

Victoria Conservatory of Music

Financial Statements

August 31, 2013

Victoria Conservatory of Music

Index to Financial Statements

August 31, 2013

	<u>Page</u>
Independent Auditors' Report	2
Statement of Financial Position	4
Statement of Operations and Changes in Fund Balances	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 15

INDEPENDENT AUDITORS' REPORT

To The Members of the Victoria Conservatory of Music

We have audited the accompanying financial statements of the Victoria Conservatory of Music which comprise the statement of financial position as at August 31, 2013, and the statements of operations, changes in fund balances, cash flows 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

In common with many charitable organizations, the Conservatory derives revenue from 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 Conservatory. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenue over expenses, and

VICTORIA
1000-747 Fort St.
Victoria, BC V8W 3E9
Tel: 250.383.8994 | Fax: 250.383.8904

DUNCAN
823 Canada Ave.
Duncan, BC V9L 1V2
Tel: 250.746.4406 | Fax: 250.746.1950

NANAIMO
30 Front St.
Nanaimo, BC V9R 5H7
Tel: 250.753.2544 | Fax: 250.754.1903

Victoria: 855.383.8994 | Duncan: 888.746.4406 | Nanaimo: 888.754.9551

cash flows from operations for the year ended August 31, 2013, current assets and net fund balances as at September 1, 2012 and August 31, 2013.

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 Victoria Conservatory of Music as at August 31, 2013 and the results of its operations, changes in fund balances and cash flows for the year then ended in accordance with Canadian Accounting Standards for Not-for-Profit Organizations.

Report on Other Legal and Regulatory Requirements

As required by the Society Act (British Columbia), we report that, in our opinion, the accounting principles in the Canadian Accounting Standards for Not-for-Profit Organizations have been applied on a consistent basis.

Comparative Information

Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes that the Victoria Conservatory of Music adopted Canadian Accounting Standards for Not-for-Profit Organizations on September 1, 2012 with a transition date of September 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statements of financial position as at August 31, 2012 and September 1, 2011 and the statements of operations, changes in fund balances and cash flows for the year ended August 31, 2012 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

Hayes Stewart Little & Co.

**Victoria, BC
November 27, 2013**

Chartered Accountants

VICTORIA
1000-747 Fort St.
Victoria, BC V8W 3E9
Tel: 250.383.8994 | Fax: 250.383.8904

