

P.E.I. Arts Guild Inc.

Financial Statements
March 31, 2019



May 8, 2019

Independent Auditor's Report

To the Directors of P.E.I. Arts Guild Inc.

Qualified Opinion

We have audited the financial statements of P.E.I. Arts Guild Inc., which comprise the statement of financial position as at March 31, 2019, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of P.E.I. Arts Guild Inc. as at March 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis of Qualified Opinion

In common with many not-for-profit organizations, P.E.I. Arts Guild Inc. derives revenue from donations and sponsorships activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of P.E.I. Arts Guild Inc.. Therefore, we were not able to determine whether any adjustments might be necessary to donations and sponsorships revenue, excess revenues, and cash flows from operations for the years ended March 31, 2019 and March 31, 2018, current assets as at March 31, 2019 and March 31, 2018, and net assets as at April 1 and March 31 for both the 2019 and 2018 years. Our audit opinion on the financial statements for the year ended March 31, 2018 was modified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of P.E.I. Arts Guild Inc. in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical 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 qualified audit 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 P.E.I. Arts Guild Inc.'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 P.E.I. Arts Guild Inc. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the P.E.I. Arts Guild Inc.'s financial reporting process.

Auditor's 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 auditor's 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 these 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 P.E.I. Arts Guild Inc.'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 P.E.I. Arts Guild Inc.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause P.E.I. Arts Guild Inc. 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.

We 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.

Arsenault Best Cameron Ellis

Chartered Professional Accountants

P.E.I. Arts Guild Inc.
Statement of Financial Position
As at March 31, 2019

| | 2019 \$ | 2018 \$ |
|--|----------------|----------------|
| Assets | | |
| Current assets | | |
| Cash | - | 49,005 |
| Accounts receivable | 15,306 | 5,550 |
| Government contributions receivable | 70,314 | 25,006 |
| HST receivable | 21,334 | - |
| Inventory | 1,100 | 1,100 |
| Prepaid expenses | 452 | 452 |
| | <u>108,506</u> | <u>81,113</u> |
| Capital assets (note 3) | <u>684,489</u> | <u>605,200</u> |
| | <u>792,995</u> | <u>686,313</u> |
| Liabilities | | |
| Current liabilities | | |
| Bank advances | 31,791 | - |
| Accounts payable and accrued liabilities | 14,383 | 18,274 |
| HST payable | - | 11,914 |
| Advance ticket sales deposits | 152 | 12,080 |
| Deferred revenue | 25,000 | 12,232 |
| | <u>71,326</u> | <u>54,500</u> |
| Deferred capital contributions (note 4) | <u>654,219</u> | <u>578,983</u> |
| | <u>725,545</u> | <u>633,483</u> |
| Net Assets | | |
| Unrestricted | <u>67,450</u> | <u>52,830</u> |
| | <u>792,995</u> | <u>686,313</u> |

Approved by the Board of Directors

_____ Director

_____ Director

P.E.I. Arts Guild Inc.

Statement of Changes in Net Assets
For the year ended March 31, 2019

| | 2019 | 2018 |
|---------------------------------------|---------------|---------------|
| | \$ | \$ |
| Net assets - Beginning of year | 52,830 | 42,981 |
| Excess revenue for the year | 14,620 | 9,849 |
| Net assets - End of year | <u>67,450</u> | <u>52,830</u> |

P.E.I. Arts Guild Inc.

