MANITOBA ISLAMIC ASSOCIATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

Scarrow & Donald LLP

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November 23, 2012

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Manitoba Islamic Association:

We have audited the accompanying financial statements of the Manitoba Islamic Association, which comprise the statement of financial position as at September 30, 2012, and the statements of operations, change in net assets and cash flow 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 generally accepted accounting principles, 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.

Auditors' 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 is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion
In common with many charitable organizations, the Manitoba Islamic Association derives revenues the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our examination of these items was limited to amounts recorded in the records of the Manitoba Islamic Association. Therefore, we were not able to determine whether any adjustment might be necessary to revenues, difference between revenues and expenses, and cash flow from operating activities for the year ended September 30, 2012, current assets as at September 30, 2012 and net assets as at October 1, 2011 and September 30, 2012.

Qualified Opinion
In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Manitoba Islamic Association of Manitoba Inc. as at September 30, 2012, and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

Scarrow & Donald LLP

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

	September 30 2012	September 30 2011
ASSETS		
Current assets:		
Cash	$ 400,289	$ 298,309
Cash - Building Fund	92,160	72,553
GST receivable	4,263	-
Prepaid expense	1,000	-
	497,712	370,862
Capital assets: (Note 3)		
Land, building and equipment - at cost	2,850,133	2,847,458
Less: accumulated amortization	(691,588)	(599,588)
	2,158,545	2,247,870
	$ 2,656,257	$ 2,618,732
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 7	$ 12,248
Deferred contributions: (Note 4)		
Specific purposes	7,140	-
Building completion grant	118,680	122,380
Building	2,300,773	2,346,948
	2,426,593	2,469,328
Net assets	229,657	137,156
	$ 2,656,257	$ 2,618,732

APPROVED BY THE BOARD:

__________________________ **Director**

MANITOBA ISLAMIC ASSOCIATION

STATEMENT OF OPERATIONS

	Year ended September 30	
	2012	**2011**
Revenues:		
Donations, fund-raising and other revenue	$ 346,848	$ 220,471
Contributions used for assistance	105,812	60,959
Contributions used for special purposes	-	18,885
Amortization of building completion grant	3,700	3,700
Amortization of deferred contributions	93,175	92,000
Expropriation	60,000	-
	609,535	396,015
Expenses:		
Amortization	92,000	92,000
Assistance	59,103	60,959
Special purpose expenses	-	18,885
General expenses	270,636	175,121
Wages and employee benefits	95,295	76,840
	517,034	423,805
Difference between revenues and expenses	$ 92,501	$ (27,790)

MANITOBA ISLAMIC ASSOCIATION

STATEMENT OF CHANGE IN NET ASSETS

	Year ended September 30	
	2012	**2011**
Opening balance	$ 137,156	$ 164,946
Difference between revenues and expenses	92,501	(27,790)
Closing balance	$ 229,657	$ 137,156

MANITOBA ISLAMIC ASSOCIATION

STATEMENT OF CASH FLOW

	Year ended September 30	
	2012	**2011**
Cash flow from operating activities:		
Cash from donations fundraising and other	$ 448,397	$ 158,448
Cash from building donations	-	62,023
Cash from City of Winnipeg	107,000	-
Cash paid to suppliers, employees and others	(431,135)	(245,319)
	124,262	(24,848)
Cash flow from financing activities:		
Acquisitions of building and equipment	(2,675)	-
Change in cash	121,587	(24,848)
Cash, beginning of year	370,862	395,710
Cash, end of year	$ 492,449	$ 370,862

MANITOBA ISLAMIC ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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 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.

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. Transactions to purchase or sell financial assets are recorded on the settlement date. The Association has applied CICA Handbook Section 3861 - Financial Instruments-Disclosure and Presentation in place of Section 3862 - Financial Instruments-Disclosures and Section 3863 - Financial Instruments-Presentation.

Financial assets and financial liabilities classified as held-for-trading are subsequently measured at fair value with gains and losses recognized in net earnings. Financial assets classified as held-to-maturity, loans and receivables, and other liabilities are subsequently measured at their amortized cost, using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income until the financial asset is derecognized. 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.

Net gains and losses arising from changes in fair value of loans and receivables, held-to-maturity investments, and other liabilities are recognized in net income upon derecognition or impairment. The Association does not reclassify a financial instrument into or out of the held-for-trading category while it is held or issued, except in rare circumstances.

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 net earnings, 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 in other comprehensive income. The Association presently does not have any derivative financial instruments.

The Association gas classified financial instruments as follows:

Financial statement item	**Classification**	**Measurement**
Cash	Held-for-trading	Fair value
Accounts payable	Other liabilities	Amortized cost

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.

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.

3. Capital assets:

	2012 Cost	2012 Accumulated depreciation	2011 Cost	2011 Accumulated depreciation
Land	$ 20,000	$ -	$ 20,000	$ -
Building - Hazelwood	180,000	173,100	180,000	168,100
Building - Waverley	2,526,791	428,488	2,526,791	365,488
Equipment	123,342	90,000	120,667	66,000
	$ 2,850,133	$ 691,588	$ 2,847,458	$ 599,588

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	Total 2012
Opening Balance	$ 122,380	$ -	$ 2,346,948	$ 2,469,328
Contributions Received	-	7,140	47,000	54,140
Amortization	(3,700)	-	(93,175)	(96,875)
	$ 118,680	$ 7,140	$ 2,300,773	$ 2,426,593

5. Capital management:

The Association's objectives when managing capital, which consists of net assets, is 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.

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 operations, 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.