

National Music Centre

Non-consolidated financial statements
December 31, 2021

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Independent auditor's report

To the Directors of **National Music Centre**

Opinion

We have audited the non-consolidated financial statements of **National Music Centre** [the "Organization"], which comprise the non-consolidated statement of financial position as at December 31, 2021, and the non-consolidated statements of changes in net assets, operations and cash flows for the year then ended, and notes to the non-consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects the financial position of the Organization as at December 31, 2021 and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the non-consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the non-consolidated financial statements

Management is responsible for the preparation and fair presentation of the non-consolidated 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 non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's responsibilities for the audit of the non-consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these non-consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Calgary, Canada
[REDACTED]

[REDACTED]
Chartered Professional Accountants

[REDACTED]

National Music Centre

Non-Consolidated Statement of Financial Position As at December 31

ASSETS	2021	2020
Current		
Cash (notes 2 and 20)	\$ 1,042,462	\$ 1,370,993
Investments (notes 3 and 14)	13,674,167	11,768,298
Accounts and other receivables (note 21)	608,583	350,219
Inventory	40,037	36,893
Prepaid expenses	333,278	272,119
Current portion of lease receivable (note 4)	27,428	25,643
Due from related parties (note 16)	349,871	544,150
	16,075,827	14,368,315
Lease Receivable (note 4)	174,483	201,801
Capital Assets and Collection (notes 5 and 13)	166,876,564	173,171,628
Assets Under Capital Lease (note 6)	87,582	227,753
	\$ 183,214,456	\$ 187,969,497
 LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	\$ 695,564	\$ 774,603
Due to related parties (notes 12 and 16)	350,766	440,171
Deferred capital contributions (notes 7 and 16)	91,922	91,922
Deferred contributions (note 9)	1,539,205	1,768,376
Current portion of long term debt (note 12)	-	41,998,497
Current portion of obligation under capital lease (note 11)	80,848	169,839
	2,758,305	45,243,408
Obligation Under Capital Lease (note 11)	6,738	87,586
Investment in [REDACTED] (note 8)	790,132	790,132
Long Term Debt (note 12)	66,998,497	25,000,000
Unamortized Deferred Capital Asset Contributions (note 10)	95,325,572	98,789,447
	165,879,244	169,910,573
Commitments (note 13)		
Net Assets		
Net investment in capital assets and collection	15,566,077	17,681,278
Endowment (note 14)	566,698	566,698
Unrestricted net assets (deficit)	1,201,837	(189,652)
Share capital (note 15)	600	600
	17,335,212	18,058,924
	\$ 183,214,456	\$ 187,969,497

On behalf of the Board:

[REDACTED]

Director

[REDACTED]

Director

See accompanying notes to the financial statements

National Music Centre

Non-Consolidated Statement of Changes in Net Assets Year Ended December 31

	Net Investment in Capital Assets and Collection	Endowment	Unrestricted Net Assets (deficit)	Share Capital	Total
Balance at December 31, 2019	\$ 20,261,081	\$ 566,698	\$ 339,839	\$ 600	\$ 21,168,218
Excess of revenue over expenses	-	-	(3,137,444)	-	(3,137,444)
Investment in collection	29,275	-	(1,125)	-	28,150
Investment in capital assets	240,184	-	(240,184)	-	-
Amortization, capital assets	(7,290,376)	-	7,290,376	-	-
Amortization, deferred capital contributions	4,441,114	-	(4,441,114)	-	-
Balance at December 31, 2020	17,681,278	566,698	(189,652)	600	18,058,924
Deficiency of revenue over expenses	-	-	(838,212)	-	(838,212)
Investment in collection	123,542	-	(9,042)	-	114,500
Investment in capital assets	531,116	-	(531,116)	-	-
Amortization, capital assets	(6,955,427)	-	6,955,427	-	-
Amortization, deferred capital contributions	4,185,568	-	(4,185,568)	-	-
Balance at December 31, 2021	<u>\$ 15,566,077</u>	<u>\$ 566,698</u>	<u>\$ 1,201,837</u>	<u>\$ 600</u>	<u>\$ 17,335,212</u>

