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SOULPEPPER THEATRE COMPANY

Financial Statements

December 31, 2015

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Independent Auditors' Report

To the Directors of **Soulpepper Theatre Company**

We have audited the accompanying financial statements of **Soulpepper Theatre Company**, which comprise the balance sheet as at December 31, 2015 and the statements of operations and 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.

Auditors' 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 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 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 in our audit is sufficient and appropriate to provide for a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Soulpepper Theatre Company** as at December 31, 2015 and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Toronto Ontario

April 21, 2016

Hogg, Shain & Scheck P.C.

Chartered Professional Accountants

Licensed Public Accountants

SOULPEPPER THEATRE COMPANY


Balance Sheet


December 31, 2015

(\$ amounts are in thousands)

	2015	2014
ASSETS		
Current:		
Cash (Note 3)	\$ 1,622	\$ 2,056
Accounts receivable (Note 6)	391	253
Prepaid expenses and other assets (Note 6)	<u>421</u>	<u>125</u>
	2,434	2,434
Investment in joint venture (Note 6)	-	-
Capital assets, net (Note 5)	<u>698</u>	<u>655</u>
	<u>\$ 3,132</u>	<u>\$ 3,089</u>
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Notes 6 and 7)	\$ 601	\$ 444
Vehicle loan – current portion (Note 9)	7	-
Deferred revenues (Note 8)	<u>1,341</u>	<u>1,185</u>
	1,949	1,629
Vehicle loan – long-term portion (Note 9)	20	-
Deferred contributions (Note 10)	<u>690</u>	<u>678</u>
	<u>2,659</u>	<u>2,307</u>
<i>Commitments (Notes 6 and 11)</i>		
NET ASSETS		
<i>External endowment funds, market value \$7,891 (Note 12)</i>		
Invested in joint venture (Note 6)	-	-
Unrestricted	<u>473</u>	<u>782</u>
	<u>\$ 3,132</u>	<u>\$ 3,089</u>

Approved on behalf of the Board of Directors:

 Director

 Director

See accompanying Notes to Financial Statements

SOULPEPPER THEATRE COMPANY

Statement of Operations and Changes in Net Assets

Year ended December 31, 2015

(\$ amounts are in thousands)

	2015	2014
REVENUES		
Performance	\$ 3,657	\$ 4,281
Donations (Note 10)	3,149	2,801
Sponsorships	726	1,021
Grants (Note 13)	1,498	1,066
Endowment income (Note 12)	335	328
Other	158	132
Amortization of deferred capital asset contributions (Note 10)	63	71
Education programs	14	4
Interest	<u>9</u>	<u>10</u>
	<u>9,609</u>	<u>9,714</u>
EXPENSES		
Artistic and production (Note 6)	6,477	5,940
Marketing and promotion	1,006	927
Administration and office (Note 6)	893	841
Fundraising	657	735
Education programs (Note 6)	567	891
Contributions to joint venture operations (Note 6)	512	529
Facility operating costs (Note 11)	258	239
Amortization of capital assets	68	69
Joint venture cost recoveries (Note 6)	<u>(520)</u>	<u>(542)</u>
	<u>9,918</u>	<u>9,629</u>
(DEFICIENCY) / EXCESS OF REVENUES OVER EXPENSES	(309)	85
UNRESTRICTED NET ASSETS, beginning of year	<u>782</u>	<u>697</u>
UNRESTRICTED NET ASSETS, end of year	<u>\$ 473</u>	<u>\$ 782</u>

See accompanying Notes to Financial Statements

SOULPEPPER THEATRE COMPANY

Statement of Cash Flows

Year ended December 31, 2015

(\$ amounts are in thousands)

	2015	2014
Cash derived from (used for)		
OPERATING ACTIVITIES:		
(Deficiency) / Excess of revenues over expenses	\$ (309)	\$ 85
Adjustment for items not involving cash:		
Amortization of deferred capital asset contributions	(63)	(71)
Amortization of capital assets	68	69
Net change in non-cash operational working capital:		
Accounts receivable	(138)	(33)
Prepaid expenses and other assets	(296)	83
Accounts payable and accrued liabilities	157	(116)
Deferred revenues	156	78
Deferred contributions for expenses of future periods	<u>-</u>	<u>(139)</u>
	<u>(425)</u>	<u>(44)</u>
FINANCING ACTIVITIES:		
Deferred contributions received for capital asset purchases	75	8
Deferred contributions received for expenses of future periods and related investment income	-	4
Financing received for vehicle purchase	31	-
Principal payments on vehicle financing	<u>(4)</u>	<u>-</u>
	<u>102</u>	<u>12</u>
INVESTING ACTIVITIES:		
Cash disbursed for capital asset purchases	<u>(111)</u>	<u>(8)</u>
DECREASE IN CASH	(434)	(40)
CASH, beginning of year	<u>2,056</u>	<u>2,096</u>
CASH, end of year	<u>\$ 1,622</u>	<u>\$ 2,056</u>

