

URBAN ACADEMY SOCIETY

Financial Statements

June 30, 2015



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COQUITLAM

INDEPENDENT AUDITORS' REPORT

2nd Floor Heron Centre
566 Lougheed Highway
Coquitlam, BC V3K 3S3
Telephone 604-936-4377
Fax 604-936-8376
www.eprcoq.com

To The Members of Urban Academy Society

We have audited the accompanying financial statements of Urban Academy Society, which comprise the statement of financial position as at June 30, 2015, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Urban Academy Society as at June 30, 2015, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

A handwritten signature in black ink that reads 'EPR'.

B.C.

CHARTERED PROFESSIONAL ACCOUNTANTS

Coquitlam,

September 4, 2015

URBAN ACADEMY SOCIETY

STATEMENT 1

STATEMENT OF OPERATIONS

Year Ended June 30, 2015

	2015	2014
Revenue		
Tuition and registration	\$ 1,347,237	\$ 1,084,713
Government grant	584,770	527,110
Out of school care	153,682	148,437
Parent auxiliary	149,839	155,676
Fees and levies	116,662	104,433
Donations	88,692	75,556
Special education	32,032	24,528
Interest income	17,773	35,232
	<u>2,490,687</u>	<u>2,155,685</u>
Expenditures		
Administration salaries and expenses	356,638	437,335
Advertising and promotion	38,973	44,238
Amortization	120,376	126,253
Bank charges and interest	2,734	3,126
Events and fundraising expenses	26,883	20,125
Grant expenses	904	1,219
Insurance	13,208	13,448
Interest on demand loan	40,538	-
Interest on long term debt	136,715	54,786
Out of school care salaries and expenses	88,069	82,199
Parent auxiliary expenses	157,154	146,284
Professional development	6,818	9,074
Professional fees	82,011	75,019
Rent	107,679	106,890
Repairs and maintenance	7,558	14,116
Subcontracts	70,018	76,863
Supplies	28,665	40,997
Utilities	13,769	12,265
Wages and benefits	943,538	898,118
	<u>2,242,248</u>	<u>2,162,355</u>
Excess (deficiency) of revenue over expenses for the year from operations	248,439	(6,670)
Writedown of property development cost - note 5	(444,762)	-
Excess of expenses over revenue for the year	\$ (196,323)	\$ (6,670)

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



URBAN ACADEMY SOCIETY
STATEMENT OF CHANGES IN NET ASSETS

STATEMENT 2

Year Ended June 30, 2015

	Invested in capital assets	Specified donations (note 10)	Unrestricted	2015	2014
Net assets (deficiency), beginning of year	\$ (410,508)	\$ 34,100	\$ 154,524	\$ (221,884)	\$ (215,214)
Excess of expenses over revenue for the year	(197,507)	15,400	(14,216)	(196,323)	(6,670)
Purchase of capital assets	25,867	-	(25,867)	-	-
Property related payments					
Property under development	1,267,178	-	(1,267,178)		
Repayment of mortgage principal	54,162	-	(54,162)	-	-
Parent equity fund used for property related payments	(342,779)	-	342,779	-	-
Loan proceeds used for property related payments	(1,050,000)	-	1,050,000	-	-
Net assets (deficiency), end of year	\$ (653,587)	\$ 49,500	\$ 185,880	\$ (418,207)	\$ (221,884)

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



URBAN ACADEMY SOCIETY

STATEMENT 3

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

	2015	2014
Cash flows from (for) operating activities:		
Excess of expenses over revenue for the year	\$ (196,323)	\$ (6,670)
Items not requiring an outlay of cash		
Amortization	120,376	126,253
Write-down of property under development	188,828	-
	112,881	119,583
Changes in non-cash working capital		
Decrease (increase) in accounts receivable	(8,882)	17,396
Decrease (increase) in government agencies recoverable	9,828	(20,417)
Increase in prepaid expenses	(25,171)	(22,662)
Increase (decrease) in accounts payable and accrued liabilities	69,616	(15,891)
Increase in deferred revenue	130,582	257,738
	288,854	335,747
Cash flows from (for) financing activities:		
Proceeds from bank demand loan	1,050,000	-
Proceeds from long-term debt	1,924,000	-
Repayment of long-term debt	(109,166)	(50,790)
Proceed from issuance of parent equity units	859,985	780,000
Redemption of parent equity units - students leaving	(425,000)	(515,000)
Redemption of units due to reduction of parent equity requirement to \$20,000 per student	(440,000)	-
	2,859,819	214,210
Cash flows from (for) investing activities:		
Deposit on property purchase	-	(145,000)
Purchase of capital assets	(25,867)	(122,942)
Property under development	(1,267,178)	(188,828)
	(1,293,045)	(456,770)
Increase in cash	1,855,628	93,187
Cash and cash equivalents, beginning of year	1,796,448	1,703,261
Cash and cash equivalents, end of year	\$ 3,652,076	\$ 1,796,448
Cash consist of		
Cash and cash equivalents	\$ 1,428,576	\$ 1,164,537
Restricted cash	2,223,500	631,911
	\$ 3,652,076	\$ 1,796,448

