is a wholly-owned subsidiary of the PAOC and was incorporated on March 24, 2005 under the Canada Business Corporations Act. PFSG provides mortgage loans to charities within PAOC (ie. building and renovating churches and bible colleges), and funds these mortgage loans by issuing and distributing notes to investors. PFSG is subject to credit and liquidity risks arising from its mortgages receivable and loans payable.

THE PENTECOSTAL ASSEMBLIES OF CANADA
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

3. RELATED PARTY TRANSACTIONS (continued)

Emergency Relief and Development Overseas

Effective December 1, 2005, the PAOC operation for Emergency Relief and Development Overseas (“ERDO”) was incorporated by letters patent as a separate legal entity. ERDO was also registered as a charitable organization with the Canada Revenue Agency, and as such is exempt from income taxes under the Income Tax Act (Canada). ERDO is related to the PAOC through the membership level of the organizations. ERDO was established to provide short term relief in times of severe emergency and innovative assistance for communities experiencing extreme poverty.

The Pension Fund (1969) of The Pentecostal Assemblies of Canada

The Pension Fund (1969) of The Pentecostal Assemblies of Canada (the “Pension Fund”) is a multi-employer defined benefit pension plan, of which the PAOC is a member. Specified contributions made by eligible employees are matched by the employers.

PAOC Mission Link

PAOC Mission Link was established as a Canadian charity to manage and direct the donations toward international mission activities from the German churches of the PAOC. This charity continues to support many of PAOC’s current Global Workers, as well as on-going projects around the world and is related to the PAOC through the membership level of the organizations.

Villages of Hope: Africa Society

Villages of Hope: Africa Society is a Canadian charity which facilitates the establishment and administration of excellent care for children at risk, by partnering with various African based organizations. The organization has developed a set of standards for quality childcare, and holds each village accountable to those standards. The organization is related to the PAOC through the membership level of the organizations.

Asian Outreach Canada

Asian Outreach International (Canada) is a Canadian charity which facilitates important health, education, community development, spiritual development, leadership training and literature and resources programs in Cambodia, China, Mongolia, Nepal, Thailand and Vietnam. The organization follows these core values: national leadership with international partnership, indigenous program with global experience, local support with worldwide investment, kingdom networking with strategic alliances and total accountability with practical experience. The organization is related to the PAOC through the membership level of the organization.

Covenant Securities Corp.

The Covenant Securities Corp. (CSC) is a wholly-owned subsidiary of the PAOC and was incorporated June 15, 2017 under the Canada Business Corporations Act. CSC was formed for the sole purpose of distribution and trading in certain evidences of indebtedness, issued by Pentecostal Financial Services Group (PFSG). CSC and PFSG are affiliates through common control by The Pentecostal Assemblies of Canada (PAOC).

THE PENTECOSTAL ASSEMBLIES OF CANADA
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

3. RELATED PARTY TRANSACTIONS (continued)

Pentecostal Assemblies of Canada Foundation

The Pentecostal Assemblies of Canada (PAOC) Foundation was incorporated on January 28, 2016. Subject to the Certificate of Incorporation, the PAOC Foundation seeks to promote, solicit, accept and utilize gifts for the ministries and mission of The Pentecostal Assemblies of Canada as well as other ministries whose objectives are in alignment with the mission of the PAOC and the Evangelical Fellowship of Canada. The PAOC Foundation's purpose is the promotion of the Gospel of Jesus Christ, education and alleviation of poverty in Canada and overseas.

4. OBJECTIVES, POLICIES AND PROCESSES FOR MANAGING CAPITAL

The PAOC's capital is comprised of the net amounts invested in unrestricted funds, internally restricted funds – shared funding, externally restricted funds – designated funds, externally restricted funds – trust funds, and invested in property and equipment.

Unrestricted funds

The Board's objective is to maintain an unrestricted fund balance sufficient to meet both the annual operational budget requirements, and the annual maintenance of property and equipment. The General Secretary Treasurer and the Director of Finance and Accounting prepare the annual budget (which includes the property requirements). The Board then approves this budget and the General Secretary Treasurer monitors the results against the forecast and notifies the Board when changes to plans are required.

Internally restricted funds – shared funding

The objective of the internally restricted funds, or shared funding fund, is to hold these Global and Mission Canada Worker balances from year to year in order to care for the ongoing personal and ministry requirements of them. Each family is required to prepare an annual budget, which is approved by their Regional Director. These budgets are monitored throughout the year by International Missions and Mission Canada, and are adjusted accordingly as required.

