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**AIRDRIE KOINONIA CHRISTIAN SCHOOL SOCIETY
O/A AIRDRIE KOINONIA CHRISTIAN SCHOOL**

FINANCIAL STATEMENTS

AUGUST 31, 2016

Retzlaff & Wong

Chartered Accountants

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1.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Airdrie Koinonia Christian School Society

We have audited the accompanying financial statements of Airdrie Koinonia Christian School Society o/a Airdrie Koinonia Christian School which comprise of the statement of financial position as at AUGUST 31, 2016, statement of operations, statement of changes in net assets and statement of 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 School Society'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 purposes of expressing an opinion on the effectiveness of the School Society'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.

Basis for Opinion

We believe the audit evidence we have obtained 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 School Society as at AUGUST 31, 2016 and the results of its operations, changes in net assets and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Emphasis of Matter

The School Society's ability to continue as a going concern is dependent upon its ability to realizing assets and discharging liabilities. The School Society has significant working capital shortfall as at AUGUST 31, 2016. It may encounter cash flow problem if they are not able to raise additional funds from operations and generate positive cash flows to cover working capital deficiency and future debt repayment obligations. Our opinion is not qualified in respect of this matter.

CALGARY, ALBERTA
November 29, 2016


CHARTERED ACCOUNTANTS

**AIRDRIE KOINONIA CHRISTIAN SCHOOL SOCIETY
O/A AIRDRIE KOINONIA CHRISTIAN SCHOOL
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2016**

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT		
Cash	\$ 432,169	\$ 5,009
Accounts receivable	6,187	11,765
Goods and services tax recoverable	7,224	12,739
Inventory	576	754
Prepaid expenses and deposits	<u>18,747</u>	<u>34,329</u>
	464,903	64,596
Capital assets (Note 3)	<u>15,498,557</u>	<u>15,693,945</u>
	<u>\$ 15,963,460</u>	<u>\$ 15,758,541</u>
<u>LIABILITIES</u>		
CURRENT		
Line of credit (Note 4)	\$ 480,000	\$ 480,000
Accounts payable and accrued liabilities	53,954	131,020
Payroll remittance payable	29,220	29,072
Deferred revenue	281,679	326,503
Undisbursed designated contributions (Note 5)	124,423	18,504
Bow Valley Credit Union mortgage (Note 6)	7,000,000	7,000,000
Capital lease obligation due within one year (Note 7)	6,966	6,257
Notes payable due on demand (Note 8)	<u>2,215,657</u>	<u>2,478,897</u>
	10,191,899	10,470,253
Deferred contributions related to capital assets (Note 9)	2,069,172	2,053,908
Capital lease obligation (Note 7)	<u>14,143</u>	<u>21,109</u>
	<u>12,275,214</u>	<u>12,545,270</u>
Economic dependence (Note 10)		
Going concern (Note 11)		
Contingencies (Note 12)		
<u>NET ASSETS</u>		
Invested in capital assets	3,712,619	3,653,774
Internally restricted (Note 13)	2,563	2,563
Endowment funds	20,000	20,000
Unrestricted	<u>(46,936)</u>	<u>(463,066)</u>
	<u>3,688,246</u>	<u>3,213,271</u>
	<u>\$ 15,963,460</u>	<u>\$ 15,758,541</u>

APPROVED BY THE BOARD

_____ Director

_____ Director

**AIRDRIE KOINONIA CHRISTIAN SCHOOL SOCIETY
O/A AIRDRIE KOINONIA CHRISTIAN SCHOOL
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED AUGUST 31, 2016**

