

**DAREarts Foundation Inc.  
Financial Statements  
For the Year Ended July 31, 2019**

**Contents**

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## Independent Auditor's Report

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To the Board of Directors and Stakeholders of DAREarts Foundation Inc.

### Qualified Opinion

We have audited the accompanying financial statements of DAREarts Foundation Inc., which comprise the statement of financial position as at July 31, 2019, and the statements of operations and changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of DAREarts Foundation Inc. as at July 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 Qualified Opinion

In common with many charitable organizations, the Foundation derives part of its revenue from fundraising activities 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 Foundation. We were unable to determine whether any adjustments might be necessary to revenues, excess of revenues over expenses and cash flows from operations for the years ended July 31, 2019 and 2018, current assets as at July 31, 2019 and 2018 and net assets as at August 1 and July 31 for both the 2019 and 2018 years. Our audit opinion on the financial statements for the year ended July 31, 2018 was modified accordingly because of the possible effects of this limitation in scope.

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 Foundation 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 these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### Emphasis of Matter- Restated Comparative Information

We draw attention to Note 2 of the financial statements, which explains that certain comparative information presented for the year ended July 31, 2018 has been restated. Our opinion is not modified in respect of this matter.

As part of our audit of the financial statements for the year ended July 31, 2019, we also audited the adjustments that were applied to restate certain comparative information for the year ended July 31, 2018, which are used to drive the August 1, 2018 balance sheet. In our opinion, such adjustments are appropriate and have been properly applied.

### Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.



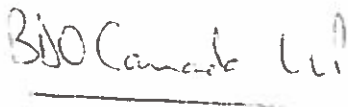
#### Auditor's Responsibilities for the Audit of the Financial Statements

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:

- 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 Foundation'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 Foundation'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 Foundation 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.



Chartered Professional Accountants, Licensed Public Accountants

Alliston, Ontario  
October 7, 2019

**DAREarts Foundation Inc.  
Statement of Financial Position**

July 31	Unrestricted	Restricted	2019 Total	2018 Total
		(Note 6)		(Restated see Note 2)
<b>Assets</b>				
<b>Current</b>				
Cash	\$ 6,185	\$ 5,565	\$ 11,750	\$ 135,163
Investments (Note 3)	-	-	-	50,648
Accounts receivable	53,702	-	53,702	85,064
Inventory	22,800	-	22,800	22,800
Deposits and prepaid expenses	2,371	-	2,371	-
	<u>85,058</u>	<u>5,565</u>	<u>90,623</u>	<u>293,675</u>
<b>Tangible capital assets (Note 4)</b>	<u>14,630</u>	<u>-</u>	<u>14,630</u>	<u>27,773</u>
	<u>\$ 99,688</u>	<u>\$ 5,565</u>	<u>\$ 105,253</u>	<u>\$ 321,448</u>
<b>Liabilities and Net Assets</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	\$ 6,446	\$ -	\$ 6,446	\$ 9,320
Due to related party (Note 7)	-	-	-	11,856
Deferred revenue (Note 5)	-	-	-	60,498
	<u>6,446</u>	<u>-</u>	<u>6,446</u>	<u>81,674</u>
<b>Net Assets</b>				
Unrestricted	93,242	-	93,242	234,209
Restricted	-	5,565	5,565	5,565
	<u>93,242</u>	<u>5,565</u>	<u>98,807</u>	<u>239,774</u>
	<u>\$ 99,688</u>	<u>\$ 5,565</u>	<u>\$ 105,253</u>	<u>\$ 321,448</u>

On behalf of the Board:

 Director

 Director

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

**DAREarts Foundation Inc.**  
**Statement of Operations and Changes in Net Assets**

For the year ended July 31	Unrestricted	Restricted	2019 Total	2018 Total
		(Note 6)		(Restated see Note 2)
<b>Revenue</b>				
Corporate and Corporate Foundations	\$ 485,199	\$ -	\$ 485,199	\$ 480,887
Individuals	130,368	-	130,368	294,654
Government (Note 8)	140,187	-	140,187	118,268
Private Foundations	47,266	-	47,266	82,100
Other Revenue	38,420	-	38,420	45,552
	<b>841,440</b>	<b>-</b>	<b>841,440</b>	<b>1,021,461</b>
<b>Expenses</b>				
<b>Education program</b>				
All the Arts	633,200	-	633,200	642,585
First Roots Aboriginal Vancouver	32,380	-	32,380	64,335
Atlantic	11,412	-	11,412	15,626
Montreal	26,750	-	26,750	20,265
Card Program	20,985	-	20,985	33,969
Extension Program	1,241	-	1,241	39
Drama Summer Camp	1,000	-	1,000	-
Other Expenses	3,339	-	3,339	2,687
Fundraising and promotion Administration (Note 7)	122,000	-	122,000	80,744
	130,100	-	130,100	139,904
	<b>982,407</b>	<b>-</b>	<b>982,407</b>	<b>1,000,154</b>
<b>Excess (deficiency) of revenues over expenses</b>	<b>(140,967)</b>	<b>-</b>	<b>(140,967)</b>	<b>21,307</b>
<b>Net Assets, beginning of the year</b>	<b>234,209</b>	<b>5,565</b>	<b>239,774</b>	<b>246,667</b>
<b>Prior period adjustment (Note 2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28,200)</b>
<b>Net Assets, end of the year as restated</b>	<b>\$ 93,242</b>	<b>\$ 5,565</b>	<b>\$ 98,807</b>	<b>\$ 239,774</b>

