Financial Statements of

CALGARY PHILHARMONIC SOCIETY

Years ended June 30, 2013 and 2012

INDEPENDENT AUDITORS' REPORT

To the Members of the Calgary Philharmonic Society

We have audited the accompanying financial statements of the Calgary Philharmonic Society which comprise the statements of financial position as at June 30, 2013, June 30, 2012 and July 1, 2011, the statements of revenues and expenses, changes in net assets and cash flows for the years ended June 30, 2013 and 2012, and notes, comprising 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 our 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, we consider 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Calgary Philharmonic Society as at June 30, 2013, June 30, 2012 and July 1, 2011, and its results of operations and its cash flows for the years ended June 30, 2013 and 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Accountants

September 17, 2013
Calgary, Canada

CALGARY PHILHARMONIC SOCIETY

Statements of Financial Position

June 30, 2013, June 30, 2012 and July 1, 2011

	June 30, 2013	June 30, 2012	July 1, 2011
Assets			
Current assets:			
Cash	$ 809,372	$ 1,132,691	$ 740,734
Investments (note 3)	1,000,000	501,621	750,000
Accounts receivable	109,331	312,861	507,934
Due from The Calgary Philharmonic Orchestra Foundation (note 6)	–	–	175,000
Prepaid expenses	52,579	69,423	105,413
	1,971,282	2,016,596	2,279,081
Property and equipment (note 4)	277,584	228,123	235,769
	$ 2,248,866	$ 2,244,719	$ 2,514,850
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities (note 11)	$ 484,820	$ 257,738	$ 315,943
Deferred revenue (note 5)	857,635	1,153,105	1,235,158
	1,342,455	1,410,843	1,551,101
Deferred capital contributions (note 7)	47,730	60,673	59,678
Accrued post retirement benefit obligation (note 10)	146,426	118,639	108,221
	1,536,611	1,590,155	1,719,000
Net assets:			
Internally restricted net assets (note 8)	559,000	559,000	559,000
Unrestricted net asset surplus	153,255	95,564	236,850
	712,255	654,564	795,850
	$ 2,248,866	$ 2,244,719	$ 2,514,850

See accompanying notes to financial statements.

On behalf of the Board:

_________________________ Director

_________________________ Director

CALGARY PHILHARMONIC SOCIETY
Statements of Revenues and Expenses

Years ended June 30, 2013 and 2012

	2013	2012
Revenues:		
Ticket sales	$ 4,255,051	$ 3,842,489
Sold services	754,048	573,442
	5,009,099	4,415,931
Donations and sponsorships (notes 6 and 9)	4,134,710	3,648,355
Grants	2,028,014	2,033,787
Special events	509,431	710,657
Investment and other income	193,117	191,801
	6,865,272	6,584,600
	11,874,371	11,000,531
Expenses:		
Personnel	8,005,637	7,335,373
Marketing, ticketing and development	2,163,150	2,467,369
Administrative	440,146	567,834
Production	1,152,302	721,549
Depreciation and amortization	55,445	49,692
	11,816,680	11,141,817
Excess (deficiency) of revenues over expenses	$ 57,691	$ (141,286)

See accompanying notes to financial statements.

CALGARY PHILHARMONIC SOCIETY
Statements of Changes in Net Assets

Years ended June 30, 2013 and 2012

	Internally restricted net assets (note 8)	Unrestricted net assets surplus	Total
Balance, July 1, 2011	$ 559,000	$ 236,850	$ 795,850
Deficiency of revenues over expenses	–	(141,286)	(141,286)
Balance, June 30, 2012	559,000	95,564	654,564
Excess of revenues over expenses	–	57,691	57,691
Balance, June 30, 2013	$ 559,000	$ 153,255	$ 712,255

See accompanying notes to financial statements.

