

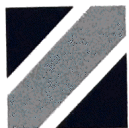
HAMILTON ARTISTS INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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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 September 30, 2017, 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 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 September 30, 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.

Beckett Landon Road, LLP

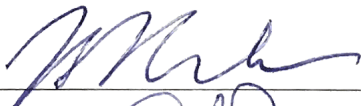
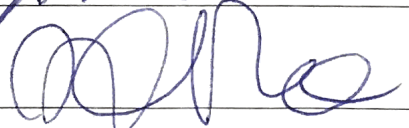
Burlington, Ontario
December 20, 2017

Chartered Professional Accountants
Licensed Public Accountants

HAMILTON ARTISTS INC.
STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2017

	2017	2016
<hr/>		
ASSETS		
CURRENT		
Bank	\$ 101,461	\$ 84,583
Accounts receivable	<u>15,179</u>	<u>12,663</u>
	116,640	97,246
PROPERTY AND EQUIPMENT, note 2	<u>879,640</u>	<u>906,489</u>
	<u><u>\$ 996,280</u></u>	<u><u>\$ 1,003,735</u></u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 6,894	\$ 4,894
Property taxes payable, note 3	14,995	31,336
Deferred revenue and grants, note 4	44,240	37,455
Government remittances payable	<u>4,601</u>	<u>2,870</u>
	70,730	76,555
LONG-TERM DEFERRED REVENUE, note 5	283,518	295,331
FORGIVABLE LOAN PAYABLE, note 6	<u>590,870</u>	<u>603,678</u>
	945,118	975,564
ACCUMULATED SURPLUS	<u>51,162</u>	<u>28,171</u>
	<u><u>\$ 996,280</u></u>	<u><u>\$ 1,003,735</u></u>

On behalf of the board

Director 
Director 

HAMILTON ARTISTS INC.
STATEMENT OF ACCUMULATED SURPLUS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>2017</u>	<u>2016</u>
ACCUMULATED SURPLUS, BEGINNING OF YEAR	\$ 28,171	\$ 23,991
Excess of revenues over expenditures for the year	<u>22,991</u>	<u>4,180</u>
ACCUMULATED SURPLUS, END OF YEAR	<u>\$ 51,162</u>	<u>\$ 28,171</u>

HAMILTON ARTISTS INC.
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	2017	2016
REVENUES		
Grants	\$ 119,788	\$ 108,542
Fundraising	33,262	33,256
Amortization of forgivable loan	12,808	14,958
Amortization of deferred building renovation grants	11,813	12,305
Donations	8,869	5,204
Memberships	6,254	5,710
Rental income	1,760	775
Endowment fund income	637	862
Other revenue	<u>1,341</u>	<u>1,261</u>
	<u>196,532</u>	<u>182,873</u>
EXPENDITURES		
Administrative expenses, Schedule 1	145,178	148,613
Exhibition expenses, Schedule 1	<u>28,363</u>	<u>30,080</u>
	<u>173,541</u>	<u>178,693</u>
EXCESS OF REVENUES OVER EXPENDITURES FOR THE YEAR	<u><u>\$ 22,991</u></u>	<u><u>\$ 4,180</u></u>

HAMILTON ARTISTS INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	2017	2016
CASH PROVIDED BY (USED FOR) OPERATIONS		
OPERATING ACTIVITIES		
Excess of revenues over expenditures	\$ 22,991	\$ 4,180
Amortization	26,849	28,183
Amortization of forgivable loan	(12,808)	(14,958)
Recognition of deferred revenue related to the building	<u>(11,813)</u>	<u>(12,305)</u>
	25,219	5,100
Change in non-cash operating working capital items		
Accounts receivable	(2,516)	410
Accounts payable and accrued liabilities	2,000	(11,987)
Deferred revenue and grants	6,785	10,000
Government remittances payable	1,731	1,523
Property taxes payable	<u>(16,341)</u>	<u>(43)</u>
CHANGE IN CASH POSITION	16,878	5,003
CASH POSITION, BEGINNING OF YEAR	<u>84,583</u>	<u>79,580</u>
CASH POSITION, END OF YEAR	<u><u>\$ 101,461</u></u>	<u><u>\$ 84,583</u></u>

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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, and b) Sponsoring projects and 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 as receivable.

(b) Contributions

The Organization receives 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
SEPTEMBER 30, 2017

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%

(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.

