

LA FONDACTION MUSICACTION

FINANCIAL STATEMENTS

MARCH 31, 2014

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MARCH 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Directors of
La Fondation MUSICACTION

We have audited the accompanying financial statements of **La Fondation MUSICACTION**, which comprise the balance sheet as at March 31, 2014, and the statements of earnings, changes in net assets 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

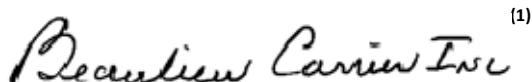
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **La Fondation MUSICACTION** as at March 31, 2014 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.

⁽¹⁾

Anjou,
June 16, 2014

¹ Monique Beaulieu, CPA auditor, CGA

LA FONDACTION MUSICACTION
STATEMENT OF EARNINGS
FOR THE YEAR ENDED MARCH 31, 2014

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	<u>2014</u>	<u>2013</u>
REVENUE		
CONTRIBUTIONS		
CANADA MUSIC FUND		
New Musical Works	\$ 4,178,790	\$ 4,178,790
Collective Initiatives	447,243	447,243
Collective Initiatives – Music Showcase	690,000	589,869
International market development	200,000	200,000
Digital market development	362,500	362,500
Contributions from commercial radio broadcasters		
Licence renewals	583,491	740,657
First Licence term	356,737	421,642
Transfer of ownership	809,956	829,758
Contributions from satellite radio broadcasters		
Licence renewal	770,740	562,490
Interest	123,234	124,800
	<u>8,522,691</u>	<u>8,457,749</u>
OPERATING EXPENSES		
Financial contributions (Schedule 1)	7,628,875	7,979,022
Administrative and financing expenses (Schedule 2)	952,115	927,304
	<u>8,580,990</u>	<u>8,906,326</u>
DEFICIENCY OF REVENUE OVER EXPENSES BEFORE AMORTIZATION	<u>(58,299)</u>	<u>(448,577)</u>
Amortization of capital assets	36,992	34,685
Amortization of intangible assets	35,270	35,271
	<u>72,262</u>	<u>69,956</u>
DEFICIENCY OF REVENUE OVER EXPENSES	<u>\$ (130,561)</u>	<u>\$ (518,533)</u>

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

LA FONDACTION MUSICACTION
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2014

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	<u>2014</u>	<u>2013</u>
UNRESTRICTED NET ASSETS		
BALANCE - BEGINNING OF YEAR	\$ 2,848,750	\$ 3,827,237
DEFICIENCY OF REVENUE OVER EXPENSES	(130,561)	(518,533)
Internal restrictions	<u>(559,438)</u>	<u>(459,954)</u>
BALANCE - END OF YEAR	<u>\$ 2,158,751</u>	<u>\$ 2,848,750</u>
INTERNALLY RESTRICTED NET ASSETS (note 5)		
BALANCE - BEGINNING OF YEAR	\$ 4,323,582	\$ 3,863,628
Internal restrictions	<u>559,438</u>	<u>459,954</u>
BALANCE - END OF YEAR	<u>\$ 4,883,020</u>	<u>\$ 4,323,582</u>

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

LA FONDACTION MUSICACTION

BALANCE SHEET

AS AT MARCH 31, 2014

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	<u>2014</u>	<u>2013</u>
ASSET		
CURRENT ASSETS		
Cash	\$ 249,797	\$ 119,600
Term deposit, interest rate at 1.29%, maturing in August, 2014	300,000	6,000,000
Accounts receivable (note 6)	574,810	572,166
Prepaid expenses	<u>12,219</u>	<u>16,962</u>
	1,136,826	6,708,728
TERM DEPOSITS, INTEREST RATE RANGING FROM 1.60% TO 1.90%, MATURING BETWEEN AUGUST, 2015 AND JULY, 2016	5,500,000	-
CAPITAL ASSETS (note 7)	501,050	514,854
INTANGIBLE ASSETS (note 8)	<u>7,203</u>	<u>42,473</u>
	\$ 7,145,079	\$ 7,266,055
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 9)	<u>\$ 103,308</u>	<u>\$ 93,723</u>
NET ASSETS		
Unrestricted net assets	2,158,751	2,848,750
Internally restricted net assets (note 5)	<u>4,883,020</u>	<u>4,323,582</u>
	7,041,771	7,172,332
	\$ 7,145,079	\$ 7,266,055

