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Financial statements of  
Toronto Artscape Inc.

December 31, 2017

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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 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.

### 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 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 Toronto Artscape Inc. as at December 31, 2017 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
May 1, 2018

# Toronto Artscape Inc.

## Statement of financial position

As at December 31, 2017

	Notes	2017	2016
		\$	\$
<b>Assets</b>			
Current assets			
Cash		18,513	16,910
Receivables		1,668,039	515,459
Prepaid expenses		142,879	142,996
Due from related parties	3	116,251	504,877
		<b>1,945,682</b>	<b>1,180,242</b>
Restricted cash			
Capital reserve fund	12	133,730	103,730
Capital assets			
Capital assets under capital lease	5(a)	31,152,784	32,081,690
Capital work-in-progress	5(b)	545,439	558,744
	5(c)	10,652,833	6,987,355
		<b>42,351,056</b>	<b>39,627,789</b>
Artscape second mortgages			
	4	7,619,674	7,594,674
		<b>52,050,142</b>	<b>48,506,435</b>
<b>Liabilities</b>			
Current liabilities			
Lines of credit	7	1,551,687	1,640,214
Accounts payable and accrued liabilities	13	1,104,866	829,275
Tenant deposits and rents received in advance		309,902	477,110
Deferred revenue	10	189,177	162,421
Current portion of long-term debt	8(c)	1,565,453	987,979
		<b>4,721,085</b>	<b>4,096,999</b>
Long-term debt			
Long-term obligation under capital lease	8(a)	14,489,192	14,809,250
	8(b)	27,144	33,774
		<b>14,516,336</b>	<b>14,843,024</b>
Deferred capital contributions			
Artscape second mortgages	6(c)	24,769,093	21,582,894
	4	7,619,674	7,594,674
		<b>32,388,767</b>	<b>29,177,568</b>
		<b>51,626,188</b>	<b>48,117,591</b>
<b>Commitments</b>			
<b>Net assets</b>			
Capital reserves	12	133,730	103,730
Unrestricted		290,224	285,114
		<b>423,954</b>	<b>388,844</b>
		<b>52,050,142</b>	<b>48,506,435</b>

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

Approved by the Board

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

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

**Toronto Artscape Inc.**  
**Statement of operations**  
Year ended December 31, 2017

	Notes	2017	2016
		\$	\$
<b>Revenue</b>			
City of Toronto – operating grant		415,000	415,000
Provincial grant		74,608	140,813
Program and other grants		1,837,494	1,535,563
Rental income		3,716,511	3,528,781
Venue income		2,487,133	2,557,424
Creative Placemaking Lab		400,216	547,099
Management fees and project recovery		903,003	928,973
Interest and other		30,464	58,215
Gain on sale of assets		—	267,345
Property tax refund		291,391	—
Amortization of deferred capital contributions		453,802	508,631
		<b>10,609,622</b>	<b>10,487,844</b>
<b>Expenses</b>			
Property expenses	14	2,364,677	2,245,589
Salaries and benefits		2,309,690	1,772,242
Property rent		586,621	556,026
Interest on long-term debt		571,577	589,957
Venue expenses		1,863,826	1,973,437
Creative Placemaking Lab		348,068	390,342
Realty taxes		807,147	634,212
Administration and contract fees		706,077	1,123,144
Contribution to Toronto Artscape Foundation		—	200,000
Amortization		1,046,829	997,778
		<b>10,604,512</b>	<b>10,482,727</b>
<b>Excess of revenue over expenses for the year</b>		<b>5,110</b>	<b>5,117</b>

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

**Toronto Artscape Inc.**  
**Statement of changes in net assets**  
Year ended December 31, 2017

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	Notes	2017		2016	
		Capital reserves (Note 12)	Unrestricted	Total	Total
		\$	\$	\$	\$
Balances, beginning of year		<b>103,730</b>	<b>285,114</b>	<b>388,844</b>	369,997
Excess of revenue over expenses for the year		—	<b>5,110</b>	<b>5,110</b>	5,117
Annual capital contribution	12	<b>30,000</b>	—	<b>30,000</b>	30,000
Capital expenditures	12	—	—	—	(16,270)
Balances, end of year		<b>133,730</b>	<b>290,224</b>	<b>423,954</b>	388,844

