

**Sketch**  
**Working Arts for Street Involved**  
**and Homeless Youth**

**Financial Statements**

**December 31, 2019**



## Independent Auditor's Report

To the Members of

### **Sketch Working Arts for Street Involved and Homeless Youth**

#### **Qualified Opinion**

We have audited the financial statements of **Sketch Working Arts for Street Involved and Homeless Youth** (the Organization), which comprise the statement of financial position as at **December 31, 2019** and **2018**, the statements of operations, changes in fund balances and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2019 and 2018, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

#### **Basis for Qualified Opinion**

In common with many not-for-profit organizations, **Sketch Working Arts for Street Involved and Homeless Youth** derives revenue from 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, 2019 and 2018, current assets as at December 31, 2019 and 2018, and net assets as at January 1 and December 31 for both the 2019 and 2018 years. Our audit opinion on the financial statements for the year ended December 31, 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 qualified opinion.

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is 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 management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

# Sketch Working Arts for Street Involved and Homeless Youth

## Independent Auditor's Report

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### 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 management.
- Conclude on the appropriateness of management's 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.

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.

*Clarkson Rouble LLP*

Mississauga, Ontario  
March 17, 2020

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	2019 Total	2018 Total
<b>Assets</b>				
<b>Current</b>				
Cash (Note 2)	\$ 565,654	\$ (400,060)	\$ 165,594	\$ 251,027
Short term investments	-	-	-	321,276
Accounts receivable	218,393	-	218,393	218,478
Sales taxes receivable	31,168	-	31,168	15,169
Prepaid expenses	42,850	-	42,850	33,662
	858,065	(400,060)	458,005	839,612
<b>Capital assets (Note 3)</b>	-	4,367,953	4,367,953	792,814
	<b>\$ 858,065</b>	<b>\$ 3,967,893</b>	<b>\$ 4,825,958</b>	<b>\$ 1,632,426</b>

## Liabilities

<b>Current</b>				
Accounts payable and accruals	\$ 63,935	\$ -	\$ 63,935	\$ 87,092
Sales taxes payable	-	130,808	130,808	-
Deferred contributions (Note 4)	1,108,643	-	1,108,643	890,374
Deferred capital contributions (Note 5)	-	578,171	578,171	592,996
Loans payable (Note 7)	-	2,010,000	2,010,000	-
Current portion of long term debt (Note 8)	-	24,684	24,684	24,097
	1,172,578	2,743,663	3,916,241	1,594,559
<b>Commercial loan (Note 6)</b>	-	-	-	222,489
<b>Mortgage payable (Note 6 and 8)</b>	-	1,075,316	1,075,316	-
	1,172,578	3,818,979	4,991,557	1,817,048

## Net Assets

<b>Net assets invested in capital assets</b>	-	148,914	148,914	-
<b>Unrestricted net assets</b>	(314,513)	-	(314,513)	(184,622)
	(314,513)	148,914	(165,599)	(184,622)
	<b>\$ 858,065</b>	<b>\$ 3,967,893</b>	<b>\$ 4,825,958</b>	<b>\$ 1,632,426</b>

See accompanying notes to financial statements

On behalf of the Board:

*Charlene Quincey*

Director

*Sven Dedic*

Director

# Sketch Working Arts for Street Involved and Homeless Youth

## Statement of Operations Year Ended December 31

	General Fund		Capital Asset Fund	
	2019	2018	2019	2018
<b>Revenue</b>				
Government revenue				
Government of Canada	\$ 363,140	\$ 164,256	\$ -	\$ -
Province of Ontario	1,956	455	-	-
Ontario Trillium Foundation	1,228,386	1,116,300	-	-
Ontario Arts Council (Note 9)	150,685	207,015	-	-
Toronto Arts Council (Note 10)	204,394	227,848	-	-
City of Toronto	192,032	228,502	-	-
	2,140,593	1,944,376	-	-
Private sector revenue				
Charitable foundations	567,816	599,410	-	-
Corporate donations	292,655	400,830	-	-
Individual donations	321,663	177,867	-	-
Fundraising	30,871	19,528	-	-
Capital campaign	112,000	-	-	-
Partnership agreements	62,340	77,118	-	-
Amortization of deferred capital contributions	-	-	14,825	118,599
	1,387,345	1,274,753	14,825	118,599
Earned and Other Revenue				
Investment income	10,475	6,435	-	-
Facilities rental	91,897	107,441	-	-
Recoveries and rebates	39,155	46,217	-	-
	141,527	160,093	-	-
	3,669,465	3,379,222	14,825	118,599
<b>Expenses</b>				
Personnel costs	1,704,463	1,738,893	-	-
Occupancy costs	325,217	338,639	-	-
Program and materials costs	1,150,610	945,059	-	-
Professional fees	226,269	141,900	-	-
Fundraising	844	225	-	-
Office and general	197,196	226,903	-	-
Promotion	19,419	19,214	-	-
Amortization	-	-	41,249	186,981
	3,624,018	3,410,833	41,249	186,981
<b>Excess (deficiency) of revenue over expenses</b>	<b>\$ 45,447</b>	<b>\$ (31,611)</b>	<b>\$ (26,424)</b>	<b>\$ (68,382)</b>

