

Caledonia Agricultural Society

Financial Statements

December 31, 2019



T 905 522 6555 F 905 522 6574 6th Floor, One James Street South Hamilton ON L8P 4R5

January 23, 2020

Independent Auditor's Report

To the Directors of Caledonia Agricultural Society

Qualified Opinion

We have audited the financial statements of Caledonia Agricultural Society (the "Organization"), which comprise the statement of financial position as at December 31, 2019, and the statements of operations and 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.

In our opinion, except for the possible effects 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 Caledonia Agricultural Society as at December 31, 2019, and its results of 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 Caledonia Agricultural Society derives revenue from donations and fundraising activities, 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. Therefore, we were not able to determine whether any adjustments might be necessary to revenues, excess of revenues over expenditures reported in the statement of operations and changes in net assets, and current assets and net assets reported in the statement of financial position.

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 Caledonia Agricultural Society 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 opinion.

We would like to draw attention to Note 9 to the financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2018, has been restated. As part of our audit of the financial statements as at and for the year ended December 31, 2019, we audited the restatements described in Note 9 to the financial statements that was applied to restate the comparative information presented as at and for the year the year ended December 31, 2018. In our opinion, the restatements are appropriate and have been properly applied.

We were not engaged to audit, review or apply any procedures to the December 31, 2018 financial statements, other than with respect to the restatements described in Note 9 to the financial statements. Accordingly, we do not express an opinion or any form of assurance on those financial statements taken as a whole.

Other Matters

The financial statements of the Caledonia Agricultural Society for the year ended December 31, 2018 were prepared by another accountant who issued a Notice to Reader report on January 22, 2019. As such, no opinion was issued on the financial statements for the year ended December 31, 2018.



Independent Auditor's Report, continued

Responsibilities of Management and Those Charged with Governance 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 Caledonia Agricultural Society'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 Caledonia Agricultural Society or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Caledonia Agricultural Society'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 generally accepted auditing standards 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 generally accepted auditing standards, 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 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.



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Independent Auditor's Report, continued

- 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.

Pettinelli Martohuisi LLP

**Chartered Accountants
Licensed Public Accountants**

Hamilton, Ontario

Caledonia Agricultural Society

Statement of Financial Position

	December 31	
	2019	2018
		(unaudited)
Assets		
Current assets		
Cash	\$ 154,373	\$ 409,143
Short-term investments (Note 2)	225,668	1,845,995
Sales tax recoverable	315,883	-
Interest receivable	2,806	2,550
Prepaid expenses	9,463	4,254
	<u>708,193</u>	<u>2,261,942</u>
Building (Note 3)	<u>5,848,996</u>	<u>262,703</u>
	<u>\$ 6,557,189</u>	<u>\$ 2,524,645</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 4)	\$ 238,145	\$ 3,629
Deposits	<u>4,613</u>	<u>-</u>
	242,758	3,629
Deferred contributions (Note 5)	2,493,918	2,023,065
Loans payable (Note 6)	310,000	-
Bank loan payable (Note 7)	<u>2,978,612</u>	<u>-</u>
	6,025,288	2,026,694
Unrestricted net assets	<u>531,901</u>	<u>497,951</u>
	<u>\$ 6,557,189</u>	<u>\$ 2,524,645</u>

See accompanying notes to the financial statements.

APPROVED BY THE BOARD:

_____ Director

_____ Director

Caledonia Agricultural Society

Statement of Operations and Changes in Net Assets

	Year ended December 31	
	2019	2018
		(unaudited)
Revenues		
Fundraisers	\$ 159,816	\$ 146,325
Admissions	136,918	124,306
Concessions	76,112	64,344
Rental income	25,773	44,075
Catering	22,628	23,755
Provincial government grants	17,000	17,000
Municipal government grants	13,108	10,000
Membership and entry fees	12,317	12,685
Interest income	5,675	4,252
Other income	2,774	10,414
Parking income	1,899	1,485
ATM fees	645	1,262
	<u>474,665</u>	<u>459,903</u>
Expenditures		
Employee wages	72,476	64,777
Fundraisers	52,427	42,253
Entertainment	47,106	39,857
Repairs and maintenance	34,109	33,904
Telephone and utilities	25,287	25,110
Office and supplies	21,652	16,100
Prizes	19,638	26,849
Advertising and promotion	16,305	18,250
Catering	14,388	10,688
Professional fees	12,107	1,800
Rentals	11,672	10,191
Security	6,755	5,046
Volunteering	5,742	11,471
Insurance	5,247	12,314
Agricultural education	2,834	2,191
Judges and licenses	2,628	2,933
Affiliation fees	2,113	1,020
Interest and bank charges	1,159	1,840
4-H Program	1,042	1,658
	<u>354,687</u>	<u>328,252</u>
Excess of revenues over expenditures from operations	<u>119,978</u>	<u>131,651</u>
Other income (expense)		
Amortization of deferred contributions	63,947	-
Amortization	(149,975)	-
	<u>(86,028)</u>	<u>-</u>
Excess of revenues over expenditures for the year	<u>33,950</u>	<u>131,651</u>
Net assets at beginning of the year	<u>497,951</u>	<u>366,300</u>
Net assets at end of the year	<u>\$ 531,901</u>	<u>\$ 497,951</u>

See accompanying notes to the financial statements.

Caledonia Agricultural Society

Statement of Cash Flows

	Year ended December 31	
	2019	2018 (unaudited)
Cash flows from (used in) operating activities		
Excess of revenues over expenditures for the year	\$ 33,950	\$ 131,651
Items not involving cash		
Amortization	149,975	-
Amortization of deferred contributions	(63,947)	-
	<u>119,978</u>	<u>131,651</u>
Net change in non-cash working capital balances relating to operations		
Decrease (increase) in sales tax recoverable	(315,883)	1,333
Increase in interest receivable	(256)	(83)
Increase in prepaid expenses	(5,209)	(3,668)
Increase in accounts payable and accrued liabilities	234,516	3,807
Increase in deposits	4,613	-
	<u>(82,219)</u>	<u>1,389</u>
	<u>37,759</u>	<u>133,040</u>
Cash flows from (used in) investing activities		
Proceeds from sale of short-term investments	1,620,327	(1,629,228)
Construction of building	(5,736,268)	(262,703)
	<u>(4,115,941)</u>	<u>(1,891,931)</u>
Cash flows from (used in) financing activities		
Proceeds of deferred contributions	534,800	2,023,065
Proceeds of loans payable	310,000	-
Proceeds of bank loan payable	2,978,612	-
	<u>3,823,412</u>	<u>2,023,065</u>
Net increase (decrease) in cash during the year	(254,770)	264,174
Cash at beginning of the year	<u>409,143</u>	<u>144,969</u>
Cash at end of the year	<u>\$ 154,373</u>	<u>\$ 409,143</u>

See accompanying notes to the financial statements.

Caledonia Agricultural Society

Notes to Financial Statements

December 31, 2019

Nature of operations

Caledonia Agricultural Society (the "Organization") was established to provide a venue to educate, entertain, enrich the agricultural experience and showcase accomplishments and opportunities. The Organization was incorporated by Letters Patent in 1873 as a corporation without share capital under the Laws of Ontario and is exempt from income taxes. The Organization became a registered charity on January 1, 2018.

1. Significant accounting policies

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations as found in Part III of the CPA Canada Handbook. The significant accounting policies are detailed as follows:

Cash

Cash consists of balances with financial institutions, net of any outstanding cheques and deposits.

Short-term investments

Short-term investments are recorded at fair market value.

Building

Building is recorded at cost. The Organization provides for amortization using the straight-line method at rates designed to amortize the cost of the building over its estimated useful life. The annual amortization rate is as follows:

Building	20 years
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Revenue recognition

The Organization follows the deferral method of accounting for contributions.

Funding from the provincial and local governments and other charitable organizations is recognized as revenue in the year which the related expenses are incurred. Any unearned portion is included in deferred contributions in the statement of financial position.

Unrestricted contributions are recognized as revenue when received or receivable when the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted contributions are recognized as revenue in the year in which the related expenditures are incurred. Contributions restricted to the renovation of the Riverside Exhibition Centre are recognized as deferred contributions in the statement of financial position and are brought into income at the same rate as the building is being amortized.

