PRIDE TORONTO

FINANCIAL STATEMENTS

JULY 31, 2011

Marinucci & Company
Chartered Accountants

1235 Bay Street
Suite 400
Toronto Ontario M5R 3K4
Tel 416 214 1555 Fax 416 596 1520

E-mail sam@marinucci.ca

Independent Auditors' Report

To the Directors of Pride Toronto

We have audited the accompanying financial statements of Pride Toronto, which comprise the balance sheet as at July 31, 2011, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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.

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

In common with many not-for-profit organizations, Pride Toronto derives revenues from donations and fundraising. In addition, Pride Toronto derives revenues from beverage sales. The completeness of these revenues is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the accounting records of Pride Toronto, and we were not able to determine whether any adjustments might be necessary to donations and fundraising revenues, beverage sales, excess of revenues over expenses, assets, liabilities and net assets.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the *Basis of Qualified Opinion* paragraph, the financial statements present fairly, in all material respects, the financial position of Pride Toronto as at July 31, 2011, and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matters

The financial statements of Pride Toronto for the year ended July 31, 2010 were audited by another firm of auditors, who expressed a modified opinion, under date of October 14, 2010, on those financial statements in respect to the matter described in the *Basis of Qualified Opinion.*

Marinucci & Company

Toronto Ontario
January 28, 2012

Chartered Accountants
Licensed Public Accountants

PRIDE TORONTO
(A not-for-profit organization)

Balance Sheet as at July 31, 2011

`

	2011	2010
ASSETS		
Current:		
Cash	**$ 25,853**	$ 12,957
Amounts receivable	**237,289**	267,081
Prepaid expenses	**16,197**	68,476
	279,339	348,514
Capital assets, net (Note 4)	**51,466**	70,207
	$ 330,805	$ 418,721
LIABILITIES		
Current:		
Bank Indebtedness (Note 3)	**$ 15,000**	**$** 168,189
Accounts payable and accrued liabilities	**188,112**	317,311
Current portion of capital lease obligations (Note 5)	**19,291**	17,027
	222,403	502,527
Capital lease obligations (Note 5)	**6,303**	25,595
	228,706	528,122
Commitments (Note 6)		
NET ASSETS		
Invested in capital assets	**25,871**	27,585
Accumulated surplus (deficit)	**76,228**	(136,986)
	102,099	(109,401)
	$ 330,805	$ 418,721

Approved by the Board ______________________ **Director**

______________________ **Director**

See accompanying Notes to Financial Statements

PRIDE TORONTO
(A not-for-profit organization)

Statement of Changes in Net Assets

For the year ended July 31, 2011

	Invested in capital assets	Unrestricted	Total 2011	Total 2010
Balance, beginning of year	**$ 27,585**	**$ (136,986)**	**$ (109,401)**	$ 322,407
Principal payments on capital lease obligations	**17,027**	**(17,027)**	**-**	-
Excess (deficiency) of revenues over expenses	**(18,741)**	**230,241**	**211,500**	(431,808)
Balance, end of year	**$ 25,871**	**$ 76,228**	**$ 102,099**	$ (109,401)

See accompanying Notes to Financial Statements

PRIDE TORONTO
(A not-for-profit organization)

Statement of Operations

For the year ended July 31, 2011

	2011	2010
REVENUES		
Sponsorships (Note 9)	**$ 1,073,502**	$ 1,469,027
Grants (Note 8)	**498,241**	709,025
Permits and fees	**231,542**	261,213
Beverage sales	**216,567**	249,194
Donations and fundraising	**93,416**	192,672
Media and guide advertising sales	**-**	92,499
Other	**9,446**	6,544
	2,122,714	2,980,174
EXPENSES		
Media and promotion (Note 9)	**481,114**	1,159,040
Salaries and benefits	**372,868**	529,666
Festival infrastructure	**317,694**	391,823
Office and administration (Notes 3, 5 and 9)	**243,773**	355,211
Beverage cost of sales (Note 9)	**150,094**	184,817
Occupancy (Note 6)	**140,594**	135,048
Entertainment and events	**86,492**	263,964
Volunteer costs (Note 9)	**34,861**	107,868
Insurance	**33,050**	28,993
Community outreach, fundraising and bursaries	**15,988**	183,235
Communications and security	**15,945**	58,532
Amortization of capital assets (Note 4)	**18,741**	13,785
	1,911,214	3,411,982
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	**$ 211,500**	$ (431,808)

