Arts for Children and Youth

(incorporated without share capital under the laws of
the Province of Ontario)

Financial Statements
August 31, 2013 and 2012

WILLIAM MOLSON CPA, CA

2335 Queen Street East
Toronto
ON M4E 1H1
Canada

Tel: 416 930 1651
Fax: 416 694 5141

INDEPENDENT AUDITOR'S REPORT

To the Members of
Arts for Children and Youth

I have audited the accompanying financial statements of **Arts for Children and Youth** which comprise the statements of financial position as at August 31, 2013, August 31, 2012 and September 1, 2011 and the statements of operations, changes in net assets and cash flows for the years ended August 31, 2013 and August 31, 2012 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 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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 controls. 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.

I believe that the audit evidence I have obtained in my audit is sufficient and appropriate to provide a basis for my qualified audit opinion.

Opinion

In my opinion these financial statements present fairly, in all material respects, the financial position of **Arts for Children and Youth** as at August 31, 2013, August 31, 2012 and September 1, 2011 and the results of its operations and its cash flows for the years ended August 31, 2013 and August 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

William Molson CPA, CA

Chartered Professional Accountant, Licensed Public Accountant

February 11, 2014

Arts for Children and Youth

Statement of Financial Position

As at

	August 31, 2013 $	August 31, 2012 $	September 1, 2011 $
Assets			
Current			
Cash and cash equivalents	403,115	277,633	244,246
Amounts receivable	7,494	17,005	26,500
Recoverable sales tax	23,266	19,123	20,476
Prepaid expense	4,661	4,433	3,766
Total current assets	438,536	318,194	294,988
Tangible capital assets, net of amortization (note 4)	41,204	10,954	7,263
	479,740	329,148	302,251
Liabilities			
Current			
Accounts payable and accrued charges	23,184	16,643	15,558
Source deductions payable	6,267	6,419	5,602
Identify N Impact funds held (note 8)	6,504	-	-
Deferred revenue (note 5)	302,546	191,395	216,900
Total current liabilities	338,501	214,457	238,060
Deferred capital contributions (note 6)	46,809	55,496	-
	385,310	269,953	238,060
Fund Balances			
General fund	48,219	28,219	30,135
Outreach fund	5,007	20,022	26,793
Invested in capital assets	41,204	10,954	7,263
	94,430	59,195	64,191
	479,740	329,148	302,251

Approved on behalf of the Board:

Treasurer

Arts for Children and Youth

Statement of Operations and Changes in Fund Balances

For the years ended August 31, 2013 and 2012

	General		Outreach		Invested in Capital assets		Total Funds	
	2013	2012	2013	2012	2013	2012	2013	2012
	$	$	$	$	$	$	$	$
Revenues								
Foundation grants	18,592	39,000	224,055	346,432	8,154	347	250,801	385,779
Canada Council for the Arts	-	-	-	20,000	-	-	-	20,000
Ontario Trillium Foundation grant	-	-	75,000	25,000	533	57	75,533	25,057
Ontario Arts Council grant	89,814	90,651	-	-	-	-	89,814	90,651
Toronto Arts Council grant	12,000	11,000	-	-	-	-	12,000	11,000
Other government grants	-	-	79,313	69,375	-	-	79,313	69,375
Corporate donations	7,184	-	70,480	46,285	-	-	77,664	46,285
Individual donations	-	-	31,781	24,835	-	-	31,781	24,835
Sponsorships	24,266	-	92,300	111,494	-	-	116,566	111,494
Fundraising events (note 8)	41,090	-	1,428	7,181	-	-	42,518	7,181
Program fees	14,824	18,630	7,067	7,000	-	-	21,891	25,630
OACF Arts Endowment Fund (note 7)	10,269	7,371	-	-	-	-	10,269	7,371
Interest	1,240	1,556	-	-	-	-	1,240	1,556
Other	-	-	-	130	-	-	-	130
	219,279	168,208	581,424	657,732	8,687	404	809,390	826,344
Expenditures								
Salaries and benefits	57,487	63,828	284,330	284,254	-	-	341,817	348,082
Artist fees	-	-	208,105	263,466	-	-	208,105	263,466
Art supplies	-	-	53,971	60,609	-	-	53,971	60,609
Accounting and legal	2,065	2,135	2,065	2,135	-	-	4,130	4,270
Advertising and promotion	-	5,025	-	5,542	-	-	-	10,567
Bad debts	(875)	875	-	-	-	-	(875)	875
Consulting fees	-	-	6,237	1,885	-	-	6,237	1,885
Fundraising (note 8)	50,866	41,632	1,586	-	-	-	52,452	41,632
General and administration	26,623	22,674	27,892	28,529	-	-	54,515	51,203
Insurance	3,044	2,356	-	-	-	-	3,044	2,356
Interest and bank charges	220	35	-	491	-	-	220	526
Lunches and snacks	-	-	4,346	8,190	-	-	4,346	8,190
Profession development	99	786	110	2,052	-	-	209	2,838
Rent	23,197	22,049	7,797	7,350	-	-	30,994	29,399
Amortization	6,303	5,038	-	-	8,687	404	14,990	5,442
	169,029	166,433	596,439	664,503	8,687	404	774,155	831,340
Excess (deficiency) of revenues over expenditures for the year	50,250	1,775	(15,015)	(6,771)	-	-	35,235	(4,996)
Fund balances - Beginning of year	28,219	30,135	20,022	26,793	10,954	7,263	59,195	64,191
Interfund allocation (note 12)(1)	(30,250)	(3,691)	-	-	30,250	3,691		
Fund balances - End of year	48,219	28,219	5,007	20,022	41,204	10,954	94,430	59,195

(1) To present net increase in capital assets of $45,239 (2012 - $9,133) less amortization of $14,990 (2012 - $5,442).

