

LA FONDATION MUSICACTION

FINANCIAL STATEMENTS

MARCH 31, 2019

LA FONDATION MUSICACTION

FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Directors of La Fondation Musicaction

We have audited the financial statements of **La Fondation Musicaction (the « Organization »)**, which comprise the balance sheet as at March 31, 2019, and the statements of earnings, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **La Fondation Musicaction** as at March 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis of opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Beaulieu Carrière Inc. ⁽¹⁾

Anjou,
June 10, 2019

¹ Monique Beaulieu, CPA auditor, CGA

LA FONDATION MUSICACTION**STATEMENT OF EARNINGS****FOR THE YEAR ENDED MARCH 31, 2019****4**

	<u>2019</u>	<u>2018</u>
REVENUE		
Contributions (Schedule 1)	\$ 11,440,377	\$ 10,924,895
Interest	161,515	126,686
Mutual funds units distributions	13,848	13,118
Unrealized gain on fair value of investments	24,822	854
Realized loss on disposal of investment	<u>(25,203)</u>	<u>-</u>
	<u>11,615,359</u>	<u>11,065,553</u>
OPERATING EXPENSES		
Financial contributions (Schedule 2)	9,461,123	9,462,077
Administrative and financial expenses (Schedule 3)	<u>1,197,680</u>	<u>1,000,307</u>
	<u>10 658,803</u>	<u>10,462,384</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE AMORTIZATION	<u>956,556</u>	<u>603,169</u>
Amortization of capital assets	41,764	36,519
Amortization of intangible assets	<u>6,613</u>	<u>5,240</u>
	<u>48,377</u>	<u>41,759</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 908,179</u>	<u>\$ 561,410</u>

LA FONDACTION MUSICACTION
 STATEMENT OF CHANGES IN NET ASSETS
 FOR THE YEAR ENDED MARCH 31, 2019

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	<u>2019</u>	<u>2018</u>
UNRESTRICTED NET ASSETS		
BALANCE - BEGINNING OF YEAR	\$ 3,960,180	\$ 2,686,482
EXCESS OF REVENUE OVER EXPENSES	908,179	561,410
Internally restricted	<u>(67,877)</u>	<u>712,288</u>
BALANCE - END OF YEAR	<u>\$ 4,800,482</u>	<u>\$ 3,960,180</u>
INTERNALLY RESTRICTED NET ASSETS (note 5)		
BALANCE - BEGINNING OF YEAR	\$ 3,774,381	\$ 4,486,669
Internally restricted	<u>67,877</u>	<u>(712,288)</u>
BALANCE - END OF YEAR	<u>\$ 3,842,258</u>	<u>\$ 3,774,381</u>

LA FONDACTION MUSICACTION

BALANCE SHEET

AS AT MARCH 31, 2019

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	<u>2019</u>	<u>2018</u>
ASSET		
CURRENT ASSETS		
Cash	\$ 2,466,623	\$ 237,335
Term deposits	-	2,400,000
Guaranteed investment certificates, interest rate ranging from 1.75 % to 2.70 %, maturing between October and November 2019, at cost	1,000,000	500,000
Accounts receivable (note 6)	359,370	1,599,899
Prepaid expenses	32,662	13,350
	<u>3,858,655</u>	<u>4,750,584</u>
INVESTMENTS (note 7)	5,346,651	2,923,964
CAPITAL ASSETS (note 8)	534,513	431,322
INTANGIBLE ASSETS (note 9)	7,492	16,029
	<u>\$ 9,747,311</u>	<u>\$ 8,121,899</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 10)	\$ 84,580	\$ 274,402
Deferred revenue	1,019,991	112,936
	<u>1,104,571</u>	<u>387,338</u>
NET ASSETS		
Unrestricted net assets	4,800,482	3,960,180
Internally restricted net assets (note 5)	3,842,258	3,774,381
	<u>8,642,740</u>	<u>7,734,561</u>
	<u>\$ 9,747,311</u>	<u>\$ 8,121,899</u>

APPROVED ON BEHALF OF THE BOARD



Pierre Rodrigue
Chairman



Michel Tremblay
Treasurer

LA FONDACTION MUSICACTION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2019

