

LA FONDATION MUSICACTION

FINANCIAL STATEMENTS

MARCH 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Directors of
La Fondation Musicaction

We have audited the accompanying financial statements of **La Fondation Musicaction**, which comprise the balance sheet as at March 31, 2018, and the statements of earnings, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **La Fondation Musicaction** as at March 31, 2018 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.

(1)

Anjou,
June 15, 2018

¹ Monique Beaulieu, CPA auditor, CGA

LA FONDACTION MUSICACTION
STATEMENT OF EARNINGS
FOR THE YEAR ENDED MARCH 31, 2018

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	<u>2018</u>	<u>2017</u>
REVENUE		
Contributions		
CANADA MUSIC FUND		
New Musical Works	\$ 4,718,290	\$ 4,718,290
Collective Initiatives	447,243	447,243
Collective Initiatives - Incubators	370,000	-
Collective Initiatives – Music Showcase	690,000	690,000
International market development	490,500	490,500
Digital market development	362,500	362,500
International Special Project	275,000	-
Companies of commercial radio broadcasters		
Licence renewals	497,132	488,923
Licence renewals for sound services	94,755	97,244
First licence term	-	400
Transfers of ownership	1,542,094	1,503,839
Company from satellite radio broadcaster	1,437,381	1,254,010
Interest	126,686	119,224
Distribution on units mutual funds	13,118	16,060
Unrealized gain (loss) on fair value of investments	854	(6,067)
	<u>11,065,553</u>	<u>10,182,166</u>
OPERATING EXPENSES		
Financial contributions (Schedule 1)	9,462,077	9,160,821
Administrative and financing expenses (Schedule 2)	1,000,307	1,035,075
	<u>10,462,384</u>	<u>10,195,896</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE AMORTIZATION	<u>603,169</u>	<u>(13,730)</u>
Amortization of capital assets	36,519	36,690
Amortization of intangible assets	5,240	5,240
	<u>41,759</u>	<u>41,930</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ 561,410</u>	<u>\$ (55,660)</u>

LA FONDATION MUSICACTION
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2018

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	<u>2018</u>	<u>2017</u>
UNRESTRICTED NET ASSETS		
BALANCE - BEGINNING OF YEAR	\$ 2,686,482	\$ 2,851,244
EXCESS OF REVENUE OVER EXPENSES	561,410	(55,660)
Internally restricted	<u>712,288</u>	<u>(109,102)</u>
BALANCE - END OF YEAR	<u>\$ 3,960,180</u>	<u>\$ 2,686,482</u>
INTERNALLY RESTRICTED NET ASSETS (note 5)		
BALANCE - BEGINNING OF YEAR	\$ 4,486,669	\$ 4,377,567
Internally restricted	<u>(712,288)</u>	<u>109,102</u>
BALANCE - END OF YEAR	<u>\$ 3,774,381</u>	<u>\$ 4,486,669</u>

LA FONDATION MUSICACTION

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	<u>2018</u>	<u>2017</u>
ASSET		
CURRENT ASSETS		
Cash	\$ 237,335	\$ 183,090
Term deposits, interest rate at 1.81%, maturing in November 2018, at cost	2,400,000	-
Guaranteed investment certificate, interest rate ranging from 1.65 % to 1.67 %, maturing in October 2018, at cost	500,000	-
Accounts receivable (note 6)	1,599,899	702,021
Prepaid expenses	<u>13,350</u>	<u>6,408</u>
	4,750,584	891,519
INVESTMENTS (note 7)	2,923,964	6,709,993
CAPITAL ASSETS (note 8)	431,322	441,432
INTANGIBLE ASSETS (note 9)	<u>16,029</u>	<u>12,663</u>
	<u>\$ 8,121,899</u>	<u>\$ 8,055,607</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 10)	\$ 274,402	\$ 107,373
Reported products	<u>112,936</u>	<u>775,083</u>
	<u>387,338</u>	<u>882,456</u>
NET ASSETS		
Unrestricted net assets	3,960,180	2,686,482
Internally restricted net assets (note 5)	<u>3,774,381</u>	<u>4,486,669</u>
	<u>7,734,561</u>	<u>7,173,151</u>
	<u>\$ 8,121,899</u>	<u>\$ 8,055,607</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, 2018

