

THE LONDON POTTERS GUILD

FINANCIAL STATEMENTS

JULY 31, 2018



THE LONDON POTTERS GUILD
INDEX TO AUDITED FINANCIAL STATEMENTS
JULY 31, 2018

	Page
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Changes in Net Assets	4
Statement of Revenues over Expenditures	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 13





Chartered Professional Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of:
The London Potters Guild

We have audited the accompanying financial statements of The London Potters Guild, which comprise the statement of financial position as at July 31, 2018 and the statements of revenues over expenditures, changes in net assets and cash flows for the year then ended, and a summary of 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 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 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 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 Qualification

In common with many not-for-profit organizations, the organization derives revenue from donations and fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues in the fiscal year ending July 31, 2018 and the fiscal year ending July 31, 2017 was limited to the amounts recorded in the records of the organization and we were unable to determine whether any adjustments for unrecorded amounts might be necessary to revenues, excess or deficiency of revenues over expenditures, assets and net assets.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualification paragraph, the financial statements present fairly, in all material respects, the financial position of The London Potters Guild as at July 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

London, Ontario
January 9, 2019

Davis Martindale LLP

Chartered Professional Accountants
Licensed Public Accountants



THE LONDON POTTERS GUILD
STATEMENT OF FINANCIAL POSITION
AS AT JULY 31, 2018


ASSETS


	2018	2017 (note 12)
Current Assets		
Cash	\$ 302,860	\$ 184,012
Accounts receivable	6,577	2,483
Prepaid expenses	<u>1,212</u>	<u>1,252</u>
	310,649	187,747
Tangible Capital Assets (note 3)	<u>1,244,207</u>	<u>1,225,872</u>
	<u><u>\$ 1,554,856</u></u>	<u><u>\$ 1,413,619</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable and accrued liabilities	\$ 47,679	\$ 31,982
Government remittances payable	3,074	5,842
Deferred revenue (note 5)	153,718	77,394
Current portion of long-term debt (note 6)	<u>154,152</u>	<u>17,267</u>
	358,623	132,485
Long-Term Liabilities		
Long-term debt (note 6)	15,713	169,143
Deferred contributions related to tangible capital assets (note 7)	<u>882,451</u>	<u>859,973</u>
	1,256,787	1,161,601
Net Assets		
General fund	61,434	34,974
Invested in tangible capital assets (note 8)	208,435	192,444
Building fund	<u>28,200</u>	<u>24,600</u>
	<u>298,069</u>	<u>252,018</u>
	<u><u>\$ 1,554,856</u></u>	<u><u>\$ 1,413,619</u></u>

APPROVED ON BEHALF OF THE BOARD:


Director


Director

The attached Independent Auditor's Report and notes form an integral part of these audited financial statements.



THE LONDON POTTERS GUILD
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JULY 31, 2018

	General Fund (note 12)	Invested in Tangible Capital Assets (note 12)	Building Fund	2018 Total	2017 Total
Balance, Beginning of Year	\$ 34,974	\$ 192,444	\$ 24,600	\$ 252,018	\$ 248,985
Excess (Deficit) of Revenues over Expenditures	63,787	(17,736)	-	46,051	3,033
Interfund Transfers (note 9)	<u>(37,327)</u>	<u>33,727</u>	<u>3,600</u>	<u>-</u>	<u>-</u>
Balance, End of Year	<u><u>\$ 61,434</u></u>	<u><u>\$ 208,435</u></u>	<u><u>\$ 28,200</u></u>	<u><u>\$ 298,069</u></u>	<u><u>\$ 252,018</u></u>

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THE LONDON POTTERS GUILD
STATEMENT OF REVENUES OVER EXPENDITURES
FOR THE YEAR ENDED JULY 31, 2018