DUNCAN
823 Canada Ave.
Duncan, BC V9L 1V2
Tel: 250.746.4406 | Fax: 250.746.1950

NANAIMO
30 Front St.
Nanaimo, BC V9R 5H7
Tel: 250.753.2544 | Fax: 250.754.1903

Victoria: 855.383.8994 | Duncan: 888.746.4406 | Nanaimo: 888.754.9551

Victoria Conservatory of Music

Statement of Financial Position

August 31, 2013, August 31, 2012 and September 1, 2011

	Operating Fund	Internal Fund (note 4)	Capital Asset Fund	Endowment Fund	Restricted Fund	August 31 2013 Total	August 31 2012 (note 14) Total	September 1 2011 Total
ASSETS								
CURRENT								
Cash and Cash Equivalents	\$ 6,054	\$ 13	\$ 73,605	\$ 32,878	\$ 19,257	\$ 131,807	\$ 272,442	\$ 760,786
Accounts Receivable	297,083	-	-	-	-	297,083	310,780	173,894
Prepaid Expenses	12,406	-	-	-	-	12,406	15,754	18,526
Inventory	3,976	-	-	-	-	3,976	4,557	-
Due From (To) Other Funds (note 5)	18,469	(4,695)	(3,002)	(2,040)	(8,732)	-	-	-
	337,988	(4,682)	70,603	30,838	10,525	445,272	603,533	953,206
NON-CURRENT								
Interest in Trusts (note 6)	73,850	-	-	-	-	73,850	73,850	73,850
Long Term Investments (note 7)	-	43,492	-	1,124,821	160,054	1,328,367	719,285	762,114
Capital Assets (note 8)	-	-	3,190,236	-	-	3,190,236	3,286,226	3,383,591
Due From (To) Other Funds (note 5)	200,000	-	(200,000)	-	-	-	-	-
	\$ 611,838	\$ 38,810	\$ 3,060,839	\$ 1,155,659	\$ 170,579	\$ 5,037,725	\$ 4,682,894	\$ 5,172,761
LIABILITIES								
CURRENT								
Accounts Payable and Accrued Liabilities	\$ 122,619	\$ -	\$ -	\$ -	\$ -	\$ 122,619	\$ 124,779	\$ 150,155
Deferred Revenue (note 9)	811,992	-	-	-	-	811,992	784,863	659,594
Debt (note 10)	-	-	317,315	-	-	317,315	334,629	552,872
	\$ 934,611	\$ -	\$ 317,315	\$ -	\$ -	\$ 1,251,926	\$ 1,244,271	\$ 1,362,621
FUND BALANCES (note 11)								
Unrestricted	(322,773)	-	-	-	-	(322,773)	(147,396)	374
Internally Restricted	-	38,810	-	-	-	38,810	107,688	212,295
Invested in Capital Assets	-	-	2,743,524	-	-	2,743,524	2,751,597	2,928,323
Externally Restricted	-	-	-	1,155,659	170,579	1,326,238	726,734	669,148
	(322,773)	38,810	2,743,524	1,155,659	170,579	3,785,799	3,438,623	3,810,140
	\$ 611,838	\$ 38,810	\$ 3,060,839	\$ 1,155,659	\$ 170,579	\$ 5,037,725	\$ 4,682,894	\$ 5,172,761
FUNDS HELD IN TRUST (note 12)								
COMMITMENTS (note 17)								

See accompanying notes to financial statements

Approved on behalf of the Board

_____ Director

_____ Director

Victoria Conservatory of Music

Statement of Operations and Changes in Fund Balances

Years Ended August 31, 2013 and 2012

	Operating Fund	Internal Fund	Capital Asset Fund	Endowment Fund	Restricted Fund	August 31 2013 Total	August 31 2012 (note 13) Total
REVENUE							
Tuitions (note 18)	\$ 2,547,166	\$ -	\$ -	\$ -	\$ -	\$ 2,547,166	\$ 2,417,394
Fees & Other Income	109,126	-	-	-	-	109,126	128,493
Investment Income (note 7)	-	1,060	210	17,703	2,972	21,945	40,885
Facilities & Events Income	290,504	-	-	-	-	290,504	231,712
Total earned revenue	2,946,796	1,060	210	17,703	2,972	2,968,741	2,818,484
Fundraising Income (note 15)	1,113,261	-	133,517	680,472	39,141	1,966,391	1,230,033
	<u>\$ 4,060,057</u>	<u>\$ 1,060</u>	<u>\$ 133,727</u>	<u>\$ 698,175</u>	<u>\$ 42,113</u>	<u>\$ 4,935,132</u>	<u>\$ 4,048,517</u>
EXPENSES							
Wages & Benefits	\$ 3,566,034	\$ -	\$ -	\$ -	\$ -	\$ 3,566,034	\$ 3,330,013
Program Costs	65,126	-	-	-	14,452	79,578	110,045
Administration Expenses	98,531	-	11,913	11,533	56	122,033	154,527
Marketing	75,623	-	-	-	-	75,623	96,913
Fundraising	92,522	-	-	-	-	92,522	62,352
Events	56,219	-	-	-	-	56,219	74,756
Facilities	229,148	26,391	-	-	-	255,539	282,857
Scholarships & Bursaries	23,005	-	-	56,903	25,325	105,233	89,059
Amortization	-	-	230,373	-	-	230,373	216,607
	<u>\$ 4,206,208</u>	<u>26,391</u>	<u>242,286</u>	<u>68,436</u>	<u>39,833</u>	<u>\$ 4,583,154</u>	<u>\$ 4,417,129</u>
Excess (deficiency) of revenues over expenses	(146,151)	(25,331)	(108,559)	629,739	2,280	351,978	(368,612)
Unrealized (Loss) Gain on Investments (note 7)	-	-	-	(4,802)	-	(4,802)	(2,905)
Transfers (note 16)	(29,226)	(43,547)	100,486	3,368	(31,081)	-	-
Net Change For The Year	<u>(175,377)</u>	<u>(68,878)</u>	<u>(8,073)</u>	<u>628,305</u>	<u>(28,801)</u>	<u>347,176</u>	<u>(371,517)</u>
Fund Balances, Beginning of Period	(147,396)	107,688	2,751,597	527,354	199,380	3,438,623	3,810,140
Fund Balances, End Of Period	<u>\$ (322,773)</u>	<u>\$ 38,810</u>	<u>\$ 2,743,524</u>	<u>\$ 1,155,659</u>	<u>\$ 170,579</u>	<u>\$ 3,785,799</u>	<u>\$ 3,438,623</u>

