

Victoria Conservatory of Music

Financial Statements

August 31, 2011

Victoria Conservatory of Music

Index to Financial Statements

August 31, 2011

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

INDEPENDENT AUDITORS' REPORT

To The Members of 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, 2011, 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 Society 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 Society 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, 2011 and the results of its operations and cash flows for the period 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.

Hayes Stewart Little & Co

Victoria, BC
November 30, 2011

Chartered Accountants

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Victoria Conservatory of Music

Statement of Financial Position

August 31, 2011

August 31
2011

August 31
2010
(Restated -
Note 16)

	Operating Fund	Internal Fund (note 18)	Capital Asset Fund	Endowment Fund	Restricted Fund	Total
ASSETS						
CURRENT						
Cash	\$ 521,584	\$ 1	\$ 136,882	\$ 17,361	\$ 84,958	\$ 760,786
Accounts Receivable	39,970					39,970
Prepaid Expenses	18,526					18,526
Due From (To) Other Funds (Note 6)	22,269	18,807	(39,278)	2,270	(4,068)	21,310
	602,349	18,808	97,604	19,631	80,890	819,282
NON-CURRENT						
Interest in Charitable Remainder Trust (note 15)	73,850					73,850
Long Term Investments (note 7)	-	193,487	-	468,961	99,666	762,114
Property and Equipment (note 9)	-	-	3,383,591	-	-	3,383,591
	\$ 676,199	\$ 212,295	\$ 3,481,195	\$ 488,592	\$ 180,556	\$ 5,038,837
						\$ 4,494,812

LIABILITIES

CURRENT

Short Term Debt (Note 10)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 176,820
Accounts Payable	150,155	-	-	-	-	111,480
Deferred Revenue	525,670	-	-	-	-	584,323
Mortgages Payable (Note 11)	-	-	552,872	-	-	917,468
	675,825	-	552,872	-	-	1,228,697
						1,790,091

FUND BALANCES

Unrestricted	374					374
Internally Restricted		212,295				212,295
Invested in Capital Assets			2,928,323			2,928,323
Externally Restricted	374	212,295	2,928,323	488,592	180,556	669,148
				488,592	180,556	3,810,140
						2,704,721
	\$ 676,199	\$ 212,295	\$ 3,481,195	\$ 488,592	\$ 180,556	\$ 5,038,837
						\$ 4,494,812

FUNDS HELD IN TRUST (Note 8)

Approved on behalf of the Board

Director

Director

Victoria Conservatory of Music

Statement of Cash Flow

Year Ended August 31, 2011

	August 31 2011	August 31 2010 (Restated - Note 16)
OPERATING ACTIVITIES		
Excess Of Revenues over Expenses	\$ 1,093,125	\$ 400,538
Items not involving cash:		
Amortization	183,815	199,688
Donations of Capital Assets	(32,490)	(5,485)
Changes in non-cash working capital:		
Accounts Receivable	106,102	(30,152)
Prepaid Expenses	2,784	(1,031)
Accounts Payable	38,675	(46,441)
Deferred Revenue	(58,653)	166,293
Cash Flow from Operating Activities	<u>\$ 1,333,358</u>	<u>\$ 683,410</u>
INVESTING ACTIVITIES		
Purchase Of Equipment	(99,895)	(127,590)
Purchase Of Long Term Investments	(864,842)	(100,724)
Sale Of Long Term Investments	857,455	79,123
Cash Flow Used By Investing Activities	<u>(107,282)</u>	<u>(149,191)</u>
FINANCING ACTIVITIES		
Repayment Of Long Term Debt	(364,596)	(49,195)
INCREASE IN CASH FLOW	861,480	485,024
Deficiency - Beginning Of Period	(100,694)	(585,718)
SURPLUS (DEFICIENCY) - END OF PERIOD	<u>\$ 760,786</u>	<u>\$ (100,694)</u>
REPRESENTED BY:		
Cash	\$ 760,786	\$ 76,126
Short term debt	-	(176,820)
	<u>\$ 760,786</u>	<u>\$ (100,694)</u>

Victoria Conservatory of Music

Notes to Financial Statements
Year Ended August 31, 2011

1. DESCRIPTION OF BUSINESS

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 as a thriving and sustainable regional centre of excellence, open and accessible to all who desire a meaningful connection with music.

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 internally restricted 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.

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 basis. 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 Conservatory 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 General 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 General 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 Conservatory 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.

4 CASH

The cash balance of the operating fund contains \$20,000 (2010 - \$20,000) of gaming funds, the use of which is restricted to approved program expenses.

5 DEFERRED REVENUE

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

	August 31 2011	August 31 2010
Balance, beginning of year	\$ 584,323	\$ 418,030
Grants received in current year related to future years	187,500	151,518
Tuition received in current year related to future years	333,360	424,675
Event deposits received in current year related to future years	2,510	8,130
Advertising Sales received in current year related to future years	2,300	-
Prior year's amount recognized in the current year	(584,323)	(418,030)
	<u>\$ 525,670</u>	<u>\$ 584,323</u>

6 DUE FROM (TO) OTHER FUNDS

All disbursements are made from the Operating Fund regardless of the Fund to which the disbursements are attributed. In addition, due to the timing of some transfers between funds, there remain balances owing as 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 Conservatory to repay these inter-fund balances.

