

THE FACTORY THEATRE LAB

Financial Statements

June 30, 2023

THE FACTORY THEATRE LAB
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Year Ended June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Members of The Factory Theatre Lab

Opinion

We have audited the financial statements of The Factory Theatre Lab ("Factory"), which comprise the statement of financial position as at June 30, 2023, and the statements of operations, 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 Factory as at June 30, 2023, 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 Factory 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 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 Factory'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 Factory or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Factory'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.

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Independent Auditor's Report to the Members of The Factory Theatre Lab *(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 the entity'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 entity'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 entity 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
October 30, 2023

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

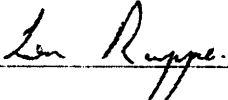
THE FACTORY THEATRE LAB


Statement of Financial Position

As at June 30, 2023

	2023	2022
ASSETS		
CURRENT		
Cash	\$ 497,638	\$ 897,811
Accounts receivable <i>(Note 15)</i>	93,518	36,901
Inventory	8,862	-
Prepaid expenses	46,776	67,222
	<u>646,794</u>	<u>1,001,934</u>
CAPITAL ASSETS <i>(Note 3)</i>	<u>2,908,372</u>	<u>2,943,534</u>
	<u>\$ 3,555,166</u>	<u>\$ 3,945,468</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 91,986	\$ 76,320
Deferred revenues <i>(Note 5)</i>	474,007	336,313
Current portion of mortgage payable <i>(Note 6)</i>	26,985	25,679
	<u>592,978</u>	<u>438,312</u>
LONG-TERM		
Mortgage payable <i>(Note 6)</i>	737,242	764,751
Deferred capital asset contributions <i>(Note 7)</i>	1,697,307	1,773,277
	<u>3,027,527</u>	<u>2,976,340</u>
NET ASSETS		
INVESTED IN CAPITAL ASSETS	446,838	379,827
UNRESTRICTED	80,801	581,895
INTERNALLY RESTRICTED - BUILDING & REDEVELOPMENT FUND <i>(Note 8)</i>	-	7,406
	<u>527,639</u>	<u>969,128</u>
	<u>\$ 3,555,166</u>	<u>\$ 3,945,468</u>

APPROVED ON BEHALF OF THE BOARD

 Director

 Director

See the accompanying notes to these financial statements

THE FACTORY THEATRE LAB**Statement of Operations****Year Ended June 30, 2023**

	2023	2022
REVENUES		
Grants <i>(Note 10)</i>	\$ 818,890	\$ 969,657
Donations and fundraising <i>(Note 11)</i>	450,895	363,857
Performance fees	302,895	67,402
Theatre and other rentals	181,488	34,297
Amortization of deferred capital asset contributions <i>(Note 7)</i>	75,969	77,186
Interest and endowment payout <i>(Note 9)</i>	25,252	17,187
Bar and concession sales	19,074	796
Other income	9,016	12,847
Government assistance <i>(Note 15)</i>	-	101,599
	<u>1,883,479</u>	<u>1,644,828</u>
EXPENSES		
Production and technical fees <i>(Notes 12 and 13)</i>	937,364	526,347
Artistic fees and expenses	411,688	275,443
Marketing <i>(Note 12)</i>	265,697	202,010
Office and administration <i>(Note 12)</i>	228,154	182,101
Theatre occupancy and maintenance <i>(Note 12)</i>	171,154	251,344
Box office, bar and concessions	118,602	73,005
Amortization of capital assets	94,179	89,058
Fundraising <i>(Note 12)</i>	59,766	75,047
Interest on mortgage payable	38,364	41,455
	<u>2,324,968</u>	<u>1,715,810</u>
DEFICIENCY OF REVENUES OVER EXPENSES	<u>\$ (441,489)</u>	<u>\$ (70,982)</u>

See the accompanying notes to these financial statements

THE FACTORY THEATRE LAB
Statement of Changes in Net Assets
Year Ended June 30, 2023

	Unrestricted	Invested in capital assets	Internally restricted - building and re- development fund	Total 2023	Total 2022
NET ASSETS - BEGINNING OF YEAR	\$ 581,895	\$ 379,827	\$ 7,406	\$ 969,128	\$ 1,040,110
Deficiency of revenues over expenses	(423,279)	(18,210)	-	(441,489)	(70,982)
Repayment of mortgage payable	(26,204)	26,204	-	-	-
Interfund transfer <i>(Note 8)</i>	(51,611)	59,017	(7,406)	-	-
NET ASSETS - END OF YEAR	\$ 80,801	\$ 446,838	\$ -	\$ 527,639	\$ 969,128

