

Financial statements of

Canadian Warplane Heritage

September 30, 2016

Canadian Warplane Heritage

September 30, 2016

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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, 2016 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, 2016 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.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants
December 20, 2016

Canadian Warplane Heritage

Statement of operating revenues and expenses year ended September 30, 2016

	2016	2015
	\$	\$
Revenues		
Lancaster England tour	-	9,303
Fundraising and special events	369,091	795,591
Food, beverage and catering	601,845	659,520
Volunteer donations	555,721	633,562
Retail	986,471	607,177
Support clubs	600,402	636,373
Admissions	420,911	319,772
Education	237,034	245,354
Memberships	292,558	253,038
Donations	609,828	650,050
Flying activities	64,514	86,615
Government grants	7,500	-
Other	167,899	63,702
Facility and plane rental	323,978	168,195
	5,237,752	5,128,252
Expenses		
Lancaster England tour	-	88,202
Salaries and benefits	1,726,988	1,649,429
Volunteer expenses	490,760	581,071
Retail	589,837	406,052
Fundraising and special events	55,323	489,581
Aircraft maintenance	444,790	444,623
Administrative	382,677	438,642
Food, beverage and catering	265,983	248,256
Fuel and oil	195,465	169,569
Utilities and taxes	189,932	191,624
Marketing	168,796	144,791
Insurance	65,644	71,473
Building maintenance	93,401	91,325
Legal and audit fees	25,200	26,202
Membership	40,406	35,991
Interest	2,421	5,032
Support clubs	-	6,410
Education	25,062	26,784
Curatorial	12,040	8,435
	4,774,725	5,123,492
Excess of operating revenues over expenses before the undernoted	463,027	4,760
Amortization	(112,636)	(98,672)
Net excess (shortfall) of operating revenues over expenses	350,391	(93,912)

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, 2016

				2016	2015
	Operating	Invested in capital assets	Restricted endowment	Total	Total
	\$	\$	\$	\$	\$
Balance, September 30, 2015	(252,109)	9,024,350	228,753	9,000,994	9,094,906
Net excess (shortfall) of revenues over expenses	346,725	-	3,666	350,391	(93,912)
Amortization	112,636	(112,636)	-	-	-
Purchase of capital assets	(309,260)	309,260	-	-	-
Balance, September 30, 2016	(102,008)	9,220,974	232,419	9,351,385	9,000,994

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

Canadian Warplane Heritage

Balance sheet
as at September 30, 2016

	2016	2015
	\$	\$
Assets		
Current assets		
Cash	503,691	393,536
Accounts receivable	66,787	7,782
Inventory	176,213	237,029
Prepaid expenses	59,408	27,762
	806,099	666,109
Long-term		
Endowment fund	203,753	228,753
Investments (Note 3)	28,666	-
	232,419	228,753
Capital assets		
Museum building (Note 4)	12,008,981	12,008,981
Collection	6,834,378	6,549,820
Land	600,872	600,872
Equipment and furniture	513,019	488,316
Computer equipment (Note 4)	216,271	193,411
Grants (Note 4)	(9,010,190)	(9,010,190)
	11,163,331	10,831,210
Accumulated amortization	(1,942,357)	(1,806,860)
	9,220,974	9,024,350
	10,259,492	9,919,212
Liabilities		
Current liabilities		
Bank loan (Note 6)	24,818	74,453
Accounts payable and accrued liabilities	641,989	482,046
Government remittances payable	47	57,966
Current portion of long-term debt (Note 7)	37,500	37,500
	704,354	651,965
Endowment fund	203,753	228,753
Long-term debt (Note 7)	-	37,500
	908,107	918,218
Commitments (Note 8)		
Net assets		
Operating	(102,008)	(252,109)
Invested in capital assets	9,220,974	9,024,350
Restricted endowment	232,419	228,753
	9,351,385	9,000,994
	10,259,492	9,919,212

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, 2016

	2016	2015
	\$	\$
Operating activities		
Net excess (shortfall) of operating revenues over expenses	350,391	(93,912)
Items not affecting cash		
Amortization	112,636	98,672
Donations in kind - capital assets	(243,200)	-
Unrealized gain on investments	(1,166)	-
Non cash donation	(2,500)	-
Loss on sale of capital asset	-	1,500
Changes in non-cash working capital components		
Accounts receivable	(59,005)	333,341
Inventory	60,816	98,734
Prepaid expenses	(31,646)	(5,305)
Accounts payable and accrued liabilities	159,943	(394,407)
Government remittances payable	(57,919)	57,966
	288,350	96,589
Investing activities		
Purchase of capital assets	(66,060)	(125,838)
Proceeds from sale of capital assets	-	65,300
Purchase of investments	(25,000)	-
	(91,060)	(60,538)
Financing activities		
Repayment of long-term debt	(37,500)	(37,500)
Repayments on bank loan	(49,635)	(49,635)
	(87,135)	(87,135)
Net change in cash	110,155	(51,084)
Cash, beginning of year	393,536	444,620
Cash, end of year	503,691	393,536

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, 2016

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, 2016

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 \$542,387 (2015 - \$503,971).

Canadian Warplane Heritage

Notes to the financial statements

September 30, 2016

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. Investments

Investments include funds pooled with Hamilton Community Foundation and are made in accordance with the Organization's investment policy as developed by the Board of Directors. The goal of the policy is to ensure that funds grow while earning returns consistent with prudent investments.

4. 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.

5. Bank indebtedness

The Organization holds a credit facility with the bank with a maximum loan limit of \$500,000 (2015 - \$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 (2015 - \$500,000).

6. Bank loan

The bank loan accumulates interest at a rate of prime plus 2.00% (2015 - 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.

Canadian Warplane Heritage

Notes to the financial statements

September 30, 2016

7. Long-term debt

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

8. Commitments

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

	\$
2017	3,216

9. Insurance

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

10. 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, 2016 the most significant financial liabilities are accounts payable and accrued liabilities, long term debt, and bank loan.