

The Prince Edward Island Council of the Arts
Financial Statements
For the Year Ended March 31, 2011





INDEPENDENT AUDITOR'S REPORT

To the Members of The Prince Edward Island Council of the Arts

We have audited the accompanying financial statements of The Prince Edward Island Council of the Arts, which comprise the statement of financial position at March 31, 2011, and the statement of income and changes in net assets and statement of 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 generally accepted accounting principles and for such internal controls 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 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 controls 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 controls. 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 audit opinion.

Basis for Qualified Opinion

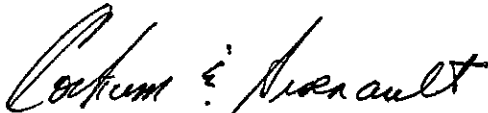
Equipment is recorded at original cost of \$104,642. We were unable to obtain sufficient appropriate audit evidence about which assets comprise this original cost, which would prove existence and ownership as at March 31, 2011, because detailed asset listings are not maintained and ARS LONGA Inc. (note 2(b)) has made modifications and additions to existing equipment. We are also unable to obtain sufficient appropriate audit evidence to determine if a possible impairment in value is necessary due to the above existence and ownership issues. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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 The Prince Edward Island Council of the Arts as at March 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

We draw attention to Note 1 in the financial statements which indicates that the The Prince Edward Island Council of the Arts' Operating Fund current liabilities exceeded its current assets as at March 31, 2011 by \$62,647, and that the receivable from the other funds is not available as liquid cash. These conditions indicate the existence of a material uncertainty that may cast significant doubt about The Prince Edward Island Council of the Arts' ability to meet liabilities as they come due and continue as a going concern.



Chartered Accountants

August 24, 2011

Charlottetown, Prince Edward Island



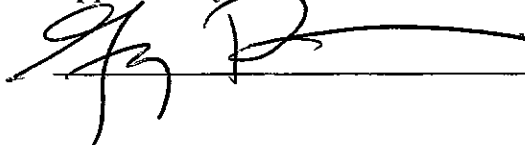
The Prince Edward Island Council of the Arts

Statement of Financial Position

As at March 31, 2011

	2011			2010	
	Operating Fund \$	Capital Fund \$	Restricted Fund \$	Total \$	Total \$
ASSETS					
Current Assets					
Cash	1,581	-	901	2,482	901
Accounts receivable	3,595	-	-	3,595	9,639
Staff advances and prepaid wages	5,485	-	-	5,485	14,727
Prepaid expenses	-	-	-	-	439
	10,661	-	901	11,562	25,706
Investments (note 4)	-	-	71,372	71,372	71,115
Due From (To) Other Funds	29,797	(37,997)	8,200	-	-
Property and Equipment (note 5)	-	693,543	-	693,543	693,543
	<u>40,458</u>	<u>655,546</u>	<u>80,473</u>	<u>776,477</u>	<u>790,364</u>
LIABILITIES					
Current Liabilities					
Bank advances	-	-	-	-	4,036
Demand installment loan (note 6)	-	45,125	-	45,125	49,625
Accounts payable and accrued liabilities	50,077	-	-	50,077	69,464
Funding payable to artists	23,231	-	-	23,231	22,430
	<u>73,308</u>	<u>45,125</u>	<u>-</u>	<u>118,433</u>	<u>145,555</u>
NET ASSETS					
Invested in Property and Equipment	-	610,421	-	610,421	610,421
Restricted (note 7)	-	-	80,473	80,473	70,681
Unrestricted	(32,850)	-	-	(32,850)	(36,293)
	<u>(32,850)</u>	<u>610,421</u>	<u>80,473</u>	<u>658,044</u>	<u>644,809</u>
	<u>40,458</u>	<u>655,546</u>	<u>80,473</u>	<u>776,477</u>	<u>790,364</u>