See the accompanying notes to these financial statements

THE FACTORY THEATRE LAB**Statement of Cash Flows****Year Ended June 30, 2023**

	2023	2022
OPERATING ACTIVITIES		
Deficiency of revenues over expenses	\$ (441,489)	\$ (70,982)
Items not affecting cash:		
Amortization of capital assets	94,179	89,058
Amortization of deferred capital asset contributions	(75,969)	(77,186)
	<u>(423,279)</u>	<u>(59,110)</u>
Changes in non-cash working capital:		
Accounts receivable	(56,617)	79,840
Inventory	(8,862)	-
Prepaid expenses	20,446	(55,707)
Accounts payable and accrued liabilities	15,666	4,155
Deferred revenues	137,694	63,483
	<u>108,327</u>	<u>91,771</u>
Cash flows from (used by) operating activities	<u>(314,952)</u>	<u>32,661</u>
INVESTING ACTIVITY		
Purchase of capital assets and cash flows used in investing activity	<u>(59,017)</u>	<u>(1,000)</u>
FINANCING ACTIVITIES		
Repayment of mortgage payable	(26,204)	(24,008)
Capital contributions received	-	7,500
Cash flows used by financing activities	<u>(26,204)</u>	<u>(16,508)</u>
NET INCREASE IN CASH	(400,173)	15,153
CASH - BEGINNING OF YEAR	897,811	882,658
CASH - END OF YEAR	\$ 497,638	\$ 897,811

See the accompanying notes to these financial statements

THE FACTORY THEATRE LAB

Notes to Financial Statements

Year Ended June 30, 2023

1. NATURE AND PURPOSE OF THE ORGANIZATION

The Factory Theatre Lab ("Factory") was founded in 1970 to develop interest and skill in the theatrical arts, provide theatrical performances, and provide a situation for the production and the development of Canadian playwrights. It was incorporated under the Ontario Corporations Act as a not-for-profit organization without share capital.

Factory is a registered charity under the Income Tax Act (Canada) and, as such, is exempt from income tax under subsection 149(1).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Revenue recognition

Factory follows the deferral method of accounting for contributions. Restricted contributions, including grants and donations, are recognized as revenues in the year in which the related activities are carried out and expenses are incurred. Restricted contributions for the purchase of capital assets or for capital improvements are deferred and amortized into revenue on the same basis as the related assets.

Unrestricted contributions are recognized as revenues when received or receivable, provided that contributions receivable can be reasonably estimated and collection is reasonably assured.

Revenues from performance fees, and theatre and other rentals are recognized upon completion of performances. Revenue from bar and concessions is recorded at the time of sale. Costs related to performances that are incurred prior to the date of performance are deferred as prepaid expenses until the date of the performance.

Contributed services

A substantial number of volunteers have made significant contributions of their time to Factory's programs and supporting services. Since these services are not normally purchased by Factory, such contributed services are not reflected in these financial statements.

Inventory

Inventory is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized on a straight-line basis over their estimated useful lives at the following rates:

Building	40 years
Equipment and fixtures	20 years
Computer equipment	5 years

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THE FACTORY THEATRE LAB

Notes to Financial Statements

Year Ended June 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of long-lived assets

Factory tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows that the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent the carrying value exceeds its fair value.

Allocation of expenses

Expenses are recorded and reported by programs and services. Certain employees perform a combination of production and technical, marketing, fundraising, and administrative functions. Salaries and benefits are allocated based on an estimate of time dedicated to the functional activities (*Note 12*). Such allocations are reviewed regularly by management.

Employee future benefits

Under a collective agreement (*Note 13*), eligible stage employees are participants in a multi-employer retirement savings plan. As sufficient information is not available to use defined benefit plan accounting, defined contribution plan accounting is used.

Financial instruments

Factory's financial instruments consist of cash, accounts receivable, accounts payable, and mortgage payable. All financial instruments are initially measured at fair value, and subsequently, at amortized cost.