7 LONG TERM INVESTMENTS

	August 31 2011	August 31 2010
Internal Funds	\$ 193,487	\$ -
Endowment Funds	468,961	558,537
Restricted Funds	99,666	183,896
	<u>\$ 762,114</u>	<u>\$ 742,433</u>
Market value	\$ 762,114	\$ 742,433

In accordance with section 3855 "Financial Instruments - Recognition and Measurement" of the CICA Handbook, the Conservatory 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, dividends earned and realized gains and losses. Investment transactions costs are expensed as incurred in the respective fund. Unrealized gains of \$12,293 (August 2009 - losses of \$14,837) have been recognized as changes in the Endowment and Restricted Fund balances in the current year.

8 OTHER TRUST FUNDS

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

	August 31 2011		August 31 2010	
	Fund Balance	Grants	Fund Balance	Grants
Victoria Foundation	1,727,096	60,911	1,678,908	54,755
Victoria Conservatory of Music Fund	44,574	1,388	43,368	1,627
Richard Margison Fund for Opera Studio	275,294	8,550	267,813	9,184
Goolden Fund	108,930	3,640	106,296	6,046
Frederick William Kischell Bursary Fund	386,181	10,748	347,699	11,820
Van Hall Fund for the Arts	87,247	952	84,038	767
Elizabeth McPherson Fund for the Arts	49,802	820	48,519	1,851
Norval Schroeder Fund	2,679,124	87,009	2,576,641	86,050
Vancouver Foundation	\$ 200,599	\$ 7,359	\$ 183,431	\$ 6,459
Victoria Conservatory of Music Scholarship and Bursary Endowment Fund	\$ 2,879,723	\$ 94,368	\$ 2,760,072	\$ 92,509

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

9 PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	August 31 2011 Net Book Value	August 31 2010 Net Book Value
Land	\$ 650,319	- \$	650,319 \$	650,319
Building	4,925,069	2,569,105	2,355,964	2,479,091
Computer equipment and software	99,896	-	99,896	4,462
Furniture and fixtures	73,777	54,127	19,650	29,642
Library assets	16,383	8,911	7,472	3,685
Musical instruments	894,019	643,729	250,290	267,822
	\$ 6,659,463	\$ 3,275,872	\$ 3,383,591	\$ 3,435,021

During the year the Conservatory upgraded its computer systems. As part of this upgrade, computer equipment with a net book value of \$4,462 was retired from service at year end. New computer equipment acquired during the year was not put into service until after the year end, and has not been amortized in the current year.

Equipment with a fair market value of \$32,490 (2010 - \$5,485) was donated during the year.

10 SHORT TERM DEBT

The Conservatory has a \$400,000 overdraft facility of which \$0 was used as at August 31, 2011 (August 31, 2010 - \$177,670). The overdraft, if accessed, is due on demand, bears interest at the bank prime lending rate plus 1% percent and is secured by a general security agreement.

11 MORTGAGE PAYABLE

The HSBC demand non-revolving loan bears interest at prime plus 1% per annum, repayable in monthly blended payments. During the current year, the Conservatory made a bulk payment of \$318,000 reducing the monthly payment from \$7,500 to \$4,087. The loan matures on July 30, 2026.

The HSBC loan is secured by a demand collateral land mortgage and assignment of rents in the amounts of \$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.

12 CAPITAL DISCLOSURES

The Conservatory considers its capital to be the balance maintained in its Fund Balances. The primary objective of the Conservatory 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 Conservatory 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 conservatory is subject to externally imposed requirements of its capital.

13 COMMITMENTS

The Conservatory 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 Conservatory has entered into various operating leases for office equipment, of which the annual payments are individually and in total immaterial.

14 Future changes in accounting policies

No new accounting standards have been issued by the CICA that will have a significant impact on the Conservatory's financial statements in fiscal 2011.

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 Conservatory is in the process of reviewing the impact of these standards on its reporting framework and financial statements.

15 INTEREST IN CHARITABLE REMAINDER TRUST

The VCM is named as a beneficiary in a charitable remainder trust. The Balance of \$73,850 represents the actuarial value of the trust at the date of funding, being April 20, 2005, and approximates its current fair market value.

16 PRIOR PERIOD ADJUSTMENT

In April 20, 2005, VCM became the beneficiary of a charitable remainder trust. At the time, VCM did not record the transaction. As such, development income in 2005, and non current assets, were understated by \$73,850. To correct this error, this asset is now represented on the financials statements and the opening fund balance has been adjusted accordingly.

17 TRANSFERS

VCM transferred \$68,500 from the operating fund into the working capital fund (Internal Fund) during the year. Of this amount, \$45,000 in matching funds was required by the grant from Arts Sustainability of Victoria, and \$23,500 was added later at the direction of the board.

VCM transferred \$569,336 from the operating fund into the capital asset fund during the year of which \$318,000 was to reduce the capital loan, \$127,586 was to eliminate the interfund receivable, and \$73,750 in matching funds associated with the Arts Sustainability of Victoria Grant for the Information Technology Upgrade, and \$50,000 is for future planned capital asset investments.

18 INTERNAL FUND

	August 31 2011	August 31 2010
Working Capital	113,928	-
Building	98,367	78,828
	<u>\$ 212,295</u>	<u>\$ 78,828</u>

VCM established a working capital fund during the year. The fund is currently invested in a money market account. Up to \$10,000 per year, to a maximum of \$40,000 can be drawn from the fund for purposes of software expenditures associated with the new Information Technology Project. The remaining balance can be accessed via board motion. If the balance falls below \$50,000 it must be repaid within 24 months.

The building fund grows through building improvement fees charged per person attending events in Alix Goolden Performance Hall. The fund is reduced when expenditures are made to maintain and/or improve the hall.