

**ART GALLERY OF NORTHUMBERLAND**

**Financial Statements**

**Year Ended December 31, 2018**

Draft for discussion purposes only



**O'KEEFE ACCOUNTING GROUP**

Chartered Professional Accountants

"Measuring activities to manage opportunities"

**ART GALLERY OF NORTHUMBERLAND**  
**Index to Financial Statements**  
**Year Ended December 31, 2018**

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## Independent Auditor's Report

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To the Members of Art Gallery of Northumberland

### *Qualified Opinion*

We have audited the financial statements of Art Gallery of Northumberland (the Company), which comprise the statement of financial position as at December 31, 2018, and the statements of revenues and expenditures, 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, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company 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 Qualified Opinion*

In common with many not-for-profit organizations, the Company derives revenue from donations, fundraising activities and other initiatives, 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 the Company. 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 year ended December 31, 2018, current assets and net assets as at December 31, 2018. Our audit opinion on the financial statements for the year ended December 31, 2017 was modified accordingly because of the possible effects of this limitation of scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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 qualified audit opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the

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Independent Auditor's Report to the Members of Art Gallery of Northumberland *(continued)*

going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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. 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 Company'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 Company'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 Company 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.

Port Hope, Ontario  
April 18, 2019

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, 2018**

	Operations Unrestricted December 31 2018	Permanent Collection Restricted December 31 2018	OAF Endowment Fund Restricted December 31 2018	Schermerhorn Endowment Fund Restricted December 31 2018	Total December 31 2018	Total December 31 2017
<b>Assets</b>						
Current						
Cash	\$ 1,318	\$ 18,973	\$ -	\$ -	\$ 20,291	\$ 25,421
Accounts receivable	13,655	-	-	-	13,655	3,230
Harmonized sales tax recoverable	2,193	230	-	-	2,423	2,482
Prepaid expenses	177	-	-	-	177	4,805
Works of art, at nominal value	-	1	-	-	1	1
	17,343	19,204	-	-	36,547	35,939
Long term Investments (Notes 4, 6)	-	-	103,621	15,360	118,981	105,596
	\$ 17,343	\$ 19,204	\$ 103,621	\$ 15,360	\$ 155,528	\$ 141,535
<b>Liabilities and Net assets</b>						
Current						
Bank indebtedness (Note 3)	\$ 29,696	\$ -	\$ -	\$ -	\$ 29,696	\$ 4,479
Accounts payable and accrued liabilities	11,685	-	-	-	11,685	26,522
Employee deductions payable	2,526	-	-	-	2,526	2,461
Deferred revenue	-	-	-	-	-	3,493
Note payable - Town of Cobourg	-	-	-	-	-	20,000
	43,907	-	-	-	43,907	56,955
<b>Net assets (debt) (Note 6)</b>	(26,564)	19,204	103,621	15,360	111,621	84,580
	\$ 17,343	\$ 19,204	\$ 103,621	\$ 15,360	\$ 155,528	\$ 141,535

**ON BEHALF OF THE BOARD**

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

**ART GALLERY OF NORTHUMBERLAND**  
**Statement of Revenues and Expenditures**  
**Year Ended December 31, 2018**

	Operations Unrestricted 2018	Permanent Collection Restricted 2018	OAF Endowment Fund Restricted 2018	Schermerhorn Endowment Fund Restricted 2018	Total 2018	Total 9 months 2017
<b>Revenues</b>						
Grants - Municipal	\$ 160,000	\$ -	\$ -	\$ -	\$ 160,000	\$ 93,250
Grants - Provincial	-	-	-	-	-	20,295
Grants - Federal	18,536	-	-	-	18,536	3,781
Grants - Other	-	-	-	-	-	2,500
Sponsorships	3,250	-	-	-	3,250	6,111
Donations	20,909	26,953	-	15,360	63,222	38,677
Fundraising	11,000	-	-	-	11,000	12,962
Gallery shop commission	3,806	-	-	-	3,806	8,514
Memberships	6,934	-	-	-	6,934	5,361
Education	1,730	-	-	-	1,730	8,295
Investment income (losses)	5,625	-	(1,975)	-	3,650	4,687
	231,790	26,953	(1,975)	15,360	272,128	204,433
<b>Expenditures (Schedule 1)</b>	215,000	30,087	-	-	245,087	230,826
<b>Excess (deficiency) of revenues over expenditures</b>	\$ 16,790	\$ (3,134)	\$ (1,975)	\$ 15,360	\$ 27,041	\$ (26,393)

# ART GALLERY OF NORTHUMBERLAND

## Expenditures

(Schedule 1)

