

Financial statements of

**Artscape Non-Profit Homes Inc.**

December 31, 2015

# Artscape Non-Profit Homes Inc.

December 31, 2015

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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, 2015, 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, 2015, 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 the financial reporting provisions of the Acts referred to in Note 2. 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  
Licensed Public Accountants  
May 12, 2016

# Artscape Non-Profit Homes Inc.

## Statement of financial position as at December 31, 2015

	2015	2014 (Note 10)
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents	81,183	128,173
Accounts receivable	92,550	87,761
Capital reserve investment funds (Note 7)	243,466	258,374
Due from related parties (Note 4)	64,148	-
Due from City of Toronto Social Housing (Note 6)	58,394	57,421
	<b>539,741</b>	<b>531,729</b>
Capital assets (Note 3)	<b>4,442,280</b>	<b>4,669,127</b>
	<b>4,982,021</b>	<b>5,200,856</b>
<b>Liabilities</b>		
Current liabilities		
Due to City of Toronto Social Housing (Note 6)	169,755	90,434
Accounts payable and accrued liabilities (Note 9)	134,245	108,922
Tenant deposits and rents received in advance	29,144	26,787
Deferred revenue - Strong Start Mortgage Subsidy	7,765	7,765
Current portion of long term debt (Note 5)	248,677	232,870
Due to related party (Note 4)	-	40,968
	<b>589,586</b>	<b>507,746</b>
Long term debt (Note 5)	<b>4,081,618</b>	<b>4,369,973</b>
	<b>4,671,204</b>	<b>4,877,719</b>
<b>Net assets</b>		
Capital reserve fund (Note 7)	93,565	82,750
Capital replacement reserve fund (Note 7)	112,301	138,024
Unrestricted	104,951	102,363
	<b>310,817</b>	<b>323,137</b>
	<b>4,982,021</b>	<b>5,200,856</b>

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, 2015

	2015	2014
	\$	\$
<b>Revenue</b>		
City of Toronto Social Housing subsidy - regular	395,150	375,144
Affordable Housing Program ("AHP") mortgage subsidy	93,178	93,178
Due to City of Toronto (Note 6)	(79,321)	(46,684)
Net subsidy (Note 6)	409,007	421,638
Less allocated to Capital reserve fund (Note 7)	(43,989)	(43,155)
	365,018	378,483
Rental income	370,193	349,756
Interest and other	7,737	10,130
	742,948	738,369
<b>Expenses</b>		
Property expenses	222,273	211,968
Mortgage interest	172,178	186,508
Realty taxes	56,514	54,620
Administration and contract fees	62,105	59,717
Amortization	226,847	218,885
Other	443	78
	740,360	731,776
<b>Excess of revenue over expenses for the year</b>	<b>2,588</b>	<b>6,593</b>

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, 2015

				2015	2014
					(Note 10)
	Capital replacement reserve fund	Capital reserve fund	Unrestricted fund	Total	Total
	\$	\$	\$	\$	\$
<b>Balances, beginning of year</b>	<b>138,024</b>	<b>82,750</b>	<b>102,363</b>	<b>323,137</b>	302,008
Excess of revenue over expenses for the year	-	-	<b>2,588</b>	<b>2,588</b>	6,593
Investment in Reserve funds (Note 7)	<b>(25,723)</b>	<b>10,815</b>	-	<b>(14,908)</b>	14,536
<b>Balance, end of year</b>	<b>112,301</b>	<b>93,565</b>	<b>104,951</b>	<b>310,817</b>	323,137

