

Canadian Opera Company

Consolidated financial statements

June 30, 2018



Independent auditors' report

To the Members of
Canadian Opera Company

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of **Canadian Opera Company**, which comprise the consolidated balance sheet as at June 30, 2018, and the consolidated statements of operations, 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of these 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 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 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 the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 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 consolidated financial statements present fairly, in all material respects, the financial position of **Canadian Opera Company** as at June 30, 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.

Report on other legal and regulatory requirements

As required by the *Corporations Act* (Ontario), we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Toronto, Canada
October 10, 2018

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Canadian Opera Company

Consolidated balance sheet

[amounts expressed in thousands]

As at June 30

	2018	2017
	\$	\$
Assets		
Current		
Cash and cash equivalents <i>[note 5]</i>	249	196
Accounts receivable <i>[note 3]</i>	3,765	3,561
Due from Canadian Opera Foundation <i>[notes 13[b] and [e]]</i>	845	362
Other <i>[note 4]</i>	1,235	1,056
Total current assets	6,094	5,175
Investments, fair value <i>[note 5]</i>	2,596	3,255
Capital assets, net <i>[notes 6 and 7]</i>	129,535	132,595
Other <i>[note 4]</i>	1,237	1,447
	139,462	142,472
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities <i>[notes 8 and 13[d]]</i>	2,025	2,109
Deferred revenue <i>[notes 9 and 13[b]]</i>	7,021	7,407
Total current liabilities	9,046	9,516
Deferred capital contributions <i>[note 10]</i>	101,688	104,234
Total liabilities	110,734	113,750
Commitments and contingency <i>[notes 12 and 16]</i>		
Net assets		
Internally restricted <i>[note 15]</i>	171	243
Operating	28,557	28,479
Total net assets	28,728	28,722
	139,462	142,472

See accompanying notes

On behalf of the Board:



Director



Director

Canadian Opera Company

Consolidated statement of operations

[amounts expressed in thousands]

Year ended June 30

	2018	2017
	\$	\$
Revenue		
Fundraising <i>[note 14]</i>	10,933	11,062
Bar, event, parking and rental	8,887	8,792
Box office, tours and concerts	8,234	9,508
Government grants <i>[note 11]</i>	6,171	6,172
Contribution from Canadian Opera Foundation <i>[note 13[c]]</i>	2,145	2,575
Other	1,099	1,408
Amortization of deferred capital contributions <i>[note 10]</i>		
Four Seasons Centre	3,401	3,401
Other capital assets	435	428
	41,305	43,346
Expenses		
Production	16,313	17,783
Bar, event and parking	5,671	5,565
General and administrative	4,613	4,357
Facilities	4,267	4,146
Communication	2,326	2,463
Advancement	2,303	2,180
Ensemble studio program	814	765
Other	495	807
Education	454	425
Grants to Canadian Opera Foundation <i>[note 13[d]]</i>	—	820
Amortization of capital assets		
Four Seasons Centre	3,401	3,401
Other capital assets	642	623
	41,299	43,335
Excess of revenue over expenses for the year	6	11

See accompanying notes

Canadian Opera Company

Consolidated statement of changes in net assets

[amounts expressed in thousands]

Year ended June 30

	2018			2017		
	Internally restricted	Operating	Total	Internally restricted	Operating	Total
	\$	\$	\$	\$	\$	\$
Balance, beginning of year	243	28,479	28,722	283	28,428	28,711
Excess of revenue over expenses for the year	—	6	6	—	11	11
Transfers from internally restricted net assets <i>[note 15]</i>	(72)	72	—	(40)	40	—
Balance, end of year	171	28,557	28,728	243	28,479	28,722

See accompanying notes

Canadian Opera Company

Consolidated statement of cash flows

[amounts expressed in thousands]

Year ended June 30

	2018	2017
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	6	11
Add (deduct) items not involving cash		
Amortization of capital assets		
Four Seasons Centre	3,401	3,401
Other capital assets	642	623
Amortization of deferred capital contributions		
Four Seasons Centre	(3,401)	(3,401)
Other capital assets	(435)	(428)
	<u>213</u>	<u>206</u>
Changes in non-cash working capital balances related to operations		
Accounts receivable	(204)	307
Due from Canadian Opera Foundation	(483)	(156)
Other assets	31	(148)
Accounts payable and accrued liabilities	(84)	698
Deferred revenue	(386)	(579)
Cash (used in) provided by operating activities	<u>(913)</u>	<u>328</u>
Investing activities		
Purchase of capital assets	(983)	(653)
Decrease in investments	659	1,090
Cash (used in) provided by investing activities	<u>(324)</u>	<u>437</u>
Financing activities		
Decrease in bank indebtedness	—	(1,544)
Restricted ticket surcharge contributions and related interest	970	786
Contributions for the purchase of capital assets	320	—
Cash provided by (used in) financing activities	<u>1,290</u>	<u>(758)</u>
Net increase in cash during the year	53	7
Cash and cash equivalents, beginning of year	196	189
Cash and cash equivalents, end of year	<u>249</u>	<u>196</u>

