

THE CANADIAN HERITAGE ARTS SOCIETY

FINANCIAL STATEMENTS

APRIL 30, 2019

INDEPENDENT AUDITORS' REPORT

To the Directors of The Canadian Heritage Arts Society

Report on the audit of the financial statements

Qualified opinion

We have audited the accompanying financial statements of The Canadian Heritage Arts Society (the Society), which comprise the statement of financial position as at April 30, 2019 and April 30, 2018, and the statements of changes in net assets, operations, and cash flow for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Society as at April 30, 2019 and April 30, 2018, and the results of its operations, changes in net assets, and cash flow for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for qualified opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In common with many not-for-profit organizations, the Society derives revenue from the general public in the form of donations and fundraising activities, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Society. Therefore, we were not able to determine whether any adjustments might be necessary to charitable donation revenue, excess of revenues over expenses, and cash flows from operations for the years ended April 30, 2019 and April 30, 2018, current assets as at April 30, 2019 and April 30, 2018, and net assets as at May 1 and April 30 for both the 2019 and 2018 years. Our audit opinion on the financial statements for the year ended April 30, 2018 was also modified accordingly because of the possible effects of this limitation in scope.

Responsibilities of management and those charged with governance 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.

In preparing the financial statements, management is responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Society to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

As required by the Society Act of British Columbia, we report that in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Victoria, BC
August 24, 2019

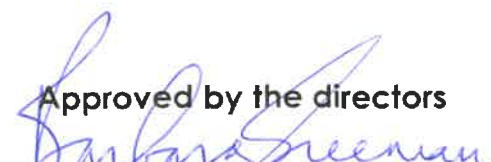
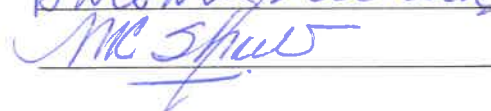
Allen & Krauel Inc.
Chartered Professional Accountants

THE CANADIAN HERITAGE ARTS SOCIETY

STATEMENT OF FINANCIAL POSITION APRIL 30, 2019

	2019	2018
ASSETS		
Current		
Cash	\$ 106,019	\$ 195,195
Accounts receivable	74,921	16,364
Tuition accounts receivable	15,640	19,440
GST receivable	8,501	17,894
Inventory	816	4,081
Prepaid expenses	13,742	7,789
	<u>219,639</u>	<u>260,763</u>
Restricted cash (note 3)	213,453	210,763
Tangible capital assets (note 4)	<u>72,163</u>	<u>88,909</u>
	<u>\$ 505,255</u>	<u>\$ 560,435</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 102,343	\$ 55,803
Government remittances payable	893	2,902
Deferred revenue	43,211	184,074
Unearned tuition	43,028	69,908
Current portion of lease obligation (note 5)	<u>5,325</u>	<u>5,604</u>
	194,800	318,291
Lease obligation (note 5)	<u>15,005</u>	<u>8,366</u>
	<u>209,805</u>	<u>326,657</u>
NET ASSETS		
Net assets internally restricted for facility fund (note 6)	193,367	190,677
Net assets internally restricted for bursary fund (note 6)	20,086	20,086
Net assets invested in tangible capital assets	51,833	74,939
Unrestricted net assets	<u>30,164</u>	<u>(51,924)</u>
	<u>295,450</u>	<u>233,778</u>
	<u>\$ 505,255</u>	<u>\$ 560,435</u>

Approved by the directors

 Director
 Director

THE CANADIAN HERITAGE ARTS SOCIETY

STATEMENT OF CHANGES IN NET ASSETS

	Internally restricted facility fund	Internally restricted bursary fund	Tangible capital asset fund	Unrestricted	2019	2018
Balance, beginning of year	\$ 190,677	\$ 20,086	\$ 74,939	\$ (51,924)	\$ 233,778	\$ 195,998
Excess (deficiency) of revenue over expenses	-	-	(32,177)	93,849	61,672	37,780
Investment in tangible capital assets	-	-	15,431	(15,431)	-	-
Assumption of lease obligation	-	-	(16,566)	16,566	-	-
Principal repayment of lease obligation	-	-	10,206	(10,206)	-	-
Net asset transfers	2,690	-	-	(2,690)	-	-
Balance, end of year	\$ 193,367	\$ 20,086	\$ 51,833	\$ 30,164	\$ 295,450	\$ 233,778

THE CANADIAN HERITAGE ARTS SOCIETY

STATEMENT OF REVENUE AND EXPENSES YEAR ENDED APRIL 30, 2019

	<u>2019</u>	<u>2018</u>
Revenue		
Tuition	\$ 775,839	\$ 774,956
Government grants (note 7)	400,000	392,077
Events and other operating revenue	362,712	222,010
Fundraising	78,520	327,875
Individual donations	67,373	165,630
	<u>1,684,444</u>	<u>1,882,548</u>
Expenses		
Payroll and contract fees	853,805	911,599
Artistic	247,656	222,060
Facility	163,482	162,589
Education services	109,412	45,566
General and administration	80,641	99,380
Marketing	42,412	33,108
Development and fundraising	29,703	228,227
Amortization	26,584	30,851
Donations to endowment funds	23,373	60,540
Insurance, licences and dues	18,853	16,132
Interest and bank charges	16,071	20,780
Travel	10,285	13,366
Interest on lease liability	495	570
	<u>1,622,772</u>	<u>1,844,768</u>
Excess of revenue over expenses	<u>\$ 61,672</u>	<u>\$ 37,780</u>

