

**K-W Oktoberfest Inc.**  
**Combined Financial Statements**  
**For the year ended November 30, 2019**

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## Independent Auditor's Report

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To the Members of  
K-W Oktoberfest Inc.

### Qualified Opinion

We have audited the combined financial statements of K-W Oktoberfest Inc., which comprise the combined statement of financial position as at November 30, 2019 and the combined statements of operations, changes in net assets and cash flows for the year then ended, and notes to the combined financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying combined financial statements present fairly, in all material respects, the financial position of K-W Oktoberfest Inc. as at November 30, 2019, and the results of operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

### Basis for Qualified Opinion

In common with many not-for-profit organizations, the organization derives revenue from events, sponsorships and non-monetary contributions, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the organization. Therefore, we were not able to determine whether any adjustments might be necessary to revenue, excess of revenue over expenses, and cash flows from operations for the years ended November 30, 2019 and 2018, current assets as at November 30, 2019 and 2018, and net assets as at December 1 and November 30 for both the 2019 and 2018 years. Our audit opinion on the combined financial statements for the year ended November 30, 2018 was modified accordingly because of the possible effects of this limitation in scope.

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 Combined 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 combined financial statements in Canada, and we have fulfilled our other 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 qualified audit opinion.

### Uncertainty Related to Going Concern

We draw attention to Note 1 in the combined financial statements, which indicates that the organization has incurred net losses over the last four fiscal years, and as at November 30, 2019 the organization's current liabilities exceeded its quick assets. As stated in Note 1, these conditions, along with other matters as set forth in Note 1, indicate that an uncertainty exists that may cast significant doubt on the organization's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



## **Responsibilities of Management and Those Charged with Governance for the Combined Financial Statements**

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

In preparing the combined 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 Combined Financial Statements**

Our objectives are to obtain reasonable assurance about whether the combined 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 combined 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 risk of material misstatement of the combined 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 combined 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 combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the organization to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Ontario  
February 24, 2020

**K-W Oktoberfest Inc.**  
**Combined Statement of Financial Position**

November 30	2019	2018
<b>Assets</b>		
<b>Current</b>		
Short-term investments (Note 3)	\$ 10,903	\$ 10,616
Accounts receivable (Note 4)	197,921	427,132
Inventory (Note 5)	126,657	103,790
Prepaid expenses and other assets	33,517	39,435
	368,998	580,973
<b>Tangible capital assets (Note 6)</b>	<b>853,554</b>	<b>952,238</b>
<b>Intangible assets (Note 7)</b>	<b>5,500</b>	<b>6,000</b>
	<b>859,054</b>	<b>958,238</b>
	<b>\$ 1,228,052</b>	<b>\$ 1,539,211</b>
<b>Liabilities and Net Assets</b>		
<b>Current</b>		
Bank indebtedness (Note 2)	\$ 221,432	\$ 30,710
Short-term loan	-	75,000
Accounts payable and accrued liabilities (Note 8)	37,987	190,555
Current portion of deferred contributions - capital (Note 9)	40,908	58,032
	300,327	354,297
<b>Deferred contributions - capital (Note 9)</b>	<b>213,038</b>	<b>253,949</b>
	<b>513,365</b>	<b>608,246</b>
<b>Net Assets</b>		
Unrestricted	34,579	220,782
Internally restricted capital assets	605,108	635,183
Internally restricted (Note 12)	75,000	75,000
	714,687	930,965
	<b>\$ 1,228,052</b>	<b>\$ 1,539,211</b>

Approved by the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

**K-W Oktoberfest Inc.**  
**Combined Statement of Changes in Net Assets**

For the year ended November 30	2019		2018	
	Unrestricted	Internally Restricted Capital Assets	Internally Restricted	Total
Net assets, beginning of year	\$ 220,782	\$ 635,183	\$ 75,000	\$ 930,965
Deficiency of revenue over expenses for the year	(177,285)	(38,993)	-	(216,278)
Net investment in tangible capital assets	(8,918)	8,918	-	-
<b>Net assets, end of year</b>	<b>\$ 34,579</b>	<b>\$ 605,108</b>	<b>\$ 75,000</b>	<b>\$ 714,687</b>
				<b>\$ 930,965</b>

