

PALMER REED
CHARTERED 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 Board of Directors of
Sistema Toronto Academy**

We have audited the accompanying financial statements of Sistema Toronto Academy which comprise the statement of financial position as at August 31, 2018 and the statement of operations, changes in general fund balance 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 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.

Basis for Qualified Opinion

In common with many not-for-profit organizations, Sistema Toronto Academy derives part of its revenue from donations and events, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these amounts was limited to the amounts recorded in the records of the organization. The predecessor auditor's audit opinion on the financial statements for the year ended August 31, 2017 was qualified because of the possible effects of this limitation in scope. Therefore, we, and the predecessor auditor respectively, were not able to determine whether any adjustments might be necessary to donations and other revenue, excess of revenues over expenses, and cash flows from operations for the year ended August 31, 2018 and 2017, liabilities and assets as at August 31, 2018 and 2017 and net assets at both the beginning and end of the August 31, 2018 and 2017 years.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of Sistema Toronto Academy as at August 31, 2018, the statement of operations, changes in net assets and cash flows for the year then ended in accordance with Canadian Accounting Standards for Not-for-Profit Organizations.

Other Matter

The financial statements of Sistema Toronto Academy for the year ended August 31, 2017 were audited by another auditor who expressed a qualified opinion on those financial statements on April 24, 2018 for the reasons described in the Basis for Qualified Opinion paragraph.

TORONTO, CANADA

January 22, 2019

Palmer Reed

**Chartered Accountants
Licensed Public Accountants**

These statements have been restated. The amounts shown for Human Resources – admin. and Human Resources – program delivery were revised and have been corrected. There is no change to total expenses, excess of revenues over expenses or any other area of these financial statements.

TORONTO, CANADA

March 25, 2019

Palmer Reed

**Chartered Accountants
Licensed Public Accountants**

SISTEMA TORONTO ACADEMY

STATEMENT OF FINANCIAL POSITION

AS AT AUGUST 31, 2018

(with comparative figures as at August 31, 2017)

| | <u>ASSETS</u> | |
|--|----------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| Current assets | | |
| Cash & cash equivalents | \$ 60,701 | \$ 35,347 |
| Amounts receivable | 47,548 | 5,000 |
| Recoverable sales tax | 3,916 | 10,458 |
| Prepaid expense | <u>2,187</u> | <u>2,187</u> |
| Total current assets | \$ 114,352 | \$ 52,992 |
| Tangible capital assets, net of amortization (Note 3) | <u>101,389</u> | <u>115,848</u> |
| Total assets | \$ 215,741 | \$ 168,840 |
| | <u>LIABILITIES</u> | |
| Current | | |
| Accounts payable & accrued charges | \$ 18,819 | \$ 16,398 |
| Payroll & withholding taxes payable | 47,216 | 5,935 |
| Deferred revenue (Note 4) | <u>76,667</u> | <u>50,000</u> |
| Total current liabilities | \$ 142,702 | \$ 72,333 |
| Deferred capital contributions (Note 5) | <u>21,163</u> | <u>41,371</u> |
| Total liabilities | \$ 163,865 | \$ 113,704 |
| | <u>FUND BALANCES</u> | |
| General fund and net assets | <u>51,876</u> | <u>55,136</u> |
| Total liabilities & net assets | \$ 215,741 | \$ 168,840 |

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

Approved on behalf of the Board:



Director



Director

SISTEMA TORONTO ACADEMY

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED AUGUST 31, 2018

(with comparative figures for the year ended August 31, 2017)

