

Financial statements of

Canadian Warplane Heritage

September 30, 2013 and September 30, 2012

Canadian Warplane Heritage

September 30, 2013 and September 30, 2012

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Independent Auditor's Report

To the Members of
Canadian Warplane Heritage

We have audited the accompanying financial statements of Canadian Warplane Heritage which comprise the balance sheets as at September 30, 2013, September 30, 2012 and October 1, 2011 and the statements of operating revenues and expenses, changes in net assets and cash flows for the years ended September 30, 2013 and September 30, 2012, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 in our audits is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, Canadian Warplane Heritage derives revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of Canadian Warplane Heritage and we were not able to determine whether any adjustments might be necessary to donation revenue, excess of revenues over expenses, net assets and assets.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Canadian Warplane Heritage as at September 30, 2013, September 30, 2012 and October 1, 2011 and the results of its operations and its cash flows for the years ended September 30, 2013 and September 30, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
January 21, 2014

Canadian Warplane Heritage

Statements of operating revenues and expenses
years ended September 30, 2013 and September 30, 2012

	2013	2012
	\$	(Note 2) \$
Revenues		
Memberships	245,646	238,213
Donations	280,987	199,290
Volunteer donations	639,244	611,303
Support clubs	418,139	395,448
Flying activities	83,861	70,076
Education	243,040	241,980
Admissions	329,971	302,349
Retail	485,546	577,712
Facility and plane rental	6,700	98,656
Food, beverage and catering	677,861	688,472
Fund-raising and special events	1,405,094	995,917
Government grants	58,107	58,107
Other	91,560	132,563
	4,965,756	4,610,086
Expenses		
Membership	32,304	26,413
Volunteer expenses	639,244	611,303
Support clubs	7,530	13,374
Aircraft maintenance	333,703	122,096
Fuel and oil	145,300	165,579
Marketing	155,104	164,767
Curatorial	1,551	2,785
Retail	298,916	370,825
Fund-raising and special events	818,117	792,583
Education	14,161	19,426
Administrative	257,886	216,780
Interest	14,395	22,445
Food, beverage and catering	269,116	304,176
Salaries and benefits	1,676,400	1,604,450
Building maintenance	58,990	63,244
Utilities and taxes	162,411	158,838
Insurance	78,878	89,224
Legal and audit fees	29,095	18,700
	4,993,101	4,767,008
Shortfall of operating revenues over expenses before the undernoted	(27,345)	(156,922)
Amortization	(80,485)	(86,650)
Reversal of accounts payable	239,442	-
Net excess (shortfall) of operating revenues over expenses	131,612	(243,572)

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

Canadian Warplane Heritage

Statements of changes in net assets
years ended September 30, 2013 and September 30, 2012

	September 30,			September 30,	
	Operating	Invested in capital assets	Restricted endowment	Total	Total (Note 2)
	\$	\$	\$	\$	\$
Balance, September 30, 2012	(1,285,496)	8,918,316	203,753	7,836,573	8,080,145
Net excess (shortfall) of revenues over expenses	131,612	-	-	131,612	(243,572)
Amortization	80,485	(80,485)	-	-	-
Purchase of capital assets	(36,701)	36,701	-	-	-
Balance, September 30, 2013	(1,110,100)	8,874,532	203,753	7,968,185	7,836,573

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

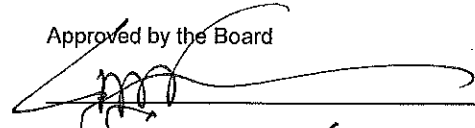
Canadian Warplane Heritage

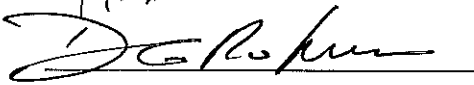
Balance sheets

as at September 30, 2013, September 30, 2012 and October 1, 2011

	September 30, 2013	September 30, 2012 (Note 2)	October 1, 2011 (Note 2)
	\$	\$	\$
Assets			
Current assets			
Temporary investments	-	-	12,868
Accounts receivable	35,451	43,336	68,802
Inventory	199,554	210,305	257,808
Prepaid expenses	22,419	47,761	62,960
	257,424	301,402	402,438
Long-term			
Investment	28,000	28,000	28,000
Endowment fund	203,753	203,753	203,753
	231,753	231,753	231,753
Capital assets			
Equipment and furniture	570,239	569,561	532,608
Collection	6,325,102	6,289,080	6,208,351
Museum building (Note 4)	12,008,981	12,008,981	12,008,981
Grants (Note 4)	(9,010,190)	(9,010,190)	(9,010,190)
Land	600,872	600,872	593,481
	10,495,004	10,458,304	10,333,231
Accumulated amortization	(1,620,472)	(1,539,988)	(1,453,337)
	8,874,532	8,918,316	8,879,894
	9,363,709	9,451,471	9,514,085
Liabilities			
Current liabilities			
Bank indebtedness (Note 5)	362,775	320,093	431,962
Accounts payable and accrued liabilities	655,273	849,293	657,000
Government remittances payable	-	4,842	-
Bank loan (Note 6)	173,723	223,358	126,225
Obligations under capital lease	-	10,559	-
Current portion long-term debt	-	3,000	12,000
	1,191,771	1,411,145	1,227,187
Endowment fund	203,753	203,753	203,753
Long-term debt	-	-	3,000
	1,395,524	1,614,898	1,433,940
Commitments (Note 7)			
Net assets			
Operating	(1,110,100)	(1,285,496)	(1,003,502)
Invested in capital assets	8,874,532	8,918,316	8,879,894
Restricted endowment	203,753	203,753	203,753
	7,968,185	7,836,573	8,080,145
	9,363,709	9,451,471	9,514,085

