

HAMILTON ARTISTS INC.

FINANCIAL STATEMENTS

30 SEPTEMBER 2015

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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 2015, 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.

INDEPENDENT AUDITOR'S REPORT, continued

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.

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 2015 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 London Read, LLP

Burlington, Ontario
3 February 2016

Chartered Professional Accountants
Licensed Public Accountants

HAMILTON ARTISTS INC.
STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2015

	2015	2014
ASSETS		
CURRENT		
Bank	\$ 79,580	\$ 70,001
Accounts receivable	<u>13,073</u>	<u>5,307</u>
	92,653	75,308
PROPERTY AND EQUIPMENT, note 2	<u>934,672</u>	<u>920,562</u>
	<u><u>\$ 1,027,325</u></u>	<u><u>\$ 995,870</u></u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 16,881	\$ 3,557
Property taxes payable, note 3	31,379	43,093
Deferred revenue and grants, note 4	27,455	54,750
Government remittances payable	<u>1,347</u>	<u>956</u>
	77,062	102,356
LONG-TERM DEFERRED REVENUE, note 5	307,636	279,621
FORGIVABLE LOAN PAYABLE, note 6	<u>618,636</u>	<u>632,886</u>
	1,003,334	1,014,863
ACCUMULATED SURPLUS	<u>23,991</u>	<u>(18,993)</u>
	<u><u>\$ 1,027,325</u></u>	<u><u>\$ 995,870</u></u>

On behalf of the board

Director

Director

The accompanying notes form an integral part of these financial statements

HAMILTON ARTISTS INC.

STATEMENT OF ACCUMULATED SURPLUS

FOR THE YEAR ENDED 30 SEPTEMBER 2015

	2015	2014
Deficit, beginning of year	\$ (18,993)	\$ (3,103)
Excess (deficiency) of revenues over expenditures for the year	<u>42,984</u>	<u>(15,890)</u>
Accumulated surplus (deficit), end of year	<u>\$ 23,991</u>	<u>\$ (18,993)</u>

HAMILTON ARTISTS INC.

STATEMENT OF REVENUE AND EXPENSES

FOR THE YEAR ENDED 30 SEPTEMBER 2015

	2015	2014
REVENUES		
Grants	\$ 111,061	\$ 100,628
Fundraising	32,866	30,798
Amortization of forgivable loan	14,250	15,924
Amortization of deferred building renovation grants	11,985	11,651
Memberships	6,403	5,231
Donations	5,472	3,894
Rental income	1,300	4,130
Gifts in kind	1,271	-
Endowment fund income	578	563
	<u>185,186</u>	<u>172,819</u>
EXPENDITURES		
Administrative expenses, Schedule 1	104,765	153,630
Exhibition expenses, Schedule 1	37,437	35,079
	<u>142,202</u>	<u>188,709</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES FOR THE YEAR	<u>\$ 42,984</u>	<u>\$ (15,890)</u>

HAMILTON ARTISTS INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2015

	2015	2014
CASH PROVIDED BY (USED FOR) OPERATIONS		
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenditures	\$ 42,984	\$ (15,890)
Amortization	28,803	29,233
Amortization of forgivable loan	(14,250)	(15,924)
Recognition of deferred revenue related to the building	<u>(11,985)</u>	<u>(11,651)</u>
	45,552	(14,232)
Change in non-cash operating working capital items		
Accounts receivable	(7,766)	(3,867)
Accounts payable and accrued liabilities	13,324	(86)
Deferred revenue and grants	12,705	21,150
Government remittances payable	391	(4,649)
Property taxes payable	<u>(11,714)</u>	<u>17,487</u>
	52,492	15,803
INVESTING ACTIVITY		
Purchase of property and equipment	<u>(42,913)</u>	<u>(896)</u>
CHANGE IN CASH POSITION	9,579	14,907
CASH POSITION, BEGINNING OF YEAR	<u>70,001</u>	<u>55,094</u>
CASH POSITION, END OF YEAR	<u><u>\$ 79,580</u></u>	<u><u>\$ 70,001</u></u>

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2015

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

The Organization received in-kind contributions. If the fair value of the in-kind contributions received is reliably measurable, the amounts are recorded as expenditures of the Organization and contributions in-kind. Otherwise no amount is recorded.

