

K-W Oktoberfest Inc.
Combined Financial Statements
For the year ended November 30, 2022

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Independent Auditor's Report

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, 2022 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, 2022, 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, 2022 and 2021, current assets as at November 30, 2022 and 2021, and net assets as at December 1 and November 30 for both the 2022 and 2021 years. Our audit opinion on the combined financial statements for the year ended November 30, 2021 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.



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
March 22, 2023

K-W Oktoberfest Inc.
Combined Statement of Financial Position

November 30	2022	2021
Assets		
Current		
Cash (Note 2)	\$ 117,716	\$ 306,775
Short-term investments (Note 3)	783,962	880,002
Accounts receivable (Notes 4)	324,924	201,610
Inventory (Note 5)	20,570	27,531
Prepaid expenses and other assets	40,849	14,988
	1,288,021	1,430,906
Tangible capital assets (Note 6)	296,203	256,520
Intangible assets (Note 7)	84,390	19,500
	380,593	276,020
	\$ 1,668,614	\$ 1,706,926
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities (Note 8)	117,897	44,979
Current portion of deferred contributions - capital (Note 10)	106,871	68,391
Deferred operating grant revenue	-	46,800
	224,768	160,170
Long-term debt (Note 9)	40,000	40,000
Deferred contributions - capital (Note 10)	181,566	104,182
	446,334	304,352
Net Assets		
Unrestricted	1,130,125	1,299,127
Internally restricted capital assets	92,155	103,447
	1,222,280	1,402,574
	\$ 1,668,614	\$ 1,706,926

Approved by the Board:

_____ Director

_____ Director

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

For the year ended November 30			2022	2021
	Unrestricted	Internally Restricted Capital Assets	Total	Total
Net assets, beginning of year	\$ 1,299,127	\$ 103,447	\$ 1,402,574	\$ 560,833
Excess (deficiency) of revenue over expenses for the year	(152,599)	(27,695)	(180,294)	841,741
Net investment in tangible and intangible capital assets	(201,166)	201,166	-	-
Deferred contributions received for tangible capital assets	184,763	(184,763)	-	-
Net assets, end of year	\$ 1,130,125	\$ 92,155	\$ 1,222,280	\$ 1,402,574

K-W Oktoberfest Inc.
Combined Statement of Operations

For the year ended November 30	2022	2021
Revenue		
Ticket sales	\$ 71,909	\$ 21,327
Concession sales	36,904	2,465
Merchandise	65,151	57,826
Sponsorship	335,000	238,750
Grants	881,341	322,407
Service fees, fundraising and other levies	58,830	12,686
	1,449,135	655,461
Cost of merchandise, concession and ticket sales	26,208	43,590
	1,422,927	611,871
Expenses		
Amortization	96,594	80,588
Facility, general and administrative	266,298	145,229
Marketing and promotion	151,213	24,026
Event production	682,069	200,006
Wages and benefits	473,829	341,874
	1,670,003	791,723
Deficiency of revenue over expenses before other income	(247,076)	(179,852)
Other income		
Canada emergency wage subsidy (Note 11)	-	156,876
Canada emergency business account loan forgiveness (Note 9)	-	10,000
Canada emergency rent subsidy (Note 11)	6,394	24,062
Tourism and hospitality recovery program (Note 11)	60,388	-
Gain on disposal of tangible capital assets	-	830,655
	66,782	1,021,593
Excess (deficiency) of revenue over expenses for the year	\$ (180,294)	\$ 841,741

K-W Oktoberfest Inc.
Combined Statement of Cash Flows

For the year ended November 30	2022	2021
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses for the year	\$ (180,294)	\$ 841,741
Items not involving cash		
Amortization of tangible capital assets	71,016	70,088
Amortization of intangible assets	25,578	10,500
Amortization of deferred contributions - capital	(68,899)	(46,048)
Amortization of deferred contributions - operations	(46,800)	-
Gain on disposal of tangible capital assets	-	(830,655)
Allowance for inventory obsolescence	-	16,310
Canada emergency business account loan forgiveness	-	(10,000)
	<u>(199,399)</u>	<u>51,936</u>
Changes in non-cash working capital balances		
Accounts receivable	(123,314)	(22,263)
Inventory	6,961	3,093
Prepaid expenses and other assets	(25,861)	3,779
Accounts payable and accrued liabilities	72,918	20,634
Deferred operating grant revenue	-	46,800
	<u>(268,695)</u>	<u>103,979</u>
Cash flows from investing activities		
Purchase of tangible capital assets	(110,699)	-
Purchase of intangible assets	(90,468)	-
Purchase of short-term investments	(3,960)	(869,000)
Proceeds on redemption of short-term investments	100,000	-
Proceeds on sale of tangible capital assets	-	1,246,141
	<u>(105,127)</u>	<u>377,141</u>
Cash flows from financing activities		
Deferred contributions received	184,763	49,000
Proceeds from long-term debt	-	20,000
	<u>184,763</u>	<u>69,000</u>
Increase (decrease) in cash during the year	(189,059)	550,120
Cash (bank overdraft), beginning of year	<u>306,775</u>	<u>(243,345)</u>
Cash, end of year	<u>\$ 117,716</u>	<u>\$ 306,775</u>

