

# URBAN ACADEMY SOCIETY

Financial Statements

June 30, 2017

INDEPENDENT AUDITORS' REPORT	
STATEMENT OF OPERATIONS	STATEMENT 1
STATEMENT OF CHANGES IN NET ASSETS (DEFICIENCY)	STATEMENT 2
STATEMENT OF CASH FLOWS	STATEMENT 3
STATEMENT OF FINANCIAL POSITION	STATEMENT 4
NOTES TO THE FINANCIAL STATEMENTS	

## INDEPENDENT AUDITORS' REPORT

To The Members of Urban Academy Society

We have audited the accompanying financial statements of Urban Academy Society, which comprise the statement of financial position as at June 30, 2017, and the statements of operations, 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.

### Auditors' 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, these financial statements present fairly, in all material respects, the financial position of Urban Academy Society as at June 30, 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.

### Report on Other Legal and Regulatory Requirements

As required by the Society Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of a preceding year.



Coquitlam, B.C.

**CHARTERED PROFESSIONAL ACCOUNTANTS**

**September 21, 2017**

**URBAN ACADEMY SOCIETY**

STATEMENT 1

**STATEMENT OF OPERATIONS**

Year Ended June 30, 2017

	2017	2016
<b>Revenue</b>		
Tuition, consolidated fees and registration	\$ 1,739,679	\$ 1,602,919
Government grant	649,196	615,157
Fundraising	318,524	91,271
Out of school care	181,216	148,397
Parent auxiliary	88,303	134,991
Special education	35,331	19,613
Interest income	21,068	24,701
	<b>3,033,317</b>	<b>2,637,049</b>
<b>Expenditures</b>		
Administration salaries and expenses	433,421	400,636
Advertising and promotion	48,151	46,917
Amortization	118,886	100,553
Bank charges and interest	3,346	2,911
Fundraising	106,943	23,394
Insurance	17,468	16,975
Interest on long term debt	149,555	144,835
Interest on short-term	8,172	39,300
Out of school care salaries and expenses	160,623	109,610
Parent auxiliary expenses	120,495	166,521
Professional development	7,562	11,041
Professional fees	101,399	83,312
Rent	105,590	107,383
Repairs and maintenance	10,359	11,250
Subcontracts	78,655	106,984
Supplies	38,278	31,138
Utilities	14,968	14,308
Wages and benefits	1,124,031	1,007,812
	<b>2,647,902</b>	<b>2,424,880</b>
<b>Excess of revenue over expenditures for the year from operations</b>	<b>385,415</b>	<b>212,169</b>
<b>Gain on disposal of property - note 4</b>	<b>68,205</b>	<b>-</b>
<b>Expenditures related to asset held for sale</b>	<b>-</b>	<b>(26,423)</b>
<b>Excess of revenue over expenditures for the year</b>	<b>\$ 453,620</b>	<b>\$ 185,746</b>

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



**URBAN ACADEMY SOCIETY**  
**STATEMENT OF CHANGES IN NET ASSETS (DEFICIENCY)**  
Year Ended June 30, 2017

STATEMENT 2

	Invested in capital assets	Specified donations (note 11)	Unrestricted	2017	2016
<b>Net assets (deficiency), beginning of year</b>	\$ (111,073)	\$ 47,911	\$ (169,300)	\$ (232,462)	\$ (418,208)
Excess (deficiency) of revenue over expenditures for the year	(118,886)	99,194	473,312	453,620	185,746
Purchase of capital assets and assets held for sale	55,944	-	(55,944)	-	-
Disposal of assets held for sale	(1,418,505)	-	1,418,505	-	-
Payment for property under development	801,967	-	(801,967)	-	-
Repayment of mortgage principal	58,358	-	(58,358)	-	-
Repayment of bank demand loan	1,050,000	-	(1,050,000)	-	-
Parent equity fund used for property related payments	(58,358)	-	58,358	-	-
<b>Net assets (deficiency), end of year</b>	<b>\$ 259,447</b>	<b>\$ 147,105</b>	<b>\$ (185,394)</b>	<b>\$ 221,158</b>	<b>\$ (232,462)</b>

