

LA FONDATION MUSICACTION

FINANCIAL STATEMENTS

MARCH 31, 2012

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SUMMARY

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INDEPENDENT AUDITOR'S REPORT

To the Directors of La Fondation MUSICTION

We have audited the accompanying financial statements of La Fondation MUSICTION, which comprise the balance sheet as at March 31, 2012, and the statements of earnings, 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 generally accepted accounting principles, 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 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, the financial statements present fairly, in all material respects, the financial position of La Fondation MUSICTION as at March 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other matter

The financial statements of La Fondation MUSICTION for the year ended March 31, 2011 were audited by another auditor who expressed an unmodified opinion on those statements on June 13, 2011.

 (1)

Montreal
June 18, 2012

Monique Beaulieu, CPA Auditor, CGA, (1)

LA FONDATION MUSICACTION
STATEMENTS OF EARNINGS
FOR THE YEAR ENDED MARCH 31, 2012

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| | <u>2012</u> | <u>2011</u> |
|---|-------------------|--------------------|
| REVENUE | | |
| CONTRIBUTIONS | | |
| CANADA MUSIC FUND | | |
| New Musical Works | \$ 4,661,040 | \$ 4,765,315 |
| Collective Initiatives | 393,847 | 500,639 |
| Collective Initiatives – Music Showcase | 759,309 | 589,869 |
| International market development | 253,396 | 200,000 |
| Digital market development | 362,500 | 309,104 |
| Contributions from commercial radio broadcasters | | |
| Licence renewals | 551,582 | 837,200 |
| First Licence term | 390,062 | 397,987 |
| Transfer of ownership | 794,507 | 352,348 |
| Contributions from satellite radio broadcasters | | |
| First Licence term | 673,793 | 420,000 |
| Interest | 114,455 | 99,471 |
| | <u>8,954,491</u> | <u>8,471,933</u> |
| OPERATING EXPENSES | | |
| Financial contributions (Schedule 1) | 7,662,932 | 7,491,505 |
| Administrative and financing expenses (Schedule 2) | 883,222 | 1,005,643 |
| | <u>8,546,154</u> | <u>8,497,148</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE AMORTIZATION | <u>408,337</u> | <u>(25,215)</u> |
| Amortization of capital assets | 36,543 | 39,658 |
| Amortization of intangible assets | 29,883 | 22,810 |
| | <u>66,426</u> | <u>62,468</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES | <u>\$ 341,911</u> | <u>\$ (87,683)</u> |

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

LA FONDATION MUSICACTION
 STATEMENTS OF CHANGES IN NET ASSETS
 FOR THE YEAR ENDED MARCH 31, 2012

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| | <u>2012</u> | <u>2011</u> |
|---|----------------------------|----------------------------|
| UNRESTRICTED NET ASSETS | | |
| BALANCE - BEGINNING OF YEAR | \$ 4,213,181 | \$ 3,970,593 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES | 341,911 | (87,683) |
| Internally restricted | <u>(727,855)</u> | <u>330,271</u> |
| BALANCE - END OF YEAR | \$ <u>3,827,237</u> | \$ <u>4,213,181</u> |
| INTERNALLY RESTRICTED NETS ASSETS (note 9) | | |
| BALANCE - BEGINNING OF YEAR | \$ 3,135,773 | \$ 3,466,044 |
| Internally restricted | <u>727,855</u> | <u>(330,271)</u> |
| BALANCE - END OF YEAR | \$ <u>3,863,628</u> | \$ <u>3,135,773</u> |

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

LA FONDATION MUSICACTION**BALANCE SHEETS****AS AT MARCH 31, 2012****4**

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT | | |
| Cash | \$ 64,272 | \$ 187,155 |
| Demand deposit, 1%, maturing August 23, 2012 | 950,000 | 2,500,000 |
| Demand deposit, 1.20%, maturing December 22, 2012 | 500,000 | - |
| Accounts receivable (note 5) | 1,148,349 | 1,187,734 |
| Prepaid expenses | 12,725 | 14,731 |
| | <u>2,675,346</u> | 3,889,620 |
| TERM DEPOSITS , Interest rates ranging from 1.60% and 1.98%, maturing on July and December 2013 | 4,500,000 | 3,000,000 |
| CAPITAL ASSETS (note 6) | 544,077 | 563,026 |
| INTANGIBLE ASSETS (note 7) | 67,101 | 94,562 |
| | <u>\$ 7,786,524</u> | <u>\$ 7,547,208</u> |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | \$ 95,659 | \$ 198,254 |
| NET ASSETS (note 8) | | |
| Unrestricted net assets | 3,827,237 | 4,213,181 |
| Internally restricted net assets (note 9) | 3,863,628 | 3,135,773 |
| | <u>7,690,865</u> | <u>7,348,954</u> |
| | <u>\$ 7,786,524</u> | <u>\$ 7,547,208</u> |

