Non-consolidated Financial Statements of

ALBERTA BALLET COMPANY

Fourteen months ended August 31, 2018

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Directors

We have audited the accompanying non-consolidated financial statements of Alberta Ballet Company, which comprise the non-consolidated statement of financial position as at August 31, 2018, the non-consolidated statements of operations, non-consolidated changes in fund balances and non-consolidated cash flows for the fourteen month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated 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 non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these non-consolidated 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 an audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated 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 non-consolidated financial statements.

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

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of Alberta Ballet Company as at August 31, 2018, and its non-consolidated results of operations and its non-consolidated cash flows for the fourteen month period then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants

November 29, 2018
Calgary, Canada

ALBERTA BALLET COMPANY

Non-consolidated Statement of Financial Position

As at August 31, 2018, with comparative information for 2017

	August 31, 2018	June 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 2,573,427	$ 850,087
Accounts and accrued receivables (note 3)	420,243	660,051
Grants receivable	213,180	431,249
Due from Alberta Ballet Foundation	86,514	30,435
Prepaid expenses	296,706	205,348
Inventory and other assets	313,366	294,747
Restricted investments and cash (note 4)	265,314	146,420
	4,168,750	2,618,337
Restricted investments and cash (note 4)	748,720	505,000
Long term receivables	50,745	49,254
Leasehold improvements and equipment (note 5)	852,016	629,029
Capitalized artistic creations (note 6)	475,512	304,789
	$ 6,295,743	$ 4,106,409
Liabilities and Fund Balances		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 527,262	$ 910,273
Deferred revenue (note 8)	4,104,252	3,991,170
Deposits	169,167	65,114
Current portion of obligations under capital lease (note 9)	19,372	14,524
	4,820,053	4,981,081
Obligations under capital lease (note 9)	39,202	60,077
Deferred capital contributions (note 10)	886,044	191,810
	5,745,299	5,232,968
Fund balances:		
Internally restricted (note 11)	530,000	430,000
Operating	20,444	(1,556,559)
	550,444	(1,126,559)
Commitments and contingencies (note 13)		
	$ 6,295,743	$4,106,409

See accompanying notes to non-consolidated financial statements.

On behalf of the Board:

Larry Clausen, Director

Chandra Henry, Director

ALBERTA BALLET COMPANY

Non-consolidated Statement of Operations

For the fourteen month period ended August 31, 2018, with comparative information for the year ended June 30, 2017

	Fourteen months ended August 31, 2018	Year ended June 30, 2017
Revenues:		
Performance	$ 7,896,357	$ 5,700,324
Tuition	3,588,421	3,390,122
Government grants	2,923,384	2,604,282
Donations (note 12)	840,128	825,091
School residence	648,628	783,333
Sponsorship	533,808	527,331
Merchandising	264,395	272,562
Fundraising events	131,198	99,759
Amortization of deferred capital contributions (note 10)	61,058	31,934
Other	38,249	13,225
Rental revenue	24,911	25,624
Audition fees	23,938	18,258
	16,974,475	14,291,845
Expenses:		
Personnel	8,310,948	7,489,106
Performance	1,692,037	1,863,377
Facilities	1,378,525	1,479,604
Administration (note 9)	1,583,714	1,053,695
Marketing	1,039,552	825,002
Residence food and supplies	175,578	264,601
Merchandising	127,452	228,220
Artistic and creations	162,342	221,571
Fundraising and development	140,874	77,856
Bad debts	139,759	61,571
Sponsorship Benefits	94,019	44,493
Write down of inventory and other	43,274	21,374
	14,888,074	13,630,470
	2,086,401	661,375
Amortization (notes 5 and 6)	(409,398)	(361,989)
Loss on disposal of furniture and fixtures (note 5)	–	(37,245)
Excess of revenues over expenses	$1,677,003	$ 262,141

See accompanying notes to non-consolidated financial statements.

ALBERTA BALLET COMPANY

Non-consolidated Statement of Changes in Fund Balances

For the fourteen month period ended August 31, 2018, with comparative information for the year ended June 30, 2017

	Operating	Internally Restricted Funds	Fourteen months ended August 31, 2018	Year ended June 30, 2017
Fund balances, beginning of period	$(1,556,559)	$ 430,000	$(1,126,559)	$(1,388,700)
Excess of revenues over expenses	1,677,003	–	1,677,003	262,141
Inter fund transfer during the year (note 11)	(100,000)	100,000	–	–
Fund balances, end of period	$ 20,444	$ 530,000	$ 550,444	$(1,126,559)

See accompanying notes to non-consolidated financial statements.

