

THE CANADIAN HERITAGE ARTS SOCIETY

FINANCIAL STATEMENTS

JUNE 30, 2020



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 June 30, 2020 and June 30, 2019, and the statements of changes in net assets, operations, and cash flow for the years then ended, and notes 1 to 12 that accompany 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 June 30, 2020 and June 30, 2019, and the results of its operations, changes in net assets, and cash flow for the years 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 to 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 flow from operations for the year ended June 30, 2020 and the two months ended June 30, 2019, current assets as at June 30, 2020 and June 30, 2019, and net assets as at July 1, 2019 and June 30, 2020 and as at May 1, 2019 and June 30, 2019. Our audit opinion on the financial statements for the period ended June 30, 2019 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.

Emphasis of matter

The preceding fiscal year ending June 30, 2019 was a two month period. Financial statement detail for the audited twelve month period ending April 30, 2019 has been included in these financial statements to provide comparative information. The audit opinion has not been modified with respect to the inclusion of the twelve month period ending April 30, 2019.

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 period.

Victoria, BC
October 16, 2020

Allen & Krauel Inc.
Chartered Professional Accountants

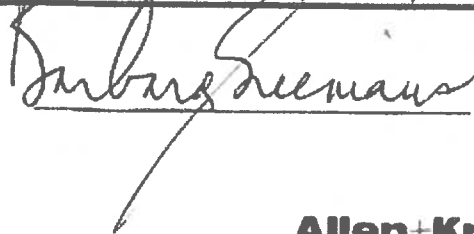
THE CANADIAN HERITAGE ARTS SOCIETY

STATEMENT OF FINANCIAL POSITION JUNE 30, 2020

	June 30 2020	June 30 2019	April 30 2019
ASSETS			
Current			
Cash	\$ 425,335	\$ 320,229	\$ 106,019
Accounts receivable	52,159	75,894	74,921
Tuition accounts receivable	245,857	648,762	15,640
GST receivable	10,360	9,041	8,501
Inventory	2,579	808	816
Prepaid expenses	9,885	21,267	13,742
	<u>746,175</u>	<u>1,076,001</u>	<u>219,639</u>
Restricted cash (note 3)	216,110	213,934	213,453
Tangible capital assets (note 4)	65,094	67,495	72,163
	<u>\$ 1,027,379</u>	<u>\$ 1,357,430</u>	<u>\$ 505,255</u>
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$ 91,138	\$ 83,438	\$ 102,343
Government remittances payable	447	1,031	893
Deferred revenue	328,782	286,799	43,211
Unearned tuition	277,355	734,820	43,028
Current portion of lease obligation (note 5)	3,535	5,368	5,325
	<u>701,257</u>	<u>1,111,456</u>	<u>194,800</u>
Lease obligation (note 5)	10,557	14,092	15,005
	<u>711,814</u>	<u>1,125,548</u>	<u>209,805</u>
NET ASSETS			
Net assets internally restricted for facility fund (note 6)	196,024	193,848	193,367
Net assets internally restricted for bursary fund (note 6)	20,086	20,086	20,086
Net assets invested in tangible capital assets	51,002	48,035	51,833
Unrestricted net assets	48,453	(30,087)	30,164
	<u>315,565</u>	<u>231,882</u>	<u>295,450</u>
	<u>\$ 1,027,379</u>	<u>\$ 1,357,430</u>	<u>\$ 505,255</u>

Approved by the directors

 Director

 Director

THE CANADIAN HERITAGE ARTS SOCIETY

STATEMENT OF CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2020

	Internally restricted facility fund	Internally restricted bursary fund	Tangible capital asset fund	Unrestricted	12 months June 30 2020	2 months June 30 2019	12 months April 30 2019
Balance, beginning of year	\$ 193,848	\$ 20,086	\$ 48,035	\$ (30,087)	\$ 231,882	\$ 295,450	\$ 233,778
Excess (deficiency) of revenue over expenses	-	-	(29,027)	112,710	83,683	(63,568)	61,672
Investment in tangible capital assets	-	-	26,626	(26,626)	-	-	-
Principal repayment of lease obligation	-	-	5,368	(5,368)	-	-	-
Net asset transfers	2,176	-	-	(2,176)	-	-	-
Balance, end of year	\$ 196,024	\$ 20,086	\$ 51,002	\$ 48,453	\$ 315,565	\$ 231,882	\$ 295,450