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

**Toronto Artscape Inc.**  
**Statement of cash flows**  
Year ended December 31, 2017

Notes	<b>2017</b>	2016
	\$	\$
<b>Operating activities</b>		
Excess of revenue over expenses for the year	5,110	5,117
Items not involving cash		
Amortization of deferred capital contributions	(453,802)	(508,631)
Amortization of capital assets	1,046,829	997,778
Gain on sale of capital assets	—	(267,345)
	<b>598,137</b>	226,919
Changes in non-cash operating assets and liabilities		
Receivables	(1,152,580)	242,400
Prepaid expenses	117	(23,171)
Due from related parties	388,626	(767,495)
Restricted cash	30,000	(13,730)
Net capital reserves transactions	(30,000)	13,730
Accounts payable and accrued liabilities	275,591	(758,715)
Tenant deposits and rent received in advance	(167,208)	44,941
Deferred revenue	26,756	58,095
	<b>(30,561)</b>	(977,026)
<b>Investing activities</b>		
Capital work-in-progress	(3,665,478)	(2,334,469)
Acquisition of capital assets	(104,618)	(1,784,679)
Proceeds on sale of capital assets	—	71,392
	<b>(3,770,096)</b>	(4,047,756)
<b>Financing activities</b>		
(Decrease) in line of credit	(88,527)	(255,636)
Deferred capital contributions	3,640,001	2,650,197
Increase in long-term debt and obligation under capital lease	250,786	2,397,153
	<b>3,802,260</b>	4,791,714
Increase (decrease) in cash during the year	1,603	(233,068)
Cash, beginning of the year	16,910	249,978
<b>Cash, end of year</b>	<b>18,513</b>	16,910

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

## **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; and
- (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. Summary of significant accounting policies**

These financial statements are prepared in accordance with accounting standards for not-for-profit organizations ("ASNPOs") using the deferral method of reporting contributions.

### *(a) Capital assets*

Capital assets are stated 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;
- Buildings – straight-line basis between 30 and 50 years;
- Furniture and equipment – straight-line basis over 5 years;
- The vehicle – straight-line basis over 10 years; and
- Computers – straight-line basis over 5 years.

### *(b) 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 in the year after projects are complete and put into operation.

### *(c) 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.



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

### *(d) 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.

Rental and venue income, revenue from Creative Placemaking Lab and management fees and project recovery, are recorded on the accrual basis when the related service is performed.

### *(e) 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.

### *(f) 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.

### *(g) Allocation of expenses*

Direct salary and benefit costs are classified and reported as Property expenses, Venue expenses, or Creative Placemaking Lab expenses based on the employee time attributed to each function. Salary costs that are shared between functions are allocated based on the level of benefit received by each function. Such expenses are reviewed annually and updated on a prospective basis.

### *(h) 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.

## **3. 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).

### **3. Related parties (continued)**

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

Artscape has an operating lease agreement with RPAD. Commencing August 1, 2012, Artscape leased the Daniel Spectrum premises from RPAD for 50 years, less 2 days, at an annual rent of \$1 plus taxes and utilities. In turn, Artscape sub-leases the property to tenants and is responsible for the management and operation of the premises.

#### *Toronto Artscape Foundation*

On an ongoing basis, Artscape enters into various agency agreements with the Toronto Artscape Foundation ("TAF") 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 totaling \$1,147,669 (\$1,812,504 in 2016) for its projects and activities and Artscape charged management fees of \$ 25,000 (\$25,000 in 2016) to TAF.

#### *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 \$40,878 (\$40,274 in 2016) to ANPHI and ANPHI charged Artscape rent of \$35,000 (\$35,000 in 2016) for space leased on the ground floor of 900 Queen Street West.

#### *Toronto Standard Condominium Corporation 2397*

Toronto Standard Condominium Corporation 2397 ("TSCC 2397") is a commercial condominium corporation incorporated on August 11, 2014. TSCC 2397 is controlled by Artscape, as 23 of the 44 units are owned by Artscape and 3 of the 5 positions on the Board of Directors of TSCC 2397 are appointed by Artscape. Artscape holds second mortgages on 7 units (7 units in 2016) at a value of \$315,514 (\$315,514 in 2016).

