

Sketch
Working Arts for Street Involved
and Homeless Youth

Financial Statements

December 31, 2017



Independent Auditor's Report

To the Members of

Sketch Working Arts for Street Involved and Homeless Youth

Report of the financial statements

We have audited the accompanying financial statements of **Sketch Working Arts for Street Involved and Homeless Youth**, which comprise the statement of financial position as at **December 31, 2017** and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management 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 management 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 qualified audit opinion.

Sketch Working Arts for Street Involved and Homeless Youth

Independent Auditor's Report

Page 2

Basis for Qualified Opinion

In common with many not-for-profit organizations, the organization derives revenue from fundraising activities and donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our 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 the donation and fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 2017 and 2016, current assets as at December 31, 2017 and 2016, and net assets as at January 1 and December 31 for both the 2017 and 2016 years. Our audit opinion on the financial statements for the year ended December 31, 2016 was modified accordingly because of the possible effects of this limitation in scope.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of **Sketch Working Arts for Street Involved and Homeless Youth** as at **December 31, 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.

Clarkson Rouble LLP

Mississauga, Ontario
March 8, 2018

Clarkson Rouble LLP
Chartered Professional Accountants
Licensed Public Accountants



Sketch Working Arts for Street Involved and Homeless Youth

Statement of Financial Position As at December 31

	General Fund	Capital Asset Fund	2017 Total	2016 Total
Assets				
Current				
Cash (Note 3)	\$ 233,458	\$ -	\$ 233,458	\$ -
Short term investments	315,496	-	315,496	323,838
Accounts receivable	396,864	-	396,864	125,483
Sales taxes receivable	10,834	-	10,834	11,658
Prepaid expenses	29,235	-	29,235	27,752
	985,887	-	985,887	488,731
Capital assets (Note 2)	-	976,911	976,911	1,104,425
	\$ 985,887	\$ 976,911	\$ 1,962,798	\$ 1,593,156
Liabilities				
Current				
Bank indebtedness (Note 3)	\$ -	\$ -	\$ -	\$ 52,935
Accounts payable and accruals	77,165	-	77,165	26,688
Deferred contributions (Note 4)	990,490	-	990,490	706,856
Deferred capital contributions (Note 5)	-	711,595	711,595	830,194
Current portion Commercial loan (Note 6)	2,861	20,045	22,906	-
	1,070,516	731,640	1,802,156	1,616,673
Commercial loan (Note 6)	-	245,271	245,271	-
	1,070,516	976,911	2,047,427	1,616,673
Net Assets				
Net assets invested in capital assets	-	-	-	274,231
Unrestricted net assets	(84,629)	-	(84,629)	(297,748)
	(84,629)	-	(84,629)	(23,517)
	\$ 985,887	\$ 976,911	\$ 1,962,798	\$ 1,593,156

See accompanying notes to financial statements

On behalf of the Board:

Director

Director

Sketch Working Arts for Street Involved and Homeless Youth

Statement of Operations Year Ended December 31

	General Fund		Capital Asset Fund	
	2017	2016	2017	2016
Revenue				
Government revenue				
Government of Canada	\$ 87,499	\$ 55,967	\$ -	\$ -
Province of Ontario	85,265	-	-	-
Ontario Trillium Foundation	734,789	344,630	-	-
Ontario Arts Council (Note 7)	117,000	92,000	-	-
Toronto Arts Council (Note 8)	178,621	178,130	-	-
City of Toronto	191,469	199,364	-	-
	<u>1,394,643</u>	<u>870,091</u>	<u>-</u>	<u>-</u>
Private sector revenue				
Charitable foundations	661,053	843,592	-	-
Corporate donations	321,466	214,880	-	-
Individual donations	144,144	154,200	-	-
Fundraising	130,906	57,073	-	-
Amortization of deferred capital contributions	-	-	118,599	118,599
	<u>1,257,569</u>	<u>1,269,745</u>	<u>118,599</u>	<u>118,599</u>
Earned and Other Revenue				
Investment income	3,075	3,157	-	-
Workshops and presentations	79,890	50,143	-	-
Facilities rental	133,092	109,190	-	-
Recoveries and rebates	54,433	29,407	-	-
	<u>270,490</u>	<u>191,897</u>	<u>-</u>	<u>-</u>
	<u>2,922,702</u>	<u>2,331,733</u>	<u>118,599</u>	<u>118,599</u>
Expenses				
Personnel costs	1,506,564	1,131,852	-	-
Occupancy costs	306,260	347,055	-	-
Program and materials costs	810,709	639,623	-	-
Professional fees	120,565	56,409	-	-
Fundraising	1,533	1,579	-	-
Office and general	153,143	125,806	-	-
Promotion	15,424	10,757	-	-
Amortization	-	-	188,215	176,078
	<u>2,914,198</u>	<u>2,313,081</u>	<u>188,215</u>	<u>176,078</u>
Excess (deficiency) of revenue over expenses	\$ 8,504	\$ 18,652	\$ (69,616)	\$ (57,479)

