

Financial statements of

# **Canadian Warplane Heritage**

September 30, 2014

# Canadian Warplane Heritage

September 30, 2014

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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 sheet as at September 30, 2014 and the statements of operating revenues and expenses, 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 qualified audit opinion.

### **Basis for Qualified Opinion**

In common with many charitable organizations, Canadian Warplane Heritage derives revenue from donations and fundraising and special events, 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 donations and fundraising and special events revenue, excess of operating 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, 2014 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.



Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
February 3, 2015

# Canadian Warplane Heritage

## Statement of operating revenues and expenses

### year ended September 30, 2014

	2014	2013
	\$	\$
<b>Revenues</b>		
Lancaster England tour	2,119,129	-
Fundraising and special events	764,263	1,405,094
Food, beverage and catering	681,212	677,861
Volunteer donations	623,244	639,244
Retail	549,984	485,546
Support clubs	464,767	418,139
Admissions	336,523	329,971
Education	264,796	243,040
Memberships	274,145	245,646
Donations	327,721	280,987
Flying activities	63,800	83,861
Government grants	58,107	58,107
Other	26,969	91,560
Facility and plane rental	9,404	6,700
	<b>6,564,064</b>	<b>4,965,756</b>
<b>Expenses</b>		
Lancaster England tour	1,177,218	-
Salaries and benefits	1,602,789	1,676,400
Volunteer expenses	384,266	639,244
Retail	336,862	298,916
Fundraising and special events	340,322	818,117
Aircraft maintenance	276,671	333,703
Administrative	259,799	257,886
Food, beverage and catering	251,251	269,116
Fuel and oil	170,227	145,300
Utilities and taxes	166,108	162,411
Marketing	145,850	155,104
Insurance	74,251	78,878
Building maintenance	55,826	58,990
Legal and audit fees	41,785	29,095
Membership	27,306	32,304
Interest	15,949	14,395
Support clubs	14,745	7,530
Education	14,390	14,161
Curatorial	1,243	1,551
	<b>5,356,858</b>	<b>4,993,101</b>
Excess (shortfall) of operating revenues over expenses		
before the undernoted	1,207,206	(27,345)
Amortization	(80,485)	(80,485)
Reversal of accounts payable	-	239,442
<b>Net excess of operating revenues over expenses</b>	<b>1,126,721</b>	<b>131,612</b>

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

# Canadian Warplane Heritage

## Statement of changes in net assets year ended September 30, 2014

				2014	2013
	Operating	Invested in capital assets	Restricted endowment	Total	Total
	\$	\$	\$	\$	\$
<b>Balance, September 30, 2013</b>	<b>(1,110,100)</b>	<b>8,874,532</b>	<b>203,753</b>	<b>7,968,185</b>	<b>7,836,573</b>
Net excess of revenues over expenses	1,126,721	-	-	1,126,721	131,612
Amortization	80,485	(80,485)	-	-	-
Purchase of capital assets	(302,237)	302,237	-	-	-
Disposal of capital assets	68,000	(68,000)	-	-	-
Donations in kind	(150,000)	150,000	-	-	-
Grants received	114,300	(114,300)	-	-	-
<b>Balance, September 30, 2014</b>	<b>(172,831)</b>	<b>9,063,984</b>	<b>203,753</b>	<b>9,094,906</b>	<b>7,968,185</b>