Approved by the Board of Directors

 Director

Director



The Prince Edward Island Council of the Arts

Statement of Income and Changes in Net Assets

For the Year Ended March 31, 2011

	2011			2010
	Operating Fund \$	Restricted Fund \$	Total \$	Total \$
Revenue				
Contributions - Province of PEI -				
Operations and artist's funding allocations	258,800	-	258,800	249,800
Contributions for property taxes	11,670	-	11,670	10,530
Memberships	388	-	388	77
Fundraising, board development and other	40	-	40	119
Restricted Fund revenue (schedules 1 and 2)	-	10,992	10,992	159
	<u>270,898</u>	<u>10,992</u>	<u>281,890</u>	<u>260,685</u>
Expenditures				
Funding to Artists and Organizations				
Professional arts program	72,224	-	72,224	79,964
Program support	25,444	-	25,444	32,970
Arts awards	141	-	141	8,842
Art education	-	-	-	2,476
Arts organizations	3,530	-	3,530	4,974
Arts services	7,519	-	7,519	6,563
Community arts	1,119	-	1,119	7,141
Membership	359	-	359	1,123
Outreach	2,100	-	2,100	2,767
	<u>112,436</u>	<u>-</u>	<u>112,436</u>	<u>146,820</u>
Facilities				
Interest on property taxes	1,610	-	1,610	1,969
Property taxes	22,618	-	22,618	22,296
Contribution to ARS LONGA Inc. (note 2(b))	8,000	-	8,000	8,000
Repairs, maintenance and consulting	1,291	-	1,291	-
	<u>33,519</u>	<u>-</u>	<u>33,519</u>	<u>32,265</u>
Restricted Fund Expenses (schedules 1 and 2)	<u>-</u>	<u>1,200</u>	<u>1,200</u>	<u>10,900</u>
Administrative Expenses (schedule 3)	<u>121,500</u>	<u>-</u>	<u>121,500</u>	<u>130,613</u>
Total Expenses	<u>267,455</u>	<u>1,200</u>	<u>268,655</u>	<u>320,598</u>
Excess Revenue (Expenses) for the Year	3,443	9,792	<u>13,235</u>	<u>(59,913)</u>
Net Assets (Deficiency) - Beginning of Year	<u>(36,293)</u>	<u>70,681</u>		
Net Assets (Deficiency) - End of Year	<u>(32,850)</u>	<u>80,473</u>		



The Prince Edward Island Council of the Arts

Statement of Cash Flows

For the Year Ended March 31, 2011

	2011			2010	
	Operating Fund \$	Capital Fund \$	Restricted Fund \$	Total \$	Total \$
Cash Flows from Operating Activities					
Excess revenue (expenses) for the year	3,443	-	9,792	13,235	(59,913)
Net change in non-cash working capital items					
- Decrease in accounts receivable	6,044	-	-	6,044	9,020
- Decrease (increase) in staff advances and prepaid wages	9,242	-	-	9,242	(13,979)
- Decrease in prepaid expenses	439	-	-	439	1,727
- Increase (decrease) in accounts payable and accrued liabilities	(19,385)	-	-	(19,385)	30,306
- Increase in funding payable to artists	<u>801</u>	<u>-</u>	<u>-</u>	<u>801</u>	<u>934</u>
	<u>584</u>	<u>-</u>	<u>9,792</u>	<u>10,376</u>	<u>(31,905)</u>
Cash Flows from Investing Activities					
Proceeds on disposal of investments	-	-	-	-	10,022
Purchase of investments	<u>-</u>	<u>-</u>	<u>(259)</u>	<u>(259)</u>	<u>(159)</u>
	<u>-</u>	<u>-</u>	<u>(259)</u>	<u>(259)</u>	<u>9,863</u>
Cash Flows from Financing Activities					
Decrease in demand installment loan	-	(4,500)	-	(4,500)	(4,500)
Change in amount due from (to) other funds	<u>5,033</u>	<u>4,500</u>	<u>(9,533)</u>	<u>-</u>	<u>-</u>
	<u>5,033</u>	<u>-</u>	<u>(9,533)</u>	<u>(4,500)</u>	<u>(4,500)</u>
Increase (Decrease) in Cash	5,617	-	-	5,617	(26,542)
Cash (Bank Advances) - Beginning of Year	<u>(4,036)</u>	<u>-</u>	<u>901</u>	<u>(3,135)</u>	<u>23,407</u>
Cash (Bank Advances) - End of Year	<u><u>1,581</u></u>	<u><u>-</u></u>	<u><u>901</u></u>	<u><u>2,482</u></u>	<u><u>(3,135)</u></u>
Cash (Bank Advances) consists of:					
Cash				2,482	901
Bank Advances				<u>-</u>	<u>(4,036)</u>
				<u><u>2,482</u></u>	<u><u>(3,135)</u></u>



The Prince Edward Island Council of the Arts

Notes to Financial Statements

For the Year Ended March 31, 2011

1. Going Concern

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that The Prince Edward Island Council of the Arts (the Council) will continue in operation for the foreseeable future and will be able to discharge its liabilities in the normal course of operations.

