

SOULPEPPER THEATRE COMPANY

Financial Statements

December 31, 2018

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Independent Auditor's Report

To the Directors of Soulpepper Theatre Company

Opinion

We have audited the financial statements of Soulpepper Theatre Company ("Soulpepper"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations and changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Soulpepper as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

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 Soulpepper 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 those 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 Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing Soulpepper's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate Soulpepper or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Soulpepper'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.

Independent Auditor's Report to the Directors of Soulpepper Theatre Company (*continued*)

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 Soulpepper'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 Soulpepper'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 Soulpepper 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.

Hogg, Shain & Scheck PC

Toronto, Ontario
May 6, 2019

Authorized to practise public accounting by the
Chartered Professional Accountants of Ontario

SOULPEPPER THEATRE COMPANY

Statement of Financial Position

As at December 31, 2018

(\$ amounts are in thousands)

	2018	2017
ASSETS		
Current:		
Cash (Note 3)	\$ 999	\$ 1,359
Accounts receivable (Note 6)	802	343
Prepaid expenses and other assets (Note 6)	<u>418</u>	<u>273</u>
	2,219	1,975
Investment in joint venture (Note 6)	-	-
Capital assets, net (Note 5)	<u>485</u>	<u>606</u>
	<u>\$ 2,704</u>	<u>\$ 2,581</u>
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 6)	\$ 599	\$ 444
Deferred revenues (Note 7)	<u>1,655</u>	<u>1,731</u>
	2,254	2,175
Deferred contributions (Note 9)	<u>450</u>	<u>542</u>
	<u>2,704</u>	<u>2,717</u>
<i>Commitments (Notes 6 and 9)</i>		
NET ASSETS		
<i>External endowment funds, market value \$7,269 (Note 10)</i>		
Invested in joint venture (Note 6)	-	-
Unrestricted	<u>-</u>	<u>(136)</u>
	<u>\$ 2,704</u>	<u>\$ 2,581</u>

Approved on behalf of the Board of Directors:

 **Director** Vanessa Morgan
 **Director** Rob Brouwer

SOULPEPPER THEATRE COMPANY

Statement of Operations and Changes in Net Assets

Year ended December 31, 2018

(\$ amounts are in thousands)

	2018	2017
REVENUES*		
Donations	\$ 3,627	\$ 4,914
Performance	3,011	3,510
Grants (Note 11)	1,440	2,042
Sponsorships	770	1,013
Other	491	598
Endowment income (Note 10)	1,321	365
Amortization of deferred capital asset contributions (Note 8)	<u>92</u>	<u>92</u>
	<u>10,752</u>	<u>12,534</u>
EXPENSES*		
Artistic and production (Note 6)	6,101	8,204
Administration and office (Note 6)	1,690	1,185
Marketing and promotion	1,155	1,700
Fundraising	603	613
Education programs (Note 6)	597	876
Contributions to joint venture operations (Note 6)	555	563
Facility operating costs (Note 9)	326	338
Amortization of capital assets	127	134
Joint venture cost recoveries (Note 6)	<u>(538)</u>	<u>(523)</u>
	<u>10,616</u>	<u>13,090</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES*	136	(556)
UNRESTRICTED NET ASSETS (DEFICIT), beginning of year	<u>(136)</u>	<u>420</u>
UNRESTRICTED NET ASSETS (DEFICIT), end of year	<u>\$ -</u>	<u>\$ (136)</u>

* New York Residency (Note 13)

SOULPEPPER THEATRE COMPANY

Statement of Cash Flows

Year ended December 31, 2018

(\$ amounts are in thousands)

	2018	2017
Cash derived from (used for)		
OPERATING ACTIVITIES:		
Excess (deficiency) of revenues over expenses	\$ 136	\$ (556)
Adjustment for items not involving cash:		
Amortization of deferred capital asset contributions	(92)	(92)
Amortization of capital assets	127	134
Net change in non-cash operational working capital:		
Accounts receivable	(459)	561
Prepaid expenses and other assets	(145)	464
Accounts payable and accrued liabilities	155	(107)
Deferred revenues	(76)	(354)
	<u>(354)</u>	<u>50</u>
INVESTING ACTIVITY:		
Cash disbursed for capital asset purchases	<u>(6)</u>	<u>(49)</u>
INCREASE (DECREASE) IN CASH	(360)	1
CASH, beginning of year	<u>1,359</u>	<u>1,358</u>
CASH, end of year	<u>\$ 999</u>	<u>\$ 1,359</u>

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2018

(\$ 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 continued under the Canada Not-for-Profit Corporations Act in 2014, and is registered with Canada Revenue Agency 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.

