

HAMILTON ARTISTS INC.

FINANCIAL STATEMENTS

30 SEPTEMBER 2014

CONTENTS

Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Accumulated Surplus	3
Statement of Revenue and Expenses	4
Statement of Cash Flows	5
Notes to the Financial Statements	6 - 11
Schedule of Expenditures	12



INDEPENDENT AUDITOR'S REPORT

To: The Board of Directors of
Hamilton Artists Inc.

We have audited the accompanying financial statements of Hamilton Artists Inc., which comprise the statement of financial position as at 30 September 2014, and the statements of accumulated surplus, revenue and expenses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors 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 the Board of Directors 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 Organization'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 Organization's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, 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.

Basis for Qualified Opinion

In common with many not-for-profit organizations, Hamilton Artists Inc. derives a material amount of revenue from donations and fundraising activities. We were not able to obtain sufficient appropriate audit evidence about the completeness of the reported amounts for donation and fundraising revenue, revenue in excess of expenditure and changes to net assets because there is no direct relationship between assets or services given up in exchange for amounts received or receivable. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

INDEPENDENT AUDITOR'S REPORT, continued

Qualified Opinion

Except as noted in the above paragraph, in our opinion, these financial statements present fairly, in all material respects, the financial position of the Organization as at 30 September 2014 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.

Beckett Louder Read, LLP

Burlington, Ontario
29 November 2014

Chartered Professional Accountants
Licensed Public Accountants

HAMILTON ARTISTS INC.
STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2014

	2014	2013
ASSETS		
CURRENT		
Bank	\$ 70,001	\$ 55,094
Accounts receivable	<u>5,307</u>	<u>1,440</u>
	75,308	56,534
PROPERTY AND EQUIPMENT, note 2	<u>920,562</u>	<u>948,899</u>
	<u><u>\$ 995,870</u></u>	<u><u>\$ 1,005,433</u></u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 3,557	\$ 3,643
Property taxes payable, note 3	43,093	25,606
Deferred revenue and grants, note 4	54,750	33,600
Government remittances payable	<u>956</u>	<u>5,605</u>
	102,356	68,454
LONG-TERM DEFERRED REVENUE, note 5	279,621	291,272
FORGIVABLE LOAN PAYABLE, note 6	<u>632,886</u>	<u>648,810</u>
	<u>1,014,863</u>	<u>1,008,536</u>
Deficit	<u>(18,993)</u>	<u>(3,103)</u>
	<u>(18,993)</u>	<u>(3,103)</u>
	<u><u>\$ 995,870</u></u>	<u><u>\$ 1,005,433</u></u>

On behalf of the board

Director _____

Director _____

HAMILTON ARTISTS INC.
STATEMENT OF ACCUMULATED SURPLUS
FOR THE YEAR ENDED 30 SEPTEMBER 2014

	2014	2013
(Deficit) accumulated surplus, beginning of year	\$ (3,103)	\$ 6,089
Deficiency of revenues over expenditures for the year	<u>(15,890)</u>	<u>(9,192)</u>
Deficit, end of year	<u><u>\$ (18,993)</u></u>	<u><u>\$ (3,103)</u></u>

HAMILTON ARTISTS INC.
STATEMENT OF REVENUE AND EXPENSES
 FOR THE YEAR ENDED 30 SEPTEMBER 2014

	2014	2013
REVENUES		
Grants	\$ 100,628	\$ 100,547
Fundraising	30,798	18,163
Amortization of forgivable loan	15,924	16,777
Amortization of deferred building renovation grants	11,651	12,136
Memberships	5,231	5,764
Rental income	4,130	3,051
Donations	3,894	2,784
Endowment fund income	<u>563</u>	<u>451</u>
	<u>172,819</u>	<u>159,673</u>
EXPENDITURES		
Administrative expenses, Schedule 1	153,630	143,678
Exhibition expenses, Schedule 1	<u>35,079</u>	<u>25,187</u>
	<u>188,709</u>	<u>168,865</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES FOR THE YEAR	<u>\$ (15,890)</u>	<u>\$ (9,192)</u>

