

ART GALLERY OF NORTHUMBERLAND
Financial Statements
Nine Month Period Ended December 31, 2017



O'KEEFE ACCOUNTING GROUP

Chartered Professional Accountants

"Measuring activities to manage opportunities"

ART GALLERY OF NORTHUMBERLAND
Index to Financial Statements
Nine Month Period Ended December 31, 2017

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Revenues and Expenditures	4
Statement of Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 11



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Independent Auditor's Report

To the Members of Art Gallery of Northumberland

We have audited the accompanying financial statements of Art Gallery of Northumberland, which comprise the statement of financial position as at December 31, 2017 and the statements of revenues and expenditures, changes in net assets and cash flows for the nine month period then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and 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 is sufficient and appropriate to provide a basis for our qualified audit opinion.

(continues)



Basis for Qualified Opinion

In common with many not-for-profit organizations, Art Gallery of Northumberland derives revenue from fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of Art Gallery of Northumberland. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the period ended December 31, 2017, current assets and net assets as at December 31, 2017.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Art Gallery of Northumberland as at December 31, 2017 and the results of its operations and its cash flows for the period then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Port Hope, Ontario
May 28, 2018

O'Keefe Accounting Group
O'Keefe Accounting Group
Chartered Professional Accountants
Authorized to practise public accounting by
the Chartered Professional Accountants of Ontario

ART GALLERY OF NORTHUMBERLAND

Statement of Financial Position

December 31, 2017

	Operations Unrestricted	Restricted	<i>December 31</i> 2017	<i>March 31</i> 2017
Assets				
Current				
Cash (<i>Note 4</i>)	\$ 621	\$ 22,338	\$ 22,959	\$ 27,188
Investment certificates (<i>Note 4</i>)	-	-	-	55,000
Accounts receivable	3,230	-	3,230	6,156
Works of art - art bequests (<i>Note 5</i>)	-	-	-	26,375
Harmonized sales tax recoverable	2,482	-	2,482	3,762
Prepaid expenses	4,805	-	4,805	34,005
Works of art, at nominal value (<i>Note 8</i>)	-	1	1	1
	11,138	22,339	33,477	152,487
Long term Investments (<i>Note 9</i>)	-	105,596	105,596	105,596
	\$ 11,138	\$ 127,935	\$ 139,073	\$ 258,083
Liabilities and Net assets				
Current				
Bank indebtedness (<i>Note 4</i>)	\$ 4,479	\$ -	\$ 4,479	\$ -
Accounts payable and accrued liabilities	26,521	-	26,521	6,578
Deferred revenue	3,493	-	3,493	120,532
Note payable - Town of Cobourg (<i>Note 7</i>)	20,000	-	20,000	20,000
	54,493	-	54,493	147,110
Net assets (debt)	(43,355)	127,935	84,580	110,973
	\$ 11,138	\$ 127,935	\$ 139,073	\$ 258,083

ON BEHALF OF THE BOARD

_____ *Director*

_____ *Director*

ART GALLERY OF NORTHUMBERLAND
Statement of Revenues and Expenditures
Nine Month Period Ended December 31, 2017

	Operations (Unrestricted) Nine Months December	Permanent Collection (Restricted) Nine Months December	Total 9 Months December 2017	Total 12 Months March 2017
Revenues				
Grants - Municipal	\$ 93,250	\$ -	\$ 93,250	\$ 95,000
Grants - Provincial	20,295	-	20,295	12,005
Grants - Federal	3,781	-	3,781	2,000
Grants - Other	4,000	-	4,000	-
Donations	14,788	30,000	44,788	29,516
Memberships	5,361	-	5,361	4,175
Fundraising	24,376	-	24,376	37,732
Special initiatives	3,894	-	3,894	2,000
Interest revenue (<i>Note 9</i>)	4,687	-	4,687	882
	174,432	30,000	204,432	183,310
Expenses				
Bank charges	3,727	-	3,727	3,369
Insurance	1,834	-	1,834	3,143
Office	5,053	369	5,422	12,215
Purchase of art	-	-	-	1,200
Donated art accessioned	-	46,850	46,850	-
Fundraising	3,074	-	3,074	14,689
Building and security	11,668	-	11,668	11,128
Exhibitions	22,849	-	22,849	24,758
Community engagement report	18,033	-	18,033	12,550
Professional fees	10,919	-	10,919	9,691
Rent	39,835	-	39,835	53,113
Salaries and benefits	64,010	-	64,010	57,004
Telephone	2,604	-	2,604	2,923
	183,606	47,219	230,825	205,783
Deficiency Of Revenues Over Expenses from operations	(9,174)	(17,219)	(26,393)	(22,473)
Transfer works of art to permanent collection	(16,850)	16,850	-	-
Deficiency of revenues over expenses	\$ (26,024)	\$ (369)	\$ (26,393)	\$ (22,473)

