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# Financial statements of Canadian Warplane Heritage

September 30, 2019

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## Independent Auditor's Report

To the Members of  
Canadian Warplane Heritage

### Qualified Opinion

We have audited the financial statements of Canadian Warplane Heritage (the "Organization"), which comprise the balance sheet as at September 30, 2019, and the statements of operating revenues and expenses, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at September 30, 2019, 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.

### Basis for Qualified Opinion

In common with many not-for-profit organizations, the Organization derives revenue from donations and fundraising and special events, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Organization and we were not able to determine whether any adjustments might be necessary to donations and fundraising and special events revenue, the excess of revenues over expenses, and cash flows from operations for the years ended September 30, 2019 and 2018, current assets as at September 30, 2019 and 2018, and net assets as at October 1 and September 30 for both the 2019 and 2018 years. Our audit opinion on the financial statements for the year ended September 30, 2019 was modified accordingly because of the possible effects of this scope limitation.

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.



## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte LLP*

Chartered Professional Accountants  
Burlington, Ontario  
December 4, 2019





## Canadian Warplane Heritage

### Statement of operating revenues and expenses

Year ended September 30, 2019

	2019	2018
	\$	\$
<b>Revenue</b>		
Fundraising and special events	628,627	756,457
Food, beverage and catering	856,569	691,372
Volunteer donations	505,957	534,689
Retail	815,007	743,291
Flights	912,445	937,663
Admissions	596,945	530,764
Education	330,131	287,923
Memberships	326,782	300,528
Donations	826,761	1,766,721
Flying activities and support clubs	124,241	116,661
Government grants	35,894	20,700
Other	147,765	93,665
Facility and plane rental	251,258	250,739
	<u>6,358,382</u>	<u>7,031,173</u>
<b>Expenses</b>		
Salaries and benefits	2,193,659	2,048,109
Volunteer expenses	450,256	476,773
Retail	466,560	432,055
Fundraising and special events	313,560	396,122
Aircraft maintenance	815,761	552,218
Administrative	439,796	467,553
Food, beverage and catering	415,269	313,913
Fuel and oil	297,484	257,076
Utilities and taxes	135,883	126,239
Marketing	186,104	171,807
Insurance	72,445	64,689
Building maintenance	93,059	110,667
Legal and audit fees	30,000	31,020
Membership	60,128	45,266
Interest	15,693	15,680
Education	34,013	30,173
Curatorial	20,075	17,158
	<u>6,039,745</u>	<u>5,556,518</u>
Excess of operating revenues over expenses before the undernoted	318,637	1,474,655
Amortization	<u>(141,571)</u>	<u>(132,060)</u>
<b>Net excess of operating revenues over expenses</b>	<u>177,066</u>	<u>1,342,595</u>

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



**Canadian Warplane Heritage****Statement of changes in net assets**

Year ended September 30, 2019

	<b>2019</b>			<b>2018</b>	
	<b>Operating</b>	<b>Invested in capital assets</b>	<b>Restricted endowment</b>	<b>Total</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, September 30, 2018	<b>778,244</b>	<b>9,595,798</b>	<b>240,819</b>	<b>10,614,861</b>	9,272,266
Net excess (shortfall) of revenues over expenses	<b>175,681</b>	<b>—</b>	<b>1,385</b>	<b>177,066</b>	1,342,595
Amortization	<b>141,571</b>	<b>(141,571)</b>	<b>—</b>	<b>—</b>	<b>—</b>
Purchase of capital assets	<b>(449,118)</b>	<b>449,118</b>	<b>—</b>	<b>—</b>	<b>—</b>
Balance, September 30, 2019	<b>646,378</b>	<b>9,903,345</b>	<b>242,204</b>	<b>10,791,927</b>	<b>10,614,861</b>

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



# Canadian Warplane Heritage

## Balance sheet

As at September 30, 2019

	Notes	2019	2018
		\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash		412,311	374,895
Accounts receivable		48,020	31,609
Inventory		221,746	194,852
Prepaid expenses		24,737	25,894
Government remittances receivable		22,712	1,255
Short-term investments		1,469,361	1,388,151
		<u>2,198,887</u>	<u>2,016,656</u>
<b>Long-term</b>			
Endowment fund		203,753	203,753
Investments	3	38,451	37,066
		<u>242,204</u>	<u>240,819</u>
<b>Capital assets</b>			
Museum building	4	12,242,186	12,240,691
Parking lot		180,689	—
Collection		7,024,952	6,903,116
Land		664,584	664,584
Equipment and furniture		858,304	741,059
Computer equipment	4	304,050	276,198
Grants	4	(9,010,190)	(9,010,190)
		<u>12,264,575</u>	<u>11,815,458</u>
Accumulated amortization		(2,361,230)	(2,219,660)
		<u>9,903,345</u>	<u>9,595,798</u>
		<u>12,344,436</u>	<u>11,853,273</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank loan	6	269,539	305,478
Accounts payable and accrued liabilities		1,079,217	729,181
		<u>1,348,756</u>	<u>1,034,659</u>
Endowment fund		203,753	203,753
		<u>1,552,509</u>	<u>1,238,412</u>
Commitments	7		
<b>Net assets</b>			
Operating		646,378	778,244
Invested in capital assets		9,903,345	9,595,798
Restricted endowment		242,204	240,819
		<u>10,791,927</u>	<u>10,614,861</u>
		<u>12,344,436</u>	<u>11,853,273</u>

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, 2019

	<u>2019</u>	<u>2018</u>
	\$	\$
<b>Operating activities</b>		
Net excess of operating revenues over expenses	<b>177,066</b>	1,342,595
Items not affecting cash		
Amortization	<b>141,571</b>	132,060
Unrealized gain on investments	<b>(82,595)</b>	(1,905)
Changes in non-cash working capital components		
Accounts receivable	<b>(16,411)</b>	68,690
Inventory	<b>(26,894)</b>	19,761
Prepaid expenses	<b>1,157</b>	13,657
Accounts payable and accrued liabilities	<b>350,036</b>	(176,691)
Government remittances	<b>(21,457)</b>	19,972
	<b>522,473</b>	1,418,139
<b>Investing activities</b>		
Purchase of capital assets	<b>(449,118)</b>	(149,458)
Purchase of investments	—	(1,380,276)
	<b>(449,118)</b>	(1,529,734)
<b>Financing activities</b>		
Proceeds from bank loan	—	46,674
Repayments on bank loan	<b>(35,939)</b>	(31,522)
	<b>(35,939)</b>	15,152
Net change in cash	<b>37,416</b>	(96,443)
Cash, beginning of year	<b>374,895</b>	471,338
<b>Cash, end of year</b>	<b>412,311</b>	374,895

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





## **1. Description of the organization**

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
Parking lot	6% per annum
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 \$749,330 (\$626,746 in 2018).

### *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.



**Canadian Warplane Heritage**  
**Notes to the financial statements**

September 30, 2019

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**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 2018), 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 2018).

**6. Bank loan**

The bank loan accumulates interest monthly in arrears at a rate of prime plus 1.50% (1.50% in 2018) 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 (\$2,995 in 2018) on a monthly basis.

**7. Commitments**

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

	\$
2020	4,499
2021	<u>1,612</u>
	<u>6,111</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, 2019, the most significant financial liabilities are accounts payable and accrued liabilities, and bank loan.

**10. Comparative figures**

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

