Financial Statements of

CALGARY PHILHARMONIC SOCIETY

Year ended June 30, 2018

KPMG

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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, 2018, the statements of revenues and expenses, changes in net deficiency 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.

KPMG

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.

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, 2018, 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 18, 2018
Calgary, Canada

CALGARY PHILHARMONIC SOCIETY

Statement of Financial Position

Year ended June 30, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash	$ 2,472,653	$ 1,878,616
Short term investments (note 3)	161,817	-
Accounts receivable (note 7)	99,364	494,467
Prepaid expenses	394,049	546,995
	3,127,883	2,920,078
Property and equipment (note 4)	532,425	245,884
Intangible assets (note 5)	22,375	37,975
	$ 3,682,683	$ 3,203,937
Liabilities and Net Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities (note 12)	$ 748,541	$ 487,013
Deferred revenue (note 6)	2,868,478	2,873,895
Current portion of accrued post retirement benefit obligation (note 11)	60,241	60,241
	3,677,260	3,421,149
Deferred capital contributions (note 8)	323,284	11,182
Accrued post retirement benefit obligation (note 11)	29,409	43,191
	4,029,953	3,475,522
Net deficiency:		
Unrestricted net deficiency	(347,270)	(271,585)
Subsequent events (note 7)		
Commitments (note 14)		
	$ 3,682,683	$ 3,203,937

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, 2018, with comparative information for 2017

	2018	2017
Revenues:		
Ticket sales	$ 3,806,504	$ 3,840,571
Sold services	619,845	488,757
	4,426,349	4,329,328
Donations and sponsorships (notes 7 and 10)	6,460,139	5,407,400
Grants	2,691,159	2,171,451
Special events	300,637	252,278
Investment and other income	176,362	67,482
Foreign exchange gain	25,570	1,130
	9,653,867	7,899,741
	14,080,216	12,229,069
Expenses:		
Personnel	9,604,415	8,308,331
Marketing, ticketing and development (notes 7 and 10)	2,044,086	1,995,541
Administrative	743,375	677,277
Production	1,615,671	1,366,778
Depreciation and amortization	148,354	59,057
	14,155,901	12,406,984
Deficiency of revenues over expenses	$ (75,685)	$ (177,915)

See accompanying notes to financial statements.

CALGARY PHILHARMONIC SOCIETY

Statement of Changes in Net Deficiency

Year ended June 30, 2018, with comparative information for 2017

	Internally restricted net assets (note 9)	Unrestricted net assets deficiency	Total
Balance, June 30, 2016	$ –	$ (93,670)	$ (93,670)
Deficiency of revenues over expenses	–	(177,915)	(177,915)
Balance, June 30, 2017	–	(271,585)	(271,585)
Deficiency of revenues over expenses	–	(75,685)	(75,685)
Balance, June 30, 2018	$ –	$ (347,270)	$ (347,270)

See accompanying notes to financial statements.

CALGARY PHILHARMONIC SOCIETY

Statement of Cash Flows

Year ended June 30, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Deficiency of revenues over expenses	$ (75,685)	$ (177,915)
Items not affecting cash:		
Depreciation and amortization	148,354	59,057
Amortization of deferred capital contributions relating to property and equipment (note 8)	(106,744)	(6,444)
Post retirement benefit expense (note 11)	23,718	24,216
Unrealized foreign exchange loss (gain)	3,272	(12,318)
Post retirement benefit payment (note 11)	(37,500)	(37,500)
Net change in non-cash working capital balances:		
Accounts receivable	395,103	(203,358)
Prepaid expenses	152,946	(395,826)
Accounts payable and accrued liabilities	261,528	68,671
Deferred revenue	(22,411)	2,164,200
	742,581	1,482,783
Investments:		
Purchase of investments	(161,817)	–
Purchase of property and equipment	(419,295)	(75,792)
Cash received for deferred capital contributions	418,846	–
	(162,266)	(75,792)
Financing:		
Proceeds from demand facility (note 13)	–	550,000
Repayment of demand facility (note 13)	–	(550,000)
	–	–
	580,315	1,406,991
Foreign exchange gain (loss) on cash held in foreign currency	13,722	(17,617)
Increase in cash	594,037	1,389,374
Cash, beginning of year	1,878,616	489,242
Cash, end of year	$ 2,472,653	$ 1,878,616

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.

(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 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 and the items would otherwise be purchased.

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, 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
Music library, leasehold improvements and other	10 years
Office equipment and furniture	10 years
Photocopier, fax and telephone equipment	5 years
Instruments	10 years
Website development costs	5 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.

(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.

2. Significant accounting policies (continued):

(e) Employee future benefits (continued):

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 any 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.

2. Significant accounting policies (continued):

(g) Estimates:

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 deficiency 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 valuation of intangible assets, 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.

3. Investments:

At June 30, 2018, the short investments were comprised of guaranteed investment certificates with a Canadian Chartered bank with interest rates ranging from 1.50% to 1.60% and maturity dates ranging from July 3, 2018 to April 15, 2019.

