

Consolidated Financial Statements of

**CIRCLE CRAFT
CO-OPERATIVE OF
BRITISH COLUMBIA**

Year ended December 31, 2019



INDEPENDENT AUDITORS' REPORT

To the Members of Circle Craft Co-operative of British Columbia

We have audited the accompanying consolidated financial statements of Circle Craft Co-operative of British Columbia, which comprise the statement of financial position as at December 31, 2019, the statements of operations, changes in net assets, and cash flows for the year then ended and notes, comprising 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 our 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, we consider 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 purposes 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.

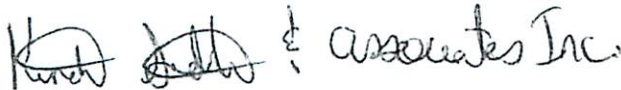
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Circle Craft Co-operative of British Columbia as at December 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other matters

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken.

 Kinder Sidhu & Associates Inc.

Chartered Professional Accountants

Abbotsford, British Columbia
April 6, 2020

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Consolidated Statement of Financial Position

December 31, 2019, with comparative figures for 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 714,788	\$ 327,782
Term deposits	-	300,000
Accounts receivable (Note 3)	690	10,717
Prepaid expenses	98,587	98,919
	<u>814,065</u>	<u>737,418</u>
Capital assets (Note 4)	37,508	44,076
	<u>\$ 851,573</u>	<u>\$ 781,494</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 39,462	\$ 33,788
GST and PST payable	18,857	40,379
Due to members	66,234	1,277
Management fees payable	27,555	30,102
Deposits on next year's booth sales	59,285	58,053
	<u>211,393</u>	<u>163,599</u>
Share capital (Note 5)	3,325	3,100
Net assets:		
Invested in capital assets	37,508	44,076
Unrestricted	599,347	570,719
	<u>636,855</u>	<u>614,795</u>
Commitments (Note 6)		
	<u>\$ 851,573</u>	<u>\$ 781,494</u>

On behalf of the Board of Directors:

Kaarina Talvila Director

Lorna Moffat Director

See accompanying notes to financial statements.

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Consolidated Statement of Operations

Year ended December 31, 2019, with comparative figures for 2018

	2019	2018
Revenue:		
Market revenues (Schedule 2)	\$ 1,032,388	\$ 1,049,327
Gallery revenues (Schedule 1)	348,668	327,680
Association dues (Schedule 3)	7,740	6,900
	<u>1,388,796</u>	<u>1,383,907</u>
Direct Cost:		
Gallery operating expenses (Schedule 1)	425,019	393,037
Market operating expenses (Schedule 2)	731,412	750,209
	<u>1,156,431</u>	<u>1,143,246</u>
Gross margin	232,365	240,661
Expenses:		
Market operating expenses (Schedule 2)	134,572	120,790
Association services (Schedule 3)	62,585	47,678
	<u>197,157</u>	<u>168,468</u>
Income before the undernoted	35,208	72,193
Other income (expenses):		
Amortization	(16,240)	(13,905)
Interest income	3,247	3,999
Loss on disposal of asset	(155)	-
	<u>(13,148)</u>	<u>(9,906)</u>
Excess of revenues over expenses	<u>\$ 22,060</u>	<u>\$ 62,287</u>

See accompanying notes to financial statements.

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2019, with comparative figures for 2018

	Invested in capital assets	Unrestricted	2019 Total	2018 Total
Balance, beginning of year	\$ 44,076	\$ 570,719	\$ 614,795	\$ 552,508
Excess of revenues over expenses	-	22,060	22,060	62,287
Purchase of capital assets	9,672	(9,672)	-	-
Amortization	(16,240)	16,240	-	-
Balance, end of year	\$ 37,508	\$ 599,347	\$ 636,855	\$ 614,795

See accompanying notes to financial statements.

