

LA FONDATION MUSICACTION

FINANCIAL STATEMENTS

MARCH 31, 2013

LA FONDATION MUSICACTION

FINANCIAL STATEMENTS

MARCH 31, 2013

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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, 2013, 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, 2013 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.

INDEPENDENT AUDITOR'S REPORT

Comparative Information

Without modifying our opinion, we draw attention to note 16 to the financial statements which describes that **La Fondation MUSICACTION** adopted Canadian accounting standards for not-for-profit organizations on April 1st, 2012 with a transition date of April 1st, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the balance sheets as at March 31, 2012 and April 1st, 2011, and the statements of earnings, changes in net assets and cash flows for the year ended March 31, 2012 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

Beaulieu Carrier Inc.

(1)

Anjou,
Le 12 juin 2013

¹ Monique Beaulieu, CPA auditor, CGA

LA FONDACTION MUSICACTION
STATEMENT OF EARNINGS
FOR THE YEAR ENDED MARCH 31, 2013

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	<u>2013</u>	<u>2012</u>
REVENUE		
CONTRIBUTIONS		
CANADA MUSIC FUND		
New Musical Works	\$ 4,178,790	\$ 4,661,040
Collective Initiatives	447,243	393,847
Collective Initiatives – Music Showcase	589,869	759,309
International market development	200,000	253,396
Digital market development	362,500	362,500
Contributions from commercial radio broadcasters		
License renewals	740,657	551,582
First license term	421,642	390,062
Transfer of ownership	829,758	794,507
Contributions from satellite radio broadcasters		
First license term	562,490	673,793
Interest	124,800	114,455
	<u>8,457,749</u>	<u>8,954,491</u>
OPERATING EXPENSES		
Financial contributions (Schedule 1)	7,979,022	7,662,932
Administrative and financing expenses (Schedule 2)	927,304	883,222
	<u>8,906,326</u>	<u>8,546,154</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES BEFORE AMORTIZATION	<u>(448,577)</u>	<u>408,337</u>
Amortization of capital assets	34,685	36,543
Amortization of intangible assets	35,271	29,883
	<u>69,956</u>	<u>66,426</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	<u>\$ (518,533)</u>	<u>\$ 341,911</u>

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

LA FONDATION MUSICACTION
 STATEMENT OF CHANGES IN NET ASSETS
 FOR THE YEAR ENDED MARCH 31, 2013

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	<u>2013</u>	<u>2012</u>
UNRESTRICTED NET ASSETS		
BALANCE - BEGINNING OF YEAR	\$ 3,827,237	\$ 4,213,181
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(518,533)	341,911
Internal restrictions	<u>(459,954)</u>	<u>(727,855)</u>
BALANCE - END OF YEAR	<u>\$ 2,848,750</u>	<u>\$ 3,827,237</u>
INTERNALLY RESTRICTED NET ASSETS (note 5)		
BALANCE - BEGINNING OF YEAR	\$ 3,863,628	\$ 3,135,773
Internal restrictions	<u>459,954</u>	<u>727,855</u>
BALANCE - END OF YEAR	<u>\$ 4,323,582</u>	<u>\$ 3,863,628</u>

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

LA FONDACTION MUSICACTION

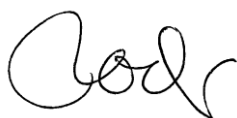
BALANCE SHEET

AS AT MARCH 31, 2013

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	March 31, 2013	March 31, 2012	April 1 st , 2011
ASSET			
CURRENT ASSETS			
Cash	\$ 119,600	\$ 64,272	\$ 187,155
Redeemable demand deposit	-	950,000	2,500,000
Term deposits, interest rate ranging from 1.34% to 1.98%, maturing between July, 2013 and December, 2013	6,000,000	500,000	-
Accounts receivable (note 6)	572,166	1,148,349	1,187,734
Prepaid expenses	16,962	12,725	14,731
	6,708,728	2,675,346	3,889,620
TERM DEPOSITS	-	4,500,000	3,000,000
CAPITAL ASSETS (note 7)	514,854	544,077	563,026
INTANGIBLE ASSETS (note 8)	42,473	67,101	94,562
	\$ 7,266,055	\$ 7,786,524	\$ 7,547,208
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities (note 9)	\$ 93,723	\$ 95,659	\$ 198,254
NET ASSETS			
Unrestricted net assets	2,848,750	3,827,237	4,213,181
Internally restricted net assets (note 5)	4,323,582	3,863,628	3,135,773
	7,172,332	7,690,865	7,348,954
	\$ 7,266,055	\$ 7,786,524	\$ 7,547,208