	<u>2016</u>	<u>2015</u>
REVENUE		
Administrative and sundry	\$ 156,286	\$ 5,342
Amortization of deferred contributions	58,301	49,251
Designated donations (Note 5)	76,129	16,688
Donations	604,942	323,050
Fundraising (Note 14)	351,187	178,591
Government grants	1,225,271	1,069,726
School generated funds	11,200	753
Tuition and registration fees	<u>961,818</u>	<u>810,795</u>
	<u>3,445,134</u>	<u>2,454,196</u>
 EXPENSES		
Academic and programs	111,228	106,579
Administrative	41,877	22,112
Advertising	29,517	21,153
Amortization	372,698	335,212
Benevolence	2,150	95
Designated funds disbursed (Note 5)	76,129	17,088
Facility cost	140,681	117,165
Fundraising (Note 14)	103,688	108,591
Insurance	23,307	31,569
Interest on long term debts	351,018	328,869
Membership and dues	49,370	47,311
Office	11,465	17,403
Options and activities	52,332	58,656
Professional development	5,576	6,032
School generated funds	23,497	-
Wages, benefits, and subcontracts	<u>1,574,498</u>	<u>1,756,506</u>
	<u>2,969,031</u>	<u>2,974,341</u>
Income (deficit) from operations	476,103	(520,145)
Capital assets not capitalized (Note 2)	<u>1,128</u>	<u>4,760</u>
Excess (deficiency) of revenue over expenses	<u>\$ 474,975</u>	<u>\$(524,905)</u>

**AIRDRIE KOINONIA CHRISTIAN SCHOOL SOCIETY
O/A AIRDRIE KOINONIA CHRISTIAN SCHOOL
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2016**

	Invested in <u>Capital Assets</u>	Endowments	(Note 13) Internally Restricted	Unrestricted	Net Assets	
					<u>2016</u>	<u>2015</u>
Net assets, beginning of year	\$ 3,653,774	\$ 20,000	\$ 2,563	\$(463,066)	\$ 3,213,271	\$ 3,738,176
(Deficiency) excess of revenue over expenses	(314,397) ¹	-	-	789,372	474,975	(524,905)
Interfund transfers	<u>373,242</u> ²	<u>-</u>	<u>-</u>	<u>(373,242)</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 3,712,619</u>	<u>\$ 20,000</u>	<u>\$ 2,563</u>	<u>\$(46,936)</u>	<u>\$ 3,688,246</u>	<u>\$ 3,213,271</u>

¹Consists of:

Amortization	\$ 372,698
Amortization of deferred contributions	(58,301)
Deferred contributions related to capital assets received	(73,565)
Purchase of capital assets with restricted funds	<u>73,565</u>
	<u>\$ 314,397</u>

²Consists of:

Principal repayment of capital lease obligation	\$ 6,257
Repayment of demand loans	263,240
Purchase of capital assets with unrestricted funds	<u>103,745</u>
	<u>\$ 373,242</u>

**AIRDRIE KOINONIA CHRISTIAN SCHOOL SOCIETY
O/A AIRDRIE KOINONIA CHRISTIAN SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2016**

	<u>2016</u>	<u>2015</u>
CASH FLOWS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	\$ 474,975	\$(524,905)
Add back items not affecting cash		
Amortization	372,698	335,212
Amortization of deferred contributions	(58,301)	(49,251)
Net change in non-cash working capital balances related to operations		
Accounts receivable	5,577	17,307
Goods and services tax recoverable	5,515	806
Prepaid expenses and deposits	15,582	58,597
Inventory	178	19,166
Accounts payable and accrued liabilities	(77,066)	(70,937)
Payroll remittance payable	148	(3,842)
Deferred revenue	(44,824)	48,197
Undisbursed designated contributions	<u>105,919</u>	<u>(678)</u>
	<u>800,401</u>	<u>(170,328)</u>
FINANCING ACTIVITIES		
(Repayment of) proceeds from loan due on demand	(263,240)	1,407,165
Repayment of capital lease obligation	<u>(6,257)</u>	<u>(5,621)</u>
	<u>(269,497)</u>	<u>1,401,544</u>
INVESTING ACTIVITIES		
Deferred contributions related to capital assets	73,565	182,826
Purchase of capital assets using restricted funds	(73,565)	(182,826)
Purchase of capital assets using unrestricted funds	<u>(103,745)</u>	<u>(1,320,673)</u>
	<u>(103,745)</u>	<u>(1,320,673)</u>
Change in cash	427,159	(89,457)
Cash, beginning of year	<u>5,010</u>	<u>94,467</u>
Cash, end of year	<u>\$ 432,169</u>	<u>\$ 5,010</u>
Supplementary cash flow information:		
Cash interest paid	<u>\$ 351,018</u>	<u>\$ 328,869</u>

**AIRDRIE KOINONIA CHRISTIAN SCHOOL SOCIETY
O/A AIRDRIE KOINONIA CHRISTIAN SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016**

1. PURPOSE OF THE ORGANIZATION

Airdrie Koinonia Christian School Society is a Christian day school committed to a Biblical standard of spiritual and academic excellence. The School Society provides children with an education which enable them to grow spiritually, academically, socially and physically so that they are equipped for service to God. The School Society is registered as a charitable organization under the Income Tax Act and as such is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

Measurement uncertainty

The preparation of the financial statements of the School Society are in conformity with Canadian generally accepted accounting principles for not-for-profit organizations that requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Revenue recognition

The School Society follows the deferral method of accounting for contributions. Revenue and expenses are recorded on the accrual basis.

