

THE PENTECOSTAL ASSEMBLIES OF CANADA
NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

THE PENTECOSTAL ASSEMBLIES OF CANADA
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YEAR ENDED DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the members of: The Pentecostal Assemblies of Canada

We have audited the accompanying financial statements of The Pentecostal Assemblies of Canada, which comprise the non-consolidated statement of financial position as at December 31, 2017 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 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 The Pentecostal Assemblies of Canada as at December 31, 2017 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.



Guelph, Ontario
March 9, 2018

Chartered Professional Accountants
Licensed Public Accountants

THE PENTECOSTAL ASSEMBLIES OF CANADA
NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	Operating Funds	Trust Funds (note 16)	Property Funds	2017 Total	2016 Total
A S S E T S					
CURRENT					
Cash	\$ 954,770	\$ 0	\$ 0	\$ 954,770	\$ 671,846
Accounts receivable	168,916	86,442	0	255,358	250,487
Due from (to) other funds	97,758	(97,758)	0	0	0
Inventory and prepaids	98,684	0	0	98,684	75,521
Interfund investment (note 13)	6,592,780	(6,592,780)	0	0	0
Current portion of mission loans receivable (note 9)	<u>0</u>	<u>629,688</u>	<u>0</u>	<u>629,688</u>	<u>556,627</u>
	7,912,908	(5,974,408)	0	1,938,500	1,554,481
Mission loans receivable (note 9)	0	9,633,088	0	9,633,088	8,908,844
Loans and mortgages (note 10)	1,250,000	9,693,373	0	10,943,373	12,082,539
Property, land and equipment (note 11)	0	0	2,582,871	2,582,871	2,680,043
Trust fund - land (note 11)	0	3,000,000	0	3,000,000	3,000,000
Loans and mortgages held to fund annuities (note 8)	0	1,591,089	0	1,591,089	1,072,906
Preferred shares held in PFSG (note 17)	0	1,687,523	0	1,687,523	1,390,676
Investment in PFSG (note 17)	4,237	0	0	4,237	5,385
Investment in PSC (note 18)	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>
	<u>\$ 9,167,146</u>	<u>\$ 19,630,665</u>	<u>\$ 2,582,871</u>	<u>\$ 31,380,682</u>	<u>\$ 30,694,874</u>
L I A B I L I T I E S					
CURRENT					
Accounts payable and accrued liabilities	\$ 424,575	\$ 104,717	\$ 0	\$ 529,292	\$ 211,758
Interfund loan	338,053	(338,053)	0	0	0
Due to related parties (note 20)	227,927	0	0	227,927	179,351
Current portion of loans payable (note 12)	<u>0</u>	<u>399,930</u>	<u>0</u>	<u>399,930</u>	<u>1,294,345</u>
	990,555	166,594	0	1,157,149	1,685,454
Gift annuities and agreements (note 8)	0	1,386,436	0	1,386,436	1,064,901
Revocable gift agreements (note 14)	0	4,000	0	4,000	4,000
Global worker repatriation (note 15)	0	844,295	0	844,295	772,617
Loans payable (note 12)	<u>0</u>	<u>2,200,611</u>	<u>0</u>	<u>2,200,611</u>	<u>1,472,090</u>
	<u>990,555</u>	<u>4,601,936</u>	<u>0</u>	<u>5,592,491</u>	<u>4,999,062</u>
F U N D B A L A N C E S					
Operations	61,107	0	0	61,107	60,539
Internally restricted					
- shared funding	4,770,640	0	0	4,770,640	4,814,667
- other funds	151,513	0	0	151,513	81,981
Externally restricted					
- designated funds	3,193,331	0	0	3,193,331	3,258,588
- trust funds	0	15,028,729	0	15,028,729	14,799,994
Invested in property and equipment	<u>0</u>	<u>0</u>	<u>2,582,871</u>	<u>2,582,871</u>	<u>2,680,043</u>
	<u>8,176,591</u>	<u>15,028,729</u>	<u>2,582,871</u>	<u>25,788,191</u>	<u>25,695,812</u>
	<u>\$ 9,167,146</u>	<u>\$ 19,630,665</u>	<u>\$ 2,582,871</u>	<u>\$ 31,380,682</u>	<u>\$ 30,694,874</u>

See notes to the non-consolidated financial statements

THE PENTECOSTAL ASSEMBLIES OF CANADA
NON-CONSOLIDATED STATEMENT OF CHANGES IN OPERATING AND FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2017