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 3)	Unrestricted	2019 Total Net Assets	2018 Total Net Assets
Balance, beginning of year	\$ -	\$ (184,622)	\$ (184,622)	\$ (84,629)
Excess (deficiency) of revenue over expenses	(26,424)	45,447	19,023	(99,993)
Transfer between funds	175,338	(175,338)	-	-
Balance, end of year	\$ 148,914	\$ (314,513)	\$ (165,599)	\$ (184,622)

*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	
	2019	2018	2019	2018
<b>Operating activities</b>				
Excess (deficiency) of revenue over expenses	\$ 45,447	\$ (31,611)	\$ (26,424)	\$ (68,382)
Items not requiring an outlay of cash				
Amortization of deferred capital contributions	-	-	(14,825)	(118,599)
Amortization	-	-	41,249	186,981
	45,447	(31,611)	-	-
Net change in working capital items				
Operating working capital				
Account receivable	85	178,386	-	-
Sales taxes receivable	(15,999)	(4,335)	-	-
Prepaid expenses	(9,188)	(4,427)	-	-
Accounts payable	(23,157)	9,927	-	-
Sales taxes payable	130,808	-	-	-
Deferred contributions	218,269	(100,116)	-	-
Current portion of long term debt	587	1,191	-	-
<b>Increase from operating</b>	346,852	49,015	-	-
<b>Investing activity</b>				
Purchase of capital assets	(3,616,388)	(2,884)	-	-
<b>Decrease from investing</b>	(3,616,388)	(2,884)	-	-
<b>Financing activity</b>				
Repayment of Commercial loan	(222,489)	(22,782)	-	-
Increase in Loans payable	2,010,000	-	-	-
Increase in Mortgage payable	1,075,316	-	-	-
Sale (purchase) of short term investments	321,276	(5,780)	-	-
<b>Increase (decrease) from financing</b>	3,184,103	(28,562)	-	-
<b>(Decrease) increase in cash</b>	<b>(85,433)</b>	<b>17,569</b>	-	-
<b>Cash, start of year</b>	251,027	233,458	-	-
<b>Cash, end of year</b>	<b>\$ 165,594</b>	<b>\$ 251,027</b>	<b>\$ -</b>	<b>\$ -</b>

See accompanying notes to financial statements



# Sketch Working Arts for Street Involved and Homeless Youth

## Notes to Financial Statements

December 31, 2019

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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, 2019

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### 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 building and building improvements is 40 years, 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, 2019

### 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. 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:

	2019	2018
Deposits with banks	\$ 561,163	\$ 249,806
Cash on hand	4,491	1,274
Line of credit	(400,060)	(53)
	<b>\$ 165,594</b>	<b>\$ 251,027</b>

A line of credit, with a limit of \$400,000, bears interest on the outstanding balance at prime plus 1.5% (5.45% at year end), it is payable on demand, and is secured by a general security agreement covering all assets.

### 3. Capital assets

	2019		2018	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Building	\$ 3,616,388	\$ -	\$ 3,616,388	\$ -
Building improvements	1,503,830	759,646	744,184	-
Furniture	222,780	216,360	6,420	8,254
Equipment	170,429	170,429	-	11,003
Computer	122,217	121,256	961	10,292
Leasehold improvements	-	-	-	763,265
	<b>\$ 5,635,644</b>	<b>\$ 1,267,691</b>	<b>\$ 4,367,953</b>	<b>\$ 792,814</b>

On December 27, 2019 the organization purchased its previously leased premises at 180 Shaw Street - Units B01 and 201. The leasehold improvements were then reclassified as building improvements and will be amortized at the same rate as the building. No amortization was recorded on the building in the current year as the closing date on the purchase was just before the year end.

