Financial statements of
Calgary Centre for Performing Arts
(Operating under the name Arts Commons)

August 31, 2018

Deloitte.

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Independent Auditor's Report

To the Members of
Calgary Centre for Performing Arts
(Operating under the name Arts Commons)

We have audited the accompanying financial statements of Calgary Centre for Performing Arts (Operating under the name Arts Commons), which comprise the statement of financial position as at August 31, 2018 the statements of operations and changes in fund balances 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 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

Our responsibility is to express an opinion on these financial statements based on our audit. 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Calgary Centre for Performing Arts (Operating under the name Arts Commons) as at August 31, 2018 and the results of its operations, changes in fund balances and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte LLP

Chartered Professional Accountants
November 20, 2018

Calgary Centre for Performing Arts (Operating under the name Arts Commons)

Statement of operations and changes in fund balances

Year ended August 31, 2018

	Notes	2018 Operating Fund	2018 Capital Replacement Fund	2018 Total	2017 Total
		$	$	$	$
Revenue					
Venue operations		**5,526,263**	**—**	**5,526,263**	5,100,020
Programming		**1,241,552**	**—**	**1,241,552**	1,245,549
Ticketing services		**665,782**	**—**	**665,782**	943,160
Facility		**559,646**	**—**	**559,646**	269,547
Support services		**108,174**	**—**	**108,174**	389,261
Grants	8 & 10	**3,255,106**	**—**	**3,255,106**	3,097,354
Fundraising	10	**491,547**	**—**	**491,547**	788,963
Deferred contributions	7 & 10	**660,761**	**1,907,060**	**2,567,821**	2,046,648
		12,508,831	**1,907,060**	**14,415,891**	13,880,502
Expenses					
Venue operations	2	**3,497,766**	**—**	**3,497,766**	2,421,924
Programming		**1,624,232**	**—**	**1,624,232**	1,813,854
Ticketing services		**729,922**	**—**	**729,922**	790,829
Facility operations		**2,973,264**	**—**	**2,973,264**	3,489,272
Fundraising	10	**899,254**	**—**	**899,254**	927,052
Administration		**1,744,805**	**—**	**1,744,805**	1,671,174
Amortization of tangible capital assets		**78,207**	**1,887,558**	**1,965,765**	1,598,456
Marketing and communications		**898,281**	**—**	**898,281**	983,681
Investment fees and grants		**—**	**19,502**	**19,502**	18,657
		12,445,731	**1,907,060**	**14,352,791**	13,714,899
Excess of revenue over expenses		**63,100**	**—**	**63,100**	165,603
Fund balances, beginning of year		**1,236,571**	**—**	**1,236,571**	1,070,968
Fund balances, end of year		**1,299,671**	**—**	**1,299,671**	1,236,571

The accompanying notes are an integral part of the financial statements.

Calgary Centre for Performing Arts (Operating under the name Arts Commons)

Statement of financial position

As at August 31, 2018

	Notes	Operating Fund	Capital Replacement Fund	2018 Total	2017 Total
		$	$	$	$
Assets					
Current assets					
Cash		**3,073,542**	**9,815**	**3,083,357**	3,264,153
Accounts receivable	3	**1,032,494**	**4,333,905**	**5,366,399**	3,017,600
Prepaid expenses		**83,135**	**—**	**83,135**	113,008
Deferred expenses		**169,936**	**—**	**169,936**	77,292
Inventory		**41,350**	**—**	**41,350**	39,459
Interfund balances		**615,935**	**(615,935)**	**—**	—
		5,016,392	**3,727,785**	**8,744,177**	6,511,512
Investments	4	**—**	**5,045,660**	**5,045,660**	4,672,118
Tangible capital assets	5	**78,206**	**19,772,261**	**19,850,467**	14,256,168
Interfund loan	6	**(123,732)**	**123,732**	**—**	—
		4,970,866	**28,669,438**	**33,640,304**	25,439,798
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	3	**2,929,460**	**1,747,636**	**4,677,096**	3,134,186
Bank indebtedness	11	**—**	**1,080,000**	**1,080,000**	—
Deferred revenue		**225,238**	**—**	**225,238**	238,354
Current portion of deferred contributions	7	**516,497**	**1,887,558**	**2,404,055**	2,113,908
		3,671,195	**4,715,194**	**8,386,389**	5,486,448
Deferred contributions	7	**—**	**23,954,244**	**23,954,244**	18,716,776
		3,671,195	**28,669,438**	**32,340,633**	24,203,224
Fund balances					
Internally restricted	9	**378,000**	**—**	**378,000**	378,000
Unrestricted		**921,671**	**—**	**921,671**	858,574
		1,299,671	**—**	**1,299,671**	1,236,574
		4,970,866	**28,669,438**	**33,640,304**	25,439,798

