

HAMILTON ARTISTS INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To: The Board of Directors of
Hamilton Artists Inc.

Opinion

We have audited the financial statements of Hamilton Artists Inc., which comprise the statement of financial position as at September 30, 2019, and the statements of , revenue and expenses and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Except as noted in the following paragraph, in our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at September 30, 2019 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.

Basis for Opinion

In common with many not-for-profit organizations, the Organization derives revenue from fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Organization. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended September 30, 2019 and 2018, current assets as at September 30, 2019 and 2018, and net assets as at October 1 and September 30 for both the 2019 and 2018 years. Our audit opinion on the financial statements for the year ended September 30, 2018 was modified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 the Organization 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.

Responsibilities of Management and the Board of Directors for the Financial Statements

The Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with ASNPO, and for such internal control as the Board of Directors determine 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, the Board of Directors are responsible for assessing the Organization'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 the Board of Directors either intend to liquidate the Organization or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization'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 generally accepted auditing standards 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 generally accepted auditing standards, 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 the Organization's internal control.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- ♦ Conclude on the appropriateness of the Board of Directors' 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 the Organization'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 the Organization 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.
- ♦ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Organization to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

BLR, LLP



Burlington, Ontario
December 12, 2019

Chartered Professional Accountants
Licensed Public Accountants

HAMILTON ARTISTS INC.
STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2019

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT		
Cash	\$ 105,328	\$ 126,853
Accounts receivable	18,646	14,943
Prepaid expenses	<u>1,763</u>	<u>1,697</u>
	125,737	143,493
PROPERTY AND EQUIPMENT, note 2	<u>832,965</u>	<u>854,004</u>
	<u>\$ 958,702</u>	<u>\$ 997,497</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities, note 3	\$ 9,571	\$ 5,743
Deferred revenue and grants, note 4	60,054	70,090
Government remittances payable	<u>-</u>	<u>2,560</u>
	69,625	78,393
LONG-TERM DEFERRED REVENUE, note 5	261,291	272,178
FORGIVABLE LOAN PAYABLE, note 6	<u>563,852</u>	<u>577,085</u>
	894,768	927,656
ACCUMULATED SURPLUS	<u>63,934</u>	<u>69,841</u>
	<u>\$ 958,702</u>	<u>\$ 997,497</u>

On behalf of the Board of Directors


Director _____

Director _____

HAMILTON ARTISTS INC.
STATEMENT OF ACCUMULATED SURPLUS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

	2019	2018
ACCUMULATED SURPLUS, BEGINNING OF YEAR	\$ 69,841	\$ 51,162
(Deficiency) excess of revenues over expenditures for the year	(5,907)	18,679
ACCUMULATED SURPLUS, END OF YEAR	\$ 63,934	\$ 69,841

HAMILTON ARTISTS INC.
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	2019	2018
REVENUES		
Grants	\$ 177,377	\$ 136,047
Fundraising	30,298	36,801
Amortization of forgivable loan	13,233	13,785
Amortization of deferred building renovation grants	10,887	11,340
Donations	12,100	9,370
Memberships	7,761	6,665
Rental income	6,225	12,239
Endowment fund income	650	653
Other revenue	537	699
	259,068	227,599
EXPENDITURES		
Administrative expenses, Schedule I	203,802	172,354
Exhibition expenses, Schedule I	61,173	36,566
	264,975	208,920
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENDITURES FOR THE YEAR	\$ (5,907)	\$ 18,679

HAMILTON ARTISTS INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	2019	2018
CASH PROVIDED BY (USED FOR) OPERATIONS		
OPERATING ACTIVITIES		
(Deficiency) excess of revenues over expenditures	\$ (5,907)	\$ 18,679
Amortization	25,689	25,636
Amortization of forgivable loan	(13,233)	(13,785)
Recognition of deferred revenue related to the building	(10,887)	(11,340)
Loss on disposal of equipment	49	-
	<u>(4,289)</u>	19,190
Change in non-cash operating working capital items		
Prepaid expenses	(66)	(1,697)
Accounts payable and accrued liabilities	3,829	(1,151)
Deferred revenue and grants	(10,036)	25,850
Government remittances payable	(2,560)	(2,041)
Property taxes payable	-	(14,995)
	<u>(13,122)</u>	<u>25,156</u>
INVESTING ACTIVITIES		
Accounts receivable	(3,703)	236
Purchase of property and equipment	(4,700)	-
	<u>(8,403)</u>	<u>236</u>
CHANGE IN CASH POSITION	(21,525)	25,392
CASH POSITION, BEGINNING OF YEAR	<u>126,853</u>	<u>101,461</u>
CASH POSITION, END OF YEAR	<u><u>\$ 105,328</u></u>	<u><u>\$ 126,853</u></u>