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Consolidated Statement of Cash Flows

Year ended December 31, 2019, with comparative figures for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 22,060	\$ 62,287
Item not involving cash:		
Amortization	16,240	13,905
Changes in non-cash operating working capital:		
Accounts receivable	10,027	(9,172)
Prepaid expenses	332	(90,672)
Accounts payable and accrued liabilities	5,674	9,787
GST and PST payable	(21,522)	(3,153)
Due to members	64,957	(55,479)
Management fees payable	(2,547)	1,286
Deposits on next year's booth sales	1,232	(1,069)
	58,153	(148,472)
	96,453	(72,280)
Financing activities:		
Issuance of Co-operative shares	225	100
Investing activities:		
Purchase of capital assets	(9,672)	(17,567)
Redemption (purchase) of term deposits	300,000	(300,000)
	290,328	(317,567)
Change in cash	387,006	(389,747)
Cash, beginning of year	327,782	717,529
Cash, end of year	\$ 714,788	\$ 327,782

See accompanying notes to financial statements.

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Notes to Consolidated Financial Statements

Year ended December 31, 2019, with comparative figures for 2018

General:

Circle Craft Co-operative of British Columbia (the "Co-operative") was incorporated under the Co-operative Association Act of British Columbia on February 5, 1974. The Co-operative's main business activities are consignment sales of crafts and management of craft fairs.

The consolidated financial statements include the accounts of the Co-operative and its wholly owned subsidiary Pacific Canadian Craft Shows Ltd. All significant intercompany balances and transactions have been eliminated upon consolidation.

1. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations. The significant accounting policies are as follows:

(a) Fund accounting:

The Co-operative follows the restricted fund method of accounting for contributions. The fund classifications are as follows:

(i) Unrestricted fund:

The unrestricted fund is the general fund and includes unrestricted revenue, mainly related to the Co-operatives gallery and market activities.

(ii) Capital fund:

The amounts invested in capital assets includes all activities related to the Co-operative's capital assets.

(b) Cash and cash equivalents:

The Co-operative's policy is to disclose bank balances under cash and equivalents, including bank overdrafts with balances that fluctuate frequently from being positive to overdrawn and term deposits with a maturity period of three months or less from the date of acquisition. Bank balances and term deposits that the Co-operative cannot use for current transactions because they are pledged as security or otherwise restricted are also excluded from cash and cash equivalents.

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019, with comparative figures for 2018

1. Significant accounting policies (continued):

(c) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of the contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life or improve the service potential of an asset are capitalized. When a capital asset no longer contributes to the Co-operative's ability to provide services, its carrying amount is written down to its residual value, if any.

Amortization of capital assets is provided on a declining balance basis as follows:

Asset	Rate
Computer equipment	30-55%
Furniture and fixtures	20%
Website design and development	30%
Leasehold improvements	30%

In the year of acquisition, amortization is recorded at 50% of the amounts calculated using the above rates.

(d) Impairment of long-lived assets:

A long-lived asset is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value. Impairment losses are not reversed if fair value subsequently increases. No impairment provision was recorded as at December 31, 2019.

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019, with comparative figures for 2018

1. Significant accounting policies (continued):

(e) Revenue recognition:

Booth rentals are recognized when the craft market takes place, when collection of the relevant receivables is probable, when persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

Craft market gate receipts sales are recognized at the point of sale.

Gallery sales are recognized at the point of sale.

Association dues are recognized as revenue when the individual is approved for membership and full payment of fees are received or receivable.

Commissions are earned on the basis of 45% (2018 - 45%) for sales under \$1,000, and 40% (2018 - 40%) for sales over \$1,000, on sales of crafts consigned by a member and recognized at the point of sale.

Unrestricted contributions are recognized as revenue when received or receivable if the amounts to be received can reasonably be estimated and collection is reasonably assured.

(f) Financial instruments:

Measurement

The Co-operative initially measures all financial assets and liabilities at fair value. The Co-operative subsequently measures all equity investments that are quoted in an active market at fair value. All other financial instruments are measured at cost or amortized cost, unless management had elected to carry the financial instruments at fair value. The Co-operative has not elected to carry any such financial instruments at fair value. All changes to financial instruments measured at fair value are recognized in net income.

Free standing derivative instruments, such as forward exchange contracts, that are not in a qualified hedging relationship are subsequently measured at fair value.

Financial assets measured at cost or amortized cost includes cash and accounts receivables.

Financial liabilities measured at cost or amortized cost includes accounts payable, management fees payable and amounts due to members.