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	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Contributions received from the CANADA MUSIC FUND	\$ 6,372,427	\$ 6,243,256
Contributions received from radio broadcasters	3,006,459	4,136,276
Administration fees received from FONDS RADIOSTAR	50,776	35,000
Interest received	124,974	129,632
Sales taxes received	(7,347)	2,685
	<u>9,547,289</u>	<u>10,546,849</u>
Financial contributions paid	(9,262,974)	(9,160,821)
Purchase of goods and services paid	(250,729)	(183,672)
Employee remuneration paid	(844,325)	(899,471)
	<u>(10,358,028)</u>	<u>(10,243,964)</u>
	<u>(810,739)</u>	<u>302,885</u>
INVESTING ACTIVITIES		
Acquisition of capital assets	(26,409)	(3,176)
Acquisition of intangible assets	(8,607)	-
Variation of term deposits	1,100,000	1,800,000
Acquisition of guaranteed investment certificate	-	- (1,000,000)
Acquisition of capital shares	(200,000)	-
Acquisition of units of mutual funds	-	(1,000,000)
	<u>864,984</u>	<u>(203,176)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	54,245	99,709
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>183,090</u>	<u>83,381</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 237,335</u>	<u>\$ 183,090</u>
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-profit organization without share capital, pursuant to Part II of the Canada Business Corporations Act. In December 2013, La Fondation Musicaction extended these statutes under section 211 of the *Canada Not-for-profit Corporations Act*.

La Fondation Musicaction is a non-profit organization whose objective is to assist in the promotion, management, production, and marketing of sound recordings and video-clips in Canada or in 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-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 administration of the Canada Music Fund and, more specifically, for two programs entitled New Musical Works and Collective Initiatives. These agreements will provide for the following annual contributions of \$4,178,790 for each of the years which will end on March 31, 2019 and 2020 for the program New Musical Works and the following annual contributions for the Collective Initiatives program of \$1,699,743 for each of the years which will end on March 31, 2019 and 2020. The contributions received during the year amounted to \$4,718,290 (\$4,718,290 in 2017) for the New Musical Works Program and \$2,635,243 (\$1,990,243 in 2017) 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 assessment 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 lifespan 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 are accounted for based on financial contributions granted, while contributions from radio broadcasters are accounted for using the cash basis of accounting, with the exception of products for which a firm commitment has been given.

Contributions from radio broadcasters 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 acquiring party make contributions to agencies that are dedicated to the development of Canadian talent. La Fondation Musicaction benefits from a portion of these contributions, which have been accounted for as transfers of ownership.

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 they have been fully 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-year 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. The value of the time donated by these directors is not recorded in the financial statements, because it would be difficult to measure its fair value.

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 assessment 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 \$3,774,381 (\$4,486,669 in 2017) in order to cover the payment of commitments related to financial contributions for which La Fondation Musicaction was committed as at March 31, 2018, and to provide for administrative expenses related to monitoring and settling these commitments estimated at a maximum of 13.5%.

6. ACCOUNTS RECEIVABLE

	<u>2018</u>	<u>2017</u>
Contributions – Department of Canadian Heritage	\$ 1,508,283	\$ 527,176
Contributions – Radio broadcasters	400	97,644
FONDS RADIOSTAR	99	18,044
Others	22,900	-
Accrued interest	57,527	55,814
Sales taxes	<u>10,690</u>	<u>3,343</u>
	<u>\$ 1,599,899</u>	<u>\$ 702,021</u>

7. INVESTMENTS

	<u>2018</u>	<u>2017</u>
Term deposits, interest rate at 1.55%, maturing in July, 2020, at cost	\$ 900,000	\$ 4,400,000
Guaranteed investment certificate, interest rate at 1.75% to 1.81% , maturing in October, 2019,at cost	500,000	1 000,000
Capital shares of the Fédération des caisses Desjardins, interest rate at 4.25%, at cost	500,000	300,000
Mutual funds units, at fair value	<u>1,023,964</u>	<u>1,009,993</u>
	<u>\$ 2,923,964</u>	<u>\$ 6,709,993</u>