Approved by the Board

 Director

 Director

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

Canadian Warplane Heritage

Statements of cash flows

years ended September 30, 2013 and September 30, 2012

	2013	2012
		(Note 2)
	\$	\$
Operating activities		
Net excess (shortfall) of operating revenues over expenses	131,612	(243,572)
Items not affecting cash		
Amortization	80,485	86,650
Realized gain on sale of temporary investments	-	(2,215)
Changes in non-cash working capital components		
Accounts receivable	7,885	25,466
Inventory	10,751	47,503
Prepaid expenses	25,342	15,199
Accounts payable and accrued liabilities	(194,020)	192,293
Government remittances payable	(4,842)	4,842
	57,213	126,166
Investing activities		
Purchase of capital assets	(36,701)	(125,072)
Proceeds from temporary investments	-	15,083
	(36,701)	(109,989)
Financing activities		
Increase (decrease) in bank indebtedness	42,682	(111,869)
(Decrease) increase in obligations under capital lease	(10,559)	10,559
Proceeds from bank loan	-	150,000
Repayments on bank loan	(49,635)	(52,867)
Repayments on loan payable	(3,000)	-
Repayments on long-term debt	-	(12,000)
	(20,512)	(16,177)
Net change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	-	-

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

Canadian Warplane Heritage

Notes to the financial statements

September 30, 2013 and September 30, 2012

1. Description of museum

The Canadian Warplane Heritage (the "Organization") is a registered non-profit corporation, having been incorporated in December 1971 under the laws of Ontario. The museum's purpose can be stated as follows:

- To acquire, document, preserve and maintain a complete collection of aircraft that were flown by Canadians and the Canadian military services from the beginning of World War II to present, including other related aviation artifacts and memorabilia of significant historic importance to this period.
- To provide facilities for the restoration and protection, interpretation and exhibits of the collection. These will be displayed in their natural element - aerial or static, with emphasis on all aspects of safety and legal obligations in relation to both the artifacts and public and to deliver programs that meet the standards for community museums in Ontario.
- To instruct, educate and entertain the general public through the maintenance and rotation of displays; flight demonstrations; special events and activities and to encourage Canadians of all ages to become actively involved in the preservation of these aircraft and artifacts.
- To maintain supportive exhibits in tribute to the thousands of men and women who built, serviced and flew these aircraft and in memory of those who did not return.

2. Adoption of a new accounting framework

During the year ended September 30, 2013, the Organization adopted the new accounting standards for not-for-profit organizations (the "new standards") issued by the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") and set out in Part III of the CICA Handbook. In accordance with Section 1501 of Part III of the CICA Handbook, First-time adoption by not-for-profit organizations, ("Section 1501"), the date of transition to the new standards is October 1, 2011 and the Organization has prepared and presented opening balance sheets at the date of transition to the new standards. These opening balance sheets are the starting point for the entity's accounting under the new standards. In its opening balance sheets, under the recommendations of Section 1501, the Organization:

- (a) recognized all assets and liabilities whose recognition is required by the new standards;
- (b) did not recognize items as assets or liabilities if the new standards do not permit such recognition;
- (c) reclassified items that it recognized previously as one type of asset, liability or component of equity, but are recognized as a different type of asset, liability or component of equity under the new standards; and,
- (d) applied the new standards in measuring all recognized assets and liabilities.

In accordance with the requirements of Section 1501, the accounting policies set out in Note 3 have been consistently applied to all years presented and adjustments resulting from the adoption of the new standards have been applied retrospectively excluding cases where optional exemptions available under Section 1501 have been applied. No optional exemptions were applied by the Organization.

Canadian Warplane Heritage

Notes to the financial statements

September 30, 2013 and September 30, 2012

2. Adoption of a new accounting framework (continued)

Impact of the adoption of the new standards

Government remittances

The new standards require separate disclosure of the amount of government remittances payable. Accordingly, an amount of \$4,842 as at September 30, 2012 and \$nil as at October 1, 2011 has been reclassified from accounts payable and accrued liabilities.

The adoption of the new standards had no impact on the statement of changes in net assets as at October 1, 2011 or on the statement of changes in net assets and the statement of operating revenues and expenses for the year ended September 30, 2012.

