

THE LEADING NOTE FOUNDATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

BORTS AND SCHIJNS LLP
CHARTERED ACCOUNTANTS

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117 CENTREPOINTE DRIVE
SUITE 350
OTTAWA, ONTARIO K2G 5X3
PHONE: (613) 238-1620
FAX: (613) 238-8721

INDEPENDENT AUDITOR'S REPORT

**TO: The Members of
The Leading Note Foundation**

We have audited the accompanying financial statements of The Leading Note Foundation, which comprise the statement of financial position as at June 30, 2013, and the statements of operations, changes in net assets 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, The Leading Note Foundation derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. These amounts are subject to control only when actually received by The Leading Note Foundation. Should these revenues not be received, the excess of revenue over expenses would not be susceptible of verification by audit procedures. Accordingly, our verification of revenue from donations was limited to the amounts recorded in the records of The Leading Note Foundation and we were not able to determine whether any adjustments might be necessary to donations, excess of revenue over expense for the year, assets and net assets.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of The Leading Note Foundation as at June 30, 2013, and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Borts and Schijns LLP

**CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS**

OTTAWA, Ontario
October 11, 2013

**THE LEADING NOTE FOUNDATION
STATEMENT OF FINANCIAL POSITION**

AS AT JUNE 30, 2013

(See Accompanying Notes to the Financial Statements)

	2013	2012
	\$	\$
		(Note 10)
A S S E T S		
CURRENT ASSETS		
Cash	94,012	35,207
Accounts receivable	2,070	150
HST receivable	5,983	3,065
Prepaid expenses	<u>816</u>	<u>-</u>
	102,881	38,422
CAPITAL ASSETS (Note 3)	<u>85,377</u>	<u>99,101</u>
	<u><u>188,258</u></u>	<u><u>137,523</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	13,496	889
Government remittance payable	7,157	1,105
Deferred contributions (Note 4)	<u>38,667</u>	<u>-</u>
	59,320	1,994
DEFERRED CAPITAL CONTRIBUTIONS (Note 5)	<u>77,819</u>	<u>94,612</u>
	137,139	96,606
COMMITMENTS (Note 6)		
NET ASSETS	<u>51,119</u>	<u>40,917</u>
	<u><u>188,258</u></u>	<u><u>137,523</u></u>

SIGNED ON BEHALF OF THE BOARD:

....., Director

....., Director

THE LEADING NOTE FOUNDATION
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2013
(See Accompanying Notes to the Financial Statements)

	2 0 1 3	2 0 1 2
	\$	\$
		(Note 10)
REVENUE		
Government grants	51,958	40,925
Corporate grants	15,000	9,470
Fundraising	7,775	3,105
Donations	166,573	131,736
Other income	2,550	195
Tuition fees	4,073	6,850
Donated instrument contribution revenue (Note 5)	<u>30,957</u>	<u>10,461</u>
	<u>278,886</u>	<u>202,742</u>
EXPENSE		
Other	12,427	12,800
Amortization	32,079	11,011
Advertising and promotion	1,425	2,311
Salaries and benefits (Note 11)	88,849	69,186
Conferences	2,061	6,453
Fundraising	11,981	6,219
Teaching services	81,223	47,203
Insurance	1,880	1,930
Office supplies	7,955	5,522
Rent	19,045	17,018
Professional fees	6,079	-
Pedagogical	1,000	16,025
Telecommunications	2,364	5,875
Travel	<u>316</u>	<u>1,049</u>
	<u>268,684</u>	<u>202,602</u>
EXCESS OF REVENUE OVER EXPENSE	<u><u>10,202</u></u>	<u><u>140</u></u>

THE LEADING NOTE FOUNDATION
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2013
(See Accompanying Notes to the Financial Statements)

	Unrestricted	Endowment Fund	2013	2012
	\$	\$	\$	\$ (Note 10)
BALANCE - beginning of year	36,117	4,800	40,917	40,777
Excess of revenue over expense	<u>10,202</u>	<u>-</u>	<u>10,202</u>	<u>140</u>
BALANCE - end of year	<u><u>46,319</u></u>	<u><u>4,800</u></u>	<u><u>51,119</u></u>	<u><u>40,917</u></u>