In the Operating Fund, the Council has a net asset deficiency of \$32,850 and current liabilities totalling \$73,308 as at March 31, 2011. Its cash resources to pay these debts at that time comprised current assets from the Operating Fund of \$10,661. The amount due from other funds of \$29,797 is not currently available in cash. Continuation of operations is dependent upon the organization obtaining sufficient additional revenues and adequate financing resources to satisfy liabilities as they come due.

These financial statements do not reflect adjustments that would be necessary if the going concern basis were not appropriate. Management believes that current plans for operating budget modifications will mitigate the adverse cash flow situation over the next three years.

2. Purpose and Operations

(a) The Prince Edward Island Council of the Arts

The mandate of the Council is to promote the enjoyment of, participation in and accessibility to the Arts for all people throughout the Province of Prince Edward Island. The Council was incorporated on March 2, 1978 as a corporation without share capital. The Council is a registered charity under the provisions of the Income Tax Act, and accordingly is not taxable under section 149(1)(f) of the Income Tax Act.

(b) ARS LONGA Inc.

The Guild building and its contents are leased to ARS LONGA Inc. for the annual sum of \$5.00 pursuant to a Memorandum of Understanding made April 19, 2004 between the Council, the Province of Prince Edward Island and the City of Charlottetown.

During the fiscal year ended March 31, 2011, an amount of \$8,400 (2010 - \$8,400) including GST was paid to ARS LONGA Inc. as a contribution towards operating costs and providing subsidized space for artists of Prince Edward Island.



The Prince Edward Island Council of the Arts

Notes to Financial Statements

For the Year Ended March 31, 2011

3. Summary of Significant Accounting Policies

(a) Fund accounting

The Prince Edward Island Council of the Arts follows the restricted fund method of accounting for contributions. Restricted contributions authorized to fund general operations are recognized as revenue of the Operating Fund in the year in which the related activity or expense is incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund. Unrestricted contributions are recognized as revenue of the Operating Fund in the year received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

The Operating Fund accounts for the Council's program delivery and administrative activities. This fund reports unrestricted income and expenditures. The Capital Fund reports the assets and liabilities of the Council related to land, building and equipment.

The Council's Restricted Fund includes five separate funds with activities as reported on Schedule 1 and summarized on Schedule 2 and with net assets as reported in note 7.

- (i) Literary Awards Fund, including the L.M. Montgomery Children's Literary Award Fund - This fund was established to provide annual literary awards. Effective 2010, the responsibility for these awards was transferred to the Prince Edward Island Writers' Guild. A portion of the Fund is maintained by the heirs of L.M. Montgomery to provide funds for the Children's Literary Awards program of the Council. The donors establish the amounts of interest and principal that are available each year for use by the Council. The externally restricted balance of this fund, as reported in note 7, represents the L.M. Montgomery Children's Literary Award Fund portion of this fund.
- (ii) Father Adrien Arsenault Senior Arts Awards Fund - This fund was established to provide for awards to senior artists. The use of principal or interest is determined by the Council's Board of Directors. Interest is accumulated in this fund until used for awards and related costs.
- (iii) Endowment Fund - This fund was established by the Board of Directors to provide for awards and special projects as determined by the Board. Interest and contributions to this fund are recognized as revenue when received and accumulate in this fund until used in activities authorized by the Board. During the fiscal year ended March 31, 2005, the Board authorized use of this fund to pay the liability for Goods and Services Tax as assumed by the Council from Arts Guild Inc.



The Prince Edward Island Council of the Arts

Notes to Financial Statements

For the Year Ended March 31, 2011

3. Summary of Significant Accounting Policies (continued)

(a) Fund accounting (continued)

- (iv) Art Expo - This fund was established by the Board of Directors to support visual art education, which benefits students by stimulating creativity, problem-solving, independent thinking and self-expression. In November 2005, the Board resolved to discontinue administrative support in this event and it is now inactive. The balance of the fund will be used for purposes of a similar nature.
- (v) Erica Rutherford Scholarship Fund - This fund was established by the Board of Directors in memory of the late Erica Rutherford to provide scholarships to deserving artists. Contributions to this fund are recognized as revenue when received and accumulated in this fund to provide a scholarship at a future date.

