

ART GALLERY OF NORTHUMBERLAND

FINANCIAL STATEMENTS

December 31, 2019

CONTENTS

	<u>Page</u>
Independent Auditor's Report	2 - 3
Financial Statements	
Statement of Financial Position	4
Statement of Revenues and Expenses	5
Statement of Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 12

INDEPENDENT AUDITOR'S REPORT

To the Members of
ART GALLERY OF NORTHUMBERLAND

Qualified Opinion

We have audited the financial statements of **ART GALLERY OF NORTHUMBERLAND** (the "Gallery") , which comprise the statement of financial position as at December 31, 2019, and the statement of revenue and expenses, 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 effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Gallery as at December 31, 2019, and its results of 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 Gallery derives revenue from donations and 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 the Gallery. Therefore, we were unable to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 2019 and December 31, 2018, current assets and net assets as at December 31, 2019 and December 31, 2018. The audit opinion on the financial statements for the year ended December 31, 2018 was modified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. The 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 Gallery 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 these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Matter

The financial statements of the Gallery for the year ended December 31, 2018 were audited by another auditor who expressed a qualified opinion with respect to the completeness of donation and fundraising revenues on those financial statements on April 18, 2019.

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 Gallery's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Gallery or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Gallery's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

The 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 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 Gallery'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, determine whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Gallery's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 auditor's report. However, future events or conditions may cause the Gallery 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.

Belleville, Ontario
April 16, 2020

Welch LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

ART GALLERY OF NORTHUMBERLAND
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

	Unrestricted 2019	Restricted - Permanent Collection 2019	Restricted - OAF Endowment 2019	Restricted - Schermerhorn Endowment 2019	Total 2019	Total 2018
CURRENT ASSETS						
Cash	\$ 25,523	\$ 37,620	\$ -	\$ 300	\$ 63,443	\$ 20,291
Accounts receivable	1,951	-	-	-	1,951	13,655
Government remittances recoverable	2,115	-	-	-	2,115	2,423
Prepaid expenses	1,310	-	-	-	1,310	177
Interfund	752	(752)	-	-	-	-
Permanent collection - Note 5	-	1	-	-	1	1
	<u>31,651</u>	<u>36,869</u>	<u>-</u>	<u>300</u>	<u>68,820</u>	<u>36,547</u>
INVESTMENTS - Note 6						
	-	-	111,599	25,863	137,462	118,981
	<u>\$ 31,651</u>	<u>\$ 36,869</u>	<u>\$ 111,599</u>	<u>\$ 26,163</u>	<u>\$ 206,282</u>	<u>\$ 155,528</u>

LIABILITIES AND NET ASSETS (DEFICIT)

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,696
12,717	-	-	-	12,717	11,685	11,685
2,270	-	-	-	2,270	2,526	2,526
<u>31,222</u>	<u>20,250</u>	<u>-</u>	<u>-</u>	<u>51,472</u>	<u>-</u>	<u>-</u>
46,209	20,250	-	-	66,459	43,907	43,907
<u>(14,558)</u>	<u>16,619</u>	<u>111,599</u>	<u>26,163</u>	<u>139,823</u>	<u>111,621</u>	<u>111,621</u>
<u>\$ 31,651</u>	<u>\$ 36,869</u>	<u>\$ 111,599</u>	<u>\$ 26,163</u>	<u>\$ 206,282</u>	<u>\$ 155,528</u>	<u>\$ 155,528</u>

CURRENT LIABILITIES

Bank indebtedness
Accounts payable and accrued liabilities
Government remittances payable
Deferred revenue

NET ASSETS (DEFICIT)

 Director
 Director

(See accompanying notes)

**ART GALLERY OF NORTHUMBERLAND
STATEMENT OF REVENUES AND EXPENSES
YEAR ENDED DECEMBER 31, 2019**

	Unrestricted 2019	Restricted- Permanent Collection 2019	Restricted - OAF Endowment 2019	Restricted - Schermerhorn Endowment 2019	Total 2019	Total 2018
REVENUE						
Grants - Municipal	\$ 205,000	\$ -	\$ -	\$ -	\$ 205,000	\$ 160,000
Grants - Federal	12,032	-	-	-	12,032	18,536
Grants - Other	15,000	-	-	-	15,000	-
Sponsorships	3,000	-	-	-	3,000	3,250
Donations	24,484	101,375	-	10,300	136,159	63,222
Fundraising	8,737	-	-	-	8,737	11,000
Gallery shop commission	3,211	-	-	-	3,211	3,806
Membership	6,345	-	-	-	6,345	6,934
Education	8,866	-	-	-	8,866	1,730
Rental income	2,271	-	-	-	2,271	-
Investment income	4,789	-	9,581	503	14,873	3,650
Gain (loss) on sale of investments	(116)	-	-	-	(116)	-
	<u>293,619</u>	<u>101,375</u>	<u>9,581</u>	<u>10,803</u>	<u>415,378</u>	<u>272,128</u>
EXPENSES						
Education	3,127	-	-	-	3,127	2,992
Exhibitions	20,262	-	-	-	20,262	11,477
Fundraising	6,364	-	-	-	6,364	6,894
Furniture and furnishings	6,400	-	-	-	6,400	819
Insurance	5,057	-	-	-	5,057	4,433
Interest and bank charges	2,806	-	-	-	2,806	3,511
Administration and management investment fees	-	-	1,603	-	1,603	-
Marketing and communications	5,755	-	-	-	5,755	1,026
Memberships	474	-	-	-	474	1,224
Office and sundry	9,618	-	-	-	9,901	10,509
Permanent collection maintenance	-	283	-	-	2,302	2,566
Professional fees	-	2,302	-	-	15,304	13,226
Rent	15,304	-	-	-	45,000	45,000
Repairs and maintenance	45,000	-	-	-	4,278	5,791
Salaries and related benefits	4,278	-	-	-	147,706	101,801
Security	147,706	-	-	-	9,462	6,865
Works of art accessioned	9,462	-	-	-	101,375	26,953
	<u>281,613</u>	<u>103,960</u>	<u>1,603</u>	<u>-</u>	<u>387,176</u>	<u>245,087</u>
Excess (deficiency) of revenue over expenses	\$ 12,006	\$ (2,585)	\$ 7,978	\$ 10,803	\$ 28,202	\$ 27,041

