

Victoria Conservatory of Music

Financial Statements

August 31, 2012

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Victoria Conservatory of Music

Index to Financial Statements

August 31, 2012

	<u>Page</u>
Auditors' Report	2
Statement of Financial Position	4
Statement of Operations and Changes in Fund Balances	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 13

DRAFT

INDEPENDENT AUDITORS' REPORT

To The Members of the Victoria Conservatory of Music

We have audited the accompanying financial statements of the Victoria Conservatory of Music which comprise the statement of financial position as at August 31, 2012, and the statements of operations, changes in fund balances, cash flows and 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 generally accepted accounting principles, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian 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 the auditor's 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, the auditor considers 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.

Basis for Qualified Opinion

In common with many charitable organizations, the Conservatory derives revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Conservatory and we were not able to determine whether any adjustments might be necessary to revenue, excess of revenue over expenses, current assets and net fund balances.

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Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Victoria Conservatory of Music as at August 31, 2012 and the results of its operations, changes in fund balances and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the Society Act (British Columbia), we report that, in our opinion, the accounting policies applied by the Victoria Conservatory of Music in preparing and presenting the financial statements in accordance with Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Victoria, BC
November 28, 2012

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Chartered Accountants

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Victoria Conservatory of Music

Statement of Financial Position
August 31, 2012

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August 31 2012 August 31 2011

	Operating Fund	Internal Fund (note 4)	Capital Asset Fund	Endowment Fund	Restricted Fund	Total	Total
ASSETS							
CURRENT							
Cash	142,864	72,611	-	14,760	42,207	272,442	760,786
Accounts Receivable	169,690	-	-	-	-	169,690	120,970
Prepaid Expenses	15,754	-	-	-	-	15,754	18,526
Inventory	4,557	-	-	-	-	4,557	-
Due From (To) Other Funds (Note 5)	14,441	(68,889)	-	34,194	20,254	-	-
	347,306	3,722	-	48,954	62,461	462,443	900,282
NON-CURRENT							
Interest in Trusts (note 6)	73,850	-	-	-	-	73,850	73,850
Long Term Investments (note 7)	-	103,966	-	478,400	136,919	719,285	762,114
Property and Equipment (note 8)	-	-	3,286,226	-	-	3,286,226	3,383,591
Due From (To) Other funds (Note 5)	200,000	-	(200,000)	-	-	-	-
	621,156	107,688	3,086,226	527,354	199,380	4,541,804	5,119,837
LIABILITIES							
CURRENT							
Accounts Payable	124,779	-	-	-	-	124,779	150,155
Deferred Revenue (note 9)	643,773	-	-	-	-	643,773	606,670
Debt (note 10)	768,552	-	334,629	-	-	1,103,181	552,872
	(147,396)	107,688	2,751,597	527,354	199,380	(147,396)	374
FUND BALANCES (note 11)							
Unrestricted							
Internally Restricted							
Invested in Capital Assets	(147,396)	107,688	2,751,597	527,354	199,380	3,438,623	2,928,323
Externally Restricted	621,156	107,688	3,086,226	527,354	199,380	4,541,804	5,119,837
FUNDS HELD IN TRUST (Note 12)							

Approved on behalf of the Board

Director

Director

Victoria Conservatory of Music

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Statement of Operations and Changes in Fund Balances
Year Ended August 31, 2012

August 31 2012 August 31 2011

	Operating Fund	Internal Fund	Capital Asset Fund	Endowment Fund	Restricted Fund	Total	Total
REVENUE							
Tuitions	2,414,734				2,660	2,417,394	2,358,989
Fees & Other Income	105,993	22,500				128,493	131,401
Investment Income (note 7)		2,047		36,196	2,642	40,885	19,942
Facilities & Events Income	231,712					231,712	238,280
Total earned revenue	2,752,439	24,547	-	36,196	5,302	2,818,484	2,748,612
Fundraising Income (note 15)	1,084,221	1,410	24,054	53,599	66,749	1,230,033	2,684,759
	3,836,660	25,957	24,054	89,795	72,051	4,048,517	5,433,371

EXPENSES							
Wages & Benefits	3,330,013					3,330,013	3,298,618
Program Costs	97,646				12,400	110,046	143,241
Administration Expenses	104,453	20,545	23,585	5,805	139	154,527	157,171
Marketing	96,913					96,913	82,077
Fundraising	62,352					62,352	56,779
Events	74,756					74,756	78,406
Facilities	229,118	10,011	43,728	42,324	40,687	282,857	238,448
Scholarships & Bursaries	6,048					6,048	101,691
Amortization			216,607			216,607	183,815
	4,001,298	30,556	283,920	48,129	53,226	4,417,129	4,340,246