THE LEADING NOTE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(See Accompanying Notes to the Financial Statements)

	2 0 1 3 \$ (Note 10)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	
Excess of revenue over expense for the year	10,202
Items not affecting cash	
Amortization	32,079
Donated capital assets	(14,165)
Deferred capital contributions	<u>(16,793)</u>
	11,323
Net change in operating items	
Accounts receivable	(1,920)
HST receivable	(2,918)
Prepaid expenses	(816)
Accounts payable and accrued liabilities	12,607
Government remittance payable	6,052
Deferred contributions	<u>38,667</u>
	<u>62,995</u>
 CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	
Purchase of capital assets	<u>(4,190)</u>
 INCREASE IN CASH FOR THE YEAR	
	58,805
CASH - beginning of year	<u>35,207</u>
CASH - end of year	<u><u>94,012</u></u>

THE LEADING NOTE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

1. DESCRIPTION OF THE ORGANIZATION

The mandate of The Leading Note Foundation (the “Foundation”) is to give children from under-served communities the opportunity to learn and make music together and the chance to benefit from the individual skills and community values that are inherent in music making.

The Foundation was incorporated September 20, 2007 under the *Canada Corporations Act - Part 2*.

The Foundation is a registered charity within the meaning of the *Income Tax Act (Canada)* and is exempt from income taxes.

Basis of Presentation - Going Concern

The financial statements have been prepared on the going concern basis which contemplates the realization of assets and the settlement of liabilities in the normal course of business. This is an appropriate basis as the Foundation’s cash on hand is sufficient to discharge all of the current liabilities.

2. ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The Foundation uses the accrual basis of accounting.

Funds

The Foundation follows the deferral method of accounting for contributions.

The General Fund reports revenues and expenses from various projects and accounts for the fundraising and development activities.

The Endowment Fund records assets to be held permanently.

THE LEADING NOTE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

2. ACCOUNTING POLICIES - CONT'D

Capital Assets and Amortization

Purchased capital assets are recorded at cost. Capital assets donated to the Foundation are recorded at fair value based on appraisal reports. Amortization is provided using the following annual rates:

Musical equipment		
Donated	10 years	Straight-line basis
Purchased	10 years	Straight-line basis

A capital asset is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized in the statement of operations when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the capital asset exceeds its fair value.

An impairment loss is not reversed if the fair value of the capital asset subsequently increases.

Revenue Recognition

Contributions

The Foundation 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. Restricted contributions related to the donations of capital assets are initially deferred and recognized as revenue on the same basis as the amortization expense related to the acquired capital assets.

Endowment contributions are recorded as direct increases to net assets in the period in which they are received.

Donations are recorded as revenue when received except for donated equipment. Donated equipment is recognized as revenue as the related asset is amortized or charged to operations.

THE LEADING NOTE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

2. ACCOUNTING POLICIES - CONT'D

Deferred Contributions

Deferred contributions represent contributions that are externally restricted for operating purposes and revenues received in advance of expenses taking place. They are recognized as revenue as the related expenses are incurred.

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 expenditures during the year. Significant areas where estimates are used include accrued liabilities, estimated useful life of capital assets and deferred contributions. Actual results could differ from those estimates.

Donated Services

A portion of the Foundation's work is dependent upon the contributions of volunteers. These services are not normally purchased and due to difficulty in determining their fair value, volunteer services are not recognized in these financial statements.

Donated Musical Equipment

Donated musical equipment is recorded at appraised fair value at the date of the appraisal of the donated equipment. Amounts donated and recorded at appraised value was \$14,165 in the current year.

