
ISLAND ARTS CENTRE SOCIETY

FINANCIAL STATEMENTS

AUGUST 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Members of Island Arts Centre Society,

Report on the Financial Statements

We have audited the accompanying financial statements of Island Arts Centre Society, which comprise the statement of financial position as at August 31, 2017 and the statement of operations, statement of changes in net assets and cash flows for the year then ended 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as explained below, 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.

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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, the society derives revenues from contributions the completeness of which is not susceptible to 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 contributions, excess of revenue over expenses, current assets and net assets.

Qualified 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 Island Arts Centre Society as at August 31, 2017, 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.

Report on Other legal and Regulatory Requirements

As required by the *British Columbia Society Act*, we report that, in our opinion, the Society's financial statements have been prepared following Canadian accounting standards for not-for-profit organizations applied on a basis consistent with that of the preceding year.

McLean, Lizotte, Wheadon and Company

November 22, 2017
Salt Spring Island, British Columbia

McLEAN, LIZOTTE, WHEADON AND COMPANY
Chartered Professional Accountants

**ISLAND ARTS CENTRE SOCIETY
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2017**

	<u>Total 2017</u>	<u>Total 2016</u>
CURRENT ASSETS		
Cash and cash equivalents - Note 2	\$ 124,836	\$ 113,622
Accounts receivable - Note 13	6,928	1,897
Prepaid expenses	6,940	13,489
	<u>138,704</u>	<u>129,008</u>
INVESTMENTS - Notes 2 & 4	339,469	388,160
CAPITAL ASSETS - Notes 2 & 3	1,535,787	1,557,291
	<u>\$ 2,013,960</u>	<u>\$ 2,074,459</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 16,739	\$ 21,987
Due to government agencies - Note 5 & 13	3,601	28,316
Wages payable	9,488	7,562
Unearned revenue and deposits - Note 6	72,563	40,442
Deferred contributions - Note 7	24,055	23,814
	<u>126,446</u>	<u>122,121</u>
NET ASSETS		
Invested in capital assets	1,535,787	1,557,291
Endowment - Note 8	249,219	239,374
Externally restricted - Note 9	64,940	92,785
Internally restricted - Note 10	53,941	62,888
Unrestricted	(16,373)	-
	<u>1,887,514</u>	<u>1,952,338</u>
	<u>\$ 2,013,960</u>	<u>\$ 2,074,459</u>

SUBSEQUENT EVENT - Note 13

ON BEHALF OF THE BOARD OF DIRECTORS:

Lawrence Treasures
President

**ISLAND ARTS CENTRE SOCIETY
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED AUGUST 31, 2017**

	<u>Total 2017</u>	<u>Total 2016</u>
REVENUES		
Sales, rentals and services - Schedule 1	\$ 155,684	\$ 188,126
Federal and other government grants	126,267	124,619
Donations and other grants - Schedule 2	141,076	122,969
Investment income	19,912	46,885
Other income	30,653	35,419
Sponsorships	29,382	29,479
Capital replacement surcharge	18,354	16,152
	<u>521,328</u>	<u>563,649</u>
EXPENSES		
Administration expenses - Schedule 3	224,606	250,765
Arts programming - Schedule 4	170,634	164,682
Facilities operations and related costs - Schedule 5	166,055	177,631
General fundraising	24,857	9,689
	<u>586,152</u>	<u>602,767</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(64,824)	(39,118)
NET ASSETS, BEGINNING OF YEAR	1,952,338	1,991,456
NET ASSETS, END OF YEAR	<u>\$ 1,887,514</u>	<u>\$ 1,952,338</u>

The accompanying notes are an integral part of these statements

ISLAND ARTS CENTRE SOCIETY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2017

	INVESTED IN CAPITAL ASSETS				Total 2017	Total 2016
	UNRESTRICTED	ENDOWMENT	EXTERNALLY RESTRICTED	INTERNALLY RESTRICTED		
NET ASSETS, BEGINNING OF YEAR	\$ -	\$ 239,374	\$ 92,785	\$ 62,888	\$ 1,952,338	\$ 1,991,456
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(13,427)	9,845	(16,238)	18,328	(64,477)	(39,118)
PURCHASE OF CAPITAL ASSETS	-	41,481	(29,041)	(12,787)	(347)	-
INTERFUND TRANSFERS	(2,946)	-	17,434	(14,488)	-	-
NET ASSETS, END OF YEAR	\$ (16,373)	\$ 249,219	\$ 64,940	\$ 53,941	\$ 1,887,514	\$ 1,952,338

