

ART GALLERY OF NORTHUMBERLAND

FINANCIAL STATEMENTS

December 31, 2020

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 - 14

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, 2020, 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, 2020, 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, 2020 and December 31, 2019, current assets and net assets as at December 31, 2020 and December 31, 2019. The audit opinion on the financial statements for the year ended December 31, 2019 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.

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 qualified 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 qualified 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
TBD

CHARTERED PROFESSIONAL ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

ART GALLERY OF NORTHUMBERLAND
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020

	Unrestricted 2020	Restricted - Permanent Collection 2020	Restricted - OAF Endowment 2020	Restricted - Schermerhorn Endowment 2020	Total 2020	Total 2019
CURRENT ASSETS						
Cash	\$ 24,447	\$ 15,068	\$ -	\$ 10,971	\$ 50,486	\$ 63,443
Accounts receivable	53,113	-	-	-	53,113	1,951
Government remittances recoverable	4,483	-	-	-	4,483	2,115
Prepaid expenses	1,138	-	-	-	1,138	1,310
Permanent collection - Note 5	-	1	-	-	1	1
	<u>83,181</u>	<u>15,069</u>	<u>-</u>	<u>10,971</u>	<u>109,221</u>	<u>68,820</u>
INVESTMENTS - Note 7	<u>-</u>	<u>-</u>	<u>111,053</u>	<u>25,864</u>	<u>136,917</u>	<u>137,462</u>
	<u>\$ 83,181</u>	<u>\$ 15,069</u>	<u>\$ 111,053</u>	<u>\$ 36,835</u>	<u>\$ 246,138</u>	<u>\$ 206,282</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	\$ 15,274	\$ -	\$ -	\$ -	\$ 15,274	\$ 12,717
Government remittances payable	3,079	-	-	-	3,079	2,270
Deferred revenue - Note 6	46,809	-	-	-	46,809	51,472
	<u>65,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,162</u>	<u>66,459</u>
NET ASSETS	<u>18,019</u>	<u>15,069</u>	<u>111,053</u>	<u>36,835</u>	<u>180,976</u>	<u>139,823</u>
	<u>\$ 83,181</u>	<u>\$ 15,069</u>	<u>\$ 111,053</u>	<u>\$ 36,835</u>	<u>\$ 246,138</u>	<u>\$ 206,282</u>

Director

Director

(See accompanying notes)

ART GALLERY OF NORTHUMBERLAND
STATEMENT OF REVENUES AND EXPENSES
YEAR ENDED DECEMBER 31, 2020

	Unrestricted 2020	Restricted- Permanent Collection 2020	Restricted - OAF Endowment 2020	Restricted - Schmerhorn Endowment 2020	Total 2020	Total 2019
REVENUE						
Grants - Municipal	\$ 215,000	\$ -	\$ -	\$ -	\$ 215,000	\$ 205,000
Grants - Federal	52,979	5,322	-	-	58,301	12,032
Grants - Other	20,250	-	-	-	20,250	15,000
Sponsorships	2,000	-	-	-	2,000	3,000
Donations	30,458	205,915	-	10,000	246,373	136,159
Fundraising	7,230	-	-	-	7,230	8,737
Gallery shop commission	580	-	-	-	580	3,211
Membership	5,820	-	-	-	5,820	6,345
Education	445	-	-	-	445	8,866
Rental income	-	-	-	-	-	2,271
Investment income	7,193	-	537	672	8,402	14,873
Gain (loss) on sale of investments	(206)	-	-	-	(206)	(116)
	<u>341,749</u>	<u>211,237</u>	<u>537</u>	<u>10,672</u>	<u>564,195</u>	<u>415,378</u>
EXPENSES						
Education	4,352	-	-	-	4,352	3,127
Exhibitions	27,883	-	-	-	27,883	20,262
Fundraising	6,811	-	-	-	6,811	6,364
Furniture and furnishings	3,183	-	-	-	3,183	6,400
Cataloguing	19,877	-	-	-	19,877	-
Insurance	4,705	-	-	-	4,705	5,057
Interest and bank charges	1,688	-	-	-	1,688	2,806
Administration and management investment fees	-	-	1,083	-	1,083	1,603
Marketing and communications	4,931	-	-	-	4,931	5,755
Memberships	1,232	-	-	-	1,232	474
Office and sundry	11,313	111	-	-	11,424	9,901
Permanent collection maintenance	-	6,782	-	-	6,782	2,302
Professional fees	14,565	-	-	-	14,565	15,304
Rent	45,000	-	-	-	45,000	45,000
Repairs and maintenance	5,414	-	-	-	5,414	4,278
Salaries and related benefits	155,386	-	-	-	155,386	147,706
Security	2,459	-	-	-	2,459	9,462
Works of art accessioned	-	206,267	-	-	206,267	101,375
	<u>308,799</u>	<u>213,160</u>	<u>1,083</u>	<u>-</u>	<u>523,042</u>	<u>387,176</u>
Excess (deficiency) of revenue over expenses	<u>\$ 32,950</u>	<u>\$ (1,923)</u>	<u>\$ (546)</u>	<u>\$ 10,672</u>	<u>\$ 41,153</u>	<u>\$ 28,202</u>