APPROVED ON BEHALF OF THE BOARD



Pierre Rodrigue
President



Solange Drouin
Treasurer

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

LA FONDACTION MUSICACTION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2013

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	<u>2013</u>	<u>2012</u>
OPERATING ACTIVITIES		
Contributions received from the CANADA MUSIC FUND	\$ 6,360,694	\$ 6,469,485
Contributions received from radio broadcasters	2,554,547	2,409,944
Administration fees received from FONDS RADIOSTAR	35,000	35,000
Interest received	122,745	104,622
Sales taxes (paid) received	<u>(4,054)</u>	<u>9,424</u>
	<u>9,068,932</u>	<u>9,028,475</u>
Financial contributions paid	7,979,022	7,662,932
Purchase of goods and services paid	174,044	234,217
Employee compensation paid	<u>794,433</u>	<u>784,192</u>
	<u>8,947,499</u>	<u>8,681,341</u>
	<u>121,433</u>	<u>347,134</u>
INVESTING ACTIVITIES		
Purchase of capital assets	(5,462)	(17,595)
Purchase of intangible assets	(10,643)	(2,422)
Term deposits	<u>(1,000,000)</u>	<u>(2,000,000)</u>
	<u>(1 016 105)</u>	<u>(2,020,017)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(894,672)	(1,672,883)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,014,272</u>	<u>2,687,155</u>
CASH AND CASH EQUIVALENTS - END OF YEAR (note 10)	<u>\$ 119,600</u>	<u>\$ 1,014,272</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.

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 \$1,009,743 for of the years ended March 31, 2014 to 2015. The cumulative contributions received during the year totaled \$4,178,790 (\$4,661,040 in 2012) for the New Musical Works Program and \$1,599,612 (\$1,769,052 in 2012) 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 all 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). 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Measurement of financial instruments

La Fondation MUSICTION 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 MUSICTION 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 MUSICTION'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.

Cash and cash equivalents

For cash flow purposes, La Fondation MUSICTION chooses to present cash and redeemable demand deposit for which the maturity date does not exceed three months from the date of acquisition and which are recognized at fair value.

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 new projects submitted.

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

5. INTERNALLY RESTRICTED NET ASSETS

The Board of Directors allocated net assets in the amount of \$4,323,582 (\$3,863,628 in 2012) in order to cover the payment of commitments related to financial contributions for which La Fondation MUSICACTION was committed as at March 31, 2013, and to provide for administrative expenses related to monitoring and settling these commitments estimated at a maximum of 13.5%

6. ACCOUNTS RECEIVABLE

	<u>2013</u>	<u>2012</u>
Contributions – Department of Canadian Heritage	\$ 501,874	\$ 1,084,166
Accrued interest	65,202	63,147
Sales taxes	<u>5,090</u>	<u>1,036</u>
	<u>\$ 572,166</u>	<u>\$ 1,148,349</u>

7. CAPITAL ASSETS

			<u>2013</u>	<u>2012</u>
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 83,447	\$ -	\$ 83,447	\$ 83,447
Condominium	565,650	153,481	412,169	434,797
Furniture and office equipment	125,016	121,872	3,144	9,405
Computer equipment	75,218	59,499	15,719	15,953
Telephone equipment	<u>18,068</u>	<u>17,693</u>	<u>375</u>	<u>475</u>
	<u>\$ 867,399</u>	<u>\$ 352,545</u>	<u>\$ 514,854</u>	<u>\$ 544,077</u>

8. INTANGIBLE ASSETS

			<u>2013</u>		<u>2012</u>
	Cost	Accumulated amortization	Net book value		Net book value
Online registration system	\$ 109,149	\$ 73,330	\$ 35,819	\$	55,125
Website	<u>21,288</u>	<u>14,634</u>	<u>6,654</u>	\$	<u>11,976</u>
	<u>\$ 130,437</u>	<u>\$ 87,964</u>	<u>\$ 42,473</u>	\$	<u>67,101</u>