Externally 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.

Rental income and tuition and registration fees are recognized as revenue as related services are provided and the amount to be received can be reasonably estimated and collection is reasonably assured.

Government grants and membership fees are recognized as revenue in the year to which they relate and the amount to be received can be reasonably estimated and collection is reasonably assured.

Capital assets

Capital assets are recorded at cost. Capital assets with a cost less than \$5,000 are expensed in the year of acquisition. Amortization on capital assets is recorded on the straight line basis the year after acquisition at the following annual rates:

Buildings	40 Years
Equipment and furniture	5 Years
Vehicle	10 Years
Equipment under capital lease	5 Years

**AIRDRIE KOINONIA CHRISTIAN SCHOOL SOCIETY
O/A AIRDRIE KOINONIA CHRISTIAN SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed services

As with most charitable organizations, significant donations of time and services are received during each year. Due to the difficulties in establishing dollar values for these services, no attempt has been made to include a value for the services in the records of the School Society.

Financial instruments

The School Society's financial instruments consists of cash, accounts receivable, accounts payable and accrued liabilities, line of credit, Bow Valley Credit Union construction loan and notes payable due on demand. Unless otherwise indicated, it is management's opinion that the School Society is not exposed to significant interest or credit risks rising from these financial instruments. The fair value of these financial instruments approximate their carrying value, unless otherwise noted.

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Fluctuation in market rates of interest on Bow Valley Credit Union construction loan and line of credit will have a significant impact on the School Society's results of operations.

3. CAPITAL ASSETS

	<u>2016 Cost</u>	<u>Accumulated Amortization</u>	<u>Net book value</u>
Land	\$ 2,021,756	\$ -	\$ 2,021,756
Buildings	14,014,582	658,049	13,356,533
Equipment and furniture	159,286	59,783	99,503
Vehicle	<u>55,000</u>	<u>55,000</u>	<u>-</u>
	16,250,624	772,832	15,477,792
Equipment under capital lease	<u>34,608</u>	<u>13,843</u>	<u>20,765</u>
	<u>\$ 16,285,232</u>	<u>\$ 786,675</u>	<u>\$ 15,498,557</u>
	<u>2015 Cost</u>	<u>Accumulated Amortization</u>	<u>Net book value</u>
Land	\$ 2,021,756	\$ -	\$ 2,021,756
Buildings	13,898,489	310,586	13,587,903
Furniture and equipment	98,068	46,968	51,100
Vehicle	<u>55,000</u>	<u>49,500</u>	<u>5,500</u>
	16,073,313	407,054	15,666,259
Equipment under capital lease	<u>34,608</u>	<u>6,922</u>	<u>27,686</u>
	<u>\$ 16,107,921</u>	<u>\$ 413,976</u>	<u>\$ 15,693,945</u>

**AIRDRIE KOINONIA CHRISTIAN SCHOOL SOCIETY
O/A AIRDRIE KOINONIA CHRISTIAN SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016**

4. LINE OF CREDIT

In the prior year, the School Society has obtained a \$480,000 line of credit from Bow Valley Credit Union with interest at prime plus 1% per annum. The Credit Union also issued a \$90,000 letter of credit to the City of Airdrie on behalf of the School Society. The loan and the letter of credit are secured by \$930,000 collateral mortgage on certain land, assignment of rents registered by way of caveat over the property, and a general security agreement covering all School Society assets. As at August 31, 2016, the outstanding balance of the line of credit is \$480,000.