The accompanying notes form an integral part of these financial statements

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

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, 2019

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

	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 249,100	\$ -	\$ 249,100	\$ -
Building	841,688	262,799	841,688	238,679
Computer equipment	4,699	1,200	3,552	3,503
Equipment	12,223	10,746	12,223	10,377
	<u>1,107,710</u>	<u>274,745</u>	<u>1,106,563</u>	<u>252,559</u>
Net book value	<u>\$ 832,965</u>		<u>\$ 854,004</u>	

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2019</u>	<u>2018</u>
Trade payables	\$ 4,171	\$ 513
Audit accrual	<u>5,400</u>	<u>5,230</u>
	<u>\$ 9,571</u>	<u>\$ 5,743</u>

4. DEFERRED REVENUE AND GRANTS

	<u>2019</u>	<u>2018</u>
Incite Foundation for the Arts	\$ 15,500	\$ 18,310
Ontario Arts Council	28,400	30,870
Canada Council for the Arts	8,400	14,510
Multicultural Community Capacity Grant Program	-	6,400
City of Hamilton City Enrichment Fund	<u>7,754</u>	<u>-</u>
	<u>\$ 60,054</u>	<u>\$ 70,090</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>2019</u>	<u>2018</u>
ArcelorMittal Dofasco - original grant was \$85,000	\$ 65,108	\$ 67,821
Canadian Heritage - original grant was \$237,500	167,904	174,900
Ontario Trillium Foundation - original grant was \$40,000	<u>28,279</u>	<u>29,457</u>
	<u>\$ 261,291</u>	<u>\$ 272,178</u>

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

6. FORGIVABLE LOAN PAYABLE

	<u>2019</u>	<u>2018</u>
Due to the City of Hamilton, carrying no interest	\$ 722,500	\$ 722,500
Amortization	<u>(158,648)</u>	<u>(145,415)</u>
	<u>\$ 563,852</u>	<u>\$ 577,085</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 \$650 (\$653 in 2018). The market value of the Arts Endowment Fund as at September 30, 2018 was \$14,683 (\$14,730 for 2018).

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

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>2019</u>	<u>2018</u>
Canada Council for the Arts	\$ 46,110	\$ 25,490
Canada Museum Association	8,862	8,469
City of Hamilton	65,725	57,500
Ontario Arts Council	30,870	29,240
Government of Ontario: Summer Experience Program	-	3,658
Incite Foundation for the Arts	17,810	8,690
Hamilton Community Foundation	-	3,000
Multicultural Capacity Grant	8,000	-
	<u>\$ 177,377</u>	<u>\$ 136,047</u>

Additional amounts have been received but have been designated as deferred revenue to cover activities of the 2020 fiscal year (Note 4).

HAMILTON ARTISTS INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

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, 2019

SCHEDULE OF EXPENDITURES	Schedule I	
	2019	2018
ADMINISTRATIVE EXPENSES		
Amortization	\$ 25,689	\$ 25,636
Fundraising	5,662	5,535
Insurance	6,054	6,093
Interest and bank charges	296	552
Maintenance, repairs and rentals	5,341	8,976
Office and general	6,511	4,311
Professional fees	5,270	10,095
Property taxes, note 3	7,062	8,284
Salaries and benefits	136,026	95,916
Security	601	466
Telephone	1,075	1,113
Utilities	4,215	5,377
	<u>\$ 203,802</u>	<u>\$ 172,354</u>
EXHIBITION EXPENSES		
Artists fees	\$ 21,268	\$ 20,852
Community programming	19,581	4,694
Installation	6,749	4,516
Publicity	9,945	4,448
Travel, accommodation and shipping	3,630	2,056
	<u>\$ 61,173</u>	<u>\$ 36,566</u>