See accompanying notes to financial statements

Sketch Working Arts for Street Involved and Homeless Youth

Statement of Changes in Net Assets Year Ended December 31

	Invested in capital assets (Note 2)	Unrestricted	2017 Total Net Assets	2016 Total Net Assets
Balance, beginning of year	\$ 274,231	\$ (297,748)	\$ (23,517)	\$ 15,310
Deficiency of revenue over expenses	(69,616)	8,504	(61,112)	(38,827)
Transfer between funds	(204,615)	204,615	-	-
Balance, end of year	\$ -	\$ (84,629)	\$ (84,629)	\$ (23,517)

See accompanying notes to financial statements

Sketch Working Arts for Street Involved and Homeless Youth

Statement of Cash Flows Year Ended December 31

	General Fund		Capital Asset Fund	
	2017	2016	2017	2016
Operating activities				
Excess (deficiency) of revenue over expenses	\$ 8,504	\$ 18,652	\$ (69,616)	\$ (57,479)
Items not requiring an outlay of cash				
Amortization of deferred capital contributions	-	-	(118,599)	(118,599)
Amortization	-	-	188,215	176,078
	8,504	18,652	-	-
Net change in working capital items				
Operating working capital				
Account receivable	(271,381)	(26,941)	-	-
Sales taxes receivable	824	(3,756)	-	-
Prepaid expenses	(1,483)	(2,438)	-	-
Accounts payable	50,477	(48,162)	-	-
Deferred contributions	283,634	11,168	-	-
Current portion of Commercial loan	20,045	-	-	-
Increase (decrease) from operating	90,620	(51,477)	-	-
Investing activity				
Purchase of capital assets	(60,701)	(4,478)	-	-
Financing activity				
Change in Commercial loan	245,271	-	-	-
Sale (purchase) of short term investments	8,342	(3,064)	-	-
Increase (decrease) from financing	253,613	(3,064)	-	-
Increase (decrease) in cash	283,532	(59,019)	-	-
(Bank indebtedness) cash, start of year	(52,935)	6,084	-	-
Cash (bank indebtedness), end of year	\$ 230,597	\$ (52,935)	\$ -	\$ -

See accompanying notes to financial statements

Sketch Working Arts for Street Involved and Homeless Youth

Notes to Financial Statements December 31, 2017

Sketch Working Arts for Street Involved and Homeless Youth is an organization developing cultural programs and educational opportunities for street-involved, at-risk and homeless youth. Sketch Working Arts for Street Involved and Homeless Youth (Sketch) was incorporated without share capital, in the Province of Ontario by letters patent dated December 7, 2001. It qualified for tax-exempt status as a registered charity under paragraph 149(1)(f) of the Income Tax Act effective March 7, 2003.

1. Summary of significant accounting policies

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook

a) Fund accounting

Sketch follows the restricted method of accounting for contributions.

The General Fund accounts for the organization's program delivery and administrative activities. This fund reports unrestricted resources and restricted operating grants.

The Capital Asset Fund reports the assets, liabilities, revenues and expenses related to Sketch's capital assets and leasehold improvements.

b) Cash and cash equivalents

The organization considers cash on hand, deposits in bank, and bank line of credit as cash and cash equivalents.

c) Financial instruments

The organization initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions. The organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include cash and cash equivalents and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable, accrued liabilities and operating loan.

