

**THE DURHAM ART GALLERY  
DURHAM, ONTARIO  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2017**

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## **INDEPENDENT AUDITORS' REPORT**

To the Members of  
The Durham Art Gallery

We have audited the accompanying financial statements of The Durham Art Gallery (the Gallery), which comprise the statement of financial position as at December 31, 2017, and the statements of operations and changes in net assets and cash flows for the year 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.

### **Auditors' 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 auditors' 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.

**Basis for Qualified Opinion**

In common with many not for profit organizations, The Durham Art Gallery derives a portion of its revenue from donations from the public and other fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our audit of this revenue was limited to the amounts recorded in the records of the Gallery. Therefore, we were not able to determine whether, as at and for the years ended December 31, 2017 and December 30, 2016, any adjustments might be necessary to revenue, excess (deficiency of) revenue over expenditures reported on the statement of operations and changes in net assets and on the statement of cash flows, and current assets and net assets reported on the statement of financial position.

**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 the Gallery as at December 31, 2017, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not for profit organizations.

**Other Matters**

Without modifying our opinion, we draw attention to *Note 10* to the financial statements which indicates that the Gallery's 2016 financial statements were the subject of a review engagement by another firm of chartered professional accountants. It was an unqualified review engagement report dated June 13, 2017. We were not engaged to report on the prior year information, and as such, it is unaudited.

**HAMILTON, ONTARIO**  
**June 12, 2018**



**HGK PARTNERS LLP**  
**Chartered Professional Accountants**  
**Licensed Public Accountants**

**THE DURHAM ART GALLERY**  
**Statement of Financial Position**  
**As at December 31, 2017**

	2017	2016
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,775,777	\$ 34,608
Accounts receivable	120	3,388
Harmonized sales tax rebate receivable	3,936	2,333
Prepaid expenditures	<u>95</u>	<u>-</u>
	<u>1,779,928</u>	<u>40,329</u>
Capital assets (Note 2)	37,729	40,852
Investments (Note 3)	<u>-</u>	<u>1</u>
	<u>37,729</u>	<u>40,853</u>
	<u>\$ 1,817,657</u>	<u>\$ 81,182</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 12,796	\$ 8,065
Deferred contributions (Note 4)	26,077	25,195
Current portion of long term debt (Note 5)	<u>-</u>	<u>7,000</u>
	<u>38,873</u>	<u>40,260</u>
Long term debt (Note 5)	<u>-</u>	<u>28,000</u>
	<u>38,873</u>	<u>68,260</u>
<b>NET ASSETS</b>		
Internally Restricted Net Assets (Page 5)		
Net assets invested in capital assets	37,729	40,852
Capital Improvement and Maintenance Fund	50,000	-
Operating Reserve Fund	200,000	-
Future Reserve Fund	1,480,000	-
Unrestricted net assets	<u>11,055</u>	<u>(27,930)</u>
	<u>1,778,784</u>	<u>12,922</u>
	<u>\$ 1,817,657</u>	<u>\$ 81,182</u>

On behalf of the Board:



Director

Director

(See Accompanying Notes and Schedule)

**THE DURHAM ART GALLERY**  
**Statement of Operations**  
**Year Ended December 31, 2017**

	2017	2016
<b>Revenue</b>		
Earned Revenue		
Admission and ticket sales	\$ 8,179	\$ 11,529
Educational program fees	3,064	5,647
Membership	5,560	6,125
Rentals, sales and services	5,486	4,670
Other revenue	1,273	902
Investment income <i>(Note 6)</i>	1,855,314	16,446
Private Sector Revenue		
Donations	10,930	17,075
Corporate sponsors	10,937	11,585
Foundations	7,250	14,308
Fundraising events	1,302	4,840
In-kind goods and services	5,087	5,075
Other private sector revenues	490	1,515
Public Sector Revenue <i>(Note 7)</i>	<u>59,051</u>	<u>65,268</u>
	<u>1,973,923</u>	<u>164,985</u>
<b>Expenditures</b>		
Programming <i>(Page 14)</i>	85,815	88,133
Facilities <i>(Page 14)</i>	9,817	10,651
Marketing and Communications <i>(Page 14)</i>	15,016	14,107
Fundraising <i>(Page 14)</i>	3,864	6,348
Administrative <i>(Page 14)</i>	<u>93,549</u>	<u>53,150</u>
	<u>208,061</u>	<u>172,389</u>
<b>EXCESS (DEFICIENCY OF) REVENUE OVER EXPENDITURES</b>	<u>\$ 1,765,862</u>	<u>\$ (7,404)</u>