See accompanying notes to the financial statements

National Music Centre

Non-Consolidated Statement of Operations Year ended December 31

	2021	2020
Revenue		
Contributions (notes 9 and 16)	\$ 4,639,045	\$ 5,194,710
Sale of goods and services	540,137	728,224
Government grants (note 21)	2,500,279	1,440,507
Rental income	244,289	191,058
Investment income (notes 3 and 14)	646,217	462,442
Realized gain on disposal of investments	87,450	2,305
Unrealized gain on investments	1,791,265	474,031
	<u>10,448,682</u>	<u>8,493,277</u>
Expenses		
Programs (notes 16 and 17)	1,320,221	1,653,534
Collections (notes 16 and 17)	1,481,349	1,363,547
Visitor services (notes 16 and 17)	1,315,334	1,403,018
Fund development (notes 16, 17 and 18)	1,009,995	978,135
General and administration (notes 16 and 17)	1,345,333	1,091,768
	<u>6,472,232</u>	<u>6,490,002</u>
Excess of Revenues Over Expenses Before the Undernoted Items	<u>3,976,450</u>	<u>2,003,275</u>
Interest expense (note 12)	(2,057,710)	(2,393,163)
Equity loss on investment in █████ (note 8)	-	(80,895)
Gain on disposal of rental property (note 5)	12,907	182,601
Excess (deficiency) of Revenue Over Expenses Before Amortization	<u>1,931,647</u>	<u>(288,182)</u>
Amortization of deferred capital asset contributions (note 10)	4,185,568	4,441,114
Amortization of capital assets	(6,955,427)	(7,290,376)
Deficiency of Revenue Over Expenses	<u>(838,212)</u>	<u>(3,137,444)</u>

See accompanying notes to the financial statements

National Music Centre

Non-Consolidated Statement of Cash Flows Year ended December 31

	2021	2020
Operating Activities		
Deficiency of revenue over expenses	\$ (838,212)	\$ (3,137,444)
Items not affecting cash		
Amortization of capital assets	6,955,427	7,290,376
Gain on disposal of rental property	(12,907)	(182,601)
Equity loss on investment in █████	-	80,895
Realized gain on disposal of investments	(87,450)	(2,305)
Unrealized gain on investments	(1,791,265)	(474,031)
Amortization of deferred capital asset contributions	(4,185,568)	(4,441,114)
Net change in non-cash working capital	(526,502)	(355,323)
Cash used in operating activities	<u>(486,477)</u>	<u>(1,221,547)</u>
Investing Activities		
Proceeds from sale of investments	723,190	5,133,249
Purchase of investments	(749,845)	(15,508,404)
Proceeds on lease receivable	25,533	23,974
Purchase of collection	(9,042)	(1,125)
Purchase of capital assets		
Internally funded	(531,116)	(482,718)
Externally funded	(125,000)	(30,044)
Proceeds on disposal of rental property (note 5)	12,907	182,601
Proceeds on refund of building costs (note 5)	313,716	-
Cash used in investing activities	<u>(339,657)</u>	<u>(10,682,467)</u>
Financing Activities		
Repayment of long term debt (note 12)	-	(1,503)
Repayment of obligation under capital lease (note 11)	(169,840)	(192,763)
Capital contributions (note 7)	667,443	41,067
Proceeds from obligation under capital lease	-	242,534
Restricted cash	-	11,950,173
Cash provided by financing activities	<u>497,603</u>	<u>12,039,508</u>
Net (decrease) increase in Cash	(328,531)	135,494
Cash, beginning of year	<u>1,370,993</u>	<u>1,235,499</u>
Cash, end of year	<u>\$ 1,042,462</u>	<u>\$ 1,370,993</u>

See accompanying notes to the financial statements

National Music Centre

Notes to Non-Consolidated Financial Statements December 31, 2021

1. Nature of the Organization

National Music Centre (the "Organization") was formed pursuant to Part 9 of the *Companies Act (Alberta)*. The Organization was established to foster an interest in music and carrying on activities and programs that encourage and provide opportunities for the public and artists to participate in musical performances, creations, competitions, festivals, workshops and educational experiences. The Organization funds and carries on activities and programs that contribute to the acquisition, preservation, and public display of a unique, interactive collection of musical instruments and related equipment, as well as historical artifacts and memorabilia that chronicle the history and development of music in general and especially in Canada.

The Organization is a registered charity that is designated as a charitable organization under the *Income Tax Act (Canada)* and, as such, is exempt from income taxes.

2. Significant Accounting Policies

Basis of Presentation

The non-consolidated financial statements have been prepared in accordance with Part III of the CPA Canada Handbook – Accounting Standards for Not-for-Profit Organizations ("ASNPO"), which sets out generally accepted accounting principles ("GAAP") for not-for-profit organizations in Canada. These non-consolidated financial statements have been prepared in accordance with GAAP and reflect the following significant accounting policies:

Cash and Restricted Cash

Cash and restricted cash consist of cash on deposit with major financial institutions and short-term investments with a maturity of approximately three months or less from the date of purchase. Cash includes \$433,974 (2020 - nil) that is restricted for the purpose of funding construction costs of Studio Bell or repaying long term debt.

Inventory

Inventory is comprised of merchandise held for resale and is valued at the lower of cost and net realizable value, with cost determined using the first-in, first-out method.

Investment in [REDACTED]

The Organization has a 100% common share investment in [REDACTED] a restaurant and live music venue located in Calgary, Alberta. The Organization uses the equity method to account for [REDACTED] which is a profit-oriented entity. Under the equity method, the investment in [REDACTED] was initially recorded at cost and the carrying value thereafter is adjusted to include the annual net income (loss) of [REDACTED]. The investment in [REDACTED] is recorded as a long-term liability as the Organization is responsible for [REDACTED] obligations, should [REDACTED] be unable to meet them as they come due.

