

Financial statements of

Toronto Artscape Inc.

December 31, 2012 and 2011

Toronto Artscape Inc.

December 31, 2012 and 2011

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Independent Auditor's Report

To the Directors of
Toronto Artscape Inc.

We have audited the accompanying financial statements of Toronto Artscape Inc., which comprise the statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, the statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011, 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 Toronto Artscape Inc. as at December 31, 2012, December 31, 2011, and January 1, 2011, and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011, in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
April 24, 2013

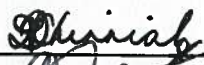
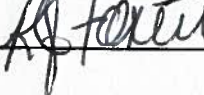
Toronto Artscape Inc.

Statements of financial position

as at December 31, 2012, December 31, 2011, and January 1, 2011

	December 31, 2012	December 31, 2011	January 1, 2011 (Note 2)
	\$	\$	\$
Assets			
Current assets			
Cash	168,260	245,675	1,033,532
Short-term deposits	-	300,000	859,670
Receivables	1,010,211	546,961	939,973
Prepaid expenses	69,959	77,806	42,983
Due from related parties (Note 4)	176,260	28,443	115,095
	1,424,690	1,198,885	2,991,253
Restricted cash (Note 14)			
Deposit in trust	181,214	480,000	480,000
Capital reserve fund	50,000	125,562	33,762
	231,214	605,562	513,762
Capital assets (Note 6 (a))	14,906,376	15,106,400	15,481,590
Capital assets under capital lease (Note 6 (b))	609,739	623,042	637,374
Capital work-in-progress (Note 6 (c))	13,843,709	8,258,566	5,846,698
	29,359,824	23,988,008	21,965,662
Artscape second mortgages (Note 5)	3,273,000	3,273,000	3,273,000
	34,288,728	29,065,455	28,743,677
Liabilities			
Current liabilities			
Lines of credit (Note 9 (a))	240,000	909,087	1,006,557
Accounts payable and accrued liabilities (Note 17)	2,429,313	1,309,650	1,339,865
Tenant deposits and rents received in advance	418,986	302,043	201,296
Deferred revenue (Note 12)	100,483	-	121,291
Short-term loans (Note 9 (b))	1,000,000	1,000,000	1,220,723
Current portion of long-term debt (Note 10 (c))	231,993	227,965	336,903
	4,420,775	3,748,745	4,226,635
Long-term debt (Note 10 (a))	10,815,441	6,724,388	6,368,378
Long-term obligation under capital lease (Note 10 (b))	284,433	377,307	460,757
	11,099,874	7,101,695	6,829,135
Deferred capital contributions (Note 7 (c))	14,932,302	14,319,766	13,899,287
Deferred capital contributions - unexpended (Note 8)	245,000	245,000	245,000
Artscape second mortgages (Note 5)	3,273,000	3,273,000	3,273,000
	18,450,302	17,837,766	17,417,287
Net assets			
Internally restricted	-	-	230,989
Capital reserves (Note 14)	50,000	125,720	33,762
Unrestricted	267,777	251,529	5,869
	317,777	377,249	270,620
	34,288,728	29,065,455	28,743,677

Approved by the Board

 Director
 Director

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

Toronto Artscape Inc.
Statements of operations
years ended December 31, 2012 and 2011

	2012	2011 (Note 2)
	\$	\$
Revenue		
City of Toronto - operating grant	264,000	264,020
TEDCO grant	-	243,708
Program and other grants (Note 12)	-	126,791
	264,000	634,519
Rental income	3,154,260	2,120,627
Management fees and project recovery	608,445	732,972
Artscape Gibraltar Point	247,584	304,661
Artscape Wychwood Barns Covered Street - Barn 2	365,516	349,350
Programs - Knowledge Exchange	165,515	97,577
Interest and other	11,903	4,107
Amortization of deferred capital contributions	350,543	329,428
	5,167,766	4,573,241
Expenses		
Property expenses	1,760,824	859,361
Salaries and benefits	625,006	684,270
Property rent	475,488	742,651
Interest on long-term debt	116,504	225,303
Artscape Gibraltar Point	306,042	257,334
Artscape Wychwood Barns Covered Street - Barn 2	412,793	350,887
Programs - Knowledge Exchange	206,383	292,946
Realty taxes	177,061	169,505
Administration and contract fees	459,469	360,946
Amortization	611,948	582,805
Outreach and others	-	32,562
	5,151,518	4,558,570
Excess of revenue over expenses for the year	16,248	14,671

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

Toronto Artscape Inc.

