

Financial Statements of

**THE CALGARY PHILHARMONIC  
ORCHESTRA FOUNDATION**

And Independent Auditors' Report thereon

Year ended June 30, 2019



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## INDEPENDENT AUDITORS' REPORT

To the Members of The Calgary Philharmonic Orchestra Foundation

### ***Opinion***

We have audited the financial statements of The Calgary Philharmonic Orchestra Foundation (the Entity), which comprise:

- the statement of financial position as at June 30, 2019;
- the statement of changes in endowment fund balance for the year then ended;
- the statement of cash flows for the year then ended;
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at June 30, 2019, 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.

### ***Basis for 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 auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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.

***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

*KPMG LLP*

Chartered Professional Accountants

Calgary, Canada

September 17, 2019

# THE CALGARY PHILHARMONIC ORCHESTRA FOUNDATION

## Statement of Financial Position

June 30, 2019, with comparative information for 2018

	2019	2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 12,338	\$ 22,356
GST rebates recoverable	1,326	1,344
Prepaid expenses	700	700
	14,364	24,400
Investments (note 3)	36,282,564	36,381,665
Life insurance policies (note 4)	52,284	53,853
	<u>\$ 36,349,212</u>	<u>\$ 36,459,918</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 40,156	\$ 42,266
Due to the Calgary Philharmonic Society	201,838	
	241,994	42,266
<b>Endowment Fund</b>		
Endowment Fund balance (note 5)	36,107,218	36,417,652
	<u>\$ 36,349,212</u>	<u>\$ 36,459,918</u>

See accompanying notes to financial statements.

On behalf of the Trustees:

<u>Jeremy E. Clark</u>	Trustee
<u>Ryan Stasynec</u>	Trustee

# THE CALGARY PHILHARMONIC ORCHESTRA FOUNDATION

## Statement of Changes in Endowment Fund Balance

June 30, 2019, with comparative information for 2018

	2019	2018
Net investment income:		
Investment income earned:		
Mutual funds:		
Equities	\$ 574,360	\$ 401,709
Bonds	553,233	433,795
Money market	41,642	34,186
	1,169,235	869,690
Expenses:		
Investment management fees	91,104	92,115
Fundraising	52,871	
Audit fees	16,875	17,558
Administration	9,939	4,695
Insurance	2,100	2,100
Legal fees		7,899
	172,889	124,367
	996,346	745,323
Donations and government grants:		
Donations (note 7):		
Cash	1,066,799	1,867,164
Securities	317,223	363,258
	1,384,022	2,230,422
Government grants:		
Canada Cultural Investment Fund Endowment Incentives Grant	1,207,968	1,319,151
	2,591,990	3,549,573
Net gains (losses) on investments:		
Realized on sale	1,283,202	1,389,507
Mutual fund capital gains distributed		78,969
Unrealized	(1,372,632)	(493,667)
	(89,430)	974,809
Life insurance policies:		
Decrease in cash surrender value	(1,570)	(1,458)
Contribution to the Calgary Philharmonic Society	(3,807,770)	(4,915,710)
Increase (decrease) in Endowment Fund balance	(310,434)	352,537
Endowment Fund balance, beginning of year	36,417,652	36,065,115
Endowment Fund balance, end of year	\$ 36,107,218	\$ 36,417,652

See accompanying notes to financial statements.

# THE CALGARY PHILHARMONIC ORCHESTRA FOUNDATION

## Statement of Cash Flows

June 30, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Financing activities:		
Donations		
Canada Cultural Investment Fund Endowment Incentives Grant	\$ 1,066,799	\$ 1,867,164
Contribution to the Calgary Philharmonic Society	1,207,968	1,319,151
	(3,607,770)	(5,046,588)
Investing activities:	(1,333,003)	(1,860,273)
Net investment income:		
Investment income earned	1,169,235	869,690
Expenses, net of GST recoveries	(173,143)	(122,916)
	996,092	746,774
Investments:		
Proceeds on sale of investments	10,155,899	7,370,059
Mutual fund capital gains distributed		78,969
Purchase of investments	(9,829,006)	(6,461,167)
	326,893	987,861
	1,322,985	1,734,635
Decrease in cash and cash equivalents	(10,018)	(125,638)
Cash and cash equivalents, beginning of year	22,356	147,994
Cash and cash equivalents, end of year	\$ 12,338	\$ 22,356

See accompanying notes to financial statements.



# THE CALGARY PHILHARMONIC ORCHESTRA FOUNDATION

## Notes to Financial Statements

Year ended June 30, 2019, with comparative information for 2018

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### 1. General:

The Calgary Philharmonic Orchestra Foundation (the "Foundation") was formed under the Societies Act of Alberta and is a not-for-profit organization. The Foundation is a registered charity under the *Income Tax Act* and, accordingly, is exempt from income taxes, provided certain requirements of that Act are met. The Foundation has as its objectives the administration and investment of donations and government grants received by it, for the benefit of the Calgary Philharmonic Society (the "Society"). Reference is made to note 5.

The Trustees of the Foundation, in their sole discretion, determine the amount of the contribution to the Society, based on consideration of a number of factors, including the budgetary requirements of the Society, the performance of the Foundation's investments, and the provisions of the *Income Tax Act*.

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

### 2. Significant accounting policies:

The financial statements of the Foundation have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations as set forth in Part III of the CPA Canada Handbook - Accounting. A precise determination of many assets and liabilities is dependent upon future events and consequently the preparation of periodic financial statements necessarily involves the use of estimates and approximations. 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:

Investment income consisting of distributions from mutual funds is recognized when received. Other investment income is recognized on the accrual basis.