ALBERTA BALLET COMPANY

Non-consolidated Statement of Cash Flows

For the fourteen month period ended August 31, 2018, with comparatives information for the year ended June 30, 2017

	Fourteen months ended August 31, 2018	Year ended June 30, 2017
Increase (decrease) in cash		
Operations:		
Excess of revenues over expenses	$ 1,677,003	$ 262,141
Amortization	409,398	361,989
Amortization of deferred capital contributions	(61,058)	(31,934)
Loss on disposal of furniture and fixtures	–	37,245
	2,025,343	629,441
Net change in non-cash operating working capital (note 16)	125,945	266,252
	2,151,288	895,693
Financing:		
Capital lease agreements to purchase equipment	-	56,193
Payments on capital lease obligation	(16,027)	(11,250)
	(16,027)	44,943
Investing:		
Increase in restricted investments (note 4)	(233,799)	(101,000)
Capital contributions received (note 10)	755,292	75,000
Purchase of leasehold improvements and equipment	(418,547)	(220,463)
Purchase of capitalized artistic creations	(384,560)	(160,563)
Increase in long term receivables	(1,491)	(1,470)
	(283,105)	(408,496)
Net increase in cash, cash equivalents and restricted cash	1,852,156	532,140
Cash, cash equivalents and restricted cash, beginning of period	1,365,507	833,367
Cash, cash equivalents and restricted cash, end of period	$ 3,217,663	$ 1,365,507

Cash and restricted cash is comprised of:

Cash	$ 2,573,427	$ 850,087
Restricted cash (note 4)	644,236	515,420
	$ 3,217,663	$ 1,365,507

See accompanying notes to non-consolidated financial statements.

1. Nature of the business:

As a dynamic member of the Canadian cultural community, The Alberta Ballet Company (the "Company") fosters and promotes appreciation, enjoyment and participation in classical ballet while nurturing the discerning tastes of its audience through performance of acclaimed contemporary masterpieces and new works by gifted choreographers. Through its school, Alberta Ballet Company fosters and promotes the study, participation and appreciation of dance, and provides superior academic training. Alberta Ballet Company is a not-for-profit organization incorporated under the Societies Act of the Province of Alberta and is a registered charity under the Income Tax Act.

2. Significant accounting policies:

The non-consolidated financial statements of the Company have been prepared by management in accordance with Canadian Accounting Standards for Not-for-Profit Organizations ("ASNPO"). Significant accounting policies are summarized below:

(a) Accounting for controlled related entity:

The Company has elected to account for its controlled related entity, the Alberta Ballet Foundation, at cost. The Alberta Ballet Foundation has not been consolidated in the Alberta Ballet Company financial statements.

(b) Fund accounting:

Revenues and expenses related to program delivery, operation of the Alberta Ballet School and administrative activities are reported in the Operating Fund.

Endowment contributions and investment revenues are reported in the appropriate externally restricted or internally restricted fund.

(c) Revenue recognition:

The Company follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the Period 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.

(d) Deferred revenue:

The Company defers revenue from ticket sales until the date of the performance. Tuition fees are deferred and recognized on a monthly basis as the classes are provided. Sponsorships and grant revenues are deferred until the period being funded.

2. Significant accounting policies (continued):

(e) Deferred contributions:

Restricted donations the Company receives that are related to subsequent use and expense are deferred and recognized as earned revenue when the use and expense is incurred.

(f) Deferred capital contributions:

Restricted donations the Company receives for capital purposes are recorded as deferred capital contributions when received or receivable and are taken into income each Period in proportion to the annual amortization of the related assets for which the capital contributions were expended.

(g) Donations in-kind:

Donations in-kind of capital assets and contributed material and services are recognized at the fair value at the date of contribution. Volunteers contribute significant time every Period in assisting the Company in a variety of areas, due to the difficulty of determining their fair value, contributed services related to volunteer activities are not recognized in the financial statements.