Excess (deficiency) of revenues over expenses	(164,638)	(4,599)	(259,866)	41,666	18,825	(368,612)	1,093,125
Unrealized (Loss) Gain on Investments (Note 4)	16,868	(100,008)	83,140	(2,904)	(1)	(2,905)	12,294
Transfers (note 16)	(147,770)	(104,607)	(176,726)	38,762	18,824	(371,517)	1,105,419
Net Change For The Year	374	212,295	2,928,323	488,592	180,556	3,810,140	2,704,721
Fund Balances, Beginning of Period	(147,396)	107,688	2,751,597	527,354	199,380	3,438,623	3,810,140

Victoria Conservatory of Music

Statement of Cash Flows
Year Ended August 31, 2012

	August 31 2012	August 31 2011
OPERATING ACTIVITIES		
(Deficiency) Excess of Revenues over Expenses	(368,612)	1,093,125
Items not involving cash:		
Amortization	216,607	183,815
Donations of Capital Assets	(5,950)	(32,490)
Changes in non-cash working capital:		
Accounts Receivable	(48,720)	106,102
Prepaid Expenses	2,772	2,784
Inventory	(4,557)	-
Accounts Payable	(25,376)	38,675
Deferred Revenue	37,103	(58,653)
Cash Flow from Operating Activities	<u>(196,732)</u>	<u>1,333,358</u>
INVESTING ACTIVITIES		
Purchase Of Equipment	(113,291)	(99,895)
Purchase Of Long Term Investments	(921,023)	(864,842)
Sale Of Long Term Investments	960,945	857,455
Cash Flow Used By Investing Activities	<u>(73,369)</u>	<u>(107,282)</u>
FINANCING ACTIVITIES		
Repayment Of Debt	(218,243)	(364,596)
(DECREASE) INCREASE IN CASH FLOW	(488,344)	861,480
Cash - Beginning Of Period	760,786	(100,694)
CASH - END OF PERIOD	<u>272,442</u>	<u>760,786</u>
REPRESENTED BY:		
Cash	<u>272,442</u>	<u>760,786</u>
Supplemental Cash Flow Information		
Interest Paid during Year	<u>23,585</u>	<u>36,578</u>

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Victoria Conservatory of Music

Notes to Financial Statements
Year Ended August 31, 2012

1 DESCRIPTION OF OPERATIONS

The Victoria Conservatory of Music (the VCM) is incorporated under the British Columbia Society Act as a not for profit organization, and is a registered charity under the Income Tax Act. Its mission is to enrich lives through music in a thriving community accessible to all.

2 RESTRICTED FUND METHOD

The VCM follows the restricted fund method of accounting for contributions.

The Operating Fund reports the current operations and programs as well as the organization's general operations. Unrestricted contributions (donations and grants) for the purpose of operating the organization are reported in this fund.

The Internal Fund reports resources arising for the building and working capital funds. The building fund recognizes levies on certain events revenue, less amounts expended on selected building maintenance projects. The working capital fund is available for non-budgeted expenditures and the information technology project.

The Capital Asset Fund reports the assets, liabilities, revenues and expenses related to capital assets.

The Endowment Fund reports resources contributed for endowment. Investment income earned on resources of the fund is allocated on a pro rata bases. Scholarships and bursaries awarded are reported in the various funds depending on the nature of any restrictions imposed by contributors of funds for endowment.

The Restricted Fund reports resources contributed for specific purposes which are restricted by the donor. Investment income earned on resources of the Restricted Fund is reported in the various funds on a pro rata basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and investments

The VCM designates its cash and accounts receivable as held for trading, measured at fair value, and its investments as available for sale, measured at fair value with changes in fair value recorded in the statement of operations and changes in fund balances until the investment is removed from the statement of financial position. Accounts payable, mortgages payable and deferred revenues are classified as other financial liabilities, which are measured at amortized cost.

Unrealized losses of \$2,905 (August 2011 - gains of \$12,294) have been recognized as changes in the Endowment and Restricted Fund balances in the current year.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Land		non-amortizable
Building	40 years	straight line method
Computer equipment and software	4 years	straight line method
Furniture and fixtures	4 years	straight line method
Musical instruments	10 years	straight line method
Library assets	4 years	straight line method

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Revenue recognition

- a) Tuition fee revenue is recognized over the period of instruction. ~~Tuition fees received in advance are deferred until the instruction period commences.~~
- b) Restricted contributions related to general operations are recognized as revenue of the Operating Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund.
- c) Unrestricted contributions are recognized as revenue in the Operating Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.
- d) Contributions for endowment and investment income thereon are recognized as revenue in the Endowment Fund.
- e) Gifts in kind are recorded at their estimated fair market value on the date of receipt.
- f) The VCM would not be able to carry out its activities without the services of the many volunteers who donate a considerable number of hours. Because of the difficulty of compiling these hours, contributed services are not recognized in the financial statements.