The accompanying notes are an integral part of these statements

**ISLAND ARTS CENTRE SOCIETY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2017**

	<u>Total 2017</u>	<u>Total 2016</u>
OPERATING ACTIVITIES:		
Excess (deficiency) of revenues over expenses	\$ (64,824)	\$ (39,118)
Items not affecting cash:		
Amortization of capital assets	62,985	63,444
Changes in non-cash working capital:		
Accounts receivable	(5,031)	(727)
Prepaid expenses	6,549	(2,829)
Accounts payable	(5,248)	7,003
Due to government agencies	(24,715)	23,420
Wages payable	1,926	3,565
Unearned revenue and deposits	32,121	(14,190)
Deferred revenue	241	3,179
	<u>4,004</u>	<u>43,747</u>
INVESTING ACTIVITIES:		
Unrealized gain on investments	(9,844)	(35,270)
Redemption of investments	58,535	-
Purchase of capital assets	(41,481)	(12,083)
	<u>7,210</u>	<u>(47,353)</u>
CHANGE IN CASH DURING THE YEAR	11,214	(3,606)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	113,622	117,228
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 124,836</u>	<u>\$ 113,622</u>

The accompanying notes are an integral part of these statements

**ISLAND ARTS CENTRE SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

NOTE 1 - PURPOSE OF THE ORGANIZATION

The Island Arts Centre Society (Society) is incorporated under the *British Columbia Society Act* as a not-for-profit organization and is exempt from income tax as a registered charity under the *Income Tax Act*.

In accordance with its constitution, the Society provides:

- Support for the advancement of the performing, visual and creative arts and crafts on Salt Spring Island;
- A facility comprised of a theatre, gallery, display space and workshop space for those engaged in the performing, visual and creative arts and crafts as well as other groups and individuals engaged in activities of community benefit.
- Development and delivery of public education to support the performing, visual and creative arts and crafts; and
- Music, dance, theatre and other professional performances by high quality British Columbian, Canadian, and international performing artists to audiences on Salt Spring Island.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Society prepares its financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations (ASNPO) and includes the following significant accounting policies:

Cash and cash equivalents

Cash equivalents are comprised of funds held in financial institutions and term deposits that are readily convertible to cash with maturities that are less than three months from the date of acquisition, and which are expected to be redeemed during the next fiscal year.

Capital assets

Capital assets are recorded at cost. Contributed capital assets are recorded at fair market value at the date of contribution. Amortization expense is reported in the Invested in Capital Asset Fund. The assets are being amortized over their estimated useful lives at the following annual rates, except for the Steinway piano which is not being amortized:

Automotive	30%	declining balance
Buildings	40 years	straight line
Furniture and equipment	10%	declining balance
Musical and theatre equipment	20%	declining balance
Office furniture and equipment	20%	declining balance
Computer hardware	30%	declining balance
Software	50%	declining balance

**ISLAND ARTS CENTRE SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are initially recorded at fair value at the date of acquisition. Unrealized gains or losses are recognized annually in the statement of operations. Transaction costs, such as management fees, arising from investments are expensed when incurred.

Investments are comprised of term deposits held by a financial institution, an endowment held by Phillips, Hager & North Investment Funds and an endowment to be retained in perpetuity by the Vancouver Foundation.

The funds invested with the Vancouver Foundation is pooled with the Common Trust Fund of the Foundation, and invested in accordance with the Investment Policy of the Foundation as approved by its Board of Directors. The Society is entitled to a prorated portion of the annual returns of the Common Trust Fund less an annual administration fee.

Revenue recognition

The Society follows the deferral method of accounting for contributions which include donation and government grants. Grants are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured in the year in which the related expenses are recognized. Donations are recorded when received since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized. Membership fees are recognized when received. Revenue from the sale of goods and rentals services are recorded when the goods are delivered and the rental services are rendered.

Use of estimates

When preparing financial statements according to ASNPO, the Association makes estimates and assumptions relating to:

- Reported amounts of revenue and expenses;
- Reported amounts of assets and liabilities; and
- Disclosure of contingent assets and liabilities.

Management's assumptions are based on a number of factors, including historical experience, current events and actions that the organization may undertake in the future, and assumptions that we believe are reasonable under the circumstances. Actual results could differ from those estimates under different conditions and assumptions. Estimates were used when accounting for certain items, such as the useful lives of capital assets and impairment of long-lived assets.

Donated services

Volunteers contribute numerous hours per year to assist the organization in carrying out its activities. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

**ISLAND ARTS CENTRE SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value. The Society subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments, which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets and liabilities measured at amortized cost include cash, accounts receivable, accounts payable and accrued liabilities, wages payable, unearned revenue and deposits and deferred contributions.