CALGARY PHILHARMONIC SOCIETY

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenues over expenses	$ 57,691	$ (141,286)
Items not affecting cash:		
Depreciation and amortization	55,445	49,692
Amortization of deferred capital contributions relating to property and equipment (note 7)	(12,943)	(14,674)
Post retirement benefit expense (note 10)	27,787	27,918
Post retirement benefit payment (note 10)	–	(17,500)
Net change in non-cash working capital balances:		
Accounts receivable	203,530	195,073
Prepaid expenses	16,844	35,990
Accounts payable and accrued liabilities	227,082	(58,205)
Deferred revenue	(295,470)	(82,053)
	279,966	(5,045)
Investing activities:		
(Purchase) sale of investments, net	(498,379)	248,379
Purchase of property and equipment	(104,906)	(42,046)
	(603,285)	206,333
Financing activities:		
Change in amount due to/from The Calgary Philharmonic Orchestra Foundation	–	175,000
Additions to deferred capital contributions (note 7)	–	15,669
	–	190,669
Increase (decrease) in cash	(323,319)	391,957
Cash, beginning of year	1,132,691	740,734
Cash, end of year	$ 809,372	$ 1,132,691

See accompanying notes to financial statements.

1. General:

The Calgary Philharmonic Society (the "Society") was formed under the Societies Act of Alberta for the general purpose of operating a philharmonic orchestra in Calgary. The Society is a not-for-profit organization and is a registered charity under the Income Tax Act and accordingly is exempt from income taxes provided certain requirements of the Income Tax Act are met.

On July 1, 2012, the Society adopted Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CICA Handbook. These are the first financial statements prepared in accordance with the Not-For-Profit Standards.

In accordance with the transitional provisions in the Not-For-Profit Standards, the Society has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is July 1, 2011 and all comparative information provided has been presented by applying the Not-For-Profit Standards.

There were no adjustments to amounts previously reported under Canadian generally accepted accounting principles resulting from the transition to Canadian Accounting Standards for Not-For-Profit Organizations.

2. Significant accounting policies:

The financial statements of the Society have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations. Management has been required to make estimates and assumptions within the financial statements. These estimates and assumptions affect the reported amounts of assets and net assets at the date of the financial statements and the reported amounts of expenses during the reporting period. The most significant estimates relate to the determination of the useful lives of property and equipment, the amortization of deferred capital contributions of property and equipment and the determination of the post retirement benefit obligation. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) Revenue recognition:

The Society follows the deferral method of accounting for donations and sponsorships whereby restricted donations and sponsorships 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. Pledged unrestricted contributions are included in revenue at fair market value in the years to which the contributions are directed per the terms of the pledge and when the amounts are considered to be collectible.

2. Significant accounting policies (continued):

(a) Revenue recognition (continued):

Contributions of material and/or services are recorded at fair market value, determined at the date of the contribution. Contributions of property and equipment are deferred and amortized into income over the useful life of the related property and equipment.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

Operating grants received from government agencies are included in revenue with reference to the fiscal year of the respective agency, as follows:

	Fiscal year end
Alberta Foundation for the Arts ("AFA")	March 31
Canada Council for the Arts	March 31
Calgary Arts Development	December 31

Other grants and sponsorships, dedicated to defray operating costs in future seasons, are deferred and included in revenue when such costs are incurred.

Net revenues associated with ticket sales, other earned income activities and special events are deferred until the fiscal year in which the activity takes place.

(b) Donated materials, equipment, and services:

Donated materials, equipment and services are recorded at their estimated fair value at the date of contribution when fair value can be reasonably estimated.

A substantial number of volunteers make a significant contribution of their time to the Society. The value of this contributed time is not reflected in these financial statements since it is not susceptible to objective valuation or measurement.

2. Significant accounting policies (continued):

(c) Property and equipment:

Purchased property and equipment are recorded at cost at the time of the acquisition. Contributed property and equipment are recorded at fair value at the date of the contribution. Property and equipment is depreciated or amortized using the straight-line method at rates based on the estimated useful lives of the assets, as follows:

Computer equipment and software	5 years
Music library, leasehold improvements and other	10 years
Office equipment and furniture	10 years
Photocopier, fax and telephone equipment	5 years
Instruments	10 years

(d) Employee future benefits:

Under the Society's contract with its musicians, each musician is eligible for a lump-sum retirement payment upon fulfilling certain criteria. The cost of the retirement benefit earned by the musicians is charged as an expense as services are rendered using the projected benefit method prorated on service. The cost of the post retirement benefit reflects a number of assumptions that affect the expected future benefit payments. These assumptions include, but are not limited to: attrition; mortality; the discount rate used; and the estimated average remaining service life. Adjustments arising out of any changes to the post retirement benefit or changes in assumptions and experience gains or losses are normally amortized over the expected remaining average service life of the musicians.