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, 2015

	2015	2014 (Note 10)
	\$	\$
<b>Operating activities</b>		
Excess of revenue over expenses for the year	2,588	6,593
Item not involving cash		
Amortization	226,847	218,885
	<b>229,435</b>	<b>225,478</b>
Changes in non-cash operating assets and liabilities		
Accounts receivable	(4,789)	101,288
Due to related party	(105,116)	(29,553)
Accounts payable and accrued liabilities and due to City of Toronto Social Housing	104,644	24,746
Deferred revenue - Housing Stabilization and Support Fund (2014)	-	(35,000)
Due from City of Toronto Social Housing	(973)	(536)
Tenant deposits and rents received in advance	2,357	2,183
	<b>225,558</b>	<b>288,606</b>
<b>Investing activities</b>		
Reduction in (additions to) capital work-in-progress	-	159,772
Reductions in (additions to) deferred capital contributions - work-in-progress	-	(166,456)
Increase in capital reserve investments	(1,548)	(14,536)
Purchase of capital assets	-	(60,840)
	<b>(1,548)</b>	<b>(82,060)</b>
<b>Financing activities</b>		
Decrease in long-term debt	(272,548)	(163,003)
Increase in capital reserve funds	1,548	14,536
	<b>(271,000)</b>	<b>(148,467)</b>
(Decrease) increase in cash and cash equivalents during the year	<b>(46,990)</b>	58,079
Cash and cash equivalents, beginning of year	<b>128,173</b>	70,094
<b>Cash and cash equivalents, end of year</b>	<b>81,183</b>	<b>128,173</b>

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, 2015

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### 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 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 (Note 5).
- (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 Housing Services 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.

#### *Cash equivalents*

Cash equivalents are comprised of short-term investments with maturities of three months or less from the date of acquisition.

#### *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.

# Artscape Non-Profit Homes Inc.

## Notes to the financial statements

December 31, 2015

### 2. Summary of significant accounting policies (continued)

#### *Use of estimates*

Canadian ASNPOs requires 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 amortization expense.

### 3. Capital assets

			2015	2014
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
900/906/910 Queen St. W., Toronto, ON				
Building	2,759,198	1,031,175	1,728,023	1,819,105
Less: grants and restricted donations	(518,143)	-	(518,143)	(518,143)
Land	522,600	-	522,600	522,600
	<b>2,763,655</b>	<b>1,031,175</b>	<b>1,732,480</b>	<b>1,823,562</b>
Artscape Wychwood Barns				
Leasehold improvements	6,717,210	790,606	5,926,604	6,062,369
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)
	<b>3,500,406</b>	<b>790,606</b>	<b>2,709,800</b>	<b>2,845,565</b>
	<b>6,264,061</b>	<b>1,821,781</b>	<b>4,442,280</b>	<b>4,669,127</b>

#### *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. 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 \$39,484 (2014 - \$38,390) charged to ANPHI by Artscape; and
- Rent of \$35,000 (2014 - \$35,000) 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, 2015

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#### 4. Related party transactions and balance (continued)

##### *Balance*

	2015	2014
	\$	\$
Due from (to) Artscape	<b>64,148</b>	(40,968)

The amount is interest free and due on demand.

#### 5. Long-term debt

	2015	2014
	\$	\$
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	<b>1,983,758</b>	2,078,813
City of Toronto Sustainable Energy Fund totaling \$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 Artscape	<b>266,673</b>	286,672
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%.	<b>345,840</b>	366,552
Balance carried forward	<b>2,596,271</b>	2,732,037

# Artscape Non-Profit Homes Inc.

## Notes to the financial statements

December 31, 2015

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### 5. Long-term debt (continued)

	2015	2014
	\$	\$
Balance brought forward	<b>2,596,271</b>	2,732,037
Artscape Wychwood Barns (continued)		
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.	<b>3,500</b>	9,353
900 Queen Street West		
Royal Bank of Canada 2.828% mortgage, repayable in monthly instalments of \$11,606, including principal and interest, maturing September 1, 2015. The mortgage is secured by the property and a general assignment of rents	-	1,763,013
Peoples Trust Company 1.42% mortgage, repayable in monthly installments of \$10,512 including principal and interest, maturing September 1, 2020. The mortgage is secured by the property.	<b>1,669,744</b>	-
Elevator Retrofit Loan for the purpose of repairing the freight elevator at 900 Queen St. W. The repayment of the loan is deferred until the first mortgage is fully paid out in 2030 as allowed under clause 3 of subsection 173(2) of the SHRA	<b>60,780</b>	98,440
	<b>4,330,295</b>	4,602,843
Less: current portion	<b>(248,677)</b>	(232,870)
Long-term portion	<b>4,081,618</b>	4,369,973