Revenue derived from concessions, rentals or other provided services is recognized when the services are provided and collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the established consideration is fixed and determinable.

Caledonia Agricultural Society

Notes to Financial Statements

December 31, 2019

1. Significant accounting policies, continued

Contributed materials and services

The work of the Organization is dependent on the voluntary service of many individuals. Due to the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

Contributed materials are only recognized when the asset is used in the normal course of the Organization's operations, would otherwise have been purchased and the fair value can be reasonably estimated.

Financial instruments

The Organization initially measures its financial assets and liabilities at fair value. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Organization has not elected to carry any such financial instruments at fair value.

Transaction costs

The Organization's transaction costs related to financial instruments that will be subsequently measured at fair value are recognized in the excess of revenues over expenditures in the period incurred. The carrying amount of the financial instruments that will not be subsequently measured at fair value is adjusted for transaction costs directly attributable to the origination, issuance or assumption of these instruments.

Financial asset impairment

Financial assets measured at cost or amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write-down is recognized in the determination of the excess of revenues over expenditures. When the events occurring after the impairment confirm that a reversal is necessary, the reversal is recognized in the excess of revenues over expenditures up to the amount of the previously recognized impairment.

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 disclosure of contingent assets and liabilities at the statement of financial position date and the reported amounts of revenues and expenditures during the year. Actual results could differ from those estimates.

Caledonia Agricultural Society

Notes to Financial Statements

December 31, 2019

2. Short-term investments

	December 31	
	2019	2018
		(unaudited)
Libro Credit Union Term 30 Days, Sub 13 at 1.65%, matures January 2020	\$ 17,983	\$ -
Libro Credit Union Term 30 Days, Sub 4 at 1.65%, matures January 2020	23,176	-
Libro Credit Union, Sub 14 at 2.15%, matures February 2020	25,781	-
Libro Credit Union, Sub 11 at 2.40%, matures February 2020	60,000	-
Libro Credit Union, Sub 12 at 2.40%, matures February 2020	11,871	-
Libro Credit Union, Sub 5 at 2.95%, matures March 2020	18,649	-
Libro Credit Union, Sub 15 at 2.30%, matures September 2020	18,208	-
Libro Credit Union, Sub 9 at 2.10%, matures November 2020	50,000	-
Libro Credit Union, matured during the year	-	1,845,995
	<u>\$ 225,668</u>	<u>\$ 1,845,995</u>

3. Building

	December 31			
	Cost	Accumulated Amortization	2019 Net Book Value	2018 Net Book Value
				(unaudited)
Building	<u>\$ 5,998,970</u>	<u>\$ 149,974</u>	<u>\$ 5,848,996</u>	<u>\$ 262,703</u>

The total amount of interest capitalized during the year was \$22,946 (2018 - \$nil).

In prior years, it was the Organization's policy to record capital assets as expenditures in the year that they were acquired. Apart from the adjustment in Note 9, the statement of financial position does not include any land, buildings or equipment previously purchased and currently owned by the Organization.

4. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are government remittances payable of \$943 (2018 - \$nil).

Caledonia Agricultural Society

Notes to Financial Statements

December 31, 2019

5. Deferred contributions

Deferred contributions represent externally restricted funds received for the renovation of the Riverside Exhibition Centre. Deferred contributions are recognized as revenue on the same basis as the building is amortized. The change in the deferred contributions balance is as follows:

	December 31	
	2019	2018
		(unaudited)
Balance at beginning of year	\$ 2,023,065	\$ -
Add: restricted contributions received during the year	534,800	2,023,065
Less: amount recognized as revenue in the year	<u>(63,947)</u>	<u>-</u>
Balance at end of year	<u>\$ 2,493,918</u>	<u>\$ 2,023,065</u>