See accompanying notes to financial statements

Victoria Conservatory of Music

Statement of Cash Flows

Years Ended August 31, 2013 and 2012

Cash Provided by (Used in):

OPERATING ACTIVITIES

Excess (Deficiency) of Revenues over Expenses

Items not involving cash:

Amortization of Capital Assets

Donations of Capital Assets

Unrealized Loss on Investments

Changes in non-cash working capital:

Accounts Receivable

Prepaid Expenses

Inventory

Accounts Payable and Accrued Liabilities

Deferred Revenue

Cash Flow from Operating Activities

INVESTING ACTIVITIES

Purchase of Capital Assets

Purchase of Long Term Investments

Sale of Long Term Investments

Cash Flow Used by Investing Activities

FINANCING ACTIVITIES

Repayment of Debt

INCREASE (DECREASE) IN CASH FLOW

Cash and Cash Equivalents - Beginning of Year

Cash and Cash Equivalents - End of Year

REPRESENTED BY:

Cash / (Bank Indebtedness) (note 10)

Restricted Gaming Funds

Investment Account(s)

Funds on Hand

Supplemental Cash Flow Information

Interest Paid During Year

See accompanying notes to financial statements

	August 31 2013	August 31 2012
	\$ 351,978	\$ (368,612)
	230,373	216,807
	(65,117)	(5,950)
	(4,802)	(2,905)
	13,697	(136,886)
	3,348	2,772
	581	(4,557)
	(2,160)	(25,376)
	27,129	125,269
	<u>555,027</u>	<u>(199,638)</u>
	(69,267)	(113,290)
	(1,436,456)	(921,023)
	827,375	963,850
	<u>(678,348)</u>	<u>(70,463)</u>
	<u>(17,314)</u>	<u>(218,243)</u>
	(140,635)	(488,344)
	<u>\$ 272,442</u>	<u>\$ 760,786</u>
	<u>\$ 131,807</u>	<u>\$ 272,442</u>
	(85,307)	50,009
	70,054	10
	125,754	213,439
	21,306	8,984
	<u>\$ 131,807</u>	<u>\$ 272,442</u>
	<u>\$ 11,911</u>	<u>\$ 23,585</u>

Victoria Conservatory of Music

Notes to Financial Statements
Years Ended August 31, 2013 and 2012

1 PURPOSE OF ORGANIZATION

The Victoria Conservatory of Music (VCM) is incorporated under the British Columbia Society Act as a not for profit organization, and is a registered charity under the Income Tax Act. Its mission is to enrich lives through music in a thriving community accessible to all.

2 CHANGE IN ACCOUNTING STANDARDS FOR NOT FOR PROFIT ORGANIZATIONS

On September 1, 2012, VCM adopted Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CICA Handbook. These are the first financial statements prepared in accordance with Not-For-Profit Standards.

In accordance with the transitional provisions in Not-For-Profit Standards, VCM has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is September 1, 2011 and all comparative information provided has been presented by applying Not-For-Profit Standards.

There are no adjustments to net assets as of September 1, 2011 or revenues and expenses or cash flows for the year ended August 31, 2012 as a result of the transition to Canadian Accounting Standards for Not-For-Profit Organizations.

3 SIGNIFICANT ACCOUNTING POLICIES

(A) Fund Accounting:

In order to ensure Board and external restrictions placed on the use of resources available to VCM are properly accounted for, resources are classified for account and reporting purposes into the following funds:

- (i) The **Operating Fund** reports the current operations and programs as well as the organization's general operations. Unrestricted contributions (donations and grants) for the purpose of operating the organization are reported in this fund.
- (ii) The **Internal Fund** reports resources arising for the building and working capital funds. The building fund recognizes donations received less amounts expended on selected building maintenance projects. The working capital fund is available for non-budgeted expenditures.
- (iii) The **Capital Asset Fund** reports the assets, liabilities, revenues and expenses related to capital assets.
- (iv) The **Endowment Fund** reports resources contributed for endowment. Investment income earned on resources of the fund is allocated on a pro rata basis. Scholarships and bursaries awarded are reported in the various funds depending on the nature of any restrictions imposed by contributors of funds for endowment.
- (v) The **Restricted Fund** reports resources contributed for specific purposes which are restricted by the donor. Investment income earned on resources of the Restricted Fund is reported in the various funds on a pro rata basis.