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

K-W Oktoberfest Inc.
Notes to Combined Financial Statements

November 30, 2022

1. Summary of Significant Accounting Policies

Nature of Business	<p>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.</p> <p>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.</p>
Basis of Accounting	<p>The combined financial statements have been prepared using Canadian Accounting Standards for Not-for-Profit organizations (ASNPO).</p>
Basis of Combination	<p>These financial statements include the combined results of K-W Oktoberfest Inc. and KWO Productions Inc. All intercompany transactions and balances are eliminated on combination.</p>
Income Taxes	<p>K-W Oktoberfest Inc. and KWO Productions Inc. are non-profit organizations and as such are not subject to income tax.</p>
Inventory	<p>Inventory is stated at the lower of cost and net realizable value. Cost is generally determined on first-in first-out basis.</p>

K-W Oktoberfest Inc.
Notes to Combined Financial Statements

November 30, 2022

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
Furniture and equipment	-	20 - 30%	diminishing balance basis
Computer hardware	-	30%	diminishing balance 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 contributes to an organization's ability to provide goods and services, or the future economic benefits or service potential of the tangible capital asset is less than its carrying value, the excess of its net carrying amount over its fair value or replacement cost 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.

K-W Oktoberfest Inc.
Notes to Combined Financial Statements

November 30, 2022

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
Website	Straight Line	3 years

When an intangible asset no longer contributes to an organization's ability to provide goods and services, or the value of future economic benefits or service potential of the intangible asset is less than its net carrying amount, the excess of its net carrying amount over its fair value or replacement cost 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.

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.

K-W Oktoberfest Inc.
Notes to Combined Financial Statements

November 30, 2022

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, inventory and the estimated useful lives of tangible capital assets.
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.

K-W Oktoberfest Inc.
Notes to Combined Financial Statements

November 30, 2022

2. Cash

	<u>2022</u>	<u>2021</u>
Bank balances	\$ 224,271	\$ 369,925
Less: Outstanding items	<u>(106,555)</u>	<u>(63,150)</u>
Cash	<u>\$ 117,716</u>	<u>\$ 306,775</u>

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

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 \$81,064 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.

Both facilities are secured by a security agreement granting a first security interest in all present and after acquired personal property, to be registered in the jurisdiction of Ontario for \$119,000 which is secured by a guaranteed investment certificate.

3. Short-term Investments

Short-term investments consist of guaranteed investment certificates, with interest rates of 1.05% to 5.1% and maturing between June and September 2023.

4. Accounts Receivable

	<u>2022</u>	<u>2021</u>
Trade accounts receivable	\$ 188,447	\$ 41,673
Grants receivable	145,477	161,437
Allowance for doubtful accounts	<u>(9,000)</u>	<u>(1,500)</u>
	<u>\$ 324,924</u>	<u>\$ 201,610</u>

K-W Oktoberfest Inc.
Notes to Combined Financial Statements

November 30, 2022

5. Inventory

	2022		2021	
Inventory	\$ 20,570		\$ 43,842	
Allowance for obsolete inventory	-		(16,311)	
	\$ 20,570		\$ 27,531	

6. Tangible Capital Assets

	2022		2021	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Glockenspiel	\$ 286,618	\$ 227,549	\$ 286,618	\$ 198,887
Heritage Carillon	110,743	44,296	110,743	33,222
Furniture and equipment	381,591	298,743	302,871	286,802
Computer hardware	276,675	258,668	270,392	252,298
Parade floats	129,980	101,220	112,750	95,906
Signs	65,067	39,411	65,067	32,996
Trailers	33,197	17,781	24,731	16,539
Warehouse	224,587	224,587	224,587	224,589
	\$ 1,508,458		\$ 1,212,255	
	\$ 296,203		\$ 256,520	

7. Intangible Assets

	2022		2021	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Trademark	\$ 7,500	\$ 3,500	\$ 7,500	\$ 3,000
Website	120,468	40,078	30,000	15,000
	\$ 127,968		\$ 37,500	
	\$ 84,390		\$ 19,500	

K-W Oktoberfest Inc.
Notes to Combined Financial Statements

November 30, 2022

8. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is government remittances refund of \$49,452 (2021 - \$6,801).