- (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 2015

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 2015

2. PROPERTY AND EQUIPMENT

	2015		2014	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 249,100	\$ -	\$ 249,100	\$ -
Building	841,688	160,119	798,775	132,615
Computer equipment	3,552	3,154	3,552	2,756
Equipment	12,223	8,618	12,223	7,717
	<u>1,106,563</u>	<u>171,891</u>	<u>1,063,650</u>	<u>143,088</u>
Net book value	<u>\$ 934,672</u>		<u>\$ 920,562</u>	

3. PROPERTY TAXES PAYABLE

Up until October 2015, the Organization had not been paying its property taxes with the expectation that it would qualify for a re-zoning after the building was completed in 2012, which would result in a significant reduction in its annual taxes. The City of Hamilton has since approved a charity rebate for each of the unpaid years from 2012 to 2015 resulting in a reduction of \$31,523 including interest.

The Organization made an additional property tax payment on 1 October 2015 in the amount of \$5,320.00.

The Organization is continuing its efforts to have the property re-zoned with the City of Hamilton, which if successful, will further reduce the prior year liabilities, as well as future property tax expenses.

	2015
Current fiscal year property tax expense	\$ 15,328
Current year interest accrued	4,481
Charity rebate received and interest reversed (2012 - 2015)	<u>(31,523)</u>
Net expense (recovery)	<u>\$ (11,714)</u>

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2015

4. DEFERRED REVENUE AND GRANTS

	<u>2015</u>	<u>2014</u>
Ontario Arts Council	\$ 27,455	\$ 28,900
ArcelorMittal Dofasco	-	23,000
Event registration fees	-	2,850
	<u>\$ 27,455</u>	<u>\$ 54,750</u>

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>2015</u>	<u>2014</u>
ArcelorMittal Dofasco - original grants were \$45,000 and \$40,000	\$ 79,017	\$ 40,643
Canadian Heritage - original grant was \$237,500	205,922	214,502
Ontario Trillium Foundation - original grant was \$40,000	34,682	36,127
Recognized in revenue in the current year	<u>(11,985)</u>	<u>(11,651)</u>
	<u>\$ 307,636</u>	<u>\$ 279,621</u>

6. FORGIVABLE LOAN PAYABLE

	<u>2015</u>	<u>2014</u>
Due to the City of Hamilton, carrying no interest	\$ 722,500	\$ 722,500
Amortization	<u>(103,864)</u>	<u>(89,614)</u>
	<u>\$ 618,636</u>	<u>\$ 632,886</u>

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2015

6. FORGIVABLE LOAN PAYABLE, continued

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.

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.

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2015

8. GRANTS

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

	<u>2015</u>	<u>2014</u>
Canada Council for the Arts	\$ 21,500	\$ 13,900
Canada Museum Association	3,492	2,808
City of Hamilton	52,000	27,315
Ontario Arts Council	28,900	31,205
Ontario Trillium Foundation	-	24,400
Incite Foundation for the Arts	5,000	-
Toronto Reel Asian International Film Festival	-	1,000
Other	169	-
	<u>\$ 111,061</u>	<u>\$ 100,628</u>

Additional amounts have been received but have been designated as deferred revenue to cover activities of the 2016 fiscal year.

9. ENDOWMENT FUND

The Hamilton Artists Inc. Arts Endowment Fund was established by the Ontario Arts Foundation (OAF) under the terms of the Arts Endowment Fund (AEF) Program on the Organization's behalf. 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 the Organization and is not an asset 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 \$578 (\$563 in 2014). The market value of the Arts Endowment Fund as at 30 September 2015 was \$13,603 (\$13,289 for 2014).

HAMILTON ARTISTS INC.
NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2015

10. 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 2015

SCHEDULE OF EXPENDITURES		Schedule 1	
	2015	2014	
ADMINISTRATIVE EXPENSES			
Amortization	\$ 28,803	\$ 29,233	
Bookkeeping	936	950	
Fundraising expenses	5,898	9,397	
Insurance	4,696	4,268	
Interest and bank charges	331	857	
Maintenance, repairs and rentals	4,850	3,464	
Office and general	2,733	5,699	
Professional fees	3,014	2,962	
Property taxes (Note 3)	(11,714)	17,487	
Salaries and benefits	59,266	71,795	
Security	400	648	
Telephone	664	2,510	
Utilities	4,888	4,360	
	<u>\$ 104,765</u>	<u>\$ 153,630</u>	
EXHIBITION EXPENSES			
Artists fees	\$ 18,517	\$ 20,983	
Installation	7,039	3,003	
Publicity	7,606	9,171	
Travel, accommodation and shipping	4,275	1,922	
	<u>\$ 37,437</u>	<u>\$ 35,079</u>	