

**NEWFOUNDLAND AND LABRADOR
ARTS COUNCIL**

FINANCIAL STATEMENTS

MARCH 31, 2016

Management's Report

Management's Responsibility for the Newfoundland and Labrador Arts Council Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and liabilities are recognized.

Furthermore, management is responsible for making sure transactions comply with relevant policies and authorities and are properly recorded to produce reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews external audited financial statements yearly.

The Auditor General conducts an independent audit of the annual financial statements of the Council, in accordance with Canadian generally accepted auditing standards, in order to express an opinion thereon. The Auditor General has full and free access to financial management of the Newfoundland and Labrador Arts Council.

On behalf of the Newfoundland and Labrador Arts Council.



Reginald Winsor
Reginald Winsor
Executive Director



**AUDITOR
GENERAL**
of Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Newfoundland and Labrador Arts Council
St. John's, Newfoundland and Labrador

Report on the Financial Statements

I have audited the accompanying financial statements of the Newfoundland and Labrador Arts Council which comprise the statement of financial position as at March 31, 2016, the statements of operations, change in net financial 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 public sector accounting standards, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 judgment of the auditor, 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.

Independent Auditor's Report (cont.)

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Newfoundland and Labrador Arts Council as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



TERRY PADDON, CPA, CA
Auditor General

July 15, 2016
St. John's, Newfoundland and Labrador

**NEWFOUNDLAND AND LABRADOR ARTS COUNCIL
STATEMENT OF FINANCIAL POSITION**

As at March 31

2016

2015

FINANCIAL ASSETS

Cash	\$ 187,759	\$ 144,741
Accounts receivable (Note 3)	36,817	60,934
Portfolio investments (Notes 4 and 10)	-	26,213
	224,576	231,888

LIABILITIES

Accounts payable and accrued liabilities (Note 5)	84,521	89,019
Deferred revenue (Note 6)	-	23,210
Obligation under capital lease (Note 7)	1,822	3,643
Employee future benefits (Note 8)	77,740	80,566
	164,083	196,438

Net financial assets 60,493 35,450

NON-FINANCIAL ASSETS

Tangible capital assets (Note 9)	12,163	3,643
Prepaid expenses	4,023	3,239
Arts Fund (Notes 4 and 10)	50,352	50,352
	66,538	57,234

Accumulated surplus \$ 127,031 \$ 92,684

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

Signed on behalf of the Council:


Chairperson


Member

NEWFOUNDLAND AND LABRADOR ARTS COUNCIL
STATEMENT OF OPERATIONS
For the Year Ended March 31

	2016 Budget	2016 Actual	2015 Actual
	(Note 16)		
REVENUES			
Province of Newfoundland and Labrador			
Grants	\$ 2,356,910	\$ 2,356,910	\$ 2,350,632
Projects (Note 11)	135,000	135,000	71,950
<u>Income earned on portfolio investments</u>	<u>1,000</u>	<u>642</u>	<u>935</u>
	<u>2,492,910</u>	<u>2,492,552</u>	<u>2,423,517</u>
EXPENSES (Note 12)			
Grants			
Annual Operating	150,000	150,000	-
Community Arts	75,000	75,000	75,000
Labrador Initiative	70,000	27,406	90,211
Professional Artists Travel Fund grants	30,000	23,683	29,161
Professional Festivals	-	-	115,000
Professional Project Grants Program	550,000	554,055	590,391
Sustaining Program for Professional Arts Organizations	<u>575,000</u>	<u>575,000</u>	<u>575,000</u>
	<u>1,450,000</u>	<u>1,405,144</u>	<u>1,474,763</u>
Projects (Note 13)	400,210	410,210	346,897
<u>Operating expenses (Note 14)</u>	<u>685,031</u>	<u>642,851</u>	<u>655,299</u>
	<u>2,535,241</u>	<u>2,458,205</u>	<u>2,476,959</u>
Annual surplus (deficit)	(42,331)	34,347	(53,442)
Accumulated surplus, beginning of year	92,684	92,684	146,126
Accumulated surplus, end of year	\$ 50,353	\$ 127,031	\$ 92,684

