

URBAN ACADEMY SOCIETY

Financial Statements

June 30, 2018

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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, 2018, 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, 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.

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.

Comparative Information

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which indicates that the comparative information presented as at and for the year ended June 30, 2017 has been restated.

As part of our audit of the financial statements as at and for the year ended June 30, 2018, we audited the restatement described in note 2 to the financial statements that was applied to restate the comparative information as at and for the year ended June 30, 2017. In our opinion, the restatement is appropriate and has been properly applied.



Coquitlam, B.C.

CHARTERED PROFESSIONAL ACCOUNTANTS

October 3, 2018

URBAN ACADEMY SOCIETY

STATEMENT 1

STATEMENT OF OPERATIONS

Year Ended June 30, 2018

	2018	2017
		(restated) (Note 2)
Revenue		
Tuition, consolidated fees and registration	\$ 1,777,822	\$ 1,739,679
Government grant	795,342	649,196
Fundraising	182,926	219,148
Out of school care	195,449	181,216
Parent auxiliary	89,900	88,303
Special education	16,197	35,331
Interest income	19,079	21,068
	3,076,715	2,933,941
Expenditures		
Administration salaries and expenses	505,088	433,421
Advertising and promotion	43,361	48,151
Amortization	59,034	118,886
Bank charges and interest	4,301	3,345
Fundraising	110,256	106,943
Insurance	14,686	17,468
Interest on long term debt	141,738	149,555
Interest on short-term	-	8,172
Out of school care salaries and expenses	158,385	160,623
Parent auxiliary expenses	105,822	120,495
Professional development	8,361	7,563
Professional fees	114,945	101,399
Rent	232,332	105,590
Repairs and maintenance	7,119	10,359
Subcontracts	112,550	78,655
Supplies	31,400	38,278
Utilities	14,647	14,968
Wages and benefits	1,247,654	1,124,031
	2,911,679	2,647,902
Excess of revenue over expenditures for the year from operations	165,036	286,039
Gain on sale of property - note 4	190,362	68,205
Excess of revenue over expenditures for the year	\$ 355,398	\$ 354,244

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, 2018

STATEMENT 2

	Invested in capital assets	Unrestricted	2018	2017 (restated) (Note 2)
Net assets (deficiency), beginning of year	\$ 359,447	\$ (274,375)	\$ 85,072	\$ (269,172)
Excess (deficiency) of revenue over expenditures for the year	(59,034)	414,432	355,398	354,244
Purchase of capital assets	92,396	(92,396)	-	-
Disposal of assets held for sale	(2,790,000)	2,790,000	-	-
Repayment of mortgage principal	1,430,448	(1,430,448)	-	-
Payment for property under development	8,573,053	(8,573,053)	-	-
Financing for property under development	(5,113,692)	5,113,692	-	-
Parent equity fund used for property related payments	(398,483)	398,483	-	-
Property under development costs in accounts payable	(1,545,775)	1,545,775	-	-
Interfund transfer	(259,447)	259,447	-	-
Net assets, end of year	\$ 288,913	\$ 151,557	\$ 440,470	\$ 85,072

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



URBAN ACADEMY SOCIETY

STATEMENT 3

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

	2018	2017 (restated) (Note 2)
Cash flows from (for) operating activities:		
Excess of revenue over expenditures for the year	\$ 355,398	\$ 354,244
Items not requiring an outlay of cash		
Amortization	59,034	118,886
Amortization of financing fee	6,363	13,681
Gain on disposal of property	(190,362)	(68,205)
	230,433	418,606
Changes in non-cash working capital		
Decrease (increase) in accounts receivable	(280)	5,866
Decrease (increase) in government agencies recoverable	(148,785)	5,852
Decrease (increase) in prepaid expenses	5,430	(5,804)
Increase in accounts payable and accrued liabilities	1,423,587	1,332
Increase in deferred contributions	10,265	(624)
Increase in deferred revenue	633,866	142,771
	2,154,516	567,999
Cash flows from (for) financing activities:		
Proceeds from credit facility	3,589,692	-
Repayment of bank demand loan	-	(1,050,000)
Proceeds from long-term debt	-	600,000
Repayment of long-term debt	(200,000)	(58,358)
Repayment of liabilities associated with assets held for sale	(1,230,448)	-
Increase in deferred capital contributions	-	100,000
Proceed from issuance of parent equity units	1,372,000	965,000
Redemption of parent equity units	(420,000)	(665,000)
	3,111,244	(108,358)
Cash flows from (for) investing activities:		
Deposit received from sale of property	-	310,000
Proceeds from disposal of assets held for sale	2,790,000	1,436,710
Purchase of capital assets and assets held for sale	(92,396)	(55,944)
Property under development	(8,573,053)	(801,967)
	(5,875,449)	888,799
Increase (decrease) in cash	(609,689)	1,348,440
Cash, beginning of year	4,419,114	3,070,674
Cash, end of year	\$ 3,809,425	\$ 4,419,114
Cash consist of		
Cash	\$ 2,669,241	\$ 1,922,991
Restricted cash	1,140,184	2,186,123
Funds held in trust	-	310,000
	\$ 3,809,425	\$ 4,419,114