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



**URBAN ACADEMY SOCIETY**
**STATEMENT 3**
**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2017

	2017	2016
<b>Cash flows from (for) operating activities:</b>		
Excess of revenue over expenditures for the year	\$ 453,620	\$ 185,746
Items not requiring an outlay of cash		
Amortization	118,886	100,553
Amortization of financing fee	13,681	-
Gain on disposal of property	(68,205)	-
	517,982	286,299
Changes in non-cash working capital		
Decrease (increase) in accounts receivable	5,866	(2,462)
Decrease (increase) in government agencies recoverable	5,852	(11,729)
Increase in prepaid expenses	(5,804)	(4,926)
Increase in accounts payable and accrued liabilities	1,332	131,856
Increase (decrease) in deferred revenue	142,772	(32,142)
	668,000	366,896
<b>Cash flows from (for) financing activities:</b>		
Repayment of bank demand loan	(1,050,000)	-
Proceeds from long-term debt	600,000	-
Repayment of long-term debt	(58,358)	(445,713)
Proceed from issuance of parent equity units	965,000	620,000
Redemption of parent equity units	(665,000)	(519,985)
	(208,358)	(345,698)
<b>Cash flows from (for) investing activities:</b>		
Deposit received from sale of property	310,000	50,000
Proceeds from disposal of assets held for sale	1,436,710	-
Purchase of capital assets and assets held for sale	(55,944)	(99,370)
Property under development	(801,967)	(553,231)
	888,799	(602,601)
<b>Increase (decrease) in cash</b>	<b>1,348,441</b>	<b>(581,403)</b>
<b>Cash, beginning of year</b>	<b>3,070,673</b>	<b>3,652,076</b>
<b>Cash, end of year</b>	<b>\$ 4,419,114</b>	<b>\$ 3,070,673</b>
<b>Cash consist of</b>		
Cash	\$ 1,911,973	\$ 1,164,369
Restricted cash	2,197,141	1,856,304
Funds held in trust	310,000	50,000
	<b>\$ 4,419,114</b>	<b>\$ 3,070,673</b>

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

**URBAN ACADEMY SOCIETY**

STATEMENT 4

STATEMENT OF FINANCIAL POSITION

June 30, 2017

	2017	2016
<b>ASSETS</b>		
Current:		
Cash	\$ 1,911,973	\$ 1,164,369
Restricted cash - note 3	2,197,141	1,856,304
Funds held in trust - note 4	310,000	50,000
Accounts receivable	15,101	20,967
Government agencies recoverable	17,745	23,598
Prepaid expenses	68,488	62,684
Assets held for sale - note 4	2,710,344	1,412,178
	<u>7,230,792</u>	<u>4,590,100</u>
Capital assets - note 5	128,165	2,907,778
Property under development - note 6	1,355,199	553,231
	<u>\$ 8,714,156</u>	<u>\$ 8,051,109</u>

**LIABILITIES AND NET ASSETS (DEFICIENCY)**

Current:		
Accounts payable and accrued liabilities	\$ 251,772	\$ 250,440
Deferred revenue - note 7	1,212,298	1,069,526
Deposit from sale of property - note 4	310,000	50,000
Liabilities associated with assets held for sale - note 8	1,230,448	1,050,000
Parent equity units due within one year - note 9	375,000	500,000
Current portion of long term debt - note 10	-	56,224
	<u>3,379,518</u>	<u>2,976,190</u>
Parent equity units - note 9	3,025,000	2,600,000
Long term debt - note 10	2,088,480	2,707,381
	<u>8,492,998</u>	<u>8,283,571</u>
Net assets (deficiency)		
Invested in capital assets	259,447	(111,073)
Specified donation	147,105	47,911
Unrestricted deficiency	(185,394)	(169,300)
	<u>221,158</u>	<u>(232,462)</u>
	<u>\$ 8,714,156</u>	<u>\$ 8,051,109</u>