APPROVED ON BEHALF OF THE BOARD



Pierre Rodrigue
Chairman



Solange Drouin
Treasurer

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

LA FONDACTION MUSICACTION
 STATEMENT OF CASH FLOWS
 FOR THE YEARS ENDED MARCH 31, 2014

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	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Contributions received from the CANADA MUSIC FUND	\$ 5,873,701	\$ 6,360,694
Contributions received from radio broadcasters	2,520,924	2,554,547
Administration fees received from FONDS RADIOSTAR	35,000	35,000
Interest received	125,409	122,745
Sales taxes (paid) received	13	(4,054)
	<u>8,555,047</u>	<u>9,068,932</u>
Financial contributions paid	(7,628,875)	(7,979,022)
Purchase of goods and services paid	(172,183)	(174,044)
Employee compensation paid	(800,602)	(794,433)
	<u>(8,601,660)</u>	<u>(8,947,499)</u>
	<u>(46,613)</u>	<u>121,433</u>
INVESTING ACTIVITIES		
Purchase of capital assets	(23,190)	(5,462)
Purchase of intangible assets	—	(10,643)
Term deposits	200,000	(1,000,000)
	<u>176,810</u>	<u>(1,016,105)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	130,197	(894,672)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>119,600</u>	<u>1,014,272</u>
CASH AND CASH EQUIVALENTS - END OF YEAR (note 10)	<u>\$ 249,797</u>	<u>\$ 119,600</u>

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

1. STATUTES AND PURPOSE OF THE ORGANIZATION

La Fondation MUSICACTION was incorporated on September 9, 1985, as a non-profit organization without share capital, pursuant to Part II of the Canada Business Corporations Act. In December 2013, La Fondation MUSICACTION extended these statutes under section 211 of the *Canada Not-for-profit Corporations Act*.

La Fondation MUSICACTION is a non-profit organization whose objective is to assist in the promotion, managing, production, and marketing of sound recordings and video-clips in Canada or in foreign markets. To this end, La Fondation MUSICACTION offers financial contribution programs that are available to artists, record company producers, publishers, managers, and distributors, and to Canadian authors and composers, as well as to associations.

Pursuant to the *Income Tax Act* (Canada) and the *Taxation Act* (Quebec), La Fondation MUSICACTION is classified as a non-profit organization, and therefore, is not subject to income taxes.

2. FUNDING OF THE ORGANIZATION

On April 19, 2010, two contribution agreements were signed between the Department of Canadian Heritage and La Fondation MUSICACTION for the administration of the Canada Music Fund and, more specifically, two programs entitled New Musical Works and Collective Initiatives. These agreements provide for the following annual contributions of \$4,178,790 for each of the years ended March 31, 2011 to 2015 and the following annual contributions for the Collective Initiatives program: \$1,599,612 for each of the years ended March 31, 2011 to 2013 and \$1,699,743 for each of the years ended March 31, 2014 to 2015. The cumulative contributions received during the year amounted to \$4,178,790 (\$4,178,790 in 2013) for the New Musical Works Program and \$1,699,743 (\$1,599,612 in 2013) for the Collective Initiatives program. Under these agreements, a maximum of 13.5% of the contributions may be allocated to administrative and communication expenses, audit fees and assessment expenses incurred by La Fondation MUSICACTION.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were presented in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies.

Revenue recognition

La Fondation MUSICACTION uses the deferral method of accounting for contributions. Contributions originating from the Canada Music Fund are accounted for based on financial contributions granted, while contributions from radio broadcasters are accounted for using the cash basis of accounting, with the exception of products for which a firm commitment has been given.

Contributions from radio broadcasters are an express underlying condition for obtaining and renewing their broadcast licenses with the Canadian Radio-television and Telecommunications Commission (CRTC).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

In addition, in the case of transactions involving the acquisition of radio broadcasting companies, the CRTC specifically demands that the acquiring party make contributions to agencies that are dedicated to the development of Canadian talent. La Fondation MUSICACTION benefits from a portion of these contributions, which have been accounted for as transfers of ownership.