THE CANADIAN HERITAGE ARTS SOCIETY

STATEMENT OF CASH FLOW YEAR ENDED APRIL 30, 2019

	<u>2019</u>	<u>2018</u>
Operating activities		
Excess of revenue over expenses	\$ 61,672	\$ 37,780
Add charge to operations not requiring a current cash payment:		
Amortization	26,584	30,851
Loss on disposal of tangible capital assets	5,593	-
	<u>93,849</u>	<u>68,631</u>
Net change in non-cash working capital balances related to operations		
Accounts receivable	(58,557)	50,985
Tuition receivable	3,800	225,531
GST receivable	9,393	(2,439)
Inventory	3,265	925
Prepaid expenses	(5,953)	60,752
Accounts payable and accrued liabilities	46,540	(43,654)
Government remittances payable	(2,009)	(9,805)
Deferred revenue	(140,863)	53,531
Unearned tuition	(26,880)	(177,692)
	<u>(77,415)</u>	<u>226,765</u>
Cash (used in) provided by operating activities		
Investing activities		
Additions to tangible capital assets	(20,033)	(34,787)
Proceeds from disposition of capital assets	4,602	-
	<u>(15,431)</u>	<u>(34,787)</u>
Cash used in investing activities		
Financing activities		
Assumption of lease obligations	16,566	7,683
Repayment of lease obligations	(10,206)	(4,383)
	<u>6,360</u>	<u>3,300</u>
Cash provided by financing activities		
Net (decrease) increase in cash during the year	(86,486)	195,278
Cash position, beginning of year	<u>405,958</u>	<u>210,680</u>
Cash position, end of year	<u>\$ 319,472</u>	<u>\$ 405,958</u>
Cash position consists of:		
Cash	\$ 106,019	\$ 195,195
Restricted cash	213,453	210,763
	<u>\$ 319,472</u>	<u>\$ 405,958</u>

THE CANADIAN HERITAGE ARTS SOCIETY

NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

1. Purpose of the organization

The Canadian Heritage Arts Society (the "Society") is an organization created to raise the aesthetic taste and artistic appreciation of the public at large through the medium of public performances and exhibitions and to promote heritage arts and culture. The Society provides instruction and training in performing arts through The Canadian College of Performing Arts, an accredited college managed by the Society. The Canadian Heritage Arts Society is incorporated under the Society Act of British Columbia as a not-for-profit organization and is a registered charity under the Income Tax Act.

2. Significant accounting policies

The financial statements of the Society have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates. Items subject to estimation include allowance for doubtful accounts, prepaid expenses, accrued liabilities, amortization of capital assets, and interest on leased liabilities, which have been made using careful judgement.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Inventory

Inventory is valued at the lower of cost and net realizable value.

Tangible capital assets

Tangible capital assets purchased are stated at cost and tangible capital assets contributed are recorded at fair value where determinable. Tangible capital assets are amortized on a straight line basis at the annual rates set out in note 4. In the year of acquisition, half the specified rate is applied.

Revenue recognition

The Society follows the deferral method of accounting for contributions. Restricted contributions, including those received for the purchase of tangible capital assets, are recognized as revenue in the year in which the related expenditures are incurred. Unrestricted contributions and revenues, including tuition, government grants, fundraising and donations, are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

THE CANADIAN HERITAGE ARTS SOCIETY

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2019

2. Significant accounting policies (continued)

Financial Instruments

Measurement of financial instruments

The Society initially measures its financial assets and liabilities at fair value. The entity subsequently measures all its financial assets and liabilities at amortized cost.

Financial assets measured at amortized cost include cash, accounts receivable, tuition accounts receivable, and restricted cash. Financial liabilities measured at amortized cost include, accounts payable and accrued liabilities, and lease obligation.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down or subsequent reversal, if any, is recognized in net income.

Transaction costs

The Society recognizes its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

3. Restricted cash

The balance represents the total of the internally restricted funds described at note 6 to be used specifically for those funds.