	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>	2017 Total (note 2)	2016 Total
FUND BALANCES, beginning of year	\$ 60,539	\$ 4,814,667	\$ 81,981	\$ 3,258,588	\$ 8,215,775	\$ 8,070,939
Interfund transfers (note 7)	315,838	(186,450)	193,622	(309,681)	13,329	(55,010)
Net (expenses over revenues) revenues over expenses for the year	<u>(315,270)</u>	<u>142,423</u>	<u>(124,090)</u>	<u>244,424</u>	<u>(52,513)</u>	<u>199,846</u>
FUND BALANCES, end of year	<u>\$ 61,107</u>	<u>\$ 4,770,640</u>	<u>\$ 151,513</u>	<u>\$ 3,193,331</u>	<u>\$ 8,176,591</u>	<u>\$ 8,215,775</u>

THE PENTECOSTAL ASSEMBLIES OF CANADA
NON-CONSOLIDATED STATEMENT OF OPERATING FUND ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Operations (note 2)	Shared Funding (note 2)	Designated Funds (note 2)	2017 Total (note 2)	2016 Total
REVENUES (note 5)					
Donations - shared funding					
International Missions	\$ 0	\$ 11,148,737	\$ 0	\$ 11,148,737	\$ 11,299,091
Mission Canada	0	687,811	0	687,811	636,205
Donations (note 20)	1,919,673	0	4,363,969	6,283,642	6,377,680
Fellowship tithe	1,512,800	0	0	1,512,800	1,532,896
Sales and services (note 20)	1,103,746	0	440,434	1,544,180	1,521,721
Bequests	107,766	0	484,397	592,163	441,723
Investment revenues	427,682	0	212,113	639,795	471,375
Credential fees	464,286	0	0	464,286	454,298
	<u>5,535,953</u>	<u>11,836,548</u>	<u>5,500,913</u>	<u>22,873,414</u>	<u>22,734,989</u>
EXPENSES					
International Missions	2,309,091	11,007,644	4,639,634	17,956,369	17,326,332
Fellowship Services (note 6, 22)	2,449,707	0	617,491	3,067,198	3,302,203
Mission Canada	1,091,277	686,481	116,350	1,894,108	1,898,955
Distributions to other ministries	0	0	7,104	7,104	7,840
	<u>5,850,075</u>	<u>11,694,125</u>	<u>5,380,579</u>	<u>22,924,779</u>	<u>22,535,330</u>
EXCESS OF (EXPENSES OVER REVENUES) REVENUES OVER EXPENSES FROM OPERATIONS	(314,122)	142,423	120,334	(51,365)	199,659
Gain (loss) on investment in PFSG (note 17)	<u>(1,148)</u>	<u>0</u>	<u>0</u>	<u>(1,148)</u>	<u>187</u>
NET (EXPENSES OVER REVENUES) REVENUES OVER EXPENSES for the year	(315,270)	142,423	120,334	(52,513)	199,846
Interfund transfers (note 7)	<u>315,838</u>	<u>(186,450)</u>	<u>(116,059)</u>	<u>13,329</u>	<u>(55,010)</u>
NET REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) for the year after transfers	<u>\$ 568</u>	<u>\$ (44,027)</u>	<u>\$ 4,275</u>	<u>\$ (39,184)</u>	<u>\$ 144,836</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, 2017

	Trust Funds (note 16)		Property Fund	
	2017	2016	2017	2016
REVENUES				
Donations	\$ 381,858	\$ 84,518	\$ 0	\$ 0
Interest income	739,621	1,004,263	0	0
Actuarial adjustment on annuities	318,465	128,191	0	0
	<u>1,439,944</u>	<u>1,216,972</u>	<u>0</u>	<u>0</u>
EXPENSES				
Amortization	0	0	119,565	101,915
Distributions to other ministries	598,829	189,371	0	0
Benefit payments	177,552	160,872	0	0
Interest expense (note 12)	356,802	297,989	0	0
Trust funds management fee	9,628	9,977	0	0
Administrative expenses	32,676	8,850	0	0
Write off loans	0	12,953	0	0
	<u>1,175,487</u>	<u>680,012</u>	<u>119,565</u>	<u>101,915</u>
Net increase (decrease) in funds	264,457	536,960	(119,565)	(101,915)
Fund balances, beginning of year	14,799,994	14,428,418	2,680,043	2,561,564
Interfund transfers (note 7)	<u>(35,722)</u>	<u>(165,384)</u>	<u>22,393</u>	<u>220,394</u>
Fund balances, end of year	<u>\$ 15,028,729</u>	<u>\$ 14,799,994</u>	<u>\$ 2,582,871</u>	<u>\$ 2,680,043</u>