Impairment of financial instruments

Financial assets measured at cost or amortized cost are tested for impairment if there are indications of possible impairment. A previously recognized impairment loss may be reversed to the extent of the improvement, either directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment loss not been recognized previously. The amount of any write down or reversal is recognized in excess (deficiency) of revenues over expenses.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. Such estimates include the collectability of accounts receivable, the useful life of capital assets when determining amortization expense and amortization of deferred capital asset contributions. Actual results could differ from these estimates.

THE FACTORY THEATRE LAB

Notes to Financial Statements

Year Ended June 30, 2023

3. CAPITAL ASSETS

	Cost	Accumulated amortization	2023 Net book value	2022 Net book value
Land	\$ 1,059,875	\$ -	\$ 1,059,875	\$ 1,059,875
Building	1,939,626	533,814	1,405,812	1,440,459
Equipment and fixtures	917,113	483,307	433,806	433,917
Computer equipment	79,965	71,086	8,879	9,283
	\$ 3,996,579	\$ 1,088,207	\$ 2,908,372	\$ 2,943,534

4. LINE OF CREDIT

Factory has an authorized credit facility which provides for an operating line of credit up to \$50,000. The line of credit bears interest at the National Bank of Canada's prime rate plus 4% per annum as of June 30, 2023 and is secured by a general security agreement. As at June 30, 2023, Factory had drawn \$Nil against the line of credit.

5. DEFERRED REVENUES

Deferred revenues consist of the following:

	2023	2022
Toronto Arts Council - operating grant	\$ 169,500	\$ 169,500
Canada Council for the Arts - Project	85,500	-
Ontario Arts Council - operating	21,000	-
The Slight Family Foundation - operating	125,000	-
Metcalf Foundation - operating	20,000	-
Production fees	36,257	-
Rental	16,750	25,350
Government of Canada - Canada Arts Presentation Fund	-	60,000
Canada Council for the Arts - Digital Now	-	50,000
Toronto Arts Council - Resiliency fund	-	25,000
Donations, fundraising and other	-	6,463
	\$ 474,007	\$ 336,313

The change in deferred revenues is as follows:

	2023	2022
Balance, beginning of year	\$ 336,313	\$ 272,830
Add: amounts received during the year	1,137,311	1,076,809
Less: amounts recognized as revenue in the year	(999,617)	(1,005,826)
amount transferred to deferred capital asset contributions	-	(7,500)
Balance, end of year	\$ 474,007	\$ 336,313

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Notes to Financial Statements

Year Ended June 30, 2023

6. MORTGAGE PAYABLE

	<u>2023</u>	<u>2022</u>
Mortgage payable due March 2025, bearing interest at 4.97% (2022 - 4.97%), repayable in monthly blended payments of \$5,380, secured by the land and building and a general security agreement over all fixtures acquired for use in Factory's operations.	\$ 764,227	\$ 790,430
Current portion	<u>(26,985)</u>	<u>(25,679)</u>
	<u>\$ 737,242</u>	<u>\$ 764,751</u>

In fiscal years 2020 and 2021, significant operating surpluses accumulated due to receipt of COVID-19 assistance in advance of incurring expenses. In 2022, Factory phased in its operations and planned a deficit budget to use these excess surpluses, which meant Factory was not able to maintain its minimum debt service ratio financial covenant at year end. The lender was made aware of the planned deficit prior to the beginning of the fiscal year and acknowledged Management's plan to breach this covenant in 2023 and return to maintaining the debt service ratio by fiscal 2024.

Principal repayment terms are approximately:

2024	\$ 26,985
2025	21,136
Thereafter	<u>716,106</u>
	<u>\$ 764,227</u>

7. DEFERRED CAPITAL ASSET CONTRIBUTIONS

Changes in deferred capital asset contributions are as follows:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 1,773,276	\$ 1,842,962
Add: funds received during the year	-	7,500
Less: amount amortized to revenue	<u>(75,969)</u>	<u>(77,186)</u>
Balance, end of year	<u>\$ 1,697,307</u>	<u>\$ 1,773,276</u>

The capital asset contributions relate to acquisition costs.

8. INTERNALLY RESTRICTED - BUILDING & REDEVELOPMENT FUND

In fiscal 2020, the Board of Directors (the "Board") created the internally restricted Building & Redevelopment Fund, to fund expenses related to the study, maintenance, and redevelopment of Factory's property.