The accompanying notes are an integral part of the financial statements.

Approved by the Board

_______________________, Director

_______________________, Director

Calgary Centre for Performing Arts (Operating under the name Arts Commons)

Statement of cash flows

Year ended August 31, 2018

	2018	2017
	$	$
Operating activities		
Excess of revenue over expenses	**63,100**	165,603
Item not affecting cash		
Amortization of tangible capital assets	**1,965,765**	1,598,456
	2,028,865	1,764,059
Changes in non-cash working capital		
Accounts receivable	**(2,348,799)**	(2,149,948)
Prepaid expenses	**29,873**	(1,538)
Deferred expenses	**(92,644)**	(9,702)
Inventory	**(1,891)**	6,849
Accounts payable and accrued liabilities	**1,542,910**	(383,864)
Deferred revenue	**(13,116)**	(30,090)
	1,145,198	(804,234)
Financing activities		
Increase in deferred contributions	**7,863,184**	5,387,548
Proceeds from bank indebtedness	**1,080,000**	—
Non-cash item		
Amortization of deferred contributions	**(2,567,821)**	(2,046,648)
	6,375,363	3,340,900
Investing activities		
Proceeds on disposal of investments	**171,502**	78,661
Realized gains on investments	**(52,820)**	(17,729)
Purchase of investments	**(259,975)**	(158,554)
Purchase of tangible capital assets	**(7,560,064)**	(3,024,593)
	(7,701,357)	(3,122,215)
Net decrease in cash	**(180,796)**	(585,549)
Cash, beginning of year	**3,264,153**	3,849,702
Cash, end of year	**3,083,357**	3,264,153

The accompanying notes are an integral part of the financial statements.

1. Purpose of the organization

Calgary Centre for Performing Arts (Operating under the name Arts Commons) ("Arts Commons") is a not-for-profit organization incorporated under the Companies Act of Alberta. Arts Commons is one of North America's largest performing arts facilities with eight venues showcasing music, theatre and dance. The resident companies include Theatre Calgary, Alberta Theatre Projects, Calgary Philharmonic Orchestra, Calgary International Children's Festival, One Yellow Rabbit and Downstage Performance Society. Arts Commons is registered as a Canadian charitable organization under the Income Tax Act and, accordingly, is exempt from income taxes and can issue donation receipts for income tax purposes.

Arts Commons' financial statements are prepared using accounting standards for not-for-profit organizations ("ASNFPO") issued by the Accounting Standards Board of Chartered Professional Accountants of Canada ("CPA Canada") and set out in Part III of the CPA Canada Handbook.

2. Significant accounting policies

The financial statements of Arts Commons have been prepared by management in accordance with ASNFPO and reflect the following significant accounting policies:

Fund accounting

(i) The Operating Fund accounts for revenue and expenses related to the operations, program delivery and administration of Arts Commons.

(ii) The Capital Replacement Fund accounts for revenue and expenses for building improvement and replacement of existing tangible capital assets.

Financial instruments

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently recorded at fair value. All other financial instruments are recorded at cost or amortized cost, unless management has elected to record at fair value.

Transaction costs related to financial instruments measured at fair value are expensed as incurred. For all other financial instruments, the transaction costs are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the excess of revenue over expenses as dividends and other distributions.

With respect to financial assets measured at cost or amortized cost, Arts Commons recognizes in the statement of operations and changes in fund balances an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed in the statement of operations and changes in fund balances in the period the reversal occurs.

