

FINANCIAL STATEMENTS
For
FOLK MUSIC ONTARIO
For years ended
JUNE 30, 2013 AND 2012

FOLK MUSIC ONTARIO
AUDITED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>Page</u>
Independent Auditor's Report	1 & 2
Statement of Financial Position	3
Statement of Changes in Net Assets	4
Statement of Operations	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 11

INDEPENDENT AUDITOR'S REPORT

To the members of

FOLK MUSIC ONTARIO

We have audited the accompanying financial statements of Folk Music Ontario which comprise of the statement of financial position as at June 30, 2013, June 30, 2012 and July 1, 2011 and the statement of operations, changes in net assets and cash flows for the years ended June 30, 2013 and 2012, 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

The Council derives revenues from memberships and donations, 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 the Council and were not able to determine whether any adjustments might be necessary to fundraising revenues, donations received, net expense and net deficit.

Qualified Opinion

In common with many not-for-profit organizations, the organization derives revenue from memberships and donations the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the organization. Therefore we were not able to determine whether any adjustments might be necessary to revenues, net revenue (expenses) and cash flows from operations for the years ended June 30, 2013 and 2012, current assets as at June 30, 2013 and 2012, and net assets as at July 1 and December 30 for both the 2013 and 2012 years. Our audit opinion on the financial statements for the year ended December 31, 2012 was modified accordingly because of the possible effects of this limitation in scope.

Emphasis of Matter

We draw your attention to Note 2 of the financial statements which describes the uncertainty that Folk Music Ontario will be continuing as a going concern, meaning its ability to continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As disclosed in note 2, the organization's continued existence is dependent upon its ability to secure additional funding from other sources and attaining positive results in its operations. If the going concern was not appropriate for these financial statements, adjustments might be necessary for the carrying values of assets and liabilities.



Chartered Accountants
Licensed Public Accountants

Ottawa, Ontario
September 21, 2013.

FOLK MUSIC ONTARIO
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013, JUNE 30, 2012 AND JULY 1, 2011

	<u>June 30,</u> <u>2013</u>	<u>June 30,</u> <u>2012</u>	<u>July 1,</u> <u>2011</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash	\$ 40,789	\$ 28,387	\$ 29,462
Accounts receivable	19,619	16,132	28,560
Prepaid expenses	<u>28,873</u>	<u>25,112</u>	<u>20,781</u>
	<u>89,281</u>	<u>69,631</u>	<u>78,803</u>
CAPITAL ASSETS (note 6)	<u>6,915</u>	<u>7,989</u>	<u>6,004</u>
	<u>\$ 96,196</u>	<u>\$ 77,620</u>	<u>\$ 84,807</u>
<u>LIABILITIES AND NET DEFICIT</u>			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$ 51,495	\$ 22,377	\$ 17,801
Prepaid memberships and conferences	30,779	37,134	35,064
Deferred contributions (note 7)	102,200	54,500	65,000
Loan payable (note 8)	<u>12,200</u>	<u>-</u>	<u>-</u>
	<u>196,674</u>	<u>114,011</u>	<u>117,865</u>
NET DEFICIT			
Invested in capital assets	6,915	7,989	6,004
Deficit	<u>(107,393)</u>	<u>(44,380)</u>	<u>(39,062)</u>
	<u>(100,478)</u>	<u>(36,391)</u>	<u>(33,058)</u>
	<u>\$ 96,196</u>	<u>\$ 77,620</u>	<u>\$ 84,807</u>

Approved on behalf of the Board:

..... Director

..... Director

(See accompanying notes)

FOLK MUSIC ONTARIO
STATEMENT OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>Invested in capital assets</u>	<u>Unrestricted</u>	<u>Total 2013</u>	<u>Total 2012</u>
Net assets (liabilities) at beginning of year	\$ 7,989	\$ (44,380)	\$ (36,391)	\$ (33,058)
Net expense	(2,336)	(61,751)	(64,087)	(3,333)
Investment in capital assets	<u>1,262</u>	<u>(1,262)</u>	<u>-</u>	<u>-</u>
Net assets (liabilities) at end of year	<u>\$ 6,915</u>	<u>\$ (107,393)</u>	<u>\$ (100,478)</u>	<u>\$ (36,391)</u>

(See accompanying notes)

