

**THE LONDON POTTERS GUILD**

**FINANCIAL STATEMENTS**

**JULY 31, 2017**



**THE LONDON POTTERS GUILD**  
**INDEX TO AUDITED FINANCIAL STATEMENTS**  
**JULY 31, 2017**

	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 - 12



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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, 2017 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, 2017 and the fiscal year ending July 31, 2016 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, 2017, 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 3, 2018

*Davis Martindale LLP*

Chartered Professional Accountants  
Licensed Public Accountants



**THE LONDON POTTERS GUILD**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT JULY 31, 2017**


**ASSETS**

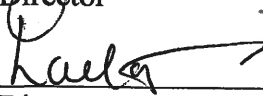
	<b>2017</b>	<b>2016</b>
<b>Current Assets</b>		
Cash	\$ 184,012	\$ 131,184
Accounts receivable	2,483	4,144
Prepaid expenses	<u>1,252</u>	<u>970</u>
	187,747	136,298
<b>Tangible Capital Assets (note 3)</b>	<u>1,225,872</u>	<u>1,274,259</u>
	<u><b>\$ 1,413,619</b></u>	<u><b>\$ 1,410,557</b></u>

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 31,982	\$ 27,452
Government remittances	5,842	2,941
Deferred revenue (note 5)	90,349	50,179
Current portion of long-term debt	<u>17,267</u>	<u>17,328</u>
	145,440	97,900
<b>Long-Term Liabilities</b>		
Long-term debt (note 6)	169,143	186,407
Deferred contributions (note 7)	<u>847,018</u>	<u>877,265</u>
	1,161,601	1,161,572
<b>Net Assets</b>		
General fund	34,974	34,726
Invested in tangible capital assets (note 8)	192,444	193,259
Building fund	<u>24,600</u>	<u>21,000</u>
	<u>252,018</u>	<u>248,985</u>
	<u><b>\$ 1,413,619</b></u>	<u><b>\$ 1,410,557</b></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, 2017**

	<b>General Fund</b>	<b>Invested in Tangible Capital Assets</b>	<b>Building Fund</b>	<b>2017 Total</b>	<b>2016 Total</b>
<b>Balance, Beginning of Year</b>	\$ 34,726	\$ 193,259	\$ 21,000	\$ 248,985	\$ 207,000
Excess of Revenues over Expenditures	21,173	(18,140)	-	3,033	41,985
Interfund Transfers (note 9)	<u>(20,925)</u>	<u>17,325</u>	<u>3,600</u>	<u>-</u>	<u>-</u>
<b>Balance, End of Year</b>	<b><u>\$ 34,974</u></b>	<b><u>\$ 192,444</u></b>	<b><u>\$ 24,600</u></b>	<b><u>\$ 252,018</u></b>	<b><u>\$ 248,985</u></b>

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**THE LONDON POTTERS GUILD**  
**STATEMENT OF REVENUES OVER EXPENDITURES**  
**FOR THE YEAR ENDED JULY 31, 2017**

	2017	%	2016 (note 11)	%
<b>Revenues</b>				
Product sales	\$ 157,509	34.13	\$ 159,845	37.75
Class instruction, workshops and programs	127,799	27.69	110,388	26.07
Grants	62,339	13.51	33,173	7.83
Membership fees	45,284	9.81	35,590	8.40
Amortization of deferred contributions	35,189	7.63	36,553	8.63
Ontario Arts Council grant	17,575	3.81	17,575	4.15
Studio space rental	12,271	2.66	13,313	3.14
Interest and miscellaneous	3,270	0.71	4,985	1.18
Fundraising and donations	224	0.05	12,049	2.85
	<u>461,460</u>	<u>100.00</u>	<u>423,471</u>	<u>100.00</u>
<b>Expenditures</b>				
Accounting and legal	7,251	1.57	6,702	1.58
Administrator salary	34,533	7.48	25,976	6.13
Advertising	5,248	1.14	8,714	2.06
Amortization of tangible capital assets	53,329	11.56	56,082	13.24
Commissions	87,378	18.94	93,247	22.02
Consulting fees	11,247	2.44	5,260	1.24
Instructor fees	61,911	13.42	45,867	10.83
Insurance	7,574	1.64	7,517	1.78
Interest and bank charges	7,837	1.70	7,118	1.68
Interest on long-term debt	6,112	1.32	6,365	1.50
Janitorial	14,965	3.24	3,565	0.85
Mosaic	18,777	4.07	-	-
Office and general	12,539	2.72	8,990	2.12
Property tax	11,759	2.55	11,616	2.74
Repairs and maintenance	16,086	3.49	13,145	3.10
Studio technician	42,234	9.15	26,716	6.31
Supplies	32,657	7.08	28,080	6.63
Telephone and utilities	26,990	5.85	26,526	6.26
	<u>458,427</u>	<u>99.36</u>	<u>381,486</u>	<u>90.07</u>
<b>Excess of Revenues over Expenditures</b>	<u>\$ 3,033</u>	<u>0.64</u>	<u>\$ 41,985</u>	<u>9.93</u>