(h) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

(i) Leasehold improvements and equipment:

Leasehold improvements and equipment are recorded at cost at the time of the acquisition. Contributed leasehold improvements and equipment are recorded at fair value at the date of the contribution. Leasehold improvements and equipment are amortized as follows:

Leasehold improvements	Greater of 20% declining balance or straight-line over term of lease
Office furniture, fixtures and equipment	20% declining balance or straight-line over term of lease
Computers and software	30% declining balance
Production equipment	20% declining balance

2. Significant accounting policies (continued):

(i) Capitalized artistic creations:

Capitalized artistic creations include the cost of set, props, original choreography and music scores and costumes for major productions performed by the Company. Capitalized artistic creations are being amortized on a straight-line basis over their expected life, subject to an annual review by management.

Sets, props, original music scores, costumes and related costs for the Nutcracker are amortized on a straight-line basis over 10 years, All of Us, Cinderella, Our Canada and school costumes are amortized on a straight line basis over 5 years, and Caelestis on a straight line basis over 3 years, subject to an annual review by management.

(k) Financial instruments:

Financial instruments are recorded at fair value on initial recognition and subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Company has not elected to carry and such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest rate method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal Period if there are indicators of impairment. If there is an indicator of impairment, the Company determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Company expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(l) Long-lived assets:

The Company performs impairment testing on long-lived assets which include leasehold improvements and equipment and capitalized artistic creations, whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from use and disposal are less than the asset's carrying value. Any impairment loss is measured as the amount by which the carrying value exceeds the fair value and would be included in the statement of operations for the Period.

2. Significant accounting policies (continued):

(m) Foreign currency translation:

Transactions denominated in foreign currencies are translated into Canadian dollars at the approximate rate of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the Period end exchange rate. Non-monetary assets and liabilities are translated at the approximate rate of exchange prevailing at the transaction date.

(n) Use of accounting estimates:

The preparation of the financial statements in accordance with ASNPO requires management to make accounting estimates and assumptions that affect the reported amount of assets, liabilities and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the useful life of capitalized artistic creations and leasehold improvements and equipment. Actual results could differ from and affect the results reported in these financial statements.

3. Accounts and accrued receivables:

Included in accounts and accrued receivables are $37,763 (2017 - $549,454) of receipts for single and subscription ticket sales collected by a third party on behalf of the Company.

4. Restricted investments and cash:

	August 31, 2018	June 30, 2017	Restricted by
Current cash:			
Casino & Raffle accounts	$ 93,824	$ 37,315	Alberta Gaming & Liquor Commission
Barbara Palmer Fund for New Works	88,338	–	Donors
Dancers development fund	14,516	24,313	Donors
Training grant	–	23,792	Funder
	196,678	85,420	
Long term cash:			
Working capital reserve (note 12)	431,924	430,000	Funder
Repertoire Fund	15,633	–	Patrons
Total restricted cash	644,235	515,420	
Current guaranteed investment certificates:			
New Works	26,236	26,000	Donor
Security	35,000	35,000	Canadian Actors' Equity Association
Training grant	7,400	–	Funder
	68,636	61,000	
Long term guaranteed investment certificates:			
Building fund	301,163	75,000	Donor
Total guaranteed investment certificates	369,799	136,000	
	$ 1,014,034	$ 651,420	

The externally restricted guaranteed investment certificates are held with a Canadian chartered bank and bear interest at 1.10% to 1.55% (2017 – 0.90% to 1.55%) per annum, maturing between December 23, 2018 – December 30, 2019 (2017 – December 23, 2017).

5. Leasehold improvements and equipment:

			August 31, 2018	June 30, 2017
	Cost	Accumulated depreciation	Net book value	Net book value
Leasehold improvements	$ 1,659,852	$ 1,252,694	$ 407,158	$ 234,065
Office furniture, fixtures and equipment	539,069	419,407	119,662	118,055
Computers and software	765,695	569,745	195,950	157,978
Production equipment	697,578	568,332	129,246	118,931
	$ 3,662,194	$ 2,810,178	$ 852,016	$ 629,029

Amortization provided for the current period totaled $195,561 (2017 - $196,401). There was a loss on disposal of furniture and fixtures during the period of $nil (2017 - $37,245).