Statements of changes in net assets
years ended December 31, 2012 and 2011

	2012				2011		
	Capital reserves (Note 14)	Unrestricted	Total	Capital reserves (Note 14)	Internally restricted	Unrestricted	Total
	\$	\$	\$	\$	\$	\$	\$
Balances, beginning of year (Note 2)	125,720	251,529	377,249	33,762	230,989	5,869	270,620
Excess of revenue over expenses for the year	-	16,248	16,248	-	-	14,671	14,671
Annual capital contribution (Note 14)	17,300	-	17,300	100,158	-	-	100,158
Inter-fund transfer (Note 15)	-	-	-	-	(230,989)	230,989	-
Capital expenditures (Note 14)	(93,020)	-	(93,020)	(8,200)	-	-	(8,200)
Balances, end of year	50,000	267,777	317,777	125,720	-	251,529	377,249

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

Toronto Artscape Inc.
Statements of cash flows
years ended December 31, 2012 and 2011

	2012	2011 (Note 2)
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	16,248	14,671
Item not involving cash		
Amortization of deferred capital contributions	(350,543)	(329,428)
Amortization of capital assets	611,948	582,805
Changes in non-cash operating assets and liabilities		
Receivables	(463,250)	393,012
Prepaid expenses	7,847	(34,823)
Due from related parties	(147,817)	86,652
Restricted cash	374,348	(91,797)
Net capital reserves transactions (Note 14)	(75,720)	91,958
Accounts payable and accrued liabilities	1,119,663	(30,215)
Tenant deposits and rent received in advance	116,943	100,747
Deferred revenue	100,483	(121,291)
	1,310,150	662,291
Investing activities		
Capital work-in-progress	(5,585,143)	(2,495,886)
Acquisition of capital assets	(398,621)	(109,265)
	(5,983,764)	(2,605,151)
Financing activities		
Decrease in line of credit and short-term loans	(669,087)	(318,193)
Deferred capital contributions	963,079	749,904
Increase in long-term debt and obligation under capital lease	4,002,207	163,622
	4,296,199	595,333
Decrease in cash and short-term deposits during the year	(377,415)	(1,347,527)
Cash and short-term deposits, beginning of the year	545,675	1,893,202
Cash and short-term deposits, end of year	168,260	545,675
Cash and short-term deposits are comprised of		
Cash	168,260	245,675
Short-term deposits	-	300,000
	168,260	545,675

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

Toronto Artscape Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

1. Establishment and operations

Toronto Artscape Inc. ("Artscape") was incorporated as a not-for-profit corporation without share capital on January 24, 1986 with the following mandate:

- (i) to create and manage sustainable and affordable spaces in which artists live and or work, including galleries, studios and performance spaces.
- (ii) to seek, purchase and own property, and to carry out any agreements and conditions required for such activities.
- (iii) to enhance communities through arts, culture and creativity.
- (iv) to educate the public and increase its understanding of arts, culture and creativity and their importance by offering or sponsoring courses, seminars, conferences and meetings, publication of materials and otherwise collecting and disseminating information.

2. Adoption of the new accounting standards

During the year ended December 31, 2012, Artscape adopted the new Canadian accounting standards for not-for profit organizations ("ASNPOs") issued by the Canadian Institute of Chartered Accountants ("CICA"). In accordance with Section 1501 of the CICA Handbook, "First-time adoption", ("Section 1501"), the date of transition to ASNPOs is January 1, 2011 and Artscape has presented an opening statement of financial position as at that date. This opening statement of financial position is the starting point for Artscape's accounting under ASNPOs. In its opening statement of financial position, under the recommendations of Section 1501, Artscape:

- i) recognized all assets and liabilities, the recognition of which is required by ASNPOs;
- ii) did not recognize items as assets or liabilities if ASNPOs do not permit such recognition, and;
- iii) applied ASNPOs in measuring all recognized assets and liabilities.