9. Long-term Debt

	2022	2021
Canada Emergency Business Account loan, bearing no interest, maturing on December 31, 2023	\$ 40,000	\$ 40,000

The Canada Emergency Business Account (CEBA) provided an interest-free loan of \$60,000. The agreement with respect to the CEBA loan payable contains a loan forgiveness for early repayment clause where if 75% of the first advance of \$40,000 and 50% of the second advance of \$20,000 is repaid on or prior to the initial term date of December 31, 2023, the bank will forgive the remaining balance of the loan amount as of the initial term date provided that an event of default has not occurred. If the \$40,000 in loan payments have not been made by December 31, 2023, the full outstanding balance will be converted to a 5% interest bearing loan to be repaid in monthly installments over a three year period ending December 31, 2026. The 25% forgiven portion of the first advance was recognized as revenue in 2020. The 50% forgiven portion of the second advance was recognized as revenue in 2021.

10. Deferred Contributions - Capital

	2022	2021
Balance, beginning of year	\$ 172,573	\$ 241,642
Contributions received	184,763	49,000
Amounts amortized to revenue	(68,899)	(46,048)
Amounts amortized to gain on disposal of tangible capital assets	-	(72,021)
Total deferred contributions - capital	288,437	172,573
Less: Current portion	(106,871)	(68,391)
	\$ 181,566	\$ 104,182

K-W Oktoberfest Inc.
Notes to Combined Financial Statements

November 30, 2022

11. Government Assistance

Grants recognized as revenue from the Cities of Kitchener and Waterloo and from the Regional Municipality of Waterloo amounted to \$118,607 (2021 - \$131,560). Grants from the Government of Canada amounted to \$577,243 (2021 - \$107,300) and grants from the Province of Ontario amounted to \$185,491 (2021 - \$47,500). The remaining grants relate to tangible capital assets amortized into revenue over the life of the asset. Refer to Note 10 for more details.

Due to the COVID-19 pandemic, the Federal Government of Canada announced the implementation of government assistance measures. Management has determined that the organization qualified for Canada Emergency Wage Subsidy (CEWS), Canada Emergency Rent Subsidy (CERS) and Tourism and Hospitality Recovery Program (THRP). Total assistance under CEWS was \$Nil (2021 - \$156,876) which was credited directly to income at year end. Total assistance under CERS was \$6,394 (2021 - \$24,062) which was credited directly to income at year end. Total assistance under THRP was \$60,388 which was credited directly to income at year end.

The relevant terms and conditions applicable in order to be eligible for the assistance are as follows:

- Applicants must have a CRA payroll account
- Be an eligible type of employer (excludes public institutions)
- Have experienced a drop in revenue

Applicants may be required to return all or part of the subsidy payment if:

- Amendments are required related to previous applications (changes in circumstance, calculation errors)
 - The CRA has reviewed the claim and reduced or denied the amount paid
 - Applicant no longer qualifies for the payment, after it is received
-

K-W Oktoberfest Inc.
Notes to Combined Financial Statements

November 30, 2022

12. Commitments

The organization has entered into an operating lease for a photocopier, expiring February 2028. The minimum annual lease payments for the next five year and thereafter are as follows:

Year	Amount
2023	\$ 3,262
2024	2,976
2025	2,976
2026	2,976
2027	2,976
Thereafter	<u>744</u>
	<u>\$ 15,910</u>

13. Uncertainty due to COVID-19 Pandemic

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Due to public health guidelines as a response to the pandemic, the organization shifted its programming from the traditional in-person format to virtual programming for the 2020 and 2021 festival seasons. However, in 2022 the organization operated an in-person festival as restrictions lifted. In response to the COVID-19 outbreak, the organization has leveraged the various government funding programs that have become available in response to the pandemic, reduced its cost structure and sold its land and building assets to generate additional liquidity. The organization continues to explore options other ways to modify the festival programming in order to celebrate the festival in accordance with local public health guidelines. The full magnitude that the pandemic will have on the organization's financial condition, liquidity and future results of operations is not determinable at this time.

K-W Oktoberfest Inc.
Notes to Combined Financial Statements

November 30, 2022

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 cash, 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 cash and short-term investments with a reputable financial institution, from which management believes the risk of loss to be remote.

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 long term debt.

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.