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	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Contributions received from the CANADA MUSIC FUND	\$ 8,207,911	\$ 6,372,427
Contributions received from commercial radio broadcasting companies	1,536,020	1,940,873
Contributions received from the music services company	-	388,705
Contributions received from the satellite radio company	3,101,901	676,881
Contributions received from major private television groups	740,940	-
Management fees received from FONDS RADIOSTAR	43,267	50,776
Interest received	131,755	124,974
Sales taxes received (paid)	3,673	(7,347)
	<u>13,765,467</u>	<u>9,547,289</u>
Financial contributions paid	(9,660,226)	(9,262,974)
Purchase of goods and services paid	(263,201)	(250,729)
Employee remuneration paid	(960,502)	(844,325)
	<u>(10,883,929)</u>	<u>(10,358,028)</u>
	<u>2,881,538</u>	<u>(810,739)</u>
INVESTING ACTIVITIES		
Acquisition of capital assets	(144,955)	(26,409)
Acquisition of intangible assets	(1,300)	(8,607)
Disposal of intangible assets	3,225	-
Acquisition of term deposits	(2,900,000)	-
Cash receipt from term deposits	2,400,000	1,100,000
Acquisition of guaranteed investment certificates	(1,000,000)	-
Cash receipt from guaranteed investment certificates	500,000	-
Acquisition of capital shares	(9,220)	(200,000)
Acquisition of mutual funds units	(515,614)	-
Cash receipt from mutual funds units	1,015,614	-
	<u>(652,250)</u>	<u>864,984</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2,229,288	54,245
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	237,335	183,090
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 2,466,623	\$ 237,335

CASH AND CASH EQUIVALENTS CONSIST OF CASH.

1. STATUTES AND PURPOSE OF THE ORGANIZATION

La Fondation Musicaction was incorporated on September 9, 1985, as a non-for-profit organization without share capital, pursuant to Part II of the Canada Business Corporations Act. In December 2013, La Fondation Musicaction extended its statutes under section 211 of the *Canada Not-for-profit Corporations Act*.

La Fondation Musicaction is a not-for-profit organization whose objective is to assist the audio recording, video clips, management, tours, promotion and the marketing of recordings in both Canadian and foreign markets. For this purpose, La Fondation Musicaction offers financial contribution programs that are available to artists, record companies, producers, publishers, managers, distributors, and to Canadian authors and composers, as well as to associations.

Pursuant to the *Income Tax Act* (Canada) and the *Taxation Act* (Quebec), La Fondation Musicaction is classified as a non-for-profit organization, and therefore, is not subject to income taxes.

2. FUNDING OF THE ORGANIZATION

On April 16, 2015, two contribution agreements were signed between the Department of Canadian Heritage and La Fondation Musicaction for the management of the Canada Music Fund and, more specifically, for two programs entitled New Musical Works and Collective Initiatives. This agreement modified on April 11, 2015 will provide annual contributions of \$4,945,814 for the year ending March 31, 2020 for New Musical Works program and annual contributions for the Collective Initiatives program of \$2,199,743 for the year ending March 31, 2020. The contributions received during the year amounted to \$4,678,790 (\$4,718,290 in 2018) for the New Musical Works Program and \$2,199,743 (\$2,635,243 in 2018) for the Collective Initiatives program. Under these agreements, a maximum of 13.5% of the contributions may be allocated to administrative and communication expenses, audit fees and valuation expenses incurred by La Fondation Musicaction.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) and include the following significant accounting policies.

Use of estimates

The preparation of these financial statements, in accordance with ASNPO, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the current period. The most subjective estimates relate to the impairment of long-lived assets and useful life of capital assets and intangible assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

La Fondation Musicaction uses the deferral method of accounting for contributions. Contributions originating from the Canada Music Fund, the music services company, the satellite radio broadcasting company and major private television groups are accounted for based on financial contributions granted, while contributions from commercial radio broadcasting companies are accounted for using the cash basis of accounting, with the exception of products for which a firm commitment has been given.

Contributions from commercial radio broadcasting companies are an express underlying condition for obtaining and renewing their broadcast licenses with the Canadian Radio-television and Telecommunications Commission (CRTC).

In addition, in the case of transactions involving the acquisition of radio broadcasting companies, the CRTC specifically demands that the buyer makes contributions to organizations dedicated to the development of Canadian talents. La Fondation Musicaction benefits from a portion of these contributions, which are accounted for as transfers of ownership.

Interest income and mutual funds units distributions are recognized as earned.

Financial instruments

Measurement of financial instruments

La Fondation Musicaction initially measures its financial assets and liabilities at fair value. They are subsequently measured at amortized cost except for investments in mutual funds units which are measured at fair value. Changes in fair value are recognized in the statement of earnings.

Financial contributions

All of the programs offered by La Fondation Musicaction are in the form of financial contributions and are accounted for as expenses when the amounts have been allocated.

Capital assets

Capital assets are recorded at historical cost. Amortization is calculated using the straight-line method based on the following periods:

Condominium	25 years
Furniture and office equipment	7 years
Computer equipment	4 years

Intangible assets

Intangible assets are recorded at historical cost. Amortization is calculated using the straight-line method over a four-years period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of long-lived assets

A long-lived 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 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 at the amount by which the carrying amount of the long-lived asset exceeds its fair value.