Victoria Conservatory of Music

Notes to Financial Statements

Years Ended August 31, 2013 and 2012

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(B) Revenue Recognition

VCM follows the restricted fund method of accounting.

- a) Tuition fee revenue is recognized over the period of instruction. Tuition fees received in advance are deferred until the instruction period commences.
- b) Restricted contributions related to general operations are recognized as revenue of the Operating Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund.
- c) Unrestricted contributions are recognized as revenue in the Operating Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.
- d) Contributions for endowment and investment income thereon are recognized as revenue in the Endowment Fund.
- e) Gifts in kind are recorded at their estimated fair market value on the date of receipt.
- f) The VCM would not be able to carry out its activities without the services of the many volunteers who donate a considerable number of hours. Because of the difficulty of compiling these hours, contributed services are not recognized in the financial statements.

(C) Asset Valuation

The financial instruments of the VCM consists of cash and cash equivalents, accounts receivable, investments, accounts payable, deferred revenue and debt. The VCM initially records cash and cash equivalents, accounts receivable and investments at fair value. In subsequent periods, investments in actively traded markets are reported at fair value, with unrealized gains and losses reported in income. Accounts payable, debt and deferred revenues are classified as other financial liabilities and are measured at amortized cost.

Unrealized losses of \$4,802 (August 2012 - losses of \$2,905) have been recognized as changes in the Endowment Fund balance in the current year.

The VCM 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 VCM's risk exposure and concentration as of August 31, 2013.

Credit risk arises from the potential that a counter party will fail to perform its obligations. The VCM is exposed to credit risk from customers, however, credit risk is minimized as payments for tuitions are due in partial or in full at the time of registration. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The VCM has a significant number of customers which also minimizes concentration of credit risk.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The VCM is exposed to this risk mainly in respect of its receipt of funds from its customers and other related sources, current debt, and accounts payable.

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. The VCM is mainly exposed to interest rate risk and other price risk.

Victoria Conservatory of Music

Notes to Financial Statements

Years Ended August 31, 2013 and 2012

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(C) Asset Valuation (Continued)

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the VCM manages exposure through its normal operating and financing activities. The VCM is exposed to interest rate risk primarily through its investment in bonds, floating interest rate bank indebtedness and credit facilities.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The VCM is exposed to other price risk through its investment in quoted shares.

All secured financial liabilities have a combined carrying amount of \$404,941 (\$335,516 in 2012).

(D) Capital Assets

Capital Assets are stated at cost less accumulated amortization. Capital Assets are amortized over their estimated useful lives at the following rates and methods:

Land		non-amortizable
Building	40 years	straight line method
Computer equipment and software	4 years	straight line method
Furniture and fixtures	4 years	straight line method
Musical instruments	10 years	straight line method
Library assets	4 years	straight line method

(E) Use of Estimates

The preparation of financial statements in conformity with the Canadian Accounting Standards for Not-for-Profit Organizations requires management to make estimates and assumptions that affect the reported amount 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 period. Such estimates include the collectability of receivables, accrual of payables, providing for amortization of capital assets and the value of the charitable remainder trust. Actual results could differ from these estimates.

Victoria Conservatory of Music

Notes to Financial Statements

Years Ended August 31, 2013 and 2012

4 INTERNAL FUND

	August 31 2013	August 31 2012	September 1 2011
Working Capital	\$ 30,000	\$ 40,000	\$ 113,928
Building	8,810	67,688	98,367
	<u>\$ 38,810</u>	<u>\$ 107,688</u>	<u>\$ 212,295</u>

The Working Capital fund is currently invested in a 90 day GIC. The current fund balance will be drawn down at \$10,000 per year to offset Information Technology expenses. The fund was initially established by Arts Sustainability Victoria to fund unanticipated expenditures and future Information Technology expenses. During the prior year, \$17,410 was expensed for development of the 3 year strategic plan and \$56,518 was accessed to offset the operating deficit.