The Society accrues its obligation under the agreement and has adopted the following policies:

- the cost of retirement benefits earned by the musicians is actuarially determined using the projected benefit method pro-rated on service and the Society's best estimate of expected withdrawals and retirement ages of musicians;
- past service costs from the agreement amendments are amortized on a straight-line basis over the expected average remaining service lifetime of the musicians active at the date of amendment;
- actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service lifetime of the musicians active at the date of valuation; and
- when a restructuring of the agreement gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement.

2. Significant accounting policies (continued):

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Society has not elected to carry and such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest rate method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Society determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Society expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

3. Investments:

At June 30, 2013, June 30, 2012 and July 1, 2011, the fair value of the investments, representing an investment in Guaranteed Investment Certificates (GICs) approximated their carrying value. The GICs bear interest at rates ranging from 1% to 1.2% per annum (June 30, 2012 - 1.0% per annum; July 1, 2011 - 1.00% to 2.8% per annum) and have maturity dates ranging from July 30, 2013 to June 2, 2014, however, can be redeemed without penalty at any time by the Society.

4. Property and equipment:

June 30, 2013	Cost	Accumulated amortization	Net book value
Computer equipment and software	$ 113,083	$ 64,322	$ 48,761
Music library, leasehold improvements and other	133,506	46,956	86,550
Office equipment and furniture	540	81	459
Photocopies, fax and telephone equipment	78,394	31,508	46,886
Instruments	186,488	91,560	94,928
	$ 512,011	$ 234,427	$ 277,584

June 30, 2012	Cost	Accumulated amortization	Net book value
Computer equipment and software	$ 140,740	$ 102,704	$ 38,036
Music library, leasehold improvements and other	146,153	99,439	46,714
Office equipment and furniture	7,677	7,578	99
Photocopies, fax and telephone equipment	100,549	46,378	54,171
Instruments	202,237	113,134	89,103
	$ 597,356	$ 369,233	$ 228,123

July 1, 2011	Cost	Accumulated amortization	Net book value
Computer equipment and software	$ 134,346	$ 81,633	$ 52,713
Music library, leasehold improvements and other	146,153	95,398	50,755
Office equipment and furniture	7,677	7,174	503
Photocopies, fax and telephone equipment	87,543	38,523	49,020
Instruments	180,521	97,743	82,778
	$ 556,240	$ 320,471	$ 235,769

5. Deferred revenue:

	June 30, 2013	June 30, 2012	July 1, 2011
Subscription sales and other	$ 581,970	$ 768,955	$ 512,822
Grants	31,437	24,600	371,037
Corporate sponsorships	244,228	359,550	351,299
	$ 857,635	$ 1,153,105	$ 1,235,158

6. Due from The Calgary Philharmonic Orchestra Foundation:

The Calgary Philharmonic Orchestra Foundation (the "Foundation") was formed under the Societies Act of Alberta. The Foundation is a not-for-profit organization and is a registered charity under the Income Tax Act. The amount contributed by the Foundation during the year ended June 30, 2013 was $900,000 (2012 - $770,000) which is included within donations and sponsorships. One director of the Society is a member on the board of trustees of the Foundation.

Any amounts that are due between the Society and the Foundation are unsecured, do not bear interest and have no specific repayment terms.

7. Deferred capital contributions:

Deferred capital contributions represent the unamortized portion of contributed property and equipment.

The changes in the deferred capital contributions balance are as follows:

	June 30, 2013	June 30, 2012	July 1, 2011
Balance, beginning of year	$ 60,673	$ 59,678	$ 77,928
Contributed property and equipment/capital grants	–	15,669	–
Amounts amortized to revenue	(12,943)	(14,674)	(18,250)
Balance, end of year	$ 47,730	$ 60,673	$ 59,678

8. Internally restricted net assets:

The Society established a cash reserve policy which requires the Society to have in place a cash reserve, which can be comprised of cash and/or investments, totaling $559,000 to continue to meet the granting conditions of the AFA. Funds may only be removed upon approval by the Board of Directors to temporarily finance unforeseen operating deficits and any funds removed from the cash reserve must be replenished within three fiscal years from the end of the fiscal year in which the cash reserve funds were utilized.