Financial assets measured at fair value include short term investments. Short term investments consists of guaranteed investment certificates which the organization has elected to carry at fair value. Changes in fair value are recognized in net income.

The organization has not elected to carry any financial liability at fair value.

Sketch Working Arts for Street Involved and Homeless Youth

Notes to Financial Statements

December 31, 2017

1. Summary of significant accounting policies (continued)

Transaction costs

The organization recognizes its transaction costs in net income in the period incurred except for financial instruments that will not be subsequently measured at fair value. The carrying amounts of these instruments are adjusted by the transaction costs that are directly attributable to their issuance.

d) Capital assets

Capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis over the assets' estimated useful lives, which for furniture is 10 years, for equipment is 5 years and for computers is 3 years. Leasehold improvements are amortized over the length of the lease plus one renewal period. Amortization expense is reported in the Capital Asset Fund.

e) Impairment of long-lived assets

A long-lived asset is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

f) Revenue recognition

The organization follows the deferral method of accounting for contributions to the General Fund. Restricted contributions related to general operations are recognized as revenue of the General Fund in the year in which the related expenses are incurred. Restricted grants and donations for purchase of capital assets in excess of current capital campaign expenditures are reported as deferred contributions on the balance sheet and are amortized to operations at the same rate as the related capital assets are amortized to operations.

Unrestricted contributions are recognized as revenue of the General Fund in the year received. Service revenue is recorded as revenue when the services are provided.

g) Contributed material and services

Donated materials and capital assets are recognized in the accounts when the fair market value of the materials is readily determinable and has been receipted by the organization.

Volunteers contribute many hours per year to assist Sketch Working Arts for Street Involved and Homeless Youth in carrying out its mandate. Because of the difficulty in determining their fair value, contributed services are not recognized in the financial statements.

Sketch Working Arts for Street Involved and Homeless Youth

Notes to Financial Statements December 31, 2017

1. Summary of significant accounting policies (continued)

h) Measurement uncertainty

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 at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Estimated life of capital assets, valuation of accounts receivable, and accrued liabilities are the most significant items that involve use of estimates.

2. Capital assets

	2017		2016	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Leasehold improvements	\$ 1,503,830	\$ 590,182	\$ 913,648	\$ 1,026,197
Furniture	222,780	212,692	10,088	11,923
Equipment	170,429	135,224	35,205	61,603
Computer	119,333	101,363	17,970	4,702
	\$ 2,016,372	\$ 1,039,461	\$ 976,911	\$ 1,104,425

3. Cash / Bank indebtedness

Cash and cash equivalents consist of cash on hand, deposits with banks, as well as bank line of credit. Cash (bank indebtedness) as presented on the balance sheet and included in the cash flow statement comprise the following:

	2017	2016
Deposits with banks	\$ 231,853	\$ 4,710
Cash on hand	1,605	35,533
Line of credit	-	(93,178)
	\$ 233,458	\$ (52,935)

A bank line of credit, with a limit of \$200,000, bears interest on the outstanding balance at prime plus 2% and is payable on demand and is secured by a general security agreement covering all assets. The short term investments are held as security for the line of credit and the Commercial loan.

Sketch Working Arts for Street Involved and Homeless Youth

Notes to Financial Statements December 31, 2017

4. Deferred contributions

Deferred contributions represent unspent externally restricted donations received by the organization related to activities of the subsequent period or specific projects which extend beyond the current fiscal period.

	2017	2016
Balance, beginning of period	\$ 706,856	\$ 695,688
Add: Donations/Grants received/receivable during the year	2,635,134	1,853,038
Less: Amounts recorded as revenue in the year	2,351,500	1,841,870
Balance, end of period	\$ 990,490	\$ 706,856

5. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the leasehold improvements related to the renovation costs for Unit B01. The amortization will commence upon completion of the construction renovations. The change in the deferred capital contribution balance is as follows:

	2017	2016
Balance, beginning of year	\$ 948,793	\$ 1,067,392
Amortization of deferred capital contributions	(118,599)	(118,599)
Balance, end of year	\$ 830,194	\$ 948,793

The amortization of deferred capital contributions is recorded as revenue in the statement of operations.

