Financial Statements of

CALGARY PHILHARMONIC SOCIETY

Year ended June 30, 2015

KPMG

KPMG LLP
205-5th Avenue SW
Suite 3100, Bow Valley Square 2
Calgary AB
T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

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 statement of financial position as at June 30, 2015, the statements of revenues and expenses, changes in net assets and cash flows for the year then ended, 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

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, 2015, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants

September 22, 2015
Calgary, Canada

CALGARY PHILHARMONIC SOCIETY

Statement of Financial Position

Year ended June 30, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash	$ 586,552	$ 717,390
Investments (note 3)	500,000	1,000,000
Accounts receivable	281,812	344,139
Prepaid expenses	153,332	103,569
	1,521,696	2,165,098
Property and equipment (note 4)	261,308	283,122
Intangible assets (note 5)	76,700	–
	$ 1,859,704	$ 2,448,220
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 12)	$ 425,442	$ 497,066
Deferred revenue (note 6)	957,551	1,002,273
Current portion of accrued post retirement benefit obligation (note 11)	84,337	83,933
	1,467,330	1,583,272
Deferred capital contributions (note 8)	26,205	35,468
Accrued post retirement benefit obligation (note 11)	76,717	70,522
	1,570,252	1,689,262
Net assets:		
Internally restricted net assets (note 9)	289,452	559,000
Unrestricted net asset surplus	–	199,958
	289,452	758,958
Commitments (note 13)		
	$ 1,859,704	$ 2,448,220

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

CALGARY PHILHARMONIC SOCIETY

Statement of Revenues and Expenses

Year ended June 30, 2015, with comparative information for 2014

	2015	2014
Revenues:		
Ticket sales	$ 4,320,046	$ 4,194,585
Sold services	538,844	676,651
	4,858,890	4,871,236
Donations and sponsorships (notes 7 and 10)	3,992,241	3,961,279
Grants	1,981,107	1,945,842
Special events	585,391	711,795
Investment and other income	227,138	385,918
	6,785,877	7,004,834
	11,644,767	11,876,070
Expenses:		
Personnel	8,398,455	8,254,510
Marketing, ticketing and development	1,676,991	1,958,186
Administrative	583,014	435,655
Production	1,409,899	1,125,870
Depreciation and amortization	45,914	55,146
	12,114,273	11,829,367
(Deficiency) excess of revenues over expenses	$ (469,506)	$ 46,703

See accompanying notes to financial statements.

CALGARY PHILHARMONIC SOCIETY

Statement of Changes in Net Assets

Year ended June 30, 2015, with comparative information for 2014

	Internally restricted net assets (note 9)	Unrestricted net assets surplus	Total
Balance, June 30, 2013	$ 559,000	$ 153,255	$ 712,255
Excess of revenues over expenses	–	46,703	46,703
Balance, June 30, 2014	559,000	199,958	758,958
Deficiency of revenues over expenses	–	(469,506)	(469,506)
Transfer during the year	(269,548)	269,548	–
Balance, June 30, 2015	$ 289,452	$ –	$ 289,452

See accompanying notes to financial statements.

CALGARY PHILHARMONIC SOCIETY

Statement of Cash Flows

Year ended June 30, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operations:		
(Deficiency) excess of revenues over expenses	$ (469,506)	$ 46,703
Items not affecting cash:		
Depreciation and amortization	45,914	55,146
Amortization of deferred capital contributions relating to property and equipment (note 8)	(9,263)	(12,262)
Post retirement benefit expense (note 11)	31,599	40,529
Post retirement benefit payment (note 11)	(25,000)	(32,500)
Net change in non-cash working capital balances:		
Accounts receivable	62,327	(234,808)
Prepaid expenses	(49,763)	(50,990)
Accounts payable and accrued liabilities	(71,624)	12,246
Deferred revenue	(44,722)	144,638
	(530,038)	(31,298)
Investments:		
Sale of investments	500,000	–
Purchase of property and equipment	(22,800)	(60,684)
Purchase of intangible assets	(78,000)	–
	399,200	(60,684)
Decrease in cash	(130,838)	(91,982)
Cash, beginning of year	717,390	809,372
Cash, end of year	$ 586,552	$ 717,390

See accompanying notes to financial statements.

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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.

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, equipment and intangible assets are deferred and amortized into income over the useful life of the related property, equipment and intangible assets.

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 when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

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.

(c) Property and equipment, and intangible assets:

Purchased property, equipment, and intangible assets are recorded at cost at the time of the acquisition. Contributed property, equipment and intangible assets are recorded at fair value at the date of the contribution. Property, equipment and intangible assets are 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
Website development costs	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

2. Significant accounting policies (continued):

(d) Impairment of long-lived assets:

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the asset's carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Society uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

(e) 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.