See accompanying notes

Canadian Opera Company

Notes to consolidated financial statements

[amounts expressed in thousands]

June 30, 2018

1. Description of the organization and income tax status

Canadian Opera Company [the "Company"] is incorporated without share capital under the laws of Ontario. It is a charitable organization registered under the *Income Tax Act* (Canada) [the "Act"] and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes.

The mission of the Company is to produce opera at the highest level, thus strengthening the art form and building a reputation of excellence in Toronto, across the nation and around the world.

These consolidated financial statements include the accounts of the Canadian Opera House Corporation ["COHC"], a controlled not-for-profit organization that is a corporation without share capital under the laws of Canada and is a charitable organization under the Act and, as such, is exempt from income taxes. The purpose of COHC is to operate the Four Seasons Centre for the Performing Arts ["Four Seasons Centre"]. These consolidated financial statements do not include the accounts of Canadian Opera Foundation [the "Foundation"] [note 13] and Canadian Opera Company, Inc. ["COC, Inc."] [note 14], organizations with their own Boards of Directors that are independent of the Company.

2. Summary of significant accounting policies

These consolidated financial statements are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

Controlled not-for-profit organizations

Controlled not-for-profit organizations have been consolidated.

Revenue recognition

The Company follows the deferral method of accounting for contributions, which include grants and donations. Grants and donations related to specific events or programs and bequests are recognized in the accounts when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized.

Revenue from box office is recognized in the period in which the performance or service occurs.

Revenue from bar, event, parking and rental is recognized at the date on which the services are provided or goods delivered.

Investment income, which consists of interest, dividends, realized and unrealized gains and losses, is recorded net of transaction costs associated with these investments, in deferred capital contributions to the extent that it relates to funds held for unspent contributions, with the balance recorded as revenue in the consolidated statement of operations.

Canadian Opera Company

Notes to consolidated financial statements

[amounts expressed in thousands]

June 30, 2018

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of less than three months from the date of acquisition.

Other assets

Costs directly related to the development of future productions are presented as other assets when the Company can reliably demonstrate that there is a future economic benefit associated with these costs. These costs are expensed over their useful life, which is the year in which the production is initially staged. Costs are expensed immediately when they are related to advertising or promotion and when there is insufficient evidence that the costs are recoverable.

Capital assets

Purchased capital assets are stated at cost, and contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis over the assets' estimated useful lives as follows:

Four Seasons Centre, building	40 years
Other buildings	20 years
Other	3 to 10 years

Financial instruments

Investments in pooled funds are measured at their reported net asset value per unit, which approximates fair value. Transaction costs are recognized in the statement of operations in the period which they are incurred. All transactions are recorded on a trade date basis.

Financial instruments, including cash and cash equivalents, accounts receivable, due from the Foundation, and accounts payable and accrued liabilities, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

Contributed materials and services

The value of contributed materials and services is not reflected in these consolidated financial statements.

Foreign currency translation

Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction dates. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the year-end date. Foreign exchange gains and losses are included in the consolidated statement of operations.

Allocation of expenses

The costs of each function include the costs of personnel and other expenses that are directly related to the function. General support and other costs are not allocated. Costs directly related to individual productions are allocated to the productions and accounted for based on the accounting for other assets.

Canadian Opera Company

Notes to consolidated financial statements

[amounts expressed in thousands]

June 30, 2018

3. Accounts receivable

As at June 30, 2018, accounts receivable include pledges receivable of \$1,412 [2017 – \$1,627] and one bequest of \$114 [2017 – nil].

4. Other assets

Other assets consist of the following:

	2018	2017
	\$	\$
Current		
Production costs for subsequent season	1,010	832
Prepaid expenses and inventory	225	224
	<u>1,235</u>	<u>1,056</u>
Long-term		
Production costs for future seasons	<u>1,237</u>	<u>1,447</u>

5. Investments

Investments consist of the following:

	2018	2017
	\$	\$
Investments held related to unspent deferred capital contributions:		
Cash	269	3,222
Investments in EdgePoint Global Growth & Income Portfolio, Series I Fund	2,250	—
Investments held related to certain internally restricted net assets:		
Cash	77	33
Total investments	<u>2,596</u>	<u>3,255</u>

Cash is classified as long-term investments to the extent required for the balance of investments to equal the unspent deferred capital contributions [note 10[c]] and certain internally restricted net assets. For this calculation, the amount of unspent deferred capital contributions of \$5,119 [2017 – \$4,722] has been reduced by \$2,600 [2017 – \$1,500], which represents an amount approved by the Board of Directors to be used temporarily for other purposes.