Caledonia Agricultural Society

Notes to Financial Statements

December 31, 2019

6. Loans payable

	December 31 2019	December 31 2018 (unaudited)
Private Loan - bearing interest at 3.00%, repayable in annual interest only payments until maturity in June 2022 and is not secured	\$ 10,000	\$ -
Private Loan - bearing interest at 4.00%, repayable in monthly interest only payments until maturity in April 2023 and is not secured	100,000	-
Private Loan - bearing interest at 4.00%, repayable in annual interest only payments until maturity in August 2023 and is not secured	25,000	-
Related Party Loan - bearing interest at 4.25%, repayable in annual interest only payments until maturity in July 2024 and is not secured	75,000	-
Private Loan - bearing interest at 4.25%, repayable in annual interest only payments until maturity in July 2024 and is not secured	50,000	-
Private Loan - bearing interest at 4.25%, repayable in annual interest only payments until maturity in July 2024 and is not secured	25,000	-
Related Party Loan - non-interest bearing, matures in August 2024 and is not secured	<u>25,000</u>	<u>-</u>
	<u>\$ 310,000</u>	<u>\$ -</u>
Principal repayments until maturity are as follows:		
2022	\$ 10,000	
2023	125,000	
2024	<u>175,000</u>	
	<u>\$ 310,000</u>	

Caledonia Agricultural Society

Notes to Financial Statements

December 31, 2019

7. Bank loan payable

During the year, the Organization obtained a commercial term loan authorized to a maximum of \$3,900,000, of which \$2,978,612 was utilized at year end. The term loan bears interest at prime plus 2.00% per annum and is secured as follows:

- a) A first collateral charge against lands and premises located at 125 Caithness Street East, Caledonia in the amount of \$4,000,000
- b) A general security agreement on all assets of the Organization
- c) Personal guarantees totaling \$1,250,000 from third-party individuals

As part of the banking agreement, the Organization is required to maintain a debt service coverage ratio greater than 1.2. As at year end, the Organization was in compliance with their banking covenant.

8. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments. It is of management's opinion that the Organization is not exposed to significant foreign exchange, credit, currency, market, price or concentration risk.

(a) Liquidity risk

The Organization does have a liquidity risk in the accounts payable and accrued liabilities of \$238,145 (2018 - \$3,629). Liquidity risk is the risk that the Organization cannot repay its obligations when they become due to its creditors. The Organization reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due, maintains a term loan to repay trade creditors and repays long term debt interest and principal as they become due.

(b) Interest rate risk

The Organization is exposed to interest rate risk. Interest rate risk is the risk that the Organization has interest rate exposure on its bank loan payable, which is variable based on the bank's prime rate. This exposure may have an effect on its earnings in future periods. The Organization reduces its exposure to interest rate risk by regularly monitoring published bank prime interest rates which have been relatively stable over the period presented. There are some loans payable that are at fixed term rates, or zero interest rates and do not affect interest rate risk. The Organization does not use derivative instruments to reduce its exposure to interest rate risk.

Caledonia Agricultural Society

Notes to Financial Statements

December 31, 2019

9. Prior period adjustment

The December 31, 2018 comparative financial statements have been restated to retroactively reflect the accounting related to the Organization's renovation of the Riverside Exhibition Centre. In prior years, it was the Organization's policy to expense all capital assets in the year that they were acquired. As a result of the significant capital expenditures incurred in the current year related to the construction/renovation of the Riverside Exhibition Centre, the Organization changed their policy to capitalize the costs of the renovation. To ensure consistency in the treatment of the expenditures related to the renovation, the prior year figures have been restated. Costs related to the renovation that were incurred in fiscal 2018 and were initially expensed have now been restated and capitalized to achieve consistency with the treatment of the related asset expenditures in the current year.

As the revenue generated for the renovation was externally restricted by the contributors for this specific purpose, it must be deferred and brought into income on the same basis as the building is being amortized.

The above changes have been recorded retroactively and accordingly, the comparative financial statements have been restated as follows:

	Increase (decrease)
Statement of Financial Position, December 31, 2018	
Building	\$ 262,703
Deferred contributions	2,023,065
Unrestricted net assets	(1,760,362)
Statement of Operations and Changes in Net Assets, year ended December 31, 2018	
Revenue	(2,023,065)
Expenditures	(262,703)
Excess of revenues over expenditures	(1,760,362)

10. Comparative figures

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year.