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|--------------------|
| Revenue | | |
| Individual donations including stock donations | \$ 151,003 | \$ 163,896 |
| Foundation & trust grants | 345,233 | 376,728 |
| Corporate donations | 121,763 | 121,750 |
| Government grants | 147,300 | 85,000 |
| Events | 14,202 | 13,837 |
| Donations in kind | 25,382 | 8,885 |
| Interest | - | 117 |
| Other revenue | <u>250</u> | <u>1,600</u> |
| | <u>\$ 805,133</u> | <u>\$ 771,813</u> |
| Expenses | | |
| Amortization | \$ 35,356 | \$ 32,044 |
| Audit | 7,498 | 3,945 |
| Conferences & meetings | - | 197 |
| Cost of disposal of securities | 340 | 455 |
| Events & fundraising | 11,131 | 6,770 |
| Fundraising fees | - | 20,564 |
| Human resources – program delivery | 397,053 | 496,921 |
| Human resources – admin. | 248,350 | 194,873 |
| Insurance | 6,022 | 6,015 |
| Legal | - | 100 |
| Marketing & promotion | 7,638 | 3,128 |
| Nutrition program | 16,794 | 21,906 |
| Office & general | 19,574 | 22,339 |
| Other program delivery costs | 7,386 | 11,780 |
| Outreach | - | 531 |
| Program evaluation | 13,000 | 10,079 |
| Rent | 12,122 | 11,974 |
| Supplemental teaching | 4,701 | - |
| Transportation | <u>21,428</u> | <u>-</u> |
| Total expenses | <u>\$ 808,393</u> | <u>\$ 843,621</u> |
| Excess of revenues over expenses | <u>\$ (3,260)</u> | <u>\$ (71,808)</u> |
| General fund balance – opening | <u>55,136</u> | <u>126,944</u> |
| General fund balance – closing | <u>\$ 51,876</u> | <u>\$ 55,136</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, 2018

(with comparative figures for the year ended August 31, 2017)

| | <u>2018</u> | <u>2017</u> |
|--|-------------------------|----------------------------|
| Operating Activities | | |
| Cash received from grants, donations & gifts of securities sold | \$ 750,204 | \$ 718,277 |
| Cash paid to suppliers, employees & Government remittances | (724,850) | (841,470) |
| Interest received | <u>-</u> | <u>117</u> |
| Cash flows from operating activities | <u>\$ 25,354</u> | <u>\$ (123,076)</u> |
| Investing Activities | | |
| Purchase of musical instruments & other tangible capital assets | - | \$ (20,855) |
| Redemption of GICs | <u>-</u> | <u>102,168</u> |
| Cash flows from investing activities | <u>\$ -</u> | <u>\$ 81,313</u> |
| Net change in cash for the year | \$ 25,354 | \$ (41,763) |
| Cash and cash equivalents - beginning of year | <u>35,347</u> | <u>77,110</u> |
| Cash – end of year | <u>\$ 60,701</u> | <u>\$ 35,347</u> |

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

SISTEMA TORONTO ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

1. Nature of Operations

Sistema Toronto Academy ("Sistema Toronto") was incorporated without share capital under the laws of Ontario in 2011 with the principal goal of providing music education and appreciation of the arts to young people by providing mentoring programs, workshops and seminars, concert events and festivals.

Sistema Toronto is a 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 charitable donation 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.

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 Goods and Services

Sistema Toronto 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. Due to the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

SISTEMA TORONTO ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018

Tangible Capital Assets

Tangible capital assets are recorded at cost or fair value as applicable and amortized at the following rate, over the expected useful life of the particular assets.

| | |
|-------------------------------------|------------------------------------|
| Musical instruments other than bows | - Straight-line basis over 8 years |
| Musical instruments – bows | - Straight-line basis over 2 years |
| Computer equipment | - Straight-line basis over 4 years |
| Office furnishings | - Straight-line basis over 4 years |

Financial Instruments

Sistema Toronto initially measures its financial assets and liabilities at fair value, and subsequently measures all its financial assets and financial liabilities at amortized cost, except for its cash and cash equivalents, which are measured at fair value.

Financial assets measured at amortized cost include amounts and loans 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.

SISTEMA TORONTO ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018

Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations 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.