2. PROPERTY AND EQUIPMENT

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Land	\$ 249,100	\$ -	\$ 249,100	\$ -
Building	841,688	213,554	841,688	187,382
Computer equipment	3,552	3,453	3,552	3,353
Equipment	<u>12,223</u>	<u>9,916</u>	<u>12,223</u>	<u>9,339</u>
	<u>1,106,563</u>	<u>226,923</u>	<u>1,106,563</u>	<u>200,074</u>
Net book value	<u>\$ 879,640</u>		<u>\$ 906,489</u>	

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

3. PROPERTY TAXES PAYABLE

For a few years, the Organization was not paying its property taxes with the expectation that it would qualify for a re-zoning within the City of Hamilton. A partial reduction was allowed in 2015, and this year has again allowed a reduction for 2016 and 2017. All adjustments are recognized in the current year and resulted in payments being allocated as follows:

October to December 2016 property tax assessed	1,558
January to September 2017 property tax assessed	4,874
Credit adjustment assessed for January to September 2016	(5,118)
Interest	<u>1,420</u>
Net property tax expense	2,734
Property taxes payable, beginning of year	31,336
Payments made in year	<u>(19,075)</u>
Property taxes payable, end of year	<u><u>14,995</u></u>

4. DEFERRED REVENUE AND GRANTS

	<u>2017</u>	<u>2016</u>
Ontario Arts Council	\$ 29,240	\$ 27,455
Incite Foundation for the Arts	12,000	10,000
Hamilton Community Foundation	<u>3,000</u>	<u>-</u>
	<u>\$ 44,240</u>	<u>\$ 37,455</u>

5. LONG-TERM DEFERRED REVENUE

Long-term deferred revenue comprises grants previously 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>2017</u>	<u>2016</u>
ArcelorMittal Dofasco - original grant was \$85,000	\$ 81,986	\$ 76,656
Canadian Heritage - original grant was \$237,500	182,187	197,685
Ontario Trillium Foundation - original grant was \$40,000	30,684	33,295
Recognized as revenue in the current year	<u>(11,339)</u>	<u>(12,305)</u>
	<u>\$ 283,518</u>	<u>\$ 295,331</u>

HAMILTON ARTISTS INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

6. FORGIVABLE LOAN PAYABLE

	<u>2017</u>	<u>2016</u>
Due to the City of Hamilton, carrying no interest	\$ 722,500	\$ 722,500
Amortization	<u>(131,630)</u>	<u>(118,822)</u>
	<u>\$ 590,870</u>	<u>\$ 603,678</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 of Hamilton 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. 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 net investment income of \$673 (\$612 in 2016). The market value of the Arts Endowment Fund as at September 30, 2017 was \$14,193 (\$14,336 for 2016).

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

8. 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.

9. GRANTS

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

	<u>2017</u>	<u>2016</u>
Canada Council for the Arts	\$ 7,500	\$ 11,000
Canada Museum Association	2,989	5,087
City of Hamilton	58,500	50,000
Ontario Arts Council	27,455	27,455
Government of Ontario: Summer Experience Program	2,979	-
Incite Foundation for the Arts	10,000	10,000
Hamilton Community Foundation	<u>10,365</u>	<u>5,000</u>
	<u>\$ 119,788</u>	<u>\$ 108,542</u>

Additional amounts have been received but have been designated as deferred revenue to cover activities of the 2017 fiscal year. (Note 4)

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. This assessment of risk is consistent with prior years.

(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.

HAMILTON ARTISTS INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

10. FINANCIAL INSTRUMENTS AND RISK, continued

(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. The Organization relies on continuing funding through grants, donations, fundraising, memberships and other income.

HAMILTON ARTISTS INC.

SCHEDULE TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

SCHEDULE OF EXPENDITURES	Schedule 1	
	2017	2016
ADMINISTRATIVE EXPENSES		
Amortization	\$ 26,849	\$ 28,183
Bookkeeping	2,187	920
Fundraising expenses	6,264	9,742
Insurance	5,315	5,042
Interest and bank charges	297	919
Maintenance, repairs and rentals	3,535	4,892
Office and general	9,977	3,578
Professional fees	5,529	3,950
Property taxes, note 3	2,734	18,133
Salaries and benefits	74,591	66,249
Security	1,209	374
Telephone	1,021	1,117
Utilities	5,670	5,514
	<u>\$ 145,178</u>	<u>\$ 148,613</u>
EXHIBITION EXPENSES		
Artists fees	\$ 17,060	\$ 18,844
Community programming	1,648	1,837
Installation	1,031	1,855
Publicity	5,471	4,588
Travel, accommodation and shipping	3,153	2,956
	<u>\$ 28,363</u>	<u>\$ 30,080</u>