In accordance with the requirements of Section 1501, the accounting policies set out in Note 3 have been consistently applied to all years presented. Artscape has not applied any of the exemptions available under Section 1501, as it has determined there is no financial impact on the financial statements.

The adoption of ASNPOs has no impact on the previously reported statement of financial position as at January 1, 2011, or on the previously reported statements of operations, changes in net assets, and cash flows for the year ended December 31, 2011. Consequentially, a reconciliation of previously reported items to those reporting using ASNPOs has not been prepared.

3. Summary of significant accounting policies

These financial statements are prepared in accordance with ASNPOs.

a) *Capital assets*

Capital assets are recorded at cost less accumulated amortization. Capital assets are amortized as follows:

- Leasehold improvements at all locations - straight-line basis over the term of the respective leases.
- Furniture and equipment - straight-line basis over 5 years.
- The vehicle - straight-line basis over 10 years.
- Computers - straight-line basis over 5 years.

Toronto Artscape Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

3. Summary of significant accounting policies (continued)

a) *Capital work-in-progress*

Capital work-in-progress is recorded at cost and comprises capital assets under construction, including related costs (such as payroll, interest and financing costs), capital assets not yet placed in service, and pre-construction costs related to specific projects expected to be constructed. Amortization begins when the projects are complete and put into operation.

b) *Contributions for capital assets*

Grants and other amounts received to fund capital projects and to cover the costs of specific capital assets are deferred and recognized in revenue over the same amortization period as the related assets.

c) *Revenue recognition*

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

Other revenue, which includes rental and program income and management fees, is recorded on the accrual basis when the related service is performed.

d) *Donated goods and services*

Donated goods and services are recorded when a fair value can be reasonably estimated and they would otherwise be purchased if not donated.

A substantial number of volunteers have made significant contributions of their time to Artscape's programs and supporting services. The value of this contributed time is not reflected in these financial statements.

e) *Financial instruments*

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

f) *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, and deferred capital contributions.

4. Related parties

Artscape Regent Park Development Non-Profit Corporation

Artscape Regent Park Development Non-Profit Corporation ("ARPDC") was incorporated on September 7, 2010. ARPDC is a co-venturer with the Regent Park Development Corporation and Daniels Eastside Corporation in Regent Park Arts Non-Profit Development Corporation ("RPAD"), a joint venture corporation which was formed to develop the Regent Park Arts and Cultural Centre (renamed Daniels Spectrum). Artscape is the operator of Daniels Spectrum.

ARPDC is controlled by Artscape as the positions on the Board are appointed by Artscape.

Toronto Artscape Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

4. Related parties (continued)

Artscape Regent Park Development Non-Profit Corporation (continued)

Artscape pays for certain expenses of RPAD for which it is reimbursed. Receivables include \$135,855 (December 31, 2011 - \$147,338; January 1, 2011 - \$Nil) that is due from RPAD.

Toronto Artscape Foundation

On an ongoing basis, Artscape enters into various agency agreements with the Toronto Artscape Foundation to administer and carry out the Foundation's activities.

The Foundation was established as a registered charity on January 27, 2005 with the objectives of increasing the public's understanding of arts and culture through education and to provide support for Artscape's activities that are of a charitable nature.

During the year, the Foundation disbursed funds to Artscape totalling \$2,028,146 (2011 - 714,235) for its projects and activities.

Artscape Non-Profit Homes Inc.

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 Artscape's current and future projects intended to meet the affordable housing and live/work studio needs of low and middle income artists of all disciplines.

Artscape provides administrative services to ANPHI and full management services to all projects developed and/or owned or leased by ANPHI. During the year, Artscape charged management fees of \$37,454 (2011 - \$36,000) to ANPHI and ANPHI charged Artscape rent of \$33,500 (2011 - \$33,000) for space leased on the ground floor of 900 Queen Street West.