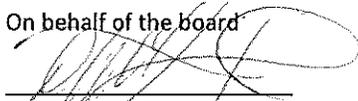
Lease Commitments - note 12

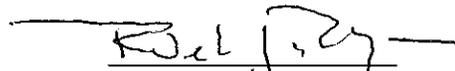
Commitments and Contingent Liabilities - note 13

Employee Remuneration - note 14

Comparative Figures - note 15

On behalf of the board

  
21 Sept 2017 Date

  
21 Sept 2017 Date

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

## **NATURE OF ORGANIZATION**

The Urban Academy Society (the "Society") was incorporated under the Society Act of British Columbia on August 10, 2001 as a not-for-profit organization. The Society is a registered charity under the Income Tax Act and is exempt from income taxes under sections 149(1)(f) of the Act.

The Society was established to operate a non-denominational, co-educational school that is available to all members of the community.

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Society are in accordance with Canadian accounting standards for not-for-profit organizations applied on a basis consistent with that of the preceding year. Outlined below are those policies considered particularly significant.

#### **Revenue Recognition**

The Society recognizes revenue from tuition, consolidated fees, out of school care and special education as earned over the school year. Tuition received in advance of the school year is recorded as deferred revenue and will be recognized as revenue in the period to which it relates. Registration and application fees and parent auxiliary revenue are recognized as revenue as received.

Government grants are for the operating expenses of the school and are subject to limitations based on a per-student operating cost formula. Government grants are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Fundraising revenue is recognized as revenue when received and as the related event occurs. The fair value of in-kind donations is estimated by management.

Volunteers contribute significant hours to assist the Society in carrying out its service delivery activities. Because of the difficulty of determining the fair value, volunteer services are not recognized as revenue in the financial statements.

#### **Specified Donations**

Specified donations received by the society are used for specific purposes. The programs to which specified donations can be made include Wish List, Academics, Technology, Library, Art, Music, Drama, Athletics, Learning Assistance, Bursaries and Tuition Assistance, After School Programs, Board Development, and Facilities. Donors designate the program that they want to contribute to when they make the donation. These donations are recorded and restricted to the specific donation funds.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D**

**Capital Assets and Amortization**

Donated capital assets are recorded at their estimated fair value at the date of donation. Purchased capital assets are recorded at cost. Amortization is provided annually at rates calculated over their estimated useful lives as follows except in the year of acquisition when one half of the rate is used:

Buildings	4%	Declining balance
Computer equipment	55%	Declining balance
Computer software	100%	Straight-line
Furniture and equipment	20%	Declining balance
Textbooks	5 Years	Straight-line

Leasehold improvements are being amortized on a straight-line basis over 3 years.

**Property Under Development**

Property under development is recorded at cost and is not depreciated until construction is complete and the assets are ready for their intended use. Capitalized costs include development costs, net revenue or expense derived from incidental operations and other direct costs incurred in connection with the acquisition, development and construction of the property.

**Impairment of Long-lived Assets**

Long-lived assets are reviewed for impairment when events and circumstances indicate that cost may not be recoverable. Impairment exists when the carrying value of an asset is greater than the undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, is the excess of the carrying value over its fair value.

**Financial Instruments**

Measurement of financial instruments

The Society initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions.

The Society subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in excess of revenue over expenditures.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D**

Financial assets measured at amortized cost include cash, restricted cash, funds held in trust and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, deposit from sale of property, loans payable, parent equity units and long term debt.

**Impairment**

Financial assets measured at cost will be tested for impairment when there are indicators of impairment. The amount of any identified impairment will be written down and recognized in excess of revenue over expenditure. Any previously recognized impairment loss may be reversed to the extent of the improvement, either directly to this asset or by adjusting an allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of a reversal is recognized in excess of revenue over expenditure.