	2018	%	2017 (note 12)	%
Revenues				
Product sales	\$ 183,061	31.10	\$ 157,509	34.13
Class instruction, workshops and programs	158,076	26.86	127,799	27.69
Grants	80,463	13.67	62,339	13.51
Membership fees	50,854	8.64	45,284	9.81
Ontario Trillium Foundation grant	41,383	7.03	-	-
Amortization of deferred contributions	39,744	6.75	35,189	7.63
Ontario Arts Council grant	17,280	2.94	17,575	3.81
Studio space rental	11,999	2.04	12,271	2.66
Interest and miscellaneous	3,625	0.62	3,270	0.71
Fundraising and donations	<u>2,070</u>	<u>0.35</u>	<u>224</u>	<u>0.05</u>
	588,555	100.00	461,460	100.00
Expenditures				
Accounting and legal	6,810	1.16	7,251	1.57
Advertising	17,548	2.98	5,248	1.14
Amortization of tangible capital assets	57,480	9.77	53,329	11.56
Commissions	97,051	16.49	87,378	18.94
Consulting fees	-	-	11,247	2.44
Instructor fees	61,479	10.45	61,911	13.42
Insurance	8,203	1.39	7,574	1.64
Interest and bank charges	8,826	1.50	7,837	1.70
Interest on long-term debt	6,943	1.18	6,112	1.32
Janitorial	14,964	2.54	14,965	3.24
Mosaic	33,968	5.77	18,777	4.07
Office and general	22,910	3.89	12,539	2.72
Property tax	13,048	2.22	11,759	2.55
Repairs and maintenance	31,137	5.29	16,086	3.49
Supplies	34,594	5.88	32,657	7.08
Telephone and utilities	23,619	4.01	26,990	5.85
Wages	<u>103,924</u>	<u>17.66</u>	<u>76,767</u>	<u>16.64</u>
	542,504	92.18	458,427	99.37
Excess of Revenues over Expenditures	<u><u>\$ 46,051</u></u>	<u><u>7.82</u></u>	<u><u>\$ 3,033</u></u>	<u><u>0.63</u></u>

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THE LONDON POTTERS GUILD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JULY 31, 2018

	2018	2017 (note 12)
Cash Flows from Operating Activities		
Excess of revenues over expenditures	\$ 46,051	\$ 3,033
Items not requiring an outlay of cash:		
Amortization of tangible capital assets	57,480	53,329
Amortization of deferred contributions related to tangible capital assets	<u>(39,744)</u>	<u>(35,189)</u>
	63,787	21,173
Changes in non-cash working capital items		
Accounts receivable	(4,094)	1,661
Prepaid expenses	40	(282)
Accounts payable and accrued liabilities	15,697	4,530
Government remittances payable	(2,768)	2,901
Deferred revenue	<u>76,324</u>	<u>36,486</u>
	<u>85,199</u>	<u>45,296</u>
Net Cash Provided by Operating Activities	148,986	66,469
Cash Flows from Financing Activities		
Decrease in long-term debt	(16,544)	(17,326)
Increase in deferred contributions related to tangible capital assets	<u>62,222</u>	<u>8,626</u>
Net Cash Provided by (Used in) Financing Activities	45,678	(8,700)
Cash Flows from Investing Activities		
Purchase of tangible capital assets	<u>(75,816)</u>	<u>(4,941)</u>
Net Increase in Cash	118,848	52,828
Cash, Beginning of the Year	<u>184,012</u>	<u>131,184</u>
Cash, End of the Year	<u><u>\$ 302,860</u></u>	<u><u>\$ 184,012</u></u>

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THE LONDON POTTERS GUILD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018

1. Purpose of the Organization

The London Potters Guild is a not-for-profit organization with the intent to create and foster awareness and appreciation for pottery through community service and educational programs. The London Potters Guild is incorporated without share capital under the laws of the province of Ontario and is a registered charity under the Canadian Income Tax Act.

