

The PSBGM Cultural Heritage Foundation
Financial Statements
June 30, 2014 and 2013

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Independent Auditor's Report

To the Members of
The PSBGM Cultural Heritage Foundation

We have audited the accompanying financial statements of The PSBGM Cultural Heritage Foundation, which comprise the statements of financial position as at June 30, 2014 and 2013 and the statements of operations and net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The PSBGM Cultural Heritage Foundation as at June 30, 2014 and 2013 and the results of its operations and its cash flows for the years then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Comparative information

Without modifying our opinion, we draw attention to Note 3 to the financial statements, which describes that The PSBGM Cultural Heritage Foundation adopted accounting standards for not-for-profit organizations on July 1, 2012 with a transition date of July 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statements of financial position as at June 30, 2012 and July 1, 2011 and the statements of operations and net assets and cash flows for the year ended June 30, 2012 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

Montréal
●, 2014

¹ CPA auditor, CA public accountancy permit no. A

The PSBGM Cultural Heritage Foundation

Operations and net Assets

Years ended June 30, 2014 and 2013

	<u>2014-06-30</u>	<u>2013-06-30</u>	<u>2012-06-30</u>
	\$	\$	\$
Revenue			
Donations received from the English Montreal School Board	3,232	3,232	2,862
Reimbursement of insurance premiums for paintings on loan to the town of Mount Royal			370
Loss (gain) on disposition of work of art	(43,223)	995,885	
Net investment income (Note 5)	105,534	563	
	<u>65,543</u>	<u>999,680</u>	<u>3,232</u>
Expenses			
Insurance	3,232	3,232	3,232
Donations of artwork		39,550	
Scholarships	20,600		
Professional fees	8,800		
Bank fees	180	1	
	<u>32,812</u>	<u>42,783</u>	<u>3,232</u>
Excess of revenue over expenses	<u>32,731</u>	<u>956,897</u>	<u>-</u>
Net assets, beginning of year	<u>1,605,422</u>	<u>648,525</u>	<u>648,525</u>
Net assets, end of year	<u><u>1,638,153</u></u>	<u><u>1,605,422</u></u>	<u><u>648,525</u></u>

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

The PSBGM Cultural Heritage Foundation

Cash flows

Years ended June 30, 2014 and 2013

	2014-06-30	2013-06-30	2012-06-30
	\$	\$	\$
OPERATING ACTIVITIES			
Excess of revenue over expenses	32,731	956,897	
Non-cash items			
Gain (loss) on disposition of works of art	43,223	(996,735)	
Net change in fair value of investments	(80,906)		
Net change in working capital items	5,864	(562)	
Cash flows from operating activities	912	(40,400)	-
INVESTING ACTIVITIES			
Investments	(2,466,261)		
Disposition of investments	969,703		
Disposition of works of art	40,327	1,488,735	
Cash flows from investing activities	(1,456,231)	1,488,735	-
Net increase (decrease) in cash	(1,455,319)	1,448,335	-
Cash, beginning of year	1,488,735		
Cash, end of year	33,416	1,448,335	-

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

The PSBGM Cultural Heritage Foundation

Financial Position

June 30, 2014 and 2013

	2014-06-30	2013-06-30	2012-06-30	2011-07-01
	\$	\$	\$	\$
ASSETS				
Current				
Cash	33,416	1,488,735		
Accounts receivable	3,498	563		
	<u>36,914</u>	<u>1,489,298</u>		
Long-term				
Works of art (fair value \$37,700 in 2014; \$135,350 in 2013 \$1,636,950 in 2012)	32,575	116,125	648,525	648,525
Investments (Note 6)	1,577,464			
	<u>1,646,953</u>	<u>1,605,423</u>	<u>648,525</u>	<u>648,525</u>
LIABILITIES				
Current				
Accounts payable	8,800	1		
UNRESTRICTED NET ASSETS	<u>1,638,153</u>	<u>1,605,422</u>	<u>648,525</u>	<u>648,525</u>
	<u>1,646,953</u>	<u>1,605,423</u>	<u>648,525</u>	<u>648,525</u>

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

On behalf of the Board,

Director

Director

The PSBGM Cultural Heritage Foundation

Notes to Financial Statements

June 30, 2014 and 2013

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The PSBGM Cultural Heritage Foundation (hereafter the "Foundation"), incorporated under the Canada Not-for-profit Corporations Act, promotes and develops, in any manner and form whatsoever, the arts, literature, reading and pursuit of cultural studies and activities. The Foundation is classified as a not-for-profit organization under Section 149 of the Income Tax Act and, as such, is exempt from income taxes.

2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Foundation's financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Foundation may undertake in the future. Actual results may differ from these estimates.

Financial assets and liabilities

Initial measurement

Upon initial measurement, the Foundation's financial assets and liabilities are measured at fair value, which, in the case of financial assets or financial liabilities that will be measured subsequently at amortized cost, is increased or decreased by the amount of the related financing fees and transaction costs. Transaction costs relating to financial assets and liabilities that will be measured subsequently at fair value are recognized in operations in the year they are incurred.

Subsequent measurement

At each reporting date, the Foundation measures its financial assets and liabilities at amortized cost (including any impairment in the case of financial assets), except for mutual funds and shares which are measured at fair value and corporate bonds investments which the Foundation has elected to measure at fair value by designating that fair value measurement shall apply.

With respect to financial assets measured at amortized cost, the Foundation assesses whether there are any indications of impairment. When there is an indication of impairment, and if the Foundation determines that during the year there was a significant adverse change in the expected timing or amount of future cash flows from a financial asset, it will then recognize a reduction as an impairment loss in operations. The reversal of a previously recognized impairment loss on a financial asset measured at amortized cost is recognized in operations in the year the reversal occurs.