6. Commercial loan

	2017	2016
The operating loan is with Alterna Savings. The loan is secured by cash/term deposit minimum of \$300,000. The interest rate is calculated at Alterna prime rate plus 2.0% per annum with blended monthly payments of \$3,005. The loan matures March 30, 2027.	\$ 268,177	\$ -
Principal due within one year	22,906	-
	\$ 245,271	\$ -

Sketch Working Arts for Street Involved and Homeless Youth

Notes to Financial Statements December 31, 2017

6. Operating loan (continued)

Principal repayments until maturity are estimated as follows:

2018	\$	22,906
2019		24,097
2020		25,350
2021		26,668
2022		28,055
2023 and thereafter		141,101
	\$	<u>268,177</u>

7. Ontario Arts Council funding

Funding received from the Ontario Arts Council for the support programs operated by the organization are as follows:

	2017	2016
Multi-year operating grant	\$ 80,000	\$ 80,000
Project grants	37,000	12,000
	<u>\$ 117,000</u>	<u>\$ 92,000</u>

8. Toronto Arts Council funding

Funding received from the Toronto Arts Council for the support programs operated by the organization are as follows:

	2017	2016
Annual Operating		
Annual Operating Grant	\$ 98,000	\$ 90,000
Project Grants		
Platform A Project	25,000	60,000
Micro-Grants Program	12,000	12,000
Youth Project Grants		
Street Voices Project	-	4,751
Void Project	-	7,379
CUE - Counter-mapping	12,000	-
CUE - Targeted Enhanced Funding	5,000	4,000
ArtReach Toronto	26,621	-
	<u>\$ 178,621</u>	<u>\$ 178,130</u>

Sketch Working Arts for Street Involved and Homeless Youth

Notes to Financial Statements December 31, 2017

9. Donations-in-kind

Tax receipts have been provided for donations in kind which have been valued at cost or fair market value and they have been allocated to the following expense categories.

	2017	2016
Materials and program costs	\$ 3,111	\$ 13,956
Occupancy	-	72,637
	<u>\$ 3,111</u>	<u>\$ 86,593</u>

10. Commitments and contingencies

The organization occupies Unit 201 consisting of 1,301 square feet, and Unit B01 consisting of 7,257 square feet at 180 Shaw Street, under lease agreements with Toronto Artscape Inc. Sketch agreed to lease the premises for a minimum period of 5 years with a possible extension. The current lease term expires on December 31, 2018. A new location has been leased at 1684 Queen Street West. The lease agreement expires on May 31, 2022. The organization has also entered into a 24 month lease for computer equipment that expires in November 2018. Estimated annual lease payments including additional rent and HST for the next five years are as follows:

2018	\$ 306,400
2019	41,419
2020	42,013
2021	42,619
2022	17,864
	<u>\$ 450,315</u>

11. Financial instruments risk exposure

The organization is exposed to various risks through its financial instruments. The following analysis provides a measure of the organization's risk exposure and concentrations at the statement of financial position date.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The organization's main credit risks relate to accounts receivable, however the risk is limited due to the nature of its accounts receivable. Contributions are not recorded in receivables unless collection is reasonably assured. The organization has not had issues with these collections over the past several years. The allowance for doubtful accounts is \$nil (2016 - \$Nil)

Sketch Working Arts for Street Involved and Homeless Youth

Notes to Financial Statements
December 31, 2017

11. Financial instruments risk exposure (continued)

Liquidity risk

Liquidity risk is the risk that the organization will encounter difficulty in meeting obligations associated with financial liabilities. The organization is exposed to this risk mainly in respect of its accounts payable and operating loan payable (Note 6). The organization expects to meet these obligations as they come due through sufficient cash flow from operations. The organization has not had issues with meeting obligations in the past several years.

There has been no change in risk assessment from the prior period.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Interest rate risk

Interest rate risk is the risk that the future value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The organization is subject to interest rate risk with respect to its operating loan payable as described in Note 6. Specifically, the organization is exposed to fair value risk due to changes in market rates of interest at the time of interest calculation.