FOLK MUSIC ONTARIO
STATEMENT OF OPERATIONS
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Revenues		
Government grants (note 9)	\$ 103,716	\$ 123,412
Conference revenues	99,051	114,406
Sponsorships	61,000	65,350
Memberships	29,835	30,918
Foundation grants	15,500	15,500
Folk Prints advertising	<u>9,015</u>	<u>4,475</u>
	<u>318,117</u>	<u>354,061</u>
Expenses - Administration		
Office wages and contracts	144,373	136,372
Rent	28,800	28,100
Professional fees	18,123	15,698
Bad debts	6,259	-
Office	10,881	8,391
Postage and shipping	5,546	834
Board of directors	6,453	10,765
Telephone	4,375	4,588
Interest and bank charges	3,260	1,561
Utilities	3,113	2,214
Fees and dues	2,511	2,456
Amortization	2,336	1,939
Advertising and promotion	<u>5,635</u>	<u>5,868</u>
	<u>241,665</u>	<u>218,786</u>
Expenses - Programs		
Conference	124,704	126,878
Brochure	8,360	4,841
Folk Prints	<u>7,475</u>	<u>6,889</u>
	<u>140,539</u>	<u>138,608</u>
Total expenses	<u>382,204</u>	<u>357,394</u>
Net expense	<u>\$ (64,087)</u>	<u>\$ (3,333)</u>

(See accompanying notes)

FOLK MUSIC ONTARIO
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net expense	\$ (64,087)	\$ (3,333)
Adjustments for:		
Amortization	<u>2,336</u>	<u>1,939</u>
	(61,751)	(1,394)
Changes in non-cash working capital components:		
Accounts receivable	(3,487)	12,428
Prepaid expenses	(3,761)	(4,331)
Accounts payable and accrued liabilities	29,118	4,576
Prepaid memberships and conferences	(6,355)	2,070
Deferred contributions	<u>47,700</u>	<u>(10,500)</u>
	<u>1,464</u>	<u>2,849</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	<u>(1,262)</u>	<u>(3,924)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances of short-term debt	<u>12,200</u>	<u>-</u>
INCREASE (DECREASE) IN CASH	12,402	(1,075)
CASH AT BEGINNING OF YEAR	<u>28,387</u>	<u>29,462</u>
CASH AT END OF YEAR	<u>\$ 40,789</u>	<u>\$ 28,387</u>

(See accompanying notes)

FOLK MUSIC ONTARIO
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

1. NATURE OF OPERATIONS

Folk Music Ontario (FMO) was incorporated November 16, 1987 under the laws of the Province of Ontario as a corporation without share capital. FMO serves festivals, organizations and individuals working in the traditional, contemporary and multicultural folk music industry in Ontario. FMO's head office is located in Ottawa, Ontario.

FMO is a not-for-profit organization within the meaning of the Income Tax Act (Canada) and is exempt from income taxes.

2. GOING CONCERN

These financial statements have been prepared on the assumption that the entity is a going concern, meaning it will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. There is doubt as to the appropriateness of this assumption given the organization's current deficit and the deficiency in working capital. The organization's ability to continue as a going concern is dependent on its ability to obtain additional financing to meet its current working capital needs and attain profitable operations generating sufficient funds therefrom to meet current and future obligations.

In light of this situation, management is currently taking steps to turn the organization's operations around. These steps include staff reduction, more resources devoted to accounts receivable collection and reducing rental costs either by finding a sub-tenant or moving locations upon the expiry of the lease in February 2014. In addition, FMO has attracted new conference sponsors and have secured bridge financing to help meet cash flow requirements. Management intends to eliminate the annual operating deficit in the 2014 fiscal year and is undertaking to build a long-term deficit elimination plan.

3. ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

Effective July 1, 2012, FMO adopted the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting, *Canadian accounting standards for not-for-profit organizations* (ASNFPO). These are the FMO's first financial statements prepared in accordance with these accounting standards for not-for-profit organizations and these standards have been applied retrospectively. The accounting policies set out in note 4 have been applied in preparing the financial statements for the year ended June 30, 2012 and in the preparation of an opening statement of financial position as at July 1, 2011 (FMO's date of transition).

FMO had previously issued financial statements for the year ended March 31, 2012 using a different accounting framework known as the Canadian generally accepted accounting principles. The adoption of ASNFPO had no impact on the previously reported assets, liabilities, net assets, revenues and expenses of FMO and accordingly no adjustments have been recorded to the comparative financial statements. Certain disclosures have been added to these financial statements to comply with the new ASNFPO disclosure requirements

FOLK MUSIC ONTARIO
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEARS ENDED JUNE 30, 2013 AND 2012

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Financial instruments

Cash is initially and subsequently measured at fair value. All other financial instruments are subsequently measured at amortized cost.

Revenue recognition

FMO follows the deferral method of accounting for contributions. 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.

Donations are recorded at fair value as received.

Operating grants are amortized to revenue in accordance with the dates and terms of the respective grant agreement.

