Financial statements of
CKUA Radio Foundation

August 31, 2018

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Independent Auditor's Report

To the Board of Directors of
CKUA Radio Foundation

We have audited the accompanying financial statements of CKUA Radio Foundation, which comprise the statement of financial position as at August 31, 2018, and the statements of changes in net assets, operations 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 not-for-profit organizations, CKUA Radio Foundation derives revenue from donations 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 CKUA Radio Foundation and we were not able to determine whether any adjustments might be necessary to recorded donations, the excess of revenues over expenses, and cash flows from operations for the year ended August 31, 2018, current assets as at August 31, 2018, and net assets as at August 31, 2018 and August 31, 2017. The predecessor auditor's audit opinion on the financial statements for the year ended August 31, 2017 was modified, because of the possible effects of a similar limitation in scope.

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 CKUA Radio Foundation as at August 31, 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.

Restated Comparative Information

The financial statements of CKUA Radio Foundation for the year ended August 31, 2017 (prior to the restatement of the comparative information described in Note 17 to the financial statements) were audited by another auditor who expressed a qualified opinion on those statements on November 28, 2017 for the reasons described in the Basis for Qualified Opinion paragraph.

As part of our audit of the financial statements of CKUA Radio Foundation for the year ended August 31, 2017, we also audited the adjustments described in Note 17 that were applied to restate the financial statements for the year ended August 31, 2017. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the financial statements of CKUA Radio Foundation for the year ended August 31, 2017 other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the financial statements for the year ended August 31, 2017 taken as a whole.

Deloitte LLP

Chartered Professional Accountants
December 6, 2018

CKUA Radio Foundation

Statement of financial position

Year ended August 31, 2018

	Notes	2018	2017 restated - note 17
		$	$
Assets			
Current assets			
Cash and cash equivalents		**548,434**	756,854
Externally restricted cash	3	**83,824**	13,782
Short term investments	4	**450,240**	373,798
Accounts receivable net of AFDA of nil ($1,944 in 2017)		**93,066**	123,155
Prepaid expenses and deposits		**51,098**	97,283
Inventory		**—**	3,460
		1,226,662	1,368,332
Investments	4	**79,295**	147,519
Property and equipment	5	**17,916,825**	18,686,939
Internally restricted cash	3	**1,384,997**	1,094,775
		20,607,779	21,297,566
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	**375,352**	407,466
Demand loans	8	**5,969,000**	5,969,000
Current portion of deferred revenue	9	**—**	9,356
		6,344,352	6,385,822
Deferred revenue	9	**61,890**	64,769
Deferred grant revenue	10	**284,579**	385,668
Unamortized deferred capital contributions	11	**9,471,493**	9,822,261
		16,162,314	16,658,520
Commitments	12		
Net assets			
Unrestricted net assets		**584,136**	648,593
Internally restricted net assets		**1,384,997**	1,094,775
Invested in property and equipment		**2,476,332**	2,895,678
		4,445,465	4,639,046
		20,607,779	21,297,566

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

On behalf of the Board

________________________________, Director

________________________________, Director

CKUA Radio Foundation

Statement of changes in net assets

Year ended August 31, 2018

	Unrestricted	Internally restricted	Property and equipment	2018	2017
	$	$	$	$	$
Opening balance (restated - Note 17)	**648,593**	**1,094,775**	**2,895,678**	**4,639,046**	4,262,140
(Deficiency) excess of revenue over expenses	**(193,581)**	**—**	**—**	**(193,581)**	376,906
Transfers	**72,375**	**(72,375)**	**—**	**—**	—
Net proceeds for tower sale	**(362,597)**	**362,597**	**—**	**—**	—
Investment in property and equipment, net	**419,346**	**—**	**(419,346)**	**—**	—
Fund balances – end of year	**584,136**	**1,384,997**	**2,476,332**	**4,445,465**	4,639,046