THE PENTECOSTAL ASSEMBLIES OF CANADA
NON-CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Excess of revenues over expenses for the year	\$ 92,379	\$ 634,891
Items not requiring an outlay of cash		
Amortization	119,565	101,915
Investment in PFSG	1,148	(187)
Investment in PSC	<u>(1)</u>	<u>0</u>
	213,091	736,619
Changes in non-cash working capital		
Accounts receivable	(4,871)	104,647
Inventory and prepaids	(23,163)	(8,870)
Due from related parties	48,576	217,585
Accounts payable and accrued liabilities	<u>317,534</u>	<u>(373,353)</u>
	<u>551,167</u>	<u>676,628</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Gift annuities issued	321,535	(78,191)
Global worker repatriation	71,678	48,723
Repayment of loans payable	<u>(165,894)</u>	<u>177,677</u>
	<u>227,319</u>	<u>148,209</u>
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Mission loans receivable	(797,305)	(360,530)
Loans and mortgages held to fund annuities	(518,183)	86,728
Loans and mortgages	1,139,166	(772,388)
Purchase of property and equipment	(22,393)	(220,394)
Preferred shares in PFSG	<u>(296,847)</u>	<u>(261,325)</u>
	<u>(495,562)</u>	<u>(1,527,909)</u>
NET INCREASE (DECREASE) IN CASH	282,924	(703,072)
NET CASH, BEGINNING OF YEAR	<u>671,846</u>	<u>1,374,918</u>
NET CASH, END OF YEAR	<u>\$ 954,770</u>	<u>\$ 671,846</u>

THE PENTECOSTAL ASSEMBLIES OF CANADA
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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:

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 useful life of property, land and equipment and the fair value of the annuity liability. Actual results could differ from these estimates.

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.

THE PENTECOSTAL ASSEMBLIES OF CANADA
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 district 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, credential fees and investment revenue are recorded as services are performed.

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, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allocation of administration expenditures

The PAOC allocates the following expenditures to the three main divisions of the organization based on the following:

- Accounting – based on time spent by employees on each department
- Computers / information technology – based on number of users in each department
- Premises – based on square footage used by departments
- Human resources support and reception – based on number of staff in each department and the number of calls received for each department

The details of the allocation are disclosed in note 22.

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 PAOC's financial instruments are comprised of cash, accounts receivable, mission loans receivable, loans and mortgages held to fund annuities, loans and mortgages, investment in PFSG, investment in PSC, accounts payable and accrued liabilities, amounts due to related parties, gift annuities and agreements, revocable gift agreements, global worker repatriation in Trust Funds, and loans payable.

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 measured at fair value, with gains and losses recognized immediately in the excess of revenue over expenditures.

The global worker repatriation balance in the Trust Funds is recorded at carrying value as there are no set terms of repayment.

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.

THE PENTECOSTAL ASSEMBLIES OF CANADA
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

THE PENTECOSTAL ASSEMBLIES OF CANADA
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

3. RELATED PARTY TRANSACTIONS (continued)

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.

Pentecostal Securities Corp.

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

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.

THE PENTECOSTAL ASSEMBLIES OF CANADA
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 fulfil 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.

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.

THE PENTECOSTAL ASSEMBLIES OF CANADA
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

5. OPERATING FUND REVENUE

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

	International Missions	2017 Mission Canada	Fellowship Services	Total	2016 Total
Donations	\$ 12,800,922	\$ 934,248	\$ 21,051	\$ 13,756,221	\$ 14,015,168
Designated donations	3,690,629	17,799	655,541	4,363,969	4,297,808
Bequests	<u>404,322</u>	<u>40,000</u>	<u>147,841</u>	<u>592,163</u>	<u>441,723</u>
	16,895,873	992,047	824,433	18,712,353	18,754,699
Fellowship tithe	0	416,780	1,096,020	1,512,800	1,532,896
Sales and services	189,548	116,017	1,238,615	1,544,180	1,521,721
Credential fees	0	0	464,286	464,286	454,298
Investments revenue	<u>436,675</u>	<u>33,481</u>	<u>169,639</u>	<u>639,795</u>	<u>471,375</u>
	<u>\$ 17,522,096</u>	<u>\$ 1,558,325</u>	<u>\$ 3,792,993</u>	<u>\$ 22,873,414</u>	<u>\$ 22,734,989</u>

b) Total donations consist of:

	2017	2016
Operations	\$ 1,919,673	\$ 2,079,872
Shared funding	11,836,548	11,935,296
Designated funds	4,363,969	4,297,808
Bequests	<u>592,163</u>	<u>441,723</u>
	<u>\$ 18,712,353</u>	<u>\$ 18,754,699</u>

6. FELLOWSHIP SERVICES

Fellowship Services provide the administrative infrastructure to support the operations of the International Missions, Mission Canada, the International office, and administration of the shared, designated, trust and property funds.