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**THE LONDON POTTERS GUILD**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JULY 31, 2017**

	<b>2017</b>	<b>2016</b>
<b>Cash Flows from Operating Activities</b>		
Excess of revenues over expenditures	\$ 3,033	\$ 41,985
Items not requiring an outlay of cash:		
Amortization of tangible capital assets	53,329	56,082
Amortization of deferred contributions	<u>(35,189)</u>	<u>(36,553)</u>
	21,173	61,514
Changes in non-cash working capital items		
Accounts receivable	1,661	(1,423)
Prepaid expenses	(282)	54
Accounts payable and accrued liabilities	4,530	(6,005)
Government remittances	2,901	109
Deferred revenue	<u>40,170</u>	<u>14,319</u>
	<u>48,980</u>	<u>7,054</u>
<b>Net Cash Provided by Operating Activities</b>	70,153	68,568
<b>Cash Flows from Financing Activities</b>		
Decrease in long-term debt	(17,326)	(17,074)
Increase in deferred contributions	<u>4,942</u>	<u>-</u>
<b>Net Cash Used in Financing Activities</b>	(12,384)	(17,074)
<b>Cash Flows from Investing Activities</b>		
Purchase of tangible capital assets	<u>(4,941)</u>	<u>(3,202)</u>
<b>Net Increase in Cash</b>	52,828	48,292
<b>Cash, Beginning of the Year</b>	<u>131,184</u>	<u>82,892</u>
<b>Cash, End of the Year</b>	<u>\$ 184,012</u>	<u>\$ 131,184</u>

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**THE LONDON POTTERS GUILD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JULY 31, 2017**

**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**

In accordance with Canadian accounting standards for not-for-profit organizations, small organizations with revenues under \$500,000, additions to tangible capital assets can be recorded as equipment purchases and expensed in the year acquired. The land, building, kilns, and some furniture and equipment 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 - 20% - declining balance method

During the year, the organization expensed \$Nil in tangible capital assets (\$Nil in 2016).

**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, 2017**

**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.

**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, 2017**

**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	2017 Net	2016 Net
Land	\$ 42,959	\$ -	\$ 42,959	\$ 42,959
Building	1,482,034	319,007	1,163,027	1,206,442
Kilns	11,980	11,980	-	-
Furniture	44,125	24,239	19,886	24,858
	<u>\$ 1,581,098</u>	<u>\$ 355,226</u>	<u>\$ 1,225,872</u>	<u>\$ 1,274,259</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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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JULY 31, 2017**

**5. Deferred Revenue**

Deferred revenue represents unspent funding received for operations of \$90,349 (2016 - \$50,179). These funds will be recognized into revenue as the related expenditures are incurred.

**6. Long-term Debt**

	<b>2017</b>	<b>2016</b>
0% municipal loan, repayable in monthly principal installments of \$136, due July 2018.	\$ 1,303	\$ 2,940
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%.	151,616	158,416
0% municipal loan, repayable in monthly principal installments of \$302, due March 15, 2020.	9,367	12,993
0% municipal loan, repayable in monthly principal installments of \$219, due August 15, 2021.	10,527	13,158
0% municipal loan, repayable in monthly principal installments of \$219, due September 15, 2022.	<u>13,597</u>	<u>16,228</u>
	186,410	203,735
Less: current portion	<u>(17,267)</u>	<u>(17,328)</u>
	<u>\$ 169,143</u>	<u>\$ 186,407</u>

Land and building with a net book value of \$1,205,986 (2016 - \$1,249,401) 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, 2017**

**6. Long-term Debt (continued)**

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

Year ending July 31, 2018	\$ 17,267
July 31, 2019	153,427
July 31, 2020	7,379
July 31, 2021	5,264
July 31, 2022	2,632
Thereafter	<u>441</u>
	<u>\$ 186,410</u>

**7. Deferred Contributions**

Deferred contributions related to tangible capital assets represent restricted contributions used to fund building improvements. 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:

	2017	2016
Balance, beginning of year	\$ 877,265	913,818
Less: amortization of deferred contributions	(35,189)	(36,553)
Add: contributions received for capital purposes	<u>4,942</u>	<u>-</u>
Balance, end of year	<u>\$ 847,018</u>	<u>\$ 877,265</u>
Balance represented by:		
Unamortized contributions	<u>\$ 847,018</u>	<u>\$ 877,265</u>

**8. Investment in Tangible Capital Assets**

	2017	2016
Tangible capital assets (note 3)	\$ 1,225,872	\$ 1,274,259
Less amounts financed by:		
Long-term debt (note 6)	(186,410)	(203,735)
Deferred contributions (note 7)	<u>(847,018)</u>	<u>(877,265)</u>
Balance, end of year	<u>\$ 192,444</u>	<u>\$ 193,259</u>

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**THE LONDON POTTERS GUILD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JULY 31, 2017**

**9. Interfund Transfers**

During the year, there were transfers made by the general fund to the capital fund for expenditures in the amount of \$17,325 (2016 - \$20,276) and to the building fund in the amount of \$3,600 (2016 - \$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, 2017.

**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.

**11. Comparative Figures**

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

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