Financial Statements of

CALGARY PHILHARMONIC SOCIETY

Year ended June 30, 2016

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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, 2016, 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, 2016, 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 Professional Accountants

September 27, 2016
Calgary, Canada

CALGARY PHILHARMONIC SOCIETY

Statement of Financial Position

Year ended June 30, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash	$ 489,242	$ 586,552
Investments (note 3)	–	500,000
Accounts receivable	291,109	281,812
Prepaid expenses	151,169	153,332
	931,520	1,521,696
Property and equipment (note 4)	216,129	261,308
Intangible assets (note 5)	50,995	76,700
	$ 1,198,644	$ 1,859,704
Liabilities and Net Assets (Deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities (note 12)	$ 418,342	$ 425,442
Deferred revenue (note 6)	739,630	957,551
Current portion of accrued post retirement benefit obligation (note 11)	60,241	84,337
	1,218,213	1,467,330
Deferred capital contributions (note 8)	17,626	26,205
Accrued post retirement benefit obligation (note 11)	56,475	76,717
	1,292,314	1,570,252
Net assets (deficiency):		
Internally restricted net assets (note 9)	–	289,452
Unrestricted net asset surplus / (deficiency)	(93,670)	–
	(93,670)	289,452
Commitments (note 14)		
	$ 1,198,644	$ 1,859,704

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, 2016, with comparative information for 2015

	2016	2015
Revenues:		
Ticket sales	$ 3,968,179	$ 4,320,046
Sold services	694,973	538,844
	4,663,152	4,858,890
Donations and sponsorships (notes 7 and 10)	4,937,621	3,992,241
Grants	2,074,192	1,981,107
Special events	310,291	585,391
Investment and other income	162,632	227,138
	7,484,736	6,785,877
	12,147,888	11,644,767
Expenses:		
Personnel	8,751,441	8,398,455
Marketing, ticketing and development	1,837,510	1,676,991
Administrative	555,731	583,014
Production	1,313,851	1,409,899
Depreciation and amortization	72,477	45,914
	12,531,010	12,114,273
Deficiency of revenues over expenses	$ (383,122)	$ (469,506)

See accompanying notes to financial statements.

CALGARY PHILHARMONIC SOCIETY

Statement of Changes in Net Assets (Deficiency)

Year ended June 30, 2016, with comparative information for 2015

	Internally Restricted net assets (note 10)	Unrestricted net assets surplus (deficiency)	Total
Balance, June 30, 2014	$ 559,000	$ 199,958	$ 758,958
Deficiency of revenues over expenses	–	(469,506)	(469,506)
Transfer during the year (note 9)	(269,548)	269,548	–
Balance, June 30, 2015	289,452	–	289,452
Deficiency of revenues over expenses	-	(383,122)	(383,122)
Transfer during the year (note 9)	(289,452)	289,452	-
Balance, June 30, 2016	$ -	$ (93,670)	$ (93,670)

See accompanying notes to financial statements.

CALGARY PHILHARMONIC SOCIETY

Statement of Cash Flows

Year ended June 30, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Deficiency of revenues over expenses	$ (383,122)	$ (469,506)
Items not affecting cash:		
Depreciation and amortization	72,477	45,914
Amortization of deferred capital contributions relating to property and equipment (note 8)	(8,579)	(9,263)
Post retirement benefit expense (note 11)	25,662	31,599
Post retirement benefit payment (note 11)	(70,000)	(25,000)
Net change in non-cash working capital balances:		
Accounts receivable	(9,297)	62,327
Prepaid expenses	2,163	(49,763)
Accounts payable and accrued liabilities	(7,100)	(71,624)
Deferred revenue	(217,921)	(44,722)
	(595,717)	(530,038)
Investments:		
Sale of investments	500,000	500,000
Purchase of property and equipment	(1,593)	(22,800)
Purchase of intangible assets	–	(78,000)
	498,407	399,200
Financing:		
Proceeds from demand facility (note 13)	380,000	–
Repayment of demand facility (note 13)	(380,000)	–
	–	–
Decrease in cash	(97,310)	(130,838)
Cash, beginning of year	586,552	717,390
Cash, end of year	$ 489,242	$ 586,552

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.

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.

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.

2. Significant accounting policies (continued):

(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

(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.

2. Significant accounting policies (continued):

(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.

(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.

