CHELSEA FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2018

CHELSEA FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

To the Members of
Chelsea Foundation

Qualified Opinion

We have audited the financial statements of Chelsea Foundation (the Foundation), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, 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, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at December 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.

Basis for Qualified Opinion

As explained in Note 2, the organization adopted the Canadian accounting standards for not-for-profit organizations on January 1, 2018, with a transition date of January 1, 2017. The organization does not present, in the financial statements, the opening statement of financial position at the date of transition. This departure from Canadian accounting standards for not-for-profit organizations has no impact on the excess of revenue over expenses, cash flow from operations for the years ended December 31, 2018 and 2017, and net assets as at January 1, 2017 and December 31 for both the 2018 and 2017 years.

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 Foundation 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 qualified audit opinion.

Emphasis of Matter – Comparative Information

We draw attention to Note 2 to the financial statements which describes that the Foundation adopted Canadian accounting standards for not-for-profit organizations on January 1, 2018 with a transition date of January 1, 2017. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statements of financial position as at December 31, 2017, and the statements of operations, changes in net assets and cash flows for the year ended December 31, 2017 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited. Our opinion is not modified in respect of this matter.

Other Matter

The statement of financial position as at December 31, 2017, and the statements of operations, changes in net assets and cash flows for the year then ended are unaudited.

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 Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation'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 Foundation'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 Foundation'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 Foundation 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.

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario
April 30, 2019

CHELSEA FOUNDATION

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2018

		2018		2017
REVENUE				
Management fees	$	**744,627**	$	808,173
Donations and other		**24,751**		28,626
Amortization of capital grants		**25,015**		25,015
Grants		**22,488**		26,168
Rental		**11,829**		4,139
		84,083		83,948
		828,710		892,121
EXPENSES				
Administration				
Salaries and benefits		**148,468**		157,603
Office expenses		**35,301**		35,878
Utilities		**28,894**		581
Repairs and maintenance		**25,382**		28,994
Contribution to the Municipality of Chelsea		**15,000**		-
Advertising and promotion		**7,664**		25,435
Insurance		**4,065**		4,531
Bad debts		**2,410**		1,356
Other		**762**		-
Professional fees		**103,768**		108,708
Interest and service charges		**16,867**		12,132
Amortization of capital assets		**26,666**		25,015
		415,247		400,233
Programs (Note 4)				
Salaries and benefits		**398,548**		371,995
Supplies and other program costs		**62,346**		80,142
Repairs and maintenance		**11,757**		25,522
Interest on long-term debt		**2,012**		434
		474,663		478,093
		889,910		878,326
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	**$**	**(61,200)**	$	13,795

CHELSEA FOUNDATION

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Unrestricted	Invested in capital assets	2018 Total	2017 Total
BALANCE, BEGINNING OF YEAR	**$ (32,671)**	**$ 515,914**	**$ 483,243**	$ 469,448
Excess (deficiency) of revenue over expenses	**(59,549)**	**(1,651)**	**(61,200)**	13,795
Acquisition of capital assets	**(20,475)**	**20,475**	**-**	-
BALANCE, END OF YEAR	**$ (112,695)**	**$ 534,738**	**$ 422,043**	$ 483,243

CHELSEA FOUNDATION

		2018		2017
ASSETS				
CURRENT ASSETS				
Accounts receivable (Note 5)	**$**	**96,982**	$	190,484
Management fees receivable - Municipality of Chelsea		**107,743**		99,999
Prepaid expenses		**591**		6,486
Inventories		**6,054**		7,720
		211,370		304,689
CAPITAL ASSETS (Note 6)		**655,488**		661,679
	$	**866,858**	$	966,368
LIABILITIES				
CURRENT LIABILITIES				
Bank indebtedness	**$**	**14,934**	$	61,121
Bank loan (Note 7)		**129,376**		-
Accounts payable and accrued liabilities		**41,078**		33,040
Deferred revenue (Note 8)		**49,495**		101,337
Due to the Municipality of Chelsea		**66,955**		113,673
Current portion of long-term debt (Note 10)		**6,410**		5,928
		308,248		315,099
DEFERRED CAPITAL GRANTS (Note 9)		**120,750**		145,765
LONG-TERM DEBT (Note 10)		**15,817**		22,261
		136,567		168,026
		444,815		483,125
NET ASSETS				
Unrestricted		**(112,695)**		(32,671)
Internal restrictions				
Invested in capital assets		**534,738**		515,914
		422,043		483,243
	$	**866,858**	$	966,368