**Transaction costs**

The Society recognizes its transaction costs in excess of revenue over expenditure in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

**Use of Estimates**

The preparation of financial statements in accordance with Canadian accounting standards for non-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Estimates are used for, but are not limited to, the accounting for doubtful accounts, useful lives of capital assets, impairments and contingencies. Actual results may differ from those estimates.

**URBAN ACADEMY SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

---

**2. CREDIT FACILITIES**

The Society has a credit facility available with HSBC to a limit of \$100,000, repayable on demand, bearing interest at the HSBC's prime rate plus 1.00%. The credit facility is secured by a \$100,000 term deposit. As at June 30, 2017, the Society has no funds drawn on its operating line of credit.

The Society has a construction loan credit facility with First West Credit Union ("FWCU"), which is authorized to a limit of \$12,525,000, and bears interest at FWCU's prime plus 1% per annum. The financing is intended for the construction of a new school located at 466 Rousseau Street, New Westminster, BC (the "Rousseau Street Property"). Interest only payments will be required during construction. The Society is required to pay out the loan in full or convert the loan to a principal reducing loan upon occupancy of the new building but no later than June 30, 2019. The Society will be required to pay the greater of \$200,000 or 35% of the Society's annual free cash flow as an additional lump sum annual principal repayment starting with the 2022 academic year.

The FWCU construction loan credit facility will be secured by a commercial promissory note for \$12,525,000, a first mortgage security over the Rousseau Street Property, an assignment of rent and insurance, a general security agreement over all present and after acquired personal property of the Society, a first assignment of FWCU shares and deposits for a minimum of \$615,000 and an environment indemnity agreement.

At year-end, the Society has no funds drawn against its construction loan credit facility.

**3. RESTRICTED CASH**

The Society has designated the following amounts as restricted cash:

	2017	2016
Cash raised from the issuance of parent equity units is restricted for the purpose of making property related payments and redeeming units in accordance with the parent equity unit offering memorandum.	\$ 526,036	\$ 284,393
Cash raised from the issuance of a community bond is restricted for the construction of the new school facility and the renovation of the existing school facility (note 10).	1,524,000	1,524,000
Restricted donations are to be used for purposes that were specified by the donors.	147,105	47,911
	\$ 2,197,141	\$ 1,856,304

---

**URBAN ACADEMY SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

---

**4. ASSETS HELD FOR SALE**

During the year, the Society sold the property located on 228 Manitoba Street, New Westminister, BC.

In a separate transaction, the Society entered into an agreement on March 18, 2017 to sell the property located at 101 3rd Avenue, New Westminister, BC (the "Robson Property") for \$3,100,000. It has received a \$310,000 deposit that is being held in trust. The sale has not completed as of the report date.

The Robson Property has been pledged as security on debt as described in notes 8 and 10.

**5. CAPITAL ASSETS**

			<b>2017</b>	<b>2016</b>
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings	\$ -	\$ -	\$ -	\$ 1,515,077
Computer equipment	145,827	108,815	37,012	41,175
Computer software	4,623	4,623	-	1,038
Furniture and equipment	156,674	90,995	65,679	63,453
Land	-	-	-	1,255,868
Textbooks	63,033	44,423	18,610	17,438
Leasehold improvements	78,322	71,458	6,864	13,729
	<b>\$ 448,479</b>	<b>\$ 320,314</b>	<b>\$ 128,165</b>	<b>\$ 2,907,778</b>

The land and building of the Robson Property has been reclassified to assets held for sale (note 4).

**6. PROPERTY UNDER DEVELOPMENT**

Property under development represents costs incurred in connection with the acquisition and development of the Rousseau Street Property.

The Rousseau Street Property has been pledged as security as described in notes 2 and 10.

**7. DEFERRED REVENUE**

Deferred revenue represents tuition fees and other fees received as at the year end but relate to the subsequent school year.