*(See Accompanying Notes and Schedule)*

**THE DURHAM ART GALLERY**  
**Statement of Changes in Net Assets**  
**Year Ended December 31, 2017**

	Internally Restricted					Unrestricted Net Assets	Total
	Net Assets Invested in Capital Assets	Capital Improvement and Maintenance Fund	Operating Reserve Fund	Future Fund			
	<u>2017</u>						
<b>Balance, beginning of year</b>	\$ 40,852	\$ -	\$ -	\$ -	\$ (27,930)	\$ 12,922	
Excess revenue over expenditures	-	-	-	-	1,765,862	1,765,862	
Amortization	(3,123)	-	-	-	3,123	-	
Interfund transfers and internal restrictions <i>(Note 8)</i>	<u>-</u>	<u>50,000</u>	<u>200,000</u>	<u>1,480,000</u>	<u>(1,730,000)</u>	<u>-</u>	
<b>Balance, end of year</b>	<u>\$ 37,729</u>	<u>\$ 50,000</u>	<u>\$ 200,000</u>	<u>\$ 1,480,000</u>	<u>\$ 11,055</u>	<u>\$ 1,778,784</u>	
	<u>2016</u>						
Balance, beginning of year	\$ 3,658	\$ -	\$ -	\$ -	\$ 16,668	\$ 20,326	
Excess (deficiency of) revenue over expenditures	-	-	-	-	(7,404)	(7,404)	
Amortization	(2,959)	-	-	-	2,959	-	
Acquisition of capital assets	3,672	-	-	-	(3,672)	-	
Reduction in related long term debt	<u>36,481</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(36,481)</u>	<u>-</u>	
Balance, end of year	<u>\$ 40,852</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (27,930)</u>	<u>\$ 12,922</u>	

*(See Accompanying Notes)*

**THE DURHAM ART GALLERY**  
**Statement of Cash Flows**  
**Year Ended December 31, 2017**

	2017	2016
<b>OPERATING ACTIVITIES</b>		
Excess (deficiency of) revenue over expenditures	\$ 1,765,862	\$ (7,404)
Items not affecting cash:		
Amortization	<u>3,123</u>	<u>2,959</u>
	<u>1,768,985</u>	<u>(4,445)</u>
(Increase) decrease in accounts receivable	3,268	(604)
(Increase) decrease in harmonized sales tax receivable	(1,602)	(2,333)
(Increase) decrease in prepaid expenditures	(95)	-
Increase (decrease) in accounts payable and accrued liabilities	4,731	97
Increase (decrease) in deferred contributions	<u>882</u>	<u>(2,183)</u>
Net cash provided by (used for) operating activities	<u>1,776,169</u>	<u>(9,468)</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	<u>-</u>	<u>(3,670)</u>
Net cash provided by (used for) investing activities	<u>-</u>	<u>(3,670)</u>
<b>FINANCING ACTIVITIES</b>		
Advance of long term debt	-	35,000
Repayment of long term debt	<u>(35,000)</u>	<u>(36,481)</u>
Net cash provided by (used for) financing activities	<u>(35,000)</u>	<u>(1,481)</u>
<b>Increase (decrease) in cash</b>	<b>1,741,169</b>	<b>(14,619)</b>
<b>Cash, beginning of year</b>	<u><b>34,608</b></u>	<u><b>49,227</b></u>
<b>Cash, end of year</b>	<u><b>\$ 1,775,777</b></u>	<u><b>\$ 34,608</b></u>

*(See Accompanying Notes and Schedule)*

**THE DURHAM ART GALLERY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2017**

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The Durham Art Gallery (the Gallery) was incorporated, without share capital, by Letters Patent dated December 24, 1980 under provisions of the *Ontario Corporations Act*. As the Gallery is a registered charity, it is exempt from the payment of income taxes under one or more provisions of the *Income Tax Act (Canada)* and is eligible to issue official income tax receipts for charitable donations.

The Durham Art Gallery is engaged in the advancement of the public's appreciation of the arts by presenting a broad range of art practices and by providing educational activities for the benefit of current and future generations.