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

CKUA Radio Foundation

Statement of operations

Year ended August 31, 2018

	2018	2017 restated - note 17
	$	$
Revenue		
Donations	**3,422,469**	3,386,754
Sponsorships and promotional sales	**743,876**	697,374
Building rentals including performance space	**506,362**	509,550
Grant revenue recognized	**376,730**	395,111
Amortization of deferred capital contributions	**342,908**	431,447
In-kind sponsorship and donations	**285,115**	325,149
Tower rentals	**121,938**	209,940
Other including interest and foreign exchange	**29,348**	24,653
	5,828,746	5,979,978
Expenses		
Programming	**1,460,450**	1,441,027
Studio and transmitter technical	**1,121,185**	1,153,984
General administration	**698,223**	884,029
Building costs	**572,447**	537,577
Fundraising	**471,396**	672,928
Amortization of internally funded property and equipment	**469,971**	395,484
Marketing and community outreach	**388,996**	324,643
Amortization of contributed property and equipment	**342,908**	431,447
Sales	**298,729**	216,216
In-kind goods and services	**285,115**	325,149
Interest on demand loan - building	**261,655**	222,856
	6,371,075	6,605,340
Deficiency of revenue over expenses before other items	**(542,329)**	(625,362)
Other items		
Gain on disposal of property and equipment	**348,748**	1,002,268
	348,748	1,002,268
(Deficiency) excess of revenue over expenses	**(193,581)**	376,906

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

CKUA Radio Foundation

Statement of cash flows

Year ended August 31, 2018

	Notes	2018	2017 restated - note 17
		$	$
Operating activities			
Cash receipts from donations and grants		**3,698,110**	3,428,705
Cash receipts from contracted services		**1,682,819**	2,088,163
Cash paid to suppliers		**(2,427,444)**	(2,984,698)
Cash paid to employees		**(2,777,020)**	(2,384,467)
Interest received		**23,208**	7,140
Interest paid		**(353,732)**	(318,243)
		(154,059)	(163,400)
Investing activities			
Purchase of property and equipment		**(64,474)**	(254,553)
Proceeds on disposal of property and equipment		**362,597**	1,107,700
Purchase of investments		**(287,765)**	(7,497)
Proceeds on maturity of investments		**295,545**	—
Use of restricted cash		**86,233**	286,640
Receipt of restricted cash		**(446,497)**	(1,087,730)
Change in deferred charges related to capital campaign		**—**	254,999
		(54,361)	299,559
(Decrease) increase in cash and cash equivalents		**(208,420)**	136,159
Cash and cash equivalents, beginning of year		**756,854**	620,695
Cash and cash equivalents, end of year		**548,434**	756,854

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

1. Purpose of the Foundation

CKUA Radio Foundation (the "Foundation") is incorporated provincially under the Societies Act of Alberta. As a registered charity the Foundation is exempt from the payment of income tax under Section 149(1) of the Income Tax Act.

The Foundation acquired the assets of the CKUA Radio Network from the Alberta Educational Communications Corporation and commenced operations on August 1, 1994. CKUA Radio broadcasts music, arts and culture programs throughout greater Alberta on FM radio and around the world on ckua.com.

2. Summary of significant accounting policies

Basis of presentation

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations as issued by the Accounting Standards Board in Canada and include the following significant accounting policies:

Cash and cash equivalents

Cash and restricted cash consists of cash on deposit less cheques issued and outstanding and net of draws on the revolving demand loan.

Restricted cash

Cash subject to either internal or external restrictions that prevent its use for current purposes is included in restricted cash.

Investments

Investments in government securities and corporate bonds are recorded at amortized cost. Equity instruments quoted in an active market are recorded at fair value.

Inventory

Inventory is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis. During the year, $9,648 was expensed ($21,907 in 2017).

Property and equipment

Purchased property and equipment is recorded at cost less accumulated amortization. Contributed property and equipment is recorded at fair value at the date of contribution; where an appraisal was required at a later date to establish fair value, the assets were recorded at fair value as of the date of appraisal. Where fair value of contributed property and equipment cannot be reasonably determined or the cost to determine fair value would be significant in relation to the fair value of the asset, the asset is included at a nominal value of $1.

2. Summary of significant accounting policies (continued)

Property and equipment (continued)

Property and equipment is amortized over its estimated useful life at the following rates and methods:

Buildings – CKUA	40 years	straight-line
Studio and technical equipment	10 %	declining balance
Transmission equipment	20%	declining balance
Leasehold improvements	over the term of the agreement outstanding	straight-line
Office furniture and equipment	20%	declining balance
Computer equipment	30%	declining balance
Computer software	100%	declining balance
Building – transmitter sites	10%	declining balance
Automotive	five years	straight-line
Website design	two years	straight-line

In the year of purchase, amortization on property and equipment is taken at one half of the normal amount.

Impairment of long-lived assets

An impairment loss is recognized when an asset no longer has any long-term service potential to the Foundation. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its residual value.

