

THE CANADIAN HERITAGE ARTS SOCIETY

FINANCIAL STATEMENTS

JUNE 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 June 30, 2019 and April 30, 2019, and the statements of changes in net assets, operations, and cash flow for the periods 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 June 30, 2019 and April 30, 2019, and the results of its operations, changes in net assets, and cash flow for the periods 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 periods ended June 30, 2019 and April 30, 2019, current assets as at June 30, 2019 and April 30, 2019, and net assets as at May 1 and June 30 for the period ended June 30, 2019 and as at May 1 and April 30 for the period ended April 30, 2019. Our audit opinion on the financial statements for the period ended April 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.

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
November 19, 2019

Allen & Krauel Inc.
Chartered Professional Accountants

THE CANADIAN HERITAGE ARTS SOCIETY

STATEMENT OF FINANCIAL POSITION JUNE 30, 2019

	June 30 2019	April 30 2019
ASSETS		
Current		
Cash	\$ 320,229	\$ 106,019
Accounts receivable	75,894	74,921
Tuition accounts receivable	648,762	15,640
GIST receivable	9,041	8,501
Inventory	808	816
Prepaid expenses	21,267	13,742
	<u>1,076,001</u>	<u>219,639</u>
Restricted cash (note 3)	213,934	213,453
Tangible capital assets (note 4)	67,495	72,163
	<u>\$ 1,357,430</u>	<u>\$ 505,255</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 83,438	\$ 102,343
Government remittances payable	1,031	893
Deferred revenue	286,799	43,211
Unearned tuition	734,820	43,028
Current portion of lease obligation (note 5)	5,368	5,325
	<u>1,111,456</u>	<u>194,800</u>
Lease obligation (note 5)	14,092	15,005
	<u>1,125,548</u>	<u>209,805</u>
NET ASSETS		
Net assets internally restricted for facility fund (note 6)	193,848	193,367
Net assets internally restricted for bursary fund (note 6)	20,086	20,086
Net assets invested in tangible capital assets	48,035	51,833
Unrestricted net assets	(30,087)	30,164
	<u>231,882</u>	<u>295,450</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 TWO MONTHS ENDED JUNE 30, 2019

	Internally restricted facility fund	Internally restricted bursary fund	Tangible capital asset fund	Unrestricted	June 30 2019	April 30 2019
Balance, beginning of period	\$ 193,367	\$ 20,086	\$ 51,833	\$ 30,164	\$ 295,450	\$ 233,778
(Deficiency) excess of revenue over expenses	-	-	(4,668)	(58,900)	(63,568)	61,672
Principal repayment of lease obligation	-	-	870	(870)	-	-
Net asset transfers	481	-	-	(481)	-	-
Balance, end of period	\$ 193,848	\$ 20,086	\$ 48,035	\$ (30,087)	\$ 231,882	\$ 295,450

THE CANADIAN HERITAGE ARTS SOCIETY

STATEMENT OF REVENUE AND EXPENSES TWO MONTHS ENDED JUNE 30, 2019

	<u>June 30</u> <u>2019</u>	<u>April 30</u> <u>2019</u>
Revenue		
Government grants (note 7)	\$ 54,167	\$ 400,000
Individual donations	5,700	67,373
Fundraising	5,036	78,520
Events and other operating revenue	4,852	362,712
Tuition	-	775,839
	<u>69,755</u>	<u>1,684,444</u>
Expenses		
Payroll and contract fees	86,128	853,805
Facility	16,824	163,482
General and administration	13,732	80,641
Amortization	4,668	26,584
Insurance, licences and dues	3,367	18,853
Development and fundraising	1,781	29,703
Artistic	1,737	247,656
Marketing	1,505	42,412
Travel	1,352	10,285
Interest and bank charges	1,104	16,071
Education services	964	109,412
Interest on lease liability	161	495
Donations to endowment funds	-	23,373
	<u>133,323</u>	<u>1,622,772</u>
(Deficiency) excess of revenue over expenses	<u>\$ (63,568)</u>	<u>\$ 61,672</u>