4. Property and equipment:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Computer equipment and software	$ 471,648	$ 190,725	$ 280,923	$ 16,528
Music library, leasehold improvements and other	182,896	125,561	57,335	57,156
Office equipment and furniture	57,642	17,584	40,058	3,618
Photocopies, fax and telephone equipment	159,768	36,950	122,818	125,099
Instruments	201,679	170,388	31,291	43,483
	$1,073,633	$ 541,208	$ 532,425	$ 245,884

5. Intangible assets:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Website development costs	$ 78,000	$ 55,625	$ 22,375	$37,975

6. Deferred revenue:

As at June 30,	2018	2017
Education program (note 7)	$ 1,287,532	$ 1,197,479
Subscription sales and other	933,295	976,594
Grants	647,651	634,822
Corporate sponsorships	–	65,000
	$ 2,868,478	$ 2,873,895

7. Related party transactions and subsequent events:

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. During the year ended June 30, 2018, the Society received cash contributions of $5,046,588 (2017 - $4,297,562) from the Foundation, of which $3,540,006 was included in donations and sponsorships revenue (2017 - $3,100,083), $101,493 was included in investment and other income related to the amortization of deferred capital contributions (2017 - $nil), $130,878 was received from a 2017 accounts receivable, $976,858 was included in deferred revenue as at June 30, 2018 (2017 - $1,197,479) for an educational program of the Society held subsequent to year end and $297,353 was included in deferred capital contributions (2017 - $nil) for the purchase of computer equipment and software.

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

During the year ended June 30, 2018, the Society recognized $nil (2017 – $10,612) of donations and sponsorships revenue and marketing, ticketing and development expense for in-kind legal services provided by a firm whose managing partner serves on the board of directors of the Society.

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,	2018	2017
Balance, beginning of year	$ 11,182	$17,626
Additions	418,846	–
Amounts amortized to revenue	(106,744)	(6,444)
Balance, end of year	$ 323,284	$ 11,182

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 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. 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, 2018, the Board of Directors amended the policy to increase the amount of the reserve to a minimum of 10% of the annual operating budget.

During the year ended June 30, 2016, as a result of expenses exceeding revenues, the Board of Directors approved the transfer of the funds from the internally restricted net assets fund to the unrestricted net assets fund. Due to the Society's expenses exceeding revenues in 2017 and 2018, the Society has been unable to replenish the reserve. Accordingly, as at June 30, 2018, there is no such cash reserve.

The Society is exploring means in which to replenish the funds. To date, discussions are ongoing with the AFA and future funding is expected to remain consistent with agreements.

10. Donations and sponsorships:

During the year ended June 30, 2018, donations and sponsorships revenues and marketing, ticketing and development expenses include an amount totaling $677,539 (2017 - $753,415) which represents the fair value of materials and services donated to the Society.

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. The maximum amount of the payment is $12,500 and the eligibility requirement for payment is either the individual having: 1) 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, 2018 was $89,650 (2017 - $103,432). During the year ended June 30, 2018, the Society paid $37,500 (2017 - $37,500) 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, 2018 and 2017:

	2018	2017
Accrued benefit obligation, beginning of year	$ 230,476	$ 259,792
Current service cost	9,141	8,920
Interest cost on accrued benefit obligation	8,283	9,374
Benefit payments	(37,500)	(37,500)
Actuarial loss (gain)	14,675	(10,110)
Accrued benefit obligation, end of year	225,075	230,476
Unamortized past service costs	(33,770)	(44,141)
Unamortized net actuarial loss	(101,655)	(82,903)
Accrued benefit liability	89,650	103,432
Less: current portion	60,241	60,241
	$ 29,409	$ 43,191

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, 2018 and 2017:

	2018	2017
Service cost	$ 9,141	$ 8,920
Interest cost	8,283	9,374
Amortization of prior service cost and other	6,294	5,922
	$ 23,718	$ 24,216

The following table provides key assumptions and data used in the measurement of the Society's benefit obligations at June 30, 2018 and 2017:

	2018	2017
Discount rate	3.75%	3.75%
Retirement age	65	65
Average age	43.9	43.6
Average years of service	16.5	17.3
Number of musicians	58	59

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

	2018
2019	$ 62,500
2020	50,000
2021	25,000
2022	12,500
2023	–

12. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $33,331 (2017 - $25,381) which includes amounts payable for Goods & Services Tax.

13. Revolving demand facility:

During the year ended June 30, 2018, the Society obtained a $25,000 revolving demand facility, increasing to $725,000 on March 13, 2018 and reducing to $25,000 on June 16, 2018, and bears interest at the bank's prime lending rate plus 1.25% per annum. During the year, the Society did not draw on the facility. The facility is due for review by the lender on September 30, 2018 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 its office and office equipment:

2019	$	86,300
2020		86,300
2021		78,300
2022		77,100
2023		11,700
2024 and thereafter		–

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 Society manages its foreign exchange risk by monitoring the U.S. dollar exchange rate and its business conditions including the current economic conditions. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the return.

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 $119,751 (2017 - $160,155) and the total amount paid as remuneration to employees of the Society whose principal duties involved fundraising were $416,151 (2017 - $372,765).

17. Comparative information:

Certain prior period balances have been reclassified to conform to current period's presentation.