5. UNDISBURSED DESIGNATED CONTRIBUTIONS

	<u>2015</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>2016</u>
Missions	\$ 11,607	\$ 46,243	\$ 46,795	\$ 11,055
Bursary Fund	-	108,435	-	108,435
Scholarship funds	2,450	1,375	1,700	2,125
Drama fund	669	656	1,295	30
Other	<u>3,778</u>	<u>25,339</u>	<u>26,339</u>	<u>2,778</u>
	<u>\$ 18,504</u>	<u>\$ 182,048</u>	<u>\$ 76,129</u>	<u>\$ 124,423</u>

6. BOW VALLEY CREDIT UNION MORTGAGE

The School Society has obtained a \$7,000,000 mortgage from Bow Valley Credit Union with interest only payments at prime plus 1% per annum. Upon the next annual account review on January 1, 2017, the Credit union will offer a repayment schedule comprised of terms ranging from one to five year and an amortization not to exceed twenty five years. The mortgage is secured by a collateral mortgage on the building, assignment of rents registered at land titles, a general security agreement covering all School Society assets and assignment of builders all risk insurance with first loss payable to Bow Valley Credit Union.

7. CAPITAL LEASE OBLIGATION

	<u>2016</u>	<u>2015</u>
Photocopier lease with Roynat Lease Finance which requires annual installments of \$8,904 including interest at 10.78%, lease expires in May 2019.	\$ 21,109	\$ 27,366
Amount due within one year	<u>6,966</u>	<u>6,257</u>
	<u>\$ 14,143</u>	<u>\$ 21,109</u>

Estimated principal amounts due within the next three years:

2017	\$ 6,966
2018	7,755
2019	6,388

**AIRDRIE KOINONIA CHRISTIAN SCHOOL SOCIETY
O/A AIRDRIE KOINONIA CHRISTIAN SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016**

8. NOTES PAYABLE DUE ON DEMAND

The School Society has received \$2,215,657 (2015 - \$2,478,897) from third parties of the School Society. The loans carries interest at 0% to 4% per annum. There is no fixed terms for repayment on the loan principal. However, either party can terminate the contract with a 21 calendar days notice to the other party, during which time the full loan principal shall be due for repayment.

9. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Deferred contributions related to capital assets represent the funds contributed to the School Society by funders for building a new school. These deferred contributions will be recognized as revenue on the same basis as the amortization expense related to the new school building.

10. ECONOMIC DEPENDENCE

During the year, the School Society received \$1,225,271 (2015 - \$1,069,726) Alberta Government grants, representing 35.6% (2015 - 44%) of the School Society's total revenue. As such, the School Society's future economic viability is dependent on its continuance to receive such funding.

11. GOING CONCERN

The School Society's ability to continue as a going concern is dependent upon its ability to realizing assets and discharging liabilities. The School Society has significant working capital shortfall as at August 31, 2016. It may encounter cash flow problem if they are not able to raise additional funds from operations and generate positive cash flows to cover working capital deficiency and future debt repayment obligations.

12. CONTINGENCIES

The School Society is defending legal actions brought by the former general construction contractor and various sub-trades in connection with the construction of the new school building. Based on information provided by the School Society's legal council, the maximum possible amount if ruling goes against the School Society could be approximately \$4 million. The outcome of this litigation is not determinable as at August 31, 2016.

13. INTERNALLY RESTRICTED

The Board of Directors has internally restricted funds for the following purposes:

	<u>2016</u>	<u>2015</u>
Professional development fund	\$ 13	\$ 13
Missions fund	2,000	2,000
Drama fund	<u>550</u>	<u>550</u>
	<u>\$ 2,563</u>	<u>\$ 2,563</u>

**AIRDRIE KOINONIA CHRISTIAN SCHOOL SOCIETY
O/A AIRDRIE KOINONIA CHRISTIAN SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016**

14. FUNDRAISING

	<u>2016</u>	<u>2015</u>
REVENUE		
Banquet	\$ 218,660	\$ 2,160
Others	<u>132,527</u>	<u>176,431</u>
	<u>\$ 351,187</u>	<u>\$ 178,591</u>
 EXPENSES		
Banquet	\$ 3,121	\$ -
Raise the Roof	-	250
Others	<u>100,567</u>	<u>108,341</u>
	<u>\$ 103,688</u>	<u>\$ 108,591</u>

In order to raise the \$351,187 (2015 - \$178,591) in community support, of which included donations in kind of \$5 (2015 - \$608), the Society spent \$103,688 (2015 - \$108,591) on expenses incurred for the purposes of soliciting contributions.