Artscape provides property management services to TSCC 2397. During the year, Artscape charged \$29,678 in management fees (\$25,500 in 2016)

#### *Toronto Standard Condominium Corporation 2118*

Toronto Standard Condominium Corporation 2118 ("TSCC 2118") is a residential condominium corporation incorporated on November 8, 2010. TSCC 2118 is significantly influenced by Artscape, as 22 of the 70 units are owned by Artscape and 2 of the 5 positions on the Board of Directors of TSCC 2118 are appointed by Artscape. Artscape holds second mortgages on 48 units (48 units in 2016) at a value of \$3,482,375 (\$3,457,375 in 2016).

Artscape provides property management services to TSCC 2118. During the year, Artscape charged \$25,750 in management fees (\$25,000 in 2016).

**3. Related parties (continued)**

*Due from (to) related parties*

	2017	2016
	\$	\$
Due from Toronto Artscape Foundation	52,975	511,063
Due from Artscape Non-Profit Homes Inc.	57,718	1,384
Due from (to) Toronto Standard Condominium Corporation 2397	825	(7,998)
Due from Toronto Standard Condominium Corporation 2118	4,733	428
	<b>116,251</b>	<b>504,877</b>

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

**4. Artscape second mortgages**

Artscape holds second mortgages totaling \$7,619,674 (\$7,594,674 in 2016) on 71 (71 in 2016) individual condominium units at the Artscape Triangle Lofts, Artscape Youngplace, Artscape Simcoe Lofts, and Artscape Jarvis 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.

**5. Capital assets**

*(a) Capital assets*

	2017			2016
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Leasehold improvements				
Artscape Wychwood Barns	13,408,038	2,463,487	10,944,551	11,212,532
Artscape Distillery Studios	3,036,412	2,315,863	720,549	873,184
Parkdale Arts and Cultural Centre	612,270	601,498	10,772	51,019
Artscape Gibraltar Point	782,560	631,633	150,927	222,340
Daniels Spectrum	622,609	24,904	597,705	610,157
Buildings				
Artscape Triangle Lofts	3,217,669	190,710	3,026,959	3,091,313
Artscape Simcoe Lofts	430,580	17,223	413,357	421,968
Artscape Youngplace	14,112,381	564,495	13,547,886	13,830,133
Artscape Sandbox	1,427,020	28,540	1,398,480	1,427,020
Vehicle	40,100	37,873	2,227	3,340
Furniture and equipment	960,402	621,031	339,371	338,684
	<b>38,650,041</b>	<b>7,497,257</b>	<b>31,152,784</b>	<b>32,081,690</b>

**5. Capital assets (continued)**

*(b) Capital assets under capital lease*

	2017			2016
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Artscape Wychwood Barns HVAC and geothermal system	<b>665,170</b>	<b>119,731</b>	<b>545,439</b>	558,744

*(c) Capital work-in-progress*

	2017		
	Balance beginning of year	Additions during year	Balance end of year
	\$	\$	\$
Artscape Launchpad	5,866,641	<b>3,471,393</b>	<b>9,338,034</b>
Artscape Distillery Studios	351,320	<b>3,473</b>	<b>354,793</b>
Artscape Wychwood Barns	385,835	—	<b>385,835</b>
Artscape Sandbox	—	<b>3,500</b>	<b>3,500</b>
Artscape Bayside Lofts	—	<b>3,676</b>	<b>3,676</b>
Artscape Weston	341,336	<b>142,980</b>	<b>484,316</b>
Artscape 505 Richmond Street	42,223	<b>40,456</b>	<b>82,679</b>
	<b>6,987,355</b>	<b>3,665,478</b>	<b>10,652,833</b>

**6. Deferred capital contributions**

*(a) Capital work-in-progress*

	2017		
	Balance beginning of year	Received during year	Balance end of year
	\$	\$	\$
Artscape Launchpad	4,059,105	<b>3,500,000</b>	<b>7,559,105</b>
Artscape Distillery Studios	336,498	—	<b>336,498</b>
Artscape Wychwood Barns	350,000	—	<b>350,000</b>
Artscape Weston	230,000	<b>140,000</b>	<b>370,000</b>
	<b>4,975,603</b>	<b>3,640,000</b>	<b>8,615,603</b>

