
Financial statements of Canadian Warplane Heritage

September 30, 2020

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Independent Auditor's Report

To the Members of
Canadian Warplane Heritage

Opinion

We have audited the financial statements of Canadian Warplane Heritage (the "Organization"), which comprise the balance sheet as at September 30, 2020, 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, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at September 30, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

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 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.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

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 2, 2020

Canadian Warplane Heritage
Statement of operating revenues and expenses
Year ended September 30, 2020

	Notes	2020	2019
		\$	\$
Revenue			
Fundraising and special events		168,576	628,627
Food, beverage and catering		411,541	856,569
Volunteer donations		562,290	505,957
Retail		456,741	815,007
Flights		497,212	912,445
Admissions		267,597	596,945
Education		131,057	330,131
Memberships		273,673	326,782
Donations		601,664	826,761
Flying activities and support clubs		18,945	124,241
Government grants		1,597	35,894
Other		94,699	147,765
Facility and plane rental		201,864	251,258
		3,687,456	6,358,382
Expenses			
Salaries and benefits	10	1,202,649	2,193,659
Volunteer expenses		501,034	450,256
Aircraft maintenance		434,552	815,761
Administrative		414,262	439,796
Retail		299,233	466,560
Food, beverage and catering		208,158	415,269
Fuel and oil		138,906	297,484
Utilities and taxes		127,453	135,883
Insurance		73,038	72,445
Building maintenance		64,666	93,059
Fundraising and special events		51,404	313,560
Marketing		41,681	186,104
Membership		33,460	60,128
Legal and audit fees		13,100	30,000
Curatorial		12,266	20,075
Interest		12,123	15,693
Education		9,891	34,013
		3,637,876	6,039,745
Excess of operating revenues over expenses before the undernoted		49,580	318,637
Amortization		(136,928)	(141,571)
Net (shortfall) excess of revenue over expenses		(87,348)	177,066

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

Canadian Warplane Heritage
Statement of changes in net assets
Year ended September 30, 2020

				2020	2019
	Operating	Invested	Restricted	Total	Total
	\$	in capital	endowment	\$	\$
		assets			
	\$	\$	\$	\$	\$
Balance, September 30, 2019	646,378	9,903,345	242,204	10,791,927	10,614,861
Net (shortfall) excess of revenue over expenses	(84,090)	—	(3,258)	(87,348)	177,066
Amortization	136,928	(136,928)	—	—	—
Purchase of capital assets	(45,410)	45,410	—	—	—
Balance, September 30, 2020	653,806	9,811,827	238,946	10,704,579	10,791,927

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

Canadian Warplane Heritage

Balance sheet

As at September 30, 2020

	Notes	2020 \$	2019 \$
Assets			
Current assets			
Cash		261,208	412,311
Accounts receivable		83,353	48,020
Inventory		154,606	221,746
Prepaid expenses		4,916	24,738
Government remittances receivable		—	22,711
Short-term investments		1,394,353	1,469,361
		<u>1,898,436</u>	<u>2,198,887</u>
Long-term			
Endowment fund		203,753	203,753
Investments	3	35,193	38,451
		<u>238,946</u>	<u>242,204</u>
Capital assets			
Museum building	4	12,242,186	12,242,186
Parking lot		180,689	180,689
Collection		7,037,549	7,024,952
Land		664,584	664,584
Equipment and furniture		886,543	858,304
Computer equipment	4	308,624	304,050
Grants	4	(9,010,190)	(9,010,190)
		<u>12,309,985</u>	<u>12,264,575</u>
Accumulated amortization		<u>(2,498,158)</u>	<u>(2,361,230)</u>
		<u>9,811,827</u>	<u>9,903,345</u>
		<u>11,949,209</u>	<u>12,344,436</u>
Liabilities			
Current liabilities			
Bank loan	6	233,601	269,539
Accounts payable and accrued liabilities		803,868	1,079,217
Government remittances payable		3,408	—
		<u>1,040,877</u>	<u>1,348,756</u>
Endowment fund		203,753	203,753
		<u>1,244,630</u>	<u>1,552,509</u>
Net assets			
Operating		653,806	646,378
Invested in capital assets		9,811,827	9,903,345
Restricted endowment		238,946	242,204
		<u>10,704,579</u>	<u>10,791,927</u>
		<u>11,949,209</u>	<u>12,344,436</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, 2020

	2020	2019
	\$	\$
Operating activities		
Net (shortfall) excess of revenue over expenses	(87,348)	177,066
Items not affecting cash		
Amortization	136,928	141,571
Unrealized loss (gain) on investments	45,449	(82,595)
Realized loss on investments	2,961	—
Changes in non-cash working capital components		
Accounts receivable	(35,333)	(16,411)
Inventory	67,140	(26,894)
Prepaid expenses	19,822	1,157
Accounts payable and accrued liabilities	(275,349)	350,036
Government remittances	26,119	(21,457)
	(99,611)	522,473
Investing activities		
Purchase of capital assets	(45,410)	(449,118)
Proceeds on sale of investments	29,856	—
	(15,554)	(449,118)
Financing activities		
Repayments on bank loan	(35,938)	(35,939)
Net change in cash	(151,103)	37,416
Cash, beginning of year	412,311	374,895
Cash, end of year	261,208	412,311

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 \$398,795 (\$749,330 in 2019).

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.

Government assistance

Government assistance related to current expenses is recorded as a reduction of the related expenses.

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 2019), 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 2019).

6. Bank loan

The bank loan accumulates interest monthly in arrears at a rate of prime plus 1.50% (1.50% in 2019) 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 2019) on a monthly basis.

7. Insurance

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

8. 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, 2020, the most significant financial liabilities are accounts payable and accrued liabilities, and bank loan.

9. Significant event

On March 11th, 2020 the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Organization in future periods.

10. Canada Emergency Wage Subsidy ("CEWS")

The Government of Canada has provided the Organization funding in the year to offset the negative effect the COVID-19 pandemic has on the Organization's financial performance. The Government has, in the current year, provided \$574,526 (\$nil in 2019) to the Organization which the Organization has applied as credit against the salaries and benefits expense. In order to obtain the funding the Organization demonstrated to the Government, for each period of funding, a designated revenue decline when compared to the 2019 fiscal year and the salary expense incurred for the period. The Canadian Government has confirmed its intention to continue the CEWS program until June 2021.