Capital assets

Capital assets are stated at acquisition cost. Amortization is provided on the declining balance basis at the following annual rates:

Equipment	- 20%
Computer hardware	- 30%
Computer software	- 50%

Additions in the year are amortized at one half of these rates.

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 amounts of revenues and expenses during the reporting period.

Management makes estimates when determining the estimated net realizable value of accounts receivable, the estimated useful life of its capital assets and in the determination of accrued liabilities. Actual results could differ from these estimates, the impact of which would be recorded in future periods.

FOLK MUSIC ONTARIO
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEARS ENDED JUNE 30, 2013 AND 2012

5. FINANCIAL INSTRUMENTS

FMO's financial instruments are subject to the following risks:

Credit Risk

FMO is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. FMO's maximum exposure to credit risk represents the sum of the carrying value of its cash and accounts receivable. FMO's cash is deposited with a Canadian chartered bank and as a result, management believes the risk of loss on this item to be remote. FMO manages the credit risk of its accounts receivable by reviewing accounts receivable aging monthly and following up on outstanding amounts. The following table presents an analysis of the age of accounts receivable:

Current	\$ 113
30 - 60 days past the billing date	113
Greater than 90 days past the billing date	<u>19,393</u>
	<u>\$ 19,619</u>

Liquidity risk

FMO is also exposed to liquidity risk which is the risk that FMO may encounter difficulties in meeting obligations associated with financial liabilities and commitments. FMO manages liquidity risk through its cash flow budgeting process.

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.

i) *Currency risk*

Currency risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates.

FMO transacts primarily in Canadian dollars. As a result, management does not believe it is exposed to significant currency risk.

ii) *Interest rate risk*

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates. FMO's loan payable bears interest at a fixed rate. As a result, management does not believe it is exposed to significant interest rate risk.

iii) *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 traded in the market. FMO is not exposed to other price risk.

Changes in risk

There have been no changes in FMO's risk exposures from the prior year.

FOLK MUSIC ONTARIO
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEARS ENDED JUNE 30, 2013 AND 2012

6. CAPITAL ASSETS

Capital assets consist of the following:

	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Equipment	\$ 14,255	\$ 11,701	\$ 13,805	\$ 11,050
Computer equipment	<u>20,857</u>	<u>16,496</u>	<u>20,044</u>	<u>14,810</u>
	35,112	<u>\$ 28,197</u>	33,849	<u>\$ 25,860</u>
Less accumulated amortization	<u>28,197</u>		<u>25,860</u>	
Net book value	<u>\$ 6,915</u>		<u>\$ 7,989</u>	

7. DEFERRED CONTRIBUTIONS

Deferred contributions is comprised of the following:

	<u>Balance at June 30, 2012</u>	<u>Received in year</u>	<u>Recognized as revenue in year</u>	<u>Balance at June 30, 2013</u>
Radio Starmaker Fund	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
Department of Canadian Heritage - CAPF	37,500	50,000	50,000	37,500
Taylor Mitchell Grant	2,000	-	2,000	-
Ontario Arts Council	-	47,500	-	47,500
Brampton Folk Club	<u>-</u>	<u>2,200</u>	<u>-</u>	<u>2,200</u>
	<u>\$ 54,500</u>	<u>\$ 114,500</u>	<u>\$ 67,000</u>	<u>\$ 102,200</u>

8. LOAN PAYABLE

In April 2013, FMO obtained financing from the Ottawa Festival Network's sustainability and emergency funding program. The total loan amount of \$12,200 was due in July 2013 at an annual interest rate of 6% and secured by a general security agreement over FMO's assets. The loan was subsequently repaid in July 2013.

9. GOVERNMENT GRANTS

FMO receives government funding through contribution agreements for specific projects and general operating expenses. Funding in the year came from the following organizations.

	<u>2013</u>	<u>2012</u>
Ontario Arts Council	\$ 53,716	\$ 63,412
Department of Canadian Heritage - CAPF	50,000	50,000
Ontario Media Development Corporation	<u>-</u>	<u>10,000</u>
	<u>\$ 103,716</u>	<u>\$ 123,412</u>

FOLK MUSIC ONTARIO
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEARS ENDED JUNE 30, 2013 AND 2012

10. LINE OF CREDIT

FMO has an authorized line of credit of \$25,000 that bears interest at prime plus 2.90% and is secured by a general security agreement. None of the line of credit was utilized at year-end.

11. COMMITMENTS

FMO is committed under an operating lease for office premises to February 2014. The minimum payment under the lease until maturity is \$19,200.

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the presentation adopted for the current year.