

**SISTEMA TORONTO ACADEMY
FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2020**

PALMER REED

CHARTERED PROFESSIONAL ACCOUNTANTS

439 University Avenue, Suite 1550, Toronto, Ontario M5G 1Y8
Telephone: (416) 599-9186 Fax: (416) 599-9189 Email: Palmerreed@palmerreed.com

INDEPENDENT AUDITOR'S REPORT

To the Members of Sistema Toronto Academy

Opinion

We have audited the financial statements of Sistema Toronto Academy (the organization), which comprise the statement of financial position as at August 31, 2020, and the statements of changes in net assets, revenues and expenditures and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the organization as at August 31, 2020, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

Basis for Opinion

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 the organization in accordance with 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 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 ASNPO, 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 the organization'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 the organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the organization'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:


(continues)

Independent Auditor's Report to the Members of Sistema Toronto Academy (continued)

- 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 the organization'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 the organization'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 the organization 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.

Toronto, Ontario
January 19, 2021



Chartered Professional Accountants
Licensed Public Accountants

**SISTEMA TORONTO ACADEMY
STATEMENT OF FINANCIAL POSITION
AS AT AUGUST 31, 2020**

	2020	2019
ASSETS		
Current		
Cash and cash equivalents	\$ 329,759	\$ 229,511
Amounts receivable	56,540	19,200
Harmonized sales tax recoverable	5,575	13,372
Prepaid expenses	17,593	7,103
	<u>409,467</u>	<u>269,186</u>
Tangible capital assets (Note 3)	132,327	154,982
Total assets	\$ 541,794	\$ 424,168
LIABILITIES		
Current		
Accounts payable and accrued charges	\$ 28,889	\$ 31,638
Payroll and withholding taxes payable	24,013	11,284
Deferred revenue (Note 4)	131,232	101,323
	<u>184,134</u>	<u>144,245</u>
Deferred capital contributions (Note 5)	92,563	89,518
Total liabilities	276,697	233,763
NET ASSETS		
Net assets	265,097	190,405
Total liabilities and net assets	\$ 541,794	\$ 424,168

ON BEHALF OF THE BOARD

Marcia Lewis Brown Director

Ruby Kye Director

The attached notes form an integral part of these financial statements.

**SISTEMA TORONTO ACADEMY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2020**

	2020	2019
Net assets - beginning of year	\$ 190,405	\$ 51,875
Excess of revenues over expenses	<u>74,692</u>	<u>138,530</u>
Net assets - end of year	<u>\$ 265,097</u>	<u>\$ 190,405</u>

The attached notes form an integral part of these financial statements.

SISTEMA TORONTO ACADEMY
STATEMENT OF REVENUES AND EXPENDITURES
FOR THE YEAR ENDED AUGUST 31, 2020

	2020	2019
Revenues		
Corporate donations	\$ 150,239	\$ 132,865
Donations in kind	4,182	12,043
Emergency Community Support Fund	50,975	-
Events	9,054	23,915
Federal COVID Emergency Wage Subsidy	195,205	-
Foundation and trust grants	478,870	521,407
Gain on sale of marketable securities	627	-
Government grants	29,882	76,600
Individual donations including stock donations	156,343	268,693
Interest income	5	-
Ontario Arts Council Operating Grant	48,760	50,000
Other revenue	10,390	7,901
	<u>1,134,532</u>	<u>1,093,424</u>
Expenses		
Amortization	47,753	48,767
Audit	10,394	10,295
Conference and meetings	4,878	4,596
Cost of disposal of securities	510	170
Events and fundraising	3,746	18,804
Human resources - admin	353,147	276,605
Human resources - program delivery	483,699	446,871
Insurance	5,907	6,207
Marketing and promotion	18,017	15,721
Nutrition program	16,022	19,759
Office and general	29,410	25,004
Other program delivery costs	31,089	10,281
Program evaluation	13,000	6,500
Rent	21,120	18,745
Summer camp program	199	21,932
Supplemental teaching	4,820	-
Transportation	16,129	24,637
	<u>1,059,840</u>	<u>954,894</u>
Excess of revenues over expenses	<u>\$ 74,692</u>	<u>\$ 138,530</u>

The attached notes form an integral part of these financial statements.

**SISTEMA TORONTO ACADEMY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2020**

	2020	2019
Operating activities		
Cash receipts from customers	\$ 1,133,762	\$ 1,193,283
Cash paid to suppliers and employees	(1,010,795)	(932,583)
Interest paid	(1)	-
	<u>122,966</u>	<u>260,700</u>
Cash flow from operating activities		
Investing activity		
Purchase of tangible capital assets	(22,718)	(91,890)
	<u>100,248</u>	<u>168,810</u>
Increase in cash flow	100,248	168,810
Cash - beginning of year	<u>229,511</u>	<u>60,701</u>
Cash - end of year	\$ 329,759	\$ 229,511

The attached notes form an integral part of these financial statements.

SISTEMA TORONTO ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2020

1. Purpose of the organization

Sistema Toronto Academy (the "organization") is a not-for-profit organization incorporated provincially under the Not-for-profit Corporations Act of Ontario. As a registered charity the organization is exempt from the payment of income tax under Section 149(1) of the Income Tax Act, and is able to issue charitable donation receipts to donors.

The organization operates to promote positive social change through music education and appreciation of the arts to young people by providing mentoring programs, workshops and seminars, concert events and festivals.

