

**Calgary Arts Academy Society  
Financial Statements  
For the 14 month period ended  
August 31, 2004**

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Driving growth

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## Auditors' Report

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**To the Board of Directors  
Calgary Arts Academy Society**

We have audited the balance sheet of Calgary Arts Academy Society as at August 31, 2004 and the statements of net assets, revenue and expenses, and cash flows for the fourteen month period then ended. These financial statements are the responsibility of the Society's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Society as at August 31, 2004 and the results of its operations and its cash flows for the fourteen month period then ended in accordance with Canadian generally accepted accounting principles.

*BDO Dunwoody LLP*

**Chartered Accountants**

Calgary, Alberta  
November 5, 2004

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**Calgary Arts Academy Society**  
**Balance Sheet**

**August 31, 2004**

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**Assets**

**Current**

Cash	\$ 58,902
Short term investment (Note 3)	70,775
Accounts receivable	70,363
Prepaid expenses	<u>21,173</u>
	<b>\$ 221,213</b>

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**Liabilities and Net Assets**

**Current**

Accounts payable and accrued liabilities	\$ 30,283
Deferred revenue (Note 4)	<u>61,524</u>
	<u>91,807</u>

**Net Assets**

Restricted operating reserves	
Instruction	86,043
Operations and Maintenance	41,258
Governance and System Administration	<u>2,105</u>
	<u>129,406</u>
	<b>\$ 221,213</b>

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On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

**Calgary Arts Academy Society**  
**Statement of Net Assets**

August 31, 2004

	Net Assets	Operating Reserves			2004 Total
		Instruction	Operations and Maintenance	Governance and System Administration	
Excess of revenue over expenses	\$ 129,406	\$ -	\$ -	\$ -	\$ 129,406
Transfer to (from) operating reserve	<u>(129,406)</u>	<u>86,043</u>	<u>41,258</u>	<u>2,105</u>	<u>-</u>
Balance, end of year	\$ -	\$ 86,043	\$ 41,258	\$ 2,105	\$ 129,406

**Calgary Arts Academy Society**  
**Statement of Revenue and Expenses**

For the fourteen month period ended August 31, 2004

	Actual	Budget (unaudited)
<b>Revenue</b>		
Province of Alberta		
Instruction grants	\$ 1,107,678	\$ 950,236
Support grants	536,366	494,289
Start up grants	168,367	-
Other grants	8,765	-
	<u>1,821,176</u>	<u>1,444,525</u>
<b>Other</b>		
Resource and transportation fees	46,674	58,375
Other revenue	12,426	-
	<u>59,100</u>	<u>58,375</u>
	<u>1,880,276</u>	<u>1,502,900</u>
<b>Expenses</b>		
Salaries and benefits		
Certificated	618,820	451,022
Uncertificated	217,844	216,600
Alberta Initiative for School Improvement	11,842	-
Professional development	11,323	9,500
Technology	29,418	25,000
Transportation	130,787	113,400
Facility Rental	257,887	244,252
Facility Start-up	168,368	-
Facility Operations	107,920	116,697
Classroom resources	56,586	120,000
School office expenses and supplies	26,226	55,440
Instructional resources/Enrichment	20,407	10,375
Library	19,994	20,000
System Administration and Board costs	7,395	3,000
Contracted services	66,053	58,000
Board directed contingency	-	59,614
	<u>1,750,870</u>	<u>1,502,900</u>
<b>Excess of revenue over expenses for the period</b>	<b>\$ 129,406</b>	<b>\$ -</b>

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**Calgary Arts Academy Society**  
**Statement of Cash Flows**

August 31, 2004

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**Cash flows from operating activities**

Excess of revenue over expenses for the period	\$ 129,406
Net change in non-cash working capital balances	
Accounts receivable	(70,363)
Prepaid expenses	(21,173)
Accounts payable and accrued liabilities	30,283
Deferred revenue	<u>61,524</u>

**Increase in cash** **129,677**

**Cash, beginning of period** -

**Cash, end of period** **\$ 129,677**

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**Represented by:**

Cash	\$ 58,902
Short term investment	<u>70,775</u>
	<b>\$ 129,677</b>

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**August 31, 2004**

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**1. Authority and Purpose of the Society**

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The Society delivers educational programs, operating as the Calgary Arts Academy and Research Center under the authority of the School Act, Chapter S-3, Statutes of Alberta, January 2002. The Society was incorporated on May 1, 2001 under the Societies Act of Alberta. Through a charter established with the Minister of Learning the Society operates a charter school from a single location. The school provides education from Early Childhood Services to Grade 9. The Charter is up for renewal on August 31, 2008.