Externally restricted funds – designated funds

The externally restricted funds – designated are all the funds set aside by the Board to fulfill the donor wishes in providing for projects or ministries. Each project or ministry must be carrying out the charitable objectives of the PAOC. The Officers monitor these funds to ensure they are being distributed for their intended purposes. Where the funds are not required in the short term, the Treasurer invests their balances in accordance with Board policy, which allows that they be held in short term, low risk and highly liquid financial instruments.

Externally restricted funds – trust funds

The externally restricted funds – trusts are maintained in accordance with the terms of their contributors. The Board has established investment policies for these funds, and its main objective is to assure the maintenance of the contributed capital, in order to secure healthy investment revenues annually. The annual revenues from these investments are then distributed to various PAOC projects and programs, as per the original terms of their contributors.

THE PENTECOSTAL ASSEMBLIES OF CANADA
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

4. OBJECTIVES, POLICIES AND PROCESSES FOR MANAGING CAPITAL (continued)

Invested in property and equipment

The organization invests in property and equipment in order to facilitate the highly technical service needs of the organization and its constituents, and to maintain a building accommodating these services. The Officers of the PAOC are responsible for this investment, and direct all decisions made to improve or upgrade computer systems, as well as all building improvements. These costs are ultimately approved by the Board in the annual budget approval process, to ensure they are in keeping with the current strategies of the organization.

5. OPERATING FUND REVENUE

a) Operating Funds revenue classified by the department to which it is directed consists of:

	International Missions	2019 Mission Canada	Fellowship Services	Total	2018 Total
Donations	\$ 12,989,712	\$ 1,208,278	\$ 11,568	\$ 14,209,558	\$ 13,837,687
Designated donations	4,870,994	66,950	1,429,996	6,367,940	7,412,077
Bequests	<u>521,202</u>	<u>10,093</u>	<u>87,409</u>	<u>618,704</u>	<u>626,463</u>
	18,381,908	1,285,321	1,528,973	21,196,202	21,876,227
Fellowship tithe	0	427,907	1,128,760	1,556,667	1,559,272
Sales and services	238,994	457,834	837,432	1,534,260	1,629,476
Investment revenues	294,388	35,849	197,896	528,133	528,704
Credential fees	<u>0</u>	<u>0</u>	<u>492,033</u>	<u>492,033</u>	<u>483,695</u>
	<u>\$ 18,915,290</u>	<u>\$ 2,206,911</u>	<u>\$ 4,185,094</u>	<u>\$ 25,307,295</u>	<u>\$ 26,077,374</u>

b) Total donations consist of:

	2019	2018
Operations	\$ 2,052,528	\$ 2,029,028
Shared funding	12,157,030	11,808,659
Designated funds	6,367,940	7,412,077
Bequests	<u>618,704</u>	<u>626,463</u>
	<u>\$ 21,196,202</u>	<u>\$ 21,876,227</u>

6. FELLOWSHIP SERVICES

PAOC Fellowship Services is a diverse team of ministry specialists providing leadership and organizational support for the PAOC constituency, International Office, and others, enabling effective fulfillment of the PAOC's mission.

Fellowship Services operational expenses consisted of the following:

	2019	2018
Communications/Publications	\$ 392,463	\$ 441,740
Constituent services	643,079	730,377
Governance	1,296,892	1,300,561
Related parties shared services	<u>286,022</u>	<u>347,011</u>
	<u>\$ 2,618,456</u>	<u>\$ 2,819,689</u>

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7. INTERFUND TRANSFERS

The net transfer to (from) the Operating Funds resulted from the following transactions:

	2019	2018
Trust Funds		
PAOC Endowment Fund	\$ (470,000)	\$ 0
The Health Care Endowment Fund	394,647	0
Church Planting Trust	<u>\$ 0</u>	<u>\$ (300,000)</u>
	(75,353)	(300,000)
Property Fund		
Purchase of property and equipment	<u>(59,337)</u>	<u>(34,009)</u>
	<u>\$ (134,690)</u>	<u>\$ (334,009)</u>

8. GIFT ANNUITIES

Gift annuities are agreements whereby, in return for providing an initial payment to the PAOC, the annuitant is issued annual payments of agreed amounts, until written notice is received to terminate the annuity, or notice is received of the death of the annuitant. Upon termination, the net balance of the annuity is distributed under PAOC's discretion, within the terms of the annuitant's directions.