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

# Canadian Warplane Heritage

## Balance sheet

as at September 30, 2014

	2014	2013
	\$	\$
<b>Assets</b>		
Current assets		
Cash	444,620	-
Accounts receivable	341,123	35,451
Inventory	335,763	199,554
Prepaid expenses	22,457	22,419
	<u>1,143,963</u>	<u>257,424</u>
Long-term		
Investment	-	28,000
Endowment fund	203,753	203,753
	<u>203,753</u>	<u>231,753</u>
Capital assets		
Museum building (Note 3)	12,008,981	12,008,981
Collection	6,585,122	6,325,102
Land	600,872	600,872
Equipment and furniture	471,216	471,216
Computer equipment (Note 3)	108,941	99,023
Grants (Note 3)	(9,010,190)	(9,010,190)
	<u>10,764,942</u>	<u>10,495,004</u>
	<u>(1,700,958)</u>	<u>(1,620,472)</u>
	<u>9,063,984</u>	<u>8,874,532</u>
	<u>10,411,700</u>	<u>9,363,709</u>
<b>Liabilities</b>		
Current liabilities		
Bank indebtedness (Note 4)	-	362,775
Bank loan (Note 5)	124,088	173,723
Accounts payable and accrued liabilities	876,453	655,273
Current portion of long-term debt (Note 6)	37,500	-
	<u>1,038,041</u>	<u>1,191,771</u>
Endowment fund	203,753	203,753
Long-term debt (Note 6)	75,000	-
	<u>1,316,794</u>	<u>1,395,524</u>
Commitments (Note 7)		
<b>Net assets</b>		
Operating	(172,831)	(1,110,100)
Invested in capital assets	9,063,984	8,874,532
Restricted endowment	203,753	203,753
	<u>9,094,906</u>	<u>7,968,185</u>
	<u>10,411,700</u>	<u>9,363,709</u>

Approved by the Board

\_\_\_\_\_ Director

\_\_\_\_\_ Director

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

# Canadian Warplane Heritage

## Statement of cash flows year ended September 30, 2014

	2014	2013
	\$	\$
<b>Operating activities</b>		
Net excess of operating revenues over expenses	1,126,721	131,612
Items not affecting cash		
Amortization	80,485	80,485
Loss on dissolution of investment	5,000	-
Changes in non-cash working capital components		
Accounts receivable	(305,672)	7,885
Inventory	(136,209)	10,751
Prepaid expenses	(38)	25,342
Accounts payable and accrued liabilities	221,180	(194,020)
Government remittances payable	-	(4,842)
	<b>841,467</b>	<b>57,213</b>
<b>Investing activities</b>		
Purchase of capital assets	(302,237)	(36,701)
Proceeds from sale of capital assets	68,000	-
Proceeds from dissolution of investment	23,000	-
	<b>(211,237)</b>	<b>(36,701)</b>
<b>Financing activities</b>		
(Decrease) increase in bank indebtedness	(362,775)	42,682
Grants received	114,300	-
Proceeds from long term debt	112,500	-
Repayments on bank loan	(49,635)	(49,635)
Decrease in obligations under capital lease	-	(10,559)
Repayments on loan payable	-	(3,000)
	<b>(185,610)</b>	<b>(20,512)</b>
Net change in cash	444,620	-
Cash, beginning of year	-	-
<b>Cash, end of year</b>	<b>444,620</b>	<b>-</b>

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, 2014

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### 1. Description of the organization

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. 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.

# Canadian Warplane Heritage

Notes to the financial statements

September 30, 2014

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## 2. Accounting policies (continued)

### *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.

### *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, net of grants	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 \$479,391 (2013 - \$468,324).

# Canadian Warplane Heritage

Notes to the financial statements

September 30, 2014

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## 2. Accounting policies (continued)

### *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. Key components of the financial statements requiring management to make estimates include the realizable value of inventories, the useful lives of capital assets, and the fair value of certain financial instruments. Actual results could differ from these estimates.

## 3. Grants

### *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.

### *Computer equipment*

In 2014, the Organization entered into a contract with the Ontario Trillium Foundation for \$114,300 to assist in financing of a new computer system, software, and WiFi equipment.

## 4. Bank indebtedness

The Organization holds a credit facility with the bank with a maximum loan limit of \$500,000 (2013 - \$500,000), bearing interest at prime rate plus 1.00%, 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 \$386,699 (2013 - \$89,130).

## 5. Bank loan

The bank loan accumulates interest at a rate of prime plus 2.00% (2013 - 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.

## 6. Long-term debt

The long-term debt is non-interest bearing, maturing in May 2017, unsecured and repayable in annual installments of \$37,500 over the next three years.

# Canadian Warplane Heritage

Notes to the financial statements

September 30, 2014

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## 7. Commitments

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

	\$
2015	3,038
2016	3,216
2017	3,216
	<hr/> 9,470

## 8. Insurance

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

## 9. Financial instruments

### *Currency risk*

The Organization holds a US and UK 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, 2014 the most significant financial liabilities are accounts payable and accrued liabilities, long term debt, and bank loan.

## 10. Comparative figures

Certain comparative figures have been reclassified to conform with the current year financial statement presentation.