

**MANITOBA ISLAMIC ASSOCIATION**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2008**

**SCARROW & DONALD LLP  
CHARTERED ACCOUNTANTS**

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December 10, 2008

## AUDITORS' REPORT

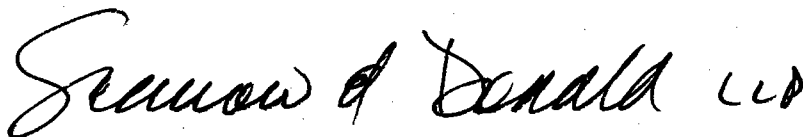
**To the Board of Directors of the  
Manitoba Islamic Association:**

We have audited the statement of financial position of Manitoba Islamic Association as at September 30, 2008 and the statements of operations, net assets and cash flow for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many not for profit organizations, the Association reports revenues from sources the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of revenues was limited to the amounts recorded in the records of the Association and we were not able to determine whether any adjustments might be necessary to revenues, difference between revenues and expenses, current assets and net assets.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the revenues referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Association as at September 30, 2008, and the results of its operations and the cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Winnipeg, Canada

For this communication, together with the work done to prepare this communication and for the opinions we have formed, if any, we accept and assume responsibility only to the addressee of this communication, as specified in our letter of engagement.

**MANITOBA ISLAMIC ASSOCIATION**  
**STATEMENT OF FINANCIAL POSITION**

|   | <u>September 30</u> |                    |
|---|---------------------|--------------------|
|   | <u>2008</u>         | <u>2007</u>        |
| <b>ASSETS</b>                               |                     |                    |
| <b>Current assets:</b>                      |                     |                    |
| Cash  | \$ 247,876          | \$ 149,888         |
| Cash - building                             | 67,025              | 144,511            |
| Cash - Social Assistance Fund               | <u>89,009</u>       | <u>61,641</u>      |
|   | 403,910             | 356,040            |
| <br><b>Capital assets: (Note 3)</b>         |                     |                    |
| Land, building and equipment - at cost      | 2,750,425           | 2,588,948          |
| Less: accumulated amortization              | <u>(332,288)</u>    | <u>(257,744)</u>   |
|   | <u>2,418,137</u>    | <u>2,331,204</u>   |
|   | <u>\$2,822,047</u>  | <u>\$2,687,244</u> |
| <br><b>LIABILITIES AND NET ASSETS</b>       |                     |                    |
| <b>Current liabilities:</b>                 |                     |                    |
| Accounts payable                            | \$ 2,056            | \$ 19,356          |
| <br><b>Deferred contributions: (Note 4)</b> |                     |                    |
| Specific purposes                           | 33,664              | 21,670             |
| Building completion grant                   | 133,480             | -                  |
| Building                                    | 2,485,162           | 2,475,715          |
| Takaful Social Assistance Fund              | <u>89,009</u>       | <u>61,641</u>      |
|   | 2,741,315           | 2,559,026          |
| <br><b>Unrestricted net assets</b>          | <u>78,676</u>       | <u>108,862</u>     |
|   | <u>\$2,822,047</u>  | <u>\$2,687,244</u> |

**APPROVED BY THE BOARD:**

\_\_\_\_\_ **Director**

**MANITOBA ISLAMIC ASSOCIATION**

**STATEMENT OF OPERATIONS**

|  | <b>Year ended September 30</b> |                         |
|--|--------------------------------|-------------------------|
|  | <b><u>2008</u></b>             | <b><u>2007</u></b>      |
| <b>Revenues:</b>                                       |                                |                         |
| Donations  | \$ 108,214                     | \$ 125,346              |
| Fundraising  | 52,970                         | 40,040                  |
| Membership and other revenue                           | 13,101                         | 30,660                  |
| Contributions used for assistance and special purposes | 175,025                        | 141,198                 |
| Amortization of deferred contributions                 | <u>79,557</u>                  | <u>85,285</u>           |
|  | 428,867                        | 422,529                 |
| <b>Expenses:</b>                                       |                                |                         |
| Amortization   | 74,544                         | 77,544                  |
| Assistance and special purposes                        | 175,025                        | 141,198                 |
| General expenses                                       | 148,934                        | 124,039                 |
| Wages and employee benefits                            | <u>60,550</u>                  | <u>37,565</u>           |
|  | <u>459,053</u>                 | <u>380,346</u>          |
| <b>Difference between revenues and expenses</b>        | <b><u>\$ (30,186)</u></b>      | <b><u>\$ 42,183</u></b> |