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

URBAN ACADEMY SOCIETY
STATEMENT OF FINANCIAL POSITION
June 30, 2018

STATEMENT 4

	2018	2017 (restated) (Note 2)
ASSETS		
Current:		
Cash	\$ 2,669,241	\$ 1,922,991
Restricted cash - note 3	1,140,184	2,186,123
Funds held in trust	-	310,000
Accounts receivable	15,381	15,101
Government agencies recoverable	166,530	17,745
Prepaid expenses	63,058	68,488
Assets held for sale	-	2,710,344
	4,054,394	7,230,792
Capital assets - note 4	161,527	128,165
Property under development - note 5	9,928,252	1,355,199
	\$ 14,144,173	\$ 8,714,156
LIABILITIES AND NET ASSETS (DEFICIENCY)		
Current:		
Deferred gain on sale - note 4	\$ 199,294	\$ -
Credit facility - note 6	3,472,282	-
Accounts payable and accrued liabilities	1,675,358	251,772
Deferred revenue - note 7	1,846,164	1,212,298
Deposit from sale of property	-	310,000
Liabilities associated with assets held for sale - note 8	-	1,230,448
Parent equity units due within one year - note 8	445,000	375,000
Current portion of long term debt - note 10	400,000	-
	8,038,098	3,379,518
Parent equity units - note 9	3,907,000	3,025,000
Long term debt - note 10	1,612,253	2,088,480
Deferred contributions - note 11	46,352	36,086
Deferred capital contributions - note 12	100,000	100,000
	13,703,703	8,629,084
Net assets (deficiency)		
Invested in capital assets	288,913	359,447
Unrestricted assets (deficiency)	151,557	(274,375)
	440,470	85,072
	\$ 14,144,173	\$ 8,714,156

Lease Commitments - note 13
Commitments and Contingent Liabilities - note 14
Employee Remuneration - note 15

On behalf of the board

Date

Date

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



URBAN ACADEMY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2018

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 financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations on a basis consistent with that of the prior year, and include the following accounting policies:

Revenue Recognition

The Society follows the deferral method of accounting for contributions.

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.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a basis and rate corresponding with the amortization expense for the related capital assets.

Contributed services

A number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

Cash and Cash Equivalents

The policy of the Society is to disclose bank balances and temporary investments with a maturity of three months or less from the date of acquisition under cash and cash equivalents.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Capital Assets and Amortization

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. When a capital asset no longer contributes to the Society's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized using the following rates and methods:

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 the term of the lease.

Property Under Development

Property under development are the costs incurred for building the new campus building. Depreciation of the new building will not begin until construction is complete and the property is ready for its intended use. Capitalized costs for the building 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

Financial instruments are recorded at fair value on initial recognition.

The Society subsequently measures all its financial assets and financial liabilities at amortized cost. 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, credit facility, 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.

2. PRIOR PERIOD ADJUSTMENT

As at June 30, 2017 the Society's deferred contributions was understated by \$36,086, deferred capital contributions was understated by \$100,000 and net assets was overstated by \$136,086. Accordingly, the 2017 comparative figures have been adjusted to reflect a deferred contribution balance of \$36,086, deferred capital contribution balance of \$100,000 and a reduction in net assets of \$136,086 as at June 30, 2017.