**1. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements were prepared in accordance with Canadian accounting standards for not for profit organizations and include the following significant accounting policies:

**(a) Financial Instruments**

**(i) Measurement of Financial Instruments**

Financial assets and liabilities are initially recognized at fair value except for certain non-arm's length transactions that are measured at the carrying amount or exchange amount as appropriate, and their subsequent measurement is dependent on their classification as designated by the Gallery. Financial assets subsequently measured at amortized cost using the effective interest method include cash, accounts receivable and investments. Financial liabilities subsequently measured at amortized cost using the effective interest method include accounts payable and accrued liabilities and long term debt.

**(ii) Impairment**

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of a write down is recognized on the statement of operations. A 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 on the statement of operations.

**(iii) Transaction Costs**

The Gallery recognizes its transaction costs on the statement of operations 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.



**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(a) Investments**

The investment in the Silverspring Limited Partnership is accounted for using the cost method wherein distributions received from the Partnership are recorded as revenue at the time of receipt or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. The cost is recorded using a nominal value of \$1 as the investment units were donated to the Gallery in 1996. As the Silverspring Limited Partnership was dissolved in December, 2017, the investment cost was written off.

**(b) Capital Assets**

Capital assets are recorded at cost. Amortization of capital assets is recorded on a declining balance basis over the estimated useful life of the assets using rates as indicated. Capital assets acquired during the year are amortized at one-half of the annual rate.

Buildings	- 4%
Landscaping	- 20%
Equipment	- 20%
Computer equipment	- 30% - 55%
Art (outdoor sculpture)	- 20%

Maintenance and repair costs are recognized as an expenditure when incurred. Betterments or improvements that significantly increase or prolong the service life or capacity of a capital asset are capitalized.

A capital asset is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized on the statement of operations when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the capital asset exceeds its fair value.

An impairment loss is not reversed if the fair value of the capital asset subsequently increases.

**(c) Net Assets**

Net assets represents the accumulated surplus available to the Gallery.

Internally restricted net assets represents that portion of the accumulated surplus which is restricted by the Board of Directors for future purposes. Unrestricted net assets represents that portion of the accumulated surplus which is not internally restricted by the Board of Directors.

**THE DURHAM ART GALLERY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2017**

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**(d) Internally Restricted Net Assets**

The Capital Improvement and Maintenance Fund provides funds for the capital improvement and maintenance of the land and buildings of the Gallery. The Operating Reserve Fund provides funds to cover operating deficits. The Future Fund provides funds for specific circumstances which may be determined by the Board of Directors.

**(e) Revenue Recognition**

The Gallery follows the deferral method of accounting for contributions which include donations, sponsorships and grants. Restricted contributions, if any, are recognized as revenue in the year in which the related expenditures are incurred. Funds from grants and restricted donations received for which expenditures have not been made are recorded as deferred 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.

Ticket sales and other programs and exhibition related revenue are recognized when received or receivable, as is membership revenue and investment income, provided the amount to be received can be reasonably estimated and collection is reasonably assured.

Other revenue is recognized using the accrual method of accounting whereby revenue is recognized as it is earned, rather than when it is received.

**(f) Sponsorships**

Sponsorship contributions are received for operating purposes as well as for specific performances or events that the Gallery organizes. The general sponsorships are recorded as revenue when received and the performance or event sponsorships are recognized and recorded when the event has occurred and the collection is reasonably assured.

**(g) Donations In Kind**

Donations of goods and services received during the year are not accounted for in these financial statements, except for those where the fair value can be reasonably estimated at the date of contribution, are used in the normal course of the Gallery's operations, or would otherwise have been purchased.

**(h) Contributed Services**

The work of the Gallery is dependent on the voluntary services of members of the Gallery. Due to the difficulty of determining the fair value to the Gallery, the value of the volunteer services is not provided for in these financial statements.

**(i) Allocation of Expenditures**

The Gallery records its expenditures by function. As a small arts organization with limited human resources, staff members are engaged in tasks spanning multiple "departments". This is reflected in the prorating of "personnel" expenditures. The prorated amounts are based on percentage estimates specific to each staff member and based on their combined responsibilities.

**THE DURHAM ART GALLERY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2017**

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**(j) 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 and disclosure of contingent assets and liabilities as at the date of the financial statements and revenue and expenditures during the period reported. These estimates are reviewed periodically and as adjustments become necessary, are reported in the period in which they become known.