Canadian Opera Company

Notes to consolidated financial statements

[amounts expressed in thousands]

June 30, 2018

6. Capital assets

Capital assets consist of the following:

	2018		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	32,402	—	32,402
Four Seasons Centre, building	136,025	40,809	95,216
Other buildings	11,085	11,085	—
Other	6,463	4,546	1,917
	185,975	56,440	129,535

	2017		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	32,402	—	32,402
Four Seasons Centre, building	136,025	37,408	98,617
Other buildings	11,085	11,085	—
Other	5,480	3,904	1,576
	184,992	52,397	132,595

7. Bank indebtedness

The Company has an operating line of credit of \$2,500, and any drawings on this line bear interest at the bank's prime lending rate plus 1% [2017 – 1%]. As at June 30, 2018, the Company has no bank indebtedness [2017 – nil]. In addition, the Company has in place a \$1,500 operating overrun, which is available from February 1 to July 31 annually. All other terms for this facility are consistent with the operating line of credit.

Certain buildings have been pledged as collateral.

8. Government remittances payable

As at June 30, 2018, accounts payable and accrued liabilities include government remittances payable of \$243 [2017 – \$230].

Canadian Opera Company

Notes to consolidated financial statements

[amounts expressed in thousands]

June 30, 2018

9. Deferred revenue

Deferred revenue consists of the following:

	2018	2017
	\$	\$
Box office	4,367	4,773
Sponsorships and fundraising	764	283
Grants	1,857	2,234
Funds held and administered by the Foundation <i>[note 13[b]]</i>	—	107
Other	33	10
	<u>7,021</u>	<u>7,407</u>

Deferred box office represents proceeds from the sale of subscriptions and single tickets for the subsequent season.

Deferred sponsorships and fundraising represent funds received for a specific future production or future activity.

Deferred grants represent funding received by the Company in respect of operations for the subsequent season.

Other includes rental deposits received from third parties for the subsequent season and the Guild Scholarship Fund of \$23, returned during the year from the Foundation where it had been administered in previous years.

10. Deferred capital contributions

[a] Deferred capital contributions consist of the following:

	2018	2017
	\$	\$
Deferred capital contributions related to the Four Seasons Centre <i>[note 10[b]]</i>	95,216	98,617
Deferred capital contributions related to ticket surcharges <i>[note 10[c]]</i>	6,184	5,617
Other deferred capital contributions <i>[note 10[d]]</i>	288	—
	<u>101,688</u>	<u>104,234</u>

[b] Deferred capital contributions related to the Four Seasons Centre represent restricted contributions received and used for purposes of funding the construction and the related financing and fundraising activities of the Four Seasons Centre. Such restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

Canadian Opera Company

Notes to consolidated financial statements

[amounts expressed in thousands]

June 30, 2018

Changes in the deferred capital contributions balance related to the Four Seasons Centre during the year are as follows:

	2018	2017
	\$	\$
Balance, beginning of year	98,617	102,018
Amortization of deferred capital contributions	(3,401)	(3,401)
Balance, end of year	95,216	98,617

Amortization of deferred capital contributions represents the amortization of funding received related to the costs of the Four Seasons Centre.

- [c] Deferred capital contributions related to ticket surcharges represent the unamortized amount of the funds received from each ticket sold to any event in the Four Seasons Centre. The amount is restricted for the purchase of capital assets, including repairs and improvements to the building.

Changes in the deferred capital contributions balance related to ticket surcharges during the year are as follows:

	2018	2017
	\$	\$
Balance, beginning of year	5,617	5,259
Contributions received during the year	691	745
Interest	29	41
Investment income, net of fees	250	—
Amortization of deferred capital contributions related to purchase of capital assets	(403)	(428)
Balance, end of year	6,184	5,617

The balance of deferred capital contributions includes \$5,119 [2017 – \$4,722] that is unspent on capital purchases [note 5].