The balances owing between funds are without interest or specific terms of repayment.

(b) Property and equipment

Purchased property and equipment are recorded in the Capital Fund at cost, with the exception of computer software, which is expensed at the time of purchase. The original contributed property and equipment were recorded in the Capital Fund at fair value at the date of contribution, except for land, which was recorded at nominal value. As shown in note 5, the cost of the building was reduced to estimated net realizable value in 2004.

No depreciation is recorded on property and equipment.

(c) Investments

Investments are recorded at the lower of cost and market value.

(d) Revenue recognition

Revenue is recognized as follows:

- Contributions for operations and property taxes are recognized as revenue in the fiscal year to which they relate.
- Membership revenue is recognized at the time of collection.
- Investment income is recognized as revenue when earned.
- Board development and restricted fund event revenue are recognized at the time the events are held.
- Fundraising and miscellaneous revenue amounts, including donations, are recorded at time of receipt; pledges of donations are not recorded.



The Prince Edward Island Council of the Arts

Notes to Financial Statements

For the Year Ended March 31, 2011

3. Summary of Significant Accounting Policies (continued)

(e) Donated materials and services

Volunteers contribute their services to assist the organization in carrying out its activities. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements. The organization also does not record the value of donated materials.

(f) Management estimates

The presentation of financial instruments in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect various reported amounts and disclosures. By their nature, these estimates are subject to measurement uncertainty.

(g) Fair value of financial instruments

The financial instruments of the Council include cash, accounts receivable, staff advances and prepaid wages, investments, demand installment loan, accounts payable and accrued liabilities and funding payable to artists.

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists. The determination of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values. The Council has evaluated the fair value of its financial instruments based on the current interest rate environment, market values and the actual prices of financial instruments with similar terms. The carrying value of financial instruments, with the exception of the demand installment loan, is considered to approximate fair value as these assets and liabilities are short-term in nature. The non-interest bearing demand installment loan aggregates \$45,125, and has an estimated fair market value of \$42,100 based on market interest rates. It is management's opinion that the Council is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Liquidity risk is the risk that the Council is not able to meet a demand for cash or fund its obligations as they come due. As disclosed in note 1, the Council has a significant working capital deficiency as at March 31, 2011. As a result, the Council's liquidity risk is rated as high.



The Prince Edward Island Council of the Arts

Notes to Financial Statements

For the Year Ended March 31, 2011

4. Investments

	2011 \$	2010 \$
Marketable securities - at cost	<u>71,372</u>	<u>71,115</u>
Marketable securities - quoted market value	<u>71,372</u>	<u>71,115</u>

5. Property and Equipment

	2011 \$	2010 \$
Land	1	1
Building	1,082,293	1,082,293
Equipment	<u>104,642</u>	<u>104,642</u>
	1,186,936	1,186,936
Writedown of building to estimated net realizable value in 2004	<u>(493,393)</u>	<u>(493,393)</u>
	<u>693,543</u>	<u>693,543</u>

6. Demand Installment Loan

Effective April 1, 2004, the Council (Capital Fund) agreed to assume responsibility for payments on the demand installment loan owing to the Royal Bank of Canada by Arts Guild Inc. This loan is without interest and is repayable in monthly principal installments of \$375 until April 2012 followed by on payment of \$250 in May 2012, at which time the remaining balance of \$40,000 will be forgiven. Security for the loan, excluding collateral pledged by the Guild, which has now been dissolved, comprises:

- general assignment of book debts; and
- commitment not to incur additional borrowings for expansion or renovations without written approval from the bank.



The Prince Edward Island Council of the Arts

Notes to Financial Statements

For the Year Ended March 31, 2011

7. Restricted Net Assets

Changes in restricted net assets for the year are presented in schedule 1, with a summary on schedule 2. At year-end, restricted net assets comprise the following:

	2011	2010
	\$	\$
Internally restricted -		
Literary Awards Fund	(3,385)	(3,085)
Father Adrien Arsenault Senior Arts Awards Fund	52,128	51,876
Endowment Fund	703	700
Erica Rutherford Scholarship	10,733	-
Art Expo	<u>2,601</u>	<u>2,601</u>
	62,780	52,092
Externally restricted -		
Literary Awards Fund - L.M. Montgomery Children's Literary Awards Fund	<u>17,693</u>	<u>18,589</u>
	<u>80,473</u>	<u>70,681</u>

8. Government Contributions and Economic Dependence

During the year, total provincial, municipal and federal grants received for various purposes, including operations, projects and wage subsidies amounted to \$270,470 (2010 - \$260,330).