Net assets

Net assets consist of unrestricted net assets, internally restricted net assets and invested in property and equipment. Transfers from invested in property and equipment to unrestricted net assets consist of additions funded through operations, depreciation and disposals of assets. Transfers between unrestricted and internally restricted net assets are based on the Foundation's policy and approved by the Board of Directors (the "Board").

Internally restricted net assets accounts for internally restricted amounts. The internally restricted amounts are assigned by the Board of Directors for specific purposes including the preservation and viability of the Foundation, and may be designated to support operations and maintenance or acquisition of capital equipment and facilities. The Board has internally restricted proceeds from sale of towers.

During the year $7,045 was used for tower repairs and maintenance, $79,188 for strategic plan implementation and $13,858 of interest was earned on the account.

Included in internally restricted net assets is $120,812 approved by the Board for strategic plan implementation that is unspent as at August 31, 2018.

Revenue recognition

The Foundation follows the deferral method of accounting for contributions.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Pledges are not recognized as revenue until received because their ultimate collection cannot be reasonably determined.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Contributions that are externally restricted for purposes other than the purchase of property and equipment are recognized as revenue in the year in which the related expenses are incurred. Contributions that are externally restricted for the purchase of property and equipment are deferred until the amounts are invested in property and equipment. Contributions invested in property and equipment, excluding land, are amortized to revenue on the same basis as the related assets are amortized.

Sponsorship revenue and promotional revenue is recognized over the period that the advertising airs.

Tower revenue is recognized over the term of the rental agreement.

Contributed materials and services

Donated materials and services

Donated materials are reflected in the financial statements at fair value if fair value can be reasonably estimated. Donated services, including volunteer time, are not reflected in the financial statements because of the difficulty in determining their fair value. During the year approximately 7,500 hours (7,500 hours in 2017) of volunteer time was donated to the Foundation.

In-kind material and services

The Foundation enters into agreements whereby materials or services are acquired in exchange for advertising. The transactions are recorded at the estimated fair value of the advertising period.

Financial instruments policy

All financial instruments are initially measured at fair value, and, unless otherwise noted, the Foundation subsequently measures its financial instruments at amortized cost.

Measurement uncertainty

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 amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates pertain to the physical economic lives of property and equipment, estimated fair value of donated property and equipment and the collectability of accounts receivable and are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

3. Restricted cash

	2018	2017 restated - note 17
	$	$
Externally restricted cash		
Alberta Gaming and Liquor Commission	**83,824**	13,782
Internally restricted cash		
Proceeds from the sale of Peace River tower	**—**	7,045
Proceeds from the sale of Towers	**1,384,997**	1,087,730
	1,384,997	1,094,775

4. Investments

	2018	2017 restated - note 17
	$	$
Quoted shares measured at fair value	**5,191**	—
High interest cash performance account bearing interest at 0.85% (0.85% in 2017)	**228,820**	225,772
Corporate and government bonds bearing interest at (0.00-1.85% in 2017) and maturing (July 16, 2018 - Oct 5, 2018)	**—**	287,948
Guaranteed investment certificates bearing interest at 1.1 - 2.59% and maturing October 5, 2018 - October 11, 2022	**295,524**	—
Restricted guaranteed investment certificate bearing interest at 1.45% and maturing October 10, 2017	**—**	7,597
	529,535	521,317
Less short term	**450,240**	373,798
	79,295	147,519

5. Property and equipment

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
	$	$	$	$
Buildings - CKUA	**17,634,437**	**2,402,147**	**15,232,290**	15,672,043
Land	**1,270,800**	**—**	**1,270,800**	1,270,800
Studio and Technical equipment	**937,825**	**379,520**	**558,305**	611,921
Transmission equipment	**1,596,525**	**1,253,843**	**342,682**	443,388
Leasehold improvements	**460,942**	**136,149**	**324,793**	368,286
Office furniture and equipment	**416,576**	**284,433**	**132,143**	178,384
IT equipment	**369,240**	**333,867**	**35,373**	97,038
Computer software	**333,511**	**319,053**	**14,458**	34,184
Buildings - transmitter sites	**86,637**	**80,656**	**5,981**	10,895
Automotive	**78,059**	**78,059**	**—**	—
Website design	**71,129**	**71,129**	**—**	—
	23,255,681	**5,338,856**	**17,916,825**	18,686,939

6. Endowment fund

In fiscal 2007, the CKUA Radio Foundation Board of Directors approved the establishment of an endowment fund. The CKUA Endowment Fund is a singular entity comprising two separate administrative units administered by The Calgary Foundation ("TCF") and the Edmonton Community Foundation ("ECF"). Under the terms of the agreements with TCF and ECF the endowment fund is characterized as a permanent endowment and is recorded in the accounts of the TCF and ECF. Accordingly, the endowment assets are not recognized in the financial statements of the Foundation.