- [d] Other deferred capital contributions consist of grants received for capital and consist of the following:

	2018	2017
	\$	\$
Balance, beginning of year	—	—
Contributions received in the year	320	—
Amortization of deferred capital contributions	(32)	—
Balance, end of year	288	—

Canadian Opera Company

Notes to consolidated financial statements

[amounts expressed in thousands]

June 30, 2018

11. Government grants

During the year ended June 30, 2018, the Company received government grants of \$6,171 [2017 – \$6,172] that consisted of the following:

	2018	2017
	\$	\$
Canada Council	2,040	2,040
Ontario Arts Council	2,241	2,165
City of Toronto	1,550	1,638
Other	340	329
	6,171	6,172

12. Commitments

[a] The Company has entered into various agreements with performance artists, for services to be performed in future years, and with other opera companies for set rentals or co-productions, with minimum payments as follows:

	\$
2019	9,887
2020	2,362
2021	1,577
2022	138
2023	199

[b] The Company has entered into various long-term operating leases and obligations that end in fiscal 2020. The Company has committed to the following future minimum annual payments:

	\$
2019	83
2020	78

Canadian Opera Company

Notes to consolidated financial statements

[amounts expressed in thousands]

June 30, 2018

13. Canadian Opera Foundation

- [a] The Foundation is a separate corporation without share capital and with its own Board of Directors. It is registered as a charitable organization under the Act.

The Foundation acquires, owns, holds in trust and applies funds to assist in the development of opera for the benefit of the Company. The unaudited fund balances held by the Foundation as at June 30, 2018 totalled \$45,068 [2017 – \$41,031] consisting of the following:

	2018	2017
	\$	\$
	<i>[unaudited]</i>	
Endowed <i>[i]</i>	30,704	28,929
Externally restricted <i>[ii]</i>	2,995	2,495
Available for distribution <i>[iii]</i>	9,402	7,560
Capital Fund – Available for distribution <i>[iv]</i>	1,967	2,047
	<u>45,068</u>	<u>41,031</u>

[i] Endowed - this balance represents the principal amount of donations subject to donor instructions specifying that the funds be held in perpetuity for the benefit of Canadian Opera Company and that only earnings on the principal amount can be distributed as grants.

[ii] Externally Restricted - amounts which are not endowed, but are subject to donor restrictions.

[iii] Available for Distribution - unrestricted income earned on endowed funds.

[iv] Capital Fund – this balance represents unrestricted and unendowed funds available to assist in developing opera for the benefit of the Canadian Opera Company.

- [b] During the year, the Company requested the return of funds administered on its behalf by the Foundation. As a result, there is no balance of administered funds held by the Foundation at June 30, 2018, [2017 – \$107] *[note 9]*.

- [c] During the year, the Foundation granted \$2,145 to the Company [2017 – \$2,575] in support of ongoing operations.

- [d] During the year, the Company granted and paid to the Foundation nil [2017 – \$820] of unrestricted bequests and donations to be used for the future support of the Company.

In addition, there were donations of \$1,050 [2017 – nil] received by the Company restricted for endowment purposes to be held by the Foundation. \$1,025 was transferred to the Foundation and \$25 has been set up as payable to be transferred to the Foundation. These donations have not been recorded as revenue and expenses in the consolidated statement of operations.

- [e] Related party transactions are recorded at the exchange amount established and agreed to by the related parties. Amounts due from the Foundation are non-interest bearing and due on demand.

Canadian Opera Company

Notes to consolidated financial statements

[amounts expressed in thousands]

June 30, 2018

14. Canadian Opera Company, Inc.

COC, Inc. is a separate corporation without share capital and with its own Board of Directors. Its purpose is to foster and support operatic endeavours in the U.S. and in Canada. It is able to accept donations, gifts, legacies and bequests and issue U.S. charitable donation receipts. COC, Inc. is exempt from U.S. federal and state income taxes. During the year ended June 30, 2018, the Company received grants of \$69 [2017 – \$7] from COC, Inc., which are included in fundraising revenue. As at December 31, 2017, COC, Inc. had assets of \$81 [2016 – \$15] held for future distribution to the Company.

15. Internally restricted net assets

Internally restricted net assets consist of amounts set aside for future projects. During the year ended June 30, 2018, there was a transfer of \$72 [2017 – \$40] from internally restricted net assets to operating net assets.

16. Contingency

In the normal course of operations, the Company is subject to claims or potential claims. Management records its best estimate of the potential liability related to these claims where potential liability is likely and able to be estimated. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amounts recorded are determined to be required.

17. Financial instruments

The Company is exposed to financial risk through financial instrument transactions.

Credit risk

The Company is exposed to credit risk in connection with its accounts receivable because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation.

Other risks

The Company is not exposed to significant financial risks through transactions in financial instruments. The main risk the Company has is with respect to its investments in pooled funds, which subject it to market risk and may subject it to foreign currency risk and interest rate risk with respect to the underlying investments of the pooled funds. Funds generally invest in a diversified portfolio in order to manage the risks.