
Financial statements of
Artscape Non-Profit Homes Inc.

December 31, 2018

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Independent Auditor's Report

To the Directors of
Artscape Non-Profit Homes Inc.

Opinion

We have audited the financial statements of Artscape Non-Profit Homes Inc. ("ANPHI"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ANPHI as at March 31, 2019, 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 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of ANPHI in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the ANPHI to comply with Section 80(2) of the Housing Services Act (and guidance in its application) issued by the City of Toronto. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with prescribed accounting policies to comply with Section 80(2) of the Housing Service Act (and guidance in its application) issued by the City of Toronto, 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.

In preparing the financial statements, management is responsible for assessing ANPHI's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate ANPHI or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing ANPHI's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 ANPHI's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ANPHI's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause ANPHI to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
May 17, 2019

Artscape Non-Profit Homes Inc.
Statement of financial position
As at December 31, 2018

	Notes	2018 \$	2017 \$
Assets			
Current assets			
Cash and cash equivalents		124,664	106,381
Prepaid expenses		6,849	5,698
Accounts receivable		197,924	78,103
Capital reserve investment funds	7	273,388	218,838
Due from City of Toronto Social Housing	6	26,830	—
		629,655	409,020
Capital assets	3	3,681,079	3,941,934
		4,310,734	4,350,954
Liabilities			
Current liabilities			
Due to City of Toronto Social Housing	6	18,703	70,229
Accounts payable and accrued liabilities	9	183,360	33,151
Tenant deposits and rents received in advance		30,923	28,763
Deferred revenue – Strong start mortgage subsidy		7,765	7,765
Current portion of long-term debt	5	270,723	261,750
Due to related party	4	115,319	57,718
		626,793	459,376
Long-term debt	5	3,296,827	3,566,655
		3,923,620	4,026,031
Commitments	8		
Net assets			
Capital reserve fund	7(a)	156,892	135,975
Capital replacement reserve fund	7(b)	116,496	82,863
Unrestricted		113,726	106,085
		387,114	324,923
		4,310,734	4,350,954

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, 2018

	Notes	2018 \$	2017 \$
Revenue			
City of Toronto Social Housing subsidy – regular Affordable Housing Program ("AHP") mortgage subsidy Due to City of Toronto		321,959	324,528
		93,178	93,178
	6	(5,361)	(15,542)
Net subsidy	6	409,776	402,164
Less allocated to Capital reserve fund	7	(52,708)	(41,616)
		357,068	360,548
Rental income – Market units		219,689	216,424
Rental income – Rent-gearred-to-income units		167,875	168,973
Interest and other		11,882	5,368
Insurance proceeds – Flood		125,816	–
		882,330	751,313
Expenses			
Property expenses		230,429	229,981
Mortgage interest		128,728	136,346
Realty taxes		58,146	58,070
Administration and contract fees		70,715	70,761
Amortization		260,855	255,170
Flood remedation expenses		125,816	–
		874,689	750,328
Excess of revenue over expenses for the year		7,641	985

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, 2018

	Notes	Capital reserve fund \$	Capital replacement reserve fund \$	Unrestricted fund \$	2018 Total \$	2017 Total \$
Balance, beginning of year		135,975	82,863	106,085	324,923	281,668
Excess of revenue over expenses for the year		—	—	7,641	7,641	985
Investment in Reserve funds	7	20,917	33,633	—	54,550	42,270
Balance, end of year		156,892	116,496	113,726	387,114	324,923

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

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

Year ended December 31, 2018

	2018	2017
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	7,641	985
Item not involving cash		
Amortization	260,855	255,170
	268,496	256,155
Changes in non-cash operating assets and liabilities		
Prepaid expenses	(1,151)	(58)
Accounts receivable	(119,821)	19,456
Due from City of Toronto Social Housing	(26,830)	32,454
Accounts payable and accrued liabilities and due to City of Toronto Social Housing	98,683	(144,405)
Tenant deposits and rents received in advance	2,160	713
Due to related party	57,601	56,333
	279,138	220,648
Investing activity		
Increase in capital reserve investments	(54,550)	(42,270)
Financing activities		
Decrease in long-term debt	(260,855)	(255,170)
Increase in capital reserve funds	54,550	42,270
	(206,305)	(212,900)
Increase (decrease) in cash and cash equivalents during the year	18,283	(34,522)
Cash and cash equivalents, beginning of year	106,381	140,903
Cash and cash equivalents, end of year	124,664	106,381