National Music Centre

Notes to Non-Consolidated Financial Statements December 31, 2021

2. Significant Accounting Policies – continued

Investment in NMC Music Foundation (“NMCmf”)

The Organization has a 99% common share investment in NMC Music Foundation, a registered charity located in Calgary, Alberta. The purpose of NMCmf is to promote, conserve and make accessible, for the sole benefit of the public, the educational, cultural, artistic and aesthetic pursuits of Canada’s music, its composers and musicians through the collection, preservation, study, exhibition and interpretation of cultural property and resources concerning the musical heritage of Canada. The Organization chooses to report for this controlled not-for-profit organization by providing the disclosure required per Section 4450.

Capital Assets and Collection

The collection consists of a wide range of historical musical instruments and related equipment, historical artifacts, memorabilia, photos and documents relating to Canadian music. The collection is on display for public viewing and is used for programming and educational purposes. The items in the collection are capitalized at the purchase price or at the appraised value at the time of donation and are not amortized. If sold, items in the collection are removed from the accounts at their carrying value and proceeds from their sale are used to acquire other items to be added to the collection.

Capital assets are initially recorded at cost, except for donated capital assets, which are initially recorded at fair value, and are amortized over their estimated useful lives. Interest and financing costs during construction are capitalized to capital assets as incurred.

When events or changes in circumstances indicate that a capital asset or collection is impaired, the net carrying amount of the capital asset or collection shall be written down to the asset’s fair value or replacement cost. The write-downs of capital assets or collections shall be accounted for as expenses in the non-consolidated statement of operations. A write-down shall not be reversed.

Amortization is recorded on a straight-line basis over the term of the lease for tenant improvements.

Amortization is recorded on a declining balance basis at the annual rates of 4% for the [REDACTED] building, 20% to 30% for music equipment and furniture and fixtures, respectively, and 45% to 55% for computer equipment.

Long Term Debt

Long term debt is initially recorded at fair value and subsequently recorded at amortized cost. Transaction costs are deferred and amortized on a straight-line basis.

National Music Centre

Notes to Non-Consolidated Financial Statements December 31, 2021

2. Significant Accounting Policies – continued

Revenue Recognition

The Organization follows the deferral method of accounting for contributions. Unrestricted contributions are recorded as revenue when they are received or receivable if the amount can be reasonably estimated and collection is reasonably assured. Amounts pledged are recorded as revenue when received. Donations received in kind are recorded at fair market value on the date the donation is made.

Restricted contributions are deferred and recorded as revenue in the year the related expenses are incurred. Restricted contributions received for the purchase of collections or capital assets that will not be amortized are recognized as direct increases to net assets.

Donated capital assets and contributions received towards the acquisition of depreciable capital assets are deferred and amortized to revenue on the same basis as the related depreciable capital assets are amortized. Donated capital assets that are not subject to amortization are recognized as a direct increase to net assets.

Restricted contributions received for endowments are recognized as direct increases to net assets. Endowment investment earnings that are allocated for spending are deferred and recognized as revenue when the conditions of the endowment are met.

Revenue related to the sale of goods and services is recognized when the services have been rendered or the products are delivered, and collection is reasonably assured. Sales include program tickets, venue rentals, repair and rental of musical instruments and the sale of items donated for fund-raising purposes.

Rental revenue is recognized on a straight-line basis over the term of the lease and when collection is reasonably assured. Where the accrued rent revenue differs from the amounts received, the difference is recorded as deferred rent receivable or payable.

The Organization leased kitchen equipment and furniture under a direct financing lease to a related party with shared directors. Financing revenue is recognized using the effective interest rate method at the interest rate implicit in the lease over the term of the lease as payments are received and the receivable balance is reduced. Amounts due within one year are classified as current assets and the remaining balance as long-term assets.

Investment income is recorded on the accrual basis and consists of interest income, dividends (when declared), realized gains and losses on the disposal of marketable securities, and unrealized changes in the fair value of marketable securities. Unrestricted investment income is recognized in the year earned.

National Music Centre

Notes to Non-Consolidated Financial Statements December 31, 2021

2. Significant Accounting Policies – continued

Donated Materials and Services

The work of the Organization is dependent on the voluntary services of many members and others. Since these services are not normally purchased by the Organization and because of the difficulty of determining their fair value, these voluntary services are not recognized in these non-consolidated financial statements. Donated materials are not recognized in these non-consolidated financial statements.

Allocation of Expenses

The Organization classifies its expenses by function including the music collections, programs, fund development, visitor services and general and administration. All expenses, other than salaries, benefits and rent, are charged directly to a function. The Organization allocates salaries and benefits on the basis of hours incurred directly in undertaking each function. Rent is allocated on the basis of floor area occupied by a function. General and administrative costs are not allocated.

Hedge Accounting

The Organization periodically uses interest rate swaps to mitigate the effect of changes in interest rates on variable-rate debt.