Mortgages of \$1,792,838 (2018 - \$1,647,228) are held to fund the gift annuities. The estimated obligation for gift annuity payments is \$1,270,283 (2018 - \$1,384,986).

New gift annuities issued during the year totaled \$50,000 (2018 - \$185,000). Gift annuities terminated during the year totaled \$220,000 (2018 - \$135,000).

9. MISSION LOANS RECEIVABLE

Mission loans receivable consist of the following:

	2019	2018
Interest bearing	\$ 8,447,658	\$ 9,397,164
Non-interest bearing	<u>90,000</u>	<u>90,000</u>
	8,537,658	9,487,164
Less: current portion	<u>(818,294)</u>	<u>(738,794)</u>
	<u>\$ 7,719,364</u>	<u>\$ 8,748,370</u>

The interest bearing mission loans receivable are due on demand, and bear interest at rates between 4.00% and 6.00% (2018 - 4.00% and 7.25%) per annum. The non-interest bearing mission loans receivable are due upon demand. Included in the year end balance is a \$100,000 allowance for doubtful accounts.

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10. LONG TERM INVESTMENTS

	2019	2018
Loans and mortgages	\$ 4,823,080	\$ 4,264,080
Loans owing from PFSG	4,549,248	4,042,698
Alternative mortgage	4,252,974	2,228,500
Bond	<u>500,000</u>	<u>0</u>
	<u>\$14,125,302</u>	<u>\$10,535,278</u>

The loans and mortgages are due at various dates between January 1, 2020 and December 23, 2029 (2018 - January 1, 2019 and December 10, 2023) and earn interest at rates in the range of 4.0% and 7.25% (2018 - 4.3% and 7.25%). It is management's intention to reinvest the funds as they come due. Included in the loans and mortgages total are interest free church planting loans with a combined principal amount of \$241,565 (2018 - \$464,861). Their maturity dates range from January 1, 2020 to September 12, 2021 (2018 - February 24, 2019 to September 12, 2021).

11. PROPERTY, LAND AND EQUIPMENT

a) Land, property and equipment consists of the following:

	Cost	Accumulated Amortization	Net 2019	Net 2018
Trust Fund				
Land	\$ <u>3,000,000</u>	\$ <u>0</u>	\$ <u>3,000,000</u>	\$ <u>3,000,000</u>
Property Fund				
Land	392,851	0	392,851	392,851
Building	2,948,348	1,121,734	1,826,614	1,899,243
Furniture, fixtures, office and computer equipment	3,359,630	3,133,259	226,371	211,463
Other property (b)	<u>2</u>	<u>0</u>	<u>2</u>	<u>2</u>
	<u>6,700,831</u>	<u>4,254,993</u>	<u>2,445,838</u>	<u>2,503,559</u>
	<u>\$ 9,700,831</u>	<u>\$ 4,254,993</u>	<u>\$ 5,445,838</u>	<u>\$ 5,503,559</u>

b) Other property

Other property consists of one donated mineral right and various overseas properties. As a result of the nature of these acquisitions and their indeterminable value, the PAOC has recorded these properties at a nominal amount of two dollars.

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12. LOANS PAYABLE

Loans payable consist of unsecured amounts advanced by private individuals or private organizations to assist in financing specific projects and include the following:

	2019	2018
Loan payable, bearing interest at 4%, due August 10, 2025	\$ 43,320	\$ 49,793
Loan payable, bearing interest at 3.5%, due December 31, 2021	169,991	251,467
Loan payable, bearing interest at 4%, due September 1, 2020	1,644	500,000
Loan payable, bearing interest at 4%, due June 30, 2023	0	100,807
Loan payable, bearing interest at 4%, due June 30, 2023	19,892	25,059
Loan payable, bearing interest at 3.5%, due May 1, 2024	245,871	295,658
Loan payable, bearing interest at 3.25%, due August 1, 2019	0	42,819
Loan payable, bearing interest at 3.25%, due September 1, 2021	184,478	285,177
Loan payable, bearing interest at 3.25%, due June 12, 2022	<u>650,000</u>	<u>650,000</u>
Loans payable	1,315,196	2,200,780
Less current portion	<u>252,195</u>	<u>301,996</u>
	<u>\$ 1,063,001</u>	<u>\$ 1,898,784</u>

Interest in the amount of \$312,993 (2018 - \$340,120) related to the above loans payable has been recorded in interest expense of the Trust Funds.