The CKUA Endowment Fund shall continue indefinitely and shall be on the basis of a perpetual life. The endowment fund shall be required to reach a level of $400,000 ($400,000 in 2017) through contributions and reinvestment income before there can be an allocation of funds to the CKUA Radio Foundation as such no distribution was received in the year.

7. Accounts payable

Included in accounts payable are government remittances payable of $40,244 ($59,917 in 2017).

8. Demand loans

The revolving demand loan is available to a maximum of $140,000 ($140,000 in 2017), is payable on demand and bears annual interest of prime plus 1%. During the year, the revolving demand loan has not been drawn upon (nil in 2017).

The non-revolving demand loan is available to a maximum of $5,750,000 ($5,750,000 in 2017), is payable in full on demand and bears interest at prime plus 1%. During the year interest only payments were made on the balance outstanding. As at August 31, 2018 the amount drawn upon was $5,750,000 ($5,750,000 in 2017).

8. Demand loans (continued)

The non-revolving loan is available to a maximum of $250,000 ($250,000 in 2017), is payable on demand and bears annual interest of prime plus 1%. As at August 31, 2018 the amount drawn upon was $219,000 ($219,000 in 2017).

The credit facilities are secured by a general security agreement, a mortgage in the amount of $13,850,000 on a first fixed charge on the project lands, general assignment of rents and leases, and assignment or letter of undertaking that any grants from the City of Edmonton or Province of Alberta pertaining to the project are to be used towards the pay down of the loan facilities granted in accordance to the terms of the commitment letter.

9. Deferred revenue

Deferred revenue consists of revenue for sponsorships, promotional sales and building rentals that relate to services to be performed in future periods.

10. Deferred grant revenue

Deferred grant revenue relates to operating funding restricted for future periods or restricted for programing or projects for which expenses have not yet been incurred.

	2018	2017 restated - note 17
	$	$
Balance, beginning of year	**385,668**	153,249
Grants received in year	**275,641**	627,530
Amounts recognized as revenue	**(376,730)**	(395,111)
Balance, end of year	**284,579**	385,668

11. Unamortized deferred capital contributions

Unamortized deferred capital contributions represent restricted capital funding expanded on property and equipment.

	2018	2017 restated - note 17
	$	$
Opening balance	**9,822,261**	10,253,708
Amortization of deferred capital contributions	**(342,908)**	(431,447)
Revenue related to disposals	**(7,860)**	—
Ending balance	**9,471,493**	9,822,261

12. Commitments

The Foundation has entered into a premises lease agreement ending September 30, 2026. The minimum payments due under these contracts over the next five years and thereafter are as follows:

	$
2019	16,830
2020	16,830
2021	16,830
2022	16,830
2023	16,830
Thereafter	51,893

13. In-kind goods and services

In total $285,115 ($325,149 in 2017) were received in kind in return for sponsorships and promotional sale time. The benefit to CKUA is in the form of prizing and meals for fundraiser and ads in print media that would have otherwise been purchased.

14. Defined contribution pension plan

The Foundation implemented a defined contribution pension plan on December 1, 2003 covering substantially all full-time and part-time employees. Contributions to the plan are based on a mandatory minimum contribution of 2% by participants in which the Foundation contributes a maximum of 3% (3% in 2017) of their annual salary. During the year, the pension expense was $64,820 ($62,639 in 2017) and has been recorded as salaries and benefits.

15. Charitable Fund-Raising Act (Alberta)

The following supplementary information is included in the Operating Fund and is disclosed in compliance with the Charitable Fund-raising Act (Alberta) and related regulations:

	$
Salaries and benefits for fund development and donor relations administrative support	352,854
Other ancillary costs associated with fund-raising and donations	118,543
Donated or contra goods and services as disclosed in Note 13	82,613
	554,010

16. Financial instruments

The Foundation is exposed to various risks through its financial instruments. The following analysis provides information about the Foundation's risk exposure and concentration as of August 31, 2018. Unless otherwise noted, the Foundation's risk exposure has not changed from the prior year.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Foundation is exposed to credit risk from customers, and the maximum exposure to this risk is the carrying value of accounts receivable on the statement of financial position. The Foundation has a significant number of customers which minimizes concentration of credit risk. As at year-end, the Foundation was subject to concentration of credit risk, as 44% of the accounts receivable balance was due from 4 customers.