8. CAPITAL ASSETS

	<u>2018</u>		<u>2017</u>	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 83,447	\$ -	\$ 83,447	\$ 83,447
Condominium	583,237	267,671	315,566	326,730
Furniture and office equipment	165,870	154,223	11,647	11,714
Computer equipment	<u>78,309</u>	<u>57,647</u>	<u>20,662</u>	<u>19,541</u>
	<u>\$ 910,863</u>	<u>\$ 479,541</u>	<u>\$ 431,322</u>	<u>\$ 441,432</u>

9. INTANGIBLE ASSETS

			<u>2018</u>	<u>2017</u>
	Cost	Accumulated amortization	Net book value	Net book value
Website	20,960	13,537	7,423	12,663
Software	\$ 8,606	\$ -	\$ 8,606	\$ -
	<u>\$ 29,566</u>	<u>\$ 13,537</u>	<u>\$ 16,029</u>	<u>\$ 12,663</u>

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2018</u>	<u>2017</u>
Accrued salaries	\$ 59,450	\$ 55,722
Deductions at source	6,849	6,653
Accrued liabilities	<u>208,103</u>	<u>44,998</u>
	<u>\$ 274,402</u>	<u>\$ 107,373</u>

11. RELATED PARTY TRANSACTIONS

La Fondation Musicaction paid financial contributions to related enterprises totalling \$419,124 (\$655,063 in 2017). The parties are related due to the fact that their representatives are directors of the organization. These related enterprises 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 declares 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, 2018, La Fondation Musicaction is contractually committed to advance funds totalling \$3,264,839 (\$3,880,968 in 2017). Of this amount, a portion of \$65,626 (\$329,382 in 2017) represents commitments to related enterprises. In order to realize its commitments, La Fondation Musicaction will incur administrative expenses of a maximum of 13.5%.

13. FINANCIAL INSTRUMENTS

Credit and liquidity risk

As at March 31, 2018, La Fondation Musicaction recorded contributions receivable from Patrimoine Canada. Those contributions were received shortly after year-end. During the year, all the contributions provided for in the agreements with Patrimoine Canada 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 budget and the budget estimates for the programs.

Thus, the Federal government can, at its discretion, decrease the financing and cancel those agreements by sending a written 90-day prior notice 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 mentioned risks.

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, 2018, La Fondation Musicaction holds term deposits with short and long-term maturities, as well as capital shares with long-term maturities which involve this risk.

Other price risk

Other price risk that the fair value of future cash flows of financial instrument will fluctuated 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 \$50,290 (\$49,226 in 2017) 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, 2018

	<u>2018</u>	<u>2017</u>
SCHEDULE 1 – FINANCIAL CONTRIBUTIONS		
New Musical Works	\$ 6,511,134	\$ 6,812,540
Collective Initiatives	779,162	744,000
Collective Initiatives - Incubators	320,050	-
Collective Initiative – Music Showcase	661,364	661,251
International market development	601,492	617,826
Digital market development	313,875	325,204
International Special Project	275,000	-
	<u>\$ 9,462,077</u>	<u>\$ 9,160,821</u>
SCHEDULE 2 – ADMINISTRATIVE AND FINANCING EXPENSES		
Salaries and fringe benefits	\$ 848,248	\$ 858,651
Administrative support	18,048	19,306
Consulting fees	12,388	4,870
Audit fees	18,273	18,998
Communications, advertisement and promotion	30,617	21,919
Shifting for events and representation	32,826	20,524
Committee expenses	15,088	15,957
Insurance	6,744	6,542
Maintenance and repairs expenses	6,322	5,705
Electricity	4,841	4,585
Condominium expenses	7,001	25,000
Office expenses	22,612	20,473
Property taxes	(2,655)	54,187
Courier and postage	4,569	4,352
Telecommunications	6,474	5,939
Financial expenses	1,742	1,111
	<u>1,033,138</u>	<u>1,088,119</u>
Share of the expenses assumed by FONDS RADIOSTAR	<u>(32,831)</u>	<u>(53,044)</u>
	<u>\$ 1,000,307</u>	<u>\$ 1,035,075</u>