Arts Commons does not enter into any derivative financial instrument arrangements.

2. Significant accounting policies (continued)

Revenue recognition

Arts Commons follows the deferral method of accounting for contributions whereby restricted contributions are recognized as revenue of the appropriate fund in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue of the appropriate fund when received or receivable if the amount is fixed or can be reasonably estimated and collection is reasonably assured.

Investment income earned on Capital Replacement Fund resources is restricted for the purchase of tangible capital assets and is recognized as revenue in the Capital Replacement Fund in the year in which the related tangible capital assets are purchased.

Theatre and concert hall revenue and costs are recognized only for programs which have taken place. Revenue received and costs incurred prior to the date of performance are deferred.

Donated materials and services

Donated materials and services are recorded at fair market value if Arts Commons would normally have paid for such materials and services and the fair market value can be determined.

Deferred expenses

Deferred expenses represent fees and expenses associated with certain of Arts Commons' fundraising and programming activities. These charges are amortized on a straight-line basis over the period of benefit or recognized at the conclusion of the related fundraising or programming event.

Inventory

Inventory is recorded at the lower of cost and net realizable value and is relieved from inventory on a first-in, first-out basis. Net realizable value is determined using current estimated selling prices less selling costs. The estimated selling price takes into account management's best estimate of the most probable set of economic conditions.

Inventory consists of product purchased for resale at events including liquor, beverages and concessions. The sale of inventory during the year resulted in the recognition of expenses aggregating $201,754 ($185,815 in 2017). This is recorded in the statement of operations and changes in fund balances in venue operations expense.

Investments

Investments are recorded at fair value in the statement of financial position as established by the closing bid price for trading on the recognized exchange on which the investment is listed or principally traded. Interest and dividends on investments are recorded on an accrual basis, and realized and unrealized capital gains and losses are restricted and recognized through deferred contributions in the Capital Replacement Fund.

2. Significant accounting policies (continued)

Tangible capital assets

Arts Commons has leased its land and building from The City of Calgary for $1 per year until 2040. Construction expenses and tenant improvements made by Arts Commons vest with The City of Calgary. The repair, maintenance and capital replacement of the building are solely the responsibility of Arts Commons. Property of every description is insured for $183 million.

Purchased tangible capital assets are recorded in the appropriate fund at cost. Contributed tangible capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expenses. Betterments that extend the estimated life of an asset are capitalized. When the asset no longer contributes to Arts Commons' ability to provide services, its carrying amount is written down to its residual value. Amortization expense is recorded as an expense in the appropriate fund.

Tangible capital assets are amortized on a straight-line basis over the assets' estimated useful lives as follows:

Custom-built computer systems	10 years
Equipment	
Office	5 years
Stage	5 years
Building	20 years
Leasehold improvements	10 years

Capital development projects are not subject to amortization until the development is complete. At that point, the balance will be allocated to the appropriate asset category and amortized over its estimated useful life.

Tangible capital assets are tested for impairment whenever events or changes in circumstances indicate that an asset can no longer be used as originally expected and its carrying amount may not be fully recoverable. An impairment loss is recognized when and to the extent that management assesses the future useful life of an asset to be less than originally estimated.

Use of estimates

The preparation of the financial statements in accordance with ASNFPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates relate to the allowance for doubtful accounts, net realizable value of inventory, the amortization period for and potential impairment of tangible capital assets, the determination of accrued liabilities and potential contingencies. By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements of changes in such estimates could be significant. Management reviews its estimates on a periodic basis and, if required, makes adjustments prospectively.

3. Government remittances

Accounting standards require separate disclosure of the amounts of government remittances (other than income taxes) recoverable or payable. Accordingly, an amount of $306,975 ($287,366 in 2017) of Goods and Services Tax recoverable as at August 31, 2018 is included in the accounts receivable balance. A total of nil ($13,119 in 2017) of source deductions payable is included in the accounts payable and accrued liabilities balance.

4. Investments

Arts Commons' investments are professionally managed and held in the Capital Replacement Fund and are invested in accordance with the investment policies approved by the board of directors (the "Board").