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

**DAREarts Foundation Inc.  
Statement of Cash Flows**

<b>For the year ended July 31</b>	<b>2019</b>	<b>2018</b>
<b>Cash flows from (used in) operating activities</b>		
Excess of revenues over expenses (expenses over revenues)	\$ (140,967)	\$ 21,307
Items not affecting cash:		
Amortization of tangible capital assets	7,393	30,744
Write-off of tangible capital assets	9,050	-
	<u>(124,524)</u>	<u>52,051</u>
Changes in non-cash working capital:		
Accounts receivable	31,362	(17,075)
Prepaid expenses	(2,371)	-
Accounts payable and accrued liabilities	(2,874)	(6,128)
Deferred contributions	(60,498)	(24,806)
Due to related parties	(11,856)	(10,914)
	<u>(170,761)</u>	<u>(6,872)</u>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(3,300)	(23,259)
Purchase of investments	-	(20,118)
Proceeds on sale of investments	50,648	-
	<u>47,348</u>	<u>(43,377)</u>
<b>Cash flows from financing activities</b>		
Due to Herman Smith Music Fund	-	105
Due from Operating Fund	-	(105)
	<u>-</u>	<u>-</u>
<b>Net decrease in cash</b>	<b>(123,413)</b>	<b>(50,249)</b>
<b>Cash, beginning of the year</b>	<b>135,163</b>	<b>185,412</b>
<b>Cash, end of the year</b>	<b>\$ 11,750</b>	<b>\$ 135,163</b>

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

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**DAREarts Foundation Inc.  
Notes to Financial Statements**

**July 31, 2019**

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**1 .Significant Accounting Policies**

<b>Nature and Purpose of Organization</b>	<p>The Foundation provides children and youth with out-of-classroom education in life skills using all the arts. Through the efforts of staff and volunteers the Foundation impacted the lives of 1,064 children in 2019 (2018 - 871).</p> <p>DAREarts Foundation Inc. was incorporated under letters patent in the Province of Ontario as a corporation without share capital on December 16, 1996. On April 30, 1997, the Foundation received notification of registration from the Canada Revenue Agency that it had qualified for tax exempt status as a registered charity under paragraph 149(1)(f) of the Income Tax Act. The Foundation issues tax donation receipts, under Registration Number 886917764RR0002.</p> <p>In order to maintain its status as a charitable organization under the Act, the Foundation must meet certain requirements within the Act. These requirements include annual return filings and fulfilling disbursement requirements.</p>
<b>Basis of Accounting</b>	<p>The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.</p>
<b>Revenue Recognition</b>	<p>The Foundation follows the deferral method of accounting for contributions.</p> <p>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 when amount can be reasonably estimated and collection is reasonably assured. Interest income is recognized as revenue in the year in which it is earned. The unrestricted general operating fund accounts for the foundation's program delivery and administrative activities. This fund reports unrestricted resources.</p> <p>Deferred revenue represents contributions and grants received for programs in future periods.</p> <p>Expenditures from the Herman Smith Fund are approved by former DAREarts Board member, Paula Smith, as the Herman Smith Music Fund trustee.</p>
<b>Inventory</b>	<p>Inventory includes a collection of art work donated to the organization and is measured at fair value at the date of contribution.</p>

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**DAREarts Foundation Inc.**  
**Notes to Financial Statements**

**July 31, 2019**

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**1. Significant Accounting Policies (continued)**

**Financial Instruments**      Financial instruments are recorded at fair value at initial recognition.

In subsequent periods, equities traded in an active market and derivatives are reported at fair value, with any change in fair value reported in income. All other financial instruments are reported at cost or amortized cost less impairment. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items measured at fair value and charged to the financial instrument for those measured at amortized cost.

Financial assets are tested for impairment when indicators of impairment exist. When a significant change in the expected timing or amount of the future cash flows of the financial asset is identified, the carrying amount of the financial asset is reduced and the amount of the write-down is recognized in net income. A previously recognized impairment loss may be reversed to the extent of the improvement, provided it is not greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously, and the amount of the reversal is recognized in net income.