**K-W Oktoberfest Inc.**  
**Combined Statement of Operations**

<b>For the year ended November 30</b>	<b>2019</b>	<b>2018</b>
<b>Revenue</b>		
Ticket sales (Note 11)	\$ 274,650	\$ 333,886
Concession sales	397,601	443,437
Merchandise	135,821	160,350
Accreditation fees	61,725	92,791
Sponsorship	524,014	669,689
Grants (Notes 9 and 10)	287,216	482,041
Service fees and other levies	218,868	341,304
	<u>1,899,895</u>	<u>2,523,498</u>
<b>Cost of merchandise, concession and ticket sales</b>	<u>272,005</u>	<u>237,150</u>
	<u>1,627,890</u>	<u>2,286,348</u>
<b>Expenses</b>		
Amortization	108,102	156,631
Facility, general and administrative	271,173	332,994
Marketing and promotion	194,580	291,054
Event production	766,432	1,093,389
Wages and benefits	503,881	561,388
	<u>1,844,168</u>	<u>2,435,456</u>
<b>Deficiency of revenue over expenses for the year</b>	<u>\$ (216,278)</u>	<u>\$ (149,108)</u>

## K-W Oktoberfest Inc. Combined Statement of Cash Flows

For the year ended November 30	2019	2018
<b>Cash flows from operating activities</b>		
Deficiency of revenue over expenses for the year	\$ (216,278)	\$ (149,108)
Items not involving cash		
Amortization of tangible capital assets	107,602	156,131
Amortization of intangible assets	500	500
Amortization of deferred contributions - capital	<u>(58,035)</u>	<u>(117,476)</u>
	(166,211)	(109,953)
<b>Changes in non-cash working capital balances</b>		
Accounts receivable	229,211	(187,790)
Inventory	(22,867)	50,056
Prepaid expenses and other assets	5,918	(4,386)
Accounts payable and accrued liabilities	<u>(152,568)</u>	<u>41,351</u>
	(106,517)	(210,722)
<b>Cash flows from investing activities</b>		
Purchase of tangible capital assets	(8,918)	(184,392)
Purchase of short-term investments	(10,903)	-
Proceeds on redemption of short-term investments	<u>10,616</u>	<u>165,312</u>
	(9,205)	(19,080)
<b>Cash flows from financing activities</b>		
Deferred contributions received	-	34,783
Proceeds from short-term loan	-	75,000
Repayment of short-term loan	<u>(75,000)</u>	<u>-</u>
	(75,000)	109,783
<b>Decrease in cash during the year</b>	(190,722)	(120,019)
<b>Cash (bank indebtedness), beginning of year</b>	<u>(30,710)</u>	<u>89,309</u>
<b>Bank indebtedness, end of year</b>	<u>\$ (221,432)</u>	<u>\$ (30,710)</u>

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



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# K-W Oktoberfest Inc.

## Notes to Combined Financial Statements

November 30, 2019

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### 1. Summary of Significant Accounting Policies

**Nature of Business** K-W Oktoberfest Inc. is incorporated without share capital under the laws of Ontario and is engaged in the operation of a Bavarian festival in Kitchener-Waterloo and surrounding municipalities.

KWO Productions Inc. was incorporated without share capital under the Canada Not-for-profit Corporations Act on August 2, 2018 and is engaged in supporting activities for K-W Oktoberfest Inc.

**Going Concern** The organization has incurred increasing operating losses over the last four years. The net loss for the year ended November 30, 2019 is \$216,278. The organization's current liabilities, excluding deferred contributions, exceeded its quick assets by \$50,595. As a result, there is uncertainty that may cast significant doubt as to whether the organization will have the ability to continue as a going concern.

The organization's ability to continue as a going concern is dependent upon the continued access to the organization's credit facilities with the chartered bank and achieving a profitable level of operations to provide it with sufficient funds to operate the business. If the organization is unable to achieve the above, there is a possibility that the organization may be unable to continue to realize its assets and to discharge its liabilities in the normal course of operations.

These combined financial statements are prepared on a going concern basis in accordance with Canadian accounting standards for not-for-profit organizations which assumes that the organization will be able to obtain adequate financing as required and realize its assets and discharge its liabilities in the normal course of operations. If the going concern assumption was not appropriate for these combined financial statements than adjustments would be necessary to the carrying value of the assets and liabilities.

**Basis of Accounting** The combined financial statements have been prepared using Canadian Accounting Standards for Not-for-Profit Organizations (ASNPO).

**Basis of Combination** These financial statements include the combined results of K-W Oktoberfest Inc. and KWO<sup>+</sup> Productions Inc. All intercompany transactions and balances are eliminated on combination.