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2. Significant accounting policies (continued):

(f) 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, 2015 and 2014, the fair value of the investments, representing investments in Guaranteed Investment Certificates (GICs) approximated their carrying value. The GICs bear interest at rates ranging from 0.5% to 0.7% per annum (2014 - 1% to 1.1% per annum) and have maturity dates ranging from July 30, 2015 to August 25, 2015, however, can be redeemed without penalty at any time by the Society.

4. Property and equipment:

	Cost	Accumulated amortization	2015 Net book value	2014 Net book value
Computer equipment and software	$ 114,855	$ 92,740	$ 22,115	$ 33,840
Music library, leasehold improvements and other	164,080	61,328	102,752	102,967
Office equipment and furniture	9,969	2,363	7,606	5,985
Photocopies, fax and telephone equipment	107,692	50,409	57,283	51,655
Instruments	198,899	127,347	71,552	88,675
	$ 595,495	$ 334,187	$ 261,308	$ 283,122

5. Intangible assets:

	Cost	Accumulated amortization	2015 Net book value	2014 Net book value
Website development costs	$ 78,000	$ 1,300	$ 76,700	$ –

6. Deferred revenue:

As at June 30,	2015	2014
Subscription sales and other	$ 644,244	$ 626,127
Grants	46,320	44,174
Corporate sponsorships	266,987	331,972
	$ 957,551	$ 1,002,273

7. Due from The Calgary Philharmonic Orchestra Foundation:

The Calgary Philharmonic Orchestra Foundation (the "Foundation") was formed under the Societies Act of Alberta. One director of the Society is a member on the board of trustees of the Foundation. The amount contributed by the Foundation during the year ended June 30, 2015 was $1,475,000 (2014 - $1,050,000) which is included within donations and sponsorships.

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

8. 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:

As at June 30,	2015	2014
Balance, beginning of year	$ 35,468	$ 47,730
Amounts amortized to revenue	(9,263)	(12,262)
Balance, end of year	$ 26,205	$ 35,468

9. 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.

During the year ended June 30, 2015, funds were drawn from the cash reserve by the Society. As such, effective June 30, 2015 the Board of Directors approved the transfer of the deficiency in unrestricted net assets of the Society totaling $269,548 to internally restricted net assets.

During the year ended June 30, 2014, the Board of Directors amended the policy such that the reserve is to be increased to 7% or $770,000 within the next three to five years.

10. Donations and sponsorships:

During the year ended June 30, 2015, donations and sponsorships includes an amount totaling $553,527 (2014 - $760,923) which represents the fair value of materials and services donated to the Society. The corresponding amounts have been charged to the appropriate expense account.

11. 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. During the year ended June 30, 2013, and effective for the 2015 season, the maximum amount of the payment was increased from $10,000 to $12,500 and the eligibility requirement for payment was changed from the individual reaching the age of 65 to a combined age and years of service equaling a total of 95 or greater or having reached the age of 65. 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, 2015 was $161,054 (2014 - $154,455). During the year ended June 30, 2015, the Society paid $25,000 (2014 - $32,500) in relation to the post retirement benefit obligation.

The following table provides a reconciliation of the changes in the plans benefit obligations for the years ended June 30, 2015 and 2014:

	2015	2014
Accrued benefit obligation, beginning of year	$ 320,330	$ 298,455
Current service cost	12,372	12,727
Interest cost on accrued benefit obligation	13,609	13,537
Benefit payments	(25,000)	(32,500)
Actuarial loss	19,725	28,111
Accrued benefit obligation, end of year	341,036	320,330
Unamortized past service costs	(64,881)	(75,251)
Unamortized net actuarial loss	(115,101)	(90,624)
Accrued benefit liability	$ 161,054	$ 154,455

11. Post retirement benefit obligation (continued):

The following table provides the components of net periodic benefit expense for each of the years ended June 30, 2015 and 2014:

	2015	2014
Service cost	$ 12,372	$ 12,727
Interest cost	13,609	13,537
Amortization of prior service cost and other	5,618	14,265
	$ 31,599	$ 40,529

The following table provides key assumptions and data used in the measurement of the Society's benefit obligations at June 30, 2015 and 2014:

	2015	2014
Discount rate	3.75%	4.25%
Retirement age	65	65
Average age	48.1	47.9
Average years of service	20.9	20.2
Number of musicians	66	65

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

2016	$ 87,500
2017	37,500
2018	25,000
2019	62,500
2020	75,000

12. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $16,286 (2014 - $35,932) which includes amounts payable for GST and HST.

13. Commitments:

The Society has entered into contractual obligations aggregating $507,642 with respect to future performances.

14. 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 cash and investments are subject to credit risk. Cash is deposited with a Canadian chartered bank. 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, 2014.

(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.

14. Financial instruments (continued):

(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.

15. 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 $297,990 (2014 - $310,479) and the total amount paid as remuneration to employees of the organization whose principal duties involved fundraising were $390,853 (2014 - $368,789).