The Council receives over 90% of its total funding from the Province of Prince Edward Island. Should this funding discontinue, it would have a material adverse affect on the Council's results of operations and financial condition.

9. Capital Management

The Council considers its capital to be the balance of its Net Assets. The primary objective of the Council is to invest its capital in a manner that will allow it to continue as a going concern and comply with its stated objectives. Capital is invested under the direction of the Board of Directors with the objective of providing a reasonable rate of return, minimizing risk and ensuring adequate liquid investments are on hand for current cash flow requirements. The Council's ability to continue as a going concern has been disclosed in note 1 and the Council is subject to liquidity risk as disclosed in note 3 (g). The Council is subject to externally imposed requirements for the L.M. Montgomery Children's Literacy Award Fund as explained in note 3 (a)(i).



The Prince Edward Island Council of the Arts

Notes to Financial Statements

For the Year Ended March 31, 2011

10. Commitments

The minimum annual lease payments under long-term equipment leases, included in expenses as "equipment leasing", expiring in December 2013, are as follows:

Fiscal year ending March 31,		\$
2012		5,829
2013		5,171
2014		2,510



The Prince Edward Island Council of the Arts
 Schedule of Restricted Fund Revenue and Expenses
 For the Year Ended March 31, 2011

	2011 \$	2010 \$
<u>Literary Awards Fund</u>		
Revenue		
Investment income	<u>4</u>	<u>9</u>
Expenses		
Bad debt	300	-
Prizes	700	700
Fees and honorariums	<u>200</u>	<u>200</u>
	<u>1,200</u>	<u>900</u>
Excess Expenses for the Year	<u><u>(1,196)</u></u>	<u><u>(891)</u></u>

	2011 \$	2010 \$
<u>Father Adrien Arsenault Senior Arts Awards Fund</u>		
Revenue		
Investment income	252	148
Expenses		
Awards and gala	<u>-</u>	<u>10,000</u>
Excess Revenue (Expenses) for the Year	<u><u>252</u></u>	<u><u>(9,852)</u></u>

	2011 \$	2010 \$
<u>Endowment Fund</u>		
Revenue		
Investment income	<u><u>3</u></u>	<u><u>2</u></u>

	2011 \$	2010 \$
<u>Erica Rutherford Scholarship Fund</u>		
Revenue		
Donations	<u><u>10,733</u></u>	<u><u>-</u></u>



The Prince Edward Island Council of the Arts

Summary of Restricted Fund Net Assets

For the Year Ended March 31, 2011

Summary of Restricted Fund Net Assets

	2011					2010	
	Literary Awards \$	Senior Arts Awards \$	Endowment Fund \$	Erica Rutherford Scholarship \$	Art Expo \$	Total \$	Total
Revenue	4	252	3	10,733	-	10,992	159
Expenses	<u>1,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,200</u>	<u>10,900</u>
Excess Revenue (Expenses)	(1,196)	252	3	10,733	-	9,792	(10,741)
Net Assets - Beginning of Year	<u>15,504</u>	<u>51,876</u>	<u>700</u>	<u>-</u>	<u>2,601</u>	<u>70,681</u>	<u>81,422</u>
Net Assets - End of Year	<u>14,308</u>	<u>52,128</u>	<u>703</u>	<u>10,733</u>	<u>2,601</u>	<u>80,473</u>	<u>70,681</u>



The Prince Edward Island Council of the Arts
Schedule of Administrative Expenses
For the Year Ended March 31, 2011

	2011	2010
	\$	\$
Audit fees	8,568	11,097
Board and staff development	40	8,061
Computer software and related costs	4,713	6,289
Equipment leasing	4,443	6,279
Goods and Services Tax	1,021	-
Insurance	3,028	3,028
Interest and bank charges	2,295	2,182
Meetings	700	282
Office supplies, postage and printing	6,206	4,662
Telephone	3,907	4,550
Travel	3,846	7,008
Wages and employee benefits	<u>82,733</u>	<u>77,175</u>
	<u>121,500</u>	<u>130,613</u>