6. Capitalized artistic creations:

			August 31, 2018	June 30, 2017
	Cost	Accumulated depreciation	Net book value	Net book value
Set, props and costumes:				
The Nutcracker	$ 1,147,651	$ 1,147,651	$ –	$ 137,463
Sleeping Beauty	198,230	–	198,230	–
All of Us	164,441	19,185	145,256	–
Our Canada	134,038	44,680	89,358	120,633
Dangerous Liaison	60,309	60,309	–	12,063
School costumes	40,643	18,928	21,715	26,297
Caelestis	10,000	5,556	4,444	8,333
Cinderella	8,500	991	7,509	–
Mixed Bill	4,500	–	4,500	–
Midsummer	4,500	–	4,500	–
	$ 1,772,812	$ 1,297,300	$ 475,512	$ 304,789

Amortization provided for the fourteen month period totaled $213,837 (2017 - $165,588).

7. Accounts payable and accrued liabilities:

Government remittances payable total $nil (2017 - $27,290) related to goods and services and payroll taxes.

8. Deferred revenue:

Deferred revenue represents ticket sales, tuition, performance fees, government grants, and sponsorship restricted to future expenditures. The components of deferred revenue are as follows:

	August 31, 2018	June 30, 2017
Ticket sales	$ 2,055,381	$ 1,537,071
Government grants	1,317,946	1,277,209
Tuition	673,540	1,095,073
Sponsorships	46,900	69,817
Performance fees	10,485	12,000
	$ 4,104,252	$ 3,991,170

9. Obligations under capital lease:

The Company has financed computer and copier equipment by entering into capital lease arrangements. The computer contracts mature on August 15, 2019 and December 15, 2019 and bear interest at 1.1% and 1.2% per month. The copier contract matures on September 22, 2022, and bears interest at 5.9% per annum. Computer and copier contracts are collateralized by a general security agreement of the equipment. Capital lease repayments are as follows:

2019	29,316
2020	18,014
2021	16,307
2022	16,307
2023	4,078
Total minimum lease payments	84,022
Less amount representing interest	25,448
Minimum capital lease payments	58,574
Current portion of obligations under capital	19,372
	$ 39,202

9. Obligations under capital lease (continued):

Interest of $13,076 (2017 - $3,755) relating to the capital lease obligation has been included in administration expense. The total amount of equipment under capital lease is $93,561 (2017 - $93,561) with accumulated amortization of $35,651 (2017 - $10,522).

10. Deferred capital contributions:

Deferred capital contributions relate to restricted donations the Company receives that are related to acquisition of building, leasehold improvements, and equipment and future productions.

Changes in the deferred capital contributions balance are as follows:

	August 31, 2018	June 30, 2017
Beginning balance	$ 191,810	$ 148,744
Contributions received	755,292	75,000
Less amounts recognized as revenue	(61,058)	(31,934)
Ending balance	$ 886,044	$ 191,810

11. Fund balances:

	August 31, 2018	June 30, 2017
Internally restricted:		
Working capital reserve	$ 530,000	$ 430,000

The Company is required to maintain a working capital reserve under Alberta Foundation for the Arts (“AFA”) guidelines. As required by the AFA, the working capital reserve may be used to fund operations during the fiscal period as defined in the agreement and must be refunded in accordance with AFA requirements. The stated requirement of the Board is that the Company seek to increase the cash reserve fund over time to a target of 10% of total revenue.

During the year ended August 31, 2018, $100,000 (2017 - $nil) was transferred from the unrestricted fund to the working capital reserve.

12. Alberta Ballet Foundation:

The Alberta Ballet Foundation (the "Foundation"), a controlled related entity that is accounted for at cost, was established to solicit funding for the sole benefit of the Company by providing financial assistance to that organization in amounts as determined by the Board of Directors of the Foundation. The following transactions occurred between the Foundation and the Company:

	Fourteen months ended, August 31, 2018	Year ended June 30, 2017
Donation to the Company	$ 35,869	$ 29,468

A summary of operations, financial position and cash flows based upon the audited statement of financial position and statements of operations, changes in net assets and cash flows are provided as follows:

	Fourteen months ended August 31, 2018	Year ended June 30, 2017
Statement of operations:		
Revenues	$ 33,637	$ 25,630
Expenses	47,811	(166,049)
Deficiency of revenues over expenses	$ (14,174)	$ (140,419)

	August 31, 2018	June 30, 2017
Financial position:		
Total assets	$ 1,018,648	$ 979,132
Total liabilities	89,725	36,035
Capital stock and fund balances	$ 928,923	$ 943,097