APPROVED ON BEHALF OF THE BOARD

Pierre Rodrigue
President

Solange Drouin
Treasurer

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

LA FONDATION MUSICACTION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2012

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| | <u>2012</u> | <u>2011</u> |
|--|----------------------------|----------------------------|
| OPERATING ACTIVITIES | | |
| Contributions received from the CANADA MUSIC FUND | \$ 6,469,485 | \$ 6,174,287 |
| Contributions received from radio broadcasters | 2,409,944 | 2,007,535 |
| Administration fees received from FONDS RADIOSTAR | 35,000 | 35,000 |
| Interest received | 104,622 | 93,610 |
| Sales taxes received (paid) | 9,424 | (11,696) |
| | <u>9,028,475</u> | <u>8,298,736</u> |
| Financial contributions paid | 7,662,932 | 7,491,505 |
| Purchase of goods and services paid | 234,217 | 313,792 |
| Employee compensation paid | 784,192 | 669,671 |
| Interest paid | - | 1,832 |
| | <u>8,681,341</u> | <u>8,476,800</u> |
| | <u>347,134</u> | <u>(178,064)</u> |
| INVESTMENT ACTIVITIES | | |
| Purchase of property, plant and equipment | (17,595) | (11,747) |
| Purchase of other assets | (2,422) | (64,153) |
| Acquisition of term deposits | (2,000,000) | 1,000,000 |
| | <u>(2,020,017)</u> | <u>924,100</u> |
| FINANCING ACTIVITY | | |
| Repayment of long-term debt | - | (92,146) |
| INCREASE (DECREASE) IN CASH | (1,672,883) | 653,890 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>2,687,155</u> | <u>2,033,265</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR (note 10) | <u>\$ 1,014,272</u> | <u>\$ 2,687,155</u> |

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

1. STATUTES AND PURPOSE OF THE ORGANIZATION

La Fondation MUSICACTION was incorporated on September 9, 1985, as a non-profit organization without share capital, pursuant to Part II of the *Canada Business Corporations Act*.

La Fondation MUSICACTION is a non-profit organization whose objective is to assist in the promotion, managing, production, and marketing of sound recordings and video-clips in Canada or in foreign markets. To this end, La Fondation MUSICACTION offers financial contribution programs that are available to artists, record companies producers, publishers, managers, and distributors, and to Canadian authors and composers, as well as to associations.

Pursuant to the *Income Tax Act* (Canada) and the *Taxation Act* (Quebec), La Fondation MUSICACTION is classified as a non-profit organization, and therefore, is not subject to income taxes.

2. FUNDING OF THE ORGANIZATION

On April 19, 2010, two contribution agreements were signed between the Department of Canadian Heritage and La Fondation MUSICACTION for the administration of the Canada Music Fund and, more specifically, two programs entitled New Musical Works and Collective Initiatives. These agreements provide for the following annual contributions of \$4,178,790 for each of the years ended March 31, 2011 to 2015 and the following annual contributions for the Collective Initiatives program: \$1,599,612 for each of the years ended March 31, 2011 to 2013 and \$1,009,743 for of the years ended March 31, 2014 to 2015. The cumulative contributions received during the year amounted to \$ 4,661,040 (\$ 4,765,315 in 2011) for the New Musical Works Program and \$ 1,769,052 (\$ 1,599,612 in 2011) for the Collective Initiatives program. Under these agreements, a maximum of 13.5% of the contributions may be allocated to administrative and communication expenses, audit fees and assessment expenses incurred by La Fondation MUSICACTION.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were presented in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies.

Financial instruments

La Fondation MUSICACTION applies the recommendations of section 3861, Financial instruments – disclosure and presentation in the CICA Handbook according to which the following accounting treatments have been adopted:

Assets or liabilities held-for-trading

Financial instruments classified as assets or liabilities held for trading are recorded at their fair value on each balance sheet date, and any change in their fair value is recorded in the statement of earnings for the period during which these changes occurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments held until maturity

Financial instruments classified as investments held until maturity are accounted for at amortized cost using the effective interest rate method. Interest income is included in the earnings statements throughout the anticipated duration of the investment.

Revenue recognition

La Fondation MUSICTION uses the deferral method of accounting for all contributions. Contributions originating from the Canada Music Fund are accounted for based on financial contributions granted, while contributions from radio broadcasters are accounted for using the cash basis of accounting, with the exception of products for which a firm commitment has been given.