Arts for Children and Youth

Statement of Cash Flows

For the years ended August 31, 2013 and 2012

	2013 $	2012 $
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenues over expenditures	35,235	(4,996)
Item not affecting cash: Amortization	14,990	5,442
Changes in non-cash working capital items		
Decrease in amounts receivable	9,511	9,495
(Increase) decrease in recoverable sales tax	(4,143)	1,353
(Increase) in prepaid expense	(228)	(667)
Increase in accounts payable and accrued charges	6,540	1,085
(Decrease) increase in source deductions payable	(152)	817
Increase in Identify N Impact funds held	6,504	-
Increase (decrease) in deferred revenue	111,151	(25,505)
(Decrease) increase in deferred capital contributions	(8,687)	55,496
	170,721	42,520
Investing activities		
Purchase of tangible capital assets	(45,239)	(9,133)
Net change in cash and cash equivalents during the year	125,482	33,387
Cash and cash equivalents - Beginning of year	277,633	244,246
Cash and cash equivalents - End of year	403,115	277,633

1 Nature of operations

Arts for Children and Youth was established in 1995 with the principal goal of engaging children and youth from underserved communities in the Greater Toronto Area in the arts, through participation in accessible, high quality and innovative programs.

AFCY is a tax-exempt registered charity under Section 149(1)(f) of the Income Tax Act (Canada) and as such is exempt from income taxes and is able to issue tax-deductible receipts to donors.

2 Summary of significant accounting policies

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations. The significant accounting policies followed in the preparation of these financial statements are outlined below.

Fund accounting

The financial statements include the following funds:

i. The General Fund accounts for the operating activities of AFCY.

ii. The Outreach Fund is an internally designated fund that accounts for the outreach programs intended to enhance arts education in the broader community.

iii. Invested in Capital Assets accounts for capital assets purchased with capital grants restricted by the donor, as well as capital assets purchased with unrestricted funds. The capital assets included in this fund are amortized at a rate corresponding to the amortization rate for assets of that class of capital asset.

Revenue recognition

AFCY follows the deferral method of accounting for contributions.

Contributions including grants and donations, that are earmarked for outreach programs are recognized as revenue of the Outreach Fund when the related expenditure is 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. Program fees are recognized as revenue when the programs are held.

Contributions designated by the donors for capital acquisition are initially recorded as deferred revenue and are recognized in revenue at the same rate as the related capital asset acquired is amortized.

Interest and other revenue are recognized on an accrual basis.

Contributed goods and services

AFCY accepts donations in kind. The value of contributed goods is recognized when received if a fair value can be reasonably estimated and the goods are used in the normal course of operations and would otherwise have been purchased. Volunteers are critical for the operations of AFCY and contribute significantly to its activities; due to the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

Cash and cash equivalents

Cash includes cash on hand, deposits with chartered banks, and short term money market instruments which are readily convertible into a known amount of cash, are subject to insignificant risk of changes in value with terms to maturity of three months or less at the date of purchase.

Deferred revenue

Deferred revenue received includes amounts received in respect of programs to be delivered in future periods, and amounts received for the purpose of acquiring capital assets.

Deferred revenue accounted for in the General fund includes grants, received from various donors, which have been earmarked for expenditures in the following year. The deferred revenue is recorded when the funds are received and recognized as revenue in the year the programs take place.

Deferred capital contributions

Contributions received for the specific purpose of acquiring capital assets are recorded as deferred capital contributions, and recognized as revenue of the capital asset fund at the same rate that the related assets are amortized.

Capital assets

Capital assets are recorded at cost and amortized at the following rates, over the expected useful life of the particular assets.

Furniture and equipment	Straight-line basis over 5 years
Audio/Visual equipment	Straight-line basis over 5 years
Leasehold improvements	Straight-line basis over 5 years
Computer hardware	Straight-line basis over 3 years
Computer software	Straight-line basis over 5 years

Amortization is calculated on a monthly basis.

3 Financial instruments

AFCY is exposed to various risks through its financial instruments. The following analysis provides a measure of AFCY's risk exposure and concentrations. The financial instruments and the nature of the risks to which they may be subject are as follows:

	Risks				
			Market risk		
Financial instrument	Credit	Liquidity	Currency	Interest rate	Other Price
Cash and cash equivalents				X	X
Amounts receivable	X	X			
Amounts payable and accrued charges		X			

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. AFCY is exposed to credit risk through amounts receivable. While amounts receivable are generally unsecured, AFCY has management procedures in place to mitigate the risk of loss with respect to amounts receivable.