The Society receives block allocation for instruction and support under Regulation 72/95. The regulation limits funding and expenses for administration. It permits the Society, within specified limits, to reallocate funding between the instruction and support blocks.

The Society is incorporated under the Societies Act of Alberta as a not-for-profit organization and as such is exempt from income taxes.

The financial statements reflect financial activities for the 14 month period from July 1, 2003 through August 31, 2004. Provincial grants were allocated over the 14 month period to allow for the preparation of school opening. School operations commenced with the 2003-2004 school year.

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**2. Significant Accounting Policies**

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The financial statements of the Society have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Revenue Recognition

Revenue is recognized as follows:

Instruction and support allocations are recognized in the year to which they relate.

Fees for services related to courses and programs are recognized as revenue when such courses and programs are delivered.

(b) School Generated Funds

Funds generated from school based activities are included as assets, liabilities, revenues and expenses of the school authority because the accountability and control/ownership of these funds rests with school authority officials or their appointee. Revenue from school generated funds is recognized as the related expenses are incurred.

(c) Prepaid Expenses

Certain expenditures incurred and paid before the close of the school year are for specific school supplies, which will be consumed subsequent to the year-end, and are accordingly recorded as prepaid expenses

August 31, 2004

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**2. Significant Accounting Policies - (Continued)**

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(d) Pensions

The current service and past service costs of the Alberta Teacher Retirement Fund are met by contributions by active members and the Government of Alberta. Under the terms of the Teachers Pension Plan Act, the Calgary Arts Academy Society does not make pension contributions for certificated staff.

(e) Contributed Services

Volunteers assist the school in carrying out certain activities. Because of the difficulty of determining their fair market value and of the fact that such assistance is generally not otherwise purchased, contributed services of this nature are not recognized in the financial statements.

(f) Financial Instruments

The Society's financial instruments consist of various assets and liabilities. Except for the fact that a large concentration of cash is deposited with a single financial institution, it is management's opinion that the Society is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted. The Society has invested surplus funds in accordance with section 60 of the School Act and Section 5 of the Trustees Act.

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**3. Short Term Investment**

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The Society has a six month, non-redeemable term deposit with First Calgary Savings and Credit Union, earning interest at 1% per annum, and maturing September 24, 2004.

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**4. Deferred Revenue**

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Province of Alberta	
Alberta Learning funding	\$ 12,098
Alberta Infrastructure funding	<u>3,058</u>
	15,156
Parent fees received in advance	<u>46,368</u>
	\$ 61,524

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**August 31, 2004**

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**5. Commitment**

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The Society leases one school from the Calgary Board of Education. The lease expires July 31, 2008. The Society's minimum annual lease payments for the next four years are as follows:

2005	\$	244,252
2006	\$	244,252
2007	\$	244,252
2008	\$	223,898

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**6. Economic Dependence on Related Third Party**

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The Society's primary source of income is from the Alberta Government. The Society's ability to continue viable operations is dependent on this funding.

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**7. Budget Amounts**

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The 2004 Budget for the Society was approved by the Board and has been reported in the financial statements for information purposes only. These budget amounts have not been audited.

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November 5, 2004

Members of the Board of Directors  
Calgary Arts Academy Society  
4931 Grove Hill Road SW  
Calgary, Alberta  
T3E 4G4

Dear Sirs:

**Re: Calgary Arts Academy Society**

During the course of our audit of the financial statements of Calgary Arts Academy Society for the year ended August 31, 2004, we identified matters which may be of interest to management. The objective of an audit is to obtain reasonable assurance whether the financial statements are free of any material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly an audit would not usually identify all such matters.

The responsibility for producing financial statements and ensuring adequate internal controls and sound business practices is the responsibility of the board of directors through management and is a part of management's overall responsibility for the ongoing activities of the Society. Policies and procedures developed by the Society to safeguard its assets and to provide reasonable assurance that errors and irregularities or illegal acts are promptly identified, must be properly monitored to ensure that all staff are complying with the guidelines provided. Where we determined, from our testing, that there exists a need for improvement in existing systems of internal control or if we detected that the Society's staff are not complying with the critical accounting policies and procedures provided by management, we increased our year-end testing of account balances to ensure that audit risk was kept to an appropriate low level.