See accompanying Notes to Financial Statements

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2015

(\$ amounts are in thousands)

1. NATURE AND PURPOSE OF THE ORGANIZATION

Soulpepper Theatre Company ("Soulpepper"), founded in 1998, was incorporated without share capital by Letters Patent under the Canada Corporations Act, and is registered with Canada Revenue Agency as a charitable organization. In 2014, Soulpepper applied for continuance under the terms of the Canada Not-for-Profit Corporations Act (2009). On September 5, 2014, Soulpepper received its certificate of continuance from Industry Canada. Subsequently, Canada Revenue Agency acknowledged this continuance, the official change to Soulpepper's governing document and its ongoing status as a charitable organization.

Soulpepper is Toronto's largest not-for-profit theatre company. Founded and guided by artists, Soulpepper has an integrated mission which includes: youth outreach initiatives; the Soulpepper Academy, a multi-year paid professional training program for theatre artists of all disciplines; and a year-round diverse repertory season which is grounded in the classics and committed to the creation of new works, new forms and innovative practices.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements are the representation of management and were prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the *CPA Canada Handbook* and include the following significant accounting policies.

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 the reported amounts of revenues and expenses during the period. These estimates are reviewed periodically and adjustments are made to revenues and expenses as appropriate in the period they become known. Significant estimates requiring management judgment consist principally of redemption rates for gift certificates which can be redeemed for tickets to future performances and the recognition of breakage revenue from unredeemed gift certificates, which is \$54 (2014 - \$nil).

Financial instruments

Soulpepper initially measures its financial assets and financial liabilities at fair value. It subsequently measures all its financial assets and financial liabilities at amortized cost.

The financial assets subsequently measured at amortized cost include cash and accounts receivable. The financial liabilities measured at amortized cost include accounts payable.

Investment in joint venture

The investment in GBSP Centre Corp. ("GBSP"), in which Soulpepper is an equal 50% joint venture participant, is accounted for using the equity method (see Note 6).

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the following estimated useful lives:

Leasehold improvements	20	years
Furniture, fixtures, other equipment and vehicles	5	years
Computer equipment and software applications	3	years

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2015

(\$ amounts are in thousands)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Box office, education program and other performance-related revenues are recognized when received or receivable upon substantial completion of performance or program, provided that the amount to be received can be reasonably estimated and collection is reasonably assured. Costs of specific productions or education programs that meet the definition of assets in *CPA Canada Handbook 1000: Financial Statement Concepts* are capitalized and classified as prepaid expenses and other assets until presentation of the related production or program.

Soulpepper follows the deferral method of accounting for contributions, which include donations, sponsorships and government grants. Unrestricted contributions are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions for operations are recognized as revenue in the year in which the related activity takes place and expenses are incurred. Investment income earned on externally restricted contributions for operations is capitalized.

Sponsorships in kind and contributed services

Sponsorships in kind and contributed services, which include advertising and accommodations, among other items, are not recognized in the financial statements.

Classification of Soulpepper Academy artist costs

Soulpepper Academy artist costs are classified as artistic and production in the statement of revenues and expenses when the artists are participating in performance-related activities.

3. FINANCIAL INSTRUMENTS

Cash consists of cash on hand and bank deposits residing in interest-bearing accounts at a Schedule 1 Canadian bank. Soulpepper is exposed to credit risk for the amount of cash held in these accounts in the event of non-performance by the financial institution. To date, Soulpepper has not incurred losses related to cash balances and does not anticipate non-performance by other parties.

The carrying value of Soulpepper's accounts receivable and accounts payable approximates their fair value due to the relatively short term to maturity of those instruments.

Soulpepper has no significant credit risk in respect to its accounts receivable, and has no currency risk.

