

Financial statements of

Artscape Non-Profit Homes Inc.

December 31, 2013

Artscape Non-Profit Homes Inc.

December 31, 2013

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Independent Auditor's Report

To the Directors of
Artscape Non-Profit Homes Inc.

We have audited the accompanying financial statements of Artscape Non-Profit Homes Inc., which comprise the statement of financial position as at December 31, 2013, 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. The financial statements have been prepared by management of Artscape Non-Profit Homes Inc. in accordance with the basis of accounting described in Note 2.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Note 2, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Artscape Non-Profit Homes Inc. as at December 31, 2013, and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting described in Note 2.

Basis of Accounting and Restriction on Use and Distribution

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Artscape Non-Profit Homes Inc. to comply with financial reporting provisions of the Acts referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Artscape Non-Profit Homes Inc. and the City of Toronto Shelter, Support and Housing Administration and should not be distributed to or used by parties other than Artscape Non-Profit Homes Inc. and the City of Toronto Shelter, Support and Housing Administration.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
June 18, 2014

Artscape Non-Profit Homes Inc.

Statement of financial position as at December 31, 2013

	2013	2012
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	70,094	55,363
Receivables	189,049	49,037
Capital reserve and capital replacement reserve funds (Note 8)	206,238	306,931
Due from City of Toronto Social Housing (Note 7)	56,885	54,324
	522,266	465,655
Capital assets (Note 3)	4,827,172	5,037,358
Capital work-in-process (Note 4)	159,772	154,589
	5,509,210	5,657,602
Liabilities		
Current liabilities		
Due to City of Toronto Social Housing	37,066	18,791
Accounts payable and accrued liabilities (Note 10)	137,544	113,011
Tenant deposits and rents received in advance	24,604	24,053
Deferred revenue - Strong Start Mortgage Subsidy	7,765	7,765
Deferred revenue - Housing Stabilization and Support Fund ("HSSF") (2013)	35,000	-
Current portion of long term debt (Note 6)	224,312	215,275
Due to related party (Note 5)	70,521	11,116
	536,812	390,011
Deferred capital contributions - work-in-process (Note 4)	166,456	161,145
Long term debt (Note 6)	4,503,934	4,727,753
	5,207,202	5,278,909
Net assets		
Capital reserve fund (Note 8)	86,832	212,679
Capital replacement reserve fund (Note 8)	119,406	94,252
Unrestricted	95,770	71,762
	302,008	378,693
	5,509,210	5,657,602

Approved by the Board

_____ Director

_____ Director

The accompanying notes to the financial statements are an integral part of this financial statement.

Artscape Non-Profit Homes Inc.

Statement of operations year ended December 31, 2013

	2013	2012
	\$	\$
Revenue		
City of Toronto Social Housing subsidy - regular (Note 7)	368,712	359,580
Affordable Housing Program ("AHP") mortgage subsidy	93,178	93,178
Due to City of Toronto (Note 7)	(16,475)	(17,873)
Net subsidy	445,415	434,885
Less allocated to Capital reserve fund (Note 8)	(42,871)	(43,151)
	402,544	391,734
Rental income	319,765	316,756
Interest and other	7,279	5,848
	729,588	714,338
Expenses		
Property expenses	190,443	186,181
Mortgage interest	184,112	203,246
Realty taxes	53,333	51,809
Administration and contract fees	66,922	58,870
Amortization	210,186	202,700
Other	584	674
	705,580	703,480
Excess of revenue over expenses for the year	24,008	10,858

The accompanying notes to the financial statements are an integral part of this financial statement.

Artscape Non-Profit Homes Inc.

Statement of changes in net assets year ended December 31, 2013

				2013	2012
	Capital replacement reserve fund	Capital reserve fund	Unrestricted fund	Total	Total
	\$	\$	\$	\$	\$
Balances, beginning of year	94,252	212,679	71,762	378,693	331,796
Excess of revenue over expenses for the year	-	-	24,008	24,008	10,858
Investment in Reserve funds (Note 8)	25,154	(125,847)	-	(100,693)	36,039
Balance, end of year	119,406	86,832	95,770	302,008	378,693

The accompanying notes to the financial statements are an integral part of this financial statement.

Artscape Non-Profit Homes Inc.