	2018		2017	
	Cost	**Market**	Cost	Market
	$	**$**	$	$
Capital Replacement Fund managed funds	**3,755,553**	**5,045,660**	3,621,124	4,672,118

5. Tangible capital assets

			2018
	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
Land and building	**1**	**—**	**1**
Custom-built computer systems	**782,066**	**703,860**	**78,206**
Equipment			
Office	**949,054**	**949,054**	**—**
Stage	**9,146,992**	**7,859,126**	**1,287,866**
Building	**19,184,113**	**6,468,469**	**12,715,644**
Leasehold improvements	**7,269,069**	**6,208,201**	**1,060,868**
Capital development projects*	**4,707,882**	**—**	**4,707,882**
	42,039,177	**22,188,710**	**19,850,467**

5. Tangible capital assets (continued)

			2017
	Cost	Accumulated amortization	Net book value
	$	$	$
Land and building	1	—	1
Custom-built computer systems	782,066	625,653	156,413
Equipment			
Office	949,054	943,082	5,972
Stage	8,257,850	7,145,654	1,112,196
Building	15,622,333	5,529,019	10,093,314
Leasehold improvements	6,484,138	5,979,539	504,599
Capital development projects*	2,383,673	—	2,383,673
	34,479,115	20,222,947	14,256,168

* Capital development projects consist of costs related to work-in-progress on building projects expected to be completed by December 2018. Capital projects are not subject to amortization until the project is complete. At August 31, 2018, Arts Commons had commitments to various contractors relating to these development projects in the amount of $4,707,882 ($2,383,673 in 2017).

6. Interfund loan

During 2009, the Board authorized a loan of $550,000 by the Capital Replacement Fund to the Operating Fund to be used for acquisition and development of an electronic ticketing system. During 2010, the Board approved an additional $260,610 to bring the project to completion. The loan does not bear interest and is to be repaid by annual instalments of $123,733 until fiscal 2019. As at August 31, 2018, $123,732 ($247,465 in 2017) of the loan was advanced and outstanding.

7. Deferred contributions

Operating Fund

Deferred contributions reported in the Operating Fund represent externally restricted donations relating to expenses of future periods. The changes in deferred contributions are as follows:

	2018	2017
	$	$
Balance, beginning of year	**660,761**	507,742
Contributions	**516,497**	660,761
Less: amounts amortized to revenue	**(660,761)**	(507,742)
Balance, end of year	**516,497**	660,761

Deferred contributions reported in the Operating Fund, which will be recognized as revenue in less than 12 months, totalled $516,497 ($660,761 in 2017).

7. Deferred contributions (continued)

Capital Replacement Fund

Deferred contributions reported in the Capital Replacement Fund represent the unamortized portion of restricted contributions, which have been expended or are expendable on Arts Commons' tangible capital assets.

The changes in deferred contributions are as follows:

	2018	2017
	$	$
Balance, beginning of year	**20,169,923**	16,941,861
Contributions		
Construction grants (Note 10)	**7,170,451**	4,152,740
Ticket surcharge	**754,088**	775,428
Realized gains on investment	**52,820**	17,729
Interest and dividend income	**107,975**	98,554
Capital donation and other	**(738,643)**	(317,662)
Less: amounts amortized to revenue	**(1,907,060)**	(1,538,906)
Change in unrealized gain on investments	**232,248**	40,179
Balance, end of year	**25,841,802**	20,169,923

Deferred contributions reported in the Capital Replacement Fund, which will be recognized as revenue in less than 12 months at minimum, totalled $1,887,558 ($1,453,147 in 2017). The amount which will be recognized in more than 12 months was $23,954,244 ($18,716,776 in 2017).

8. Grants

The City of Calgary provides operating grants to Arts Commons, which are approved on an annual basis.