Future minimum payments on long term obligations are as follows:

2020	\$ 252,195
2021	232,033
2022	68,557
2023	67,997
2024	<u>32,414</u>
	653,196
Thereafter	<u>662,000</u>
	<u>\$ 1,315,196</u>

13. INTERFUND INVESTMENT

An investment totaling \$5,621,654 (2018 - \$5,916,377), up to a maximum of \$10,000,000, was invested by the Operating Fund into the Mission Loan Fund. The investment is bearing interest of 4% per annum and is due December 31, 2020.

14. REVOCABLE GIFT AGREEMENTS

Revocable gift agreements stipulate that the donor is entitled to withdraw a portion of the capital and accrued interest until their death, at which time the remaining principal and accrued interest is donated to the PAOC. The organization reflects the donation and accrued interest as a long term liability until the death of the donor, at which time the funds are recognized as revenue.

15. GLOBAL WORKER REPATRIATION

Global Worker repatriation balance is a fund to which monthly contributions are made for 75 Global Workers (2018 - 70). These funds are invested in loans and mortgages (note 10). Each Global Worker's total investment in these funds is withdrawn to assist with their financial needs upon their return to Canada when they retire from service overseas.

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16. TRUST FUNDS - CHANGES IN FUND BALANCES

	Jan. 1, 2019 Opening Balance	Increase	Decrease	Transfers In (Out)	Dec. 31, 2019 Ending Balance
PAOC Endowment	\$ 6,001,625	\$ 317,933	\$ (198,198)	\$ 470,000	\$ 6,591,360
John & Lydia Rebman Trust	3,014,786	3,621	(7,129)	0	3,011,278
McKay Trust	2,426,921	142,115	(89,052)	0	2,479,984
Mission Loan Fund	1,237,478	414,195	(312,993)	0	1,338,680
Church Planting Trust	663,759	18,404	(315)	0	681,848
Santroc Trust	468,268	17,955	(16,594)	0	469,629
Harrison Trust	324,399	1,671	(1,017)	0	325,053
Hutchinson Trust	280,053	1,444	(877)	0	280,620
Annuity Fund	233,779	248,755	(212,793)	0	269,741
Kirk Trust	104,042	5,753	(322)	0	109,473
Non-Quon Fund	100,641	686	(47)	0	101,280
Trust for International Missions	0	117,000	(40,000)	0	77,000
Memorial Fund	69,965	447	(406)	0	70,006
Putrus Trust	65,461	(8,826)	(305)	0	56,330
Dean Trust	40,007	313	(233)	0	40,087
Buchanan Trust	34,604	2,147	(17)	0	36,734
Revocable Trust	9,966	568	(5)	0	10,529
Literature Fund	5,543	366	(3)	0	5,906
Audrey Shields Trust	46	59	0	0	105
Irrevocable Fund	0	97	0	0	97
The Healthcare Endowment	<u>710,481</u>	<u>17,874</u>	<u>(333,708)</u>	<u>(394,647)</u>	<u>0</u>
	<u>\$ 15,791,824</u>	<u>\$ 1,302,577</u>	<u>\$ (1,214,014)</u>	<u>\$ 75,353</u>	<u>\$ 15,955,740</u>

The availability of the above fund balances for operations of the PAOC is restricted in that a number of the funds only allow the interest earned on the principal donated to be used for the PAOC ministries. As of December 31, 2019, this restricted portion amounted to \$10,583,722 (2018 - \$10,498,762).

17. INVESTMENT IN PFSG

PAOC is the sole shareholder and, therefore, controls PFSG. PFSG, a for-profit corporation, has not been consolidated in PAOC's financial statements. The investment has been accounted for using the equity method.

	2019	2018
Gain (loss) on investment in PFSG		
Net income	\$ 22,943	\$ 73,393
Dividends	<u>(23,076)</u>	<u>(76,163)</u>
	<u>\$ (133)</u>	<u>\$ (2,770)</u>

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17. INVESTMENT IN PFSG (continued)