THE CANADIAN HERITAGE ARTS SOCIETY

STATEMENT OF REVENUE AND EXPENSES YEAR ENDED JUNE 30, 2020

	12 months June 30 2020	2 months June 30 2019	12 months April 30 2019
Revenue			
Tuition	\$ 658,630	\$ -	\$ 775,839
Government grants (note 7)	450,802	54,167	400,000
Events and other operating revenue	149,690	4,852	362,712
Fundraising	112,708	5,036	78,520
Wage subsidies (note 12)	103,165	-	-
Individual donations	54,902	5,700	67,373
	<u>1,529,897</u>	<u>69,755</u>	<u>1,684,444</u>
Expenses			
Payroll and contract fees	857,563	86,128	853,805
Facility	168,808	16,824	163,482
Artistic	147,046	1,737	247,656
General and administration	94,969	13,732	80,641
Marketing	41,039	1,505	42,412
Education services	33,169	964	109,412
Amortization	28,024	4,668	26,584
Donations to endowment funds	23,250	-	23,373
Insurance, licences and dues	21,378	3,367	18,853
Development and fundraising	14,098	1,781	29,703
Interest and bank charges	8,688	1,104	16,071
Travel	7,364	1,352	10,285
Interest on lease liability	818	161	495
	<u>1,446,214</u>	<u>133,323</u>	<u>1,622,772</u>
Excess (deficiency) of revenue over expenses	<u>\$ 83,683</u>	<u>\$ (63,568)</u>	<u>\$ 61,672</u>

THE CANADIAN HERITAGE ARTS SOCIETY

STATEMENT OF CASH FLOW YEAR ENDED JUNE 30, 2020

	12 months June 30 2020	2 months June 30 2019	12 months April 30 2019
Operating activities			
Excess (deficiency) of revenue over expenses	\$ 83,683	\$ (63,568)	\$ 61,672
Add charge to operations not requiring a current cash payment:			
Amortization	28,024	4,668	26,584
Loss on disposal of tangible capital assets	1,003	-	5,593
	<u>112,710</u>	<u>(58,900)</u>	<u>93,849</u>
Net change in non-cash working capital balances related to operations			
Accounts receivable	23,735	(973)	(58,557)
Tuition receivable	402,905	(633,122)	3,800
GST receivable	(1,319)	(540)	9,393
Inventory	(1,771)	8	3,265
Prepaid expenses	11,382	(7,525)	(5,953)
Accounts payable and accrued liabilities	7,700	(18,905)	46,540
Government remittances payable	(584)	138	(2,009)
Deferred revenue	41,983	243,588	(140,863)
Unearned tuition	(457,465)	691,792	(26,880)
	<u>139,276</u>	<u>215,561</u>	<u>(77,415)</u>
Cash provided by (used in) operating activities			
Investing activities			
Additions to tangible capital assets	(26,626)	-	(20,033)
Proceeds from disposition of capital assets	-	-	4,602
	<u>(26,626)</u>	<u>-</u>	<u>(15,431)</u>
Cash used in investing activities			
Financing activities			
Assumption of lease obligations	-	-	16,566
Repayment of lease obligations	(5,368)	(870)	(10,206)
	<u>(5,368)</u>	<u>(870)</u>	<u>6,360</u>
Cash (used in) provided by financing activities			
Net increase in cash during the year	107,282	214,691	(86,486)
Cash position, beginning of year	534,163	319,472	405,958
Cash position, end of year	\$ 641,445	\$ 534,163	\$ 319,472
Cash position consists of:			
Cash	\$ 425,335	\$ 320,229	\$ 106,019
Restricted cash	216,110	213,934	213,453
	<u>\$ 641,445</u>	<u>\$ 534,163</u>	<u>\$ 319,472</u>

THE CANADIAN HERITAGE ARTS SOCIETY

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

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 (the "College"), 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 period in which the related expenditures are incurred. Unrestricted contributions and revenues, including 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
JUNE 30, 2020

2. Significant accounting policies (continued)

Tuition accounts receivable and unearned tuition

The Society initially records a tuition accounts receivable when a student signs a contract, with the related obligation for the Society to provide services recorded as unearned tuition. This unearned tuition consists of tuition revenue and student tuition deposits, and is recognized as revenue during the school year to which it relates. If amounts are not reasonably assured of collection, they are reversed and the tuition accounts receivable and unearned tuition are reduced accordingly.

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.

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

4. Tangible capital assets

	Cost	Accumulated Amortization	Net Book Value			Amortization Rate
			June 30 2020	June 30 2019	April 30 2019	
Computer equipment	\$ 35,276	\$ 32,639	\$ 2,637	\$ 1,592	\$ 1,805	25%
Flooring	49,766	39,036	10,730	16,165	17,034	20%
Furniture and equipment	82,657	67,446	15,211	22,954	24,616	20%
Leasehold improvements	81,474	60,009	21,465	4,678	5,012	20%
Lighting	50,528	49,272	1,256	2,196	2,353	20%
Musical instruments	16,428	14,858	1,570	1,009	1,124	25%
Software	21,081	21,081	-	-	-	50%
Website	9,225	9,225	-	614	922	25%
Equipment under capital lease	24,249	12,024	12,225	18,287	19,297	25%
	\$ 370,684	\$ 305,590	\$ 65,094	\$ 67,495	\$ 72,163	