4. Tangible capital assets

	Cost	Accumulated Amortization	Net Book Value		Amortization Rate
			2019	2018	
Computer equipment	\$ 33,211	\$ 31,406	\$ 1,805	\$ 4,100	25%
Flooring	50,610	33,576	17,034	22,246	20%
Furniture and equipment	83,811	59,195	24,616	32,230	20%
Leasehold improvements	60,594	55,582	5,012	8,465	20%
Lighting	50,528	48,175	2,353	3,315	20%
Musical instruments	15,228	14,104	1,124	2,188	25%
Software	21,081	21,081	-	-	50%
Website	9,225	8,303	922	2,767	25%
Equipment under capital lease	24,249	4,952	19,297	13,598	25%
	<u>\$ 348,537</u>	<u>\$ 276,374</u>	<u>\$ 72,163</u>	<u>\$ 88,909</u>	

THE CANADIAN HERITAGE ARTS SOCIETY

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2019

5. Capital lease obligation

	<u>2019</u>	<u>2018</u>
Capital lease obligation payable to RCAP Leasing Inc. with a net book value of \$14,495 expiring October 2, 2024, with monthly payments of \$286 including interest at 4.82% per annum.	\$ 16,567	\$ -
Capital lease obligation payable to Dell Finance with a net book value of \$4,802 expiring September 15, 2020, with monthly payments of \$211 including interest at 5.15% per annum.	3,763	6,272
Capital lease obligation payable to RCAP Leasing Inc. had monthly payments of \$279 including interest at 4.03% which was terminated during the year and replaced by a new capital lease obligation payable to RCAP Leasing Inc.	\$ -	\$ 7,698
	20,330	13,970
Less current portion	5,325	5,604
	<u>\$ 15,005</u>	<u>\$ 8,366</u>

Future minimum lease payments are as follows:

2020	\$ 6,185
2021	4,582
2022	3,434
2023	3,434
2024	3,434
Thereafter	<u>1,719</u>
Total minimum lease payments	22,788
Less amount representing interest	<u>2,458</u>
Balance of the obligation	<u>\$ 20,330</u>

THE CANADIAN HERITAGE ARTS SOCIETY

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2019

6. Internally restricted funds

Internally restricted funds include:

Facility fund

The balance represents internally restricted funds for the purpose of repairs and maintenance, and enhancement of the current or future facility.

Bursary fund

The balance represents internally restricted funds for the purpose of providing bursaries and scholarships to students.

7. Government grants

Government grants include:

	<u>2019</u>	<u>2018</u>
Government of Canada		
Department of Canadian Heritage (Canada Arts Training Fund)	\$ 300,000	\$ 300,000
Volunteer Comox Valley (Youth Intern)	-	2,077
Province of BC		
Gaming Policy and Enforcement Branch	80,000	80,000
British Columbia Arts Council	20,000	10,000
	<u>\$ 400,000</u>	<u>\$ 392,077</u>

8. Remuneration

Under the British Columbia Societies Act there is a requirement to disclose the remuneration paid to all directors, to the ten highest paid employees who are paid at least \$75,000 annually, and to all contractors who are paid at least \$75,000 annually.

During the year, the Society paid \$179,877 (2018 - \$176,372) in total remuneration to two employees in excess of \$75,000. There were no contractors paid in excess of \$75,000 annually and no directors were paid in 2019 or 2018.

THE CANADIAN HERITAGE ARTS SOCIETY

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2019

9. Lease commitment

The Society operates in leased premises. The current lease runs from June 1, 2018 to May 31, 2023; rent is \$4,700 for June 2019 - August 2019, \$11,000 for September 2019 - April 2020, and \$4,800 for May 2020. These payments continue to increase over the term of the lease. Net minimum lease payments to expiry are:

2020	\$ 106,800
2021	110,400
2022	113,800
2023	116,400
2024	5,100
	<u>\$ 452,500</u>

10. Financial instruments and risk management

The Society's financial instruments consist of cash, accounts receivable, tuition accounts receivable, restricted cash, accounts payable and accrued liabilities, and lease obligation. Transactions in financial instruments may result in financial risks being assumed by the Society. The risks identified by the Society are as follows:

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk that the Society will encounter difficulty in meeting obligations associated with financial liabilities.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

It is management's opinion that the Society is not exposed to significant credit, interest, liquidity or market risk arising from these financial instruments.

THE CANADIAN HERITAGE ARTS SOCIETY

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2019

11. Endowment fund

Two hosted endowment funds for the benefit of the Society are held with the Victoria Foundation. The funds are managed for the benefit of the Society and are held permanently. The funds earn investment income in accordance with the Investment Policy of the Victoria Foundation and distributions from the funds are determined by the Distribution Policy of the Victoria Foundation and the initial provisions by which property is donated.

Fund balances at market values are follows:

	<u>2019</u>	<u>2018</u>
The Canadian College of Performing Arts	\$ 217,823	\$ 209,994
The Ives Family Student Endowment Fund for The Canadian College of Performing Arts	198,422	180,927
Betty Wilkinson Fund for The Canadian College of Performing Arts	36,170	-
	<u>\$ 452,415</u>	<u>\$ 390,921</u>

12. Subsequent events

Subsequent to the year end, the Board of Directors passed a motion to request approval from the Members at a Special General Meeting to delete existing bylaw 13.1 and replace it by "The financial year of the Society will be as set by the directors from time to time". A Special General Meeting was held on May 29, 2019 approving the change of bylaw and a request was submitted to the Canada Revenue Agency to change the year end of the Society to June 30, 2019. The Canada Revenue Agency approved the change effective August 2, 2019.