**Income Taxes** Kitchener-Waterloo Oktoberfest Inc. and KWO Productions Inc. are non-profit organizations and as such are not subject to income tax.

**Inventory** Inventory is stated at the lower of cost and net realizable value. Cost is generally determined on first-in first-out basis.

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**K-W Oktoberfest Inc.**  
**Notes to Combined Financial Statements**

**November 30, 2019**

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**Tangible Capital  
Assets**

All tangible capital assets are recorded at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is as follows:

Glockenspiel	-	10 years straight line basis
Heritage Carillon	-	10 years straight line basis
Building	-	5% diminishing balance basis
Furniture and equipment	- 20 - 30%	diminishing balance basis
Computer hardware	-	30% diminishing balance basis
Computer software	-	100% straight line basis
Parade floats	-	10 years straight line basis
Signs	-	20% diminishing balance basis
Trailers	-	10% diminishing balance basis
Warehouse	-	25 years straight line basis

One-half of the annual rate is provided in the year of acquisition and disposal, except for the Glockenspiel and the Heritage Carillon which is amortized in equal amounts over a ten year period.

When a tangible capital asset no longer has any long-term service potential to the organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Any unamortized deferred contribution amount related to the tangible capital asset is recognized in revenue in the statement of operations, provided that all restrictions have been complied with.

When a tangible capital asset is disposed of, the difference between the net proceeds on disposition and the net carrying amount is recognized in the statement of operations. Any unamortized deferred contribution amount related to the tangible capital asset disposed of is recognized in revenue in the statement of operations, provided that all restrictions have been complied with.

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## K-W Oktoberfest Inc. Notes to Combined Financial Statements

November 30, 2019

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**Intangible Assets** Purchased intangible assets are recorded at cost. Intangible assets with finite lives are amortized over their estimated useful lives as follows:

	Method	Rate
Trademark	Straight Line	15 years

When an intangible asset no longer has any long-term service potential to the organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Any unamortized deferred contribution amount related to the intangible asset is recognized in revenue in the statement of operations, provided that all restrictions have been complied with.

**Revenue Recognition** The organization follows the deferral method of accounting for revenue. Restricted revenue is recognized as revenue in the year in which the related expenses are incurred. Unrestricted revenue is recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Merchandise and concession sales are recognized at the point of delivery of the product. Ticket revenue is recognized when the event occurs.

Restricted capital contributions are deferred and recognized as revenue over the useful life of the related tangible capital asset.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

**Contributed Services** Volunteers contribute thousands of hours per year to assist the organization to carry out its activities. Because of the difficulty of determining their fair value, contributed services are not recognized in the combined financial statements.

**Contributed Materials** Contributed materials are not recognized in the combined financial statements unless they would normally be purchased by the organization and their fair market value can be ascertained.

**Use of Estimates** The preparation of combined financial statements in accordance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates as additional information becomes available in the future. Significant estimates were used in the valuation of accounts receivable and inventory and the estimated useful lives of tangible capital assets.

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**K-W Oktoberfest Inc.**  
**Notes to Combined Financial Statements**

**November 30, 2019**

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**Financial Instruments** Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, equities traded in an active market and derivatives are reported at fair value, with any unrealized gains and losses reported in operations. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale and issue of financial instruments are expensed for those items remeasured at fair value and charged to the financial instrument for those measured at amortized cost.

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**K-W Oktoberfest Inc.**  
**Notes to Combined Financial Statements**

**November 30, 2019**

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**2. Bank Indebtedness**

	2019	2018
Bank balances	\$ 157,385	\$ 195,938
Less: Outstanding items	(378,817)	(226,648)
Bank indebtedness	\$ (221,432)	\$ (30,710)

The organization's bank accounts are held at one chartered bank and earn nominal interest.

The organization has available a bank demand operating loan facility with a limit of \$400,000, of which nil was outstanding at the year end. The facility bears interest at the prime rate plus 0.25% per annum and is secured by an assignment of fire and other perils insurance over business assets, a general security agreement, and a \$1,000,000 first collateral mortgage on the land and building at 17 Benton Street, Kitchener.

The organization has a business credit card facility with a limit of \$85,000 for operations. At year end, the organization had unused credit capacity of approximately \$84,900 on this facility.

The organization also has a letter of credit issued in favour of a vendor in the amount of \$34,000, of which nil was outstanding at the year-end.

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**3. Short-term Investments**

Short-term investments consist of a guaranteed investment certificate, 0.60%, maturing September 2020.