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

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
	\$	\$	\$	\$
900/906/910 Queen St. West, Toronto, ON Building	2,759,199	1,346,949	1,412,250	1,518,317
Less: grants and restricted donations	(518,143)	—	(518,143)	(518,143)
Land	522,600	—	522,600	522,600
	2,763,656	1,346,949	1,416,707	1,522,774
Artscape Wychwood Barns Leasehold improvements	6,717,210	1,236,034	5,481,176	5,635,964
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)
	3,500,406	1,236,034	2,264,372	2,419,160
	6,264,062	2,582,983	3,681,079	3,941,934

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

Artscape 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 \$42,104 (\$40,878 in 2017) charged to ANPHI by Artscape; and
- Rent of \$35,000 (\$35,000 in 2017) 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

	2018	2017
	\$	\$
Due to Artscape	115,319	57,718

The amount is interest free and due on demand.

5. Long-term debt

	2018	2017
	\$	\$
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. The annual interest rate is 5.98%	1,663,389	1,775,991
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's prime rate. Security on the loan is a promissory note provided by Artscape	206,676	226,676
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%, per annum	280,778	302,964
Balance carried forward	2,150,843	2,305,631

5. Long-term debt (continued)

	2018	2017
	\$	\$
Balance brought forward	2,150,843	2,305,631
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	1,355,867	1,461,934
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 Social Housing Reform Act	60,840	60,840
	3,567,550	3,828,405
Less: Current portion	(270,723)	(261,750)
Long-term portion	3,296,827	3,566,655

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 2019 is set at \$10,570 (\$11,180 in 2018).

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 \$15,957 in 2019 (\$15,650 in 2018).

	Queen St. W. subsidy	Wychwood Barns rent supplement	Total
	\$	\$	\$
City of Toronto 2018 subsidy	130,680	185,918	316,598
City of Toronto 2017 subsidy	128,243	180,743	308,986

6. City of Toronto Social Housing subsidy (continued)

Amounts due from City of Toronto as at December 31, 2018 are as follows:

	2018	2017
	\$	\$
900 Queen Street West	11,180	—
Artscape Wychwood Barns	15,650	—
	26,830	—

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, 2018 ANPHI has an excess subsidy of \$5,361 (\$15,542 in 2017) repayable to the City. The cumulative amount owing to the City of Toronto as at December 31, 2018 is \$18,703 (\$70,229 in 2017).

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 Encasa Financial Inc., with WorldSource Financial Management Inc. as Portfolio Advisor.

In 2018, ANPHI was required to allocate an amount of \$19,109 (\$18,849 in 2017) from the regular subsidy at 900 Queen St. W. from the City of Toronto to the capital reserve fund. Commencing in January 2019, ANPHI is required to allocate \$19,543 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.

	2018	2017
	\$	\$
Balance, beginning of year	135,975	114,443
City of Toronto Social Housing – portion allocated from regular subsidy	19,109	18,849
Income earned and unrealized gains	1,808	2,683
	20,917	21,532
Balance, end of year	156,892	135,975

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 2018, ANPHI has set up a provision of \$33,599 (\$22,767 in 2017) towards the capital replacement reserve fund.

	2018	2017
	\$	\$
Balance, beginning of year	82,863	62,125
Capital purchases	—	(2,057)
Affordable Housing Program – provision for capital replacement reserve	33,599	22,767
Income earned and unrealized gains	34	28
Balance, end of year December 31	116,496	82,863

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, 2018 and 2017.