During the year, Fellowship Services expenditures consisted of the following main categories:

	2017	2016
Administration	\$ 1,656,149	\$ 1,670,035
Communications/Publications	477,302	508,804
Stewardship	235,689	282,342
Committees	80,572	49,227
Ministry resources	<u>374,812</u>	<u>404,504</u>
	<u>\$ 2,824,524</u>	<u>\$ 2,914,912</u>

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7. INTERFUND TRANSFERS

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

	2017	2016
Trust Funds		
PAOC Endowment Fund	\$ 5,568	\$ 47,988
The Health Care Endowment Fund	0	(47,988)
Annuity Fund	10,154	0
Mission Loans Fund	0	160,000
Audrey Shields Trust	0	5,384
Church Planting Trust	<u>20,000</u>	<u>0</u>
	35,722	165,384
Property Fund		
Purchase of property and equipment	<u>(22,393)</u>	<u>(220,394)</u>
	<u>\$ 13,329</u>	<u>\$ (55,010)</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 \$1,591,089 (2016 - \$1,072,906) are held to fund the gift annuities. The estimated obligation for gift annuity payments is \$1,386,436 (2016 - \$1,064,901).

New gift annuities issued during the year totaled \$640,000 (2016 - \$50,000). Gift annuities terminated during the year totaled \$85,000 (2016 - \$20,000).

9. MISSION LOANS RECEIVABLE

Mission loans receivable consist of the following:

	2017	2016
Interest bearing	\$10,172,776	\$ 9,375,471
Non-interest bearing	<u>90,000</u>	<u>90,000</u>
	10,262,776	9,465,471
Less: current portion	<u>(629,688)</u>	<u>(556,627)</u>
	<u>\$ 9,633,088</u>	<u>\$ 8,908,844</u>

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9. MISSION LOANS RECEIVABLE (continued)

The mission loans receivable are denominated in Canadian dollars, are due on demand, and include loans in or owing from:

	2017	2016
King of Kings Ministries Inc.	\$ 2,516,607	\$ 2,589,402
PAOC North Africa & Middle East	1,813,850	1,856,501
Living God Church - India	1,145,000	0
Watoto Church	945,245	1,120,303
Dar es Salaam Pentecostal Church	481,836	0
Life Springs Centre	404,518	405,118
The Pentecostal Assemblies of Zambia	388,581	388,581
Bridging China and Africa	357,737	474,303
Mombasa Pentecostal Church	282,513	215,520
Burundi Field Office	273,859	285,444
The Pentecostal Bible College in Kenya	253,299	268,123
Alleluia Church	247,324	375,483
Mombasa Pentecostal Church	203,032	347,163
Jubilee Christian Centre	144,646	144,646
Dominican Republic Mission House 2	136,363	0
Africa Works	128,596	128,596
Dominican Republic Mission House	114,222	120,558
Capital City Pentecostal Church	92,311	120,000
Harare Central Church Loan	90,000	90,000
Private	74,168	74,176
Asian Outreach International	49,055	0
Yangon Bakehouse	48,408	58,531
Turkey Apartment	47,801	54,307
PAOC El Salvador Field	45,618	52,829
Alexandria Community Church	39,145	17,809
The Thailand Field of the Pentecostal Assemblies	20,278	28,135
Novoilyinskaya Church (Russian Church)	18,764	70,180
PAOC Eurasia Field Office	0	97,701
Church of Christians of Evangelical Faith Murman	0	73,779
Africa Works	0	50,000
Tabernacle of David Assembly	0	20,692
The Russian Church of Christians of Evangelical	0	20,116
Russian Assemblies of God	0	12,603
Cornerstone Assembly of God, South Africa	0	4,872
Allowance for doubtful accounts	<u>(100,000)</u>	<u>(100,000)</u>
	<u>\$10,262,776</u>	<u>\$ 9,465,471</u>

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10. LOANS AND MORTGAGES

Loans and mortgages totaling \$4,040,918 (2016 - \$3,308,764) are contractually owing from member churches of the PAOC through trustees who act as agents for both the borrower and the investor. The trustees are current or former officers of the PAOC. There are loans also owing from PFSG in the amount of \$4,309,598 (2016 - \$6,379,445). The remaining amount relates to the alternative mortgage in the amount of \$2,592,857 (2016 - \$2,394,330) for total loans and mortgages owing of \$10,943,373 (2016 - \$12,082,539).