The Foundation follows the deferral method of accounting for contributions whereby endowment contributions, including donations and government grants required to be held in perpetuity, are recognized as direct increases in the Endowment Fund balance.

#### (b) Investments:

Investments are comprised of mutual funds holding bonds, equities and money market instruments. These investments are measured at fair market value using their published rates. Net valuation gains or losses, realized and unrealized, are added to or subtracted from the Endowment Fund balance. Transaction costs that are directly attributable to the acquisition of investments are added to the cost of the investments.

#### (c) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit with a major Canadian financial institution.

#### (d) Life insurance policies:

The Foundation is the owner and beneficiary of donated life insurance policies.

Life insurance policies are recorded at their cash surrender value. Decreases in the cash surrender value are deducted directly to the Endowment Fund balance. Upon the death of an insured person, the amount by which the death benefit paid to the Foundation under each policy exceeds the cash surrender value will be added to the Endowment Fund balance at that time.



# THE CALGARY PHILHARMONIC ORCHESTRA FOUNDATION

Notes to Financial Statements, Page 2

Year ended June 30, 2019, with comparative information for 2018

## 2. Significant accounting policies (continued):

### (e) Donations in kind and contributed services:

Donations in kind are accounted for as donations revenue at their fair value as determined by an independent party in accordance with the provisions of the *Income Tax Act*. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

### (f) Financial instruments:

Financial instruments are recorded at fair value on origination, issuance or assumption, adjusted, in the case of financial instruments that will not be measured subsequently at fair value, by financing fees and transaction costs. Such financing fees and transaction costs are amortized using the straight-line method. Transaction costs incurred on the acquisition of financial instruments which are measured subsequently at fair value are expensed as incurred.

Subsequent to initial recognition, investments in equity instruments that are quoted in an active market and free standing derivatives that are not designated in a qualifying hedging relationship are measured at fair value without any adjustment for transaction costs that may be incurred on sale or other disposal. Changes in fair value of such investments are recognized in the Statement of Changes in Endowment Fund Balance in the period incurred. Investments in equity instruments that are not quoted in an active market are measured at cost, less any reduction for impairment. Other financial instruments are measured at amortized cost.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. In that situation, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset, in which case the carrying value of the financial asset is reduced to the highest of (i) the present value of the expected cash flows, (ii) the amount that could be realized from selling the financial asset, or (iii) the amount the Foundation 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:

	June 30, 2019		June 30, 2018	
	Cost	Market Value	Cost	Market Value
Mutual funds:				
Equities	\$ 17,355,734	\$ 21,580,498	\$ 16,428,690	\$ 22,259,520
Bonds	12,578,589	12,959,373	11,685,720	11,833,070
Money market	1,742,693	1,742,693	2,289,075	2,289,075
	\$ 31,677,016	\$ 36,282,564	\$ 30,403,485	\$ 36,381,665

At June 30, 2019, the weighted average term to maturity of the bond mutual fund portfolio was 6.1 years (June 30, 2018 - 5.6 years), and the weighted average yield to maturity of that portfolio was 3.2% (June 30, 2018 - 3.7%).

## 4. Life insurance policies:

At June 30, 2019, the death benefits payable under the life insurance policies owned by the Foundation amounted to \$229,654 (June 30, 2018 - \$230,943), which is \$177,370 (June 30, 2018 - \$177,090) in excess of the cash surrender value of those policies. The excess has not been recorded in the financial statements of the Foundation.

# THE CALGARY PHILHARMONIC ORCHESTRA FOUNDATION

Notes to Financial Statements, Page 3

Year ended June 30, 2019, with comparative information for 2018

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## 5. Endowment Fund balance:

The Foundation has complied with the provisions of the *Income Tax Act* relating to the minimum amount (the "disbursement quota") that, as a public foundation, it is required to spend on charitable activities in order to maintain its registered charity status. The purpose of the disbursement quota is to ensure that registered charities actively use their tax-assisted donations to help others in accordance with their charitable purposes.

The Foundation has also complied with its contractual obligations pursuant to the grants it has received under the Endowment Incentives Component of the Canada Cultural Investment Fund, whereby it is required to maintain in the capital of the Endowment Fund the amount of the grants received from the Government of Canada plus the equivalent amount received from private donors. To June 30, 2019, the Foundation has received \$10,242,681 in Endowment Incentives Grants, and is therefore required to maintain \$20,485,362 in the Endowment Fund.

## 6. Financial Instruments and risk management:

The Foundation's financial instruments consist of cash and cash equivalents, investments, life insurance policies, accounts payable and accrued liabilities, and amounts due between the Foundation and the Society. The carrying value of financial assets (other than investments, which are measured at fair market value) and liabilities held at June 30, 2019 approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

The Foundation's financial position and cash flows are exposed to movements in interest rates and foreign exchange rates as well as credit risk relative to the Foundation's investments. The following summarizes the nature of the risks to which the Foundation is exposed and the risk management approach used to mitigate them.

### (a) Interest rate risk:

Interest rate risk arises from the potential that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Foundation has investments as disclosed in note 3, including interest bearing investments in bond and money market mutual funds on which general interest rate fluctuations apply.

### (b) Currency risk:

Currency risk arises from the potential that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. All of the mutual funds held by the Foundation are priced in Canadian dollars. Certain of those mutual funds, the market value of which as at June 30, 2019 represents approximately 51% (June 30, 2018 - 44%) of the total market value of the Foundation's investments, invest predominantly in US and other foreign equity securities, on an unhedged basis.

### (c) Credit risk:

Credit risk arises from the potential for an investee to fail or for a counterparty to default on its contractual obligations to the Foundation. Credit risk is managed by the Foundation's investment manager in accordance with the investment policy of the Foundation established by its Board of Trustees.