Contributed services

Members of La Fondation Musicaction's Board of Directors attend Board meetings without compensation. Due to the difficulty of determining the fair value of contributed services, they are not accounted for in the financial statements.

Cash and cash equivalents

For cash flow purposes, La Fondation Musicaction policy is to present cash and term deposits for which the maturity date does not exceed three months from the date of acquisition.

4. CAPITAL DISCLOSURES

With respect to its capital management, La Fondation Musicaction's objective is to preserve its ability to pursue its operations in order to continue to comply with its purpose as described in Note 1, taking into account its financial resources which allow it to meet its remaining commitments and to pay financial contributions to newly submitted projects.

Except for the fact that a maximum of 13.5% of the contributions may be allocated to administrative, communication, audit and valuation expenses, under external rules, La Fondation Musicaction, is not subject to capital requirements.

5. INTERNALLY RESTRICTED NET ASSETS

The Board of Directors allocated net assets in the amount of \$3,842,258 (\$3,774,381 in 2018) in order to cover the payment of commitments related to financial contributions for which La Fondation Musicaction was committed as at March 31, 2019, and to provide for administrative expenses related to monitoring and settlement of these commitments estimated at a maximum of 13.5%.

LA FONDATION MUSICACTION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED MARCH 31, 2019

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6. ACCOUNTS RECEIVABLE

	<u>2019</u>	<u>2018</u>
Contributions – Canada Music Fund	\$ 178,905	\$ 1,508,283
Contributions – Commercial radio broadcasting company	400	400
Contributions – Music services company	84,630	-
FONDS RADIOSTAR	-	99
Trade receivables	1,132	22,900
Accrued interest	87,286	57,527
Sales taxes	7,017	10,690
	<u>\$ 359,370</u>	<u>\$ 1,599,899</u>

7. INVESTMENTS

	<u>2019</u>	<u>2018</u>
Term deposits, interest rate ranging from 1.55% to 3.35%, maturing between July 2020 and November 2021, at cost	\$ 3,800,000	\$ 900,000
Guaranteed investment certificate, interest rate at 3.05%, maturing in October 2020, at cost	500,000	500,000
Capital shares of the Fédération des caisses Desjardins, interest rate at 4.25%, at cost	509,220	500,000
Mutual funds units, at fair value	537,431	1,023,964
	<u>\$ 5,346,651</u>	<u>\$ 2,923,964</u>

8. CAPITAL ASSETS

	<u>2019</u>		<u>2018</u>	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 83,447	\$ -	\$ 83,447	\$ 83,447
Condominium	712,182	293,818	418,364	315,566
Furniture and office equipment	177,216	158,728	18,488	11,647
Computer equipment	82,972	68,758	14,214	20,662
	<u>\$ 1,055,817</u>	<u>\$ 521,304</u>	<u>\$ 534,513</u>	<u>\$ 431,322</u>

9. INTANGIBLE ASSETS

			<u>2019</u>	<u>2018</u>
	Cost	Accumulated amortization	Net book value	Net book value
Website	20,960	18,777	2,183	7,423
Software	\$ 6,682	\$ 1,373	\$ 5,309	\$ 8,606
	<u>\$ 27,642</u>	<u>\$ 20,150</u>	<u>\$ 7,492</u>	<u>\$ 16,029</u>

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2019</u>	<u>2018</u>
Trade payables and accrued liabilities	\$ 5,916	\$ 208,103
Accrued salaries	70,859	59,450
Deductions at source	7,805	6,849
	<u>\$ 84,580</u>	<u>\$ 274,402</u>

11. RELATED PARTY TRANSACTIONS

La Fondation Musicaction paid financial contributions to related companies totalling \$592,190 (\$419,124 in 2018). The parties are related due to the fact that their representatives are directors of the organization. These related companies satisfy all the criteria established by La Fondation Musicaction, and as such, they do not benefit from any special status or privilege because of their representation on the Board of Directors.

Management is of the opinion that these transactions were concluded under the same terms and conditions as transactions with other applicants, and they are valued at the exchange amount.

12. COMMITMENTS

Financial contributions

As at March 31, 2019, La Fondation Musicaction is contractually committed to advance funds totalling \$3,323,553 (\$3,264,839 in 2018). Of this amount, a portion of \$179,991 (\$65,626 in 2018) represents commitments to related companies. In order to achieve its commitments, La Fondation Musicaction will incur administrative expenses of a maximum of 13.5%.

13. FINANCIAL INSTRUMENTS

Credit risk

As at March 31, 2019, La Fondation Musicaction recorded contributions receivable from Canada Music Fund. Those contributions were received shortly after year-end. During the year, all the contributions provided for in the agreements with Canada Music Fund were received.

However, the agreements stipulate that all payments made under those agreements are subject to the credit grants by the Canadian Parliament and the continuance of the actual planned budgets for the programs.

