

Financial statements of

# **Canadian Warplane Heritage**

September 30, 2015

# Canadian Warplane Heritage

September 30, 2015

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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, 2015 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, 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.



Chartered Professional Accountants  
Licensed Public Accountants  
February 16, 2016

# Canadian Warplane Heritage

## Statement of operating revenues and expenses

### year ended September 30, 2015

	2015	2014
	\$	\$
<b>Revenues</b>		
Lancaster England tour	9,303	2,119,129
Fundraising and special events	795,591	764,263
Food, beverage and catering	659,520	681,212
Volunteer donations	633,562	623,244
Retail	607,177	549,984
Support clubs	636,373	464,767
Admissions	319,772	336,523
Education	245,354	264,796
Memberships	253,038	274,145
Donations	650,050	327,721
Flying activities	86,615	63,800
Government grants	-	58,107
Other	63,702	26,969
Facility and plane rental	168,195	9,404
	<b>5,128,252</b>	<b>6,564,064</b>
<b>Expenses</b>		
Lancaster England tour	88,202	1,177,218
Salaries and benefits	1,649,429	1,602,333
Volunteer expenses	581,071	389,684
Retail	406,052	329,069
Fundraising and special events	489,581	339,638
Aircraft maintenance	444,623	291,316
Administrative	438,642	251,333
Food, beverage and catering	248,256	251,251
Fuel and oil	169,569	169,712
Utilities and taxes	191,624	166,108
Marketing	144,791	138,645
Insurance	71,473	74,251
Building maintenance	91,325	60,842
Legal and audit fees	26,202	41,785
Membership	35,991	27,306
Interest	5,032	15,949
Support clubs	6,410	14,745
Education	26,784	14,390
Curatorial	8,435	1,283
	<b>5,123,492</b>	<b>5,356,858</b>
Excess of operating revenues over expenses		
before the undernoted	4,760	1,207,206
Amortization	(98,672)	(80,485)
<b>Net (shortfall) excess of operating revenues over expenses</b>	<b>(93,912)</b>	<b>1,126,721</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, 2015

				2015	2014
	Operating	Invested in capital assets	Restricted endowment	Total	Total
	\$	\$	\$	\$	\$
<b>Balance, September 30, 2014</b>	(172,831)	9,063,984	203,753	9,094,906	7,968,185
Net (shortfall) excess of revenues over expenses	(93,912)	-	-	(93,912)	1,126,721
Amortization	98,672	(98,672)	-	-	-
Purchase of capital assets	(125,838)	125,838	-	-	-
Proceeds on disposal of capital assets	65,300	(65,300)	-	-	-
Loss on sale of capital asset	1,500	(1,500)	-	-	-
Transfer from operating to endowment fund	(25,000)	-	25,000	-	-
<b>Balance, September 30, 2015</b>	<b>(252,109)</b>	<b>9,024,350</b>	<b>228,753</b>	<b>9,000,994</b>	<b>9,094,906</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, 2015

	2015	2014
	\$	\$
<b>Assets</b>		
Current assets		
Cash	393,536	444,620
Accounts receivable	7,782	341,123
Inventory	237,029	335,763
Prepaid expenses	27,762	22,457
	<b>666,109</b>	1,143,963
Long-term		
Endowment fund	228,753	203,753
Capital assets		
Museum building (Note 3)	12,008,981	12,008,981
Collection	6,549,820	6,585,122
Land	600,872	600,872
Equipment and furniture	488,316	471,216
Computer equipment (Note 3)	193,411	108,941
Grants (Note 3)	(9,010,190)	(9,010,190)
	<b>10,831,210</b>	10,764,942
Accumulated amortization	(1,806,860)	(1,700,958)
	<b>9,024,350</b>	9,063,984
	<b>9,919,212</b>	10,411,700
<b>Liabilities</b>		
Current liabilities		
Bank loan (Note 5)	74,453	124,088
Accounts payable and accrued liabilities	482,046	876,453
Government remittances payable	57,966	-
Current portion of long-term debt (Note 6)	37,500	37,500
	<b>651,965</b>	1,038,041
Endowment fund	228,753	203,753
Long-term debt (Note 6)	37,500	75,000
	<b>918,218</b>	1,316,794
Commitments (Note 7)		
<b>Net assets</b>		
Operating	(252,109)	(172,831)
Invested in capital assets	9,024,350	9,063,984
Restricted endowment	228,753	203,753
	<b>9,000,994</b>	9,094,906
	<b>9,919,212</b>	10,411,700

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, 2015

	2015	2014
	\$	\$
<b>Operating activities</b>		
Net (shortfall) excess of operating revenues over expenses	(93,912)	1,126,721
Items not affecting cash		
Amortization	98,672	80,485
Donations in kind - temporary investments	-	(150,000)
Loss on sale of capital asset	1,500	-
Loss on dissolution of investment	-	5,000
Changes in non-cash working capital components		
Accounts receivable	333,341	(305,672)
Inventory	98,734	(136,209)
Prepaid expenses	(5,305)	(38)
Accounts payable and accrued liabilities	(394,407)	221,180
Government remittances payable	57,966	-
	<b>96,589</b>	<b>841,467</b>
<b>Investing activities</b>		
Purchase of capital assets	(125,838)	(302,237)
Proceeds from sale of capital assets	65,300	68,000
Proceeds from dissolution of investment	-	23,000
	<b>(60,538)</b>	<b>(211,237)</b>
<b>Financing activities</b>		
Decrease in bank indebtedness	-	(362,775)
Grants received	-	114,300
Proceeds from long-term debt	-	112,500
Repayment of long-term debt	(37,500)	-
Repayments on bank loan	(49,635)	(49,635)
	<b>(87,135)</b>	<b>(185,610)</b>
Net change in cash	(51,084)	444,620
Cash, beginning of year	444,620	-
<b>Cash, end of year</b>	<b>393,536</b>	<b>444,620</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, 2015

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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.

# Canadian Warplane Heritage

## Notes to the financial statements

September 30, 2015

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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 \$503,971 (2014 - \$479,391).

# Canadian Warplane Heritage

## Notes to the financial statements

September 30, 2015

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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 Wi-Fi equipment. The government grant is deducted from the related computer equipment with any amortization calculated on the net amount. The computer equipment net of the reduction for the government assistance is amortized at 20% using the straight-line basis.

### 4. Bank indebtedness

The Organization holds a credit facility with the bank with a maximum loan limit of \$500,000 (2014 - \$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 was \$500,000 (2014 - \$386,699).

### 5. Bank loan

The bank loan accumulates interest at a rate of prime plus 2.00% (2014 - 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 \$4,136 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 two years.

# Canadian Warplane Heritage

## Notes to the financial statements

September 30, 2015

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### 7. Commitments

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

	\$
2016	3,216
2017	3,216
	<hr/> 6,432

### 8. Insurance

The Organization carries ordinary comprehensive liability insurance; however, it does not carry full 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, 2015 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.