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

NEWFOUNDLAND AND LABRADOR ARTS COUNCIL
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
For the Year Ended March 31

	2016 Budget	2016 Actual	2015 Actual
	(Note 16)		
<u>Annual surplus (deficit)</u>	\$ (42,331)	\$ 34,347	\$ (53,442)
Tangible capital assets			
Acquisition of tangible capital assets	-	(10,778)	-
Amortization of tangible capital assets	-	2,258	1,822
	-	(8,520)	1,822
Prepaid Expenses			
Acquisition of prepaid expense	-	(4,023)	(3,239)
Use of prepaid expense	-	3,239	10,381
	-	(784)	7,142
(Decrease) increase in net financial assets	(42,331)	25,043	(44,478)
Net financial assets, beginning of year	35,450	35,450	79,928
Net (debt) financial assets, end of year	\$ (6,881)	\$ 60,493	\$ 35,450

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

NEWFOUNDLAND AND LABRADOR ARTS COUNCIL
STATEMENT OF CASH FLOWS
For the Year Ended March 31

2016

2015

Operating transactions

Annual surplus (deficit)	\$ 34,347	\$ (53,442)
Adjustment for non-cash items		
Amortization of tangible capital assets	2,258	1,822
	36,605	(51,620)
Change in non-cash operating items		
Accounts receivable	24,117	(5,077)
Accounts payable and accrued liabilities	(4,498)	28,547
Deferred revenue	(23,210)	(3,169)
Employee future benefits	(2,826)	4,777
Prepaid expenses	(784)	7,142
Cash provided from (applied to) operating transactions	29,404	(19,400)
Capital transactions		
Purchase of tangible capital assets	(10,778)	-
Cash applied to capital transactions	(10,778)	-
Financing transactions		
Repayment of obligation under capital lease	(1,821)	(1,822)
Cash applied to financing transactions	(1,821)	(1,822)
Investing transactions		
Arts Fund	(50,352)	-
Purchase of portfolio investments	-	(76,565)
Redemption of portfolio investments	76,565	75,630
Cash provided from (applied to) investing transactions	26,213	(935)
Increase (decrease) in cash	43,018	(22,157)
Cash, beginning of year	144,741	166,898
Cash, end of year	\$ 187,759	\$ 144,741

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

NEWFOUNDLAND AND LABRADOR ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

1. Nature of operations

The Newfoundland and Labrador Arts Council (the Council) operates under the authority of the *Arts Council Act* of the Province of Newfoundland and Labrador. The Council has the responsibility of fostering and promoting the study and enjoyment of and the production of works in the arts. The Council consists of twelve members appointed by the Lieutenant-Governor in Council.

The Council is a Crown entity of the Province of Newfoundland and Labrador and as such is not subject to Provincial or Federal income taxes.

2. Summary of significant accounting policies

(a) Basis of accounting

The Council is classified as an Other Government Organization as defined by Canadian Public Sector Accounting Standards (CPSAS). These financial statements are prepared by management in accordance with CPSAS for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB). The Council does not prepare a statement of remeasurement gains and losses as the Council does not enter into relevant transactions or circumstances that are being addressed by the statement. Outlined below are the significant accounting policies followed.

(b) Cash

Cash includes cash in bank, less the restricted Arts Fund.

(c) Financial instruments

The Council's financial instruments recognized on the statement of financial position consist of cash, accounts receivable, portfolio investments, accounts payable and accrued liabilities, and obligation under capital lease. The Council generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

The Council subsequently measures all of its financial assets and financial liabilities at cost or amortized cost. Financial assets measured at cost include cash, accounts receivable and portfolio investments. Financial liabilities measured at cost include accounts payable and accrued liabilities. Financial liabilities measured at amortized cost include obligation under capital lease.

The carrying value of cash, accounts receivable, portfolio investments, accounts payable and accrued liabilities, and obligation under capital lease approximate fair value due to their nature and/or the short term maturity associated with these instruments.

Interest attributable to the financial instruments is reported in the statement of operations.