**6. Deferred capital contributions (continued)**

*(b) Capital assets*

	2017		2016
	Accumulated Cost	amortization	Net book value
	\$	\$	\$
Artscape Wychwood Barns	10,039,565	1,750,445	8,289,120
Artscape Distillery Studios	1,818,373	1,434,738	383,635
Parkdale Arts and Culture Centre	382,500	382,500	—
Artscape Gibraltar Point	75,358	69,733	5,625
Artscape Triangle Lofts	2,048,057	122,883	1,925,174
Artscape Daniels Spectrum	502,296	20,092	482,204
Artscape Simcoe Lofts	221,040	7,634	213,406
Artscape Sandbox	525,000	5,250	519,750
Artscape Young Place	4,511,926	177,350	4,334,576
Furniture and equipment	124,086	124,086	—
	<b>20,248,201</b>	<b>4,094,711</b>	<b>16,153,490</b>
			16,607,291

*(c) Deferred capital contributions – total*

	2017	2016
	\$	\$
Capital work-in-progress (Note 6 (a))	8,615,603	4,975,603
Capital assets (Note 6 (b))	16,153,490	16,607,291
	<b>24,769,093</b>	<b>21,582,894</b>

**7. Credit facilities and short-term debt**

*Lines of credit*

*Toronto Dominion Bank*

Artscape has an available operating line of credit of \$500,000 (\$500,000 in 2016). The line of credit is secured by a first charge general security agreement covering all of Artscape's assets. Interest on the line of credit is at prime + 1.75% (prime + 1.75% in 2016). At December 31, 2017, the balance outstanding was \$152,381 (\$244,364 in 2016).

*Alterna Savings and Credit Union Limited*

Secured line of credit of \$800,000 (\$800,000 in 2016), bearing interest at prime + 1.75% (prime + 1.75% in 2016) per annum. The balance outstanding as at December 31, 2017 was \$797,974 (\$795,850 in 2016).

*Alterna Savings and Credit Union Limited*

Secured line of credit of \$1,000,000 (\$1,000,000 in 2016), bearing interest at prime + 2% per annum (prime + 2% in 2016). The balance outstanding as at December 31, 2017 was \$601,332 (\$600,000 in 2016).

**8. Long-term debt**

(a) Long-term debt

	2017	2016
	\$	\$
Artscape Youngplace Alterna construction loans A & B from Alterna Savings and Credit Union were converted to a mortgage of \$8,261,738 on April 24, 2015. Interest on the mortgage is at 4.55%. This mortgage matures on April 24, 2019, is secured against the property, and requires monthly principal and interest payments of \$46,373	<b>7,826,384</b>	8,025,241
Alterna mortgage amount of \$835,000. Interest on the mortgage is 3.94%. This mortgage for Artscape Triangle Lofts matures on April 24, 2020, is secured against the property and requires monthly principal and interest payments of \$4,365	<b>779,652</b>	801,110
Community Forward Fund Mortgage financing to assist with the take out of construction advances for the condominium units at Artscape Youngplace. The term of the loan is 60 months, payable semi-annually, interest only. A balloon payment equal to the outstanding loan principal and accrued interest is to be repaid at the end of the 60 month term. Interest on the loan is at 5% per annum	<b>1,015,000</b>	1,015,000
Community Forward Fund Mortgage financing to assist with the construction advances for the building at Artscape Launchpad. The term of the loan is 31 months. The outstanding loan principal is payable in two installments and accrued interest is to be repaid at the beginning of each month. Interest on the loan is at 6.50% per annum	<b>1,200,000</b>	1,200,000
Artscape Wychwood Barns ("AWB") Manufacturers Life Insurance Company capital loan bearing interest at 4.53%, with monthly principal and interest payments totalling \$16,923 until March 15, 2022. 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	<b>2,711,195</b>	2,790,658
Carried forward	<b>13,532,231</b>	13,832,009

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

(b) Long-term debt (continued)

	2017	2016
	\$	\$
Balance brought forward	<b>13,532,231</b>	13,832,009
Artscape Wychwood Barns ("AWB") (continued)		
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 AWB. The loan is to be repaid in 240 equal monthly instalments of \$2,917 that commenced on 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. The loan matures on April 1, 2029	<b>169,990</b>	184,991
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 AWB. Repayment of the loan is with semi-annual blended principal and interest payments of \$18,808 (Artscape's share \$4,326) beginning in February 2010 until August 2029. Interest on the loan is at the Government of Canada bond rate, minus 1.5%	<b>89,399</b>	95,802
Other loans		
TD Bank loan #1 due June 26, 2022 and repayable in monthly payments of \$2,091 including principal plus interest at 3.7%. The loan is secured by a limited guarantee from the City of Toronto	<b>104,193</b>	125,002
Community Bonds		
Since 2016, Artscape has issued \$2,150,000 in bonds to fund the development of Artscape Launchpad, at 5% interest per annum, payable semi-annually. Principal payment of \$1,550,000 is due on October 15, 2021 and \$600,000 is due on February 1, 2022. The bonds are secured against Artscape's interest in the development and will be converted to a first charge mortgage against the property after closing	<b>2,150,000</b>	1,550,000
	<b>16,045,813</b>	15,787,804
Less current portion (Note 8(c))	<b>(1,556,621)</b>	(978,554)
	<b>14,489,192</b>	14,809,250