3. Tangible Capital Assets

Tangible capital assets consist of the following:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|-------------------|-------------------|
| Musical instruments other than bows | \$ 249,469 | \$ 233,480 |
| Accumulated amortization | <u>(150,662)</u> | <u>(119,476)</u> |
| | <u>\$ 98,807</u> | <u>\$ 114,004</u> |
| Musical instruments – bows | \$ 12,667 | \$ 7,755 |
| Accumulated amortization | <u>(10,211)</u> | <u>(6,428)</u> |
| | <u>\$ 2,456</u> | <u>\$ 1,327</u> |
| Computer equipment | \$ 1,555 | \$ 1,555 |
| Accumulated amortization | <u>(1,555)</u> | <u>(1,555)</u> |
| | <u>\$ NIL</u> | <u>\$ NIL</u> |
| Office furnishings | \$ 3,557 | \$ 3,557 |
| Accumulated amortization | <u>(3,431)</u> | <u>(3,040)</u> |
| | <u>\$ 126</u> | <u>\$ 517</u> |
| | <u>\$ 101,389</u> | <u>\$ 115,848</u> |

SISTEMA TORONTO ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

4. Deferred Revenue

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

| | <u>2018</u> | <u>2017</u> |
|---|-------------------------|-------------------------|
| Deferred revenue – opening | \$ 50,000 | \$ 90,000 |
| Less: amounts recognized as revenue in the year | (50,000) | (90,000) |
| Add: amounts received relating to future programs | <u>76,667</u> | <u>50,000</u> |
| Deferred revenue – closing | <u>\$ 76,667</u> | <u>\$ 50,000</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>2018</u> | <u>2017</u> |
|--|-------------------------|-------------------------|
| Deferred capital contributions – opening | \$ 41,371 | \$ 46,797 |
| Add: amounts received in the year | - | 2,500 |
| Add: amounts recognized as revenue in the year | <u>(20,208)</u> | <u>(7,926)</u> |
| Deferred capital contributions – closing | <u>\$ 21,163</u> | <u>\$ 41,371</u> |

SISTEMA TORONTO ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2018

6. Financial Instruments

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

| Financial Instrument | Risks | | | | |
|-----------------------------------|--------|-----------|-------------|----------|-------|
| | Credit | Liquidity | Market Risk | | |
| | | | Currency | Interest | Other |
| | | | | Rate | Price |
| Cash & cash equivalents | | | | | X |
| Amounts receivable | X | | | | |
| Amounts payable & 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. Amounts receivable comprise anticipated rebates of sales tax paid, from the Government of Canada. Sistema Toronto is exposed to credit risk through amounts receivable. Management does not consider Sistema Toronto to be subject to credit risk.

Liquidity Risk

Liquidity risk is the risk that Sistema Toronto will not be able to meet a demand for cash or fund its obligations as they come due. 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.

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

SISTEMA TORONTO ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

Currency Risk

Currency risk reflects the risk that Sistema Toronto's earnings will decline due to fluctuations in foreign currency exchange rates. Sistema Toronto does not have assets or liabilities expressed in foreign currencies. Accordingly, Sistema Toronto 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. Sistema Toronto does not have assets or liabilities subject to market interest rates. Accordingly, Sistema Toronto is not subject to interest rate risk.

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. Sistema Toronto does not hold marketable instruments and accordingly is not subject to other price risk.

Changes in Risk

Management does not consider there to have been significant changes in Sistema Toronto's risk exposures from the prior year.

7. Agreements with School Boards

Sistema Toronto has entered into memoranda of understanding with school boards, subject to annual review and modification, for the delivery of the Sistema socio-music program for students in grades 1 through 8. During the prior year the agreement with the Toronto District School Board was renewed for four years ending in June 2019. During a previous year Sistema Toronto entered into a five-year memorandum of understanding with the Toronto Catholic District School Board expiring in September 2020. The program for the 2018 year involved approximately 240 students at four locations in the Greater Toronto area (2017 – 240 students at four locations).

SISTEMA TORONTO ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2018

8. Commitment

Sistema Toronto has entered into a premises lease commitment for a term expiring July 15, 2019 for a gross monthly rent of \$1,031 plus sales tax. Minimum lease payments for the 2019 year are \$6,704 plus tax.

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.