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**4. Accounts Receivable**

	2019	2018
Trade accounts receivable	\$ 184,145	\$ 301,382
Grants receivable	13,776	125,750
	\$ 197,921	\$ 427,132

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**K-W Oktoberfest Inc.**  
**Notes to Combined Financial Statements**

**November 30, 2019**

**5. Inventory**

	2019	2018
Inventory	\$ 126,657	\$ 131,990
Allowance for obsolete inventory	-	(28,200)
	\$ 126,657	\$ 103,790

**6. Tangible Capital Assets**

	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 180,000	\$ -	\$ 180,000	\$ -
Glockenspiel	286,618	141,563	286,618	112,901
Heritage Carillon	110,743	11,074	110,743	-
Building	894,188	586,681	894,188	570,496
Furniture and equipment	302,871	276,155	299,872	268,624
Computer hardware	259,585	235,782	257,226	226,087
Computer software	535,642	535,642	535,642	520,642
Parade floats	112,750	87,002	112,750	82,550
Signs	39,513	18,149	35,953	13,253
Trailers	24,731	14,618	24,731	13,494
Warehouse	224,587	211,008	224,587	202,025
	\$ 2,971,228	\$ 2,117,674	\$ 2,962,310	\$ 2,010,072
Net book value		\$ 853,554		\$ 952,238

**7. Intangible Assets**

	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Trademark	\$ 7,500	\$ 2,000	\$ 7,500	\$ 1,500
Net book value		\$ 5,500		\$ 6,000

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**K-W Oktoberfest Inc.**  
**Notes to Combined Financial Statements**

**November 30, 2019**

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**8. Accounts Payable and Accrued Liabilities**

Included in accounts payable and accrued liabilities are government remittances payable of \$1,321 (2018 - \$582).

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**9. Deferred Contributions - Capital**

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 311,981	\$ 394,674
Contributions received	-	34,783
Amounts amortized to revenue	<u>(58,035)</u>	<u>(117,476)</u>
Total deferred contributions - capital	253,946	311,981
Less: Current portion	<u>(40,908)</u>	<u>(58,032)</u>
	<u>\$ 213,038</u>	<u>\$ 253,949</u>

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**10. Government Assistance**

Grants recognized as revenue from the Cities of Kitchener and Waterloo and from the Regional Municipality of Waterloo amounted to \$114,601 (2018 - \$125,113). Grants from the Government of Canada amounted to \$114,577 (2018 - \$97,699) and grants from the Province of Ontario amounted to \$Nil (2018 - \$141,660). The remaining grants relate to tangible capital assets amortized into revenue over the life of the asset. Refer to Note 9 for more details.

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**11. Ticket Sales**

During the year, the Organization collected \$67,850 (2018 - \$141,643) of ticket sales revenue on behalf of the various Festenhallen participating in the Festival. As the organization was the agent of these sales, this amount is not included in ticket sales revenue.

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**12. Internally Restricted Fund**

The Internally Restricted Fund is used to fund building upgrades and large maintenance projects and working capital during periods of low cash flows. The fund's use is controlled by the Board of Directors.

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## K-W Oktoberfest Inc. Notes to Combined Financial Statements

November 30, 2019

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### 13. Commitments

The Organization has entered into a lease for an event premises expiring in October 2022 with the option to renew for an additional five years. Minimum lease payments are based on a set fee per ticket at gate. The organization has the ability to cancel the lease without penalty by providing six months written notice.

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### 14. Financial Instruments

#### Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The organization's financial instruments that are exposed to concentrations of credit risk relate primarily to accounts receivable and short-term investments. The organization's risk with respect to accounts receivable relates to corporate sponsors and it is mitigated through execution of written agreements and relevant credit checks on sponsors and customers. The organization has deposited its short-term investments with a reputable financial institution, from which management believes the risk of loss to be remote. The exposure to credit risk is unchanged from prior year.

#### Liquidity Risk

Liquidity risk is the risk that the organization encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the organization will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which are less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable and accrued liabilities and bank indebtedness. The exposure to liquidity risk is unchanged from prior year.

#### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The organization is exposed to interest rate risk arising from the possibility that changes in interest rate will affect the value of fixed income denominated investments. In addition, the organization is exposed to interest rate risk on its floating interest rate operating facility. The exposure to interest rate risk is unchanged from prior year.

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### 15. Comparative Amounts

Certain comparative figures presented in the combined financial statements have been reclassified to conform with the current year's presentation.

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