

THE LEADING NOTE FOUNDATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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, 2015, 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 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 in our audit 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. 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, 2015, 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 29, 2015**

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

AS AT JUNE 30, 2015

(See Accompanying Notes to the Financial Statements)

	2015	2014
	\$	\$
A S S E T S		
CURRENT ASSETS		
Cash	153,919	57,867
Accounts receivable	25,919	-
HST receivable	<u>4,047</u>	<u>4,080</u>
	183,885	61,947
CAPITAL ASSETS (Note 3)	<u>92,569</u>	<u>92,524</u>
	<u><u>276,454</u></u>	<u><u>154,471</u></u>
L I A B I L I T I E S A N D N E T A S S E T S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	26,597	7,396
Deferred contributions (Note 4)	<u>98,500</u>	<u>7,750</u>
	125,097	15,146
DEFERRED CAPITAL CONTRIBUTIONS (Note 5)	<u>86,978</u>	<u>85,721</u>
	212,075	100,867
COMMITMENTS (Note 6)		
NET ASSETS	<u>64,379</u>	<u>53,604</u>
	<u><u>276,454</u></u>	<u><u>154,471</u></u>

SIGNED ON BEHALF OF THE BOARD:

....., Director

....., Director

THE LEADING NOTE FOUNDATION
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2015
(See Accompanying Notes to the Financial Statements)

	2015	2014
	\$	\$
REVENUE		
Donated instrument contribution revenue (Note 5)	16,808	14,328
Donations	198,834	207,555
Fundraising	15,854	3,677
Grants		
Government	90,300	71,667
Symposium	17,307	-
United Way	18,750	-
Other income	3,682	215
School board	15,450	18,000
Tuition fees	7,300	4,855
	<u>384,285</u>	<u>320,297</u>
EXPENSE		
Advertising and promotion	-	661
Amortization	18,020	15,583
Conferences	25	1,093
Fundraising	6,045	7,849
Insurance	3,885	2,533
Office supplies	3,345	5,975
Other	8,931	8,323
Pedagogical	11,216	26,211
Professional fees	25,895	4,955
Rent	21,623	20,765
Salaries and benefits (Note 9)	151,473	127,832
Symposium	11,700	-
Teaching services	103,284	85,378
Telecommunications	2,475	2,973
Travel	5,085	290
Website	508	7,882
	<u>373,510</u>	<u>318,303</u>
EXCESS OF REVENUE OVER EXPENSE	<u>10,775</u>	<u>1,994</u>

THE LEADING NOTE FOUNDATION
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015
(See Accompanying Notes to the Financial Statements)

	General Fund Unrestricted \$	Operating Reserve \$	Endowment Fund \$	2015 \$	2014 \$
BALANCE - beginning of year	48,313	-	5,291	53,604	51,119
Transfer	3,277	2,014	(5,291)	-	491
Excess of revenue over expense	<u>10,775</u>	<u>-</u>	<u>-</u>	<u>10,775</u>	<u>1,994</u>
BALANCE - end of year	<u><u>62,365</u></u>	<u><u>2,014</u></u>	<u><u>-</u></u>	<u><u>64,379</u></u>	<u><u>53,604</u></u>

NOTE:

During the year, net assets in the Endowment Fund were transferred with Board approval to the net assets of the General Fund.

THE LEADING NOTE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(See Accompanying Notes to the Financial Statements)

	2015	2014
	\$	\$
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Excess of revenue over expense for the year	10,775	1,994
Items not affecting cash		
Amortization	18,020	15,583
Deferred capital contributions	1,257	7,902
Donated capital assets	<u>(18,065)</u>	<u>(22,230)</u>
	11,987	3,249
Net change in operating items		
Accounts payable and accrued liabilities	19,201	(6,100)
Accounts receivable	(25,919)	2,070
Deferred contributions	90,750	(30,917)
Government remittance payable	-	(7,157)
HST receivable	33	1,903
Prepaid expenses	<u>-</u>	<u>816</u>
	<u>96,052</u>	<u>(36,136)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Endowment Fund contributions	<u>-</u>	<u>491</u>
 CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of capital assets	<u>-</u>	<u>(500)</u>
 INCREASE (DECREASE) IN CASH FOR THE YEAR	 96,052	 (36,145)
 CASH - beginning of year	 <u>57,867</u>	 <u>94,012</u>
 CASH - end of year	 <u>153,919</u>	 <u>57,867</u>

THE LEADING NOTE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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

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 Operating Reserve Fund represents funds transferred from the General Fund to provide a reserve equivalent to one year’s current operating expense.

THE LEADING NOTE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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, 2015

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 \$18,065 in the current year (2014 - \$22,230).

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.

THE LEADING NOTE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

3. CAPITAL ASSETS

	Cost \$	Accumulated Amortization \$	Net Book Value	
			2015 \$	2014 \$
Musical equipment				
Donated	180,804	93,826	86,978	85,721
Purchased	<u>11,083</u>	<u>5,492</u>	<u>5,591</u>	<u>6,803</u>
	<u>191,887</u>	<u>99,318</u>	<u>92,569</u>	<u>92,524</u>

4. DEFERRED CONTRIBUTIONS

	Opening Balance \$	Decrease \$	Increase \$	Ending Balance	
				2015 \$	2014 \$
Grants					
- City of Ottawa	7,750	7,750	39,000	39,000	7,750
- Community Foundation of Ottawa	-	-	13,125	13,125	-
- Harry P. Ward Foundation	-	-	1,000	1,000	-
- Ontario Arts Council	-	-	10,000	10,000	-
- Ontario Summer Student	-	-	2,875	2,875	-
- Telus	-	-	3,000	3,000	-
- Trillium	-	-	29,500	29,500	-
	<u>7,750</u>	<u>7,750</u>	<u>98,500</u>	<u>98,500</u>	<u>7,750</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:

	2015 \$	2014 \$
OPENING BALANCE	85,721	77,819
Contributed equipment	18,065	22,230
Amounts amortized to revenue	<u>(16,808)</u>	<u>(14,328)</u>
ENDING BALANCE	<u>86,978</u>	<u>85,721</u>

THE LEADING NOTE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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.

7. FINANCIAL INSTRUMENTS

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.

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.

THE LEADING NOTE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

7. FINANCIAL INSTRUMENTS - CONT'D

Impairment (Cont'd)

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. 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.

THE LEADING NOTE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

9. SALARIES AND BENEFITS

Salaries and benefits include program design and delivery, teaching, event co-ordination, fundraising and administration.