Statement of Operations

For the year ended March 31, 2019

| | 2019 | 2018 |
|--|---------------|---------------|
| | \$ | \$ |
| Revenue | | |
| Government contributions | | |
| - Province of Prince Edward Island | 58,000 | 50,000 |
| - City of Charlottetown - operational | 66,250 | 55,000 |
| - Canadian Heritage | 5,000 | - |
| - Wage subsidies | 113,768 | 131,679 |
| - Property tax grant | 24,383 | - |
| Donations and sponsorships | 8,049 | 12,822 |
| Performance hall rent | 172,714 | 131,604 |
| Programming grants | 81,350 | 60,500 |
| Facility fee | 25,716 | 25,705 |
| Ticket surcharges | 54,958 | 45,982 |
| Sales - performance hall bar | 42,996 | 38,551 |
| Annual fundraiser | 5,889 | 3,256 |
| Premises rents | 44,687 | 51,546 |
| | <hr/> 703,760 | <hr/> 606,645 |
| Expenses | | |
| Performance hall bar supplies | 30,642 | 31,396 |
| Performance hall subsidies | 33,414 | 31,772 |
| Special projects | 64,804 | 28,480 |
| Music theatre school | 21,058 | 12,618 |
| Advertising | 17,956 | 17,618 |
| Wages and benefits | 351,954 | 349,273 |
| Business development and meetings | 2,410 | 2,872 |
| Utilities | 50,154 | 42,391 |
| Property tax | 24,053 | - |
| Repairs and maintenance | 14,751 | 14,673 |
| Insurance | 11,932 | 9,702 |
| Telephone and internet | 5,816 | 3,850 |
| Office | 11,257 | 9,500 |
| Professional fees | 6,257 | 4,230 |
| Service charges | 33,008 | 30,117 |
| Interest and bank charges | 2,535 | 2,396 |
| | <hr/> 682,001 | <hr/> 590,888 |
| Operating earnings | <hr/> 21,759 | <hr/> 15,757 |
| Other income (expense) | | |
| Amortization of capital assets | (86,903) | (70,172) |
| Amortization of deferred capital contributions | 79,764 | 64,264 |
| | <hr/> (7,139) | <hr/> (5,908) |
| Excess revenue for the year | <hr/> 14,620 | <hr/> 9,849 |

P.E.I. Arts Guild Inc.

Statement of Cash Flows

For the year ended March 31, 2019

| | 2019 | 2018 |
|---|-----------|----------|
| | \$ | \$ |
| Cash provided by (used in) | | |
| Operating activities | | |
| Excess revenue for the year | 14,620 | 9,849 |
| Items not affecting cash | | |
| Amortization or capital assets | 86,903 | 70,172 |
| Amortization of deferred capital contributions | (79,764) | (64,264) |
| | 21,759 | 15,757 |
| Net change in non-cash working capital items | | |
| Decrease (increase) in accounts receivable | (9,756) | 4,618 |
| Increase in government contributions receivable | (45,308) | (20,006) |
| Increase in HST receivable | (21,334) | - |
| Increase in inventory | - | (227) |
| Increase (decrease) in accounts payable and accrued liabilities | (3,891) | 10,234 |
| Increase (decrease) in HST payable | (11,914) | 10,684 |
| Increase (decrease) in advance ticket sales deposits | (11,928) | 4,886 |
| Increase (decrease) in deferred revenue | 12,768 | (3,101) |
| | (69,604) | 22,845 |
| Financing activity | | |
| Increase in deferred capital contributions | 155,000 | - |
| Investing activity | | |
| Increase in capital assets | (166,192) | - |
| Increase (decrease) in cash | (80,796) | 22,845 |
| Cash - Beginning of year | 49,005 | 26,160 |
| Cash (bank advances) - End of year | (31,791) | 49,005 |

P.E.I. Arts Guild Inc.

Notes to Financial Statements

March 31, 2019

1 Purpose of the organization

P.E.I. Arts Guild Inc.'s vision is to operate a facility in Charlottetown dedicated, through provision of a subsidized space, training and personnel, to the support of emerging and established Prince Edward Island artists to produce their art and present it to their fellow Islanders. P.E.I. Arts Guild Inc. is a non-profit corporation and is not taxable under the provisions of the Income Tax Act.

2 Summary of significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. These financial statements include the following significant accounting policies:

Bank advances/cash

Bank advances/cash are comprised of cash in bank accounts.

Inventory

Inventory is valued at the lower of cost, using the first-in first-out method, and market value.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value on date of receipt.

Amortization of capital assets is calculated using the straight-line method as follows:

| | |
|-----------------------|-----|
| Building | 10% |
| Building improvements | 10% |
| Equipment | 10% |

Building improvements were formerly leasehold improvements prior to transfer of the land and building in 2018. Additions to the building have been included in the building account starting in 2019.