ON BEHALF OF THE BOARD

______________________, Director ______________________, Director

CHELSEA FOUNDATION

		2018		2017
OPERATING ACTIVITIES				
Excess (deficiency) of revenue over expenses	**$**	**(61,200)**	$	13,795
Adjustments for:				
Amortization of capital assets		**26,666**		25,015
Amortization of capital grants		**(25,015)**		(25,015)
		(59,549)		13,795
Net change in non-cash working capital items (Note 11)		**2,797**		(59,851)
		(56,752)		(46,056)
INVESTING ACTIVITY				
Acquisition of capital assets		**(20,475)**		(58,002)
FINANCING ACTIVITIES				
Net change in bank loan		**129,376**		(41,139)
Repayment of long-term debt		**(5,962)**		-
Long-term borrowings		**-**		22,261
		123,414		(18,878)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**46,187**		(122,936)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**(61,121)**		61,815
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**(14,934)**	$	(61,121)

Cash and cash equivalents consist of bank indebtedness.

1. STATUTE AND NATURE OF OPERATIONS

The Chelsea Foundation is incorporated under Part III of the Québec Companies Act. The Foundation operates a community centre that offers sports, recreational, cultural and educational programs for the population. The Foundation is a registered charity under the Income Tax Act, and, as such, is exempt from income tax.

2. FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS

The Foundation has elected to apply the ASNFPO. These financial statements are the first financial statements for which the Foundation has applied the ASNFPO.

The financial statements for the year ended December 31, 2018 were prepared in accordance with the ASNFPO and provisions set out in Section 1501, "First-time adoption by not-for-profit organizations", for first-time adopters of this basis of accounting. Adopting these standards did not have any impact on the net assets at the date of transition of January 1, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

The Foundation applies Canadian accounting standards for not-for-profit organizations (ASNFPO) in accordance with Part III of the CPA Canada Handbook – Accounting.

Use of estimates

The preparation of financial statements in compliance with the ASNFPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the periods covered.

Contribution receivable

A contribution receivable is recognized as an asset when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

Revenue recognition

The Foundation follows the deferral method of accounting for grants. Under this method, grants restricted for future period expenses are deferred and are recognized as revenue in the year in which the related expenses are incurred and when the amount can be reasonably estimated and the collection is reasonably assured.

Revenue from donations and other are recognized upon receipt of funds.

Capital grants received are deferred and amortized over the same period as the capital assets for which the grants were received.

Revenue from management fees and rental are recognized in the period to which they relate, when received or receivable and collection reasonably assured.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed services

The Foundation would not be able to carry out its activities without the services of the many volunteers who donate a considerable number of hours. Because of the inherent difficulty in compiling these hours and determining their fair value, contributed services are not recognized in the financial statements.

Cash and cash equivalents

The Foundation's policy is to disclose bank balances under cash and cash equivalents, including bank overdrafts with balances that can fluctuate from being positive to overdrawn.

Inventories

Inventories are measured at the lower of cost and net realizable value, with cost being determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable variable selling costs.

Capital assets

Capital assets are accounted for at cost. Amortization is calculated on their respective estimated useful lives using the following methods, annual rates and periods:

		Rates and periods
Equipment	Diminishing balance	20%
Field five improvements	Straight-line method	10 years

Write-down of capital assets

When a capital asset no longer contributes to the Foundation's ability to provide services, its carrying amount is written down to residual value, if any. The excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations.

Financial instruments

Measurement of financial instruments

The Foundation initially measures its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions.

The Foundation subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include accounts receivable and management fees receivable.

Financial liabilities measured at amortized cost include bank indebtedness, bank loan, accounts payable and accrued liabilities, due to the Municipality of Chelsea and long-term debt.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. The Foundation determines whether a significant adverse change has occurred in the expected timing or amount of future cash flows from the financial asset. If this is the case, the carrying amount of the asset is reduced directly to the higher of the present value of the cash flows expected to be generated by holding the asset, and the amount that could be realized by selling the asset at the balance sheet date. The amount of the write-down is recognized in operations. The previously recognized impairment loss may be reversed to the extent of the improvement, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in operations.

Transaction costs

Transaction costs related to financial instruments subsequently measured at amortized cost adjust the carrying amount of the financial asset or liability and are accounted for in the statement of operations using the straight-line method.