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

*(b) Obligation under capital lease*

	<b>2017</b>	2016
	\$	\$
Financing agreement with Bodkin Capital Corporation for \$47,126. The term of the lease is five years, which expires in July 2021, with a monthly payment of \$992. At the end of the lease, Artscape can purchase this equipment for \$10. Interest on the lease was calculated at 9.61%	<b>35,976</b>	43,199
	<b>35,976</b>	43,199
Less: current portion (Note 8 (c))	<b>(8,832)</b>	(9,425)
	<b>27,144</b>	33,774

*(c) Current portion of long-term debt*

	<b>2017</b>	2016
	\$	\$
Long-term loans and mortgages (Note 8 (a))	<b>1,556,621</b>	978,554
Obligation under capital lease (Note 8 (b))	<b>8,832</b>	9,425
	<b>1,565,453</b>	987,979

**9. 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.



**10. Deferred revenue**

	2016			2017
Deferred revenue	Received during year	Recognized as revenue		Deferred revenue
\$	\$	\$		\$
Artscape Launchpad	162,421	458,057	537,035	83,443
Artscape Youngplace	—	123,903	18,169	105,734
	<b>162,421</b>	<b>581,960</b>	<b>555,204</b>	<b>189,177</b>

**11. Commitments**

*Rental commitments*

*Parkdale Arts and Cultural Centre*

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 operates on a cost recovery basis. This lease expired on August 14, 2017, and has been renewed on a month-to-month basis.

*Artscape Gibraltar Point*

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.

*Artscape Wychwood Barns*

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.

*Theatre Passe Muraille*

Leased from the City of Toronto for annual rental payments of \$2. Artscape in turn leases the property to Theatre Passe Muraille for an annual base rent of \$2, a management fee of \$18,616; (\$17,729 in 2016), and a net capital contribution of \$20,000 (\$20,000 in 2016). The lease with the City expires on January 10, 2018, with the expectation that Theater Passe Muraille will renew directly with the City.

*Artscape Distillery Studios*

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.

**11. Commitments (continued)**

*Rental commitments (continued)*

*Artscape Distillery Studios (continued)*

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

	\$
2018	535,117
2019	560,535
2020	587,161
2021	615,051
2022	644,266
Thereafter	<u>112,478</u>
	<u>3,054,608</u>

*Liberty Market Building*

Artscape leases office space at 171 East Liberty Street under a lease which expires December 31, 2019.

Minimum annual rental payments to the expiry of the lease are:

	\$
2018	129,570
2019	<u>129,570</u>
	<u>259,140</u>

**12. Restricted cash**

*Capital reserves*

Artscape maintains separate capital reserve funds for the leased properties at TPM 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.

	<b>AWB Barn 4</b>	<b>TPM</b>	<b>Total 2017</b>	Total 2016
	\$	\$	\$	\$
Opening balance, January 1	<b>63,730</b>	<b>40,000</b>	<b>103,730</b>	90,000
Annual contribution	<b>10,000</b>	<b>20,000</b>	<b>30,000</b>	30,000
Capital expenditures	—	—	—	(16,270)
Closing balance, December 31	<u><b>73,730</b></u>	<u><b>60,000</b></u>	<u><b>133,730</b></u>	103,730

**13. Accounts payable and accrued liabilities**

As of December 31, 2017 \$25,957 (\$7,992 in 2016) was outstanding with respect to government remittances.

**14. Allocation of expenses**

Direct salary and benefit expenses of \$2,395,843 (2016 - \$2,198,642) have been allocated as follows:

	<b>2017</b>	2016
	\$	\$
Property expenses	<b>540,430</b>	688,985
Venue expenses	<b>1,534,781</b>	1,183,893
Creative Placemaking Lab	<b>320,632</b>	325,764
	<b><u>2,395,843</u></b>	<b><u>2,198,642</u></b>