# Artscape Non-Profit Homes Inc.

## Notes to the financial statements

December 31, 2015

### 6. City of Toronto Social Housing subsidy

The Housing Services Act for the Municipal Social Housing Programs of the City of Toronto (the "Act") 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 2016 is set at \$13,240 (2015 - \$14,540).

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 \$19,214 in 2016 (\$18,358 in 2015).

	Queen St. W. subsidy	Wychwood Barns rent supplement	Total
	\$	\$	\$
City of Toronto 2015 subsidy	133,338	275,669	409,007
City of Toronto 2014 subsidy	144,768	276,870	421,638

Amounts due from the City of Toronto as at December 31, 2015 are as follows:

	2015	2014
	\$	\$
900 Queen Street West	15,245	14,730
Artscape Wychwood Barns	43,149	42,691
	<b>58,394</b>	<b>57,421</b>

The City requires ANPHI to prepare an Annual Information Return, 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, 2015 ANPHI has an excess subsidy repayable of \$79,321 (2014 - \$46,684). The cumulative amount owing to the City of Toronto as at December 31, 2015 is \$169,755 (2014 - \$90,434).

### 7. Capital reserve fund and Capital replacement reserve fund

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

The Housing Services Act 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 2015, ANPHI was required to allocate an amount of \$18,327 (2014 - \$17,819) from the regular subsidy at 900 Queen St. W. from the City of Toronto to the capital reserve fund. Commencing January 2016, ANPHI is required to allocate \$18,501 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 2013-3, ANPHI is allowed to retain \$100 per unit of its annual net income that it 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.

# Artscape Non-Profit Homes Inc.

## Notes to the financial statements

December 31, 2015

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### 7. Capital reserve fund (continued)

(a) 900/906/910 Queen Street West (continued)

	2015	2014
	\$	\$
Balance, beginning of year, January 1	<b>82,750</b>	86,832
City of Toronto Social Housing - portion allocated from regular subsidy	<b>18,327</b>	17,819
Capital purchases	-	(29,825)
Income earned and unrealized gains	<b>(7,512)</b>	7,924
Balance, end of year, December 31	<b>93,565</b>	82,750

Capitals purchases are comprised of:

	2015	2014
	\$	\$
Plumbing and heating, ventilation and air conditioning	-	(2,150)
Elevator	-	(27,675)
Balance, end of year	-	(29,825)

(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 2015, ANPHI has set up a provision of \$25,662 (2014 - \$25,336) towards the capital replacement reserve fund.

	2015	2014
	\$	\$
Balance, beginning of year, January 1	<b>138,024</b>	119,406
Capital purchases	<b>(51,410)</b>	(6,740)
Affordable Housing Program - provision for capital replacement reserve	<b>25,662</b>	25,336
Income earned and unrealized gains	<b>25</b>	22
Balance, end of year December 31	<b>112,301</b>	138,024

### 8. 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.

### 9. Government remittances

There are no outstanding government remittances as at December 31, 2015 and 2014.

# Artscape Non-Profit Homes Inc.

Notes to the financial statements

December 31, 2015

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## 10. Prior period adjustments

An amount of \$37,600 was included in Capital assets, rather than in Capital reserve funds, in 2014. As a result, the following 2014 amounts have been restated:

	<b>As originally reported</b>	<b>Adjustments</b>	<b>As restated</b>
	\$	\$	\$
Capital assets	<b>4,706,727</b>	<b>(37,600)</b>	<b>4,669,127</b>
Capital reserve fund, end of year	<b>(120,350)</b>	<b>37,600</b>	<b>82,750</b>

The corresponding amounts have been changed in the Statements of changes in net assets and of cash flows.