Due from related parties

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Due from Toronto Artscape Foundation	165,144	10,907	71,424
Due from Artscape Non-Profit Homes Inc.	11,116	17,536	43,671
	<u>176,260</u>	<u>28,443</u>	<u>115,095</u>

The amounts due to and from related parties consist of payments for various costs and expenses incurred in the ordinary course of business. All transactions were recorded at the exchange amount.

5. Artscape second mortgages

Artscape holds second mortgages totaling \$3,273,000 (December 31, 2011 - \$3,273,000; January 1, 2011 - \$3,273,000) on 48 individual condominium units at the Artscape Triangle Lofts in the form of shared appreciation mortgages. Upon resale, Artscape has the right to set the selling price of the unit and will collaborate with the unit owner to sell the property to qualified artists only. Artscape will be entitled to a share of the property's appreciation in value based upon a predetermined formula. Artscape's share of the appreciation will then be added to the value of the second mortgage which will be transferred to the new buyer of the unit.

Toronto Artscape Inc.

Notes to the audited financial statements December 31, 2012 and 2011

6. Capital assets

(a) Capital assets

	December 31, 2012		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Leasehold improvements			
Artscape Wychwood Barns Arts and green components	13,491,020	1,123,754	12,367,266
Distillery Historic District Buildings 58/59 and 74	3,036,412	1,516,965	1,519,447
1313 Queen St. W.	607,829	397,598	210,231
Artscape Gibraltar Point Centre for the Arts	608,638	322,036	286,602
Daniels Spectrum	422,296	21,115	401,181
Vehicle	40,100	32,307	7,793
Furniture and equipment	490,879	377,023	113,856
	18,697,174	3,790,798	14,906,376

	December 31, 2011		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Leasehold improvements			
Artscape Wychwood Barns Arts and green components	13,485,101	763,034	12,722,067
Distillery Historic District Buildings 58/59 and 74	3,036,413	1,352,409	1,684,004
1313 Queen St. W.	603,078	357,967	245,111
Artscape Gibraltar Point Centre for the Arts	594,785	281,807	312,978
Vehicle	31,750	27,025	4,725
Furniture and equipment	457,939	320,424	137,515
	18,209,066	3,102,666	15,106,400

	January 1, 2011		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Leasehold improvements			
Artscape Wychwood Barns Arts and green components	13,401,083	494,359	12,906,724
Distillery Historic District Buildings 58/59 and 74	3,036,413	1,187,853	1,848,560
1313 Queen St. W.	540,179	319,128	221,051
Artscape Gibraltar Point Centre for the Arts	585,115	241,924	343,191
Vehicle	31,750	26,350	5,400
Furniture and equipment	421,243	264,579	156,664
	18,015,783	2,534,193	15,481,590

Toronto Artscape Inc.
Notes to the audited financial statements
December 31, 2012 and 2011

6. Capital assets (continued)

(b) Capital assets under capital lease

	December 31, 2012		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Artscape Wychwood Barns HVAC and geothermal system	665,170	55,431	609,739

	December 31, 2011		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Artscape Wychwood Barns HVAC and geothermal system	665,170	42,128	623,042

	January 1, 2011		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Artscape Wychwood Barns HVAC and geothermal system	665,170	27,796	637,374

(c) Capital work-in-progress

	December 31, 2012		
	Balance beginning of year	Additions during year	Balance end of year
	\$	\$	\$
Artscape Triangle Lofts	3,034,233	179,480	3,213,713
Artscape YOUNGplace Launchpad	4,556,942	5,158,327	9,715,269
Widmer St. project	351,784	67,614	419,398
55 Mill Street	43,063	9,382	52,445
Artscape Wychwood Barns 210 Simcoe St.	13,404	10,811	24,215
Sterling Road	259,140	38,751	297,891
Future projects	-	60,144	60,144
	-	8,117	8,117
	-	52,517	52,517
	8,258,566	5,585,143	13,843,709

