

LA FONDATION MUSICACTION

FINANCIAL STATEMENTS

MARCH 31, 2015

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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, 2015, 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, 2015 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.

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Anjou,
Le 15 juin 2015

¹ Monique Beaulieu, CPA auditor, CGA

LA FONDACTION MUSICACTION
STATEMENT OF EARNINGS
FOR THE YEAR ENDED MARCH 31, 2015

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	<u>2015</u>	<u>2014</u>
REVENUE		
CONTRIBUTIONS		
CANADA MUSIC FUND		
New Musical Works	\$ 4,178,790	\$ 4,178,790
Collective Initiatives	447,243	447,243
Collective Initiatives – Music Showcase	690,000	690,000
International market development	200,000	200,000
Digital market development	362,500	362,500
Contributions from commercial radio broadcasters		
Licence renewals	538,204	583,491
First Licence term	265,874	356,737
Transfers of ownership	1,697,148	809,956
Contribution from satellite radio broadcaster	1,126,967	770,740
Interest	130,706	123,234
	<u>9,637,432</u>	<u>8,522,691</u>
OPERATING EXPENSES		
Financial contributions (Schedule 1)	8,422,280	7,628,875
Administrative and financing expenses (Schedule 2)	989,654	952,115
	<u>9,411,934</u>	<u>8,580,990</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE AMORTIZATION	<u>225,498</u>	<u>(58,299)</u>
Amortization of capital assets	32,720	36,992
Amortization of intangible assets	7,136	35,270
	<u>39,856</u>	<u>72,262</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ 185,642</u>	<u>\$ (130,561)</u>

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

LA FONDATION MUSICACTION
 STATEMENT OF CHANGES IN NET ASSETS
 FOR THE YEAR ENDED MARCH 31, 2015

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	<u>2015</u>	<u>2014</u>
UNRESTRICTED NET ASSETS		
BALANCE - BEGINNING OF YEAR	\$ 2,158,751	\$ 2,848,750
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	185,642	(130,561)
Internal restrictions	<u>568,887</u>	<u>(559,438)</u>
BALANCE - END OF YEAR	<u>\$ 2,913,280</u>	<u>\$ 2,158,751</u>
INTERNALLY RESTRICTED NET ASSETS (note 5)		
BALANCE - BEGINNING OF YEAR	\$ 4,883,020	\$ 4,323,582
Internal restrictions	<u>(568,887)</u>	<u>559,438</u>
BALANCE - END OF YEAR	<u>\$ 4,314,133</u>	<u>\$ 4,883,020</u>

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

LA FONDACTION MUSICACTION

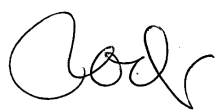
BALANCE SHEET

AS AT MARCH 31, 2015

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	<u>2015</u>	<u>2014</u>
ASSET		
CURRENT ASSETS		
Cash	\$ 539,105	\$ 249,797
Term deposits, interest rate ranging from 1.05% to 1.75%, maturing between July, 2015 and December, 2015	3,700,000	300,000
Accounts receivable (note 6)	194,030	574,810
Prepaid expenses	12,217	12,219
	<u>4,445,352</u>	<u>1,136,826</u>
TERM DEPOSITS, INTEREST RATE AT 1.90% MATURING IN JULY, 2016	3,000,000	5,500,000
CAPITAL ASSETS (note 7)	501,995	501,050
INTANGIBLE ASSETS (note 8)	<u>67</u>	<u>7,203</u>
	<u>\$ 7,947,414</u>	<u>\$ 7,145,079</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 9)	\$ 720,001	\$ 103,308
NET ASSETS		
Unrestricted net assets	2,913,280	2,158,751
Internally restricted net assets (note 5)	4,314,133	4,883,020
	<u>7,227,413</u>	<u>7,041,771</u>
	<u>\$ 7,947,414</u>	<u>\$ 7,145,079</u>

APPROVED ON BEHALF OF THE BOARD



Pierre Rodrigue
Chairman



Solange Drouin
Treasurer

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

LA FONDACTION MUSICACTION
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED MARCH 31, 2015

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	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Contributions received from the CANADA MUSIC FUND	\$ 6,262,019	\$ 5,873,701
Contributions received from radio broadcasters	4,228,193	2,520,924
Administration fees received from FONDS RADIOSTAR	35,000	35,000
Interest received	129,009	125,409
Sales taxes (paid) received	<u>(1,009)</u>	<u>13</u>
	<u>10,653,212</u>	<u>8,555,047</u>
Financial contributions paid	<u>(8,422,280)</u>	<u>(7,628,875)</u>
Purchase of goods and services paid	<u>(172,388)</u>	<u>(172,183)</u>
Employee compensation paid	<u>(835,571)</u>	<u>(800,602)</u>
	<u>(9,430,239)</u>	<u>(8,601,660)</u>
	<u>1,222,973</u>	<u>(46,613)</u>
INVESTING ACTIVITIES		
Purchase of capital assets	<u>(33,665)</u>	<u>(23,190)</u>
Term deposits	<u>(900,000)</u>	<u>200,000</u>
	<u>(933,665)</u>	<u>176,810</u>
INCREASE IN CASH AND CASH EQUIVALENTS	289,308	130,197
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>249,797</u>	<u>119,600</u>
CASH AND CASH EQUIVALENTS - END OF YEAR (note 10)	<u><u>\$ 539,105</u></u>	<u><u>\$ 249,797</u></u>

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

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, managing, 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 ended March 31, 2016 to 2020 and the following annual contributions for the Collective Initiatives program of \$1,669,743 for each of the years ended March 31, 2016 to 2020. The contributions received during the year amounted to \$4,178,790 (\$4,178,790 in 2014) for the New Musical Works Program and \$1,699,743 (\$1,699,743 in 2014) 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 and include the following significant accounting policies.