**URBAN ACADEMY SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**8. LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE**

	2017	2016
Bank demand loan payable to FWCU. The loan is associated with 228 Manitoba Street property.	\$ -	\$ 1,050,000
FWCU term loan payable in monthly installments of \$8,798 including interest at a fixed rate of 3.77% per annum. The balance is due on October 31, 2017. The loan is associated with Robson Property.	1,230,448	-
	<b>\$ 1,230,448</b>	<b>\$ 1,050,000</b>

The FWCU term loan is secured by a commercial promissory note for \$1,485,000, a commercial security agreement, an assignment of credit union shares/deposits, a mortgage for \$2,750,000, an assignment of rents and an environmental indemnity agreement.

**9. PARENT EQUITY UNITS**

	2017	2016
Non-interest bearing parent equity units are repayable 120 days after receipt of written notice of a student's withdrawal from the school. As of June 30, 2017, a total of 183 (2016 - 170) units are outstanding. The per unit amount is \$5,000 for Junior Kindergarten students and \$20,000 for all other students.	\$ 3,400,000	\$ 3,100,000
Less: current portion	375,000	500,000
	<b>\$ 3,025,000</b>	<b>\$ 2,600,000</b>

The current portion of parent equity units represents the amounts expected to be repaid in respect of students who have provided written notice of their withdrawal from the school.

The Society has determined that, other than the current portion of parent equity units identified for repayment, it is unlikely that the remaining parent equity units will be repaid within the next fiscal year, consequently, they have been classified as a non-current liability in the financial statements.

**URBAN ACADEMY SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

---

**10. LONG-TERM DEBT**

	2017	2016
FWCU term loan.	\$ -	\$ 1,288,806
Term loan bearing interest at 9% per annum. This loan is due December 1, 2018.	600,000	-
Series A, 4% secured community mortgage bonds issued on February 16, 2015 and due February 16, 2022. \$149,291 deferred interest is included in accounts payable and accrued liabilities.	1,524,000	1,524,000
	2,124,000	2,812,806
Less: current portion	-	(56,224)
Less: mortgage fees paid	(35,520)	(49,201)
	\$ 2,088,480	\$ 2,707,381

The term loan is secured by the Robson and Rousseau Street Properties in a subordinate position to FWCU.

The community mortgage bonds are secured by the Robson and Rousseau Street Properties in a subordinate position to FWCU and the term loan.

The aggregate amount of principal payments required in each of the next five years on the above indebtedness is as follows:

2019	\$ 600,000
2020	-
2021	-
2022	1,524,000

**11. SPECIFIED DONATIONS**

During the year, the Society received \$101,650 (2016 - \$5,480) of donations that have been designated to the specified donations fund. The expenses related to these specified donations totaled \$2,456 (2016 - \$7,069).

**12. LEASE COMMITMENTS**

The Society has extended its lease agreement for a school facility to December 2018 with an option to extend it to June 30, 2019. The lease incurs annual base rent of \$79,000 plus operating costs estimated at \$16,000 annually.

The Society has negotiated a leaseback agreement with the buyer of the Robson Property for a lease period up to January 31, 2019. The basic rent is \$13,000 per month up to August 31, 2018 and \$14,000 per month after.

**13. COMMITMENTS AND CONTINGENT LIABILITIES**

On June 3, 2016, the Society entered into an agreement to purchase the land of the Rousseau Street Property for \$1,500,000 plus a purchase price adjustment yet to be determined. As of the report date this purchase has not completed.

On April 18, 2017, the Society entered into a contract for the construction of new school located on the Rousseau Street Property with a total price of \$13,380,720 including value added taxes. The construction has not started as of the report date.

**14. EMPLOYEE REMUNERATION**

During the year, there was one employee who received remuneration over \$75,000. The total amount paid to this person was \$144,600 (2016 -\$142,000).

**15. COMPARATIVE FIGURES**

Certain balances of the preceding period have been reclassified to conform with the current year's financial statement presentation.