12. Alberta Ballet Foundation (continued):

For the Period ended August 31	2018	2017
Cash flows:		
Operations	$ 43,788	$ (138,221)
Investing	(10,744)	(768,743)
Increase (decrease) in cash and restricted cash	$ 33,044	$ (906,964)

13. Commitments and contingencies:

(a) The Alberta Ballet Studios on 18th Avenue (the "Studios") is a Government of Alberta designated Provincial Historic Resource. The building is owned by the City of Calgary and is held by the Company under a long-term lease. The lease expires December 31, 2036 and contains an irrevocable option for an additional 25 years provided no terms of the lease are violated. The lease calls for annual rental payments of $1.

Effective June 2017, the Company entered into a 7 year lease agreement with an option to terminate after 5 years for the Alberta Ballet School. The Company also leases warehouse space in Calgary for the purposes of building and storing sets and props expiring July 2019.

The Company leases studio space in Edmonton expiring in August 2019. The lease for office space in Edmonton was terminated in June 2017. The Company was required to pay $nil (2017 - $43,510) under the lease surrender agreement which was included in facilities expense with $nil (2017 - $18,510) being paid on June 1, 2017 and $nil (2017 - $25,000) on July 31, 2017.

Effective June 1, 2017 the Company entered into a 3 year licensed user agreement with Ticketmaster.

Minimum base rent payable for premises, equipment leases and licensing for each of the next five fiscal years is as follows:

2019	563,113
2020	393,916
2021	391,441
2022	378,516
2023 and beyond	594,544
	$ 2,321,530

13. Commitments and contingencies (continued):

(b) The Company has arranged a Letter of Guarantee in favor of The Canadian Actions Equity Association for $35,000 (2017 - $35,000) secured by a $35,000 non-redeemable GIC. The Association did not draw on this guarantee at August 31, 2018 or June 30, 2017.

14. Bank indebtedness:

The Company has an operating line of credit for $500,000 (2017 - $500,000) at an interest rate of bank's prime rate plus 0.75%. The Company has provided the lender a general security agreement over all assets and future acquired assets. At August 31, 2018, the Company had drawn $nil on this line of credit (June 30, 2017 - $nil).

15. Donations in-kind:

During the current Period, the Company received donation in-kind of material and services, the fair market values that are included in the statement of operations as donations revenues and expenses as follows:

	Fourteen months ended, August 31, 2018	Year ended June 30, 2017
Administration	$ 99,365	$ 40,788
Production	–	545
	$ 99,365	$ 41,333

16. Net change in non-cash operating working capital:

	August 31, 2018	June 30, 2017
Accounts and accrued receivables	$ 239,808	$ (333,108)
Grants receivable	218,069	(105,174)
Due from Alberta Ballet Foundation	(56,079)	(8,687)
Prepaid expenses	(91,358)	(127,748)
Inventory and other assets	(18,619)	(77,359)
Accounts payable and accrued liabilities	(383,011)	377,890
Deferred revenue	113,082	475,324
Deposits	104,053	65,114
	$ 125,945	$ 266,252

17. Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, accounts and accrued receivables, grants receivable, due from Alberta Ballet Foundation, restricted investments and cash, long term receivable and accounts payable and accrued liabilities. The Company is not significantly exposed to interest risk.

(a) Credit risk:

The Company is exposed to credit risk, which is the risk that a counterparty will fail to perform an obligation or settle a liability, resulting in a financial loss to the Company. Credit risk is assessed by management as minimal for the Company. The Company's accounts and accrued receivables, grants receivable and long term receivable are primarily due from governments and large corporations and are subject to normal credit risks. The maximum credit risk exposure associated with the Company's financial assets is the carrying amount.

(b) Liquidity risk:

The Company is exposed to liquidity risk, which is the risk that the Company will be unable to generate or obtain sufficient cash to meet its obligations as they come due. Mitigation of this risk is achieved through active cash management and budgeting processes. There has been no change in risk exposure since 2017.

(c) Foreign exchange risk:

The Corporation is exposed to foreign currency fluctuations as it has both purchases and sales in U.S. dollars. There were no exchange rate contracts in place as at August 31, 2018, or June 30, 2017.

18. Comparative information:

Certain prior period balances have been reclassified to conform to current period's presentation.