Financial instruments

Measurement of financial instruments

La Fondation MUSICACTION initially measures its financial assets and liabilities at fair value, except for certain related party transactions which are measured either at the carrying amount or the exchange amount. They are subsequently measured at amortized cost. Changes in fair value are recognized in the statement of earnings.

Held-to-maturity investments

Financial instruments classified as investments held until maturity are accounted for at amortized cost using the effective interest rate method. Interest income is included in the earnings statements throughout the anticipated duration of the investment.

Financial contributions

All of the programs offered by La Fondation MUSICACTION are in the form of financial contributions and are accounted for as expenses when they have been fully allocated.

Capital assets

Capital assets are recorded at original cost. Amortization is calculated using the straight-line method based on the following periods:

Condominium	25 years
Furniture and office equipment	7 years
Computer equipment	4 years
Telephone equipment	10 years

Intangible assets

Intangible assets are recorded at historical cost. Their amortization is calculated using the straight-line method over a four-year period.

Contributed services

Members of La Fondation MUSICACTION's Board of Directors attend Board meetings without compensation. The value of the time donated by these directors is not recorded in the financial statements, because it would be difficult to measure its fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For cash flow purposes, La Fondation MUSICACTION chooses to present cash and term deposits for which the maturity date does not exceed three months from the date of acquisition.

4. CAPITAL DISCLOSURES

With respect to its capital management, La Fondation MUSICACTION's objective is to preserve its ability to continue its operations in order to continue to comply with its purpose as described in Note 1, taking into account its financial resources which allow it to meet its remaining commitments and to pay financial contributions to newly submitted projects.

Except for the fact that a maximum of 13.5% of the contributions may be allocated to administrative, communication, audit and assessment expenses, under external rules, La Fondation MUSICACTION, is not subject to capital requirements.

5. INTERNALLY RESTRICTED NET ASSETS

The Board of Directors allocated net assets in the amount of \$4,883,020 (\$4,323,582 in 2013) in order to cover the payment of commitments related to financial contributions for which La Fondation MUSICACTION was committed as at March 31, 2014, and to provide for administrative expenses related to monitoring and settling these commitments estimated at a maximum of 13.5%.

6. ACCOUNTS RECEIVABLE

	<u>2014</u>	<u>2013</u>
Contributions – Department of Canadian Heritage	\$ 506,706	\$ 501,874
Accrued interest	63,027	65,202
Sales taxes	<u>5,077</u>	<u>5,090</u>
	<u>\$ 574,810</u>	<u>\$ 572,166</u>

LA FONDACTION MUSICACTION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED MARCH 31, 2014

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7. CAPITAL ASSETS

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 83,447	\$ —	\$ 83,447	\$ 83,447
Condominium	565,650	176,109	389,541	412,169
Furniture and office equipment	140,056	125,274	14,783	3,144
Computer equipment	83,366	70,362	13,004	15,719
Telephone equipment	18,068	17,792	275	375
	<u>\$ 890,587</u>	<u>\$ 389,537</u>	<u>\$ 501,050</u>	<u>\$ 514,854</u>

8. INTANGIBLE ASSETS

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Online registration system	\$ 109,149	\$ 103,278	\$ 5,872	\$ 35,819
Website	21,288	19,956	1,331	6,654
	<u>\$ 130,437</u>	<u>\$ 123,234</u>	<u>\$ 7,203</u>	<u>\$ 42,473</u>

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2014	2013
Accrued salaries	\$ 77,608	\$ 69,978
Deductions at source	9,273	8,362
Accrued liabilities	1,844	800
Deferred revenue	14,583	14,583
	<u>\$ 103,308</u>	<u>\$ 93,723</u>

10. CASH AND CASH EQUIVALENTS, END OF YEAR

The cash and cash equivalents include the following:

	<u>2014</u>	<u>2013</u>
Cash	\$ <u>249,797</u>	\$ <u>119,600</u>

11. RELATED PARTY TRANSACTIONS

During 2014, La Fondation MUSICACTION paid financial contributions to related enterprises totalling \$362,888 (\$556,122 in 2013). The parties are related owing the fact that their representatives are directors of the organization. These related enterprises satisfy all the criteria established by La Fondation MUSICACTION, and as such, they do not benefit from any special status or privilege because of their representation on the Board of Directors.