Soulpepper manages its cash based on its cash flow needs and with a view to optimizing its interest income.

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2015

(\$ amounts are in thousands)

4. CAPITAL MANAGEMENT

In managing capital, Soulpepper focuses on liquid resources available for operations. Soulpepper's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its mission. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget.

Soulpepper has available a bank credit facility of \$800 for general operating purposes that is used when sufficient cash flow is not available from operations to cover operating and capital expenditures. Advances under this credit facility bear interest at the bank's prime lending rate plus one percent per annum, with interest payable monthly, and are secured by a general security agreement over its assets. No advances were outstanding under the credit facility at December 31, 2015 or 2014.

Soulpepper has an obligation of \$202 in favour of Canadian Actors' Equity Association ("CAEA") at December 31, 2015 with respect to its obligations under engagement contracts with CAEA members. The obligation is guaranteed by Trisura Guarantee Insurance Company under a bonding agreement dated July 9, 2015, subsequently amended by an endorsement dated December 21, 2015.

As at December 31, 2015, Soulpepper has met its objective of having sufficient liquid resources to meet its current obligations.

5. CAPITAL ASSETS

	Cost	Accumulated amortization	Net Book Value	
			2015	2014
<i>Tangible assets</i>				
Leasehold improvements	\$ 1,174	\$ (585)	\$ 589	\$ 648
Furniture, fixtures and equipment	4	(1)	3	
Audio equipment	8	(3)	5	6
Vehicle	30	(6)	24	-
Computer equipment	21	(21)	-	1
	<u>\$ 1,237</u>	<u>\$ (616)</u>	<u>\$ 621</u>	<u>\$ 655</u>
<i>Intangible assets</i>				
Software applications	77	-	77	-
	<u>\$ 1,314</u>	<u>\$ (616)</u>	<u>\$ 698</u>	<u>\$ 655</u>

Substantially all of Soulpepper's tangible capital assets relate to the Baillie Centre theatre facility and were funded by capital asset contributions (see Note 10). Vehicle cost was substantially financed by a loan (See Note 9). Software applications costs of \$77 relate to a website content management system funded by a capital grant from the Ontario Trillium Foundation received in 2014 and 2015 (See Note 10). Amortization of intangible assets will commence in 2016 when the assets go into service.

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2015

(\$ amounts are in thousands)

6. GBSP CENTRE CORP.

GBSP was incorporated without share capital by Letters Patent under the Canada Corporations Act in 2003, and is registered with Canada Revenue Agency as a charitable organization. In 2014, GBSP applied for continuance under the terms of the Canada Not-for-Profit Corporations Act (2009). On September 12, 2014, GBSP received its certificate of continuance from Industry Canada. Subsequently, Canada Revenue Agency acknowledged this continuance, the official change to GBSP's governing document and its ingoing status as a charitable organization.

GBSP was formed by George Brown College (GBC) and Soulepper, as equal joint venture participants, to establish, build, operate and maintain a theatre and educational complex, known as the Young Centre for the Performing Arts ("Young Centre"). The relationship among GBSP, GBC and Soulepper is governed by a joint venture agreement dated February 12, 2004, whereby GBC and Soulepper each provided 50% of the funds required to develop, build and start up the Young Centre, as well as providing the funds required to cover net operating cash shortfalls, by way of contributions or loans. The joint venture has a December 31 year end.

Because GBC and Soulepper have each funded the operating shortfalls of GBSP and applied deferral accounting with respect to capital contributions received, the net assets of GBSP are \$ nil as at December 31, 2015 and 2014. As a result, Soulepper's investment in joint venture and invested in joint venture figures are also \$ nil as at December 31, 2015 and 2014.

The following is a summary of Soulepper's 50% interest in the financial position of GBSP:

	2015	2014
Current assets	\$ 557	\$ 514
Capital assets, net	5,518	5,717
Current liabilities	(529)	(475)
Deferred capital asset contributions	<u>(5,546)</u>	<u>(5,756)</u>
<i>Net assets</i>	<u>\$ -</u>	<u>\$ -</u>

The following is a summary of Soulepper's 50% interest in the results of operations and cash flows of GBSP:

	2015	2014
Operating revenues	\$ 1,149	\$ 1,116
Operating expenses	<u>(1,661)</u>	<u>(1,647)</u>
<i>Operating loss</i>	(512)	(531)
Contributions from joint venture participants	<u>512</u>	<u>531</u>
<i>Excess of revenues over expenses</i>	<u>\$ -</u>	<u>\$ -</u>
Cash flows from operating activities	\$ 49	\$ 122
Cash disbursed for capital asset purchases	(10)	(95)
Funds restricted for capital asset purchases	<u>-</u>	<u>36</u>
<i>Net cash flows</i>	<u>\$ 39</u>	<u>\$ 62</u>

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2015

(\$ amounts are in thousands)

6. GBSP CENTRE CORP. (continued)

To December 31, 2015, Soulpepper has contributed \$7,700 (2014 - \$7,700) to GBSP to develop, build and start up the Young Centre, and \$3,936 (2014 - \$3,388) to cover operating shortfalls, for a combined total of \$11,636 (2014 - \$11,088) in contributions. In 2015, Soulpepper's 50% share of contributions from joint venture participants was \$512 (2014 - \$529). In 2015, Soulpepper generated no fundraising on behalf of GBSP, resulting in no reduction to Soulpepper's contribution (2014- \$2).

Included in prepaid expenses and other assets is \$41 (2014 - \$5) in contributions made to GBSP during the year to fund net operating cash shortfalls for the subsequent year's operations.

GBSP is party to a lease agreement that expires on February 29, 2024 and provides for a tenant's option to extend the lease for five successive terms of twenty years. Minimum annual payments for basic rent were \$197 (2014- \$192), reflecting the second annual inflation increase under the lease agreement, such increases being capped at a maximum of 6% of the preceding year. Estimated common area costs for realty taxes, maintenance and insurance were \$419 in 2015 (2014 - \$441).

Under the joint venture agreement with GBSP, GBC and Soulpepper are each anchor tenants in the Young Centre with annual priority use rights at fair market value rates. In 2015, venue related costs charged by GBSP to Soulpepper were \$937 (2014 - \$854). These venue related costs are classified as artistic and production, administration and office, and education programs, as appropriate, in the statement of revenues and expenses.

Under a management agreement dated November 15, 2004 and renewed to December 31, 2016, Soulpepper provides management services to GBSP for which it is entitled to recover costs of such services, at amounts agreed to by the two parties, which were \$520 in 2015 (2014 - \$542).

Included in accounts receivable of Soulpepper at December 31, 2015 is \$240 (2014 - \$159) due from GBSP. Included in accounts payable of Soulpepper at December 31, 2015 is \$37 (2014 - \$4) due to GBSP.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2015	2014
Trade accounts payable	\$ 226	\$ 151
Accrued liabilities	374	234
Government remittances amounts payable	<u>1</u>	<u>59</u>
	<u>\$ 601</u>	<u>\$ 444</u>

8. DEFERRED REVENUES

	2015	2014
Tickets and subscriptions	\$ 566	\$ 577
Grants	521	370
Sponsorships and donations	<u>254</u>	<u>238</u>
	<u>\$ 1,341</u>	<u>\$ 1,185</u>

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2015

(\$ amounts are in thousands)

9. VEHICLE LOAN

In 2015, Soulpepper purchased a production vehicle at a cost of \$30 (See Note 5), financed by a cash payment of \$3 and the balance by way of a dealer loan at an interest rate of 3.49% requiring blended bi-weekly payments as to principal and interest over a 48 months to June 2019, as follows:

Principal balance at December 31, 2015	\$ 27
Less: current portion due within one year	<u>7</u>
Loan balance classified as long-term	<u>\$ 20</u>

The principal portion of payments on the loan is as follows:

2016	\$ 7
2017	8
2018	8
2019	4

The loan is secured by a lien on the vehicle.

10. DEFERRED CONTRIBUTIONS

2015 2014

For expenses of future periods:

Garland/Schultz Artistic Development Fund

Balance, beginning of year	\$ -	\$ 135
Add:		
Contributions received	3	3
Investment income on contributions received	-	1
Less: amount recognized as donations revenue	<u>(3)</u>	<u>(139)</u>
Balance, end of year	<u>\$ -</u>	<u>\$ -</u>

For capital asset purchases:

Baillie Centre Fund and Other Capital Fund

Balance, beginning of year	\$ 678	\$ 741
Add: contributions received (see Note 5)	75	8
Less: amortization of deferred capital asset contributions	<u>(63)</u>	<u>(71)</u>
Balance, end of year	<u>\$ 690</u>	<u>\$ 678</u>

11. PREMISES LEASE COMMITMENTS

Soulpepper is party to a lease agreement expiring on September 30, 2025. Minimum annual payments are \$100 for basic rent (escalating annually at a rate of 6% from 2012 to 2015, and 3% from 2016 to 2025), and estimated common area costs for realty taxes, maintenance and insurance. In 2015, the amount of base rent was \$120 (2014 - \$114), and the common area costs were \$125 (2014 - \$113).