ART GALLERY OF NORTHUMBERLAND
Statement of Changes in Net Assets
Nine Month Period Ended December 31, 2017

	<i>March 31</i> 2017 Balance	Deficiency of revenues over expenses	<i>December 31</i> 2017 Balance
Operations - unrestricted	\$ (17,331)	\$ (26,024)	\$ (43,355)
Restricted	128,304	(369)	127,935
	\$ 110,973	\$ (26,393)	\$ 84,580
	<i>March 31</i> 2016 Balance	Deficiency of revenues over expenses	<i>March 31</i> 2017 Balance
Operations - unrestricted	\$ 3,394	\$ (20,725)	\$ (17,331)
Restricted	130,052	(1,748)	128,304
	\$ 133,446	\$ (22,473)	\$ 110,973

ART GALLERY OF NORTHUMBERLAND
Statement of Cash Flows
Nine Month Period Ended December 31, 2017

	<i>December 31</i> 2017	<i>March 31</i> 2017
Operating activities		
Cash receipts from members, donors, and other funding sources	\$ 90,319	\$ 183,573
Cash paid to suppliers and employees	(155,307)	(133,237)
Harmonized sales tax	1,280	(2,482)
Increase (decrease) in cash flow	(63,708)	47,854
Cash - beginning of period	82,188	34,334
Cash - end of period	18,480	82,188
Cash consists of:		
Cash	\$ 22,959	\$ 27,188
Bank indebtedness	(4,479)	-
Investment certificates	-	55,000
	\$ 18,480	\$ 82,188

ART GALLERY OF NORTHUMBERLAND
Notes to Financial Statements
Nine Month Period Ended December 31, 2017

1. Description of organization and basis of presentation

The Art Gallery of Northumberland ("AGN") is incorporated under the laws of Ontario as a corporation without share capital. The AGN is a public art gallery with a permanent collection of national significance.

The AGN is a registered charity under the Income Tax Act (Canada), registration number 118790393 RR0001, and as such is exempt from income taxes.

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. Itemized below is a summary of policies adopted by the AGN that the AGN's management believes are noteworthy in assessing the financial position and the results of its operations.

2. Summary of significant accounting policies

(a) Revenue recognition

The AGN follows the deferral method of accounting for contributions which includes donations and grants. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions, including annual membership fees, are recognized as revenue when received or receivable if the amounts to be received can be reasonably estimated and collection is reasonably assured.

Donations are recorded when received since pledges are not legally enforceable.

All other revenue is recognized as it is earned and where collection is reasonably assured.

(b) Capital assets

Capital assets are recorded as expenses in the year of purchase. The major categories of capital assets which are owned by the AGN but not recorded in the balance sheet are leasehold improvements, furniture, fixtures and equipment.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit, bank overdrafts and guaranteed investment certificates.

(d) Works of art - art bequests

Works of art that are reported in the financial statements are recorded at their appraised value at the time of acquisition.

(e) Long term investments

Investments for which there are quoted prices in an active market are carried at fair value. Unrealized gains or losses are reported as part of net income. Investments for which there is not an active market are carried at amortized cost except when it is established that their value is impaired. Impairment losses, or reversal of previously recognized impairment losses, are reported as part of net income.

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ART GALLERY OF NORTHUMBERLAND
Notes to Financial Statements
Nine Month Period Ended December 31, 2017

2. Summary of significant accounting policies (*continued*)

(f) Services contributed by volunteers and other supporters

Contributed materials and services of independent third parties are recognized in the financial statements at their fair values. Volunteers contribute a significant number of hours per year to assist the AGN in carrying out its activities. Because of the difficulty of determining their fair value, contributed services are generally not recognized in the financial statements. In a very few circumstances where the services are of a highly skilled nature and there is an industry accepted value for that service, the relevant amounts will be recognized in the financial statements.

(g) Permanent collection

The AGN maintains a collection of works of art, historical treasures and similar assets for public exhibition, which is reported as a restricted asset at a nominal value of \$1. Purchased acquisitions of art collection items are recorded at cost as an expense in the year of purchase. Contributed acquisitions of art items are recognized as revenue with an offsetting expense once the organization issues a donation receipt for the fair market value of the contribution. When works of art are deaccessioned and then sold, the proceeds are held as a restricted asset. These proceeds can only be used for the restoration of the permanent collection or the purchase of art.

(h) 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 amount of assets and liabilities. Disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

The significant areas requiring management estimates include estimates of the useful lives for amortization and the timing of revenue recognition.

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ART GALLERY OF NORTHUMBERLAND
Notes to Financial Statements
Nine Month Period Ended December 31, 2017

2. Summary of significant accounting policies (*continued*)

(i) Financial instruments

i. Measurement of financial instruments

The organization initially measures its financial assets and liabilities at fair value.