Contributions from radio broadcasters are an express underlying condition for obtaining and renewing their broadcast licences with the Canadian Radio-television and Telecommunications Commission (CRTC). In addition, in the case of transactions involving the acquisition of radio broadcasting companies, the CRTC specifically demands that the acquiring party make contributions to agencies that are dedicated to the development of Canadian talent. La Fondation MUSICTION benefits from a portion of these contributions, which have been accounted for as transfers of ownership.

Financial contributions

All of the programs offered by La Fondation MUSICTION are in the form of financial contributions and are accounted for as expenses when they have been fully allocated.

Property, plant and equipment

Property, plant and equipment are recorded at original cost. Amortization is calculated using the straight-line method based on the following periods:

| | |
|--------------------------------|----------|
| Condominium | 25 years |
| Furniture and office equipment | 7 years |
| Computer equipment | 4 years |
| Photocopier | 7 years |
| Telephone equipment | 10 years |

Intangible assets

Intangible assets are recorded at historical cost. Their amortization is calculated using the straight-line method over a four-year period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Contributed services**

Members of La Fondation MUSICACTION's Board of Directors attend Board meetings without compensation. The value of the time donated by these directors is not recorded in the financial statements, because it would be difficult to measure its fair value.

Cash and cash equivalents

For cash flow purposes, La Fondation MUSICACTION chooses to present cash and demand deposits for which the maturity date does not exceed three months from the date of acquisition and which are recognized at fair value.

Use of estimates

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses recorded during the year. Actual results may differ from those estimates and assumptions.

4. CAPITAL DISCLOSURES

With respect to its capital management, La Fondation MUSICACTION's objective is to preserve its ability to continue its operations in order to continue to comply with its purpose as described in Note 1, taking into account its financial resources which allow it to meet its remaining commitments and to pay financial contributions to new projects submitted.

Except for the fact that a maximum of 13.5% of the contributions may be allocated to administrative, communication, audit and assessment expenses, La Fondation MUSICACTION, under outside rules, is not subject to capital requirements.

5. ACCOUNTS RECEIVABLE

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Contributions – Department of Canadian Heritage | \$ 1,084,166 | \$ 1,123,559 |
| Accrued interest | 63,147 | 53,314 |
| Sales taxes | 1,036 | 10,461 |
| Other | - | 400 |
| | <u>\$ 1,148,349</u> | <u>\$ 1,187,734</u> |

6. CAPITAL ASSETS

| | <u>Cost</u> | <u>Accumulated amortization</u> | 2012 Net book value | 2011 Net book value |
|--------------------------------|-------------------|-------------------------------------|------------------------------------|---------------------------|
| Land | \$ 83,447 | \$ - | \$ 83,447 | \$ 83,447 |
| Condominium | 565,650 | 130,853 | 434,797 | 443,608 |
| Furniture and office equipment | 125,016 | 115,611 | 9,405 | 15,784 |
| Computer equipment | 69,756 | 53,803 | 15,953 | 19,158 |
| Photocopier | 12,638 | 12,638 | - | 454 |
| Telephone equipment | 18,068 | 17,593 | 475 | 575 |
| | <u>\$ 874,575</u> | <u>\$ 330,498</u> | <u>\$ 544,077</u> | <u>\$ 563,026</u> |

7. INTANGIBLE ASSETS

| | <u>Cost</u> | <u>Accumulated amortization</u> | 2012 Net book value | 2011 Net book value |
|----------------------------|-------------------|-------------------------------------|------------------------------------|---------------------------|
| Online registration system | \$ 98,506 | \$ 43,381 | \$ 55,125 | \$ 77,264 |
| Website | 21,288 | 9,312 | 11,976 | 17,298 |
| | <u>\$ 119,794</u> | <u>\$ 52,693</u> | <u>\$ 67,101</u> | <u>\$ 94,562</u> |

8. NET ASSETS

The balance of net assets is mainly the result of the accumulation of the contributions from radio broadcasters, loan repayments, and other revenue.

9. INTERNALLY RESTRICTED NET ASSETS

The Board of Directors allocated net assets in the amount of \$3,863,628 (2011: \$3,135,773) in order to cover the payment of commitments related to financial contributions for which La Fondation MUSICACTION was committed as at March 31, 2012, and to provide for administrative expenses related to monitoring and settling these commitments estimated at a maximum of 13.5%.