P.E.I. Arts Guild Inc.

Notes to Financial Statements

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Deferred capital contributions

Amortization of deferred capital contributions is calculated on the same basis as the related capital assets.

Revenue recognition

The organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when they are received or receivable if the amount can be reasonably estimated and collection is reasonably assured. When the organization is not acting as principal in a transaction, it recognizes only the net amount received.

Use of estimates

The preparation of these financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. Significant items subject to such estimates and assumptions include the valuations of accounts receivable and inventory, and the estimated useful life of capital assets. Actual results could differ from those estimates.

Financial instruments

(a) Measurement of financial instruments

P.E.I. Arts Guild Inc.'s financial instruments consist of accounts receivable, government contributions receivable, bank advances and accounts payable and accrued liabilities.

The organization initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument. This fair value amount is then deemed to be the amortized cost of the financial instrument.

The organization subsequently measures all its financial assets and financial liabilities at amortized cost.

(b) Impairment

For financial assets measured at cost or amortized cost, the organization determines whether there are indications of possible impairment. When there is an indication of impairment, and the organization determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows, a write-down is recognized in excess revenue. A previously recognized impairment loss may be reversed to the extent of the improvement. The carrying amount of the financial asset may not be greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in excess revenue for the year.

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(c) Risks

Transacting in financial instruments exposes the organization to certain financial risks and uncertainties. These risks include:

- i) **Credit risk:** The organization is exposed to credit risk in connection with the collection of accounts receivable. The organization mitigates this risk by performing continuous evaluation of its accounts receivable.
- ii) **Liquidity risk:** The organization's exposure to liquidity risk is dependent on the timing of receipt of revenue and payment of expenses, and the sale of inventory and collection of accounts receivable to meet commitments and sustain operations. The organization controls liquidity risk by management of working capital, cash flows and availability of borrowing facilities.

3 Capital assets

| | 2019 | | 2018 | |
|-----------------------|------------------|-----------------------------------|----------------|----------------|
| | Cost \$ | Accumulated amortization \$ | Net \$ | Net \$ |
| Land | 143,000 | - | 143,000 | 143,000 |
| Building | 421,473 | 70,974 | 350,499 | 259,200 |
| Building improvements | 1,041,774 | 923,222 | 118,552 | 141,182 |
| Equipment | 382,840 | 310,402 | 72,438 | 61,818 |
| | <u>1,989,087</u> | <u>1,304,598</u> | <u>684,489</u> | <u>605,200</u> |

4 Deferred capital contributions

| | 2019 | | 2018 | |
|--|------------------|-----------------------------------|----------------|----------------|
| | Cost \$ | Accumulated amortization \$ | Net \$ | Net \$ |
| Land | 143,000 | - | 143,000 | 143,000 |
| Building | 288,000 | 57,600 | 230,400 | 259,200 |
| Equipment and building improvements | 1,408,206 | 1,127,387 | 280,819 | 176,783 |
| | <u>1,839,206</u> | <u>1,184,987</u> | <u>654,219</u> | <u>578,983</u> |

Government contributions consist of \$843,520 (2018 - \$843,520) from Atlantic Canada Opportunities Agency, \$379,261 (2018 - \$304,261) from the Federal Department of Canadian Heritage, and \$185,425 (2018 - \$105,425) from the Province of Prince Edward Island. A contribution of \$431,000 regarding land and building transferred on the dissolution of the former Prince Edward Island Council of the Arts is also included in deferred capital contributions.

P.E.I. Arts Guild Inc.

Notes to Financial Statements

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5 Economic dependence

P.E.I. Arts Guild Inc. receives a significant portion of annual revenue from government funding. The organization's ability to continue operations is dependent upon maintaining this funding from government.

6 Activity

In fiscal 2019, the organization had 326 (2018 - 396) performances, over 124 (2018 - 74) rehearsals, over 52 (2018 - 70) classes in dance, theatre and visual arts and 18 (2018 - 19) gallery exhibits. P.E.I. Arts Guild Inc. managed cash from ticket receipts totaling \$910,697 (2018 - \$832,358) in fiscal 2019.