2. Summary of significant accounting policies (cont.)

(d) Employee future benefits

- i. Severance pay for entitled employees is calculated based on years of service and current salary levels. Entitlement to severance pay vests with employees after nine years of continuous service, and accordingly a liability has been recorded for these employees. No liability or provision has been recorded for employees with less than nine years of continuous service as the amount would be insignificant. The amount is payable when the employee ceases employment with the Council unless the employee transfers to another entity in the public service, in which case the liability is transferred with the employee to the other entity.
- ii. The Council and its employees are subject to the *Public Service Pensions Act, 1991*. Employee contributions are matched by the Council and then remitted to the Public Service Pension Plan Corporation from which pensions will be paid to employees when they retire. This plan is a multi-employer defined benefit plan, providing a pension on retirement based on the member's age at retirement, length of service and the average of their best six years of earnings for service on or after January 1, 2015, and, for service before January 1, 2015, the higher of the average of the frozen best 5 years of earnings up to January 1, 2015, or the average of the best 6 years of earnings for all service.

The contributions of the Council to the plan are recorded as an expense for the year.

(e) Tangible capital assets

All tangible capital assets are recorded at cost at the time of acquisition, which includes amounts that are directly related to the acquisition of the assets.

Obligation under capital lease is recorded at the present value of the minimum lease payments excluding executor costs (e.g. insurance, maintenance costs, etc.). The discount rate used to determine the present value of the lease payments is the interest rate implicit in the lease.

The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as shown:

Assets under capital lease	5 years
Office equipment	5 years
Computer equipment	3 years

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Council's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations.

Minor tangible capital asset purchases are charged to operations in the year of acquisition.

2. Summary of significant accounting policies (cont.)

(f) Prepaid expenses

Prepaid expenses are charged to the expense over the periods expected to benefit from it.

(g) Revenues

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

The Council recognizes government transfers as revenues when the transfer is authorized and any eligibility criteria are met, except when and to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled. Government transfers consist of funding from the Province of Newfoundland and Labrador.

Income from portfolio investments is recorded as earned.

(h) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is recorded as an expense in that year.

Transfers, which include grants and awards, are recorded as expenses when eligibility criteria are met and the transfer is authorized.

(i) Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include the useful life of tangible capital assets and estimated employee future benefits.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

NEWFOUNDLAND AND LABRADOR ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

3. Accounts receivable

	<u>2016</u>	<u>2015</u>
Trade accounts receivable	\$ 5,746	\$ 32,500
Harmonized sales tax receivable	31,071	28,434
	<u>\$ 36,817</u>	<u>\$ 60,934</u>

There is no allowance for doubtful accounts since all amounts are considered collectible.

4. Portfolio investments

	<u>2016</u>	<u>2015</u>
Portfolio investments, held as designated assets	\$ -	\$ 26,213
Portfolio investments, held in the Arts Fund (Note 10)	-	50,352
	<u>\$ -</u>	<u>\$ 76,565</u>

During the year, the portfolio investments were converted to cash. The Council used the amount held as designated assets to fund tangible capital asset purchases related to its digital transition initiative.

5. Accounts payable and accrued liabilities

	<u>2016</u>	<u>2015</u>
Trade accounts payable	\$ 55,428	\$ 69,247
Accrued employee benefits	29,093	19,772
	<u>\$ 84,521</u>	<u>\$ 89,019</u>

6. Deferred revenue

	<u>2016</u>	<u>2015</u>
Aboriginal Symposium	\$ -	\$ 23,210

NEWFOUNDLAND AND LABRADOR ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

7. Obligation under capital lease

The Council has acquired equipment for office operations through capital leases.

	<u>2016</u>	<u>2015</u>
Obligation under capital lease	\$ 1,822	\$ 3,643

Future minimum lease payments under capital lease are:

2017	\$ 2,924
Less: interest portion of payments	<u>1,102</u>
	<u>\$ 1,822</u>

8. Employee future benefits

(a) Severance pay

Employee future benefits consist of the liability for severance pay of \$77,740 (2015 - \$80,556).