The Foundation's financial instruments comprise cash and investments, which are recorded at fair value and accounts receivable and accounts payable and accrued liabilities which are recorded at amortized cost.

**Donated Materials and Services**

The work of the Foundation is dependent on the voluntary services of the community. Since these services are not normally purchased by the Foundation and because of the difficulty in determining their fair value, donated services are not recognized in these financial statements. For 2019 the Foundation tracked 1,441 volunteer hours (2018 - 1,776 hours).

Contributed materials are recognized in the financial statements when their fair market values are reasonably determinable and when they would normally have been purchased by the Foundation if not donated.

Fair value is defined as the estimated cash outlay that would have been required to purchase the contributed services and material.



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**DAREarts Foundation Inc.  
Notes to Financial Statements**

**July 31, 2019**

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**1. Significant Accounting Policies (continued)**

**Tangible Capital Assets** Purchased tangible capital assets are stated at cost less accumulated amortization. Contributed tangible capital assets are recorded at fair value at the date of contribution and are amortized, unless fair value is not determinable in which case contributed tangible capital assets are recorded at nominal value at the date of contribution. Expenditures for repairs and maintenance are expensed as incurred. Betterments that extend the useful life of the tangible capital asset are capitalized.

Construction in progress is not amortized until the tangible capital asset is substantially complete and ready for use.

Amortization based on the estimated useful life of the asset is calculated as follows:

	Method	Rate
Office furniture and equipment	Declining balance	20%
Computer hardware	Declining balance	30-50%
Website development	Declining balance	50%
Leasehold improvements	Straight-line	2 years

When a tangible capital asset no longer has any long-term service potential to the Foundation, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Any unamortized deferred contribution amount related to the tangible capital asset is recognized in revenue in the statement of operations, provided that all restrictions have been complied with.

When a tangible capital asset is disposed of, the difference between the net proceeds on disposition and the net carrying amount is recognized in the statement of operations. Any unamortized deferred contribution amount related to the tangible capital asset disposed of is recognized in revenue in the statement of operations, provided that all restrictions have been complied with.

**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 reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. The principal estimates used in the preparation of these financial statements are estimates for accrued liabilities, valuation of inventory and the useful life and valuation of property, plant and equipment. Actual results could differ from management's best estimates as additional information becomes available in the future.

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**DAREarts Foundation Inc.**  
**Notes to Financial Statements**

July 31, 2019

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**2. Prior Period Adjustment**

During the current year, the organization determined that revenue related to the Paul Semple Fund had been incorrectly included in revenue in 2015. As a result, deferred revenue was understated at the prior year end. The result of this correction to the prior year is as follows:

	2018
Increase in deferred revenue	\$ 28,200
Decrease in unrestricted net assets, beginning of the year	\$ 28,200

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**3. Investments, for Paul Semple Fund**

The carrying amounts of investments are comprised of the following:

	Cost	2019 Market value	Cost	2018 Market value
Cash held in investment portfolio \$	- \$	-	\$ 1,546	\$ 1,546
Mutual funds:				
FRC RUS FXD INC POOL CLASS F - NA 996.714 units	-	-	12,165	11,713
NATIXIS GBL EQ CL GR SER-F-NL 704.054 units	-	-	10,323	13,032
SENTRY SM/MID CAP INCM SR F - NA 422.414 units	-	-	12,168	12,406
RPD0001 RP STRGC INC PLUS-NL 1,173.626 units	-	-	12,556	11,951
	\$ - \$	-	\$ 48,758	\$ 50,648

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**DAREarts Foundation Inc.  
Notes to Financial Statements**

**July 31, 2019**

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**4. Tangible Capital Assets**

	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Office furniture and equipment	\$ 25,706	\$ 19,972	\$ 23,487	\$ 19,093
Computer equipment	30,333	26,163	29,252	24,376
Website development	46,193	41,467	46,193	36,740
Leasehold improvements	-	-	36,200	27,150
	<b>102,232</b>	<b>87,602</b>	<b>135,132</b>	<b>107,359</b>
		<b>\$ 14,630</b>		<b>\$ 27,773</b>

During the year, the Foundation determined that due to their office relocation the leasehold improvements no longer had any long-term service potential to the Foundation. As a result, the net carrying amount of the asset was written down by \$9,050 to \$Nil.

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**DAREarts Foundation Inc.  
Notes to Financial Statements**

**July 31, 2019**

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**5. Deferred Contributions**

Deferred contributions reported in the Paul Semple Fund represent restricted funding received in the current period that is related to expenses of a subsequent period. Deferred contributions reported for Employment Social Development Canada represent restricted operating funding received in the current period that is related to expenses of a subsequent period. Deferred contributions reported for Ontario 150 represent restricted operating funding received in the prior period that is related to expenses in the current period.