Toronto Artscape Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

6. Capital assets (continued)

(c) Capital work-in-progress

	December 31, 2011		
	Balance beginning of year	Additions during year	Balance end of year
	\$	\$	\$
Artscape Triangle Lofts	2,878,416	155,817	3,034,233
Artscape YOUNGplace	2,706,710	1,850,232	4,556,942
Launchpad	127,928	223,856	351,784
Widmer St. project	-	43,063	43,063
55 Mill Street	-	13,404	13,404
Artscape Wychwood Barns	133,644	125,496	259,140
	<u>5,846,698</u>	<u>2,411,868</u>	<u>8,258,566</u>

	January 1, 2011		
	Balance beginning of year	Additions during year	Balance end of year
	\$	\$	\$
Artscape Triangle Lofts	938,575	1,939,841	2,878,416
Artscape YOUNGplace	338,859	2,367,851	2,706,710
Launchpad	97,927	30,001	127,928
Artscape Wychwood Barns	-	133,644	133,644
	<u>1,375,361</u>	<u>4,471,337</u>	<u>5,846,698</u>

7. Deferred capital contributions

(a) Capital work-in-progress

	December 31, 2012		
	Balance beginning of year	Received during year	Balance end of year
	\$	\$	\$
Artscape YOUNGplace	869,981	394,786	1,264,767
Artscape Triangle Lofts	2,209,556	90,121	2,299,677
Launchpad	49,734	3,471	53,205
55 Mill Street	143,076	143,422	286,498
Artscape Wychwood Barns	350,000	-	350,000
	<u>3,622,347</u>	<u>631,800</u>	<u>4,254,147</u>

Toronto Artscape Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

7. Deferred capital contributions (continued)

(a) Capital work-in-progress (continued)

	December 31, 2011		
	Balance beginning of year	Received during year	Balance end of year
	\$	\$	\$
Artscape YOUNGplace	400,477	469,504	869,981
Artscape Triangle Lofts	2,205,984	3,572	2,209,556
Launchpad	-	49,734	49,734
55 Mill Street	-	143,076	143,076
Artscape Wychwood Barns	350,000	-	350,000
	2,956,461	665,886	3,622,347

	January 1, 2011		
	Balance beginning of year	Received during year	Balance end of year
	\$	\$	\$
Artscape YOUNGplace	100,000	300,477	400,477
Artscape Triangle Lofts	-	2,205,984	2,205,984
Artscape Wychwood Barns	-	350,000	350,000
	100,000	2,856,461	2,956,461

(b) Capital assets

	December 31, 2012		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Artscape Wychwood Barns			
Arts and green components	10,037,116	794,521	9,242,595
Distillery Historic District			
Buildings 58/59 and 74	1,818,372	944,370	874,002
1313 Queen St. W.	382,500	288,469	94,031
Artscape Gibraltar Point			
Centre for the Arts	75,000	50,625	24,375
Daniels Spectrum	422,296	21,115	401,181
Furniture and equipment	124,085	82,114	41,971
	12,859,369	2,181,214	10,678,155

Toronto Artscape Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

7. Deferred capital contributions (continued)

(b) Capital assets (continued)

	December 31, 2011		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Artscape Wychwood Barns			
Arts and green components	10,037,116	512,818	9,524,298
Distillery Historic District			
Buildings 58/59 and 74	1,818,372	841,538	976,834
1313 Queen St. W.	382,500	269,344	113,156
Artscape Gibraltar Point			
Centre for the Arts	75,000	46,875	28,125
Furniture and equipment	124,085	69,079	55,006
	12,437,073	1,739,654	10,697,419

	January 1, 2011		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Artscape Wychwood Barns			
Arts and green components	10,037,116	406,150	9,630,966
Distillery Historic District			
Buildings 58/59 and 74	1,818,372	738,698	1,079,674
1313 Queen St. W.	382,500	250,219	132,281
Artscape Gibraltar Point			
Centre for the Arts	75,000	43,125	31,875
Furniture and equipment	124,083	56,053	68,030
	12,437,071	1,494,245	10,942,826

(c) Deferred capital contributions

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Capital work-in-progress (Note 7 (a))	4,254,147	3,622,347	2,956,461
Capital assets (Note 7 (b))	10,678,155	10,697,419	10,942,826
	14,932,302	14,319,766	13,899,287

Toronto Artscape Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

8. Deferred capital contributions – unexpended

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Canada Life Section 37 grant	245,000	245,000	245,000

This amount represents a payment from the City of Toronto which has been allocated to Artscape as part of a Section 37 agreement between Canada Life Assurance Company and the City of Toronto. Funds are to be used for the sole purpose of providing artists' housing in the Queen Street West area.