(b) The Council and its employees contribute to the Public Service Pension Plan in accordance with the *Public Service Pensions Act, 1991* (the *Act*). The plan is administered by the Public Service Pension Plan Corporation, including payment of pension benefits to employees to whom the *Act* applies.

The plan provides a pension to employees based on their length of service and rates of pay. The maximum contribution rate for eligible employees was 11.85% (2015 - 11.85%). The Council's contributions equal the employee contributions to the plan. Total pension expense for the Council for the year ended March 31, 2016, was \$39,544 (2015 - \$32,502).

NEWFOUNDLAND AND LABRADOR ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

9. Tangible capital assets

	<u>Assets under capital lease</u>	<u>Office equipment</u>	<u>Computer equipment</u>	<u>Total</u>
Cost				
Balance, March 31, 2015	\$ 9,109	\$ 27,153	\$ -	\$ 36,262
Acquisition of tangible capital assets	-	8,097	2,681	10,778
<u>Balance, March 31, 2016</u>	<u>9,109</u>	<u>35,250</u>	<u>2,681</u>	<u>47,040</u>
Accumulated amortization				
Balance, March 31, 2015	5,466	27,153	-	32,619
Amortization expense	1,821	288	149	2,258
<u>Balance, March 31, 2016</u>	<u>7,287</u>	<u>27,441</u>	<u>149</u>	<u>34,877</u>
Net book value, March 31, 2016	\$ 1,822	\$ 7,809	\$ 2,532	\$ 12,163
Net book value, March 31, 2015	\$ 3,643	\$ -	\$ -	\$ 3,643

10. Arts Fund

The Arts Fund was created pursuant to Section 9 of the *Arts Council Act*. The principal of the Fund is to be kept intact and is comprised of monies received from the Consolidated Revenue Fund of the Province of Newfoundland and Labrador and from gifts and bequests received without terms. The principal portion of the Fund is included in non-financial assets as these funds are restricted and are not available for use for operations or capital purchases. The interest earned on the invested principal may be disbursed, at the discretion of the Council, to foster and promote the study, enjoyment and production of works in the arts. The accumulated interest earned on the restricted funds is held as a designated asset until it is withdrawn. For the year ended March 31, 2016, \$642 (2015 - \$935) was earned through investment of the Fund and is included with income earned from portfolio investments.

	<u>2016</u>	<u>2015</u>
Restricted funds		
Province of Newfoundland and Labrador	\$ 40,000	\$ 40,000
Gifts and bequests as per Section 12 (2) of the <i>Arts Council Act</i>	10,352	10,352
<u></u>	<u>\$ 50,352</u>	<u>\$ 50,352</u>

At March 31, 2016, the restricted funds consisted of cash of \$50,352 (2015 - portfolio investments of \$50,352).

NEWFOUNDLAND AND LABRADOR ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

10. Arts Fund (cont.)

Accumulated interest on restricted funds

Accumulated interest, beginning of year	\$ 26,213	\$ 94,048
Interest earned	642	935
Interest allocated for operations	-	(68,770)
	\$ 26,855	\$ 26,213

The accumulated interest on restricted assets is held as designated assets as follows:

Cash	\$ 26,855	\$ -
Portfolio investments	-	26,213
	\$ 26,855	\$ 26,213

11. Revenues - Projects

	<u>2016</u> <u>Budget</u>	<u>2016</u> <u>Actual</u>	<u>2015</u> <u>Actual</u>
Aboriginal Symposium	\$ 68,000	\$ 68,000	\$ -
Winterset Award	35,000	35,000	30,000
Arts awards	21,000	21,000	20,950
Arts smarts	10,000	10,000	20,000
Rhonda Payne Award	500	500	500
Larry Jackson Award	500	500	500
	\$ 135,000	\$ 135,000	\$ 71,950

12. Expenses by object

	<u>2016</u> <u>Budget</u>	<u>2016</u> <u>Actual</u>	<u>2015</u> <u>Actual</u>
Grants and awards	\$ 1,651,000	\$ 1,648,144	\$ 1,724,860
Salaries and employee benefits	526,500	522,398	516,499
Purchased services	288,241	210,608	137,878
Travel	48,000	53,146	69,344
Professional services	14,000	14,130	18,946
Telephone	7,500	7,521	7,610
Amortization	-	2,258	1,822
	\$ 2,535,241	\$ 2,458,205	\$ 2,476,959

As of March 31, 2016, the Council's actual expenses did not exceed its legislated expense limit.