See accompanying Notes to Financial Statements

PRIDE TORONTO
(A not-for-profit organization)

Statement of Cash Flows

For the year ended July 31, 2011

	2011	2010
Cash generated (used in):		
Operating activities		
Excess (deficiency) of revenues over expenses	**$ 211,500**	$ (431,808)
Add (deduct) items not involving cash:		
Amortization of capital assets	**18,741**	13,785
Impact on cash of changes in non-cash working capital items:		
Amounts receivable	**29,792**	185,907
Inventory	**-**	28,266
Prepaid expenses	**52,279**	(39,973)
Accounts payable and accrued liabilities	**(129,199)**	(116,533)
	183,113	(360,356)
Financing activities		
Increase (decrease) in bank indebtedness	**(153,189)**	168,189
Repayment of capital lease obligations	**(17,028)**	(12,677)
Proceeds of capital lease obligations	**-**	55,299
	(170,217)	210,811
Investing activities		
Purchase of capital assets	**-**	(56,794)
Increase (decrease) in cash	**12,896**	(206,339)
Cash, beginning of year	**12,957**	219,296
Cash, end of year	**$ 25,853**	$ 12,957

See accompanying Notes to Financial Statements

1. ORGANIZATION AND OPERATIONS

Pride Toronto ("PRIDE") is a not-for-profit organization incorporated without share capital on March 19, 1999 under the laws of Ontario to promote the LGBTTIQQ2SA (Lesbian, Gay, Bisexual, Transsexual, Transgender, Intersex, Queer/Questioning, 2spirited, Allies) communities.

As a not-for-profit organization, PRIDE is exempt from income taxes under the Income Tax Act (Canada).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles.

Basis of accounting

The accounts are prepared using the accrual basis of accounting, whereby revenues and expenses are recognized in the year they are earned or incurred respectively, whether or not such transactions have been settled by the receipt or payment of money.

Comparative figures

Certain 2010 comparative figures have been reclassified to conform with 2011 financial statement presentation. These reclassifications have no impact on the 2010 deficiency of revenues over expenses previously reported.

Revenue recognition

Revenues are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

PRIDE follows the deferral method of accounting for contributions, including grants. Under the deferral method, grants and contributions received in the year for expenditures to be incurred in the following year are recorded as deferred revenues on the balance sheet.

Non-monetary exchanges of goods and services are recorded at the fair market value of consideration received, as agreed upon by PRIDE and its vendors.

Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives. The annual amortization rates and methods are as follows:

Equipment	20% declining balance
Furniture and fixtures	20% declining balance
Computer equipment	20% declining balance
Equipment under capital leases – computers	20% declining balance

Capital asset expenditures individually in excess of $1,000 are capitalized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

PRIDE recognizes and classifies its financial instruments as follows:

- cash and bank indebtedness are classified as held-for-trading financial assets, and are measured at fair value, with changes in fair value recognized as they occur in the statement of operations;
- amounts receivable are classified as loans and receivables, and are measured at amortized cost, which is generally the initially recognized amount, less any allowance for doubtful accounts;
- accounts payable and accrued liabilities are classified as other liabilities and are measured at amortized cost using the effective interest method.

Contributed services

Volunteers contribute many hours annually to assist PRIDE in carrying out its activities. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. These estimates are reviewed periodically and adjustments are made to revenues and expenses as appropriate in the period they become known.

3. FINANCIAL INSTRUMENTS

Cash consists of cash on hand and on deposit in bank accounts held at a major Canadian bank.