Liquidity risk

Liquidity risk is the risk that AFCY will not be able to meet a demand for cash or fund its obligations as they come due. AFCY meets its liquidity requirements by preparing and monitoring forecasts of cash flows from its activities, preparing budgets, anticipating investing and financing activities, and holding assets that can be readily converted into cash, including amounts specifically reserved to meet liquidity requirements.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

Currency risk

Currency risk reflects the risks that AFCY's earnings will decline due to fluctuations in foreign currency exchange rates. AFCY does not have assets or liabilities expressed in foreign currencies. As a result, AFCY is not subject to currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The exposure of AFCY to interest rate risk arises from its short-term GICs and money market investments included in cash and cash equivalents. Fluctuations in market rates of interest are not expected to have a significant impact on AFCY's operations.

Other price risk

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments in the market. The exposure of AFCY to interest rate risk arises from its money market investments included in cash and cash equivalents. Fluctuations in market rates of interest are not expected to have a significant impact on AFCY's operations.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates that affect the recognition, measurement and disclosure of amounts reported in the financial statements and accompanying notes. The reported amounts and disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Such estimates include the useful lives of the capital assets. Actual results could differ from those estimates.

Adoption of new accounting standards

The accounting standards for not-for-profit organizations – Part III of the CICA Handbook is mandatory for annual financial statements related to fiscal years beginning on or after January 1, 2012. AFCY has adopted the not-for-profit standards in the current year. There were no changes to net assets required as a result of adopting the new not-for-profit standards.

4 Tangible capital assets

Capital assets consist of the following:

	2013			2012
	Cost	**Accumulated amortization**	**Net book value**	**Net book value**
Leasehold improvements	$ 11,595	$ 11,595	$ -	$ -
Audio/Visual equipment	41,693	6,794	34,899	2,040
Furniture and equipment	17,140	14,662	2,478	1,518
Computer hardware	26,089	22,873	3,216	7,244
Computer software	27,487	26,877	610	152
	$ 124,004	$ 82,801	$ 41,203	$ 10,954

5 Deferred revenue

Deferred revenue includes cash received from various donors specifically earmarked for projects that will be undertaken in future years.

		2013		2012
Deferred revenue, beginning of year	$	191,395	$	216,900
Less: amounts recognized as revenue in the year		(191,395)		(216,900)
Add: amounts received relating to next year		302,546		191,395
Deferred revenue, end of year	$	302,546	$	191,395

6 Deferred capital contributions

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations and changes in fund balances revenue and expenses. The changes in the deferred capital contributions balance are as follows:

		2013		2012
Deferred capital contributions, beginning of year	$	55,496	$	-
Add: amounts received in the year		-		55,900
Less: amounts recognized as revenue in the year		(8,687)		(404)
Deferred capital contributions, end of year	$	46,809	$	55,496

7 Arts Endowment Fund

AFCY has established the Arts for Children and Youth Arts Endowment Fund under the terms of the Arts Endowment Fund (“AEF”) Program. The AEF is a program of the Government of Ontario through the Ministry of Culture, administered by the Ontario Arts Council Foundation. During the year, AFCY did not make any contributions to the AEF (2012: nil) and there were no matching funds received from the AEF during the year (2012: nil). The market value of the Arts for Children of Toronto Arts Endowment Fund as at August 31, 2013 was $275,557 (2011: $254,643). Under the program, AFCY is entitled to annual distributions based on the fair market value of the fund. During the year, AFCY received a distribution of $10,269 (2012: $7,371) which has been included in the General fund revenues.

8 Fundraising events

During the year AFCY held a major fundraising event. Fundraising revenue includes proceeds of $29,450 (2012 – nil) from the auction of donated artworks. The initial donation of the artworks is not accounted for in these financial statements.

9 Identify N Impact funds held

AFCY is responsible to administer and account for certain funds advanced by the City of Toronto to promote qualifying youth-led groups to carry out projects providing meaningful opportunities for youth leadership and empowerment.

10 Lease commitment

AFCY has entered into a premises lease commitment for a three-year term expiring on July 31, 2016. The remaining minimum annual lease payments exclusive of hydro and sales taxes are: 2014 - $28,380; 2015 - $32,508; 2016 - $34,133.

During the year AFCY entered into a 66-month lease for a photocopier to June 20, 2018. Future minimum lease payments before sales tax are as follows: 2014 through 2017 - $1,660 annually; 2018 - $1,384.

11 Capital management

AFCY's objective, when managing capital, is to have sufficient liquid resources available for operations and to safeguard the entity's ability to continue as a going concern, so that it can continue to achieve its main purpose (note 1 above). AFCY defines its capital as cash and cash equivalents and fund balances.

12 Interfund allocation

An allocation reflecting current asset acquisitions net of current amortization is made in the statement of operations and changes in fund balances in order to more clearly disclose the components of net assets.

13 Comparative figures

Certain figures presented for comparative purposes have been reclassified to conform to the current year's presentation.