The following amounts represent the deferred revenue at year end:

	Paul Semple Fund		Ontario 150	
	2019	2018	2019	2018
		(Restated see Note 2)		
Beginning balance	\$ 60,498	\$ 51,773	\$ -	\$ 33,532
Add: amounts received related to subsequent period	9,650	11,290	-	(43,139)
Less: amounts recognized as revenue in the year	(37,571)	(2,565)	-	9,607
Less: amounts distributed	(32,577)	-	-	(52,936)
Ending balance	\$ -	\$ 60,498	\$ -	\$ -

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**6. Restricted Fund**

Donations amounting to \$Nil (2018 - \$105) were received during the year for the Herman Smith Music Fund. This fund is used to award scholarships and other designated payments annually as determined by the Herman Smith Music fund trustee.

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**DAREarts Foundation Inc.  
Notes to Financial Statements**

**July 31, 2019**

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**7. Related Party Transactions and Commitments**

During the year, a salary of \$14,225 (2018 - \$60,000) and a one-time retiring allowance of \$30,000 was paid to the founding director and former president in her capacity for coordinating programs and management of the Foundation's operations. This salary is included in various education programs and administration expense.

In 2017, the Foundation entered into a two year lease agreement with Windrush Corporation to rent the office premises. The owner of Windrush Corporation is the husband of the founding director and former president of the Foundation. In 2019, the Foundation made lease payments amounting to \$12,203 (2018 - \$26,809), which are presented in All the Arts and administration expenses. The lease agreement ended November 30, 2018.

In 2017 the Foundation moved to a new office facility controlled by Windrush Corporation. The new office facilities required remodeling to meet the requirements of the Foundation. Windrush paid \$23,730 of leasehold improvements, which were repaid by the Foundation over 2 years.

Related party transactions are measured at their exchange amount. Exchange amount is the amount of consideration paid or received as established and agreed to by related parties.

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**8. Government Grants**

During the year, the Foundation received a grant of \$80,781 (2018 - \$Nil) from the Employment and Social Development Canada ("ESDC").

The Foundation has also received \$11,000 (2018 - \$10,000) in government grants from Aboriginal Affairs and Northern Development Canada, to participate in the New Paths - Innovation Call for Proposals and the opportunities provided for First Nation students.

The Foundation has also received \$40,059 (2018 - \$39,068) in government grants from the Ontario Arts Council.

All of the above grants have been recognized in revenue.

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**DAREarts Foundation Inc.**  
**Notes to Financial Statements**

**July 31, 2019**

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**9. Financial Instruments**

**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 Foundation is exposed to credit risk resulting from the possibility that a customer or counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The Foundation's financial instruments that are exposed to concentrations of credit risk relate primarily to its accounts and contributions receivable.

The Foundation is also exposed to credit risk arising from all of its bank accounts being held at one financial institution.

There have not been any changes in the risk from the prior year.

**Liquidity risk**

Liquidity risk is the risk that the Foundation will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Foundation 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. The Foundation is exposed to this risk mainly in respect of its accounts payable.

The Foundation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash flows to fund its operations and to meet its liabilities when due, under both normal and stressed conditions. The Foundation maintains a portion of its invested assets in liquid securities.

There have not been any changes in the risk from the prior year.

**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. The Foundation is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-interest instruments subject the Foundation to a fair value risk while the floating rate instruments subject it to a cash flow risk.

A portion of the Foundation's investments bear interest at floating rates. Fluctuations in these rates will impact the investment income received in the future.

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**DAREarts Foundation Inc.**  
**Notes to Financial Statements**

**July 31, 2019**

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**9. Financial Instruments (continued)**

The Foundation is exposed to changes in interest rates related to its investments in marketable securities. The Foundation's primary objective is to ensure the security of principal amounts invested and provide for a high degree of liquidity, while achieving a satisfactory return. Treasury risk management policies specify various investment parameters including eligible types of investment, maximum maturity dates, maximum exposure by counterparties and maximum credit ratings.

The Foundation mitigates interest rate risk on investments by diversifying the durations of the fixed-income investments that are held at a given time.

There have not been any changes in the risk from the prior year.

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**10. Administration Expenses**

Administration expenses consists of:

	<u>2019</u>	<u>2018</u>
Bank charges and interest	\$ 2,446	\$ 709
Amortization of capital assets	7,393	30,744
Office supplies and expenses	4,295	2,698
Professional and consulting fees	21,013	13,343
Occupancy costs	26,339	18,815
Loss on disposal of asset	9,050	-
Other administrative costs	4,054	-
Administrative payroll	53,164	73,595
Software purchases	2,346	-
	<u>\$ 130,100</u>	<u>\$ 139,904</u>

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