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2013</u>	<u>2012</u>
Accrued salaries	\$ 69,978	\$ 71,256
Deductions at source	8,362	8,390
Accrued liabilities	800	1,430
Deferred revenue	<u>14,583</u>	<u>14,583</u>
	<u>\$ 93,723</u>	<u>\$ 95,659</u>

10. CASH AND CASH EQUIVALENTS, END OF YEAR

Cash and cash equivalents include the following:

	<u>2013</u>	<u>2012</u>
Cash	\$ 119,600	\$ 64,272
Redeemable demand deposit	<u>-</u>	<u>950,000</u>
	<u>\$ 119,600</u>	<u>\$ 1,014,272</u>

11. RELATED PARTY TRANSACTIONS

During 2013, La Fondation MUSICACTION paid financial contributions to related enterprises totalling \$556,122 (\$353,736 in 2012). The parties are related owing to the fact that their representatives are directors of the organization. These related enterprises satisfy all of 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.

11. RELATED PARTY TRANSACTIONS (CONTINUED)

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, 2013, La Fondation MUSICTION is contractually committed to advance funds totalling \$3,739,898 (\$3,342,038 in 2012). Of this amount, a portion of \$285,893 (\$218,664 in 2012) represents commitments to related enterprises. In order to realize its commitments, La Fondation MUSICTION will incur administrative expenses of a maximum of 13.5%.

13. FINANCIAL INSTRUMENTS

Liquidity risk

La Fondation MUSICTION has accounted for contributions receivable from Patrimoine Canada as at March 31, 2013. 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, the continuance of the actual budget and the budget estimates for the programs.

Thus, the federal government can, at its discretion, decrease the financing and cancel those agreements by giving a written notice of 90 days to La Fondation MUSICTION. In the case that the financing is terminated, La Fondation MUSICTION would be reimbursed for all the costs engaged up to the date the notice comes into effect, subject to the conditions of the agreements.

If this event happened, La Fondation MUSICTION could be exposed to the mentioned risks.

Interest rate risk

La Fondation MUSICTION is exposed to interest rate risk regarding its financial instruments with fixed interest rates. Financial instruments with fixed interest rates expose La Fondation MUSICTION to a fair value risk. As at March 31, 2013, La Fondation MUSICTION 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 \$44,525 (\$41,730 in 2012) 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.

16. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING

These financial statements are the first financial statements prepared using Canadian Accounting Standards for Not-For-Profit Organizations (ASNFPPO).

The financial statements for the year ended March 31, 2013 were prepared in accordance with the accounting principles and provisions set out in Section 1501, FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS, of the Part III of the CICA Handbook. La Fondation MUSICACTION did not elect any of the exemptions allowed by this Section.

First-time adoption of the ASNFPPO did not have any impact on La Fondation MUSICACTION excess of revenues over expenses for the year ended March 31, 2012 or on its net assets at the date of the transition, i.e. April 1st, 2011.

LA FONDACTION MUSICACTION
 COMPLEMENTARY FINANCIAL INFORMATION
 FOR THE YEARS ENDED MARCH 31, 2013

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	<u>2013</u>	<u>2012</u>
SCHEDULE 1 – FINANCIAL CONTRIBUTIONS		
New Musical Works	\$ 6,194,882	\$ 5,793,912
Collective Initiatives	777,250	626,250
Collective Initiatives – Music Showcase	520,024	709,770
International market development	173,216	219,370
Digital market development	<u>313,650</u>	<u>313,630</u>
	<u>\$ 7,979,022</u>	<u>\$ 7,662,932</u>

SCHEDULE 2 – ADMINISTRATIVE AND FINANCING EXPENSES

Salaries and fringe benefits	\$ 793,129	\$ 764,858
Fees – administrative support	22,366	19,785
Consulting fees	5,336	(20,780)
Audit fees	17,735	26,650
Communications	35,922	28,390
Committees and tours	33,522	41,403
Insurance	8,251	9,348
Maintenance and repairs	6,692	9,963
Electricity	4,452	4,691
Condominium fees	5,063	4,500
Supplies and office expenses	16,823	16,525
Property taxes	4,212	3,724
Courier and postage	2,718	2,989
Telecommunications	<u>6,083</u>	<u>6,176</u>
	962,304	918,222
Management fees – FONDS RADIOSTAR	<u>(35,000)</u>	<u>(35,000)</u>
	<u>\$ 927,304</u>	<u>\$ 883,222</u>