4. PROGRAM EXPENSES

	Arena	Fitness	Community Centre Program	Child Camp	Restaurant	Total
Salaries and benefits	$ 173,914	$ 81,333	$ 67,264	$ 24,426	$ 51,611	$ 398,548
Repairs and maintenance	8,444	3,313	-	-	-	11,757
Supplies and other program costs	1,698	-	6,619	3,431	50,598	62,346
Interest on long-term debt	-	2,012	-	-	-	2,012
	$ 184,056	$ 86,658	$ 73,883	$ 27,857	$ 102,209	$ 474,663

5. ACCOUNTS RECEIVABLE

	2018	2017
Trade accounts	**$ 66,410**	$ 128,158
Allowance for doubtful accounts	**(3,766)**	(1,356)
	62,644	126,802
Sales tax receivable	**34,338**	63,682
	$ 96,982	$ 190,484

6. CAPITAL ASSETS

	Cost	Accumulated amortization	2018	2017
Land	**$ 503,964**	**$ -**	**$ 503,964**	$ 500,000
Equipment	**16,511**	**1,651**	**14,860**	-
Field five improvements	**261,738**	**125,074**	**136,664**	161,679
	$ 782,213	**$ 126,725**	**$ 655,488**	$ 661,679

7. BANK LOAN

The Foundation has an authorized line of credit of $200,000, renewable annually, at prime lending rate. As at December 31, 2018, the Company has used a portion of its line of credit available in the amount of $129,376.

8. DEFERRED REVENUE

The changes in deferred revenue are as follows:

	2018	2017
Balance, beginning of year	**$ 92,067**	$ 15,000
Plus: Amount granted during the year	**647,547**	839,852
Less: Amount recognized as revenue during the year	**(690,119)**	(753,515)
Balance, end of year	**$ 49,495**	$ 101,337

Deferred revenue are detailed as follows:

	2018	2017
Fitness	**$ 11,523**	$ 5,563
Community Centre Program	**2,897**	360
Child camp	**735**	220
Arena	**28,915**	80,194
Donations and other	**5,425**	15,000
	$ 49,495	$ 101,337

9. DEFERRED CAPITAL GRANTS

Deferred capital grants represent the unamortized portion of capital grants that were used to cover the cost of the improvements incurred for Field five. These capital grants are amortized over 10 years using the straight-line method.

		2018		2017
Ministry of Infrastructure	**$**	**139,644**	$	139,644
Soccer Chelsea		**106,180**		106,180
		245,824		245,824
Less: Accumulated amortization		**125,074**		100,059
	$	**120,750**	$	145,765

The changes in deferred capital grants are as follows:

		2018		2017
Balance, beginning of year	**$**	**145,765**	$	170,780
Less: Amount recognized as revenue during the year		**(25,015)**		(25,015)
Balance, end of year	**$**	**120,750**	$	145,765

10. LONG-TERM DEBT

		2018		2017
Long-term debt - 7.85%, payable in monthly instalments of $664, principal and interest, maturing in March 2022	**$**	**22,227**	$	28,189
Current portion of long-term debt		**6,410**		5,928
	$	**15,817**	$	22,261

Long-term debt principal estimated repayments over the next four years are as follows:

2019	$	6,410
2020	$	6,932
2021	$	7,496
2022	$	1,389

11. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2018	2017
Accounts receivable	**$ 93,502**	$ (26,418)
Management fees receivable - Municipality of Chelsea	**(7,744)**	(99,999)
Prepaid expenses	**5,895**	(6,486)
Inventories	**1,666**	821
Accounts payable and accrued liabilities	**8,038**	(68,258)
Due to the Municipality of Chelsea	**(46,718)**	54,151
Deferred revenue	**(51,842)**	86,338
	$ 2,797	$ (59,851)

12. FINANCIAL INSTRUMENTS

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Foundation is exposed to this risk mainly in respect of its accounts payable and accrued liabilities, bank loan and long-term debt. The Foundation's ability to meet obligations depends on the receipt of funds from its programs.

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 Foundation's main credit risks relate to its accounts receivable. The Foundation provides credit to its clients in the normal course of its operations.

The Foundation establishes allowances for doubtful accounts while keeping in mind the specific credit risk of clients, their historic tendencies and economic situation. Approximately 36% of the total trade accounts is to be received from two entities. The Foundation considers that no risk arises from that situation.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Foundation is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject the Foundation to a fair value risk while the floating-rate instruments subject it to a cash flow risk. The Foundation does not use derivative financial instruments to alter the effects of this risk.

The Foundation uses a bank loan bearing a variable interest rate. Consequently, the Foundation's interest risk exposure is function of the changes of the prime rate. However, a variation of 1% of the prime rate will not have a significant effect on the net earnings and financial position of the Foundation.

The Foundation's long-term debt bears a fixed interest rate and, as a result, the risk exposure is minimal.

13. CONTINGENCIES

The Foundation signed an agreement with the Municipality of Chelsea whereby funds are provided for the management and operations of the Meredith Centre which is subject to restrictions as to the use of the funds. The Municipality can execute an audit of the financial records of the Foundation to ensure compliance with the project requirements. In the event that amounts to be reimbursed to the Municipality are identified, the necessary adjustments will be recognized in the year they are identified.