The comments and concerns expressed herein did not have a material effect on the Society's financial statements and, as such, our opinion thereon was without reservation. However, in order for the Society to ensure the safeguarding of its assets and the accuracy of its records, we believe our comments and concerns should be taken into consideration by management. Our comments are not intended to reflect upon the honesty or competence of the Society's employees.

The matters we have identified are discussed below.

Due to the relatively small number of administrative staff employed, it has been observed that incompatible accounting functions are being performed by the individuals appointed to these tasks. With the hiring of additional staff in the 2004-2005 school year, this should be rectified.

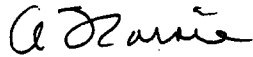
Personnel records should include approvals of grid placement, salary increases, as well as reference to the Board minutes approving the hiring of the staff member.

This communication is prepared solely for the information of the Board of Directors and is not intended for any other purposes. We accept no responsibility to a third party who uses this communication.

We would like to express our appreciation for the cooperation and assistance which we received during the course of our audit from Ursula Mergny, and Beth Rowe.

We shall be pleased to discuss with you further any matters mentioned in this report at your convenience.

**BDO DUNWOODY LLP**



Per:  
A.J. Lavoie, CA  
Partner

/clb

November 8, 2004

Members of the Board of Directors  
Calgary Arts Academy Society  
4931 Grove Hill Road SW  
Calgary, Alberta  
T3E 4G4

**Re: Audit of the Financial Statements of Calgary Arts Academy Society  
for the year ended August 31, 2004**

The purpose of this report is to summarize certain aspects of the audit that we believe would be of interest to the Board of Directors. This report should be read in conjunction with the draft financial statements and our report thereon, and it is intended solely for the use of the Board of Directors and should not be distributed to external parties without our prior consent. We accept no responsibility to a third party who uses this communication.

**Current Developments in the Profession**

There have been significant developments in the area of financial reporting, corporate governance and auditing this year.

***Public Accountability***

One of the major changes in the Canadian context is the establishment of the Canadian Public Accountability Board (CPAB).

BDO Dunwoody LLP, along with other major CA firms, has registered with CPAB for 2004, thereby committing to implement new quality control requirements recently announced for public company auditors. Specifically, these requirements are expected to include:

- frequent and rigorous inspections to be completed by the new National Inspection Unit (NIU);
- more stringent standards on auditor independence, including restrictions on the type of non-assurance services that can be provided to audit clients;
- concurring partner review on sensitive audits;
- rotation of the lead audit partner and the concurring partner on a regular basis; and
- a consultative process for difficult, contentious and sensitive items.

At BDO Dunwoody LLP, we currently comply with many of the CPAB's proposed recommendations and we will ensure that we will comply with any new requirements as they are finalized by the CPAB.

***Accounting Standards***

The Canadian Institute of Chartered Accountants (CICA) has recently issued a number of new accounting standards. Most of these standards are fairly complex, require significant judgement and estimates, and may involve increased disclosures. Below, we have briefly outlined those which have impacted your Society:

- Generally accepted accounting principles hierarchy
- Accounting Guideline related to special purpose entities
- Government reporting entity

Many of the above initiatives and pronouncements have had an impact on the current year financial statements and will certainly have an impact in the years to come. BDO Dunwoody LLP would be pleased to comment on these matters and is available for discussion as required.

### ***Auditing and Assurance Standards***

In addition, the CICA has issued several new or revised auditing standards which affected the scope and nature of our auditing procedures. The most significant changes in the current year included:

- Revised rules of professional conduct relating to independence
- Revised standards on work effort related to fraud risk factors
- Auditor association with annual reports, interim reports and other public documents
- Auditors' reports on financial statements prepared on a basis of accounting other than GAAP

These revised standards affected the current year's audit and our communications with you.

### ***Corporate Governance***

In the area of corporate governance, the CICA and regulatory bodies are developing standards for corporate governance. Of particular interest to you is that they are proposing guidance that affect the composition and responsibilities of audit committees.

### **Independence**

At the core of the provision of external audit services is the concept of independence. Canadian generally accepted auditing standards (GAAS) require us to communicate to the Board of Directors, at least annually, all relationships between BDO Dunwoody LLP (and its related entities) and Calgary Arts Academy Society (and its related entities), that, in our professional judgement, may reasonably be thought to bear on our independence for the audit of the Society.

In determining which relationships to report, we have considered the applicable legislation and relevant rules of professional conduct and related interpretations prescribed by the appropriate provincial institute/ordre covering such matters as the following:

- holding of a financial interest, either directly or indirectly in a client;
- holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- economic dependence on a client; and
- provision of services in addition to the external audit engagement.