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).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

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, except for certain related party transactions which are measured either at the carrying amount or the exchange amount. They are subsequently measured at amortized cost.

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
Telephone equipment	10 years

Intangible assets

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

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 \$4,314,133 (\$4,883,020 in 2014) in order to cover the payment of commitments related to financial contributions for which La Fondation Musicaction was committed as at March 31, 2015, and to provide for administrative expenses related to monitoring and settling these commitments estimated at a maximum of 13.5%.

6. ACCOUNTS RECEIVABLE

	<u>2015</u>	<u>2014</u>
Contributions – Department of Canadian Heritage	\$ 123,220	\$ 506,706
Accrued interest	64,723	63,027
Sales taxes	<u>6,087</u>	<u>5,077</u>
	<u>\$ 194,030</u>	<u>\$ 574,810</u>

7. CAPITAL ASSETS

	<u>2015</u>		<u>2014</u>	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 83,447	\$ -	\$ 83,447	\$ 83,447
Condominium	571,391	198,947	372,444	389,541
Furniture and office equipment	142,362	127,933	14,429	14,783
Computer equipment	56,994	25,494	31,500	13,004
Telephone equipment	<u>18,068</u>	<u>17,893</u>	<u>175</u>	<u>275</u>
	<u>\$ 872,262</u>	<u>\$ 370,267</u>	<u>\$ 501,995</u>	<u>\$ 501,050</u>

8. INTANGIBLE ASSETS

			<u>2015</u>			<u>2014</u>
	Cost	Accumulated amortization	Net book value		Net book value	
Online registration system	\$ 109,149	\$ 109,082	\$ 67		\$ 5,872	
Website	<u>21,288</u>	<u>21,288</u>	<u>-</u>		<u>1,331</u>	
	<u>\$ 130,437</u>	<u>\$ 130,370</u>	<u>\$ 67</u>		<u>\$ 7,203</u>	

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2015</u>	<u>2014</u>
Accrued salaries	\$ 85,981	\$ 77,608
Deductions at source	10,307	9,273
Accrued liabilities	9,130	1,844
Deferred revenue	<u>614,583</u>	<u>14,583</u>
	<u>\$ 720,001</u>	<u>\$ 103,308</u>

10. CASH AND CASH EQUIVALENTS, END OF YEAR

The cash and cash equivalents include the following:

	<u>2015</u>	<u>2014</u>
Cash	<u>\$ 539,105</u>	<u>\$ 249,797</u>

11. RELATED PARTY TRANSACTIONS

During 2015, La Fondation Musicaction paid financial contributions to related enterprises totalling \$418,226 (\$362,888 in 2014). 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, 2015, La Fondation Musicaction is contractually committed to advance funds totalling \$3,731,725 (\$4,223,812 in 2014). Of this amount, a portion of \$288,216 (\$289,550 in 2014) 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

Liquidity risk

As at March 31, 2015, La Fondation Musicaction has accounted for 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 by the Fondation.

However, the agreements stipulate that all payments made under those agreements are subject to the credits affectation 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 of 90-days prior notice to La Fondation Musicaction. In the case that the financing is terminated, La Fondation Musicaction would be reimbursed for all the costs engaged 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, 2015, La Fondation Musicaction holds term deposits with short and long-term maturities.

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 \$49,162 (\$47,306 in 2014) are included in salary expenses in the statement of earnings.

LA FONDACTION MUSICACTION
COMPLEMENTARY FINANCIAL INFORMATION
FOR THE YEAR ENDED MARCH 31, 2015

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	<u>2015</u>	<u>2014</u>
SCHEDULE 1 – FINANCIAL CONTRIBUTIONS		
New Musical Words	\$ 6,279,105	\$ 5,825,156
Collective Initiatives	796,500	675,500
Collective Initiative – Music Showcase	637,779	596,935
International market development	378,870	213,502
Digital market development	<u>330,026</u>	<u>317,782</u>
	<u>\$ 8,422,280</u>	<u>\$ 7,628,875</u>
SCHEDULE 2 – ADMINISTRATIVE AND FINANCING EXPENSES		
Salaries and fringe benefits	\$ 844,963	\$ 808,946
Fees – administrative support	22,859	26,485
Consulting fees	11,926	4,488
Professionals fees	18,595	23,835
Communications	29,121	34,216
Committees and tours	35,272	30,899
Insurance	8,403	8,143
Maintenance and repairs	7,807	6,778
Electricity	4,766	4,664
Condominium fees	5,000	4,625
Supplies and office expenses	20,329	19,983
Property taxes	5,083	4,695
Courier and postage	4,342	2,855
Telecommunications	<u>6,188</u>	<u>6,503</u>
	1,024,654	987,115
Management fees – FONDS RADIOSTAR	<u>(35,000)</u>	<u>(35,000)</u>
	<u>\$ 989,654</u>	<u>\$ 952,115</u>