When both at the inception of a hedging relationship and throughout its term, the Organization has reasonable assurance that the critical terms of the hedging item and the hedged item are the same, and, in the case of an anticipated transaction, it is probable that the anticipated transaction will occur at the time and in the amount designated, the Organization may choose to apply hedge accounting. The Organization then formally documents the hedging relationship, identifying the hedged item, the related hedging item, the nature of the specific risk exposure or exposures being hedged and the intended term of the hedging relationship.

Interest rate swaps in qualifying hedging relationships are not recognized until their maturity. When hedging interest rate risk, interest on the debt is recorded at the stated interest rate plus or minus amortization of any initial premium or discount and any financing fees and transaction costs. Net amounts receivable or payable on the interest rate swap are recognized as an adjustment to the interest expense on the hedged item in the period during which they accrue.

Hedge accounting may not be electively discontinued. If an interest rate swap is discontinued, any gain or loss is recognized as an adjustment to the debt and amortized to net income as interest payments are accrued. When it is no longer probable that the anticipated transaction will occur in the amount designated or within 30 days of the maturity date of the hedging item for a forward contract or within two weeks of the maturity date of the hedging item for an interest rate swap, or if the debt is derecognized, the forward contract or the interest rate swap is measured at fair value and any gain or loss is recognized in net income.

National Music Centre

Notes to Non-Consolidated Financial Statements December 31, 2021

2. Significant Accounting Policies – continued

Foreign Currency Transactions

In the case of the Organization's foreign currency transactions, accounts stated in foreign currencies are translated according to the temporal method. Under this method, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the financial position date, and non-monetary items are translated at the prevailing historical rate at the time of the transaction. Revenue and expenses arising from foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the transaction date. The exchange gains or losses resulting from foreign currency transactions are included in net income.

Financial Instruments – Adoption of new accounting standards

Effective January 1, 2021, the Organization adopted the amendments to Section 3856 of Part II of the CPA Canada Handbook – Accounting, "Financial Instruments," ["Section 3856" or "the standard"] issued by the Canadian Accounting Standards Board.

Under the amended standard, the measurement of related party financial instruments is now incorporated into Section 3856 as opposed to Section 3840 "Related Party Transactions" ["Section 3840"]. Consequently, related party transactions are initially measured at cost, with the exception of equity or debt instruments quoted in an active market, debt instruments when the inputs significant to the determination of the fair value of the instrument are observable, or derivative contracts which are initially measured at fair value. Cost under the amended standard is determined based on whether the financial instrument has repayment terms. The amendments also require that the subsequent measurement of related party financial instruments be based on how the entity initially measured the instrument, provides guidance on how to measure an impairment of a debt and equity instrument in a related party transaction measured at cost, and requires an entity to recognize forgiveness of a related party financial asset in either equity or net income depending on whether or not the original transaction giving rise to the financial asset was in the normal course of business. Additionally, the standard requires entities prepare financial instrument disclosures using entity-specific information and significant consequential amendments were made to Section 3840 to clarify that the Section does not apply to related party financial instruments.

The Organization adopted the amendments to Section 3856 retrospectively. The loan from a related party has repayment terms and, under the amended standard, are to be recorded at the undiscounted cash flows of the loans which represent the amounts originally recorded by the Organization. The due to related party balances do not have repayment terms and, under the amended standard, can continue to be carried at cost. As a result, there was no impact of the adoption of the amendments to Section 3856 on the consolidated financial statements of the Organization for the year ended December 31, 2021.

The Organization initially records a financial instrument that was originated, issued or assumed in an arm's length transaction at fair value, except for a related party transaction, which is recorded at the carrying or exchange amount depending on the circumstances. Related party debt or equity instruments that are quoted in an active market, debt instruments with observable inputs and derivative instruments are also initially recorded at fair value.

National Music Centre

Notes to Non-Consolidated Financial Statements December 31, 2021

2. Significant Accounting Policies – continued

Related party financial instruments that have repayment terms are initially recorded at cost, representing the undiscounted cash flows of that instrument, excluding interest and dividend payments. Related party financial instruments that do not have repayment terms are recorded at cost, determined using the consideration transferred or received. If the consideration transferred or received has repayment terms, then the cost is determined using the undiscounted cash flows, excluding interest and dividend payments, of the financial instrument transferred as consideration. If, however, the consideration transferred is an asset or liability that does not have repayment terms, the cost is initially recognized at the carrying or exchange amount of the consideration transferred or received, depending on the circumstances. The exchange amount is used when the transaction is in the normal course of operations or the transaction is not in the normal course of operations but has commercial substance, the change in ownership interest is substantive and the amount of consideration transferred or received is supported by independent evidence. Otherwise, the consideration transferred or received is recorded at the carrying amount.

The Organization recognizes its transaction costs in net income in the period incurred. Financial instruments that will not be subsequently measured at fair value are adjusted by the transactions costs that are directly attributable to their origination, issuance or assumption.

Subsequent to initial recognition, the Organization measures financial instruments as follows:

- investments in equity instruments that are quoted in an active market at fair value;
- all other investments in equity instruments at cost less impairment;
- all other financial assets, including cash, accounts and other receivables, and restricted cash at cost; and
- all financial liabilities, including accounts payable and accrued liabilities, and long-term debt at cost.