Year Ended December 31, 2018

	Operations Unrestricted 2018	Permanent Collection Restricted 2018	OAF Endowment Fund Restricted 2018	Schermerhorn Endowment Fund Restricted 2018	Total 2018	Total 9 months 2017
Salaries and benefits	\$ 101,801	\$ -	\$ -	\$ -	\$ 101,801	\$ 64,010
Office and sundry	9,941	568	-	-	10,509	7,597
Furniture	819	-	-	-	819	6,825
Rent	45,000	-	-	-	45,000	39,835
Insurance	4,433	-	-	-	4,433	1,834
Security	6,865	-	-	-	6,865	4,844
Repairs and maintenance	5,791	-	-	-	5,791	-
Permanent collection maintenance	-	2,566	-	-	2,566	-
Interest and bank charges	3,511	-	-	-	3,511	3,727
Marketing and communications	1,026	-	-	-	1,026	-
Special initiatives	-	-	-	-	-	18,033
Membership association fees	1,224	-	-	-	1,224	429
Works of art accessioned	-	26,953	-	-	26,953	46,850
Professional fees	13,226	-	-	-	13,226	10,919
Fundraising	6,894	-	-	-	6,894	3,074
Exhibitions	11,477	-	-	-	11,477	13,124
Education	2,992	-	-	-	2,992	9,725
	\$ 215,000	\$ 30,087	\$ -	\$ -	\$ 245,087	\$ 230,826

**ART GALLERY OF NORTHUMBERLAND**  
**Statement of Changes in Net Assets**  
**Year Ended December 31, 2018**

	Operations	Permanent Collection	OAF Endowment Fund	Schermerhorn Endowment Fund	2018	2017
<b>Net assets - beginning of year</b>	\$ (43,354)	\$ 22,338	\$ 105,596	\$ -	<b>\$ 84,580</b>	\$ 110,972
Excess of revenues over expenditures	16,790	(3,134)	(1,975)	15,360	<b>27,041</b>	(26,392)
<b>Net assets - end of year</b>	<b>\$ (26,564)</b>	<b>\$ 19,204</b>	<b>\$ 103,621</b>	<b>\$ 15,360</b>	<b>\$ 111,621</b>	<b>\$ 84,580</b>



# ART GALLERY OF NORTHUMBERLAND

## Statement of Cash Flows

Year Ended December 31, 2018

	Year December 31 2018	9 months December 31 2017
<b>Operating activities</b>		
Cash receipts from members, donors and other funding sources	\$ 258,210	\$ 90,320
Cash paid to suppliers and employees	(271,718)	(149,120)
Interest paid (received)	(3,511)	(3,727)
Goods and services tax	58	1,280
Cash flow used by operating activities	(16,961)	(61,247)
<b>Investing activity</b>		
Long term Investments	(13,385)	-
Cash flow from (used by) investing activity	(13,385)	-
<b>Decrease in cash flow</b>	(30,346)	(61,247)
Cash - beginning of year	20,941	82,188
<b>Cash (deficiency) - end of year</b>	\$ (9,405)	\$ 20,941
<b>Cash consists of:</b>		
Cash	\$ 20,291	\$ 25,420
Bank indebtedness	(29,696)	(4,479)
	\$ (9,405)	\$ 20,941

# ART GALLERY OF NORTHUMBERLAND

## Notes to Financial Statements

Year Ended December 31, 2018

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### 1. Description of organization and basis of presentation

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

The Gallery 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 Gallery's management believes are noteworthy in assessing the financial position and the results of its operations.

### 2. Summary of significant accounting policies

#### Revenue recognition

The Gallery follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. All other revenue is recognized as it is earned and where collection is reasonably assured.

Endowments are recorded as an increase to net assets as the principal is required to remain intact. Unrestricted investment income earned on endowments is recognized as revenue of the Operations fund. Restricted investment income on endowments is recognized as revenue of the Endowment fund.

#### Capital assets

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

#### Cash and cash equivalents

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

#### 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 Gallery 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.

# ART GALLERY OF NORTHUMBERLAND

## Notes to Financial Statements

Year Ended December 31, 2018

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

#### Permanent collection

The Gallery 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.

#### 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.

#### 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 Gallery 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.

# ART GALLERY OF NORTHUMBERLAND

## Notes to Financial Statements

Year Ended December 31, 2018

### 3. Cash and cash equivalents

The Gallery 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 Gallery 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.

### 4. Long term investments

	2018	2017
Duane Shermerhorn Endowment Fund	\$ 15,360	\$ -
Ontario Art Foundation Art Endowment Fund	103,621	105,596
	<u>\$ 118,981</u>	<u>\$ 105,596</u>

### 5. 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 \$1.5 million.

### 6. Endowment Net Assets

#### Ontario Arts Foundation Art Endowment Fund

The Ontario Arts Foundation Art 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 distributions received as investment income 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.

#### Duane Schermerhorn Endowment Fund

The Duane Schermerhorn Endowment Fund consists of donations received during the year, with the principal held in perpetuity. The investments are to be maintained and invested in accordance with the investment policies of the Gallery. The net investment income is restricted for the acquisition of contemporary Canadian photography.

# ART GALLERY OF NORTHUMBERLAND

## Notes to Financial Statements

Year Ended December 31, 2018

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### 7. 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

Except for the line of credit balance, 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 \$41,382 (\$31,000 at December 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.

### 8. Comparative statements

The financial statements for the nine months ended December 31, 2017 have been reclassified to conform to the presentation adopted for the twelve months ended December 31, 2018.