The building fund is increased when contributions are received for building projects. The fund is reduced when expenditures are made to maintain and/or improve the building. During the current year, \$16,392 was spent on improvements to the performance halls, including new Metro Theatre Doors and an upgraded kitchen in the green room. The building fund also transferred \$43,547 to the capital asset fund for upcoming Metro Theatre upgrades (\$37,500) and the purchase of a vending machine (\$6,047). The \$37,500 transfer for Metro Theatre Upgrades represents 25% of the budgeted costs, 25% has been funded by Intrepid Theatre Company (as a co-occupant) and 50% will be funded by Canada Cultural Spaces. \$1,060 was earned in investment income. In the prior year, \$25,955 in revenue was earned offset by \$13,146 in expenses and a transfer of \$43,488 to the Capital Asset Fund. Capital assets purchased in the prior year included a new lighting system, new dimmer system and green room upgrades (furniture and carpet).

5 DUE FROM (TO) OTHER FUNDS

All disbursements are made from the Operating Fund regardless of the Fund to which the disbursements are attributed. Due to the timing of some transfers between funds, there remain balances owing between the funds. These balances are reflected in the Statement of Financial Position as Due From or Due To Other Funds. It is the policy of the VCM to repay these inter-fund balances annually, with the exception of a bulk mortgage payment made during the prior year.

In order to minimize mortgage interest, the Operating Fund transferred \$200,000 to the Capital Fund to make a bulk payment on the Debt. The inter-fund balance will be eliminated through long term transfers, or sooner, should funds become available.

Victoria Conservatory of Music

Notes to Financial Statements

Years Ended August 31, 2013 and 2012

6 INTEREST IN TRUSTS

In April, 2005, VCM became the 25% beneficiary of a charitable remainder trust. The value of the trust is recorded at VCM's share of the actuarial valuation determined when established. This valuation is considered to approximate fair market value at \$73,850.

In August, 2007, VCM was established as a 25% beneficiary of a testamentary trust. VCM's interest will be recorded as an asset upon notification of receipt.

7 LONG TERM INVESTMENTS

	August 31 2013	August 31 2012	September 1 2011
Internal Funds	\$ 43,492	\$ 103,966	\$ 193,487
Endowment Funds	1,124,821	478,400	468,961
Restricted Funds	160,054	136,919	99,666
Total at Fair Market Value	<u>\$ 1,328,367</u>	<u>\$ 719,285</u>	<u>\$ 762,114</u>

Investments are quoted in an active market and are measured at fair value. Investment income includes interest and dividends earned and realized gains and losses. Transaction costs incurred are expensed as incurred in the respective fund.

8 CAPITAL ASSETS

	Cost	Accumulated Amortization	August 31 2013 Net Book Value	August 31 2012 Net Book Value	September 1 2011 Net Book Value
Land	\$ 650,319	\$ -	\$ 650,319	\$ 650,319	\$ 650,319
Building	4,954,871	(2,815,359)	2,139,512	2,232,837	2,355,964
Computer equipment and software	131,858	(59,088)	72,770	96,248	99,896
Furniture and fixtures	192,726	(107,712)	85,014	86,328	19,650
Library assets	20,383	(14,278)	6,105	4,859	7,472
Musical instruments	962,931	(726,415)	236,516	215,635	250,290
	<u>\$ 6,913,088</u>	<u>\$ (3,722,852)</u>	<u>\$ 3,190,236</u>	<u>\$ 3,286,226</u>	<u>\$ 3,383,591</u>

Victoria Conservatory of Music

Notes to Financial Statements

Years Ended August 31, 2013 and 2012

9 DEFERRED REVENUE

Deferred revenue represents specific purpose grants, tuition paid in advance and event deposits relating to future years. Changes in deferred revenue are as follows:

	August 31 2013	August 31 2012	September 1 2011
Balance, beginning of year	\$ 784,863	\$ 659,594	\$ 584,323
Grants received in current year related to future years (*)	235,238	183,046	187,500
Tuition received in current year related to future years	572,007	597,655	467,284
Event deposits received in current year related to future years	4,748	4,163	2,510
Advertising sales received in current year related to future years	-	-	2,300
Prior year's amount recognized in the current year	<u>(784,863)</u>	<u>(659,594)</u>	<u>(584,323)</u>
(*) Grants received in current year deferred to next year	<u>\$ 811,992</u>	<u>\$ 784,863</u>	<u>\$ 659,594</u>
BC Arts Council	97,000		
BC Gaming	70,000		
Capital Region District	55,000		
Miscellaneous	<u>13,238</u>		
	<u>235,238</u>		

10 DEBT

The VCM has a \$400,000 overdraft facility with the Bank of Montreal of which \$85,807 was used as at August 31, 2013 (August 31, 2012 - \$0). The overdraft, if accessed, is due on demand, bears interest at the bank prime lending rate plus .5% percent.

The VCM has a \$550,000 mortgage of which \$317,315 is utilized (2011: \$334,629). The mortgage bears interest at prime plus .65% per annum, repayable in monthly blended payments. During the current year, the VCM made a bulk payment of \$0 (prior year \$200,000). The loan matures on June 30, 2027.

Principal repayment terms are approximately:

2014	\$ 17,942
2015	18,608
2016	19,299
2017	20,015
2018	20,758
Thereafter	<u>220,693</u>
	<u>\$ 317,315</u>

The overdraft, mortgage plus credit card limits of \$20,000 are secured by a demand collateral land mortgage and assignment of rents in the amounts of \$970,000 providing a first fixed and specific mortgage charge over land and premises, and a certificate of all risk insurance showing the bank as first loss payee.

Victoria Conservatory of Music

Notes to Financial Statements

Years Ended August 31, 2013 and 2012

11 CAPITAL DISCLOSURES

The VCM considers its capital to be the balance maintained in its Fund Balances. The primary objective of the VCM is to invest its capital in a manner that will allow it to continue as a going concern and comply with its stated objectives. Capital is invested under the direction of the Board of Governors of the VCM with the objective of providing a reasonable rate of return, minimizing risk and ensuring adequate liquid investments are on hand for current cash flow requirements. The VCM is subject to externally imposed requirements of its capital.

12 HELD IN TRUST

Distributions and trust fund balances held at third party foundations and not included in these financial statements are as follows:

	August 31, 2013		August 31, 2012	
	Fund Balance	Grants	Fund Balance	Grants
Victoria Foundation				
Victoria Conservatory of Music Fund	\$ 1,943,525	\$ 60,333	\$ 1,775,084	\$ 56,928
Richard Margison Fund for Opera Studio	50,117	1,556	45,774	1,505
Goolden Fund	309,479	9,560	282,701	9,264
Frederick William Kischell Bursary Fund	122,457	3,909	111,713	3,828
Van Hall Fund for the Arts	467,759	15,000	380,683	11,950
Elizabeth McPherson Fund for the Arts	85,328	1,112	80,894	1,083
Norval Schroeder Fund	56,001	874	51,119	874
	<u>3,034,666</u>	<u>92,344</u>	<u>2,727,968</u>	<u>85,432</u>
Vancouver Foundation				
Victoria Conservatory of Music Endowment Fund	206,379	7,669	194,300	7,533
	<u>\$ 3,241,045</u>	<u>\$ 100,013</u>	<u>\$ 2,922,268</u>	<u>\$ 92,965</u>

The Victoria Foundation and the Vancouver Foundation have established permanent Endowment Funds from which income is to be paid regularly to the VCM to be used in part for awarding scholarships and bursaries and in part for supporting operations.

13 COMPARATIVES RESTATED

Some of the comparative figures have been reclassified to conform to the current year's presentation.

14 RESTATEMENT

During the prior year, VCM changed its policy to recognize accounts receivable and offsetting deferred revenue at time of registration. Accordingly, accounts receivable and deferred revenue were restated in the prior year to conform with this policy change. The effect of the accounting policy change increased accounts receivable and deferred revenue \$141,090. There is no impact on the statement of operations and changes in fund balances.

Victoria Conservatory of Music

Notes to Financial Statements

Years Ended August 31, 2013 and 2012

15 FUNDRAISING INCOME

Fundraising income represents contributed funding that comes from various sources. This income accounts for 39% (2012-30%) of total income. All other income is considered earned income and represents 61% (2012-70%) of total income.