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

3. RESTRICTED CASH

The Society has designated the following amounts as restricted cash:

	2018	2017
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.	\$ 804,919	\$ 526,037
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 9).	-	1,524,000
Interest reserve fund with Envision Financial is restricted to pay the interest on the Society's construction loan	188,913	-
Restricted donations are to be used for purposes that were specified by the donors.	146,352	136,086
	\$ 1,140,184	\$ 2,186,123

There is an internal policy approved by the Board of Directors requiring the Society to maintain 10% of outstanding parent equity funds in restricted cash. The Society was in compliance of this policy as at June 30, 2018.

4. CAPITAL ASSETS

	2018		2017	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 186,254	\$ 140,289	\$ 45,965	\$ 37,012
Computer software	4,623	4,623	-	-
Furniture and equipment	176,894	106,153	70,741	65,679
Textbooks	94,782	53,394	41,388	18,610
Leasehold improvements	78,322	74,890	3,432	6,864
	\$ 540,875	\$ 379,349	\$ 161,526	\$ 128,165

On October 6, 2017, the Society sold the Robson property for \$3,100,000 and leased it back as an operating lease. As a result of the leaseback, profit arising on the sale was deferred and amortized in proportion to the rental payments over the lease term. As such a gain of \$190,362 has been recognized in the current year and \$199,294 has been deferred to the next fiscal year.

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

5. 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 6 and 10.

6. CREDIT FACILITY

The Society has a construction loan credit facility with First West Credit Union ("FWCU"), which is authorized to a limit of \$12,925,000 (2017 - \$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 \$12,925,000 (2017 - \$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 \$3,472,282 (2017 - \$nil) drawn against its construction loan credit facility.

7. DEFERRED REVENUE

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

8. LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE

	2018	2017
FWCU term loan payable, which was repaid during the year from the proceeds received on the sale of the Robson Manor Property.	\$ -	\$ 1,230,448

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

9. PARENT EQUITY UNITS

	2018	2017
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, 2018, a total of 243 (2017 - 183) units are outstanding. The per unit amount is \$5,000 for Junior Kindergarten students and \$20,000 for all other students.	\$ 4,352,000	\$ 3,400,000
Less: current portion	445,000	445,000
	\$ 3,907,000	\$ 2,955,000

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.

10. LONG-TERM DEBT

	2018	2017
Term loan bearing interest at 9% per annum. The loan was fully repaid on September 30, 2018.	\$ 400,000	\$ 600,000
Series A, 4% secured community mortgage bonds issued on February 16, 2015 and full principal payment of \$1,641,411 due February 16, 2022. \$149,291 deferred interest is included in accounts payable and accrued liabilities.	1,641,411	1,524,000
	2,041,411	2,124,000
Less: current portion	(400,000)	-
Less: mortgage fees paid	(29,158)	(35,520)
	\$ 1,612,253	\$ 2,088,480

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

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

10. LONG-TERM DEBT - CONT'D

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

2019	\$ 400,000
2020	-
2021	-
2022	1,641,411

11. DEFERRED CONTRIBUTIONS

Deferred contributions represent donations received by the Society that have been externally restricted to various program expenses. The programs to which these restricted donations have been 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.

During the year the Society received \$22,050 (2016 - \$1,650) of donations that have been restricted. The expenses related to these restricted donations totaled \$11,785 (2016 - \$2,274).

12. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of donations received to use towards the construction and furnishing of the property under development. The amortization of deferred capital contributions will be recorded as revenue in the statement of operations once the asset has been made available for use.

13. LEASE COMMITMENTS

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

The Society entered into a leaseback agreement with the buyer of the Robson Property for a lease period starting October 6, 2017 up to February 28, 2019. The basic rent is \$13,000 per month up to August 31, 2018 and \$14,000 per month up to February 2019.

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

14. COMMITMENTS AND CONTINGENT LIABILITIES

On April 18, 2017, the Society entered into a contract for the construction of new school located on the Rousseau Street Property with an estimated total price of \$13,801,513 (2017 - \$13,380,720) including value added taxes. As of June 30, 2018, the remaining balance is \$7,675,141 (2017 - \$13,380,720).

On June 27, 2018, the Board of Directors approved completion of the 3rd and 4th floors of the new school and committed to the planning, permitting and design of the 5th floor. As a result, the Society entered into a contract for the design work of the 3rd, 4th and 5th floors of the new school for \$242,000.

15. EMPLOYEE REMUNERATION

During the year, there was one employee who received remuneration over \$75,000. The total amount paid to this person was \$160,800 (2017 -\$144,600).

16. COMPARATIVE FIGURES

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