The fair value of PRIDE`s amounts receivable and accounts payable and accrued liabilities approximates their carrying value due to the relatively short term to maturity of those instruments.

PRIDE is exposed to various risks through its financial instruments. Credit risk on amounts receivable is mitigated by close monitoring of outstanding balances and assessment of estimated realizable value.

PRIDE has available a demand revolving line of credit in the amount of $300,000 bearing interest at the bank prime rate plus 2.50%. This credit facility is secured by a general security agreement.

The bank covenant includes an obligation to maintain a balanced budget annually. At July 31, 2011, PRIDE was in compliance with this bank covenant.

Interest expense of $15,105 (2010 - $3,131) on the line of credit is classified as general and administration expense in the statement of operations.

PRIDE TORONTO
(A not-for-profit organization)

Notes to Financial Statements

July 31, 2011

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value 2011	Net Book Value 2010
Equipment	$ 24,662	$ 13,678	**$ 10,984**	$ 13,730
Furniture and fixtures	7,719	3,973	**3,746**	4,682
Computer equipment	14,825	10,992	**3,833**	4,791
	47,206	28,643	**18,563**	23,203
Equipment under capital leases – computers	$ 55,299	$ 22,396	**$ 32,903**	$ 419,028
	$ 102,505	$ 51,039	**$ 51,466**	$ 70,207

Amortization expense in the statement of operations includes $14,101 (2010 - $ 8,295) of amortization on equipment under capital leases.

5. CAPITAL LEASE OBLIGATIONS

The capital leases are recorded at an amount equal to the present value of the lease payments using the interest rate implicit in the leases. The implicit interest rate of these obligations is 13% and they mature from October 2012 to December 2012. The following is a schedule of future minimum lease payments under capital leases.

2012	**21,492**
2013	**6,405**
Total future minimum lease payments	**27,897**
Less amount representing interest	**2,303**
Present value of minimum net lease payments	**25,594**

Interest of $4,464 (2010 - $ 3,852) was paid on capital leases during the year. This interest is classified as general and administration expense in the statement of operations. The obligations under capital leases are secured by liens on the computer equipment leased.

6. COMMITMENTS

PRIDE has entered into a lease agreement to rent its office space until March 31, 2015 and a lease for an office photocopier. Lease payments to the expiry date of these leases are as follows:

2012	134,371
2013	141,121
2014	147,121
2015	98,405

7. CAPITAL MANAGEMENT

In managing capital, PRIDE focuses on liquid resources available for operations. PRIDE's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its mission. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget.

PRIDE also has available a demand revolving line of credit in the amount of $300,000, as described in Note 3.

As at July 31, 2011, PRIDE has met its objective of having sufficient liquid resources to meet its current obligations.

8. GRANTS REVENUES

	2011	2010
Government of Canada:		
Marquee Tourism Events Program	**$ 9,096**	$ (13,782)
Canadian Heritage	**-**	165,900
Canada Council for the Arts	**-**	100
Province of Ontario:		
Ministry of Tourism – Tourism Development Fund	**400,000**	300,000
Ontario Trillium Foundation	**(34,662)**	78,000
City of Toronto:		
Economic Development – Major Cultural Organization grant	**123,807**	123,807
Tourism Toronto	**-**	50,000
World Pride grant	**-**	5,000
	$ 498,241	$ 709,025

9. IN KIND SPONSORSHIPS

In accordance with PRIDE's accounting policy, non-monetary exchanges of goods and services are recorded in the accounts at fair value of the goods and services supplied by vendors.

Revenues include in kind sponsorship goods and services received of $465,239 (2010 - $891,131), with the corresponding expense amounts classified as follows:

	2011	2011
Media and promotion	**$ 442,639**	$ 821,131
Office and administration	**10,600**	40,000
Beverage cost of sales	**12,000**	15,000
Volunteer costs	**-**	15,000
	$ 465,239	$ 891,131