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Financial statements of  
Artscape Non-Profit Homes Inc.

December 31, 2017

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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, 2017, 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 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, 2017 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 4, 2018

## Artscape Non-Profit Homes Inc.

### Statement of financial position

As at December 31, 2017

	Notes	2017	2016
		\$	\$
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<b>Assets</b>			
Current assets			
Cash and cash equivalents		106,381	140,903
Prepaid expenses		5,698	5,640
Accounts receivable		78,103	97,559
Capital reserve investment funds	7	218,838	176,568
Due from City of Toronto Social Housing	6	—	32,454
		<b>409,020</b>	453,124
Capital assets	3	<b>3,941,934</b>	4,197,104
		<b>4,350,954</b>	4,650,228
<b>Liabilities</b>			
Current liabilities			
Due to City of Toronto Social Housing	6	70,229	177,187
Accounts payable and accrued liabilities	9	33,151	70,598
Tenant deposits and rents received in advance		28,763	28,050
Deferred revenue - Strong start mortgage subsidy		7,765	7,765
Current portion of long-term debt	5	261,750	255,229
Due to related party	4	57,718	1,385
		<b>459,376</b>	540,214
Long-term debt	5	<b>3,566,655</b>	3,828,346
		<b>4,026,031</b>	4,368,560
<b>Commitments</b>			
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<b>Net assets</b>			
Capital reserve fund	7(a)	135,975	114,443
Capital replacement reserve fund	7(b)	82,863	62,125
Unrestricted		106,085	105,100
		<b>324,923</b>	281,668
		<b>4,350,954</b>	4,650,228

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

Approved by the Board

\_\_\_\_\_, Director

\_\_\_\_\_, Director

## Artscape Non-Profit Homes Inc.

### Statement of operations

Year ended December 31, 2017

	Notes	2017	2016
		\$	\$
<b>Revenue</b>			
City of Toronto Social Housing subsidy - regular		324,528	389,449
Affordable Housing Program ("AHP") mortgage subsidy		93,178	93,178
Due to City of Toronto	6	(15,542)	(95,582)
Net subsidy	6	402,164	387,045
Less allocated to Capital reserve fund	7	(41,616)	(44,759)
		360,548	342,286
Rental income - Market units		216,424	170,419
Rental income - Rent-geared-to-income units		168,973	213,519
Interest and other		5,368	3,719
		751,313	729,943
<b>Expenses</b>			
Property expenses		229,981	211,548
Mortgage interest		136,346	144,188
Realty taxes		58,070	57,631
Administration and contract fees		70,761	69,122
Amortization		255,170	246,720
Other		—	585
		750,328	729,794
<b>Excess of revenue over expenses for the year</b>		985	149

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

**Artscape Non-Profit Homes Inc.**  
**Statement of changes in net assets**  
Year ended December 31, 2017

	Notes	2017			2016
		Capital reserve fund	Capital replacement reserve fund	Unrestricted fund	Total
		\$	\$	\$	\$
Balance, beginning of year		114,443	62,125	105,100	281,668
Excess of revenue over expenses for the year		—	—	985	985
Investment in Reserve funds	7	21,532	20,738	—	42,270
Balance, end of year		135,975	82,863	106,085	324,923
					281,668

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

**Artscape Non-Profit Homes Inc.****Statement of cash flows**

Year ended December 31, 2017

	2017	2016
	\$	\$
		(Note 10)
<b>Operating activities</b>		
Excess of revenue over expenses for the year	985	149
Item not involving cash		
Amortization	255,170	246,720
	<b>256,155</b>	246,869
Changes in non-cash operating assets and liabilities		
Prepaid expenses	(58)	(5,640)
Accounts receivable	19,456	(5,009)
Due from City of Toronto Social Housing	32,454	25,940
Accounts payable and accrued liabilities and due to City of Toronto Social Housing	(144,405)	(57,759)
Tenant deposits and rents received in advance	713	(1,094)
Due to related party	56,333	65,533
	<b>220,648</b>	268,840
<b>Investing activity</b>		
(Increase) decrease in capital reserve investments	(42,270)	29,298
<b>Financing activities</b>		
Decrease in long-term debt	(255,170)	(246,720)
Increase (decrease) in capital reserve funds	42,270	(29,298)
	<b>(212,900)</b>	(276,018)
(Decrease) increase in cash and cash equivalents during the year	(34,522)	22,120
Cash and cash equivalents, beginning of year	140,903	118,783
<b>Cash and cash equivalents, end of year</b>	<b>106,381</b>	140,903

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



## **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 ANPHI'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 all 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.