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2015

(\$ amounts are in thousands)

12. EXTERNAL ENDOWMENT FUNDS

Soulpepper has established three external endowment funds, the assets of which are controlled and managed by external organizations in accordance with their respective investment policies, and the income from which is for the benefit of Soulpepper. Accordingly, assets of these funds are not reflected in these financial statements. The combined market value of Soulpepper's external endowment funds, as described below, at December 31 is as follows:

	2015	2014
Ontario Arts Foundation endowment funds	\$ 7,041	\$ 6,875
Private endowment fund	<u>850</u>	<u>925</u>
	<u>\$ 7,891</u>	<u>\$ 7,800</u>

Ontario Arts Foundation endowment funds

The Ontario Arts Foundation ("OAF") operates an Ontario Arts Endowment Fund Program in which it holds and has supplemented contributions made to arts organizations for endowment purposes.

In 2015 and 2014, no amounts were raised for and no amounts were contributed to the Soulpepper Theatre Company Arts Endowment Fund.

The Canadian Arts and Heritage Sustainability Program ("CAHSP") – Endowment Incentives Component is a program of the Government of Canada administered by OAF. Under this program, a grant is provided to OAF for endowment purposes on the basis of funds raised and contributed by Soulpepper. OAF holds these grants from CAHSP in a separate endowment fund – the Soulpepper Theatre Company Canadian Heritage Fund. In 2015, no grants were made (2014 - \$nil) in respect to contributions raised by Soulpepper.

Summarized financial information about these two funds at December 31 is presented below.

	OAF Fund	CAHSP Fund	Total 2015	Total 2014
<i>Cumulative contributions by:</i>				
Soulpepper	\$ 2,941	\$ -	\$ 2,941	\$ 2,941
OAF	309	-	309	309
CAHSP	-	2,064	2,064	2,064
	<u>\$ 3,250</u>	<u>\$ 2,064</u>	<u>\$ 5,314</u>	<u>\$ 5,314</u>
<i>Market value:</i>				
2015	<u>\$ 4,297</u>	<u>\$ 2,744</u>	<u>\$ 7,041</u>	
2014	<u>\$ 4,196</u>	<u>\$ 2,679</u>		<u>\$ 6,875</u>

Arts organizations receive income each year for the prior calendar year in amounts determined by OAF, and this income is recorded as revenues in the statement of revenues and expenses. Income from OAF for 2015 was \$290 (2014 - \$283). These distributions are classified as endowment income in the statement of revenues and expenses.

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2015

(\$ amounts are in thousands)

12. EXTERNAL ENDOWMENT FUNDS (continued)

Private endowment fund

In 2008, Soulpepper established the *Baillie Artistic Fellowship Fund*, a donor-advised endowment fund account with a private giving foundation to accept a contribution in the amount of \$1,000 from a donor. In 2015, contributions of \$5 (2014 - \$3) were made to the fund. As at December 31, 2015, the market value of the fund was \$850 (2014 - \$925).

Income from the fund in amounts determined by the private giving foundation is paid to Soulpepper each year to fund expenses relating to the Baillie Artistic Fellow. Income paid to Soulpepper for 2015 was \$45 (2014 - \$45). Income recognized of \$45 (2014 - \$45) is classified as endowment income in the statement of revenues and expenses.

13. GRANT REVENUES

	2015	2014
Federal		
Canada Council	\$ 185	\$ 185
Canadian Arts Training Fund	110	75
Other	7	9
Provincial		
Ontario Arts Council	405	405
Ontario Ministry of Tourism, Culture and Sport- Touring	255	-
Ontario Ministry of Tourism, Culture and Sport- <i>Celebrate Ontario</i>	90	100
Ontario Cultural Attractions Fund	63	-
Other	-	7
Municipal		
Toronto Arts Council	370	285
Toronto Arts Council Facility Support	13	-
	<u>\$ 1,498</u>	<u>\$ 1,066</u>