No changes were required to the statement of cash flows as a result of the transition to the new accounting standards.

3. Accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and reflect the following significant accounting policies:

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Organization becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost.

Interest earned on short-term investments and realized gains and losses on sale of short-term investments are included in operating revenues and expenses in the statements of operating revenues and expenses.

Transaction costs related to financial instruments measured subsequent to initial recognition at fair value are expensed as incurred. Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in excess of income over expenses as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the Organization recognizes in net earnings an impairment loss, if any, when there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to excess of income over expenses in the period the reversal occurs.

Investment

The investment relates to shares of Luscair Corp. donated to the organization. The donation was recorded at fair value at the date of the transaction.

Foreign currency translation

Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the year except for amortization, which is translated at historical rates. Translation gains or losses are included in excess of operating revenues over expenses.

Canadian Warplane Heritage

Notes to the financial statements

September 30, 2013 and September 30, 2012

3. Accounting policies (continued)

Fund accounting

Endowment gifts are reported in the Endowment Funds. Investment income earned on resources of the Endowment Funds is reported in the appropriate Fund depending on the nature of any restrictions imposed by contributors of funds for endowment.

Revenue recognition

The Organization follows the deferral method for accounting for contributions. Revenues from cash donations and memberships are recognized when the funds are received. Revenues from government grants and air show performances are recognized when services are rendered or in accordance with contractual agreements. Other forms of revenue are recognized as earned.

Gifts in kind

Gifts in kind for larger capital assets only are recognized as additions to capital assets in the year in which they are received. Gifts in kind are estimated at fair market value.

Donated services

The Organization's activities include time donated by a substantial number of volunteers. Since no objective basis exists for recording and assigning values to these services, they are not reflected in the financial statements.

Capital assets

Capital assets are recorded at cost. Cost is defined as laid-down cost or receipted donation value plus the costs of restoration. Amortization is recorded on a straight-line basis as follows:

Museum building, net of grants	50 years
Equipment and furniture	10% per annum
Automotive equipment	20% per annum
Computer equipment	20% per annum

The collection is not amortized.

The collection consists of aircraft, parts and display assets and the museum building. Equity in the collection consists of these assets recorded at cost or donated value, less any corresponding long-term debt.

Based on the most recent appraisal done in fiscal 2001, the fair market value of the aircraft is approximately \$14,240,000.

Inventory

Inventory is valued at the lower of cost (on the first-in, first-out method) and net realizable value.

Inventories recognized as expense during the year amounted to \$468,324 (2012 - \$561,254).

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Canadian Warplane Heritage

Notes to the financial statements

September 30, 2013 and September 30, 2012

4. Museum building

In 1994, the Organization entered into a contract with the Regional Municipality of Hamilton-Wentworth under the Canada/Ontario Infrastructure Works Program to assist in financing the new museum. The cost of the project was funded as follows:

- \$4 million from the Government of Canada;
- \$4 million from the Government of Ontario;
- \$1 million from the Region of Hamilton-Wentworth; and
- \$3 million provided by Canadian Warplane Heritage from insurance proceeds, fund raising and sale of hangars.

The new museum was completed in the spring of 1996.

5. Bank indebtedness

Bank indebtedness is a credit facility with the bank to a maximum of \$500,000 (September 30, 2012 - \$500,000 and October 1, 2011 - \$450,000), bearing interest at prime rate plus 1.00%, is payable on demand and is collateralized by a general security agreement and a general assignment of book debts. The unused portion of this credit facility at year-end is \$89,130 (September 30, 2012 - \$20,990 and October 1, 2011 - \$141,780).

6. Bank loan

The bank loan accumulates interest at a rate of prime plus 2.00% (2012 - 2.00%), is due on demand and is collateralized by a general security agreement and a general assignment of book debts. The Organization is making principal repayments of \$4,103 on a monthly basis.

7. Commitments

The Organization is committed under terms of operating leases for the following minimum lease payments over the next four years:

	\$
2014	3,924
2015	3,746
2016	3,746
2017	3,746
	<hr/> 15,162

8. Insurance

The Organization carries ordinary comprehensive liability insurance; however, it does not carry hull insurance on its aircraft.

Canadian Warplane Heritage

Notes to the financial statements

September 30, 2013 and September 30, 2012

9. Financial instruments

Currency risk

The Organization holds a US dollar bank account and thus is exposed to foreign exchange fluctuations. The Organization does not use derivative instruments to reduce its exposure to currency risk.

Interest rate risk

Interest rate risk is the risk to the Organization's earnings that arises from fluctuations in interest rates, and the degree of volatility of these rates. The Organization does not use derivative instruments to reduce its exposure to interest rate risk.

Liquidity risk

The Organization's objective is to have sufficient liquidity to meet its liabilities when due. The Organization monitors its cash balances and cash flows generated from operations to meet its requirements. As at September 30, 2013, September 30, 2012 and October 1, 2011 the most significant financial liabilities are accounts payable and accrued liabilities, bank indebtedness, and bank loan.