Impairment of Financial Assets Measured at Amortized Cost

When there are indications of possible impairment on financial assets measured at amortized cost, the Organization determines if there has been a significant adverse change to the expected timing or amounts of future cash flows expected from the financial asset. The amount of any impairment loss is determined by comparing the carrying amount of the financial asset with the highest of three amounts:

- for an arm's length financial asset, the present value of the cash flows expected to be generated by holding the asset, discounted using a current market rate of interest appropriate to that asset, and for a related party financial debt instrument, the undiscounted cash flows expected to be generated by holding the asset, excluding interest and dividend payments,
- the amount that could be realized by selling the asset at the date of the non-consolidated balance sheet, and
- the amount the Organization expects to realize by exercising its right to any collateral held to secure repayment of the asset, net of all costs necessary to exercise those rights.

National Music Centre

Notes to Non-Consolidated Financial Statements December 31, 2021

2. Significant Accounting Policies – continued

Impairment of related party equity instruments is determined as the amount that could be realized by selling the asset at the non-consolidated balance sheet date.

A previously recognized impairment loss is reversed to the extent that the improvement can be related to an event occurring after the impairment was recognized, but the adjusted carrying amount of the financial asset shall be no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized.

Forgiveness of all or part of a related party financial asset is recognized in the statement of operations. The extinguishment of financial liabilities, exchanged in a related party, non-reciprocal transactions, is accounted for as contribution revenue.

3. Investments

Investments are carried at fair value and are held in publicly traded shares on a domestic exchange with acquisition cost of \$11,331,851 (2020 - \$11,217,747). Investment income includes dividends of \$629,766 (2020 - \$394,297) and interest of \$15,513 (2020 - \$67,648).

4. Lease Receivable

The lease receivable is the result of a direct financing lease used to facilitate the sale of kitchen equipment and furniture to [REDACTED]. The lease receivable has an implicit interest rate of 6.75% and the Organization's net investment is \$201,911 (2020 - \$227,444).

5. Capital Assets and Collection

	2021		
	Cost	Accumulated Amortization	Net Book Value
[REDACTED]			
Land	\$ 4,540,000	\$ -	\$ 4,540,000
Building	187,764,492	37,700,676	150,063,816
Furniture and fixtures	3,802,013	2,656,771	1,145,242
Collection	10,690,167	-	10,690,167
Tenant improvements	456,919	388,381	68,538
Furniture and fixtures	874,974	738,144	136,830
Computer equipment	837,466	752,384	85,082
Music equipment	350,413	203,524	146,889
	<u>\$ 209,316,444</u>	<u>\$ 42,439,880</u>	<u>\$ 166,876,564</u>

National Music Centre

Notes to Non-Consolidated Financial Statements December 31, 2021

5. Capital Assets and Collection – continued

	2020		
	Cost	Accumulated Amortization	Net Book Value
██████████			
Land	\$ 4,540,000	\$ -	\$ 4,540,000
Building	187,511,659	31,385,446	156,126,213
Furniture and fixtures	3,790,402	2,373,363	1,417,039
Collection	10,566,625	-	10,566,625
Tenant improvements	456,919	342,689	114,230
Furniture and fixtures	859,032	673,586	185,446
Computer equipment	777,252	676,824	100,428
Music equipment	294,363	172,716	121,647
	\$ 208,796,252	\$ 35,624,624	\$ 173,171,628

In May and June 2021, the Organization received a final transfer of cash resulting from the sale of the rental property in 2019. The amount received has been recorded as a gain on sale of \$12,907 (2020 - \$182,601).

Additions to the collection during the year were \$123,542 (2020 - \$29,275) and include \$9,042 (2020 - \$1,125) for purchased items. Donated assets received during the year include collections of \$114,500 (2020 - \$28,150) with a corresponding increase directly to net investment in capital assets, and capital assets of \$54,250 (2020 - \$11,910) with a corresponding increase to deferred capital contributions.

During the year, \$313,716 was received related to a refund of deposits made to the City of Calgary during the construction period of the ██████████ building.

6. Assets Under Capital Lease

	2021		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 835,835	\$ 748,253	\$ 87,582

	2020		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 835,835	\$ 608,082	\$ 227,753

National Music Centre

Notes to Non-Consolidated Financial Statements December 31, 2021

7. Deferred Capital Contributions

Deferred capital contributions include unspent externally restricted donations to be used to acquire or otherwise preserve the Organization's assets. Changes in the unspent deferred capital contributions during the year are as follows:

	2021	2021	Total	2020 Total
	██████████	Capital Assets		
Balance, beginning of year	\$ 76,055	\$ 15,867	\$ 91,922	\$ 106,930
Contributions received during the year	667,443	54,250	721,693	37,940
Transferred to unamortized deferred capital asset contributions (note 10)	(667,443)	(54,250)	(721,693)	(67,984)
Transferred (to) from deferred capital contributions (note 9)	-	-	-	15,036
Net decrease	-	-	-	(15,008)
Balance, end of year	\$ 76,055	\$ 15,867	\$ 91,922	\$ 91,922