For financial assets subsequently measured at cost or amortized cost, the Society regularly assesses whether there are any indications of impairment. If there is an indication of impairment, and the organization determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it recognizes an impairment loss in the statement of operations. Any reversals of previously recognized impairment losses are recognized in operations in the year the reversal occurs.

NOTE 3 - CAPITAL ASSETS

	COST		ACCUMULATED AMORTIZATION		NET BOOK VALUE	
	2017	2016	2017	2016	2017	2016
Building	\$ 2,158,798	\$ 2,118,632	\$ 890,613	\$ 837,145	\$ 1,268,185	\$ 1,281,487
Furniture and equipment	201,996	201,996	170,860	167,400	31,136	34,596
Licence	141,400	141,400	-	-	141,400	141,400
Office equipment	35,777	35,777	30,553	29,248	5,224	6,529
Musical and theatre equipment	58,627	58,627	46,044	42,898	12,583	15,729
Steinway piano	72,961	72,961			72,961	72,961
Computer hardware	37,537	36,222	33,319	31,794	4,218	4,428
Software	14,639	14,639	14,559	14,478	80	161
	<u>\$ 2,721,735</u>	<u>\$ 2,680,254</u>	<u>\$ 1,185,948</u>	<u>\$ 1,122,963</u>	<u>\$ 1,535,787</u>	<u>\$ 1,557,291</u>

**ISLAND ARTS CENTRE SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

NOTE 4 - INVESTMENTS

This figure is comprised of the following:

	2017	2016
Term deposits	\$ 90,250	\$ 148,786
Philip, Hager & North fund	36,588	35,866
Vancouver foundation	212,631	203,508
	\$ 339,469	\$ 388,160

NOTE 5 - DUE TO GOVERNMENT AGENCIES

This figure is comprised of the following:

	2017	2016
GST/HST Payable	\$ -	\$ 24,646
Payroll deductions	3,292	3,238
WorksafeBC	309	432
	\$ 3,601	\$ 28,316

NOTE 6 - UNEARNED REVENUE AND DEPOSITS

	2017	2016
Box office ticket sales	\$ 48,938	\$ 21,390
Rental deposits	10,881	8,126
Unredeemed box office credits	9,494	7,668
Unredeemed gift certificates	3,250	3,258
	\$ 72,563	\$ 40,442

**ISLAND ARTS CENTRE SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

NOTE 7 - DEFERRED CONTRIBUTIONS

Deferred contributions represent the restricted operating grant received in the current period that are for the subsequent period.

	2017	2016
CRD Operating grant	\$ 24,055	\$ 23,814
	<u>\$ 24,055</u>	<u>\$ 23,814</u>

NOTE 8 - ENDOWMENT

Endowment net assets record the accumulation of externally restricted endowment contributions and unrestricted contributions internally designated as endowments by the Board.

External restrictions refer to any conditions or specific uses that have been requested or required by the donor(s) in making a gift to the Society. Internal restrictions refer to those funds which the Board has earmarked for this specific purpose, where the donor(s) have not placed any restrictions on their use.

NOTE 9 - EXTERNALLY RESTRICTED

Externally restricted net assets report externally restricted contributions designated for specific purposes. They are comprised of:

	2017	2016
Arts Exploration	\$ 30,087	\$ 39,087
Programs	34,835	43,680
Capital replacement	-	10,000
Gaming	18	18
	<u>\$ 64,940</u>	<u>\$ 92,785</u>

**ISLAND ARTS CENTRE SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

NOTE 10 - INTERNALLY RESTRICTED

Internally restricted net assets report previously unrestricted funds that the Board designated for a specific purpose. They are comprised of:

	2017	2016
Capital Replacement	\$ 53,941	\$ 48,399
Operating Contingency	-	14,489
	\$ 53,941	\$ 62,888

NOTE 11 - FINANCIAL INSTRUMENTS

The Society uses risk management to monitor and manage its risk arising from financial instruments. These risks include credit risk, interest rate risk, liquidity risk and market risk. The Society does not use any derivative financial instruments to mitigate these risks.

Credit risk

Credit risks arise from two sources: cash and cash equivalents and accounts receivable. Cash and cash equivalents are deposited with a reputable, financial institution to limit the credit risk exposure. The credit risk arising from accounts receivable is not considered significant.

Investment risk

The maximum investment risk to the Society is presented by the fair value of the investments.

Interest rate risk

The Society is exposed to interest rate risk with respect to the fixed-rate term deposits.