HAMILTON ARTISTS INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2014

	2014	2013
CASH PROVIDED BY (USED FOR) OPERATIONS		
OPERATING ACTIVITIES		
Deficiency of revenues over expenditures	\$ (15,890)	\$ (9,192)
Amortization	29,233	30,570
Amortization of forgivable loan	(15,924)	(16,777)
Recognition of deferred revenue related to the building	<u>(11,651)</u>	<u>(12,136)</u>
	(14,232)	(7,535)
Change in non-cash operating working capital items		
Accounts receivable	(3,867)	275
Prepaid expenses	-	4,634
Accounts payable and accrued liabilities	(86)	(4,606)
Deferred revenue and grants	21,150	(5,300)
Government remittances payable	(4,649)	2,710
Property taxes payable	<u>17,487</u>	<u>14,951</u>
	15,803	5,129
INVESTING ACTIVITY		
Purchase of property and equipment	<u>(896)</u>	<u>-</u>
CHANGE IN CASH POSITION	14,907	5,129
CASH POSITION, BEGINNING OF YEAR	<u>55,094</u>	<u>49,965</u>
CASH POSITION, END OF YEAR	<u>\$ 70,001</u>	<u>\$ 55,094</u>

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2014

NATURE OF OPERATIONS

Hamilton Artists Inc. was incorporated without share capital under the Business Corporations Act (Ontario) on 14 September 1979 and is a registered charity under the Income Tax Act. The Corporation is exempt from income tax under paragraph 149 of the Income Tax Act.

The purpose of Hamilton Artists Inc. is to encourage the development of art and to foster a positive and ongoing relationship between the artist and the community by:

- (a) Providing a centre (which will be a social backdrop) for the purpose of exhibitions of art, exchange and cultivation of ideas and the continuing appraisal of skills and concepts.
- (b) Sponsoring projects/events which will invite community participation and advance the cultural awareness and enrichment of the community as a whole.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statement are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant policies are detailed as follows:

(a) Deferral method of accounting for contributions

The Organization uses the deferral method of accounting for contributions. Contributions received but restricted externally by the contributor for use in future periods are deferred and then recognized in the same periods in which the expenditures occur. Charitable receipts are issued on a cash basis. Unrestricted contributions are recognized when received. Revenue is recognized for other fundraising activities as funds are received or confirmed receivable.

(b) Contributions

It is the policy of the Organization to account only for monetary contributions. The fair value of non-monetary contributions or services are not reflected in these financial statements.

(c) Forgivable loans and long-term deferred revenue

Government and other grants or forgivable loans related to capital assets are accounted for as deferred government assistance and amortized on the same basis as the related capital assets.

HAMILTON ARTISTS INC.
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2014

1. SIGNIFICANT ACCOUNTING POLICIES, continued

(d) Property and equipment

Property and equipment acquisitions are initially recorded at cost. Amortization is calculated using the declining balance method at the following annual rates:

Building	4%
Computer equipment	50%
Equipment	20%

In the year of acquisition or disposal of property and equipment, net additions are amortized at one-half the normal rate.

(e) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

(f) Financial instruments

The Organization initially measures its financial assets and financial liabilities at fair value. It subsequently measures its financial assets and financial liabilities at amortized cost.

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2014

2. PROPERTY AND EQUIPMENT

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Land	\$ 249,100	\$ -	\$ 249,100	\$ -
Building	798,775	132,615	798,775	104,858
Computer equipment	3,552	2,756	2,656	2,407
Equipment	12,223	7,717	12,223	6,590
	<u>1,063,650</u>	<u>143,088</u>	<u>1,062,754</u>	<u>113,855</u>
Net book value	<u>\$ 920,562</u>		<u>\$ 948,899</u>	

3. PROPERTY TAXES PAYABLE

The Organization expects that a City of Hamilton rezoning will adjust its annual property taxes resulting in a significant reduction in the liability. Until the liability is finally determined the Organization is not paying the currently assessed amounts.

4. DEFERRED REVENUE AND GRANTS

	<u>2014</u>	<u>2013</u>
Ontario Arts Council	\$ 28,900	\$ 28,900
ArcelorMittal Dofasco	23,000	-
Event registration fees	2,850	-
Canada Council for the Arts	-	4,700
	<u>\$ 54,750</u>	<u>\$ 33,600</u>

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2014

5. LONG-TERM DEFERRED REVENUE

Long-term deferred revenue comprises grants received for direct use in the building renovations at 155 James Street North, Hamilton, and is recognized in income on the same basis as the amortization of the building.