2. Summary of significant accounting policies

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFP) and, in management's opinion, with consideration of materiality and within the framework of the following accounting policies:

Revenue recognition

Sistema Toronto follows the deferral method of accounting for grants and contributions. Contributions are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Grants and contributions in respect of expenses to be incurred in future periods are deferred and are recognized as revenue in the future period. Grants and contributions designated by the donors for capital acquisition are initially recorded as deferred capital contributions 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 services

The operations of the organization depend on both the contribution of time by volunteers and donated materials from various sources. The fair value of donated materials and services cannot be reasonably determined and are therefore not reflected in these financial statements.

Donated goods

Donated goods are recorded at their fair market value at the time of the donation. During the year 2020 \$2,377 in goods were donated (2019 - \$10,470).

Cash and cash equivalents

Cash equivalents are investments in treasury bills and are valued at cost plus accrued interest. The carrying amounts approximate fair value because they have maturities at the date of purchase of less than ninety days.

(continues)

SISTEMA TORONTO ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2020

2. Summary of significant accounting policies (continued)

Tangible capital assets

Tangible capital assets are stated at cost or deemed cost less accumulated amortization and are amortized over their estimated useful lives at the following rates and methods:

Musical instruments other than bows	8 years	straight-line method
Musical instruments - bows	2 years	straight-line method
Computer equipment	4 years	straight-line method
Office furnishings	4 years	straight-line method

The organization regularly reviews its tangible capital assets to eliminate obsolete items.

Tangible capital assets acquired during the year but not placed into use are not amortized until they are placed into use.

Financial instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

Financial assets measured at amortized cost include amounts receivable. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Sistema Toronto recognizes its transaction costs in the excess of revenues over expenditures in the period incurred.

Deferred Revenue

Deferred revenue represents grant and contribution monies in respect of costs that are expected to take place in the following year. The deferred revenue is recognized in revenue in the year the expenditure takes place.

Deferred Capital Contributions

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

3. Tangible capital assets

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Musical instruments other than bows	\$ 351,915	\$ 231,331	\$ 120,584	\$ 152,041
Musical instruments - bows	28,969	23,759	5,210	2,941
Computer equipment	9,715	3,595	6,120	-
Office furnishings	4,107	3,694	413	-
	\$ 394,706	\$ 262,379	\$ 132,327	\$ 154,982

SISTEMA TORONTO ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2020

4. Deferred Revenue

Deferred revenue includes cash received from various donors intended for programs taking place in future years.

	<u>2020</u>	<u>2019</u>
Unearned or Deferred Revenue - opening	\$ 101,323	\$ 76,667
Amount recognized as revenue in the year	(101,323)	(76,667)
Amounts received relating to future programs	<u>131,232</u>	<u>101,323</u>
Deferred revenue - closing	<u>\$ 131,232</u>	<u>\$ 101,323</u>

5. 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:

	<u>2020</u>	<u>2019</u>
Deferred capital contributions - opening	\$ 89,518	\$ 21,163
Amount received during the year	23,975	81,925
Amounts recognized as revenue in the year	<u>(20,929)</u>	<u>(13,570)</u>
Deferred capital contributions - closing	<u>\$ 92,564</u>	<u>\$ 89,518</u>

6. Financial instruments

Sistema is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the organization's risk exposure and concentration as of August 31, 2020.

(a) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Sistema Toronto meets its liquidity requirements by preparing and monitoring forecasts of cash flows from its activities, preparing budgets, anticipating investing and financing activities, and holding cash or assets that can be readily converted into cash.

(b) 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 comprises three types of risk: currency rate risk, interest rate risk and other price risk. Sistema is not subject to any significant concentrations of these market risks.

Unless otherwise noted, it is management's opinion that the organization is not exposed to significant other price risks arising from these financial instruments.

SISTEMA TORONTO ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2020

7. Agreements with School Boards

Sistema Toronto has obtained permission and agreements with the Toronto District School Board, subject to annual review and modification, for the delivery of the Sistema socio-music program for students in grades 1 through 8. Sistema Toronto entered into a five-year memorandum of understanding with the Toronto Catholic District School Board which expired in September 2020. The program for the 2020 year involved approximately 238 students at four locations in the Greater Toronto area (2019 – 275 students at four locations). Sistema is currently running in an online capacity and anticipates returning to in-person school activity when it is safe to do so.

8. Lease Commitments

The organization leases premises under a long term lease that expires on April 30, 2021. Under the lease, the organization is required to pay a base rent of \$22,776 plus sales tax for the first year term and receives \$3,600 plus sales tax of total rent rebatement. In addition to the above base rent, the organization must pay for its proportionate share of utilities, maintenance and other related costs for the leased premises.

The organization has a long term lease with respect to its premises. The lease contains renewal options and provides for payment of utilities and maintenance costs. Future minimum lease payments as at year end are as follows:

2021	<u>\$ 14,446</u>
------	------------------

9. Capital Management

Sistema Toronto'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 achieve its main purpose described in note 1 above. Sistema Toronto defines its capital for this purpose as cash and cash equivalents, GICs and fund balances.

10. Subsequent events

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). The situation is constantly evolving, and the measures put in place are having multiple impacts on local, provincial, national and global economies.

Management is uncertain of the effects of these changes on its financial statements and believes that any disturbance may be temporary; however, there is uncertainty about the length and potential impact of the disturbance.

As a result, we are unable to estimate the potential impact on the organization's operations as at the date of these financial statements.