The PSBGM Cultural Heritage Foundation

Notes to Financial Statements

June 30, 2014 and 2013

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

The Foundation follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if a persuasive evidence of an arrangement exists, services have been rendered, a reasonable estimate can be made as to the amount involved and its receipt can be reasonably assured.

Net investment income

Investment transactions are recorded on the transaction date and resulting revenues are recognized using the accrual method of accounting.

Changes in fair value are recognized when they occur.

With respect to investments measured at fair value, the Foundation has elected to include in changes in fair value interest income (including amortization of bond investment premiums and discounts) and the reinvested revenues from investments in investment funds.

3 - FIRST-TIME ADOPTION OF CANADIAN ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

These financial statements are the Foundation's first financial statements prepared using Canadian accounting standards for not-for-profit organizations (hereafter the "new accounting standards"). The date of transition to the new accounting standards is July 1, 2011.

The accounting policies presented in Note 2 and resulting from the application of the new accounting standards were used to prepare the financial statements for the years ended June 30, 2014 and 2013, the comparative information and the opening statement of financial position as at the date of transition.

Exemptions relating to first-time adoption

Section 1501, First-time Adoption by Not-for-profit Organizations, contains exemptions to full retrospective application which the Foundation may use upon transition. The Foundation applied the following optional exemption:

Designation of previously recognized financial instruments

On the date of transition, the Foundation elected to designate certain financial assets to be measured at fair value.

Impact of transition on net assets as at July 1, 2011

The impact of the transition to the new accounting standards on the Foundation's net assets at the date of transition, that is July 1, 2011, is not significant.

The PSBGM Cultural Heritage Foundation

Notes to Financial Statements

June 30, 2014 and 2013

3 - FIRST-TIME ADOPTION OF CANADIAN ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS (Continued)

Reconciliation of excess of revenue over expenses as at June 30, 2012

The excess of revenue over expenses as at June 30, 2012 determined using the new accounting standards is approximately equivalent to that determined using the previous accounting standards (pre-changeover accounting standards).

Statement of cash flows

Accounting standards regarding cash flows included in the new accounting standards require the presentation of a statement of cash flows.

4 - WORKS OF ART

The works of art are accounted for at fair value at the date of contribution.

The appraised values of the works of art were prepared by Galerie Walter Klinkhoff Inc. as at June 30, 2011. The previous appraisal was as of June 30, 2008.

5 - NET INVESTMENT INCOME

	2014-06-30	2013-06-30	2012-06-30
	\$	\$	\$
Investments measured at fair value			
Changes in fair value	89,988	563	
Dividends	20,331		
	<u>110,319</u>	<u>563</u>	<u>--</u>
Transaction costs	4,785		
	<u>105,534</u>	<u>563</u>	<u>-</u>

6 - INVESTMENTS

	2014-06-30	2013-06-30	2012-06-30
	\$	\$	\$
Mutual funds	623,912		
Common shares	441,258		
Preferred shares	100,500		
Corporate bonds	309,409		
U.S. corporate bonds	102,385		
	<u>1,577,464</u>	<u>-</u>	<u>-</u>

The PSBGM Cultural Heritage Foundation

Notes to Financial Statements

June 30, 2014 and 2013

7 - FINANCIAL INSTRUMENTS

Financial risk

The Foundation's main financial risk exposure is detailed as follows.

Credit risk

The Foundation is exposed to credit risk regarding the financial assets recognized in the statements of financial position.

The credit risk related to corporate bonds and mutual funds is considered negligible, since it corresponds to investment securities with a good external credit rating. Nevertheless, the risk is only indirect for the mutual funds.

The credit risk regarding cash and cash equivalents is also considered to be negligible because it is held by a reputable financial institution with an investment grade external credit rating.

Market risk

The Foundation's financial instruments expose it to market risk, in particular, currency risk, interest rate risk and other price risk, resulting from its investing activities:

– Currency risk:

The Foundation is exposed to currency risk due to investments denominated in U.S. dollars. Financial assets in foreign currency represent investments totalling C\$102,385 as at June 30, 2014 and nil as at June 30, 2013 (nil as at June 30, 2012).

The Foundation does not hedge its foreign currency risk exposure;

– Interest rate risk:

The Foundation is exposed to interest rate risk with respect to financial assets and liabilities bearing fixed and variable interest rates.

The investments in Corporate bonds bear interest at a fixed rate and the Foundation is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations.

Additionally, some mutual funds also indirectly expose the Foundation to interest rate risk;

– Other price risk:

The Foundation is exposed to other price risk due to mutual funds, corporate bonds and investments in shares and U.S. corporate bonds since changes in market prices could result in changes in fair value or cash flows of these instruments. Additionally, some mutual funds also indirectly expose the Foundation to other price risk.

The PSBGM Cultural Heritage Foundation Notes to Financial Statements

June 30, 2014 and 2013

7 - FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

The Foundation's liquidity risk represents the risk that the Foundation could encounter difficulty in meeting obligations associated with its financial liabilities. The Foundation is, therefore, exposed to liquidity risk with respect to all of the financial liabilities recognized in the statements of financial position.

Carrying amount of financial assets by category

The carrying amount of the Foundation's financial assets that are measured at amortized cost totals \$36,914 as at June 30, 2014 and \$1,489,298 as at June 30, 2013 (nil as at June 30, 2012), whereas the carrying amount of financial assets measured at fair value totals \$1,577,464 as at June 30, 2014 and nil as at June 30, 2013 (nil as at June 30, 2012).