THE CANADIAN HERITAGE ARTS SOCIETY

STATEMENT OF CASH FLOW TWO MONTHS ENDED JUNE 30, 2019

	June 30 2019	April 30 2019
Operating activities		
(Deficiency) excess of revenue over expenses	\$ (63,568)	\$ 61,672
Add charge to operations not requiring a current cash payment:		
Amortization	4,668	26,584
Loss on disposal of tangible capital assets	-	5,593
	<u>(58,900)</u>	<u>93,849</u>
Net change in non-cash working capital balances related to operations		
Accounts receivable	(973)	(58,557)
Tuition receivable	(633,122)	3,800
GIST receivable	(540)	9,393
Inventory	8	3,265
Prepaid expenses	(7,525)	(5,953)
Accounts payable and accrued liabilities	(18,905)	46,540
Government remittances payable	138	(2,009)
Deferred revenue	243,588	(140,863)
Unearned tuition	691,792	(26,880)
	<u>215,561</u>	<u>(77,415)</u>
Cash provided by (used in) operating activities		
Investing activities		
Additions to tangible capital assets	-	(20,033)
Proceeds from disposition of capital assets	-	4,602
	<u>-</u>	<u>(15,431)</u>
Cash used in investing activities		
Financing activities		
Assumption of lease obligations	-	16,566
Repayment of lease obligations	(870)	(10,206)
	<u>(870)</u>	<u>6,360</u>
Cash (used in) provided by financing activities		
Net increase (decrease) in cash during the period	214,691	(86,486)
Cash position, beginning of period	<u>319,472</u>	<u>405,958</u>
Cash position, end of period	<u>\$ 534,163</u>	<u>\$ 319,472</u>
Cash position consists of:		
Cash	\$ 320,229	\$ 106,019
Restricted cash	213,934	213,453
	<u>\$ 534,163</u>	<u>\$ 319,472</u>

THE CANADIAN HERITAGE ARTS SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 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 judgemental.

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. For the two month period ending June 30, 2019, the annual rates have been prorated.

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 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 JUNE 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
			June 30 2019	April 30 2019	
Computer equipment	\$ 33,211	\$ 31,619	\$ 1,592	\$ 1,805	25%
Flooring	50,610	34,445	16,165	17,034	20%
Furniture and equipment	83,811	60,857	22,954	24,616	20%
Leasehold improvements	60,594	55,916	4,678	5,012	20%
Lighting	50,528	48,332	2,196	2,353	20%
Musical instruments	15,228	14,219	1,009	1,124	25%
Software	21,081	21,081	-	-	50%
Webster	9,225	8,611	614	922	25%
Equipment under capital lease	24,249	5,962	18,287	19,297	25%
	<u>\$ 348,537</u>	<u>\$ 281,042</u>	<u>\$ 67,495</u>	<u>\$ 72,163</u>	

THE CANADIAN HERITAGE ARTS SOCIETY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

5. Capital lease obligation

	<u>June 30</u> <u>2019</u>	<u>April 30</u> <u>2019</u>
Capital lease obligation payable to RCA Leasing Inc. with a net book value of \$13,805 expiring October 2, 2024, with monthly payments of \$286 including interest at 4.82% per annum.	\$ 16,126	\$ 16,567
Capital lease obligation payable to Dell Finance with a net book value of \$4,481 expiring September 15, 2020, with monthly payments of \$211 including interest at 5.15% per annum.	3,334	3,763
	<u>19,460</u>	<u>20,330</u>
Less current portion	5,368	5,325
	<u>\$ 14,092</u>	<u>\$ 15,005</u>

Future minimum lease payments are as follows:

2020	\$ 6,185
2021	4,123
2022	3,434
2023	3,434
2024	3,434
Thereafter	<u>1,147</u>
Total minimum lease payments	21,757
Less amount representing interest	<u>2,297</u>
Balance of the obligation	<u>\$ 19,460</u>

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.

THE CANADIAN HERITAGE ARTS SOCIETY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

7. Government grants

Government grants include:

	<u>June 30 2019</u>	<u>April 30 2019</u>
Government of Canada		
Department of Canadian Heritage (Canada Arts Training Fund)	\$ 54,167	\$ 300,000
Province of BC		
Gaming Policy and Enforcement Branch	-	80,000
British Columbia Arts Council	-	20,000
	<u>\$ 54,167</u>	<u>\$ 400,000</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. For the two month period ending June 30, 2019, the annual amount has been prorated.

During the period, the Society paid \$27,500 (April 30, 2019 - \$179,877) in total remuneration to two employees (April 30, 2019 - two employees) in excess of \$12,500 (April 30, 2019 - \$75,000). There were no contractors paid in excess of \$12,500 (April 30, 2019 - \$75,000) and no directors were paid in the periods ending June 2019 or April 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	\$ 107,000
2021	110,700
2022	114,100
2023	<u>111,300</u>
	<u>\$ 443,100</u>

THE CANADIAN HERITAGE ARTS SOCIETY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

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 fund

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 follows:

	June 30 2019	April 30 2019
The Canadian College of Performing Arts	\$ 211,831	\$ 217,823
The Dives Family Student Endowment Fund for The Canadian College of Performing Arts	196,614	198,422
Betty Wilkinson Fund for The Canadian College of Performing Arts	35,840	36,170
	\$ 444,285	\$ 452,415