**MANITOBA ISLAMIC ASSOCIATION**

**STATEMENT OF NET ASSETS**

|   | <b><u>Year ended September 30</u></b> |                                 |
|---|---------------------------------------|---------------------------------|
|   | <b><u>2008</u></b>                    | <b><u>2007</u></b>              |
| <b>Opening balance - unrestricted</b>               | <b>\$ 108,862</b>                     | <b>\$ 66,679</b>                |
| <b>Difference between revenues<br/>and expenses</b> | <b><u>(30,186)</u></b>                | <b><u>42,183</u></b>            |
| <b>Closing balance - unrestricted</b>               | <b><u><u>\$ 78,676</u></u></b>        | <b><u><u>\$ 108,862</u></u></b> |

**MANITOBA ISLAMIC ASSOCIATION**

**STATEMENT OF CASH FLOW**

|  | <b>Year ended September 30</b> |                          |
|--|--------------------------------|--------------------------|
|  | <b><u>2008</u></b>             | <b><u>2007</u></b>       |
| <b>Cash flow from operating activities:</b>  |                                |                          |
| Cash from donations fundraising and other    | \$ 522,151                     | \$ 202,407               |
| Cash from building donations                 | 89,004                         | 553,322                  |
| Cash paid to suppliers, employees and others | <u>(401,808)</u>               | <u>(403,252)</u>         |
|  | 209,347                        | 352,477                  |
| <b>Cash flow from financing activities:</b>  |                                |                          |
| Acquisitions of building and equipment       | <u>(161,477)</u>               | <u>(418,970)</u>         |
| <b>Change in cash</b>                        | 47,870                         | (66,493)                 |
| <b>Cash, beginning of year</b>               | <u>356,040</u>                 | <u>422,533</u>           |
| <b>Cash, end of year</b>                     | <b><u>\$ 403,910</u></b>       | <b><u>\$ 356,040</u></b> |

**MANITOBA ISLAMIC ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**1. Purpose of the organization:**

Manitoba Islamic Association provides religious, social, cultural, and educational activities for Muslims in Manitoba. The Manitoba Islamic Association is incorporated under the Manitoba Corporations Act and is a Registered Charity.

**2. Significant accounting policies:**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. An assumption underlying the preparations of financial statements in accordance with Canadian generally accepted accounting principles is that the entity will continue for the foreseeable future and will be able to realize its assets and discharge liabilities in the normal course of operations.

The financial statements include the following significant accounting policies:

a) Accounting estimates-

Accounting estimates are included in financial statements to approximate the effect of past business transactions or events, or to approximate the present status of an asset or liability. Examples include the allowance for doubtful accounts, loss provisions and the estimated useful life of an asset. It is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. Any changes in these estimates will be reflected in the period in which the changes become known.

b) Revenue recognition-

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

c) Capital assets-

Capital assets are recorded at cost and amortized over their estimated useful lives on a straight line basis. Estimating the useful life requires estimation of the useful life of the asset and its salvage and residual value. Long-lived assets are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. As is true for all accounting estimates, it is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates.

The building is being amortized on a straight line basis over 40 years. Equipment is being amortized a straight line basis over 5 years.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

**2. Significant accounting policies (cont'd):**

## d) Financial instruments-

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held to maturity, loans and receivables, or other liabilities. Financial assets and liabilities may be measured at fair value, cost, or amortized costs. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Transactions to purchase or sell financial assets are recorded on the settlement date. The Association has adopted Section 3861 in place of 3862 and 3863.

The Association classifies financial instrument using the following criteria:

## Loans and receivables-

The Association classifies non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand, usually with interest as loans and receivables other than debt securities and loans and receivable that the entity, upon initial recognition, designates as held-for-trading or as available-for-sale. Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Net gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment. The Association has classified accounts receivable as loans and receivables.

## Held-to-maturity investments-

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Association has the positive intention and ability to hold to maturity; other than those that meet the definition of loans and receivables, those that the Association, upon initial recognition, designates as held-for-trading and those that the Association designates as available-for-sale. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Net gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment. The Association has no instruments classified as held-to-maturity.

## Held-for-trading-

A financial asset or financial liability held-for-trading is a financial asset or financial liability that is not either a loan or receivable acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or is a derivative, except for a derivative that is a designated and effective hedging instrument; or it is designated by the Association upon initial recognition as held-for-trading, except for financial instruments whose fair value cannot be reliably measured and financial instruments transferred in a related party transaction that were not classified as held-for-trading before the transaction. Financial assets and financial liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in the difference between revenues and expenses. The Association does not reclassify a financial instrument into or out of the trading category while it is held or issued. The Association has classified cash held-for-trading.



NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008.

2. Significant accounting policies (cont'd):

d) Financial instruments (cont'd)-

Available-for-sale-

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity investments, or held-for-trading. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in net assets or a separate portion of the statement of operations. Investments in equity instruments are classified as available-for-sale if they do not have a quoted market price in an active market and are measured at cost. The Association has no financial assets classified as available-for-sale.