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Notes to Non-Consolidated Financial Statements December 31, 2021

8. Investment in [REDACTED]

The Organization equity accounts for its wholly-owned subsidiary, and for the year ending December 31, 2021 the financial results for [REDACTED] are as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Balance Sheet		
Total assets	\$ 310,648	\$ 248,300
Total liabilities	1,100,780	1,038,432
Total shareholders' equity	(790,132)	(790,132)
Total liabilities and shareholders' equity	\$ 310,648	\$ 248,300
Income Statement		
Revenue	\$ 906,310	\$ 751,958
Expenses	906,310	832,853
Net Loss	-	(80,895)
Statement of Cash Flows		
Cash provided by (used in) operating activities	141,871	(81,910)
Cash provided by financing activities	19,893	96,052
Cash used in investing activities	(160,677)	(23,973)
Net increase in cash	\$ 1,087	\$ (9,831)

The Organization has guaranteed the revolving credit facility of [REDACTED]. The outstanding balance of [REDACTED] credit facility as at December 31, 2021 is \$125,428 (2020 - \$271,180). The Organization is only required to act under the terms of the guarantee in the event of default by [REDACTED]. As at December 31, 2021, [REDACTED] was in compliance with all requirements under the terms of the revolving credit facility.

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Notes to Non-Consolidated Financial Statements December 31, 2021

9. Deferred Contributions

Deferred contributions include unspent externally restricted donations to be used to fund certain programs or other activities of the Organization. Changes to deferred contributions during the year are as follows:

	2021			2020 Total
	General Operations	Programs	Total	
Balance, beginning of year	\$ 623,625	\$ 1,144,751	\$ 1,768,376	\$ 1,970,766
Contributions received during the year	564,000	621,151	1,185,151	1,388,391
Transferred to revenue	(640,776)	(773,546)	(1,414,322)	(1,575,745)
Transferred (to) from deferred capital contributions (note 7)		-	-	(15,036)
Net decrease	(76,776)	(152,395)	(229,171)	(202,390)
Balance, end of year	\$ 546,849	\$ 992,356	\$ 1,539,205	\$ 1,768,376

10. Unamortized Deferred Capital Asset Contributions

Unamortized deferred capital asset contributions represent the externally funded portion of depreciable capital assets, which will be recognized as revenue in future periods. Changes in the unamortized deferred capital asset contributions during the year are as follows:

	2021	2020
Balance, beginning of year	\$ 98,789,447	\$ 103,162,588
Additions from deferred capital contributions for the purchase of capital assets (note 7)	667,443	56,074
Gift in kind, capital assets (notes 5 and 7)	54,250	11,910
Amortization to revenue	(4,185,568)	(4,441,125)
Net decrease	(3,463,875)	(4,373,141)
Balance, end of year	\$ 95,325,572	\$ 98,789,447

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Notes to Non-Consolidated Financial Statements December 31, 2021

11. Obligation Under Capital Lease

Lease payments have been present valued using the incremental borrowing costs as stated in the lease.

	2021	2020
Obligation under capital lease for computer hardware, non-interest bearing, maturing on September 30, 2021	\$ -	\$ 88,995
Obligation under capital lease for computer hardware, non-interest bearing, maturing on January 19, 2023	87,586	168,430
	87,586	257,425
Less: current portion	80,848	169,839
Obligation under capital lease	\$ 6,738	\$ 87,586

Future minimum lease and warranty payments under the capital lease for subsequent years are as follows:

2022	\$ 80,851
2023	6,738
	\$ 87,589

The capital leases are secured by the underlying leased assets.

12. Long Term Debt

	2021	2020
Term Loan	\$ 41,998,497	\$ 41,998,497
Demand loan	20,000,000	20,000,000
Subordinated Demand loan	5,000,000	5,000,000
	66,998,497	66,998,497
Less: current portion	-	41,998,497
Long term debt	\$ 66,998,497	\$ 25,000,000

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Notes to Non-Consolidated Financial Statements December 31, 2021

12. Long Term Debt – continued

Minimum principal payments required by June 30 of each of the next two years and thereafter, are as follows:

2022	\$	-
2023		41,998,497
Thereafter		25,000,000
	\$	<u>66,998,497</u>

The term loan matures on June 30, 2023. The term loan is collateralized by a first ranking charge against the [REDACTED] building, furniture and fixtures, and land with a combined net book value of \$155,749,058 (note 5) and a first ranking charge against restricted investments of \$10,000,000. In addition, up to a maximum of \$23,500,000 of this term loan is guaranteed by an organization controlled by a related party.