(See accompanying notes)

ART GALLERY OF NORTHUMBERLAND
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2020

	Unrestricted 2020	Restricted - Permanent Collection 2020	Restricted - OAF Endowment 2020	Restricted - Schermerhorn Endowment 2020	Total 2020	Total 2019
NET ASSETS (DEFICIT), beginning of year	\$ (14,558)	\$ 16,619	\$ 111,599	\$ 26,163	\$ 139,823	\$ 111,621
Excess (deficiency) of revenue over expenses	32,950	(1,923)	(546)	10,672	41,153	28,202
Interfund transfers	<u>(373)</u>	<u>373</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS, end of year	<u>\$ 18,019</u>	<u>\$ 15,069</u>	<u>\$ 111,053</u>	<u>\$ 36,835</u>	<u>\$ 180,976</u>	<u>\$ 139,823</u>

(See accompanying notes)

ART GALLERY OF NORTHUMBERLAND
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from members, donors and other funding sources	\$ 506,002	\$ 477,259
Cash paid to suppliers and employees	(517,818)	(383,123)
Interest received (paid)	<u>(1,687)</u>	<u>(2,807)</u>
	(13,503)	91,329
 CASH FLOWS FROM INVESTING ACTIVITIES		
Long-term investments	<u>545</u>	<u>(18,481)</u>
 INCREASE (DECREASE) IN CASH	(12,958)	72,848
 CASH (BANK INDEBTEDNESS), BEGINNING OF YEAR	<u>63,443</u>	<u>(9,405)</u>
 CASH, END OF YEAR	<u>\$ 50,485</u>	<u>\$ 63,443</u>

(See accompanying notes)

ART GALLERY OF NORTHUMBERLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

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 for which there is no appropriate restricted fund are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions for which there is an appropriate restricted fund are recognized as revenue when received. 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 Unrestricted fund. Restricted investment income on endowments is recognized as revenue of the Endowment fund.

Government assistance

Government assistance received is recorded as revenue in the period for which eligible expenditures are incurred. At year-end \$8,640 was receivable with respect to government assistance.

ART GALLERY OF NORTHUMBERLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

2. 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.

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.

**ART GALLERY OF NORTHUMBERLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed goods and services

Contributed goods 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.

During the year the Gallery recognized \$200,530 in-kind donations of artwork, \$45,000 for in-kind donations of rental expense, and \$2,220 in-kind donations of shares.

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, the timing of revenue recognition and related deferred revenues, and accrued liabilities.

ART GALLERY OF NORTHUMBERLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

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 accounts payable of \$18,353 (2019 - \$14,987). 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

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 their investments.

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.

ART GALLERY OF NORTHUMBERLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

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 \$1.7 million.

6. DEFERRED REVENUE

Deferred revenue consists of the following:

	<u>2020</u>	<u>2019</u>
Kaplansky Exhibition	\$ 17,119	\$ 31,222
Museums Assistance Program (MAP)	29,690	-
60th Anniversary Exhibition	<u>-</u>	<u>20,250</u>
	<u>\$ 46,809</u>	<u>\$ 51,472</u>

**ART GALLERY OF NORTHUMBERLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020**

7. 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, 2020 was \$111,053 (2019 - \$111,599).

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 \$7,097 (2019 - \$4,785).

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.

8. ECONOMIC DEPENDENCE

The Gallery received from the Town of Cobourg, \$215,000 (2019 - \$205,000), which represents 38% (2019 - 49%) of its revenue.

9. MEASUREMENT UNCERTAINTY

Management has not included in-kind donations in their calculation of revenue when applying for the Canadian Emergency Wage Subsidy (CEWS) program. This calculation is subject to measurement uncertainty as there is no specific guidance as to whether the in-kind donations meet the definition of 'ordinary revenue' for the purposes of calculating the CEWS claims. The effect of this measurement uncertainty on the financial statements is such that it gives rise to a potential overstatement of government assistance revenue of approximately \$7,100. In the near term, future conditions could possibly require a material change in the recognized amount.

10. INTERFUND TRANSFERS

During the year, \$373 was transferred from the unrestricted fund to the permanent collection fund for cash transactions that took place between the funds.

**ART GALLERY OF NORTHUMBERLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020**

11. UNCERTAINTY DUE TO THE ECONOMIC CONSEQUENCES OF THE COVID-19 DISEASE OUTBREAK

In mid-March of 2020 the province of Ontario declared a state of emergency in response to the public health concerns originating from the spread of the Covid-19 disease.

A high degree of uncertainty persists surrounding the full economic impact of the situation. The unpredictable nature of the spread of the disease makes it difficult to determine the length of time that the Gallery's operations will be impacted. Consequently, at the time of issuance of these financial statements, the effect that the decline in economic activity will have on the Gallery's operations, assets, liabilities, revenues and expenses are not yet known.

During the year, the Gallery applied for assistance under the Government of Canada's CEWS program. The total amount received and recognized as revenue was \$31,672 and is included in Grants- Federal revenue on the Statement of Revenues and Expenses.