Other liabilities-

Financial liabilities are measured at fair value when they are classified as held-for-trading or are derivatives, except for derivatives that are linked to and must be settled by delivery of equity instruments of another entity whose fair value cannot be reliably measured. All other financial liabilities are measured at amortized cost. Net gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment. The Association has classified accounts payable as other liabilities.

Transaction costs-

Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are added to the related financial asset or liability on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Derivative instruments-

A derivative is a financial instrument or other contract with all three of the following characteristics: its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract; it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and it is settled at a future date. Derivative instruments are recorded at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in the difference between revenues and expenses, except for derivatives that are designated as cash flow hedges, in which case the fair value change for the effective portion of such hedging relationships are recognized separately. The Association presently does not have any derivative financial instruments.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

2. **Significant accounting policies** (cont'd):

d) Financial instruments (cont'd)-

Hedges-

In a fair value hedging relationship, the carrying value of the hedged item will be adjusted by gains or losses attributable to the hedged risk and recognized in the difference between revenues and expenses. The changes in the fair value of the hedged item, to the extent that the hedging relationship is effective as defined by the standard ("effective"), will be offset by changes in the fair value of the hedging derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized separately. The ineffective portion as defined by the standard ("ineffective") will be recognized in the difference between revenues and expenses. The amounts recognized separately will be reclassified to the difference between revenues and expenses in those periods in which the difference between revenues and expenses is affected by the variability in the cash flows of the hedged item. The Association presently does not have any hedging transactions.

Financial asset impairment-

The Association assesses impairment of all its financial assets, except those classified as held-for-trading. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment is included in current earnings.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

3. Capital assets:

|                      | 2008               |                          | 2007               |                          |
|----------------------|--------------------|--------------------------|--------------------|--------------------------|
|                      | Cost               | Accumulated Depreciation | Cost               | Accumulated Depreciation |
| Land                 | \$ 20,000          | \$ -                     | \$ 20,000          | \$ -                     |
| Building - Hazelwood | 180,000            | 177,488                  | 180,000            | 139,500                  |
| Building - Waverley  | 2,455,317          | 148,800                  | 2,357,963          | 112,244                  |
| Equipment            | 95,108             | 6,000                    | 30,985             | 6,000                    |
|                      | <u>\$2,750,425</u> | <u>\$ 332,288</u>        | <u>\$2,588,948</u> | <u>\$ 257,744</u>        |

4. Deferred contributions:

Deferred contributions represent unspent resources which are externally restricted for the purposes noted. Changes in deferred contributions are:

|                 | Building Completion | Specific purposes | Building           | Social Assistance | Total 2008         |
|-----------------|---------------------|-------------------|--------------------|-------------------|--------------------|
| Opening Balance | \$ -                | \$ 21,670         | \$2,475,715        | \$ 61,641         | \$2,559,026        |
| Expenditures    | -                   | (32,916)          | -                  | (142,109)         | (175,025)          |
| Contributions   | 133,480             | 44,910            | 89,004             | 169,477           | 436,871            |
| Amortization    | -                   | -                 | (79,557)           | -                 | (79,557)           |
|                 | <u>\$ 133,480</u>   | <u>\$ 33,664</u>  | <u>\$2,485,162</u> | <u>\$ 89,009</u>  | <u>\$2,741,315</u> |

5. Net assets:

The Association's objectives when managing net assets are to safeguard its ability to continue as a going concern, so that it can continue to provide services to members and benefits for other stakeholders, and to price products and services commensurately with the level of risk and market forces and the Association's objectives.

The Association sets the amount of net assets in proportion to risk and its ability to obtain funding. The Association manages its assets and makes adjustments in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the structure, the Association may seek additional sources of funding, sell assets to reduce debt or undertake other activities at its discretion.

The Association monitors net assets through direct personal involvement with employees and outside parties and from time-to-time using a variety of measures, depending on the circumstances. Monitoring procedures are typically performed as a part of the overall management of the Association's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

**6. Risk management and fair values:**

Management's risk management policies are typically performed as a part of the overall management of the Association's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Association is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. The Association has not designated transactions as hedging transactions to manage risk. As a part of the overall operation of the Association, management considers the avoidance of undue concentrations of risk. These risks include, and the actions taken to manage them are as follows:

**Interest rate risk-**

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as interest rate cash flow risk, or on the fair value of other financial assets or liabilities, known as interest rate price risk.

**Credit risk-**

Credit risk arises from the possibility that debtors may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Association has credit policies to address credit risk on accounts receivable, which may include the analysis of the financial position of the debtor and review of credit limits. The Association also may review credit history before establishing credit and reviews credit performance. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

**Fair values-**

The fair values of the Association's current financial assets and liabilities, approximate their recorded values as at year-end due to their short-term nature. Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. The estimate of fair value at year-end may not represent fair values at any other date. The determination of fair value is also affected by the use of judgement and by uncertainty.