Grants received in the year are as follows:

	2018	2017
	$	$
Operating Grants		
The City of Calgary - Civic Partners Program	**2,326,338**	2,259,313
Programming Grants		
Canadian Heritage - Canada Arts Presentation Fund	**95,000**	100,000
Alberta Foundation for the Arts - Community Support	**75,000**	75,000
The Calgary Foundation - Community Grants Program	**—**	12,000
The SOCAN Foundation	**1,500**	1,500
	171,500	188,500
Educations, facilities, and other		
Alberta Gaming, Liquor and Cannabis Commission	**—**	67,500
Alberta Culture & Tourism - Community Initiatives	**50,000**	—
Norreen Baker Fund	**7,000**	5,000
Municipal - Council Strategic Initiatives Fund	**4,000**	—
Harry & Martha Cohen Foundation	**2,000**	2,000
Service Canada - Canada Summer Jobs	**8,402**	12,641
Alberta Labour - Canada-Alberta Job Grant Program	**6,359**	1,575
The Calgary Foundation - Endowment	**267,407**	258,443
The Calgary Foundation	**200,000**	—
Kinder Morgan Foundation	**3,125**	3,252
Dinner Optimist	**10,000**	10,000
	558,293	360,411
Donations in kind	**198,975**	289,130
	3,255,106	3,097,354

9. Internally restricted fund balance

Arts Commons has established a policy to set aside a certain level of internally restricted funds achieved through current year or cumulative surpluses to be retained to offset any future (projected or unexpected) operating deficiencies or to undertake significant projects. During the current year, the Board internally restricted nil (nil in 2017).

	2018	2017
	$	$
Operations contingency fund, beginning of the year	**378,000**	378,000
Additions	**—**	—
Operations contingency fund, end of the year	**378,000**	378,000

10. Fundraising expenses

The amounts received pertaining to fundraising activities were as follows:

	2018	2017
	$	$
Recognized as revenues		
Grants (Note 8)	**3,255,106**	3,097,354
Fundraising	**491,547**	788,963
Deferred Contributions	**660,761**	507,742
	4,407,414	4,394,059
Deferred		
Grants in deferred contributions in the Capital Replacement Fund (Note 7)	**7,170,451**	4,152,740

As required under Section 7(2) of the Alberta Charitable Fundraising Regulation, the following amounts are disclosed:

	2018	2017
	$	$
Amounts paid as remuneration to employees whose principal duties involve fundraising	**466,294**	449,676
Expenses incurred for donations and services in kind	**198,975**	289,130
Other expenses incurred for the purposes of soliciting contributions	**233,985**	188,246
	899,254	927,052

11. Bank indebtedness

During the year Arts Commons obtained a line of credit secured by its investment portfolio. The line of credit, which is payable on demand, is approved for a maximum amount of $2,000,000 and bears interest at Royal Bank Prime plus 0.5% per annum. Royal Bank Prime was 3.7% as at August 31, 2018. As at August 31, 2018 the balance is $1,080,000. Interest expenses of $916 were incurred for using the line of credit during the year.

12. Financial instruments

Arts Commons' financial instruments consist of cash, accounts receivable, investments and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values.

Arts Commons has exposure to the following risks from its use of financial instruments:

Market risk

Market risk is the risk that changes in market prices as a result of changes in interest rates and stock market fluctuations will affect Arts Commons' results of operations or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the return.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of interest-bearing financial instruments held by Arts Commons. Arts Commons has holdings in fixed-income securities. As interest rates fluctuate, the fair values of the investments will be impacted.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment resulting in a financial loss to Arts Commons. Credit risk is managed for Arts Commons' investments by ensuring that they are in accordance with the Statement of Investment Policy established by the Board. The maximum exposure to credit risk on these instruments is their carrying value.

Arts Commons is exposed to credit risk associated with accounts receivable to the extent that its customers or donors may experience financial difficulty and would be unable to meet their obligations. However, Arts Commons has a large number of diverse customers and donors, which minimizes the concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that Arts Commons will not be able to meet its liabilities as they fall due. Arts Commons currently holds enough cash to pay all current liabilities; therefore, Arts Commons' liquidity risk is considered minimal. In addition, Arts Commons aims to retain a sufficient cash position to manage liquidity. Arts Commons' exposure to and management of liquidity risk has not changed materially since August 31, 2017.