The loans and mortgages are due at various dates between March 15, 2018 and December 7, 2022 (2016 - April 1, 2017 and December 7, 2022) and earn interest at rates in the range of 4.3% and 7.25% (2016 - 4.3% and 5.5%). 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 \$224,550 (2016 - \$135,000). Their maturity dates range from February 24, 2019 to July 29, 2020.

11. PROPERTY, LAND AND EQUIPMENT

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

	Cost	Accumulated Amortization	Net 2017	Net 2016
Trust Fund				
Land	\$ 3,000,000	\$ _____ 0	\$ 3,000,000	\$ 3,000,000
Property Fund				
Land	392,851	0	392,851	392,851
Building	2,948,348	976,476	1,971,872	2,044,501
Furniture, fixtures, office and computer equipment	3,266,284	3,048,138	218,146	242,689
Other property (b)	<u>2</u>	<u>0</u>	<u>2</u>	<u>2</u>
	<u>6,607,485</u>	<u>4,024,614</u>	<u>2,582,871</u>	<u>2,680,043</u>
	<u>\$ 9,607,485</u>	<u>\$ 4,024,614</u>	<u>\$ 5,582,871</u>	<u>\$ 5,680,043</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:

	2017	2016
Loan payable, bearing interest at 4%, due August 10, 2025	\$ 56,014	\$ 61,913
Loan payable, bearing interest at 3.5%, due December 31, 2021	330,153	406,150
Loan payable, bearing interest at 4%, due September 1, 2020	500,000	500,000
Loan payable, bearing interest at 4%, due October 1, 2018	81,890	186,835
Loan payable, bearing interest at 4%, due June 30, 2023	120,644	139,433
Loan payable, bearing interest at 4%, due June 30, 2023	30,024	34,726
Loan payable, non-interest bearing, due on demand	0	381,857
Loan payable, bearing interest at 3.5%, due May 1, 2024	343,735	389,417
Loan payable, bearing interest at 3.25%, due August 1, 2019	105,421	166,104
Loan payable, bearing interest at 3.25%, due September 1, 2021	382,660	500,000
Loan payable, bearing interest at 3.25%, due June 12, 2022	<u>650,000</u>	<u>0</u>
	2,600,541	2,766,435
Less current portion:		
Cash repayments required within 12 months	<u>399,930</u>	<u>1,294,345</u>
	<u>\$ 2,200,611</u>	<u>\$ 1,472,090</u>

Interest in the amount of \$356,802 (2016 - \$297,989) 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:

2018	\$ 399,930
2019	301,996
2020	739,147
2021	254,429
2022	<u>91,862</u>
	1,787,364
Thereafter	<u>813,177</u>
	<u>\$ 2,600,541</u>

13. INTERFUND INVESTMENT

An investment totaling \$6,592,780 (2016 - \$5,945,536), 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, 2019.

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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 71 global workers (2016 - 67). 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.

16. TRUST FUNDS - CHANGES IN FUND BALANCES

	Jan. 1, 2017 Opening Balance	Increase	Decrease	Transfers In (Out)	Dec. 31, 2017 Ending Balance
PAOC Endowment	\$ 5,753,163	\$ 185,453	\$ (294,940)	\$ (5,568)	\$ 5,638,108
John & Lydia Rebman Trust	2,979,070	218,730	(180,917)	0	3,016,883
McKay Trust	2,371,198	150,682	(114,898)	0	2,406,982
Mission Loan Fund	1,059,567	438,538	(356,802)	0	1,141,303
The Healthcare Endowment	736,594	37,747	(22,383)	0	751,958
Santroc Trust	469,020	16,555	(16,816)	0	468,759
Church Planting Trust	369,035	7,723	0	(20,000)	356,758
Harrison Trust	325,005	464	(839)	0	324,630
Hutchinson Trust	280,435	402	(727)	0	280,110
Annuity Fund	9,762	383,891	(177,552)	(10,154)	205,947
Kirk Trust	100,624	5,204	(4,328)	0	101,500
Non-Quon Fund	100,489	300	0	0	100,789
Putrus Trust	84,292	(9,110)	(337)	0	74,845
Memorial Fund	70,027	296	(363)	0	69,960
Dean Trust	40,062	162	(208)	0	40,016
Buchanan Trust	31,419	1,620	0	0	33,039
Literature Fund	11,562	587	(4,377)	0	7,772
Revocable Trust	8,669	660	0	0	9,329
Audrey Shields Trust	1	40	0	0	41
	<u>\$ 14,799,994</u>	<u>\$ 1,439,944</u>	<u>\$ (1,175,487)</u>	<u>\$ (35,722)</u>	<u>\$ 15,028,729</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, 2017, this restricted portion amounted to \$10,166,538 (2016 - \$9,393,996).