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019, with comparative figures for 2018

1. Significant accounting policies (continued):

(f) Financial instruments (continued):

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. If there is an indicator of impairment, the Co-operative determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carry value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Co-operative expects to realize by exercising its right to any collateral. The impairment provision may be reversed to the extent of any improvement, not exceeding the initial carrying value of the financial asset. The amount of any write-down or reversal is recognized in net income.

Derecognition

A financial asset is derecognized when the contractual rights to its cash flows expire, or the economic rights to substantially all rights and rewards have been transferred.

Transaction costs

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transactions costs incurred on acquisition and financing costs, which are amortized using the straight-line method or effective interest rate method.

(g) Future income taxes:

The Co-operative follows the asset and liability method of accounting for future income taxes. Under this method future income tax assets and liabilities are determined based on temporary differences (differences between the accounting basis and the tax basis of the asset and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Corporation's provision for the current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019, with comparative figures for 2018

1. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of these financial statements 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 revenues and expenses during the current year. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known.

Significant areas requiring the use of management estimates related to the collectability of accounts receivable, the useful lives of assets for amortization and the amounts recorded as accrued liabilities. Actual results could differ from those estimates.

(i) Allocation of expenses:

The Co-operative tracks and allocates its administrative overhead expenditures by identifying the purpose of each expenditure and allocating the expenditure to the specific operating division for which it was incurred.

(j) Foreign currency translation:

Transaction amounts denominated in foreign currencies are translated in to their Canadian dollar equivalents at exchange rates prevailing at the transactions dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet dates. Gains and losses on translation or settlement are included in the determination of net income for the current period.

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019, with comparative figures for 2018

2. Change in accounting policy:

The Co-operative has changed its accounting policy related to the allocation of administrative overhead expenditures between its operating divisions. Previously, administrative overhead expenditures were allocated by management based on historical estimates of 62% to gallery operating expenses and 38% to association services.

Management's new policy is to track administrative overhead expenses specifically for each operating division. As a result, these expenditures are now being allocated directly to the applicable operating division.

This change in accounting policy does not result in a change in the Co-operative's result of operations, statements of financial position or cash flows. The effect of this change has been to reclassify administrative overhead expenses between gallery operating expenses and association services expenses. The change has been applied retrospectively as follows:

		2018
Statement of operations:	\$	-
Gallery operating expenses		(1,625)
Market operating expenses		(4,103)
Association services		1,625
Amortization		4,103
Net change to revenues over expenses	\$	-

3. Accounts receivable:

		2019	2018
Accounts receivable	\$	690	\$ 14,547
Less: provision for doubtful accounts		-	3,830
	\$	690	\$ 10,717

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019, with comparative figures for 2018

4. Capital assets:

			2019	2018
	Cost	Accumulated depreciation	Net book value	Net book value
Computer equipment	\$ 53,205	\$ 48,871	\$ 4,334	\$ 6,076
Furniture and fixtures	246,736	221,500	25,236	26,660
Website design and development	50,406	49,196	1,210	1,728
Leasehold improvements	362,036	355,308	6,728	9,612
	\$ 712,383	\$ 674,875	\$ 37,508	\$ 44,076

5. Share capital:

	2019	2018
Authorized:		
Member shares		
Unlimited number of member shares with par value of \$5 each		
Issued:		
665 Member shares (2018 - 620 shares)	\$ 3,325	\$ 3,100

During the year, the Co-operative issued 85 shares and repurchased 40 shares (2018 - 40 issued and 20 repurchased shares) with a total of 133 members as at December 31, 2019 (124 members as at December 31, 2018).

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019, with comparative figures for 2018

6. Commitments:

The Co-operative has an agreement with Vancouver Convention Centre for its 2020 craft fair with an estimated fee of \$201,000. The Co-operative made payments of \$27,500 on July 26, 2019 and \$57,500 on November 20, 2019 for a total of \$85,000 to the Vancouver Convention Centre for the 2020 craft fair.

The Co-operative has entered into long-term leases for its premises. The lease expires on December 31, 2023. The lease commitments during the next four years are as follows:

2020	\$	60,582
2021	\$	65,850
2022	\$	65,850
2023	\$	65,850

7. Financial risks and concentration of risk:

Financial instruments are subject to risk and uncertainties such as credit risk, currency risk, interest rate risk, market risk, liquidity risk, other price risk and concentration risks. In management's opinion the Co-operative is exposed to the following risks:

Credit risk

Credit risk refers to the risk that a counterpart may default on its contractual obligations resulting in a financial loss. The Co-operative is exposed to credit risk with respect to accounts receivable. The Co-operative assesses, on a continuous basis, accounts receivable on the basis of amounts it is virtually certain to receive. There has been no change to the risk exposure from the prior year.