	2019	2018
Financial Position		
Assets	\$ <u>38,983,558</u>	\$ <u>38,520,889</u>
Liabilities	\$ 37,053,850	\$ 36,731,898
Common shares	1	1
Preferred shares	1,928,373	1,787,523
Retained earnings	<u>1,334</u>	<u>1,467</u>
Total liabilities and retained earnings	\$ <u>38,983,558</u>	\$ <u>38,520,889</u>
Results of operations		
Revenue	\$ 1,827,413	\$ 1,859,885
Expenses	<u>1,798,880</u>	<u>1,770,090</u>
Net income before income taxes	28,533	89,795
Provision for income taxes	<u>5,590</u>	<u>16,402</u>
Net income	\$ <u>22,943</u>	\$ <u>73,393</u>
Cash provided by operations	\$ 247,273	\$ 133,469
Cash (used in) financing and investing activities	<u>(75,724)</u>	<u>(1,082,321)</u>
Net increase (decrease) in cash	\$ <u>171,549</u>	\$ <u>(948,852)</u>

18. INVESTMENT IN CSC

PAOC is the sole shareholder and, therefore, controls CSC. CSC, a for-profit corporation, has not been consolidated in PAOC's financial statements. The investment has been accounted for using the equity method.

	2019	2018
Gain (loss) on investment in CSC		
Net income	\$ <u>1,996</u>	\$ <u>1,272</u>
Financial Position		
Assets	\$ <u>89,481</u>	\$ <u>240,954</u>
Liabilities	\$ 87,484	\$ 240,953
Common shares	1	1
Retained earnings	<u>1,996</u>	<u>0</u>
Total liabilities and retained earnings	\$ <u>89,481</u>	\$ <u>240,954</u>
Results of operations		
Revenue	\$ 151,687	\$ 159,087
Expenses	<u>148,718</u>	<u>157,815</u>
Net income before income taxes	2,969	1,272
Provision for income taxes	<u>973</u>	<u>0</u>
Net income	\$ <u>1,996</u>	\$ <u>1,272</u>

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18. INVESTMENT IN CSC (continued)

	2019	2018
Cash provided by operations	\$ 2,476	\$ 32,846
Cash (used in) provided by financing and investing activities	<u>(233,794)</u>	<u>102,740</u>
Net (decrease) increase in cash	<u>\$ (231,318)</u>	<u>\$ 135,586</u>

19. COMMITMENTS

The PAOC is committed under operating leases for office equipment. Future minimum annual payments required are as follows:

2020	\$ 25,156
2021	25,156
2022	25,156
2023	<u>25,156</u>
Total	<u>\$ 100,624</u>

20. DUE FROM (TO) RELATED PARTIES AND RELATED PARTY TRANSACTIONS

	2019	2018
Due from PFSG	\$ 28,783	\$ 347,791
Due to ERDO	(145,855)	(26,047)
Due (to) from the Pension Fund	(99,574)	19,955
Due from Villages of Hope Africa Society	16,443	18,918
Due to Asian Outreach Canada	(28,088)	(11,691)
Due from Mission Link	76,950	204,458
Due to PAOC Foundation	(250,643)	(313,713)
Due (to) from CSC	<u>(21,362)</u>	<u>72,596</u>
	<u>\$ (423,346)</u>	<u>\$ 312,267</u>

The above transactions are recorded at the exchange amount. The balances due from (to) related parties are unsecured, non-interest bearing and have no set terms of repayment.

Included in donations revenue are contributions of \$86,000 (2018 - \$130,000) received from PFSG.

Included in sales and services revenue is \$115,841 (2018 - \$107,623), \$165,346 (2018 - \$208,228), \$40,100 (2018 - \$34,758), \$110,293 (2018 - \$128,516) paid to the PAOC for management and administrative functions by PFSG, ERDO, VOHAS and the Pension Fund, respectively.

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21. FINANCIAL INSTRUMENTS

It is management's opinion that the PAOC is not exposed to significant currency risks arising from the financial instruments.

PAOC is exposed to liquidity and credit risk with respect to its loans and mortgages as well as the loans payable.

The organization's investments in short term deposits, the mission loans receivable, mortgages held to fund annuities, and loans and mortgages are subject to market risks as the value of these investments will change with market fluctuations.

The extent of the organization's exposure to these risks did not change in 2019 compared to the previous period.

22. GIFTS OF LIFE INSURANCE POLICIES AS CHARITABLE DONATIONS

The PAOC is the owner and partial beneficiary of life insurance policies gifted in accordance with provisions of the Income Tax Act (Canada).

	2019
Number of policies in good standing	20
Face value of policies	\$ 1,822,300
Cash surrender value	186,458

23. LINE OF CREDIT

The PAOC has access to \$3,000,000 in an unsecured line of credit, at an interest rate of prime. No balance was outstanding at year end (2018 - \$0).