9. Credit facilities and short-term debt

(a) Lines of credit

Toronto Dominion Bank

Artscape has an available operating line of credit of \$350,000 (December 31, 2011 - \$350,000; January 1, 2011 - \$350,000). The line of credit is secured by a first charge general security agreement covering all the corporation's assets. Interest on the line of credit is at prime + 1.75 (December 31, 2011 - bank prime + 1.75%; January 1, 2011 - bank prime + 1.75%). At December 31, 2012, the balance outstanding was \$240,000 (December 31, 2011 - \$200,000; January 1, 2011 - \$70,000).

Creative Arts Savings and Credit Union

Artscape has a line of credit to a maximum of \$Nil (December 31, 2011 - \$1,000,000; January 1, 2011 - \$1,000,000) to assist with pre-closing working capital requirements related to the Artscape Triangle Lofts. As at December 31, 2012, the outstanding balance was \$Nil (December 31, 2011 - \$709,087; January 1, 2011 - \$936,557).

(b) Short-term loans

Alterna Savings and Credit Union Limited

Short-term interest only loan with respect to the Artscape Triangle Lofts, due May 31, 2013 (December 31, 2011 – due November 1, 2012; January 1, 2011 – due September 1, 2011). Interest is at prime + 1% (December 31, 2011 - the Credit Union's prime rate + 1%; January 1, 2011 - the Credit Union's variable open mortgage rate + 1%). The outstanding balance at December 31, 2012 was \$1,000,000 (December 31, 2011 - \$1,000,000; January 1, 2011 - \$1,220,723). Security on the loan is a general assignment of rents and a general security agreement.

Toronto Artscape Inc.
Notes to the audited financial statements
December 31, 2012 and 2011

10. Long-term debt

(a) Long-term debt

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Artscape Youngplace			
Construction loan A from Alterna Savings and Credit Union totaling \$5,800,000. The loan was used for the purchase of the Shaw Street School and to cover approved budget costs in the redevelopment of the property.	5,800,000	3,000,000	2,500,000
Construction loan B totaling \$5,700,000 of which \$1,424,991 has been advanced as at December 31, 2012. The loan is to fund the remaining costs of the approved budget until complete. Interest on the loan is at the Credit Union's prime rate plus 1%.			
Security on the loan is a guarantee from the City of Toronto until May 31, 2013, first and second mortgage on the property, a general assignment of rents and a general security agreement.	1,424,991	-	-
Artscape Wychwood Barns ("AWB")			
Manufacturers Life Insurance Company capital loan bearing interest at 4.63% with monthly principal and interest payments totalling \$16,923 until June 15, 2014. The loan is secured by a limited guarantee from the City of Toronto, an assignment of rent at AWB, as well as a general security agreement.	3,075,192	3,134,463	3,195,753
City of Toronto Sustainable Energy Fund loan 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 instalments of \$2,917 beginning May 1, 2009 with Artscape's share being \$1,250. 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 Artscape.	246,246	259,997	275,000
Carried forward	10,546,429	6,394,460	5,970,753

Toronto Artscape Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

10. Long-term debt (continued)

(a) Long-term debt (continued)