2. Significant accounting policies (continued):

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, the fair value of the investments, representing investments in Guaranteed Investment Certificates (GICs) approximated their carrying value. The GIC's bore interest at rates ranging from 0.5% to 0.7% per annum (2015 – 0.5% to 0.7% per annum). The Society fully redeemed all GIC's, without penalty, during the year ended June 30, 2016.

4. Property and equipment:

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Computer equipment and software	$ 116,448	$ 102,113	$ 14,335	$ 22,115
Music library, leasehold improvements and other	164,080	70,569	93,511	102,752
Office equipment and furniture	9,969	4,356	5,613	7,606
Photocopies, fax and telephone equipment	107,692	60,784	46,908	57,283
Instruments	198,899	143,137	55,762	71,552
	$ 597,088	$ 380,959	$ 216,129	$ 261,308

5. Intangible assets:

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Website development costs	$ 78,000	$ 27,005	$ 50,995	$ 76,700

6. Deferred revenue:

As at June 30,	2016	2015
Subscription sales and other	$ 612,563	$ 644,244
Grants	52,067	46,320
Corporate sponsorships	75,000	266,987
	$ 739,630	$ 957,551

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, 2016 was $2,851,938 (2015 - $1,475,000) 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,	2016	2015
Balance, beginning of year	$ 26,205	$ 35,468
Amounts amortized to revenue	(8,579)	(9,263)
Balance, end of year	$ 17,626	$ 26,205

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 Alberta Foundation for the Arts ("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, 2016, funds were drawn from the cash reserve by the Society. As such, effective June 30, 2016 the Board of Directors approved the transfer of the remaining internally restricted net assets of the Society totaling $289,452 to unrestricted net assets.

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, 2016, donations and sponsorships includes an amount totaling $714,356 (2015 - $553,527) 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 2015-16 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: 1) to a combined age and years of service equaling a total of 95 or greater or; 2) 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, 2016 was $116,716 (2015 - $161,054). During the year ended June 30, 2016, the Society paid $70,000 (2015 - $25,000) in relation to the post retirement benefit obligation.

11. 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, 2016 and 2015:

	2016	2015
Accrued benefit obligation, beginning of year	$ 341,036	$ 320,330
Current service cost	9,989	12,372
Interest cost on accrued benefit obligation	11,851	13,609
Benefit payments	(70,000)	(25,000)
Actuarial (gain) / loss	(33,084)	19,725
Accrued benefit obligation, end of year	259,792	341,036
Unamortized past service costs	(54,511)	(64,881)
Unamortized net actuarial loss	(88,565)	(115,101)
Accrued benefit liability	$ 116,716	$ 161,054
Less current portion	60,241	84,337
	$ 56,475	$ 76,717

The following table provides the components of net periodic benefit expense for each of the years ended June 30, 2016 and 2015:

	2016	2015
Service cost	$ 9,989	$ 12,372
Interest cost	11,851	13,609
Amortization of prior service cost and other	3,822	5,618
	$ 25,662	$ 31,599

The following table provides key assumptions and data used in the measurement of the Society's benefit obligations at June 30, 2016 and 2015:

	2016	2015
Discount rate	3.75%	3.75%
Retirement age	65	65
Average age	45.3	48.1
Average years of service	17.9	20.9
Number of musicians	60	66

11. Post retirement benefit obligation (continued):

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

2017	$ 62,500
2018	25,000
2019	37,500
2020	62,500
2021	25,000

12. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $6,323 (2015 - $16,286) which includes amounts payable for Goods & Services Tax and Harmonized Sales Tax.

13. Revolving demand facility:

During the year ended June 30, 2016, the Society obtained a $750,000 revolving demand facility, which reduces to $25,000 on September 30, 2016, and bears interest at the bank's prime lending rate plus 1.25% per annum. During the year, the facility was drawn and fully repaid. At June 30, 2016, the full amount of the facility remained undrawn. The facility is due for review by the lender on September 20, 2016 and is secured by a general security agreement against the assets of the Society.

14. Commitments:

The Society is committed to making the following approximate annual lease payments related to office equipment:

2017	$ 16,015
2018	16,015
2019	16,015
2020	16,015
2021 and thereafter	11,413

15. 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, investments, accounts receivable and amounts due from The Calgary Philharmonic Orchestra Foundation 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 aims to retain a sufficient cash position to manage liquidity.

(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.

16. 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 $91,356 (2015 - $297,990) and the total amount paid as remuneration to employees of the Society whose principal duties involved fundraising were $391,997 (2015 - $390,853).