On June 30, 2021, the terms of the term loan were modified to change the maturity date to June 30, 2023 and to hedge \$30,000,000 of the term loan commencing on September 29, 2021 to reduce interest rate risk (note 20). The Organization can elect, on a monthly basis, to have interest calculated on the remaining principal portion of the term loan using prime rate plus 1.00% or a bankers' acceptance rate plus a stamping fee of 2.2%. The relevant prime rate as at December 31, 2021 was 2.45% (2020 - 2.45%) and the relevant bankers' acceptance rate as at December 31, 2021 was 0.45% (2020 - 0.46%). During the year, the Organization made no repayments on the term loan (2020 - \$1,503). Interest expense of \$1,507,710 (2020 - \$1,843,163) was recorded in the statement of operations.

The Organization has a \$20,000,000 unsecured, demand loan owing to an organization controlled by a related party. The demand loan bears interest at 2.2% due annually on May 23. The demand loan is subordinated to the term loan facility and repayment can only be demanded after the term loan facility is fully repaid and only on the anniversary date of the settlement of the term loan facility. Interest expense of \$440,000 (2020 - \$440,000) was recorded in the statement of operations and included as due to related party on the statement of financial position. On June 30, 2021, the related party agreed to match up to \$20 million in external donations received by the Organization by June 30, 2023, dollar for dollar. The matching of donations will be funded by reducing the demand loan.

The Organization has a \$5,000,000 demand loan with minimum annual principal repayments of \$500,000 due on December 28 of each year commencing in 2025 and ending with a final principal repayment of \$2,500,000 due on maturity on December 28, 2030. The demand loan bears interest at 2.2% due annually on December 28. The demand loan is subordinated to the term loan facility and repayment can only be demanded after the term loan facility is fully repaid. The demand loan is collateralized by an equal ranking charge against the [REDACTED] building, furniture and fixtures, and land with a combined net book value of \$155,749,058 (note 5) creating a charge in the principal sum of the loan. Interest expense of \$110,000 (2020 - \$110,000) was recorded in the statement of operations.

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Notes to Non-Consolidated Financial Statements December 31, 2021

13. Commitments

On October 31, 2012, the Organization acquired, from the City of Calgary, the rights to build a pedestrian bridge connecting their two properties on either side of [REDACTED]. The City holds an option to repurchase the property should the Organization decide to sell or lease the property.

In connection with its operations, the Organization has an operating lease for storage premises maturing on August 31, 2023. Minimum lease payments for this lease are as follows:

2022	\$	52,734
2023		<u>35,156</u>
	\$	<u>87,890</u>

14. Endowment

The Organization has externally restricted net assets of \$566,698 (2020 - \$566,698) relating to endowment gifts for which the donor has stipulated the principal must be held in perpetuity and that investment income generated from this endowment is to be used to fund the Organization's programs. During the year, the Organization earned \$26,100 (2020 - \$21,246) of investment income from endowment gifts recognized in the statement of operations.

15. Share Capital

Share capital includes 600 common shares issued with a par value of \$1 per share. These common shares are redeemable at the option of the Organization for \$1 per share, and the total number authorized is 600 common shares.

16. Related Party Transactions

The Organization is related to donors and companies that either share common director(s) and/or officer(s) with the Organization. During the year, the Organization incurred expenses from related parties totaling \$249,063 (2020 - \$252,087), received contributions from related parties of \$3,300,039 (2020 - \$3,437,702) recognized as contributions in the statement of operations, received payments of \$25,533 (2020 - \$23,973) under lease receivable (note 4) and received \$100,974 (2020 - \$15,036) recorded as deferred capital contributions on the statement of financial position. Amounts due from related parties are non-interest bearing and have no fixed terms of repayment.

All related party transactions during the year as described above, are in the normal course of operations, represent a transfer of financial instruments and are measured at cost.

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Notes to Non-Consolidated Financial Statements December 31, 2021

17. Allocation of Expenses

Salaries and benefits of \$2,614,807 (2020 - \$2,852,011) and building operating and rent expenses of \$1,643,877 (2020 - \$1,582,246) have been allocated as follows:

	2021		2020	
	Salaries and Benefits	Building Operating	Salaries and Benefits	Building Operating
Collections	\$ 507,545	\$ 525,517	\$ 523,977	\$ 415,739
Programs	446,451	329,712	687,623	376,970
Fund development	561,924	69,408	624,520	31,073
General and administration	710,221	40,878	551,451	84,590
Visitor Services	388,666	678,362	464,440	673,874
	\$ 2,614,807	\$ 1,643,877	\$ 2,852,011	\$ 1,582,246

18. Charitable Fund-raising Act and Regulation

During the year, the Organization recorded \$565,031 (2020 - \$519,498) on planning, development and other activities associated with the fund-raising campaign included within fund development expenses.

In accordance with the Alberta Charitable Fund-raising Act and Regulation, supplemental information about the Organization's charitable activities that is not otherwise available in these non-consolidated financial statements includes amounts spent on the fund-raising campaign and other activities for the purpose of soliciting contributions as follows:

	2021	2020
Employees	\$ 286,397	\$ 345,102
Consultants	552	1,167
Other goods and services	278,082	173,229
	\$ 565,031	\$ 519,498

The balance of fund development expense includes \$444,964 (2020 - \$458,637) for the purpose of marketing the Organization's other programs and activities.