	Operating Fund	Internal Fund	Capital Asset Fund	Endowment Fund	Restricted Fund	August 31 2013	August 31 2012
Individual Donors	\$ 542,357	\$ -	\$ 65,117	\$ 650,306	\$ 39,141	\$ 1,296,921	\$ 577,412
Fundraising Events	105,208	-	-	-	-	105,208	182,221
Foundations/Grants	153,748	-	-	30,166	-	183,914	99,629
Endowment	50,938	-	-	-	-	50,938	88,263
Corporate Sponsors	47,110	-	48,400	-	-	95,510	57,208
Government							
Provincial - BC Arts Council	82,500	-	-	-	-	82,500	82,500
Provincial - Gaming	70,000	-	-	-	-	70,000	70,000
Provincial - Sports & Arts Legacy Fund	-	-	20,000	-	-	20,000	-
Municipal - CRD	55,000	-	-	-	-	55,000	65,000
Federal - Heritage (Building Communities)	3,900	-	-	-	-	3,900	4,800
Municipal - City of Victoria	2,500	-	-	-	-	2,500	3,000
	<u>\$ 1,113,261</u>	<u>\$ -</u>	<u>\$ 133,517</u>	<u>\$ 680,472</u>	<u>\$ 39,141</u>	<u>\$ 1,966,391</u>	<u>\$ 1,230,033</u>

Gifts in kind of \$65,117 (2012- \$7,795) are recognized as fundraising income in the Capital Asset Fund.

16 TRANSFERS

	Operating Fund	Internal Fund	Capital Asset Fund	Endowment Fund	Restricted Fund
Debt Payments	\$ (29,226)	\$ -	\$ 29,226	\$ -	\$ -
Scholarship Fund to Endowmen	-	-	-	3,368	(3,368)
Metro Theatre Capital Project	-	(37,500)	37,500	-	-
Capital Asset Purchases	-	(6,047)	6,047	-	-
Goolden Hall Upgrade	-	-	27,713	-	(27,713)
	<u>\$ (29,226)</u>	<u>\$ (43,547)</u>	<u>\$ 100,486</u>	<u>\$ 3,368</u>	<u>\$ (31,081)</u>

In the prior year, VCM transferred \$56,518 from the working capital (internal) fund into the operating fund to offset the operating deficit, \$39,652 from operating to the capital asset fund for purposes of debt payments and \$43,488 from the internal (building) fund into the capital asset fund for the purchase of capital assets (sound and lighting systems for Alix Goolden Performance Hall)

17 COMMITMENTS

The VCM leases an adjacent building for its library. Annual rent payments are approximately \$28,000. The lease agreement can be cancelled with three months notice. The VCM has entered into various operating leases for office equipment, of which the annual payments are individually and in total immaterial. VCM utilizes software for its registration activity and has committed to minimal usage fees of \$10,400/annum from September 1, 2011 to August 31, 2016.

Victoria Conservatory of Music

Notes to Financial Statements
Years Ended August 31, 2013 and 2012

18 TUITIONS REVENUE

Tuitions Revenue represents tuition fees from several different programming areas as follows:

	<u>August 31</u> <u>2013</u>	<u>August 31</u> <u>2012</u>
Collegium Program	\$ 87,179	\$ 68,542
Community Programs	1,502,850	1,446,343
Music Therapy & Wellness	369,489	338,035
Camosun Programs	560,146	534,551
Pedagogy & Literature Program	27,502	29,923
	<u>\$ 2,547,166</u>	<u>\$ 2,417,394</u>

The collegium program provides an enriched curriculum to talented, motivated, teenage classical musicians. Admission is by audition and the program consists of masterclasses, coachings, seminars and performances.

Community programs are those directed to anyone interested in experiencing and learning music. Community programs include early childhood music programs through to adult classes on a variety of instruments and in a variety of genres. Programs occur in group as well as private lesson settings.

Music Therapy & Wellness Programs meet the needs of children as young as 18 months through to the elderly; those of all ages with exceptionalities, conditions or illnesses. Sessions may take place at the VCM Music Therapy studios or in various organizations in the community.

VCM, through partnership with Camosun College, provides the Camosun Music certification and diploma programs.

The Pedagogy & Literature Program is a unique two-year program designed to help aspiring and practicing music teachers to develop the professional skills necessary to teach.