5. Capital lease obligation

	June 30 2020	June 30 2019	April 30 2019
Capital lease obligation payable to RCA Leasing Inc. with a net book value of \$9,663 expiring October 2, 2024, with monthly payments of \$286 including interest at 4.82% per annum.	\$ 13,408	\$ 16,126	\$ 16,567
Capital lease obligation payable to Dell Finance with a net book value of \$2,561 expiring September 15, 2020, with monthly payments of \$211 including interest at 5.15% per annum.	684	3,334	3,763
	14,092	19,460	20,330
Less current portion	3,535	5,368	5,325
	\$ 10,557	\$ 14,092	15,005

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

5. Capital lease obligation (continued)

Future minimum lease payments are as follows:

2021	\$	4,123
2022		3,434
2023		3,434
2024		3,434
2025		1,147
Total minimum lease payments		15,572
Less amount representing interest		1,480
Balance of the obligation	\$	<u>14,092</u>

6. Internally restricted funds

On approval by the Board of Directors, funds may be internally restricted for specific purposes. Any changes or use of the internally restricted funds must also be approved by the Board of Directors. Funds established by the Society as 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:

	12 months June 30 2020	2 months June 30 2019	12 months April 30 2019
Government of Canada			
Department of Canadian Heritage (Canada Arts Training Fund)	\$ 324,998	\$ 54,167	\$ 300,000
Canada Summer Jobs Program	8,679	-	-
New Horizons for Seniors Program	4,250	-	-
Province of BC			
Gaming Policy and Enforcement Branch	80,000	-	80,000
British Columbia Arts Council	32,875	-	20,000
	<u>\$ 450,802</u>	<u>\$ 54,167</u>	<u>\$ 400,000</u>

THE CANADIAN HERITAGE ARTS SOCIETY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

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. For the two month period ending June 30, 2019, the annual amount was prorated to \$12,500.

	12 months June 30 2020	2 months June 30 2019	12 months April 30 2019
Employees paid in excess of \$75,000 (June 30, 2019 - \$12,500)	\$ 197,495	\$ 27,500	\$ 179,877

There were no contractors paid in excess of \$75,000 (June 30, 2019 - \$12,500), and no directors were paid in the year ending in June 2020, the two months ending June 2019, or the year ending April 30, 2019.

9. Commitments

The Society operates in leased premises. The current lease runs from June 1, 2018 to May 31, 2023; rent is \$5,060 for July 2020 - August 2020, \$11,660 for September 2020 - April 2021, and \$5,210 for May 2021 - June 2021. These payments continue to increase over the term of the lease. Net minimum lease payments to expiry are:

2021	\$ 113,820
2022	117,700
2023	<u>111,300</u>
	<u>\$ 342,820</u>

In addition, the Society has plans to spend approximately \$32,000 on renovations of the leased premises in the upcoming fiscal year. The Society has not entered into any contracts for these renovations.

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

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.

11. Endowment funds

Three 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:

	June 30 2020	June 30 2019	April 30 2019
The Canadian College of Performing Arts Fund	\$ 204,558	\$ 211,831	\$ 217,823
Legacy Scholarship Fund for The Canadian College of Performing Arts	203,579	196,614	198,422
Betty Wilkinson Fund for The Canadian College of Performing Arts	34,697	35,840	36,170
	<u>\$ 442,834</u>	<u>\$ 444,285</u>	<u>\$ 452,415</u>

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2020

12. COVID-19 Impact

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus COVID-19. The situation is constantly evolving, and the measures put in place are having multiple impacts on local, provincial, national, and global economies. The operations of the College have had to be significantly changed as a result of the pandemic, as have the related safety guidelines for students, faculty, staff, and members of the public.

Both the Board of Directors and the management team of the College are closely monitoring the ongoing situation. Since March 2020, the methods and location of teaching have been reviewed and a substantial amount of the curriculum for the 2020/2021 school year will be delivered through a mix of in-person and digital learning. The safety of all students, faculty, staff, and any audience members are, and have been, the top priority of the management team. Faculty and staff are required to review updated procedures and policies to ensure the safety of all. Renovations and changes to the space have been made to more safely deliver programs during the pandemic.

The Society estimates that it did not incur any significant additional costs during the year ended June 30, 2020 relating to the pandemic. This is largely due to the timing of the school year, as the College's Studio Ensemble program ended in February 2020 and the diploma program ended in April 2020.

The Society did not lay off any employees and has defrayed staff salary costs through two Government of Canada programs, the Temporary Wage Subsidy and the Canada Emergency Wage Subsidy. These subsidies resulted in \$103,165 of revenue for the year ended June 30, 2020. The Canada Emergency Wage Subsidy is scheduled to continue until June 2021, and the Society plans to continue applying for this subsidy if it meets the criteria.

As part of COVID-19 relief measures, the Canada Emergency Business Account, a program administered by Export Development Canada, was put in place to provide loans of up to \$40,000 to eligible entities. The funds are not subject to interest and \$10,000 of the loan is forgivable if repaid by December 31, 2022. The Society applied for and was approved for the funding during the year ending June 30, 2020, but did not advance the funds from the line of credit set up by the Royal Bank of Canada until subsequent to the year end.

The overall impact of the pandemic on the Society and the College it operates is too uncertain to be fully estimated at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Society for future periods.