Measurement uncertainty

The preparation of financial statements in conformity with the Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include providing for amortization of property and equipment. Actual results could differ from these estimates.

Victoria Conservatory of Music

Notes to Financial Statements
Year Ended August 31, 2012

4 INTERNAL FUND

Details are as follows:

	August 31 2012	August 31 2011
Working Capital Fund	40,000	113,928
Building Fund	67,689	98,367
	<u>\$ 107,689</u>	<u>\$ 212,295</u>

The VCM established a working capital fund in the prior year. The fund is currently invested in a money market account. During the current year, \$17,410 was expensed for development of the strategic plan and \$56,518 was transferred to the operating fund to offset the operating deficit. The remaining balance of \$40,000 will be drawn down at \$10,000 per year, for purposes of software expenditures associated with the new Information Technology Project.

The building fund grows through building improvement (patron) fees charged per person attending events in the Alix Gooden Performance Hall. The fund is reduced when expenditures are made to maintain and/or improve the hall. During the year \$25,957 in revenue was earned offset by \$13,146 in expenses and \$43,488 in capital asset additions. Capital assets include a new lighting system, new dimmer system and green room upgrades (furniture and carpet).

5 DUE FROM (TO) OTHER FUNDS

All disbursements are made from the Operating Fund regardless of the fund to which the disbursements are attributed. Due to the timing of some transfers between funds, there remain balances owing between the funds. These balances are reflected in the Statement of Financial Position as Due From or Due To Other Funds. It is the policy of the VCM to repay these inter-fund balances annually, with the exception of a bulk mortgage payment made during the current year.

In order to minimize mortgage interest, the Operating Fund transferred \$200,000 to the Capital Fund to make a bulk payment on the mortgage. The inter-fund balance will be eliminated through transfers as funds become available.

6 INTEREST IN TRUSTS

In April, 2005, the VCM became a 25% beneficiary of a charitable remainder trust. The value of the trust is recorded at the VCM's share of the actuarial valuation determined when established. This valuation is considered to approximate fair market value at \$73,850.

In August, 2007, VCM was established as a 25% beneficiary of a testamentary trust. VCM's interest will be recorded as an asset upon notification of receipt.

Victoria Conservatory of Music

Notes to Financial Statements
Year Ended August 31, 2012

7 LONG TERM INVESTMENTS

	August 31 2012	August 31 2011
Internal Funds	\$ 103,966	\$ 193,487
Endowment Funds	478,400	468,961
Restricted Funds	136,919	99,666
Total	\$ 719,285	\$ 762,114
Market value	\$ 719,285	\$ 762,114

In accordance with section 3855 "Financial Instruments - Recognition and Measurement" of the CICA Handbook, the VCM has classified its investments as available for sale and is reporting them at fair value. All investments are publicly traded and accounted for at the fair values based on quoted prices at year end.

Investment income includes interest and dividends earned and realized gains and losses. Investment transaction costs are expensed as incurred in the respective fund.

	August 31 2012	August 31 2011
Interest and Dividends	\$ 27,081	\$ 16,620
Realized Gains	13,804	3,322
	\$ 40,885	\$ 19,942

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8 PROPERTY AND EQUIPMENT

	August 31 2012	August 31 2011
Land	\$ 650,319	\$ 650,319
Building	4,925,069	(2,692,232)
Computer equipment and software	124,269	(28,021)
Furniture and fixtures	160,850	(74,522)
Library assets	16,383	(11,524)
Musical instruments	901,814	(686,179)
	\$ 6,778,704	\$ (3,492,478)
	\$ 3,286,226	\$ 3,383,591

Victoria Conservatory of Music

Notes to Financial Statements
Year Ended August 31, 2012

9 DEFERRED REVENUE

Deferred revenue represents externally restricted grants, tuition paid in advance and event deposits relating to future years. Changes in deferred revenue are as follows:

	August 31 2012	August 31 2011
Balance, beginning of year	\$ 606,670	\$ 584,323
Grants received in current year related to future years	183,046	187,500
Tuition received in current year related to future years	456,565	414,360
Event deposits received in current year related to future years	4,163	2,510
Advertising Sales received in current year related to future years	-	2,300
Prior year's amount recognized in the current year	(606,670)	(584,323)
	<u>\$ 643,773</u>	<u>\$ 606,670</u>

10 DEBT

The VCM has a \$400,000 overdraft facility with the Bank of Montreal of which \$0 was used as at August 31, 2012 (August 31, 2011 - \$0). The overdraft, if accessed, is due on demand, bears interest at the bank prime lending rate plus .5% percent.