	<u>2014</u>	<u>2013</u>
ArcelorMittal Dofasco - original grant was \$45,000	\$ 40,643	\$ 42,336
Canadian Heritage - original grant was \$237,500	214,502	223,440
Ontario Trillium Foundation - original grant was \$40,000	36,127	37,632
Recognized in revenue in the current year	<u>(11,651)</u>	<u>(12,136)</u>
	<u>\$ 279,621</u>	<u>\$ 291,272</u>

6. FORGIVABLE LOAN PAYABLE

	<u>2014</u>	<u>2013</u>
Due to the City of Hamilton, carrying no interest	\$ 722,500	\$ 722,500
Amortization	<u>(89,614)</u>	<u>(73,690)</u>
	<u>\$ 632,886</u>	<u>\$ 648,810</u>

This forgivable loan was obtained in order to acquire the property at 155 - 157 James Street North, Hamilton. A first mortgage/charge has been registered against the property and the City has been named as a loss payee for insurance obtained on the property. The principal of the loan in the amount of \$722,500 is due on the twentieth annual anniversary date in 2029, provided that no event of default or other event giving rise to the acceleration of the principal sum has occurred. If the loan is continuing on the twentieth anniversary date, the loan will be forgiven. An event of default includes the borrower becoming bankrupt or insolvent, a disposal of any part of the property without consent of the City, the borrower cancels its incorporation or the borrower ceases to use the property for the purposes identified in the loan agreement. Should an event of default occur the principal would become due in full plus 5% of any capital appreciation to the date of the default.

HAMILTON ARTISTS INC.
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2014

6. FORGIVABLE LOAN PAYABLE, continued

No principal is to be repaid until 2029 or as described in the paragraph above.

The portion of the government loan related to depreciable fixed assets is amortized on the same basis as the underlying assets. The portion related to buildings is amortized using the declining balance method at a rate of 4%.

7. RELATED PARTIES

The Organization is related to all members of the Board of Directors based on their control of the management of the Organization. The Board of Directors receives no compensation for their positions on the board.

8. GRANTS

The Organization received grants for use in general operations from the following entities:

	<u>2014</u>	<u>2013</u>
Canada Council for the Arts	\$ 13,900	\$ 10,000
Canada Museum Association	2,808	3,826
City of Hamilton	27,315	27,609
Ontario Arts Council	31,205	32,682
Ontario Trillium Foundation	24,400	24,400
Ontario Tourism	-	2,030
Toronto Reel Asian International Film Festival	<u>1,000</u>	<u>-</u>
	<u>\$ 100,628</u>	<u>\$ 100,547</u>

Additional amounts have been received but have been designated as deferred revenue to cover activities of the 2015 fiscal year.

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2014

9. ENDOWMENT FUND

The Organization established the Hamilton Artists Inc. Arts Endowment Fund at the Ontario Arts Foundation (OAF) under the terms of the Arts Endowment Fund (AEF) Program. The AEF is a program of the Government of Ontario through the Ministry of Culture and administered by the OAF. The Endowment Fund is held by the OAF for the benefit of Hamilton Artists Inc.

The Organization receives investment income from the Endowment Fund to be used in operations. During the year the Organization received investment income of \$563 (\$451 in 2013). The market value of the Arts Endowment Fund as at 30 September 2014 was \$13,289 (\$12,354 for 2013).

10. COMPARATIVE FIGURES

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

11. FINANCIAL INSTRUMENTS AND RISK

The significant financial risk to which the Organization is exposed are credit risk and liquidity risk. It is the board of director's opinion that the Organization is not exposed to any other significant risks arising from financial instruments.

(a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Organization is exposed to credit risk in connection with the collection of its accounts receivable. This risk is mitigated by the Organization's efforts to meet all required obligations set out in the grant agreements.

(b) Liquidity risk

Liquidity risk is the risk the Organization may not be able to meet their obligations. The Organization is exposed to liquidity risk arising primarily from the forgivable loan payable, and accounts payable and accrued liabilities.

HAMILTON ARTISTS INC.

SCHEDULE TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2014

SCHEDULE OF EXPENDITURES

Schedule 1

	2014	2013
ADMINISTRATIVE EXPENSES		
Amortization	\$ 29,233	\$ 30,570
Bookkeeping	950	2,260
Fundraising expenses	9,397	7,293
Insurance	4,268	5,427
Interest and bank charges	857	721
Maintenance, repairs and rentals	3,464	2,790
Office and general	5,699	4,015
Professional fees	2,962	3,348
Property taxes	17,487	14,951
Salaries and benefits	71,795	64,747
Security	648	407
Telephone	2,510	1,807
Utilities	4,360	5,342
	<u>\$ 153,630</u>	<u>\$ 143,678</u>
EXHIBITION EXPENSES		
Artists fees	\$ 20,983	\$ 12,386
Community programming	-	6,821
Installation	3,003	181
Publicity	9,171	5,329
Travel, accommodation and shipping	1,922	470
	<u>\$ 35,079</u>	<u>\$ 25,187</u>