	December 31, 2012	December 31, 2,011	January 1, 2,011
		\$	\$
Balance brought forward	10,546,429	6,394,460	5,970,753
Green Municipal Fund loan totalling \$600,000 allocated between the residential portion (ANPHI \$463,280) and the arts and green components (Artscape \$136,720) of the Barns. Repayment of the loan is with semi-annual blended principal and interest payments of \$18,808 (Artscape's share \$4,326) on February 20 and August 20 of each year beginning in 2010 until August, 2029. Interest on the loan is at the Government of Canada bond rate minus 1.5%.	119,985	125,689	131,267
Other loans			
TD Bank loan #1 due October 31, 2014 and repayable in monthly payments of \$1,296 principal plus interest at prime + 2.25%. The loan is secured by a limited guarantee from the City of Toronto.	199,668	216,135	231,913
TD Bank loan #2 of \$400,000 advanced in April, 2009 at prime rate + 1.75%. The loan is secured by a first charge of \$400,000 on the leasehold improvements at Buildings 58/59 and 74 in the Distillery Historic District, a general assignment of rents and leases and a general security agreement. Repayment of the loan is monthly principal instalments of \$2,778 plus interest, and an annual lump sum payment of \$100,000 by July 31, of each year.	-	11,104	144,440
Toronto Atmospheric Fund loan repayable in monthly installments of \$2,927 including principal plus interest at the Canada yield plus 2.5%. The loan is secured by an assignment of all rents in respect of the leased premises at 1313 Queen St. W. and at Artscape Gibraltar Point, and a general security agreement.	83,872	112,091	137,724
Carried forward	10,949,954	6,859,479	6,616,097

Toronto Artscape Inc.
Notes to the audited financial statements
December 31, 2012 and 2011

10. Long-term debt (continued)

(a) Long-term debt (continued)

	December 31, 2012	December 31, 2,011	January 1, 2,011
		\$	\$
Balance brought forward	10,949,954	6,859,479	6,616,097
Better Buildings Partnership loan repayable in quarterly installments of \$1,152 principal only. Interest is calculated at the floating prime rate, but is forgiven as long as there has been no default in the principal payments.	4,606	9,211	13,819
	10,954,560	6,868,690	6,629,916
Less: current portion (Note 10 (c))	(139,119)	(144,302)	(261,538)
	10,815,441	6,724,388	6,368,378

(b) Obligation under capital lease

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
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 components (Artscape \$665,170) of the Bams, 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. Interest on the lease is calculated at 10.5% and for 2012 totalled \$44,369 (2011 - \$55,440). Artscape's share of future lease payments until the end of the lease totals \$512,133 (\$128,033 per year), of which is \$118,047 represents imputed interest. 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.	377,307	460,970	536,122
Less: current portion (Note 10 (c))	(92,874)	(83,663)	(75,365)
	284,433	377,307	460,757

Toronto Artscape Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

10. Long-term debt (continued)

(c) Current portion of long-term debt

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Long-term loans and mortgages (Note 10 (b))	139,119	144,302	261,538
Obligation under capital lease (Note 10 (b))	92,874	83,663	75,365
	231,993	227,965	336,903

11. Interest rate and credit risks

Artscape is exposed to interest rate risk on its variable rate loans and credit lines such that increases in the bank and government prime rates would increase interest and loan carrying costs. Artscape mitigates interest rate risk by monitoring its various revenue and expense streams to offset potential interest rate increases.

Credit risk arises from the potential that a counter party will fail to fulfill its obligations. Artscape is exposed to some credit risk on its receivables which normally consist of rental amounts due from tenants, amounts due for services and programs, as well as various forms of project funding. To mitigate credit risk, Artscape engages in regular monitoring and follow up of outstanding amounts and implements payment plans when necessary. Generally, Artscape does not have significant exposure to any individual party.

12. Deferred revenue and program and other grants

	Deferred revenue December 31, 2011	Received during year	Recognized as revenue	Deferred revenue December 31, 2012
	\$	\$	\$	\$
Fundraising - Daniels Spectrum	-	90,059	-	90,059
Management fee - RPAD	-	5,424	-	5,424
George Brown College	-	5,000	-	5,000
	-	100,483	-	100,483

	Deferred revenue January 1, 2011	Received during year	Recognized as revenue	Deferred revenue December 31, 2011
	\$	\$	\$	\$
Ontario Trillium Foundation	71,000	-	71,000	-
City of Toronto	21,150	-	21,150	-
Ontario Arts Council	4,000	-	4,000	-
Ontario Premier's Award	20,000	-	20,000	-
TD Bank Financial Group	5,000	-	5,000	-
Other	141	5,500	5,641	-
	121,291	5,500	126,791	-

Toronto Artscape Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

13. Commitments

(a) Rental commitments

1313 Queen St. W.

Leased from the City of Toronto under terms which require annual rental payments of \$1 plus taxes and operating costs and a requirement that the property not generate any profit from operations. This lease expires on August 14, 2017.