(See accompanying notes)

ART GALLERY OF NORTHUMBERLAND
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2019

	Unrestricted 2019	Restricted - Permanent Collection 2019	Restricted - OAF Endowment 2019	Restricted - Schermerhorn Endowment 2019	Total 2019	Total 2018
NET ASSETS (DEFICIT), beginning of year	\$ (26,564)	\$ 19,204	\$ 103,621	\$ 15,360	\$ 111,621	\$ 84,580
Excess (deficiency) of revenue over expenses	12,006	(2,585)	7,978	10,803	28,202	27,041
NET ASSETS (DEFICIT), end of year	<u>\$ (14,558)</u>	<u>\$ 16,619</u>	<u>\$ 111,599</u>	<u>\$ 26,163</u>	<u>\$ 139,823</u>	<u>\$ 111,621</u>

(See accompanying notes)

**ART GALLERY OF NORTHUMBERLAND
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from members, donors and other funding sources	\$ 477,259	\$ 258,210
Cash paid to suppliers and employees	(383,123)	(271,718)
Interest received (paid)	(2,807)	(3,511)
Goods and service tax	-	58
	91,329	(16,961)
CASH FLOWS FROM INVESTING ACTIVITIES		
Long-term investments	(18,481)	(13,385)
INCREASE (DECREASE) IN CASH	72,848	(30,346)
CASH (BANK INDEBTEDNESS), BEGINNING OF YEAR	(9,405)	20,941
CASH (BANK INDEBTEDNESS), END OF YEAR	\$ 63,443	\$ (9,405)
Cash consists of:		
Cash	\$ 63,443	\$ 20,291
Bank indebtedness	-	(29,696)
	\$ 63,443	\$ (9,405)

(See accompanying notes)

ART GALLERY OF NORTHUMBERLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

1. NATURE OF OPERATIONS

Art Gallery of Northumberland (the "Gallery") was 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Cash and cash equivalents

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

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, furnishings and equipment.

Revenue recognition

The Gallery follows the restricted fund method 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.

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.

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.

ART GALLERY OF NORTHUMBERLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

i. Measurement of financial instruments

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

The Gallery 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 indebtedness, accounts payable and accrued liabilities.

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.

Contributed materials and services

Contributed materials and services of independent third parties are recognized in the financial statements at their fair values when practical. 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, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3. FINANCIAL INSTRUMENTS

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.

Liquidity risk

The Gallery does have a liquidity risk in the bank indebtedness and accounts payable of \$12,717 (2018 - \$41,382). Liquidity risk is the risk that the Gallery will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Gallery'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 Gallery's exposure to liquidity risk is low and not material.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Gallery has no foreign currency transactions and therefore is not exposed to currency risk

ART GALLERY OF NORTHUMBERLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

3. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Interest rate risk is the risk that the fair value of financial instruments and future cash flows associated with the instruments will fluctuate due to changes in market interest rates. The Gallery has interest rate exposure on its bank indebtedness, which are variable based on the bank's prime rates. The Gallery reduces its exposure to interest rate risk by regularly monitoring published bank prime interest rates.

Other price risk

Other price risk is the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market. The Gallery manages other price risk by investing in low risk investments. The Gallery is exposed to other price risk on their long-term investments.

Changes in risk

There were no changes in the Gallery's risk exposure during the year.

4. 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.

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.

**ART GALLERY OF NORTHUMBERLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019**

6. ENDOWMENT NET ASSETS

Art Gallery of Northumberland Arts Endowment Fund

Art Gallery of Northumberland established the Art Gallery of Northumberland Arts Endowment Fund at the Ontario Arts Foundation (OAF) under the terms of the Arts Endowment Fund (AEF) Program. The AEF is a program of the Government of Ontario through the Ministry of Culture and administered by the OAF.

The Art Gallery of Northumberland Arts Endowment Fund will be held in perpetuity for the benefit of Art Gallery of Northumberland. The market value of the Arts Endowment Fund as at December 31, 2019 was \$111,599 (2018 - \$103,621).

The Art Gallery of Northumberland receives investment income from their Arts Endowment Fund to be used for operations. During the year, Art Gallery of Northumberland received investment income of \$4,785 (2018 - \$4,808).

Duane Schermerhorn Endowment Fund

The Duane Schermerhorn Endowment Fund consists of the contributed principal and net income since its inception 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.

7. ECONOMIC DEPENDENCE

The Gallery received \$205,000 (2018 - \$160,000), which represents 49.5% (2018 - 58.8%) of its revenue, from Town of Cobourg.

8. COMPARATIVE FIGURES

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.