
Financial statements of Canadian Warplane Heritage

September 30, 2018

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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, 2018, 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, shortfall 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, 2018, 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
December 12, 2018

Canadian Warplane Heritage
Statement of operating revenues and expenses
Year ended September 30, 2018

	2018	2017
	\$	\$
Revenue		
Fundraising and special events	756,457	482,484
Food, beverage and catering	691,372	773,867
Volunteer donations	534,689	544,680
Retail	743,291	934,827
Support clubs	930,508	737,686
Admissions	530,764	467,512
Education	287,923	278,478
Memberships	300,528	278,904
Donations	1,766,721	520,314
Flying activities	123,816	43,104
Government grants	20,700	7,500
Other	93,665	142,542
Facility and plane rental	250,739	291,982
	7,031,173	5,503,880
Expenses		
Salaries and benefits	2,048,109	1,932,225
Volunteer expenses	476,773	510,348
Retail	432,055	465,708
Fundraising and special events	396,122	212,135
Aircraft maintenance	552,218	706,804
Administrative	467,553	488,884
Food, beverage and catering	313,913	324,031
Fuel and oil	257,076	226,491
Utilities and taxes	126,239	185,112
Marketing	171,807	155,046
Insurance	64,689	63,953
Building maintenance	110,667	112,791
Legal and audit fees	31,020	25,200
Membership	45,266	43,217
Interest	15,680	6,916
Education	30,173	15,859
Curatorial	17,158	8,754
	5,556,518	5,483,474
Excess of operating revenues over expenses before the undernoted	1,474,655	20,406
Amortization	(132,060)	(99,525)
Net excess (shortfall) of operating revenues over expenses	1,342,595	(79,119)

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

Canadian Warplane Heritage
Statement of changes in net assets
Year ended September 30, 2018

	2018			2017	
	Operating	Invested in capital assets	Restricted endowment	Total	
	\$	\$	\$	\$	
Balance, September 30, 2017	(545,048)	9,578,400	238,914	9,272,266	9,351,385
Net excess (shortfall) of revenues over expenses	1,340,690	—	1,905	1,342,595	(79,119)
Amortization	132,060	(132,060)	—	—	—
Purchase of capital assets	(149,458)	149,458	—	—	—
Balance, September 30, 2018	778,244	9,595,798	240,819	10,614,861	9,272,266

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

Canadian Warplane Heritage

Balance sheet

As at September 30, 2018

	Notes	2018	2017
		\$	\$
Assets			
Current assets			
Cash		374,895	471,338
Accounts receivable		31,609	100,299
Inventory		194,852	214,613
Prepaid expenses		25,894	39,551
Government remittances receivable		1,255	21,227
Short-term investments		1,388,151	7,875
		2,016,656	854,903
Long-term			
Endowment fund		203,753	203,753
Investments	3	37,066	35,161
		240,819	238,914
Capital assets			
Museum building	4	12,240,691	12,240,691
Collection		6,903,116	6,889,374
Land		664,584	664,584
Equipment and furniture		741,059	617,549
Computer equipment	4	276,198	241,132
Grants	4	(9,010,190)	(9,010,190)
		11,815,458	11,643,140
Accumulated amortization		(2,219,660)	(2,064,740)
		9,595,798	9,578,400
		11,853,273	10,672,217
Liabilities			
Current liabilities			
Bank loan	6	305,478	290,326
Accounts payable and accrued liabilities		729,181	905,872
		1,034,659	1,196,198
Endowment fund		203,753	203,753
		1,238,412	1,399,951
Commitments	7		
Net assets			
Operating		778,244	(545,048)
Invested in capital assets		9,595,798	9,578,400
Restricted endowment		240,819	238,914
		10,614,861	9,272,266
		11,853,273	10,672,217

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

Approved by the Board

_____, Director

_____, Director

Canadian Warplane Heritage

Statement of cash flows

Year ended September 30, 2018

	2018	2017
	\$	\$
Operating activities		
Net excess (shortfall) of operating revenues over expenses	1,342,595	(79,119)
Items not affecting cash		
Amortization	132,060	99,525
Donations in kind - short-term investments	—	(7,875)
Unrealized gain on investments	(1,905)	(1,495)
Non-cash donation	—	(5,000)
Changes in non-cash working capital components		
Accounts receivable	68,690	(33,512)
Inventory	19,761	(38,400)
Prepaid expenses	13,657	19,857
Accounts payable and accrued liabilities	(176,691)	263,883
Government remittances	19,972	(21,274)
	1,418,139	196,590
Investing activities		
Purchase of capital assets	(149,458)	(456,951)
Purchase of investments	(1,380,276)	—
	(1,529,734)	(456,951)
Financing activities		
Proceeds from bank loan	46,674	290,326
Repayment of long-term debt	—	(37,500)
Repayments on bank loan	(31,522)	(24,818)
	15,152	228,008
Net change in cash	(96,443)	(32,353)
Cash, beginning of year	471,338	503,691
Cash, end of year	374,895	471,338

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

Canadian Warplane Heritage
Notes to the financial statements
September 30, 2018

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 except for the following:

- a) Investments in listed shares and derivative financial instruments that are not designated in a qualifying hedging relationship, which are measured at fair value at the balance sheet date.

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.

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 shortfall of operating revenues over expenses.

Fund accounting

Endowment gifts are reported as Endowment Funds. Investment income earned on resources of the Endowment Funds are 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 Collection is approximately \$14,240,000.

2. Accounting policies (continued)

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 \$626,746 (\$667,922 in 2017).

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.

In 2017, the Organization entered into a contract with Canadian Heritage for \$45,660 to assist in financing building upgrades. The government grant is deducted from the related building upgrades with any amortization calculated on the net amount. The building upgrades net of the reduction for the government assistance is amortized at 2% using the straight-line basis.

4. Grants (continued)

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.

Equipment and furniture

In 2018, the Organization entered into a contract with the Minister of Canadian Heritage for \$47,654 to assist in financing of a new artifact storage and preservation upgrade. The government grant is deducted from the related shelving unit with any amortization calculated on the net amount. The shelving net of the reduction for the government assistance is amortized at 10% 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 (\$500,000 in 2017), 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 (\$500,000 in 2017).

6. Bank loan

The bank loan accumulates interest monthly in arrears at a rate of prime plus 1.50% (1.50% in 2017) and is due on demand. The loan is amortized over 120 months. The loan is collateralized by a general security agreement and a general assignment of book debts. The Organization is making principal repayments of \$2,995 (\$3,643 in 2017) on a monthly basis.

7. Commitments

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

	\$
2019	4,499
2020	4,499
2021	1,612
	<u>10,610</u>

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, 2018, the most significant financial liabilities are accounts payable and accrued liabilities, and bank loan.