Thus, the Federal government can, at its discretion, decrease the financing and cancel those agreements by sending a written notice of 90 days to La Fondation Musicaction. Should the financing be terminated, La Fondation Musicaction would be reimbursed for all the costs incurred up to the date the notice comes into effect, subject to the agreements' terms and conditions. If this event occurs, La Fondation Musicaction could be exposed to the above-mentioned risks.

La Fondation has also contributions receivable from a music services company that was received shortly after year-end.

Liquidity risk

Liquidity risk is the risk that the Organization will have difficulties to honor commitments related to its financial liabilities. The Organization is exposed to this risk mainly with respect to its accounts payable and its accrued salaries.

Interest rate risk

La Fondation Musicaction is exposed to interest rate risk regarding its financial instruments with fixed interest rates. Financial instruments with fixed interest rates expose La Fondation Musicaction to a fair value risk. As at March 31, 2019, La Fondation Musicaction holds term deposits and guaranteed investment certificates with short and long-term maturities, as well as capital shares with long-term maturities.

Other price risk

Other price risk is the risk that the fair value of future cash flows of financial instrument will fluctuate because of market prices (other than those arising from interest rate risk or currency 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. La Fondation Musicaction is exposed to other price risk through its investments in mutual funds units.

14. PENSION PLAN

La Fondation Musicaction has a defined contribution pension plan providing pension benefits to its employees with at least three months of service. Contributions to the pension plan represent 7% of the basic salary and are subject to the employee's voluntary contribution of 3.5%. The pension plan costs of \$55,766 (\$50,290 in 2018) are included in salary expenses in the statement of earnings.

15. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform to the presentation adopted in the current year.

LA FONDACTION MUSICACTION
COMPLEMENTARY FINANCIAL INFORMATION
FOR THE YEAR ENDED MARCH 31, 2019

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	<u>2019</u>	<u>2018</u>
SCHEDULE 1 – CONTRIBUTIONS		
CANADA MUSIC FUNDS		
New Musical Works	\$ 4,678,790	\$ 4,718,290
Collective Initiatives	447,243	447,243
Collective Initiatives - Music Showcases	690,000	690,000
Collective Initiatives - International market development	436,994	490,500
Collective Initiatives - Digital market development	362,500	362,500
Collective Initiatives - Incubators	263,006	370,000
International Special Project	-	275,000
COMMERCIAL RADIO BROADCASTING COMPANIES		
Transfers of ownership	1,038,096	1,443,741
Renewal of licenses	496,524	497,132
First License term	1,400	-
MUSIC SERVICES COMPANY		
Tangible benefits	98,353	98,353
Renewal of license	84,630	94,755
SATELLITE RADIO BROADCASTING COMPANY		
Tangible benefits	741,310	-
Renewal of license	1 360,591	1,437,381
MAJOR PRIVATE TELEVISION GROUPS		
Renewal of licenses	740,940	-
	<u>\$ 11,440,377</u>	<u>\$ 10,924,895</u>

SCHEDULE 2 – FINANCIAL CONTRIBUTIONS

New Musical Works	\$ 6,266,835	\$ 6,511,134
Collective Initiatives	749,750	779,162
Collective Initiatives - Incubators	227,500	320,050
Collective Initiatives - Music Showcases	633,262	661,364
Collective Initiatives - International market development	595,763	601,492
Collective Initiatives - Digital market development	315,781	313,875
International Special Project	12,675	275,000
Video clips Production	659,557	-
	<u>\$ 9,461,123</u>	<u>\$ 9,462,077</u>

LA FONDACTION MUSICACTION
COMPLEMENTARY FINANCIAL INFORMATION
FOR THE YEAR ENDED MARCH 31, 2019

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	<u>2019</u>	<u>2018</u>
SCHEDULE 3 – ADMINISTRATIVE AND FINANCIAL EXPENSES		
Salaries and fringe benefits	\$ 971,735	\$ 848,248
Administrative support	24,318	18,048
Consulting fees	32,459	12,388
Audit fees	18,273	18,273
Communications, entertainment and promotion	30,527	30,617
Travel expenses for events and representation	28,613	32,826
Committee expenses	15,561	15,088
Insurance	6,933	6,744
Maintenance and repairs expenses	10,792	6,322
Electricity	4,904	4,841
Condominium expenses	11,000	7,001
Office expenses	24,740	22,612
Property taxes (recovered)	63,365	(2,655)
Courier and postage	4,542	4,569
Telecommunications	6,757	6,474
Financial expenses	912	1,742
	<u>1,255,431</u>	<u>1,033,138</u>
Share of the expenses assumed by FONDS RADIOSTAR	<u>(57,751)</u>	<u>(32,831)</u>
	<u>\$ 1,197,680</u>	<u>\$ 1,000,307</u>