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Notes to Non-Consolidated Financial Statements December 31, 2021

19. Investment in NMCmf

	Year Ended December 31, 2021	Year Ended December 31, 2020
Statement of Financial Position		
Total assets	\$ 95,032	\$ 156,515
Total liabilities	94,388	155,871
Total net assets	644	644
Total liabilities and net assets	\$ 95,032	\$ 156,515
Statement of Operations		
Revenue	\$ 158,644	\$ 152,247
Expenses	158,644	152,247
Excess of Revenues Over Expenses	-	-
Statement of Cash Flows		
Cash provided by (used in) operating activities	12,152	(8)
Net increase (decrease) in cash	\$ 12,152	\$ (8)

20. Financial Instruments

The Organization is exposed to market risk, which is the risk that the fair value or future cash flows from investments in publicly traded shares listed on a domestic exchange will fluctuate in the future because of price changes. These investments are exposed to economic changes and other fluctuations in domestic and global capital markets, as well as risks specific to issuers that may affect the market value of their securities.

The Organization is exposed to credit risk related to cash and restricted cash, accounts and other receivable and amounts due from related parties. Credit risk for cash and restricted cash is minimized as it is held by major financial institutions. The Organization manages risk on accounts and other receivable by limiting the exposure to any individual counterparty.

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Organization is exposed to foreign currency risk due to holdings in U.S. cash. As at December 31, 2021, the Organization had cash denominated in U.S. currency of \$7,559 (2020 - \$6,454).

The Organization is exposed to interest rate risk on certain portions of its debt including the risk that future cash flows associated with the debt and interest payments will fluctuate as a result of changes in market interest rates. The Organization has an interest rate swap agreement to reduce exposure to fluctuations in interest rates.

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Notes to Non-Consolidated Financial Statements December 31, 2021

20. Financial Instruments – continued

The Organization has entered into an interest rate swap agreement in order to address the interest rate risk inherent on \$30,000,000 of the term loan, which accrues interest at bankers' acceptance rate plus a stamping fee of 2.2%. The Organization has elected to apply hedge accounting to this interest rate swap. Under the terms of the agreement, the Organization receives payments equal to the variable amount of interest on the credit facility and pays the counterparty a fixed rate of 4.91% from January 1 to June 30, 2021 and 3.24% from September 29 to June 30, 2023. The impact of this interest rate swap on the Organization for the year ended December 31, 2021 is an interest expense of \$365,245 (2020 - \$514,977).

The Organization is exposed to liquidity risk, which is the risk that the Organization will not be able to meet its financial obligations as they become due. The Organization is exposed to this risk mainly in respect of its accounts payable and accrued liabilities, long-term debt and obligations under capital lease. The Organization manages the risk through its capital structure in conjunction with cash flow forecasting and through the use of a loan guarantee to address the liquidity risk specifically associated with the long-term debt.

21. Government Grants and COVID-19

In an attempt to mitigate the impact of the COVID-19 pandemic, the Canadian and Provincial governments have introduced several grants and subsidies. The Organization has taken advantage of several of these assistance options that include but are not limited to:

	2021	2020
Canada Emergency Wage Subsidy ("CEWS")	\$ 613,030	\$667,795
Canada Emergency Rent Subsidy ("CERS")	503,305	86,908
Stabilize Alberta	500,000	-
Tourism and Hospitality Recovery Program ("THRP")	346,504	-
Alberta Small and Medium Enterprise Relaunch Grant	10,000	20,000
Temporary Wage Subsidy ("TWS")	-	25,000
	<u>\$1,972,839</u>	<u>\$799,703</u>

CEWS and TWS relate to wage assistance and CERS relates to rental assistance for Canadian companies experiencing decreases in revenue resulting from the pandemic and meeting certain eligibility criteria. The THRP replaced CEWS and CERS on October 24, 2021 which offers wage and rent supports for businesses that continued to experience a specific decline in revenues and met the eligibility criteria for each eligible period. The Alberta Small and Medium Enterprise Relaunch Grant provides financial assistance for Alberta companies to help offset the costs of implementation of the new public measures and relaunch their operations due to closure or scaling back of operations due to COVID-19. The Stabilize Alberta grant supports operations of the Organization and is unrestricted non-capital funds to support the Organization to retain or maintain stability in operations. These subsidies and grants have been recognized as government grants in the non-consolidated statement of operations as at December 31, 2021.

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Notes to Non-Consolidated Financial Statements December 31, 2021

21. Government Grants and COVID-19 – continued

The Organization has included \$473,278 (2020 - \$267,881) in accrued receivables and nil (2020 - \$107,419) in accrued liabilities at year end related to these subsidies and grants.

The Organization continues to adapt and take precautionary measures intended to minimize the risk of the COVID-19 virus to its customers, its employees, and the communities in which it operates, which could negatively impact the Organization's business.

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