During fiscal 2023, the remainder of the Fund was spent on capital replacements and improvements. The Board currently has no plans to restrict additional funds for this purpose.

THE FACTORY THEATRE LAB

Notes to Financial Statements

Year Ended June 30, 2023

9. ENDOWMENT FUND

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. The Factory Theatre Lab Endowment Fund and the Canadian Heritage fund are external endowment funds, the assets of which are controlled and managed by OAF in accordance with its investment and income distribution policies. Accordingly, assets of these funds are not reflected in these financial statements.

Income of \$12,244 (2022 - \$13,108) from the endowment funds was recognized by Factory for the year ended June 30, 2023.

As at June 30, 2023, the total market value of the endowment funds was \$239,181 (2022 - \$223,660).

10. GRANTS

	2023	2022
Canada Council for the Arts - operating	\$ 340,000	\$ 408,000
Toronto Arts Council - operating	169,500	169,500
Ontario Arts Council - operating	158,304	158,304
Department of Canadian Heritage - Canada Arts Presentations Fund	60,000	55,000
Canada Council for the Arts - project	50,000	-
Department of Canadian Heritage - CrossCurrents Canada	40,000	-
Ontario Business Costs Rebate	1,086	-
Ontario Arts Council - Arts recovery funding	-	178,853
	<u>\$ 818,890</u>	<u>\$ 969,657</u>

11. DONATIONS AND FUNDRAISING

	2023	2022
Foundations	\$ 274,924	\$ 133,818
Corporate donations and sponsorships	90,000	90,000
Individuals	85,971	77,707
Bequests	-	62,332
	<u>\$ 450,895</u>	<u>\$ 363,857</u>

12. ALLOCATION OF STAFF SALARIES

Staff salaries expense has been allocated to the following areas:

	2023	2022
Production and technical	\$ 296,039	\$ 196,367
Marketing	113,861	68,074
Fundraising	42,291	73,311
Theatre occupancy and maintenance	39,038	-
Office and administration	29,379	28,801
	<u>\$ 520,608</u>	<u>\$ 366,553</u>

THE FACTORY THEATRE LAB

Notes to Financial Statements

Year Ended June 30, 2023

13. IATSE LOCAL 58 RETIREMENT SAVINGS PLAN

On September 20, 2022, Factory entered into a collective agreement with International Alliance of Theatrical Stage Employees, Local #58 Toronto ("IATSE") for eligible stage employees. Part of the agreement required Factory to contribute 1.5% of the gross earnings of the eligible employees to IATSE's Registered Retirement Savings Plan (the "Plan").

During fiscal 2023, there were 257 (2022 - 76) eligible employees, for which Factory contributed \$1,904 (2022 - \$590) to the Plan. Contributions are expensed as incurred.

14. FINANCIAL RISKS

It is management's opinion that Factory is not exposed to significant, liquidity, currency, or other price risks arising from its financial instruments.

Factory is exposed to interest rate cash flow risk on its floating rate line of credit and interest rate price risk on its fixed rate mortgage payable.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. Factory is exposed to credit risk from customers. In order to reduce its credit risk, the company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

15. GOVERNMENT ASSISTANCE

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus.

During fiscal 2023, Factory resumed all regular production and performances as a result of public health measures being lifted. Factory continues to closely monitor and assess the impact on operations. It is the opinion of the management that Factory will have sufficient resources to mitigate any potential negative impact that may occur in fiscal 2023 as a result of ongoing COVID-19 implications.

As part of the response to COVID-19, the federal government introduced the Canada Emergency Wage Subsidy ("CEWS") to assist employers whose activities have been affected by COVID-19. For the period of July 1, 2022 to June 30, 2023, Factory applied for \$Nil (2022 - \$86,208), of which \$Nil (2022 - \$Nil) was included in accounts receivable on June 30, 2023.

In addition to the CEWS, Factory applied for the Canada Emergency Rent Subsidy ("CERS") to provide relief to small businesses experiencing financial hardship due to COVID-19. For the period of July 1, 2022 to June 30, 2023, Factory applied for \$Nil (2022 - \$15,390), of which \$Nil (2022 - \$Nil) was included in accounts receivable on June 30, 2023.