Statement of cash flows year ended December 31, 2013

	2013	2012
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	24,008	10,858
Item not involving cash		
Amortization	210,186	202,700
	234,194	213,558
Changes in non-cash operating assets and liabilities		
Receivables	(140,012)	(14,835)
Prepaid expenses	-	1,772
Due to related party	59,405	(6,420)
Accounts payable and accrued liabilities and due to City of Toronto		
Social Housing	42,808	(2,612)
Deferred revenue - HSSF (2013)	35,000	-
Due from City of Toronto Social Housing	(2,561)	19,178
Tenant deposits and rents received in advance	551	3,311
	229,385	213,952
Investing activities		
Reduction in (additions to) capital work-in-progress	(5,183)	5,861
Additions to (reductions in) deferred capital contributions - work-in-progress	5,311	(2,766)
Increase (decrease) in capital reserve investments	100,693	(36,039)
	100,821	(32,944)
Financing activities		
Decrease in long term debt	(214,782)	(207,104)
Increase in capital reserve funds	(100,693)	36,039
	(315,475)	(171,065)
Increase in cash and cash equivalents during the year	14,731	9,943
Cash and cash equivalents, beginning of year	55,363	45,420
Cash and cash equivalents, end of year	70,094	55,363

The accompanying notes to the financial statements are an integral part of this financial statement.

Artscape Non-Profit Homes Inc.

Notes to the financial statements

December 31, 2013

1. Establishment and operations

Artscape Non-Profit Homes Inc. ("ANPHI") was incorporated as a not-for-profit corporation on July 29, 1994 without share capital. ANPHI was created specifically to develop and manage those current and future projects of Toronto Artscape Inc. ("Artscape") intended to meet the affordable housing and live/work studio needs of low and middle income artists of all disciplines.

2. Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with Section 80 (2.) of the Housing Services Act and Section 113 (2) of the Ontario Social Housing Reform Act and guidance in its application by the City of Toronto. The basis of accounting used in these financial statements materially differs from Canadian Accounting Standards for Not-for-Profit Organizations ("ASNPOs") as follows:

- (a) Capital assets, consisting of the building and land at 900/906/910 Queen St. W. and the leasehold improvements and land at the Artscape Wychwood Barns, are recorded at cost less government and related grants and donations.
- (b) Amortization on the buildings is provided at a rate equal to the annual principal reduction of the related mortgage, rather than over the estimated useful lives of the assets.
- (c) The net book value of the building and land at 900/906/910 Queen St. W. at year end must equal the principal balance of the related mortgage loans.
- (d) Capital asset purchases, unless otherwise funded, are charged to the capital reserve account rather than being capitalized on the Statement of financial position and amortized over their estimated useful lives. Under the terms of the Ontario Social Housing Reform Act, ANPHI is required to establish the Capital reserve fund in order to finance capital asset purchases. The investments in the fund are to be maintained and accounted for separately from the corporation's other cash and investments. Income earned, both realized and unrealized, on the investment of the funds is allocated thereto.
- (e) A reserve for future capital replacement is appropriated annually from operations.

Canadian ASNPOs have been used in other respects in the preparation of these financial statements, as follows:

Revenue recognition

ANPHI uses the deferral method of accounting for revenue from operating activities. Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Grants and other amounts received to cover the cost of specific capital assets are deferred and recognized as revenue over the same amortization period as the related capital asset.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when ANPHI becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost.

The cost of financial instruments approximates their fair value due to their short-term nature.

Use of estimates

Canadian ASNPOs require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing these financial statements are reasonable and prudent. Actual results could differ from these estimates. Accounts requiring significant estimates and assumptions include accrued liabilities, deferred revenue, deferred capital contributions, and amortization expense.

Artscape Non-Profit Homes Inc.

Notes to the financial statements

December 31, 2013

3. Capital assets

			2013	2012
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
900/906/910 Queen St. W., Toronto, ON				
Building	2,698,359	851,536	1,846,823	1,932,729
Less: grants and restricted donations	(518,143)	-	(518,143)	(518,143)
Land	522,600	-	522,600	522,600
	<u>2,702,816</u>	<u>851,536</u>	<u>1,851,280</u>	<u>1,937,186</u>
Artscape Wychwood Barns				
Leasehold improvements	6,717,210	524,514	6,192,696	6,316,976
Land	627,472	-	627,472	627,472
Less: grants and restricted donations	(3,216,804)	-	(3,216,804)	(3,216,804)
Donated land	(627,472)	-	(627,472)	(627,472)
	<u>3,500,406</u>	<u>524,514</u>	<u>2,975,892</u>	<u>3,100,172</u>
	<u>6,203,222</u>	<u>1,376,050</u>	<u>4,827,172</u>	<u>5,037,358</u>

Artscape Wychwood Barns - residential portion

This project was completed in 2008. Upon completion, the residential component of the project, including all costs, related grants and debt financing, was transferred from Toronto Artscape Inc. to ANPHI which, as a non-profit housing provider, administers the residential component as part of its arrangement with the Canada-Ontario Affordable Housing Program and the Affordable Housing Office of the City of Toronto. The residential component consists of 26 units of affordable housing at Artscape Wychwood Barns.