Liquidity risk

Liquidity risk is the risk that the Foundation will encounter difficulty in meeting its financial obligations as they become due. The Foundation's objective is to have sufficient liquidity to meet liabilities when due. Cash flow from operations provides a substantial portion of the Foundation's cash requirements, and additional requirements are met with the use of the available credit facilities. As at August 31, 2018, the Foundation's most significant liabilities are accounts payable and accrued liabilities and demand loans.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the market interest rates. The Foundation is exposed to interest rate risk primarily through its investments in corporate and government bonds and its floating interest rate on revolving line of credit, demand loan and other credit facilities.

17. Restatement

Correction of errors in prior year financial statements

During the year ended August 31, 2018, the Foundation determined that adjustments were required to deferred grant revenue, deferred capital contributions, unrestricted net assets, internally restricted net assets and invested in property and equipment as at August 31, 2017 as there were certain errors made in the determination of internal and external restrictions of net asset fund balances and some deferred revenue amounts had been presented as deferred capital contributions when in fact, the amounts did not relate to capital contributions. As a result of correcting these errors, the adjustments required to the statement of financial position as at August 31, 2017 are as follows:

	As previously reported	Correction	As restated
Deferred grant revenue	—	385,668	385,668
Deferred capital contributions	10,207,929	(385,668)	9,822,261
Property and equipment fund	2,510,010	(2,510,010)	—
Externally funded	294,682	(294,682)	—
Unrestricted	739,577	(90,984)	648,593
Invested in property and equipment	—	2,895,678	2,895,678

There was no impact on excess of revenue over expenses reported for the year ended August 31, 2017 or total opening net assets as at September 1, 2016.

In addition to the above, cash and cash equivalents, end of the year, as presented on the Statement of Cash Flows for the year ended August 31, 2017 has been restated to exclude cash in the aggregate amount of $1,108,557 that is subject to internal and external restrictions that prevent its use for current purposes, with any increases and decreases reflected in cash flows from investing activities.

Comparative figures

Management has reclassified certain comparative figures for the year ended August 31, 2017 to conform to current year presentation.

The impact of these reclassifications are outlined in the table below:

17. Restatement (continued)

Statement of financial position	As previously reported	Reclassification	As restated
Cash - operating fund	471,290	(471,290)	—
Cash - restricted fund	1,394,121	(1,394,121)	—
Cash and cash equivalents	—	469,246	469,246
Externally restricted cash	—	83,824	83,824
Internally restricted cash	—	1,464,185	1,464,185
Accounts receivable	132,394	(9,239)	123,155
Prepaid expenses and deposits	80,394	16,889	97,283
Accounts payable and accrued liabilities	347,550	59,916	407,466
Source deductions payable	59,917	(59,917)	—

Statement of operations	As previously reported	Reclassification	As restated
Revenue			
Sponsorships and promotional sales	—	697,374	697,374
Building rentals including performance space	—	509,550	509,550
Grant revenue recognized	111,200	283,911	395,111
Amortization of deferred capital contributions	— 715,358	(283,911)	431,447
In-kind sponsorship and donations	—	325,149	325,149
Tower rentals	—	209,940	209,940
Other including interest and foreign exchange	—	24,653	24,653
Time sales and sponsorships	1,025,022	(1,025,022)	—
Rental and technical service	719,490	(719,490)	—
Other	9,595	(9,595)	—
Interest income	12,558	(12,558)	—
Expenses			
Programming	1,485,132	(44,105)	1,441,027
General administration	834,470	49,559	884,029
Building costs	538,370	(793)	537,577
Fundraising	710,915	(37,987)	672,928
Amortization of internally funded property and equipment	425,359	(29,875)	395,484
Marketing and community outreach	—	324,643	324,643
Amortization of contributed property and equipment	401,572	29,875	431,447
Sales	—	216,216	216,216
In-kind goods and services	—	325,149	325,149
Marketing and sales	682,442	(682,442)	—
Volunteer and Board	150,239	(150,239)	—