2. Significant Accounting Policies

a) Basis of Preparation

These financial statements are prepared by management in accordance with Canadian accounting standards for not-for-profit organizations.

b) Tangible Capital Assets

Tangible capital assets are recorded at cost and amortization is recorded in the accounts as follows:

Building - 4% - declining balance method;

Kilns - 5 years - straight line method; and

Furniture and Equipment - 20% - declining balance method

c) Impairment of Long-lived Assets

Long-lived assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized when the carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

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THE LONDON POTTERS GUILD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018

2. Significant Accounting Policies (continued)

d) Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available to the organization, the accounts are maintained in accordance with the principles of Fund Accounting. Under these principles, resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund.

General Fund

The General Fund of the organization records amounts used for the administrative and operational costs financed by private donations, fundraising events, bequests, memberships, accommodations, and investment revenues.

Invested in Tangible Capital Assets Fund

The Invested in Tangible Capital Assets Fund accounts for monies received or internally designated for specific purposes other than operating programs. These funds will be fully expended for their intended purpose.

Building Fund

The Building Fund represents internally restricted funds for the purpose of covering ongoing building maintenance expenditures.

e) Revenue Recognition

The organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenditures are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Class instruction, workshops and programs, and membership fees are recognized when the services have been provided and collection is reasonably assured.

Interest and rental income is recognized when it is earned

f) Contributed Materials and Services

Volunteers contribute many hours per year to assist the organization in carrying out its activities. Because of the difficulty in determining fair value, contributed services are not recognized in the financial statements.

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THE LONDON POTTERS GUILD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018

2. Significant Accounting Policies (continued)

g) Use of Estimates

The preparation of the financial statements of the organization, 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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenues and expenditures during the reporting period. Actual results could differ from those estimates.

h) Financial Instruments

The organization's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, government remittances payable, and long-term debt. The organization initially recognizes these financial instruments at fair value and subsequently at amortized cost.

i) Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with maturities of three months or less from the date of acquisition.

3. Tangible Capital Assets

	Cost	Accumulated Amortization	2018 Net	2017 Net
Land	\$ 42,959	\$ -	\$ 42,959	\$ 42,959
Building	1,484,655	365,581	1,119,074	1,163,027
Kilns	33,272	14,109	19,163	-
Furniture and equipment	92,127	33,016	59,111	19,886
Capital projects in progress	3,900	-	3,900	-
	<u>\$ 1,656,913</u>	<u>\$ 412,706</u>	<u>\$ 1,244,207</u>	<u>\$ 1,225,872</u>

The land and building are pledged as collateral for loans as detailed in note 4 and note 6.

4. Credit Facility

The organization has an approved line of credit for which there are no outstanding draws at year end. This credit facility has a limit of \$100,000 and bears interest at bank prime rate plus 1.50%.

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THE LONDON POTTERS GUILD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018

5. Deferred Revenue

Deferred revenue represents unspent funding received that has not yet been spent. The details of the deferred revenue balance are as follows:

	2018	2017 (note 12)
Ontario Trillium Foundation	\$ 102,003	\$ -
London Arts Council	23,333	23,333
Ontario Arts Council	20,369	17,280
City of London	8,013	-
Rick Hansen Foundation	-	22,058
Ontario Shared Services Contract Centre	-	14,723
	<u>\$ 153,718</u>	<u>\$ 77,394</u>

6. Long-term Debt

	2018	2017
0% municipal loan, repayable in monthly principal installments of \$136, repaid during the year.	\$ -	\$ 1,303
First mortgage, repayable in weekly blended principal and interest installments of \$248, due December 14, 2018. Interest is calculated at bank prime rate plus 1.25%.	145,264	151,616
0% municipal loan, repayable in monthly principal installments of \$302, due March 15, 2020.	5,741	9,367
0% municipal loan, repayable in monthly principal installments of \$219, due August 15, 2021.	7,895	10,527
0% municipal loan, repayable in monthly principal installments of \$219, due September 15, 2022.	<u>10,965</u>	<u>13,597</u>
	169,865	186,410
Less: current portion	<u>(154,152)</u>	<u>(17,267)</u>
	<u>\$ 15,713</u>	<u>\$ 169,143</u>

Land and building with a net book value of \$1,162,033 (2017 - \$1,205,986) has been pledged as security for the first mortgage and the 0% municipal loans.