3. CAPITAL ASSETS

	Cost \$	Accumulated Amortization \$	Net Book Value	
			2013 \$	2012 \$
Musical equipment				
Donated	140,509	62,690	77,819	94,149
Purchased	<u>10,583</u>	<u>3,025</u>	<u>7,558</u>	<u>4,952</u>
	<u>151,092</u>	<u>65,715</u>	<u>85,377</u>	<u>99,101</u>

THE LEADING NOTE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

4. DEFERRED CONTRIBUTIONS

	Opening Balance	Decrease	Increase	Ending Balance	
	\$	\$	\$	2013	2012
				\$	\$
Grants					
- Trillium	-	-	28,667	28,667	-
- McConnell	-	-	5,000	5,000	-
- Pluralism	-	-	5,000	5,000	-
	<u>-</u>	<u>-</u>	<u>38,667</u>	<u>38,667</u>	<u>-</u>

5. DEFERRED CAPITAL CONTRIBUTIONS

Capital Assets

Deferred capital contributions that relate to capital assets represent donated capital assets. The changes in the deferred capital contributions balance for the year are as follows:

	2013	2012
	\$	\$
Opening balance	94,612	69,883
Contributed equipment	14,165	35,190
Amounts amortized to revenue	<u>(30,958)</u>	<u>(10,461)</u>
Ending balance	<u>77,819</u>	<u>94,612</u>

6. COMMITMENTS

Under the terms of various contracts and contributions the Foundation may be required to repay funds received should they not be able to fulfill their funding obligations.

THE LEADING NOTE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

7. FINANCIAL INSTRUMENTS

Measurement of Financial Instruments

The Foundation initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The Foundation subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of operations in the period incurred.

Financial assets measured at amortized cost include cash, accounts receivable and HST receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and government remittances payable.

Impairment

At the end of each reporting period, the Foundation assesses whether there are any indications that a financial asset measured at amortized cost may be impaired. Objective evidence of impairment includes observable data that comes to the attention of the Foundation, including but not limited to the following events:

significant financial difficulty of the issuer; a breach of contract, such as a default or delinquency in interest or principal payments; or bankruptcy or other financial re-organization proceedings.

When there is an indication of impairment, the Foundation determines whether a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset.

THE LEADING NOTE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

7. FINANCIAL INSTRUMENTS - CONT'D

Impairment (Cont'd)

When the Foundation identifies a significant adverse change in the expected timing or amount of future cash flows from a financial asset, it reduces the carrying amount of the asset to the highest of the following:

- a) the present value of the cash flows expected to be generated by holding the asset discounted using a current market rate of interest appropriate to the asset;
- b) the amount that could be realized by selling the asset at the statement of financial position date; and
- c) the amount the Foundation expects to realize by exercising its rights to any collateral held to secure repayment of the asset net of all costs necessary to exercise those rights.

The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the reduction is recognized as an impairment loss in the statement of operations.

When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent of the improvement, directly or by adjusting the allowance account. The amount of the reversal is recognized in the statement of operations in the period the reversal occurs.

8. SUBSEQUENT EVENT

Effective August 13, 2013 the Foundation obtained a Certificate of Continuance under the Canada Not-For-Profit Corporations Act.

THE LEADING NOTE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

9. FINANCIAL INSTRUMENTS – RISK

The Foundation is exposed to a variety of risks relating to their financial instruments consisting of cash, accounts receivable, accounts payable and accrued liabilities. The fair value of these financial instruments approximate their carrying amount unless otherwise stated. The Foundation has described these risks more fully below, and unless they are specifically mentioned, in the opinion of management the exposure to any other risk to the Foundation is low and is not material.

Credit Risk

The Foundation is exposed to credit risk on its accounts receivable. The Foundation's exposure to credit risk is reduced by the fact that most of its accounts receivable is from the government sector. In the opinion of management the credit risk exposure to the Association is low and is not material.

Liquidity Risk

The Foundation does have a liquidity risk. Liquidity risk is the risk that the Foundation cannot repay its obligations when they become due to its creditors. The Foundation reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due. In the opinion of management the liquidity risk exposure to the Foundation is low and is not material.

Changes in Risk

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

10. COMPARATIVE FIGURES

The comparative figures for the Foundation were neither audited nor reviewed.

11. SALARIES AND BENEFITS

Salaries and benefits include program design and co-ordination activities, fundraising and administration.