4. Capital work-in-process and deferred capital contributions - work-in-process

During 2010, ANPHI was granted funding for six capital improvement projects at the 900 Queen Street West property under the Social Housing Retrofit Renovation Program ("SHRRP"). Costs for each of the six projects will be covered up to a specified maximum amount for each project. The total maximum amount to be funded for all projects is \$187,000. During 2013, ANPHI received \$5,311 from the City of Toronto (2012 - reimbursed \$2,766 to the City of Toronto) and spent \$5,183 (2012 - reimbursed costs of \$5,861) towards the projects.

5. Related party transactions and balance

Transactions

Toronto Artscape Inc. provides administrative services to ANPHI and full property management services for all projects developed and/or owned or leased by ANPHI.

Transactions during the year consisted of payments and charge-backs for miscellaneous operating expenses which occurred in the normal course of operations and included:

- Management fees of \$38,390 (2012 - \$37,454) charged to ANPHI by Artscape; and
- Rent of \$34,673 (2012 - \$33,500) charged by ANPHI to Artscape for the use of space at the Queen St. W. location.

Related party transactions are recorded at the exchange amount.

Artscape Non-Profit Homes Inc.

Notes to the financial statements

December 31, 2013

5. Related party transactions and balance (continued)

Balance

	2013	2012
	\$	\$
Due to Toronto Artscape Inc.	70,521	11,116

The amount is interest free and due on demand.

6. Long term debt

	2013	2012
	\$	\$
Artscape Wychwood Barns TD Canada Trust 20 year mortgage maturing April, 2029 with blended monthly principal and interest payments totaling \$17,941 beginning May 1, 2009. Interest rate is 5.98%. The mortgage was converted from an interim construction loan in March 2009	2,168,428	2,252,922
City of Toronto Sustainable Energy Fund totalling \$700,000 allocated between the residential portion (ANPHI \$400,000) and the arts and green components (Artscape \$300,000) of the Barns. The loan is to be repaid in 240 equal monthly installments of \$2,917 beginning May 1, 2009, with ANPHI's share being \$1,667. Interest on the loan is at 0% as long as the payments are up to date. If not, then interest is at the bank prime rate. Security on the loan is a promissory note provided by Toronto Artscape Inc.	306,671	326,670
Green Municipal Fund loan totalling \$600,000 allocated between the residential component (ANPHI - \$463,280) and the arts and green components (Artscape - \$136,720) of the Barns. The term of the loan is 20 years with semi-annual blended principal and interest payments totalling \$18,808 (ANPHI's share \$14,522) occurring February 20 and August 20 of each year. Interest is at the Government of Canada bond rate minus 1.5%.	386,794	406,582
Obligation under capital lease from sale/leaseback agreement with Lift Capital totalling \$700,000, allocated between the residential portion (ANPHI \$34,830) and the arts and green portions (Artscape \$665,170) of the Barns, in respect of the HVAC and geothermal systems. The term of the lease is seven years, expiring in December 2015 with equal monthly payments of \$11,231 (ANPHI's share \$559). Interest on the lease is calculated at 10.5%. At the end of the lease, Artscape has the option to purchase the equipment for \$70,000, renew the lease for a further seven years, or return all of the equipment to the lessor.	14,780	19,668
Balance carried forward	2,876,673	3,005,842

Artscape Non-Profit Homes Inc.

Notes to the financial statements

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6. Long term debt (continued)

	2013	2012
	\$	\$
Balance carried forward	2,876,673	3,005,842
900 Queen Street West Royal Bank 2.828% mortgage, repayable in monthly installments of \$11,606 including principal and interest, maturing September 1, 2015. The mortgage is secured by the property and a general assignment of rents.	1,851,573	1,937,186
	4,728,246	4,943,028
Less: current portion	(224,312)	(215,275)
Long-term portion	4,503,934	4,727,753

7. City of Toronto Social Housing subsidy

The Social Housing Reform Act for the Municipal Social Housing Programs of the City of Toronto applies to the project at 900/906/910 Queen St. W., Toronto, through to September 1, 2030. Under the agreement, the City provides a monthly subsidy to ANPHI which for 2014 is set at \$12,930 (2013 - \$12,600).