9. Donations and sponsorships:

During the year ended June 30, 2013, donations and sponsorships includes an amount totaling $959,496 (2012 - $1,046,978) which represents the fair value of materials and services donated to the Society. The corresponding amounts have been charged to the appropriate expense account.

10. Post retirement benefit obligation:

Under the Society's agreement with its musicians, each musician is eligible for a lump-sum retirement payment upon fulfilling certain criteria. The lump-sum post retirement payment is equal to $500 per year for each year of service to a maximum amount in aggregate of $12,500 and the individual must reach the age of 65, or have a combined age and years of service equaling a total of 95 or greater, in order to be eligible for the payment upon retirement. The payment will be paid by the Society from cash resources available at the time and notice must be given in writing to the Society ten months prior to the end of their last season.

The accrued post retirement benefit obligation as at June 30, 2013 was $146,426 (June 30, 2012 - $118,639; July 1, 2011 - $108,221). During the year ended June 30, 2013, the Society paid $nil (2012 - $17,500) in relation to the post retirement benefit obligation.

10. Post retirement benefit obligation (continued):

The following table provides a reconciliation of the changes in the plans benefit obligations for the years ended June 30, 2013 and 2012:

	June 30, 2013	June 30, 2012	July 1, 2011
Accrued benefit obligation, beginning of year	$ 231,049	$ 213,876	$ 226,721
Current service cost	7,810	7,734	8,147
Interest cost on accrued benefit obligation	10,402	9,206	10,476
Benefit payments	–	(17,500)	(20,000)
Actuarial loss (gain)	49,194	17,733	(11,468)
Accrued benefit obligation, end of year	298,455	231,049	213,876
Unamortized past service costs	(85,621)	(95,991)	(105,354)
Unamortized net actuarial loss	(66,408)	(16,419)	(301)
Accrued benefit liability	$ 146,426	$ 118,639	$ 108,221

The following table provides the components of net periodic benefit expense for each of the years ended June 30, 2013 and 2012:

	2013	2012
Service cost	$ 7,810	$ 7,734
Interest cost	10,402	9,206
Amortization of prior service cost and other	9,575	10,978
	$ 27,787	$ 27,918

The following table provides key assumptions and data used in the measurement of the Society's benefit obligations at June 30, 2013 and 2012:

	2013	2012
Discount rate	4.5%	4.25%
Retirement age	65	65
Average age	47.7	48.9
Average years of service	21.0	21.9
Number of musicians	65	65

10. Post retirement benefit obligation (continued):

The following table discloses the current estimate of future benefit payments over the next five years:

2014	$ –
2015	200,000
2016	–
2017	–
2018	–

11. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $30,986 (2012 - $289; 2011 - $289) which includes amounts payable for GST and HST.

12. Financial instruments:

(a) Risk management:

The Society has exposure to the following risks from its use of financial instruments:

(i) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment resulting in a financial loss to the Society. The fair value of a financial instrument takes into account the credit rating of its issuer. The Society's investments are subject to credit risk. The maximum exposure to credit risk on these instruments is their carrying value.

(ii) Liquidity risk:

Liquidity risk is the risk that the Society will not be able to meet its liabilities as they fall due. The Society holds investments in Guaranteed Investment Certificates that can be readily liquidated and therefore the Society's liquidity risk is considered minimal. In addition, the Society aims to retain a sufficient cash position to manage liquidity. The Society's exposure to and management of liquidity risk has not changed materially since June 30, 2012.

12. Financial instruments (continued):

(a) Risk management (continued):

(iii) Market risk:

Market risk is the risk that changes in market prices, as a result of changes in foreign exchange rates and interest rates, will affect the Society's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the return.

(iv) Foreign exchange risk:

Foreign exchange risk arises as the Society conducts certain of its transactions in U.S. dollars.

(v) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of interest bearing financial instruments held by the Society. The Society has interest bearing investments in Guaranteed Investment Certificates for which general interest rate fluctuations apply (note 3). As interest rates fluctuate, the fair values of the Guaranteed Investment Certificates will be impacted.

13. Additional information to comply with the disclosure requirements of the Charitable Fund-raising Act and Regulation:

Expenses incurred for the purposes of soliciting contributions were $283,853 (2012 - $301,812) and the total amount paid as remuneration to employees of the organization whose principal duties involved fundraising were $384,738 (2012 - $343,313).