We are not aware of any relationships between the Society and us that, in our professional judgement, may reasonably be thought to bear on our independence to date.

GAAS requires that we confirm our independence to the Board of Directors. Accordingly, we hereby confirm that we were independent with respect to Calgary Arts Academy Society within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta as of November 8, 2004.

## **Responsibilities of the Auditor**

It is important for the Board of Directors to understand the responsibilities that rest with the Society and its management and those that belong to the auditor:

- Management is responsible for the preparation of the financial statements, which includes responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets and preventing and detecting error and fraud;
- The auditor's responsibility is to express an opinion on the financial statements based on an audit thereof;
- An audit is performed to obtain reasonable, but not absolute, assurance as to whether the financial statements are free of material misstatement and, owing to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed;
- The audit includes:
  - (i) assessing the risk that the financial statements may contain misstatements that, individually or in the aggregate, are material to the financial statements taken as a whole;
  - (ii) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
  - (iii) assessing the accounting principles used and their application; and
  - (iv) assessing the significant estimates made by management;
- A sufficient understanding of internal control was obtained to plan the audit and, when control risk was assessed below maximum, sufficient appropriate audit evidence was obtained through tests of controls to support the assessment, but the scope of our review of internal controls was insufficient to express an opinion as to the effectiveness or efficiency of the entity's controls; and
- We expressed an opinion as to whether the financial statements presented fairly in all material respects, in accordance with Canadian generally accepted accounting principles, the financial position, results of operations and cash flows of the entity.

## **Audit Approach**

We were engaged to perform the audit of the financial statements of Calgary Arts Academy Society for the year ended August 31, 2004. We adopted an audit approach that allowed us to issue an audit opinion on the financial statements of the Society in the most cost effective manner, while still obtaining the assurance necessary to support our audit opinion.

BDO Dunwoody LLP follows a risk based approach. This approach focuses on obtaining sufficient appropriate audit evidence to reduce the risk of material misstatement in the financial statements to an appropriately low level. This means that we focus our audit effort in areas that we believe have a higher risk of being materially misstated and do less audit work in areas that are only low risk.

To assess risk accurately, we need to have a clear understanding of the Society's business and the environment it operates in. Much of our understanding is obtained through discussions with management and their staff. We appreciate the information that you provided to us about your business, industry, competitive marketplace, internal controls or anything else that you felt was important to the audit as it corroborated what we had already learned from management and other sources, or it may have been new information to us. We also appreciate the insights that you provided to us on what you perceived to be risky in your Society as that made our audit more effective and efficient, which benefited all concerned.

The following sections provide more detail on our audit approach for Calgary Arts Academy Society for the year.

### **Audit Scope**

The scope of our audit of the financial statements of Calgary Arts Academy Society for the year ended August 31, 2004 included the following:

- An audit opinion on the society
- Preparation of the Audited Financial Statements as reported to Alberta Learning

### **Overall Audit Strategy**

The general audit strategies available to us are a "combined" audit approach or a "substantive" audit approach.

In a combined audit approach, we would obtain our assurance from a combination of tests of controls (compliance procedures) and substantive procedures (such as analysis of data and obtaining direct evidence as to the validity of the items). The combined strategy is more appropriate when there is a large number of transactions and when controls in the Society are strong. By obtaining some of our assurance from tests of controls, we can reduce the substantive procedures that need to be done. Under a substantive audit approach, all of our audit evidence is obtained through substantive procedures like analysis, confirmation, examination of documentary or electronic evidence, etc.

Based on our knowledge and experience with your Society, we used a substantive approach.

### **Materiality**

Materiality can be defined as follows:

*"A misstatement or the aggregate of all misstatements in financial statements is considered to be material if, in the light of surrounding circumstances, it is probable that the decision of a person who is relying on the financial statements, and who has a reasonable knowledge of business and economic activities (the user), would be changed or influenced by such misstatement or the aggregate of all misstatements. Ultimately, therefore, materiality decisions are based on professional judgement." (CICA Handbook S.5130, AuG-31)*

Materiality in an audit is used as a guide for planning the nature and extent of audit procedures and for assessing the sufficiency of audit evidence gathered. It is also used in evaluating the misstatements found and determining the appropriate audit opinion to express.

Since the determination of materiality is a matter of professional judgement, it is primarily dependent on our evaluation of the relative importance of accuracy in the financial statements to the various users of those statements. We have identified shareholders and long-term debt holders as the most important users of the Society's financial statements.