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

### *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 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

	2017			2016
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
900/906/910 Queen St. W., Toronto, ON				
Building	2,759,198	1,240,881	1,518,317	1,624,855
Less: grants and restricted donations	(518,143)	—	(518,143)	(518,143)
Land	522,600	—	522,600	522,600
	<b>2,763,655</b>	<b>1,240,881</b>	<b>1,522,774</b>	<b>1,629,312</b>
Artscape Wychwood Barns				
Leasehold improvements	6,717,210	1,081,246	5,635,964	5,784,596
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>1,081,246</b>	<b>2,419,160</b>	<b>2,567,792</b>
	<b>6,264,061</b>	<b>2,322,127</b>	<b>3,941,934</b>	<b>4,197,104</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 \$40,878 (\$40,274 in 2016) charged to ANPHI by Artscape; and
- Rent of \$35,000 (\$35,000 in 2016) 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.

*Balance*

	2017	2016
	\$	\$
Due to Artscape	<b>57,718</b>	1,385

The amount is interest free and due on demand.

**5. Long-term debt**

	2017	2016
	\$	\$
Artscape Wychwood Barns		(Note 10)
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%	<b>1,775,991</b>	1,882,934
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>226,676</b>	246,674
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 AWB. Repayment is with semi-annual blended principal and interest payments of \$18,808 (ANPHI's share \$14,522) beginning in February 2010 until August 2029. Interest is at the Government of Canada bond rate, minus 1.5%	<b>302,964</b>	324,655
Balance carried forward	<b>2,305,631</b>	2,454,263

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

	<b>2017</b>	2016
	\$	\$
		(Note 10)
Balance brought forward	<b>2,305,631</b>	2,454,263
900 Queen Street West 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>1,461,934</b>	1,566,576
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>60,840</b>	62,736
	<b>3,828,405</b>	4,083,575
Less: current portion	<b>(261,750)</b>	(255,229)
Long-term portion	<b>3,566,655</b>	3,828,346

**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 2018 is set at \$11,180 (\$11,890 in 2017).

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 \$15,650 in 2018 (\$19,548 in 2017).

	Queen St. W. subsidy	Wychwood Barns rent supplement	Total
	\$	\$	\$
City of Toronto 2017 subsidy	<b>128,243</b>	<b>273,921</b>	<b>402,164</b>
City of Toronto 2016 subsidy	116,896	270,149	387,045

**6. City of Toronto Social Housing subsidy (continued)**

Amounts due from the City of Toronto as at December 31, 2017 are as follows:

	<b>2017</b>	2016
	\$	\$
900 Queen Street West	—	13,240
Artscape Wychwood Barns	—	19,214
	<b>—</b>	<b>32,454</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, 2017 ANPHI has an excess subsidy of \$15,542 (\$95,582 in 2016) repayable to the City. The cumulative amount owing to the City of Toronto as at December 31, 2017 is \$70,229 (\$177,187 in 2016).

**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 2017, ANPHI was required to allocate an amount of \$18,849 (\$18,501 in 2016) from the regular subsidy at 900 Queen St. W. from the City of Toronto to the capital reserve fund. Commencing January 2018, ANPHI is required to allocate \$18,849 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.

	<b>2017</b>	2016
	\$	\$
Balance, beginning of year, January 1	<b>114,443</b>	93,565
City of Toronto Social Housing - portion allocated from regular subsidy	<b>18,849</b>	18,501
Income earned and unrealized gains	<b>2,683</b>	2,377
	<b>21,532</b>	20,878
Balance, end of year, December 31	<b>135,975</b>	114,443

**7. Capital reserve fund and Capital replacement reserve fund (continued)**

*(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 2017, ANPHI has set up a provision of \$22,767 (\$26,258 in 2016) towards the capital replacement reserve fund.

	<b>2017</b>	2016
	\$	\$
Balance, beginning of year, January 1	<b>62,125</b>	112,301
Capital purchases	<b>(2,057)</b>	(76,457)
Affordable Housing Program - provision for capital replacement reserve	<b>22,767</b>	26,258
Income earned and unrealized gains	<b>28</b>	23
Balance, end of year December 31	<b>82,863</b>	62,125

**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, 2017 and 2016.

**10. Comparative amounts**

The following prior year comparative amounts have been reclassified to conform to the current year's presentation.

	<u>As amended</u>	<u>As previously stated</u>
	\$	\$
Statement of financial position		
Accounts receivable	97,559	182,512
Accounts payable and accrued liabilities	70,598	157,507
Current portion of long-term debt	255,229	253,273
	<u>(228,268)</u>	<u>(228,268)</u>
Statement of operations		
Mortgage interest expense	144,188	145,732
Amortization expense	246,720	245,176
	<u>390,908</u>	<u>390,908</u>
Statement of cash flow		
Amortization	246,720	245,176
Accounts receivable	(5,009)	(89,962)
Accounts payable and accrued liabilities and due to City of Toronto Social Housing	(57,759)	30,694
Decrease in long-term debt	(246,720)	(248,676)
	<u>(62,768)</u>	<u>(62,768)</u>