Liquidity risk

Liquidity risk arises from the possibility of not having sufficient available funds to enable the Society to pay its liabilities as they become due. The Society is not exposed to significant risk. Accounts payable and accrued liabilities are generally paid within 30 days.

**ISLAND ARTS CENTRE SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

NOTE 12 - LICENSE AND LEASE AGREEMENT

In September 1991, the Society transferred two commercial lots, which cost \$141,400 to the Capital Regional District in return for a license entitling the Society to utilize the original two lots plus additional land. The current lease agreement is for a period of 10 years commencing on April 1, 2011. The obligation is \$2 per annum, due on April 1st of each year. The Board expects that the Capital Regional District will continue to renew the lease of the land upon retirement of the current lease agreement.

NOTE 13 - SUBSEQUENT EVENT

The Society is subject to audits from Federal and Provincial tax authorities in the normal course of business which can give rise to assessments related to applicable sales taxes. During the previous fiscal year, the Canada Revenue Agency (CRA) performed an audit of the Society's application of the GST/HST sales tax.

The estimated GST liability of \$24,412 was recognized in the financial statements of the 2016 fiscal year. The estimate was based on documentation received from the CRA at the time and was recorded in the financial statements.

The audit concluded in an assessment payable of \$39,418, less the Public Services GST rebate of approximately \$24,918, for a balance payable of \$14,500 plus applicable penalties and interest of \$5,566.

As a result of the difference between the estimated liability and the actual liability, there is a reversal of \$9,912 reported in the current year's financial statements.

In addition, an application made under the CRA taxpayer relief provisions was accepted. As a result of this, a receivable of \$5,566 is reported in the current fiscal year for the estimated refund of penalties and interest.

NOTE 14 - DONATIONS IN-KIND

In addition to monetary donations, The Society receives donation in-kind. Donations in-kind can take the form of equity shares traded on a public stock exchange, and contributions of goods and materials. Equity shares received are recorded at fair market value as at the date they were contributed and are sold shortly after. Proceeds are reported as income in the year of receipt. Contributions of goods and materials for the purposes of fundraising are reported upon realization of the proceeds from their sale.

**ISLAND ARTS CENTRE SOCIETY
SCHEDULES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

SCHEDULE 1 - SALES, RENTALS AND SERVICES

	2017	2016
House event ticket sales	\$ 88,641	\$ 118,865
Theatre rentals	53,456	52,286
Exhibition rentals	13,587	16,975
	<u>\$ 155,684</u>	<u>\$ 188,126</u>

SCHEDULE 2 - DONATIONS AND OTHER GRANTS

	2017	2016
Treasure fair	\$ 48,167	\$ 54,835
Annual appeal	58,536	52,570
Donations	34,373	15,564
	<u>\$ 141,076</u>	<u>\$ 122,969</u>

SCHEDULE 3 - ADMINISTRATION EXPENSES

	2017	2016
Advertising and printing	\$ 9,263	\$ 7,103
Contract services	6,661	5,476
Donor and volunteer recognition	2,618	2,137
Estimated GST/HST ITCs payable net of Public Sector Rebate - Note 12	(9,912)	24,412
Insurance	950	779
Interest and bank charges	6,406	7,417
License	4,624	3,792
Office	7,373	7,865
Organizational development	4,774	3,569
Professional fees	5,125	6,000
Telephone	4,260	4,033
Travel	3,940	7,074
Wages	178,524	171,108
	<u>\$ 224,606</u>	<u>\$ 250,765</u>

**ISLAND ARTS CENTRE SOCIETY
SCHEDULES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

SCHEDULE 4 - ARTS PROGRAMMING

	2017	2016
Advertising	\$ 6,994	\$ 11,905
Artist	102,711	100,067
Artist travel and accomodation	9,908	7,712
Concession	4,949	4,412
Contract services	2,125	4,488
Educational workshops	7,641	1,237
Hospitality	874	2,177
Royalties	8,494	12,974
Supplies	950	415
Wages	25,988	19,295
	\$ 170,634	\$ 164,682

SCHEDULE 5 - FACILITIES OPERATIONS AND RELATED COSTS

	2017	2016
Amortization	\$ 62,985	\$ 63,444
Contract services	17,730	25,888
Garbage	1,521	1,968
Ground maintenance	1,409	1,641
Hydro	19,473	20,941
Insurance	8,068	8,010
Janitorial	19,566	20,249
License	149	146
Repairs and miscellaneous	6,914	6,900
Security	1,848	1,869
Supplies	8,892	7,617
Wages	14,472	15,898
Water/Sewer	3,028	3,060
	\$ 166,055	\$ 177,631