Three of the municipal loans are forgivable at a maximum rate of 50% of payments made during the year.

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THE LONDON POTTERS GUILD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018

6. Long-term Debt (continued)

The aggregate amount of principal payments required to meet retirement provision are as follows:

Year ending July 31, 2019	\$ 154,152
July 31, 2020	7,379
July 31, 2021	5,264
July 31, 2022	2,632
July 31, 2023	438
	<u>\$ 169,865</u>

Subsequent to year-end, the first mortgage was renegotiated with new terms and a new due date of December, 2023.

7. Deferred Contributions Related to Tangible Capital Assets

Deferred contributions related to tangible capital assets represent restricted contributions used to fund building improvements and purchase new tangible capital assets. These contributions are being amortized into income on the same basis as the related tangible capital assets. The changes in the deferred contributions balance for the year are as follows:

	2018	2017 (note 12)
Balance, beginning of year	\$ 859,973	886,536
Less: amortization of deferred contributions	(39,744)	(35,189)
Add: contributions received for capital purposes	<u>62,222</u>	<u>8,626</u>
Balance, end of year	<u>\$ 882,451</u>	<u>\$ 859,973</u>
Balance represented by:		
Unspent contributions	\$ 16,544	\$ 12,955
Unamortized contributions	<u>865,907</u>	<u>847,018</u>
	<u>\$ 882,451</u>	<u>\$ 859,973</u>

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THE LONDON POTTERS GUILD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018

8. Investment in Tangible Capital Assets

	2018	2017 (note 12)
Cash	\$ 16,544	\$ 12,955
Tangible capital assets (note 3)	<u>1,244,207</u>	<u>1,225,872</u>
	1,260,751	1,238,827
Less amounts financed by:		
Long-term debt (note 6)	(169,865)	(186,410)
Deferred contributions (note 7)	<u>(882,451)</u>	<u>(859,973)</u>
Balance, end of year	<u><u>\$ 208,435</u></u>	<u><u>\$ 192,444</u></u>

9. Interfund Transfers

During the year, there were transfers made by the general fund to the capital fund for expenditures in the amount of \$33,727 (2017 - \$4,370) and to the building fund in the amount of \$3,600 (2017 - \$3,600). These interfund transfers include tangible capital asset purchases, repayments of long term debt and internally restricted funds for the purpose of covering ongoing building maintenance expenditures.

10. Financial Instruments

The organization is exposed to various risks through its financial instruments. The following analysis provides a measure of the organization's risk exposure and concentrations at July 31, 2018.

Credit Risk

During the normal course of operations, the organization is exposed to credit risk in the event of non-performance by customers in connection with its accounts receivable. The organization mitigates this risk by monitoring customer accounts on a continual basis and by dealing with what management believes to be financially sound customers. Management does not anticipate significant loss for non-performance.

Interest Rate Risk

The organization's bank loan has a variable interest rate. Changes in the bank's prime lending rate can cause fluctuations in interest payments and cash flows. The organization does not use derivative financial instruments to alter the effects of this risk.

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THE LONDON POTTERS GUILD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018

11. Change to Accounting Policy

During the year the organization's average revenues exceeded \$500,000 and they no longer qualified as a small organization in accordance with Canadian accounting standards for not-for-profit organizations. As a result, the organization has adopted the policy to capitalize all of their tangible capital assets and no longer expense some of these tangible capital assets in the year acquired.

The adoption of the new accounting policy did not result in any adjustments to the previously reported figures.

12. Comparative Figures

Certain of the prior years figures have been reclassified to conform to the financial statement presentation adopted in the current year.

The attached Independent Auditor's Report and notes form an integral part of these audited financial statements.