ANPHI has also entered into an affordable housing agreement with the City of Toronto in respect of the 26 residential units at Artscape Wychwood Barns (the residential component of the Barns). The City supplements ANPHI the difference between market rents and the actual rents received by ANPHI. The City will provide a monthly rent supplement of \$18,332 in 2014 (\$18,126 in 2013).

	Queen St. W. subsidy	Wychwood Barns rent supplement	Total
	\$	\$	\$
City of Toronto 2013 subsidy	153,000	292,415	445,415
City of Toronto 2012 subsidy	146,432	288,453	434,885

The City requires ANPHI to prepare an Annual Information Return ("AIR"), which is a summary of the corporation's financial and operating information. The total subsidy entitlement is calculated based on actual operations and is compared to the actual subsidy received to determine whether any subsidy amounts are repayable at year end. It has been determined that for the year ended December 31, 2013 ANPHI has an excess subsidy repayable of \$16,475 (2012 - \$17,873).

	2013	2012
	\$	\$
Due from City of Toronto		
900 Queen Street West	12,600	12,405
Artscape Wychwood Barns	42,485	41,919
	55,085	54,324

Artscape Non-Profit Homes Inc.

Notes to the financial statements

December 31, 2013

8. Capital reserve fund and capital replacement reserve fund

(a) Capital reserve fund - 900/906/910 Queen Street West

The Ontario Social Housing Reform Act, 2000, Regulation 339/01 - Part IV requires ANPHI to participate in a system for pooling capital reserves for investment purposes. This system requires that ANPHI's capital reserve fund be invested in Social Housing Investment Funds managed by SHSC Financial Inc., with Phillips, Hager & North as Portfolio Advisor.

In 2013, ANPHI was required to allocate an amount of \$17,732 (2012 - \$18,631) from the regular subsidy at 900 Queen St. W. from the City of Toronto to the capital reserve fund. Commencing January 2014, ANPHI is required to allocate \$17,819 from the regular subsidy to the capital reserve fund specific to 900 Queen St. W.

In addition, each year ANPHI is required to pay 50% of its operating surplus from the Queen St. W. social housing operations to the City of Toronto. However, in accordance with the Toronto City Guideline 2007-5, ANPHI is allowed to retain \$100 per unit of their annual net income that they would normally repay to the City, or the total share of operating income owed to the City, whichever is less providing that this amount is allocated to the capital reserve fund contribution.

	2013	2012
	\$	\$
Balance, beginning of year, January 1,	212,679	191,831
City of Toronto Social Housing - portion allocated from regular subsidy	17,732	18,631
Capital purchases	(147,620)	(3,600)
Income earned and unrealized gains	4,041	5,817
	(125,847)	20,848
Balance, end of year, December 31,	86,832	212,679

Capitals purchases are comprised of:

	2013	2012
	\$	\$
Plumbing and heating, ventilation and air conditioning	116,724	-
Elevator	14,240	3,600
Building envelope	16,656	-
Balance, end of year	147,620	3,600

(b) Capital replacement reserve fund - Artscape Wychwood Barns

Under the affordable housing agreement for Artscape Wychwood Barns, ANPHI is required to establish a replacement reserve fund of 8% of the projects annual revenue. One-half of this amount (4% of revenue) is to be allocated to a separate reserve account maintained at the Toronto Dominion Bank as required by the Canada Mortgage and Housing Corporation. The remainder of the fund is managed by Phillips, Hager & North.

For 2013, ANPHI has set up a provision of \$25,154 (2012 - \$24,520) towards the capital replacement reserve fund.

	2013	2012
	\$	\$
Balance, beginning of year, January 1,	94,252	79,061
Capital purchases	-	(9,329)
Affordable Housing Program - provision for capital replacement reserve	25,154	24,520
Balance, end of year, December 31,	119,406	94,252

Artscape Non-Profit Homes Inc.

Notes to the financial statements

December 31, 2013

9. Commitments

Artscape Wychwood Barns

The property is leased from the City of Toronto, beginning March 26, 2006, under terms which require annual rental payments of \$1. The lease is for a term of 50 years, less one day.

10. Government remittances

There are no outstanding government remittances as at December 31, 2013 and 2012.