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 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.

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).

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2018

(\$ amounts are in thousands)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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
Software applications	3	years

Foreign currency translation

Monetary assets and liabilities are translated at the prevailing rates of exchange at the balance sheet date. Revenues and expenses are translated at the average exchange rates for the year.

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.

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 year. These estimates are reviewed periodically and adjustments are made to revenues and expenses as appropriate in the year 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.

Classification of Soulpepper Academy artist costs

Soulpepper Academy artist costs are classified as artistic and production in the statement of operations 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, to the extent that it exceeds \$100 in CDIC-insured deposits, 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. Soulpepper is also exposed to currency risk as a result of exchange rate fluctuations and the volatility of these rates affecting its cash denominated in U.S. dollars. Soulpepper does not enter into forward contracts to mitigate this risk.

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 of its accounts receivable, and no significant currency risk in respect of U.S. \$ bank accounts.

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

Soulpepper is not exposed to significant liquidity, interest rate or other price risks in respect of its financial instruments.

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2018

(\$ 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 half of 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, 2018 or 2017.

In addition to the bank credit facility of \$800, Soulpepper has available an additional credit facility of \$1,100 for general operating purposes. This facility is available to Soulpepper through December 31, 2021. Advances under this credit facility bear interest at the bank's prime lending rate plus half of one percent per annum, with interest payable annually by January 15th of the subsequent year. This facility is subordinate to Soulpepper's bank credit facility. No advances were outstanding under the credit facility at December 31, 2018 and 2017.

Soulpepper has an obligation of \$255 in favour of Canadian Actors' Equity Association ("CAEA") at December 31, 2018 with respect to its obligations under engagement contracts with CAEA members. The obligation is guaranteed by Trisura Guarantee Insurance Company under a bonding agreement.

As at December 31, 2018, Soulpepper has met its objective of having sufficient liquid resources to meet its current obligations.

5. CAPITAL ASSETS

	Cost	Accumulated amortization	Net Book Value	
			2018	2017
<i>Tangible assets</i>				
Leasehold improvements	\$ 1,184	\$ (765)	\$ 419	\$ 492
Furniture, fixtures and equipment	178	(172)	6	10
Audio and video equipment	88	(34)	54	62
Vehicle	38	(32)	6	12
	1,488	(1,003)	485	576
<i>Intangible assets</i>				
Software applications	89	(89)	-	30
	<u>\$ 1,577</u>	<u>\$ (1,092)</u>	<u>\$ 485</u>	<u>\$ 606</u>

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2018

(\$ 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 continued under the Canada Not-for-Profit Corporations Act in 2014, and is registered with Canada Revenue Agency as a charitable organization.

GBSP was formed by George Brown College (GBC) and Soulpepper, 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 Soulpepper is governed by a joint venture agreement dated February 12, 2004, whereby GBC and Soulpepper 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 Soulpepper 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, 2018 and 2017. As a result, Soulpepper's investment in joint venture and invested in joint venture figures are also \$nil as at December 31, 2018 and 2017.

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

	2018	2017
Current assets	\$ 405	\$ 376
Capital assets, net	5,074	5,251
Current liabilities	(394)	(369)
Deferred capital asset contributions	<u>(5,085)</u>	<u>(5,258)</u>
<i>Net assets</i>	<u>\$ -</u>	<u>\$ -</u>

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

	2018	2017
Operating revenues	\$ 1,166	\$ 1,208
Operating expenses	<u>1,710</u>	<u>(1,771)</u>
<i>Operating loss</i>	<u>(544)</u>	<u>(563)</u>
Contributions from joint venture participants	<u>544</u>	<u>563</u>
<i>Excess of revenues over expenses</i>	<u>\$ -</u>	<u>\$ -</u>
Cash flows from operating activities	\$ (22)	\$ (217)
Cash flows from financing activities	12	2
Cash disbursed for capital asset purchases	<u>(9)</u>	<u>(46)</u>
<i>Net cash flows</i>	<u>\$ (19)</u>	<u>\$ (261)</u>

To December 31, 2018, Soulpepper has contributed \$7,735 (2017 - \$7,723) to GBSP to develop, build, start up and maintain the Young Centre, and \$5,500 (2017 - \$4,956) to cover operating shortfalls, for a combined total of \$13,235 (2017 - \$12,679) in contributions. In 2018, Soulpepper's 50% share of contributions from joint venture participants was \$555 (2017 - \$563), which includes \$12 (2017 - \$nil) of capital contributions.