# Sketch Working Arts for Street Involved and Homeless Youth

## Notes to Financial Statements

December 31, 2019

### 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.

	2019	2018
Balance, beginning of period	\$ 890,374	\$ 990,490
Add: Donations/Grants received/receivable during the year	3,103,357	3,387,266
Less: Amounts recorded as revenue in the year	2,885,088	3,487,382
<b>Balance, end of period</b>	<b>\$ 1,108,643</b>	<b>\$ 890,374</b>

### 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 commenced upon completion of the construction renovations. The change in the deferred capital contribution balance is as follows:

	2019	2018
Balance, beginning of year	\$ 592,996	\$ 711,595
Amortization of deferred capital contributions	(14,825)	(118,599)
<b>Balance, end of year</b>	<b>\$ 578,171</b>	<b>\$ 592,996</b>

The amortization of deferred capital contributions is recorded as revenue in the statement of operations. The amortization amount changed in the current year due to the purchase of the unit and the reclassification of the renovation costs from leasehold improvements amortized over 10 years to building improvements amortized over 40 years.

### 6. Commercial loan

	2019	2018
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 was fully repaid during the year.	\$ -	\$ 246,586
Principal due within one year	-	24,097
	<b>\$ -</b>	<b>\$ 222,489</b>

# Sketch Working Arts for Street Involved and Homeless Youth

## Notes to Financial Statements

December 31, 2019

### 7. Loans payable

	2019	2018
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#### Vendor take-back loan

The vendor take-back loan is provided by Toronto Artscape Inc. and is to be used for the purchase of units B01 and 201 at 180 Shaw Street. \$1,000,000 of the principal is payable by March, 31, 2020 and the remainder is payable by June 30, 2020. There is no interest charged until March 31, 2020. Following that date, interest shall accrue at 7% per annum compounded annually. The advance on the loan is:

\$ 1,970,000      \$ -

#### Promissory note

The promissory note was advanced by a former director of the organization. The note bears no interest and is payable

on demand. The advance on the loan is: 40,000      -

**\$ 2,010,000      \$ -**

The organization expects to repay the Vendor take-back loan with funds raised in two campaigns presently in process; The Sale of Community Bonds to raise \$1.4 million and a philanthropic capital campaign raise of \$1.52 million.

At present, there is strong interest for the purchase of bonds from several foundations, corporations, and individuals which would raise \$1,341,000 at the time of this report.

The capital campaign has raised \$892,000 in cash and pledges at the time of this report.

### 8. Mortgage payable

	2019	2018
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The mortgage is with Alterna Savings. The interest rate is calculated at 4.45% per annum with blended monthly payments of \$6,058. The mortgage term is 60 months and matures on December 31, 2024.

The advance on the mortgage is: \$ 1,100,000      \$ -

Principal due within one year 24,684      -

**\$ 1,075,316      \$ -**

Principal repayments until maturity are estimated as follows:

2020	\$ 24,684
2021	25,803
2022	26,963
2023	28,177
2024	29,441
2025 and thereafter	964,932
	<b>\$ 1,100,000</b>

# Sketch Working Arts for Street Involved and Homeless Youth

## Notes to Financial Statements

December 31, 2019

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### 9. Ontario Arts Council funding

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

	2019	2018
Multi-year operating grant	\$ 110,503	\$ 89,840
Project grants	40,182	117,175
	<b>\$ 150,685</b>	<b>\$ 207,015</b>

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### 10. Toronto Arts Council funding

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

	2019	2018
<b>Annual Operating</b>		
Annual Operating Grant	\$ 105,000	\$ 98,000
<b>Youth Project Grants</b>		
Street Voices Project	-	7,739
Open Door Project	41,800	-
ArtReach Toronto	57,594	122,109
	<b>\$ 204,394</b>	<b>\$ 227,848</b>

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### 11. 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.

	2019	2018
Materials and program costs	\$ 8,749	\$ 1,198

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# Sketch Working Arts for Street Involved and Homeless Youth

## Notes to Financial Statements

December 31, 2019

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### 12. Commitments and contingencies

The organization occupies a location at 1684 Queen Street West. The lease agreement expires on May 31, 2022. Estimated annual lease payments including additional rent and HST for the next five years are as follows:

2020	\$ 42,013
2021	42,619
2022	17,864
	<hr/>
	\$ 102,496

### 13. 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 (2018 - \$Nil)

#### 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 loans payable and mortgage payable (Note 7 and 8). 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.

#### 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 line of credit, loans payable and mortgage payable as described in Notes 2, 6, 7 and 8. Specifically, the organization is exposed to fair value risk due to changes in market rates of interest at the time of interest calculation.