NEWFOUNDLAND AND LABRADOR ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

13. Expenses - Projects

	<u>2016</u> <u>Budget</u>	<u>2016</u> <u>Actual</u>	<u>2015</u> <u>Actual</u>
APAF - Creative Residency	\$ 10,000	\$ 10,000	\$ 4,000
APAF - Aboriginal Symposium	23,210	29,019	28,750
Arts awards	28,000	28,116	74,922
Arts smarts	125,000	127,500	140,000
Larry Jackson Award	500	500	500
Rhonda Payne Award	500	500	500
School Touring Program	75,000	75,000	74,598
To Light the Fire Symposium	108,000	110,464	-
Winterset Award	30,000	29,111	23,627
	<u>\$ 400,210</u>	<u>\$ 410,210</u>	<u>\$ 346,897</u>

14. Operating expenses

	<u>2016</u> <u>Budget</u>	<u>2016</u> <u>Actual</u>	<u>2015</u> <u>Actual</u>
Amortization	\$ -	\$ 2,258	\$ 1,822
Labrador Initiative	87,000	87,651	103,576
Miscellaneous	15,381	16,284	16,687
Office and postage	73,650	22,901	14,996
Project evaluating fees	14,000	14,130	18,946
Salaries and employee benefits	439,500	442,409	440,287
Telephone	7,500	7,521	7,610
Travel and Council meetings	48,000	49,697	51,375
	<u>\$ 685,031</u>	<u>\$ 642,851</u>	<u>\$ 655,299</u>

15. Financial risk management

The Council recognizes the importance of managing significant risks and this includes oversight designed to reduce the risks identified to an appropriate threshold. The risks that the Council is exposed to through its financial instruments are credit risk, liquidity risk and market risk. There was no significant change in the Council's exposure to these risks or its processes for managing these risks from the prior year.

15. Financial risk management (cont.)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Council's main exposure to credit risk relates to cash, accounts receivable and portfolio investments. The Council is not exposed to significant credit risk with its cash or portfolio investments because these financial instruments are held with a Chartered Bank. The Council is not exposed to significant credit risk related to its accounts receivable as these amounts are primarily due from the Government of Canada. Accordingly, there is no allowance for doubtful accounts.

Liquidity risk

Liquidity risk is the risk that the Council will be unable to meet its financial liabilities. The Council's exposure to liquidity risk relates mainly to its accounts payable and accrued liabilities and its obligation under capital lease as described in Note 7. The Council manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient resources available to meet its financial liabilities.

Market risk

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 (foreign exchange) risk, interest rate risk and other price risk. The Council is not exposed to significant foreign exchange or other price risk. The Council was not exposed to significant interest rate risk related to portfolio investments because these investments had fixed interest rates and fixed values at maturity. In addition, the Council is not exposed to significant interest rate risk on the obligation under capital lease as the interest rate is fixed to maturity.

16. Budgeted figures

Budgeted figures, which have been prepared on a cash basis, are provided for comparison purposes and have been derived from the estimates approved by the Council.

17. Related party transactions

The Council leases office space from the Province of Newfoundland and Labrador at an annual rate of \$1.

18. Non-financial assets

The recognition and measurement of non-financial assets, other than the restricted assets of the Arts Fund, is based on their service potential. These assets will not provide resources to discharge liabilities of the Council. For these non-financial assets, the future economic benefit consists of their capacity to render service to further the Council's objectives. The restricted assets of the Arts Fund are not available to provide resources to discharge the liabilities of the Council as outlined in Note 10.

19. Subsequent Event

Closure of Labrador Office

In May 2016, the Council ceased operations in its Happy Valley-Goose Bay office due to budgetary restrictions. This will result in a decrease of \$197,000 in budgeted expenditures. This office had one employee whose position was eliminated as a result of the closure.