Management declares that these transactions were concluded under the same terms and conditions as transactions with other applicants, and they are valued at the exchange amount.

12. COMMITMENTS

Financial contributions

As at March 31, 2014, La Fondation MUSICACTION is contractually committed to advance funds totalling \$4,223,812 (\$3,739,898 in 2013). Of this amount, a portion of \$289,550 (\$285,893 in 2013) represents commitments to related enterprises. In order to realize its commitments, La Fondation MUSICACTION will incur administrative expenses of a maximum of 13.5%.

13. FINANCIAL INSTRUMENTS

Liquidity risk

As at March 31, 2014, La Fondation MUSICACTION has accounted for contributions receivable from Patrimoine Canada. Those contributions were received shortly after year-end. During the year, all the contributions provided for in the agreements with Patrimoine Canada were received by the Fondation.

However, the agreements stipulate that all payments made under those agreements are subject to the credits affectation by the Canadian Parliament and the continuance of the actual budget and the budget estimates for the programs.

13. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

Thus, the Federal government can, at its discretion, decrease the financing and cancel those agreements by sending a written of 90-days prior notice to La Fondation MUSICACTION. In the case that the financing is terminated, La Fondation MUSICACTION would be reimbursed for all the costs engaged up to the date the notice comes into effect, subject to the agreements' terms and conditions. If this event occurs, La Fondation MUSICACTION could be exposed to the mentioned risks.

Interest rate risk

La Fondation MUSICACTION is exposed to interest rate risk regarding its financial instruments with fixed interest rates. Financial instruments with fixed interest rates expose La Fondation MUSICACTION to a fair value risk. As at March 31, 2014, La Fondation MUSICACTION holds term deposits with short-term maturities.

14. PENSION PLAN

La Fondation MUSICACTION has a defined contribution pension plan providing pension benefits to its employees with at least three months of service. Contributions to the pension plan represent 7% of the basic salary and are subject to the employee's voluntary contribution of 3.5%. The pension plan costs of \$47,306 (\$44,525 in 2013) are included in salary expenses in the statements of earnings.

15. COMPARATIVE FIGURES

Certain figures for the prior year have been reclassified to make their presentation identical to that adopted in the current year.

LA FONDACTION MUSICACTION
COMPLEMENTARY FINANCIAL INFORMATION
FOR THE YEARS ENDED MARCH 31, 2014

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	<u>2014</u>	<u>2013</u>
SCHEDULE 1 – FINANCIAL CONTRIBUTIONS		
New Musical Works	\$ 5,825,156	\$ 6,194,882
Collective Initiatives	675,500	777,250
Collective Initiative – Music Showcase	596,935	520,024
International market development	213,502	173,216
Digital market development	<u>317,782</u>	<u>313,650</u>
	<u>\$ 7,628,875</u>	<u>\$ 7,979,022</u>
SCHEDULE 2 – ADMINISTRATIVE AND FINANCING EXPENSES		
Salaries and fringe benefits	\$ 808,946	\$ 793,129
Fees – administrative support	26,485	22,366
Consulting fees	4,488	5,336
Professionals fees	23,835	17,735
Communications	34,216	35,922
Committees and tours	30,899	33,522
Insurance	8,143	8,251
Maintenance and repairs	6,778	6,692
Electricity	4,664	4,452
Condominium fees	4,625	5,063
Supplies and office expenses	19,983	16,823
Property taxes	4,695	4,212
Courier and postage	2,855	2,718
Telecommunications	<u>6,503</u>	<u>6,083</u>
	987,115	962,304
Management fees – FONDS RADIOSTAR	<u>(35,000)</u>	<u>(35,000)</u>
	<u>\$ 952,115</u>	<u>\$ 927,304</u>