The VCM has a \$550,000 mortgage with the Bank of Montreal of which \$334,629 is outstanding at August 31, 2012 (2011: \$552,872). The mortgage bears interest at the bank prime rate plus .65% per annum, repayable in monthly blended payments. During the current year, the VCM made a bulk payment of \$200,000 (prior year \$318,000) reducing the monthly payment from \$4,087 to \$2,435. The loan matures on June 30, 2027.

The overdraft, mortgage plus credit card limits of \$20,000 are secured by a demand collateral land mortgage and assignment of rents in the amounts of \$970,000 (2011: \$1,450,000) providing a first fixed and specific mortgage charge over land and premises, and a certificate of all risk insurance showing the bank as first loss payee.

11 CAPITAL DISCLOSURES

The VCM considers its capital to be the balance maintained in its Fund Balances. The primary objective of the VCM is to invest its Capital in a manner that will allow it to continue as a going concern and comply with its stated objectives. Capital is invested under the direction of the Board of Governors of the VCM with the objective of providing a reasonable rate of return, minimizing risk and ensuring adequate liquid investments are on hand for current cash flow requirements. The VCM is subject to externally imposed requirements of its capital.

Victoria Conservatory of Music

Notes to Financial Statements
Year Ended August 31, 2012

12 OTHER TRUST FUNDS

Distributions and trust fund balances held at other third party foundations were as follows:

	August 31 2012		August 31 2011	
	Fund Balance	Grants	Fund Balance	Grants
Victoria Foundation				
Victoria Conservatory of Music Fund	1,775,084	56,928	1,727,096	60,911
Richard Margison Fund for Opera Studio	45,774	1,505	44,574	1,388
Goodlen Fund	282,701	9,264	275,294	8,550
Frederick William Kischell Bursary Fund	111,713	3,828	108,930	3,640
Van Hall Fund for the Arts	380,683	11,950	386,181	10,748
Elizabeth McPherson Fund for the Arts	80,894	1,083	87,247	952
Norval Schroeder Fund	51,119	874	49,802	820
Vancouver Foundation	2,727,968	85,432	2,679,124	87,009
Victoria Conservatory of Music Scholarship and Bursary Endowment Fund	194,300	7,533	200,599	7,359
	<u>2,922,268</u>	<u>92,965</u>	<u>2,879,723</u>	<u>94,368</u>

The Victoria Foundation and the Vancouver Foundation have established permanent Endowment Funds from which incomes is to be paid regularly to the VCM to be used in part for awarding scholarships and bursaries and in part for supporting operations.

13 COMPARATIVES RESTATED

Some of the comparative figures have been reclassified to conform to the current year's presentation

14 RESTATEMENT

During the current year, the VCM changed its policy to recognize accounts receivable and offsetting deferred revenue at time of registration. Accordingly, accounts receivable and deferred revenue are restated in the prior year to conform with this policy change. There is no impact on the statement of operations and changes in fund balances.

Victoria Conservatory of Music

Notes to Financial Statements
Year Ended August 31, 2012

15 FUNDRAISING INCOME

Fundraising income represents contributed funding that comes from various sources. This income accounts for 30% (2011-49%) of total income. All other income is considered earned income and represents 70% (2011-51%) of total income.

	August 31 2012	August 31 2011
Individual Donors	577,412	1,897,126
Fundraising Events	182,221	82,957
Foundations/Grants	99,629	335,127
Endowment	88,263	80,140
Corporate Sponsors	57,208	34,110
Government		
Provincial - BC Arts Council	82,500	82,500
Provincial - Gaming	70,000	100,000
Municipal - CRD	65,000	65,000
Federal	4,800	4,600
Municipal - City of Victoria	3,000	3,200
	<u>1,230,033</u>	<u>2,684,760</u>

16 TRANSFERS

During the year, the VCM made the following transfers: \$56,518 (2011: -\$68,500) from the working capital (internal) fund into the operating fund to offset the operating deficit; \$39,652 (2011: \$83,174) from operating to the capital asset fund for purposes of mortgage payments; \$43,488 (2011: \$0) from the building (internal) fund into the capital asset fund for the purchase of capital assets.

17 COMMITMENTS

The VCM leases an adjacent building for its library. Annual rent payments are approximately \$28,000. The lease agreement can be cancelled with three months notice. The VCM has entered into various operating leases for office equipment, of which the annual payments and individually and in total immaterial. VCM utilizes software for its registration activity and has committed to minimal usage fees of \$10,400/annum from Sept 1, 2011 to August 31, 2016.

18 FUTURE CHANGES IN ACCOUNTING PRINCIPLES

The CICA has issued guidance for new accounting and financial reporting standards for all publically accountable enterprises, private enterprises and not-for-profit organizations that would be effective for years commencing on or after January 1, 2012. The VCM is in the process of reviewing the impact of these standards on its reporting framework and financial statements.