10. CASH AND CASH EQUIVALENTS, END OF YEAR

| | <u>2012</u> | <u>2011</u> |
|----------------|---------------------|---------------------|
| Cash | \$ 64,272 | \$ 187,155 |
| Demand deposit | <u>950,000</u> | <u>2,500,000</u> |
| | <u>\$ 1,014,272</u> | <u>\$ 2,687,155</u> |

11. RELATED PARTY TRANSACTIONS

During 2012, La Fondation MUSICACTION paid financial contributions to related enterprises totalling \$353,736 (\$470,040 in 2011). The parties are related owing the fact that their representatives are directors of the organization. These related enterprises satisfy all of the criteria established by La Fondation MUSICACTION, and as such, they do not benefit from any special status or privilege because of their representation on the Board of Directors.

Management declares that these transactions were concluded under the same terms and conditions as transactions with other applicants, and they are valued at the exchange amount.

12. COMMITMENTS

Financial contributions

As at March 31, 2012, La Fondation MUSICACTION is contractually committed to advance funds totalling \$3,342,038 (\$2,712,444 in 2011). Of this amount, a portion of \$218,664 (\$86,069 in 2011) represents commitments to related enterprises. In order to realize its commitments, La Fondation MUSICACTION will incur administrative expenses of a maximum of 13.5%.

13. FINANCIAL INSTRUMENTS

Fair value

The carrying amount of financial instruments is equivalent to their fair value because of their short-term nature.

13. FINANCIAL INSTRUMENTS (CONTINUED)

Credit, liquidity and cash flow risks

La Fondation MUSICACTION recorded contributions receivable from Canadian Heritage on March 31, 2012. They were received shortly after the end of the year. During the year, all the contributions provided for in agreements with Canadian Heritage were received.

However, these agreements provide that any payment made under these agreements be subject to the allocation of funds by the Parliament of Canada and the maintenance of current and future budget levels for programs.

The federal government may, at its discretion, reduce the funding or cancel these agreements after giving La Fondation MUSICACTION a 90-day notice. Should the funding end, La Fondation MUSICACTION shall be reimbursed for all costs incurred up to the effective date of the advance notice, subject to the terms and condition of the agreements.

In such a case, La Fondation MUSICACTION could be subject to the above-mentioned risks.

Market risk

The market risk related to investments is minimal since these assets are invested in bank deposits.

14. PENSION PLAN

La Fondation MUSICACTION has a defined contribution pension plan providing pension benefits to its employees with at least three months of service. Contributions to the pension plan represent 7% of the basic salary and are subject to the employee's voluntary contribution of 3.5%. The pension plan costs of \$41,730 (\$34,517 in 2011) are included in salary expenses in the statements of earnings.

15. COMPARATIVE FIGURES

Certain figures for the prior year have been reclassified to make their presentation identical to that adopted in the current year.

LA FONDATION MUSICACTION
COMPLEMENTARY FINANCIAL INFORMATION
FOR THE YEAR ENDED MARCH 31, 2012

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| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| SCHEDULE 1 – FINANCIAL CONTRIBUTIONS | | |
| New Musical Words | \$ 5,793,912 | \$ 5,702,075 |
| Collective Initiatives | 626,250 | 803,248 |
| Collective Initiative – Music Showcase | 709,770 | 545,807 |
| International market development | 219,370 | 173,000 |
| Digital market development | 313,630 | 267,375 |
| | <u>\$ 7,662,932</u> | <u>\$ 7,491,505</u> |

SCHEDULE 2 – ADMINISTRATIVE AND FINANCING EXPENSES

| | | |
|-----------------------------------|-------------------|---------------------|
| Salaries and fringe benefits | \$ 764,858 | \$ 711,172 |
| Fees – administrative support | 19,785 | 25,402 |
| Consulting fees | (20,780) | 173,744 |
| Audit fees | 26,650 | 5,700 |
| Communications | 28,390 | 18,139 |
| Committees and tours | 41,403 | 39,033 |
| Insurance | 9,348 | 10,285 |
| Maintenance and repairs | 9,963 | 2,924 |
| Electricity | 4,691 | 4,739 |
| Condominium fees | 4,500 | 4,250 |
| Furniture and office expenses | 16,525 | 24,552 |
| Property taxes | 3,724 | 3,211 |
| Courier and postage | 2,989 | 3,208 |
| Telecommunications | 6,176 | 12,452 |
| Interest on long-term debt | - | 1,832 |
| | <u>918,222</u> | <u>1,040,643</u> |
| Management fees – FONDS RADIOSTAR | <u>(35,000)</u> | <u>(35,000)</u> |
| | <u>\$ 883,222</u> | <u>\$ 1,005,643</u> |