

ArtHouse for Children and Youth
(a corporation without share capital)
Financial Statements
For the year ended June 30, 2014

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Tel: 905 639 9500
Fax: 905 633 4939
Toll-free: 888 236 2383
www.bdo.ca

BDO Canada LLP
3115 Harvester Road, Suite 400
Burlington ON L7N 3N8 Canada

Independent Auditor's Report

To the Board of Directors of
ArtHouse for Children and Youth (a corporation without share capital)

We have audited the accompanying financial statements of ArtHouse for Children and Youth (the "Organization"), which comprise the statement of financial position as at June 30, 2014, and the statements of operations and changes in deficit 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many not-for-profit organizations, ArtHouse for Children and Youth derives revenue from donations and events, 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 ArtHouse for Children and Youth. Therefore, we were not able to determine whether any adjustments might be necessary to donation and event revenue, excess of revenue over expenditures and cash flows from operations for the year ended June 30, 2014, current assets as at June 30, 2014, and net assets as at July 1, 2013 and June 30, 2014.

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 ArtHouse for Children and Youth as at June 30, 2014 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.

Chartered Professional Accountants, Licensed Public Accountants
Burlington, Ontario
November 10, 2014

**ArtHouse for Children and Youth
(a corporation without share capital)
Statement of Financial Position**

June 30	2014	2013
Assets		
Current		
Cash	\$ 26,894	\$ 454
Accounts receivable	6,389	3,442
Prepaid expenses	250	-
	\$ 33,533	\$ 3,896
Liabilities and Deficit		
Current		
Accounts payable and accrued liabilities (Note 2)	\$ 22,558	\$ 22,682
Deferred revenue (Note 3)	10,450	13,078
Demand loan (Note 4)	20,000	-
	53,008	35,760
Deficit	(19,475)	(31,864)
	\$ 33,533	\$ 3,896

On behalf of the Board:

_____ Director

_____ Director

**ArtHouse for Children and Youth
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Statement of Operations and Changes in Deficit**

For the year ended June 30	2014	2013
Revenue		
Grant revenue	\$ 34,500	\$ 46,500
Donations	95,638	67,403
Event revenue	49,757	41,572
	<u>179,895</u>	<u>155,475</u>
Expenditures		
Advertising, promotion and fundraising	8,531	8,237
Administration and general	12,378	10,087
Event expenses	70,653	48,297
Insurance	3,384	3,547
Premises	-	1,350
Professional fees	6,049	5,543
Program costs	72,848	89,039
Recovery of HST	(6,337)	(5,255)
	<u>167,506</u>	<u>160,845</u>
Excess (deficiency) of revenue over expenditures	12,389	(5,370)
Deficit, beginning of year	<u>(31,864)</u>	<u>(26,494)</u>
Deficit, end of year	<u>\$ (19,475)</u>	<u>\$ (31,864)</u>

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

**ArtHouse for Children and Youth
(a corporation without share capital)
Statement of Cash Flows**

For the year ended June 30	2014	2013
Cash flows from operating activities		
Excess (deficiency) of revenue over expenditures for the year	\$ 12,389	\$ (5,370)
Adjustments to reconcile excess (deficiency) of revenue over expenditures to net cash provided by operating activities		
Changes in non-cash working capital balances		
Accounts receivable	(2,947)	8,206
Prepaid expenses	(250)	-
Accounts payable and accrued liabilities	(124)	(3,401)
Deferred revenue	(2,628)	6,153
	<u>6,440</u>	<u>5,588</u>
Cash flows from financing activities		
Change in bank indebtedness	-	(5,134)
Proceeds from demand loan	20,000	-
	<u>20,000</u>	<u>(5,134)</u>
Increase in cash during the year	26,440	454
Cash, beginning of year	454	-
Cash, end of year	\$ 26,894	\$ 454

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

**ArtHouse for Children and Youth
(a corporation without share capital)
Notes to Financial Statements**

June 30, 2014

1. Significant Accounting Policies

Purpose of Organization

ArtHouse for Children and Youth (the "Organization") is a charitable organization which offers cost-free programs to young children helping them to develop their hidden talents, experience the thrill of creative and artistic expression and share experiences in team building and social cohesion.

Basis of Accounting

The financial statements of the Organization have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations.

Revenue Recognition

The Organization follows the deferral method of accounting for contributions, which includes donations. Externally restricted contributions are recognized as revenue in the year in which the related expenses are 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.

Event and other revenue is recorded when the service has been completed and collection is reasonably assured.

Deferred Revenue

Deferred revenue relates to the portion of externally restricted funds received in the current or previous years which have not been utilized by year end.

Contributed Materials and Services

Contributed materials and services which are used in the normal course of the Organization's operations and would otherwise have been purchased are recorded at their fair value at the date of contribution if fair value can be reasonably estimated. Because of the difficulty in determining their fair value, contributed services are not recognized in the financial statements.

Disclosure of Allocated Expenses

The Organization engages in events, programs, fundraising and the supporting administrative functions. The cost of each program includes the artistic directors fees, supplies and other expenses that are directly related to providing the program. The artistic director provides services to more than one department and their expenses are allocated between departments. All allocations are based on an estimate of time in each function.

Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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 amount of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

**Arthouse for Children and Youth
(a corporation without share capital)
Notes to Financial Statements**

June 30, 2014

1. Significant Accounting Policies (Continued)

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are charged to the financial instrument for those measured at amortized cost.

Income Taxes

The Organization is a registered charity under the Income Tax Act that is exempt from Federal and Provincial income taxes.

2. Related Party Balances and Transactions

The following table summarizes the Organization's related-party transactions for the year:

	2014	2013
Transactions		
Artistic Director fees paid to Impact Advisory Inc. - an organization owned by a member of management	\$ 25,705	\$ 21,573
Website design fees paid to Branding for Good - an organization owned by a board member	4,418	4,620

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Included in accounts payable and accrued liabilities is \$15,897 (2013 - \$10,175) due to related parties.

3. Deferred Revenue

Deferred revenue represents the amount of externally restricted funds received from donations which have not been earned by year end.

	2014	2013
Balance, beginning of year	\$ 13,078	\$ 6,925
Amounts received during the year	10,450	13,078
Amounts recognized in revenue in the current year	(13,078)	(6,925)
	\$ 10,450	\$ 13,078

**ArHouse for Children and Youth
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Notes to Financial Statements**

June 30, 2014

4. Demand Loan

	2014	2013
Demand loan, interest at 6%, unsecured.	\$ 20,000	\$ -

Subsequent to year end, the Organization refinanced its \$20,000 demand loan due June 30, 2014. As part of the refinancing, \$10,000 plus interest of \$300 was repaid. The remaining balance of \$10,000 remains in the form of a demand loan, bearing interest at 6% and due June 30, 2015.

5. Allocated Expenses

In 2014 there were \$25,705 (2013 - \$21,573) in artistic director fees allocated to the following functional areas:

	2014	2013
Administration	\$ 10,025	\$ 8,413
Fundraising	4,113	3,452
Events	6,169	5,178
Programs	5,398	4,530
	\$ 25,705	\$ 21,573

6. Financial Instrument Risks

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. The Organization is subject to credit risk through accounts receivable. The Organization maintains provisions for potential credit losses, and any such losses to date have been within management's expectations.

Liquidity Risk

Liquidity risk is the risk that the Organization encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Organization will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable, accrued liabilities, and demand loan.

7. Comparative Amounts

Certain of the comparative amounts presented in the financial statements have been reclassified to conform with the current year's presentation.