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, which are measured at fair value. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include cash, cash equivalents and government remittances recoverable.

Financial liabilities measured at amortized cost include the bank advances, the bank loan, accounts payable and accrued liabilities and the note payable.

Financial assets measured at fair value include the long term investments.

ii. Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement, 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 not been recognized previously. The amount of the reversal is recognized in net income.

iii. Transaction costs

The AGN recognizes its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

3. Change in fiscal year end

The AGN has changed its year end from March 31 to December 31 effective December 31, 2017.

4. Cash and cash equivalents

The AGN has an operating line of credit with TD Canada Trust with a limit of \$40,000 and interest is calculated at prime plus 3%.

The AGN operates a separate bank account exclusively for monetary transactions specifically related to the permanent collection. The account is maintained at the Royal Bank of Canada.

ART GALLERY OF NORTHUMBERLAND
Notes to Financial Statements
Nine Month Period Ended December 31, 2017

5. Works of art - art bequests

In 2013 and 2015 the AGN received bequests of art with no restrictions attached, which were recorded as revenue and operating assets, at their appraised values, in the total amount of \$48,457. The initial intention was to sell most of this art to support operations.

In 2016 it was determined that most of the art was suitable for the permanent collection. From the collection, \$22,082 accessioned during the period ending March 31, 2017 and during the current period, \$16,850 was accessioned and \$9,525 of the bequest was designated for a new art education program.

6. Fund descriptions

Operations Fund (unrestricted)

The general operations fund is comprised of revenues to be used for general purposes. Any funds collected during the year that relate to activities not performed at the year end are reported as deferred revenue until such time as the activities are performed or until management considers that the activity has been performed and there are excess funds that can be used for other general purposes. The fund is intended to deal with the daily operations and other regularly operating activities of the organization.

Restricted funds

The restricted funds include the Permanent Collection and the Endowment Fund.

The permanent collection fund is intended to separate funds and other assets received that are designated to be used to add to and maintain the permanent collection of art on display in the gallery.

The Endowment Fund includes matching contributions from the Ontario Arts Foundation ("OAF") and the net investment income thereon which is to be used by the Gallery for operating purposes. Only income distributed by the OAF is available for expenditure for operating purposes.

7. Note payable, Town of Cobourg

The original terms dated July 5, 2012 indicated the note was repayable by December 31, 2012 with interest at Royal Bank prime commencing December 1, 2012. The AGN is reporting the note payable at \$20,000 and has accrued 2 years interest expense as at December 31, 2017.

8. Permanent collection

The Permanent Collection is valued at the nominal amount of \$1 and is comprised of items donated and items purchased, since inception of the Gallery in 1960. The cumulative amount of items purchased, at cost, and items donated, at appraised value at the time of donation, is approximately \$1.4 million.

ART GALLERY OF NORTHUMBERLAND
Notes to Financial Statements
Nine Month Period Ended December 31, 2017

9. Endowment Net Assets

The Arts Endowment Fund reports matching contributions from the Ontario Arts Foundation ("OAF") and the net investment income earned thereon to be used by the Gallery for operating purposes. Only income distributed by the OAF to the Arts Endowment Fund is available for expenditure for operating purposes. The OAF, which holds the Arts Endowment Fund in perpetuity, is responsible for the investment of the funds held and the annual disbursement to the Gallery. The Gallery reports the income as interest earned in the period in which it is received.

The Endowment Fund consists of original permanent capital of \$76,690. The annual investment income earned from the investments is available for use by the unrestricted net assets. To the extent that there is sufficient net income earned from the investments to meet the disbursement quota, the Gallery is authorized to disburse capital if all of the conditions of Disbursement of Capital within the Disbursement Policy are met. The investments held in the endowment net assets are to be maintained and invested in accordance with the investment policies of the Gallery.

10. Financial risk and concentration of risk

(a) Credit risk

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. While the Gallery does not normally enter into commercial transactions where it is the creditor, it reduces its exposure to credit risk by performing credit valuations when considered appropriate. Management is of the opinion that credit risk to the Gallery is low and is not material.

(b) Concentration risk

Concentration of credit risk relates to groups of counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by the changes in economic or other conditions. Management is of the opinion that the Gallery has no material exposure to concentration of risk.

(c) Interest rate risk

The organization is not carrying any debt or other financial liabilities that are subject to interest rate risk.

(d) Liquidity risk

The organization does have a liquidity risk in the bank indebtedness and accounts payable totalling \$(31,000) (\$6,578) at March 2017. Liquidity risk is the risk that the company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Organization's ability to continue meeting the costs of its operating activities will depend on its ability to maintain its current funding levels. Management is of the opinion that the organizations exposure to liquidity risk is low and not material.

11. Comparative statements

The financial statements for the twelve months ended March 31, 2017 have been reclassified to conform to the presentation adopted for the nine months ended December 31, 2017.