

**SISTEMA TORONTO ACADEMY  
FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2019**

**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](mailto:Palmerreed@palmerreed.com)

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**INDEPENDENT AUDITOR'S REPORT**

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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, 2019, and the statements of changes in net assets, operations 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, 2019, 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.

*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 the 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 those 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 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters relating 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*

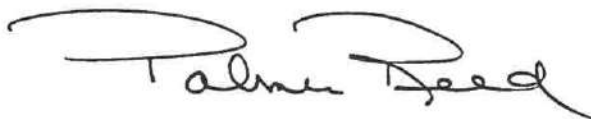
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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:

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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 21, 2020

Chartered Professional Accountants  
Licensed Public Accountants

**SISTEMA TORONTO ACADEMY  
STATEMENT OF FINANCIAL POSITION  
AS AT AUGUST 31, 2019**

	2019	2018
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 229,511	\$ 60,701
Amounts receivable	19,200	47,548
Recoverable sales tax	13,372	3,916
Prepaid expenses	7,103	2,187
	<u>269,186</u>	<u>114,352</u>
Tangible capital assets (Note 3)	<u>154,982</u>	<u>101,389</u>
<b>Total assets</b>	<b><u>\$ 424,168</u></b>	<b><u>\$ 215,741</u></b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued charges	\$ 31,637	\$ 18,819
Payroll and withholding taxes payable	11,284	47,216
Deferred revenue (Note 4)	101,323	76,667
	<u>144,244</u>	<u>142,702</u>
Deferred capital contributions (Note 5)	<u>89,518</u>	<u>21,163</u>
<b>Total liabilities</b>	<b>233,762</b>	<b>163,865</b>
<b>NET ASSETS</b>		
Net assets	<u>190,406</u>	<u>51,876</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 424,168</u></b>	<b><u>\$ 215,741</u></b>

ON BEHALF OF THE BOARD

Marcia Lewis Brown Director  
Philip Dyle 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, 2019**

	2019	2018
<b>Net assets - beginning of year</b>	<b>\$ 51,876</b>	<b>\$ 55,136</b>
Excess of revenues over expenses	<u>138,530</u>	<u>(3,260)</u>
<b>Net assets - end of year</b>	<b><u>\$ 190,406</u></b>	<b><u>\$ 51,876</u></b>

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

**SISTEMA TORONTO ACADEMY  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED AUGUST 31, 2019**

	2019	2018
<b>Revenues</b>		
Corporate donations	\$ 132,865	\$ 121,763
Donations in kind	12,043	25,382
Events	23,915	14,202
Foundation and trust grants	521,407	345,233
Government grants	76,600	137,300
Individual donations including stock donations	268,693	151,003
Ontario Arts Council Operating Grant	50,000	10,000
Other revenue	7,901	250
	<u>1,093,424</u>	<u>805,133</u>
<b>Expenses</b>		
Amortization	48,767	35,356
Audit	10,295	7,498
Conference and meetings	4,596	-
Cost of disposal of securities	170	340
Events and fundraising	18,804	11,131
Human resources - admin	276,605	248,350
Human resources - program delivery	446,871	397,053
Insurance	6,207	6,022
Marketing and promotion	15,721	7,638
Nutrition program	19,759	16,794
Office and general	25,004	19,574
Other program delivery costs	10,281	7,386
Program evaluation	6,500	13,000
Rent	18,745	12,122
Summer camp program	21,932	-
Supplemental teaching	-	4,701
Transportation	24,637	21,428
	<u>954,894</u>	<u>808,393</u>
<b>Excess (deficiency) of revenues over expenses</b>	<u>\$ 138,530</u>	<u>\$ (3,260)</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, 2019**

	2019	2018
<b>Operating activities</b>		
Cash receipts from customers	\$ 1,193,283	\$ 750,204
Cash paid to suppliers and employees	<u>(932,583)</u>	<u>(724,850)</u>
Cash flow from operating activities	<u>260,700</u>	<u>25,354</u>
<b>Investing activity</b>		
Purchase of tangible capital assets	<u>(91,890)</u>	<u>-</u>
<b>Increase in cash flow</b>	<b>168,810</b>	<b>25,354</b>
Cash - beginning of year	<u>60,701</u>	<u>35,347</u>
<b>Cash - end of year</b>	<b><u>\$ 229,511</u></b>	<b><u>\$ 60,701</u></b>

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

**SISTEMA TORONTO ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2019**

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**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 (ASNFPO) 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 2019 \$10,470 in goods were donated (2018 - \$5,061).

Tangible capital assets

Tangible capital assets are stated at cost or deemed cost less accumulated amortization and are amortized over their estimated useful lives on a straight-line basis 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.

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**SISTEMA TORONTO ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2019**

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**2. Summary of significant accounting policies (continued)**

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**

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.

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Musical instruments other than bows	\$ 345,947	\$ 193,906	\$ 152,041	\$ 98,807
Musical instruments - bows	18,549	15,608	2,941	2,456
Computer equipment	1,555	1,555	-	-
Office furnishings	3,557	3,557	-	126
	<b>\$ 369,608</b>	<b>\$ 214,626</b>	<b>\$ 154,982</b>	<b>\$ 101,389</b>

**SISTEMA TORONTO ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2019**

**4. Deferred Revenue**

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

	2019	2018
Unearned or Deferred Revenue - opening	\$ 76,667	\$ 50,000
Amount recognized as revenue in the year	(76,667)	(50,000)
Amounts received relating to future programs	101,323	76,667
Deferred revenue - closing	\$ 101,323	\$ 76,667

**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:

	2019	2018
Deferred capital contributions - opening	\$ 21,163	\$ 41,371
Amount received during the year	81,925	-
Amounts recognized as revenue in the year	(13,570)	(20,208)
Deferred capital contributions - closing	\$ 89,518	\$ 21,163

**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, 2019.

**(a) 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.

**(b) 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.

**(c) 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.

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**SISTEMA TORONTO ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2019**

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**6. Financial instruments (continued)**

**(d) Currency risk**

Currency risk is the risk to the company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. Sistema Toronto does not have assets or liabilities expressed in foreign currencies. Accordingly, Sistema Toronto is not subject to currency risk.

**(e) Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Sistema does not have assets or liabilities subject to market interest rates. Accordingly, Sistema Toronto is not subject to interest rate risk.

**(f) 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.

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

**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 expiring in September 2020. The program for the 2019 year involved approximately 275 students at four locations in the Greater Toronto area (2018 – 240 students at four locations).

**8. Lease Commitments**

The organization leases premises under a long term lease that expires on April 30, 2020. 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:

2020	\$ <u>14,446</u>
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**SISTEMA TORONTO ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2019**

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**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.