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17. INVESTMENT IN PFSG

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

	2017	2016
Gain (Loss) on investment in PFSG		
Net income	\$ (1,148)	\$ 47,838
Dividends	0	(77,272)
Refundable tax	<u>0</u>	<u>29,621</u>
	<u>\$ (1,148)</u>	<u>\$ 187</u>
Financial Position		
Assets	<u>\$ 43,199,652</u>	<u>\$ 50,027,236</u>
Liabilities	\$ 41,507,891	\$ 48,631,175
Common shares	1	1
Preferred shares	1,687,523	1,390,676
Retained earnings	<u>4,237</u>	<u>5,385</u>
Total liabilities and retained earnings	<u>\$ 43,199,652</u>	<u>\$ 50,027,237</u>
Results of operations		
Revenue	\$ 2,070,060	\$ 2,304,088
Expenses	<u>2,071,208</u>	<u>2,207,136</u>
Net income	<u>\$ (1,148)</u>	<u>\$ 96,952</u>
Cash provided by operations	\$ 169,467	\$ 152,941
Cash (used in) financing and investing activities	<u>825,358</u>	<u>(521,964)</u>
Net increase (decrease) in cash	<u>\$ 994,825</u>	<u>\$ (369,023)</u>

18. INVESTMENT IN PSC

PAOC is the sole shareholder and therefore controls PSC. PSC has not been consolidated in PAOC's financial statements. The investment has been accounted for using the equity method.

	2017	2016
Gain (Loss) on investment in PSC		
Net income	<u>\$ (1,271)</u>	<u>\$ 0</u>
Financial Position		
Assets	<u>\$ 124,120</u>	<u>\$ 0</u>
Liabilities	\$ 125,390	\$ 0
Common shares	1	0
Retained earnings	<u>(1,271)</u>	<u>0</u>
Total liabilities and retained earnings	<u>\$ 124,120</u>	<u>\$ 0</u>

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18. INVESTMENT IN PSC (continued)

	2017	2016
Results of operations		
Revenue	\$ 81,752	\$ 0
Expenses	<u>83,023</u>	<u>0</u>
Net income	<u>\$ (1,271)</u>	<u>\$ 0</u>
Cash used in operations	\$ (2,326)	\$ 0
Cash provided by financing and investing activities	<u>6,422</u>	<u>0</u>
Net increase in cash	<u>\$ 4,096</u>	<u>\$ 0</u>

19. COMMITMENTS

The PAOC is committed to 2018 under operating leases for office equipment. Future minimum annual payments required are as follows:

2018	\$43,354
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20. DUE FROM (TO) RELATED PARTIES AND RELATED PARTY TRANSACTIONS

	2017	2016
Due (to) from PFSG	\$ (103,331)	\$ 1,707
Due to ERDO	(26,813)	(91,391)
Due to the Pension Fund	(93,319)	(131,620)
Due from Villages of Hope Africa Society	23,148	518
Due (to) from Asian Outreach Canada	(2,347)	5,435
Due from Mission Link	39,000	36,000
Due to PAOC Foundation	(43,758)	0
Due to PSC	<u>(20,507)</u>	<u>0</u>
	<u>\$ (227,927)</u>	<u>\$ (179,351)</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 \$0 (2016 - \$286,966) received from PFSG.

Included in sales and services revenue is \$104,601 (2016 - \$96,307), \$171,181 (2016 - \$183,703), \$34,438 (2016 - \$32,331), \$128,226 (2016 - \$121,216) 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 its 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 2017 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).

	2017
Number of policies in good standing	21
Face value of policies	\$ 1,972,300
Cash surrender value	\$ 134,797

23. LINE OF CREDIT

The PAOC has access to \$3,000,000 in an unsecured line of credit, at an interest rate of prime. Although no balance was outstanding at year end, the PAOC draws on this line of credit from time to time.