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

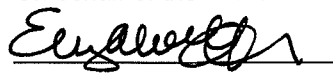



URBAN ACADEMY SOCIETY
STATEMENT OF FINANCIAL POSITION
 June 30, 2015

STATEMENT 4

	2015	2014
ASSETS		
Current:		
Cash and cash equivalents - note 2	\$ 1,428,576	\$ 1,164,537
Restricted cash - note 3	2,223,500	631,911
Accounts receivable	18,508	9,627
Government agencies recoverable	11,869	21,697
Prepaid expenses	57,758	32,587
Deposit on property purchase	-	145,000
	<u>3,740,211</u>	<u>2,005,359</u>
Capital assets - note 4	2,908,960	3,003,469
Property under development - note 5	1,412,178	188,828
	<u>\$ 8,061,349</u>	<u>\$ 5,197,656</u>
LIABILITIES AND NET DEFICIENCY		
Current:		
Accounts payable and accrued liabilities	\$ 118,585	\$ 48,970
Deferred revenue - note 6	1,101,668	971,087
Bank demand loan payable - note 8	1,050,000	-
Parent equity units due within one year- note 7	279,985	745,000
Current portion of long term debt - note 9	55,779	52,776
	<u>2,606,017</u>	<u>1,817,833</u>
Parent equity units- note 7	2,720,000	2,260,000
Long term debt - note 9	3,153,539	1,341,707
	<u>8,479,556</u>	<u>5,419,540</u>
Net deficiency		
Invested in capital assets	(653,587)	(410,508)
Specified donation	49,500	34,100
Unrestricted net assets	185,880	154,524
	<u>(418,207)</u>	<u>(221,884)</u>
	<u>\$ 8,061,349</u>	<u>\$ 5,197,656</u>

On behalf of the board


September 15, 2015 Date


SEPT 15, 2015 Date

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



URBAN ACADEMY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2015

NATURE OF BUSINESS

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Revenue Recognition

The Society recognizes tuition revenue as earned over the school year. Tuition received in advance of the school year is recorded as deferred revenue and will be recognized as revenue in the period to which it relates. Registration and application fees are recognized as revenue as received.

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

Donations are recognized as revenue as received. The fair value of in-kind donations is estimated by management.

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

Specified Donations

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

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits and term deposits maturing in less than one year.

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Capital assets and amortization

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

Buildings	4%	Declining balance
Computer equipment	30%	Declining balance
Computer software	100%	Declining balance
Furniture and equipment	20%	Declining balance
Textbooks	5 Years	Straight-line

Leasehold improvements are being amortized on a straight-line basis over 3 years; which is the time frame that the Society expects to be occupying the building.

Property Under Development

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

Impairment of Long-lived Assets

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

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Financial Instruments

Measurement of financial instruments

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

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

Financial assets measured at amortized cost include cash and cash equivalents, restricted cash, accounts receivable, other receivable and government agencies recoverable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, bank demand loan payable, parent equity units and long term debt.

Impairment

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

Transaction costs

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

Use of Estimates

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

2. CASH AND CASH EQUIVALENTS

The Society has credit facilities available to a limit of \$100,000, repayable on demand, bearing interest at the HSBC's prime rate plus 1.00%. The credit facility is secured by a \$100,000 term deposit. As at June 30, 2015, the Society has no funds drawn on its operating line of credit.



URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2015

3. RESTRICTED CASH

The Society has designated the following amounts as restricted cash:

	2015	2014
Cash from the parent equity units is restricted for the purpose of making property related payments and redeeming units in accordance with the parent equity unit offering memorandum	\$ 250,000	\$ 597,811
Cash from the issuance of a community bond is restricted for the construction of the new school facility and the renovation of the existing school facility (note 9)	1,524,000	-
Cash held in trust from private lenders is restricted for the construction of the new school facility and the renovation of the existing school facility (note 9)	400,000	-
Restricted donations are to be used for purposes that were specified by the donors	49,500	34,100
	\$ 2,223,500	\$ 631,911

4. CAPITAL ASSETS

	2015		2014	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings	\$ 2,102,039	\$ 534,269	\$ 1,567,770	\$ 1,633,095
Computer equipment	72,373	65,126	7,247	12,054
Computer software	2,548	2,548	-	-
Furniture and equipment	116,180	67,966	48,214	41,358
Land	1,255,868	-	1,255,868	1,255,868
Textbooks	41,145	37,199	3,946	10,551
Leasehold improvements	76,779	50,864	25,915	50,543
	\$ 3,666,932	\$ 757,972	\$ 2,908,960	\$ 3,003,469

The land and building is located at 101 3rd Avenue, New Westminster, BC (the "Robson Property") and has been pledged as security as described in notes 8 and 9.



URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2015

5. PROPERTY UNDER DEVELOPMENT

Property under development represents land and building purchase, development cost and incidental net rental income incurred in connection with acquisition and development of the property located at 228 Manitoba Street, New Westminster, BC (the "Manitoba Street Property").

The appraisal, survey and planning costs related to the same property have been expensed. It was considered capital in nature provided the development plan was approved by the City. As the Society's proposal was rejected, the expenditures no longer carry value and were expensed by management.

6. DEFERRED REVENUE

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

7. PARENT EQUITY UNITS

	2015	2014
Non-interest bearing parent equity units repayable 120 days after receipt of written notice of a student's withdrawal from the school. As of June 30, 2015, a total of 162 (2014 - 125) units are outstanding. The per unit amount is \$5,000 for Junior Kindergarten students and \$20,000 for all other students.	\$ 2,999,985	\$ 3,005,000
Less: current portion	279,985	745,000
	\$ 2,720,000	\$ 2,260,000

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

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

8. BANK DEMAND LOAN

The bank demand loan payable to First West Credit Union (FWCU) bears interest at the credit union's prime rate plus 1% per annum and is repayable in monthly interest only payment. The loan is subject to review by October 31, 2015.

The loan is secured by an inter alia collateral first mortgage in the amount of \$15,000,000 over the Manitoba Street Property and Robson Property, an assignment of rents, a general security agreement, a commercial promissory note for \$1,050,000 and an environmental indemnity agreement.

URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2015

9. LONG-TERM DEBT

	2015	2014
FWCU term loan is payable in monthly installments of \$8,798, including interest at a fixed rate of 3.77% per annum. The balance is due on October 31, 2017.	\$ 1,344,893	\$ 1,399,054
Series A, 4% secured community mortgage bonds issued on February 16, 2015 and due February 16, 2022. Interest payable on the principal can be deferred until 2017. Any deferred interest accrued will be deemed to have been converted to principal on the second anniversary date.	1,524,000	-
Loan payable to private lenders bearing interest at 8% per annum repayable in annual interest only payments. The loan is subject to a \$4,125 monthly loan administration fees until the entire loan of \$1,500,000 has been advanced. The loan is due November 14, 2019.	400,000	-
	3,268,893	1,399,054
Less: current portion	55,779	52,776
Less: mortgage fees paid	59,575	4,571
	\$ 3,153,539	\$ 1,341,707

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

The community mortgage bonds are secured by the Manitoba Street Property and Robson Property subordinate to FWCU demand and term loans.

The private loan is secured by a promissory note of \$1,500,000 and an inter alia mortgage to be secured by the Manitoba Street Property and Robson Property subordinate to FWCU demand and term loans. The loan is also secured by a specific charge on the Society's investment.

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

2016	\$ 55,778
2017	57,918
2018	1,171,621
2019	-
2020	400,000



URBAN ACADEMY SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2015

10. SPECIFIED DONATIONS

During the year, the Society received \$26,500 (2014 - \$8,900) of donations that have been designated to the specified donations fund. The expenses related to these specified donations totalled \$11,100 (2014 - \$9,627).

11. LEASE COMMITMENTS

The Society has entered into a lease agreement for a school facility with annual base rent of \$79,000 plus operating costs estimated at \$16,000 annually. The lease is an annual lease with an option to renew or extend annually until June 30, 2018.