Liquidity risk

Liquidity risk is the risk the Co-operative will be unable to fulfil its obligations on a timely basis or at a reasonable cost. The Co-operative manages its liquidity risk by monitoring its operating requirements by the use of budgets and cash flow forecasts to ensure it has sufficient funds to fulfil obligations. The Co-operative is exposed to liquidity risk primarily from its accounts payable. The Co-operative's ability to meet its obligations depends on its ability to generate cash flows from operations, accounts payables are generally repaid within thirty days. There has been no change to the risk exposure from prior year.

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019, with comparative figures for 2018

8. Management compensation:

During the year ending December 31, 2019, the Co-operative paid management salaries and fees as detailed below:

	2019
Market management salaries	\$ 140,023
Gallery management salaries	65,213
Association management salaries	19,309
	<hr/> \$ 224,545 <hr/>

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Schedule 1- Consolidated Schedule of Gallery Operating Income

Year ended December 31, 2019, with comparative figures for 2018

	2019	2018
Gallery revenue:		
Gross sales	\$ 741,382	\$ 693,174
Commissions paid to members	(406,407)	(379,762)
Other gallery revenue	13,693	14,268
	<u>348,668</u>	<u>327,680</u>
Expenses:		
Advertising and promotion	3,816	9,272
Business taxes and licenses	942	204
Credit card fees	16,282	14,200
Insurance	3,765	3,747
Interest and bank charges	188	2,585
Office	3,083	4,011
Professional fees	6,219	5,213
Rent	108,315	103,849
Repairs and maintenance	397	1,470
Salaries and benefits	239,399	208,888
Security	371	371
Shipping	2,541	3,730
Supplies	31,794	28,837
Telephone, fax and internet	2,245	2,284
Theft and breakage	1,288	350
Utilities	1,812	2,207
Web maintenance	2,562	1,819
	<u>425,019</u>	<u>393,037</u>
	\$ (76,351)	\$ (65,357)

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Schedule 2- Consolidated Schedule of Market Operating Income

Year ended December 31, 2019, with comparative figures for 2018

	2019	2018
Revenue:		
Booth sales	\$ 752,112	\$ 758,831
Gate receipts	276,822	281,166
Other revenue	3,454	9,330
	<u>1,032,388</u>	<u>1,049,327</u>
Market expenses:		
Advertising	121,619	122,258
Awards	4,331	4,111
Displays and decorating	55,752	50,544
Entertainment	9,245	9,860
Equipment rental	14,251	9,926
Hall rental	274,755	276,482
Management salary and fees	140,023	174,240
Miscellaneous	9,812	5,211
Security	25,207	22,899
Storage	6,600	6,200
Ticketing	30,594	25,495
Wages and benefits	39,223	42,983
	<u>731,412</u>	<u>750,209</u>
Gross margin	300,976	299,118
Expenses:		
Bad debts (recovery)	(2,145)	3,578
Credit card fees	23,581	24,684
Insurance	3,727	3,747
Interest and bank charges	2,431	1,306
Office	18,465	15,049
Professional fees	9,750	9,875
Rent and parking	31,345	31,588
Salaries and benefits	36,174	18,267
Telephone, fax and internet	2,363	3,416
Travel	8,881	9,280
	<u>134,572</u>	<u>120,790</u>
	<u>\$ 166,404</u>	<u>\$ 178,328</u>

CIRCLE CRAFT CO-OPERATIVE OF BRITISH COLUMBIA

Schedule 3- Consolidated Schedule of Association Services

Year ended December 31, 2019, with comparative figures for 2018

	2019	2018
Association dues	\$ 7,740	\$ 6,900
Expenses:		
Board expenses	8,118	8,233
Interest and bank charges	571	-
Office	5,704	4,293
Professional fees	6,219	5,213
Salaries	35,352	25,939
Scholarship	6,621	4,000
	62,585	47,678
	\$ (54,845)	\$ (40,778)