Artscape Gibraltar Point Centre for the Arts

Leased from the City of Toronto under terms which require annual payments of \$1 and the requirement that the Centre operate on a cost-recovery basis. The lease expires on September 30, 2019.

76 Wychwood Avenue

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, expiring March 27, 2056.

16 Ryerson Avenue - Theatre Passe Muraille

Leased from the City of Toronto for annual rental payments of \$1. Artscape in turn leases the property to Theatre Passe Muraille for an annual base rent of \$2, a management fee of \$13,892 for 2011, escalating at 5% per year, and an annual capital contribution of \$7,300 (2011 - \$90,000) to be maintained in a fund to cover repair and maintenance costs (Note 14). The lease with the City expires on January 10, 2018 with the option to renew the lease for an additional five years.

Distillery Historic District, Buildings 58/59 and 74

49,512 square feet in buildings 58, 59 and 74 are leased from Cityscape Holdings Inc. This lease expires on February 28, 2023. Annual rent is increased by the greater of 4.75% per annum or the percentage increase in the CPI as compared to the immediately preceding year. Beginning September 1, 2009 an additional management fee in the amount of 2.5% of the base annual rent became payable to the landlord.

Minimum annual rental payments for the Distillery District for the next five years and thereafter are:

	\$
2013	431,060
2014	451,535
2015	473,014
2016	495,482
2017	519,017
Thereafter	2,989,157
	<u>5,359,265</u>

Toronto Artscape Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

13. Commitments (continued)

(a) Rental commitments (continued)

Liberty Market Building

Artscape leases office space at 171 East Liberty Street under a lease which expires December 31, 2014.

Minimum annual rental payments for 171 East Liberty Street to the expiry of the lease are:

	\$
2013	104,890
2014	104,890
	209,780

14. Restricted cash

Deposit in trust

An amount of \$181,214 (December 31, 2011 - \$480,000 – January 1, 2011 - \$480,000) is currently being held in trust, as a builder's warranty, with respect to the 48 Artscape Triangle Lofts condominium units as part of an agreement with the Tarion Warranty Corporation. Tarion Warranty Corporation will authorize the release of the funds to Artscape when it is satisfied that the deposits are no longer required.

Capital reserves

Artscape maintains separate capital reserve funds for the leased properties at Theatre Passe Muraille ("TPM") at 16 Ryerson Avenue and the Artscape Wychwood Barns – Barn 4. Annual contributions are collected from the tenants and may only be used for required repairs, maintenance and replacements of a capital nature.

	2012		
	Artscape Wychwood Barns Barn 4	TPM 16 Ryerson Avenue	Total
	\$	\$	\$
Opening balance, January 1	30,000	95,720	125,720
Annual contribution	10,000	7,300	17,300
Capital expenditures	-	(93,020)	(93,020)
Closing balance, December 31	40,000	10,000	50,000
	2011		
	Artscape Wychwood Barns Barn 4	TPM 16 Ryerson Avenue	Total
	\$	\$	\$
Opening balance, January 1	19,842	13,920	33,762
Annual contribution	10,158	90,000	100,158
Capital expenditures	-	(8,200)	(8,200)
Closing balance, December 31	30,000	95,720	125,720

Toronto Artscape Inc.

Notes to the audited financial statements

December 31, 2012 and 2011

15. Inter-fund transfer

During the year, the Board of Directors approved the transfer of \$Nil (2011- \$230,989) from the Internally Restricted Net Assets balance to the Unrestricted Net Assets.

16. Contingency

An assessment of realty taxes related to a property located at 76 Wychwood Avenue (Artscape Wychwood Barns) is currently being appealed. A resolution of this matter is pending as at the date of these financial statements. Any amounts in excess of that included in these financial statements with respect to this matter will be recognized when settled.

17. Accounts payable and accrued liabilities

As at December 31, 2012, and 2011, and January 1, 2011, no amounts were outstanding with respect to government remittances.