

HAMILTON ARTISTS INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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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, 2018, 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 expenditures 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, 2018 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.

DLR, LLP

Burlington, Ontario
January 3, 2019

Chartered Professional Accountants
Licensed Public Accountants

HAMILTON ARTISTS INC.

STATEMENT OF ACCUMULATED SURPLUS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	2018	2017
ACCUMULATED SURPLUS, BEGINNING OF YEAR	\$ 51,162	\$ 28,171
Excess of revenues over expenditures for the year	<u>18,679</u>	<u>22,991</u>
ACCUMULATED SURPLUS, END OF YEAR	<u><u>\$ 69,841</u></u>	<u><u>\$ 51,162</u></u>

HAMILTON ARTISTS INC.

STATEMENT OF REVENUE AND EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	2018	2017
REVENUES		
Grants	\$ 136,047	\$ 119,788
Fundraising	36,801	33,262
Amortization of forgivable loan	13,785	12,808
Amortization of deferred building renovation grants	11,340	11,813
Donations	9,370	8,869
Memberships	6,665	6,254
Rental income	12,239	1,760
Endowment fund income	653	637
Other revenue	699	1,341
	<u>227,599</u>	<u>196,532</u>
EXPENDITURES		
Administrative expenses, Schedule I	172,354	145,178
Exhibition expenses, Schedule I	36,566	28,363
	<u>208,920</u>	<u>173,541</u>
EXCESS OF REVENUES OVER EXPENDITURES FOR THE YEAR	<u>\$ 18,679</u>	<u>\$ 22,991</u>

HAMILTON ARTISTS INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	2018	2017
CASH PROVIDED BY (USED FOR) OPERATIONS		
OPERATING ACTIVITIES		
Excess of revenues over expenditures	\$ 18,679	\$ 22,991
Amortization	25,636	26,849
Amortization of forgivable loan	(13,785)	(12,808)
Recognition of deferred revenue related to the building	<u>(11,340)</u>	<u>(11,813)</u>
	19,190	25,219
Change in non-cash operating working capital items		
Accounts receivable	236	(2,516)
Prepaid expenses	(1,697)	-
Accounts payable and accrued liabilities	(1,151)	2,000
Deferred revenue and grants	25,850	6,785
Government remittances payable	(2,041)	1,731
Property taxes payable	<u>(14,995)</u>	<u>(16,341)</u>
CHANGE IN CASH POSITION	25,392	16,878
CASH POSITION, BEGINNING OF YEAR	<u>101,461</u>	<u>84,583</u>
CASH POSITION, END OF YEAR	<u>\$ 126,853</u>	<u>\$ 101,461</u>

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

NATURE OF OPERATIONS

Hamilton Artists Inc. (the Organization) was incorporated without share capital under the Business Corporations Act (Ontario) on September 14, 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.

I. 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, 2018

I. 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

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 249,100	\$ -	\$ 249,100	\$ -
Building	841,688	238,679	841,688	213,554
Computer equipment	3,552	3,503	3,552	3,453
Equipment	12,223	10,377	12,223	9,916
	<u>1,106,563</u>	<u>252,559</u>	<u>1,106,563</u>	<u>226,923</u>
Net book value	<u>\$ 854,004</u>		<u>\$ 879,640</u>	

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2018</u>	<u>2017</u>
Trade payables	\$ 513	\$ 1,394
Audit accrual	5,230	1,500
Art Spin Deposit	-	4,000
	<u>\$ 5,743</u>	<u>\$ 6,894</u>

4. DEFERRED REVENUE AND GRANTS

	<u>2018</u>	<u>2017</u>
Incite Foundation for the Arts	\$ 18,310	\$ 12,000
Ontario Arts Council	30,870	29,240
Canada Council for the Arts	14,510	-
Multicultural Community Capacity Grant Program	6,400	-
Hamilton Community Foundation	-	3,000
	<u>\$ 70,090</u>	<u>\$ 44,240</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>2018</u>	<u>2017</u>
ArcelorMittal Dofasco - original grant was \$85,000	\$ 67,821	\$ 70,647
Canadian Heritage - original grant was \$237,500	174,900	182,187
Ontario Trillium Foundation - original grant was \$40,000	29,457	30,684
	<u>\$ 272,178</u>	<u>\$ 283,518</u>

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

6. FORGIVABLE LOAN PAYABLE

	<u>2018</u>	<u>2017</u>
Due to the City of Hamilton, carrying no interest	\$ 722,500	\$ 722,500
Amortization	<u>(145,415)</u>	<u>(131,630)</u>
	<u>\$ 577,085</u>	<u>\$ 590,870</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 \$653 (\$673 in 2017). The market value of the Arts Endowment Fund as at September 30, 2018 was \$14,730 (\$14,193 for 2017).

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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>2018</u>	<u>2017</u>
Canada Council for the Arts	\$ 25,490	\$ 7,500
Canada Museum Association	8,469	2,989
City of Hamilton	57,500	58,500
Ontario Arts Council	29,240	27,455
Government of Ontario: Summer Experience Program	3,658	2,979
Incite Foundation for the Arts	8,690	10,000
Hamilton Community Foundation	3,000	10,365
	<u>\$ 136,047</u>	<u>\$ 119,788</u>

Additional amounts have been received but have been designated as deferred revenue to cover activities of the 2019 fiscal year (Note 3).

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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 counterparty 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 its 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, 2018

SCHEDULE OF EXPENDITURES

Schedule I

	2018	2017
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ADMINISTRATIVE EXPENSES		
Amortization	\$ 25,636	\$ 26,849
Bookkeeping	673	2,187
Fundraising	5,535	6,264
Insurance	6,093	5,315
Interest and bank charges	552	297
Maintenance, repairs and rentals	8,976	3,535
Office and general	3,638	9,977
Professional fees	10,095	5,529
Property taxes, note 3	8,284	2,734
Salaries and benefits	95,916	74,591
Security	466	1,209
Telephone	1,113	1,021
Utilities	5,377	5,670
	<hr/>	<hr/>
	\$ 172,354	\$ 145,178
	<hr/>	<hr/>
EXHIBITION EXPENSES		
Artists fees	\$ 20,852	\$ 17,060
Community programming	4,694	1,648
Installation	4,516	1,031
Publicity	4,448	5,471
Travel, accommodation and shipping	2,056	3,153
	<hr/>	<hr/>
	\$ 36,566	\$ 28,363
	<hr/>	<hr/>

HAMILTON ARTISTS INC.
STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2018

	2018	2017
ASSETS		
CURRENT		
Cash	\$ 126,853	\$ 101,461
Accounts receivable	14,943	15,179
Prepaid expenses	<u>1,697</u>	<u>-</u>
	143,493	116,640
PROPERTY AND EQUIPMENT, note 2	<u>854,004</u>	<u>879,640</u>
	<u><u>\$ 997,497</u></u>	<u><u>\$ 996,280</u></u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities, note 3	\$ 5,743	\$ 6,894
Property taxes payable	-	14,995
Deferred revenue and grants, note 4	70,090	44,240
Government remittances payable	<u>2,560</u>	<u>4,601</u>
	78,393	70,730
LONG-TERM DEFERRED REVENUE, note 5	272,178	283,518
FORGIVABLE LOAN PAYABLE, note 6	<u>577,085</u>	<u>590,870</u>
	927,656	945,118
ACCUMULATED SURPLUS	<u>69,841</u>	<u>51,162</u>
	<u><u>\$ 997,497</u></u>	<u><u>\$ 996,280</u></u>

On behalf of the Board of Directors

Director



Director



The accompanying notes form an integral part of these financial statements