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

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(\$ amounts are in thousands)

6. GBSP CENTRE CORP. (continued)

Included in prepaid expenses and other assets is \$55 (2017 - \$7) 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 \$208 (2017 - \$204), reflecting the fifth annual inflation increase under the lease agreement, such increases being capped at a maximum of 6% of the preceding year. Common area costs for realty taxes, maintenance and insurance were \$497 in 2018 (2017 - \$485).

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 2018, venue related costs charged by GBSP to Soulpepper were \$867 (2017 - \$931). These venue related costs are classified as artistic and production, administration and office, and education programs, as appropriate, in the statement of operations.

Under a management agreement dated November 15, 2004 and renewed to December 31, 2020, Soulpepper provides management services to GBSP for which Soulpepper is entitled to recover costs of such services, at amounts agreed to by the two parties, which were \$538 in 2018 (2017 - \$523).

Included in accounts receivable of Soulpepper at December 31, 2018 is \$117 (2017 - \$139) due from GBSP. Included in accounts payable of Soulpepper at December 31, 2018 is \$143 (2017 - \$35) due to GBSP.

7. DEFERRED REVENUES

	2018	2017
Tickets and subscriptions	\$ 457	\$ 583
Grants	1,024	931
Sponsorships and donations	<u>174</u>	<u>217</u>
	<u>\$ 1,655</u>	<u>\$ 1,731</u>

8. DEFERRED CONTRIBUTIONS

For capital asset purchases:

Baillie Centre Fund and Other Capital Fund

	2018	2017
Balance, beginning of year	\$ 542	\$ 634
Less: amortization of deferred capital asset contributions	<u>(92)</u>	<u>(92)</u>
Balance, end of year	<u>\$ 450</u>	<u>\$ 542</u>

9. 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 2018, the amount of base rent was \$131 (2017 - \$127), and the common area costs were \$149 (2017 - \$145).

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2018

(\$ amounts are in thousands)

10. 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:

	2018	2017
Ontario Arts Foundation endowment funds (2)	\$ 6,463	\$ 7,421
Private endowment fund	806	924
	<u>\$ 7,269</u>	<u>\$ 8,354</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 2018 and 2017, 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 2018, no grants were made (2017 - \$nil) in respect to contributions raised by Soulpepper.

	OAF Fund	CAHSP Fund	Total 2018	Total 2017
<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>				
2018	\$ 3,949	\$ 2,514	6,463	
2017	\$ 4,529	\$ 2,892		<u>\$ 7,421</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 operations. Endowment income from OAF for 2018 was \$1,275 (2017 - \$319). These distributions are classified as endowment income in the statement of operations.

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 2018, there were no contributions made to the fund (2017 - \$ nil). As at December 31, 2018, the market value of the fund was \$806 (2017 - \$924).

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 2018 was \$46 (2017 - \$46) and is classified as endowment income in the statement of operations.

SOULPEPPER THEATRE COMPANY

Notes to Financial Statements

December 31, 2018

(\$ amounts are in thousands)

11. GRANT REVENUES

	2018	2017
Federal		
Canada Council for the Arts	\$ 185	\$ 215
Canadian Arts Training Fund	110	110
Other	3	102
Provincial		
Ontario Arts Council	429	405
Ontario Ministry of Tourism, Culture and Sport - Touring	115	499
Ontario Ministry of Tourism, Culture and Sport - <i>Celebrate Ontario</i>	117	149
Ontario Cultural Attractions Fund	31	-
Municipal		
Toronto Arts Council	450	450
Toronto Arts Council Facility Support	-	12
Toronto Arts Council - Open	-	100
	<u> -</u>	<u> 100</u>
	<u>\$ 1,440</u>	<u>\$ 2,042</u>

12. NEW YORK RESIDENCY

In the summer of 2017, Soulpepper toured to New York City for a month-long residency at the Pershing Square Signature Center, presenting 82 performances of 12 productions and partner presentations. The net cost of this project was \$193, broken down as follows:

	2017
REVENUES	
Performance	\$ 368
Donations	1,326
Sponsorships	68
Grants	480
Other	2
	<u> 2</u>
	<u>2,244</u>
EXPENSES	
Artistic and production	1,876
Marketing and promotion	453
Administration and office	93
Fundraising	15
	<u> 15</u>
	<u>2,437</u>
DEFICIENCY OF REVENUES OVER EXPENSES	<u>\$ (193)</u>

This was a one time event and did not recur in 2018.