**2. CAPITAL ASSETS**

	2017			2016
	Cost	Accumulated Amortization	Net	Net
Land	\$ 1,183	\$ -	\$ 1,183	\$ 1,183
Buildings	98,012	65,010	33,002	34,377
Landscaping	10,919	10,199	720	900
Equipment	27,451	26,267	1,184	1,480
Computer equipment	16,606	15,304	1,302	2,489
Art (outdoor sculpture)	3,500	3,162	338	423
	\$ 157,671	\$ 119,942	\$ 37,729	\$ 40,852

**3. INVESTMENT**

	2017	2016
Investment in Silverspring Limited Partnership	\$ -	\$ 1

During 1996, ten units of the Silverspring Limited Partnership, representing a 3.125% interest, were donated to the Gallery. The investment was recorded at a nominal value of \$1. During 2017, the property held by the limited partnership was sold and an initial distribution of \$1,750,000 was made, as were subsequent distributions, and is recorded on the statement of operations (*Note 6*). The limited partnership itself was dissolved on December 18, 2017. Any further distributions which may be received as a result of the wind up of the limited partnership will be treated as revenue in the year of receipt.

**THE DURHAM ART GALLERY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2017**

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**4. DEFERRED CONTRIBUTIONS**

Deferred contributions represent unspent resources, externally restricted for projects and operating funding, received in the current year that are related to the subsequent year's activities. Changes in the deferred contributions balance are as follows:

	<u>2017</u>	<u>2016</u>
Deferred contributions, beginning of year	\$ 25,195	\$ 27,378
Add cash received from grants in the year	26,077	25,195
Less current year grant funding recognized	<u>(25,195)</u>	<u>(27,378)</u>
Deferred contributions, end of year	<u>\$ 26,077</u>	<u>\$ 25,195</u>

**Deferred contributions are comprised of the following:**

Ontario Arts Council	<u>\$ 26,077</u>	<u>\$ 25,195</u>
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**5. LONG TERM DEBT**

	<u>2017</u>	<u>2016</u>
Loans payable, annual payments of \$7,000 principal plus interest at 4.00%, maturing December 31, 2021	\$ -	\$ 35,000
Less current portion	<u>-</u>	<u>7,000</u>
	<u>\$ -</u>	<u>\$ 28,000</u>

The loans were paid out during 2017.

**6. INVESTMENT INCOME**

	<u>2017</u>	<u>2016</u>
Silverspring Limited Partnership distributions	\$ 1,825,000	\$ 16,094
Loss on windup of the Silverspring Limited Partnership	(1)	-
Interest income	<u>30,315</u>	<u>352</u>
	<u>\$ 1,855,314</u>	<u>\$ 16,446</u>

**THE DURHAM ART GALLERY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2017**

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**7. PUBLIC SECTOR REVENUE**

	<u>2017</u>	<u>2016</u>
Canadian Heritage Foundation	\$ 12,500	\$ 12,500
Federal summer employment grant	5,329	3,010
Ontario Arts Council (operating grant)	25,195	22,800
Provincial summer employment grant	2,795	-
Municipality of West Grey (operating grant)	5,000	5,000
Other public sector revenue	<u>8,232</u>	<u>21,958</u>
	<u>\$ 59,051</u>	<u>\$ 65,268</u>

**8. INTERFUND TRANSFERS AND INTERNAL RESTRICTIONS**

During 2017, the Board of Directors allocated a total of \$1,730,000 (2016 - \$Nil) of unrestricted net assets to three internally restricted net assets funds. These are the Capital Improvement and Maintenance Fund (\$50,000 (2016 - \$Nil)), the Operating Reserve Fund (\$200,000 (2016 - \$Nil)) and the Future Fund (\$1,480,000 (2016 - \$Nil)). In addition, the Board of Directors has internally restricted net assets invested in capital assets of \$37,729 (2016 - \$40,852). These internally restricted amounts are not available for any other purpose without approval of the Board of Directors.

**9. FINANCIAL INSTRUMENTS**

The Gallery is exposed to risks through its financial instruments. The following analysis provides a measure of the Gallery's risk exposure and concentrations as at December 31, 2017.

**(a) Credit Risk**

Credit risk arises from the potential that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The organization determines, on a continuous basis, amounts receivable on the basis of amounts it is virtually certain to receive based on their estimated realizable value.

The organization's cash balance is in excess of federally insured limits, however it is maintained with a financial institution of reputable credit and therefore bears minimal credit risk.

**THE DURHAM ART GALLERY**  
**Notes to Financial Statements**  
**Year Ended December 31, 2017**

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**9. FINANCIAL INSTRUMENTS (Continued)**

**(b) Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Gallery is not exposed to market risk.

**(c) Liquidity Risk**

Liquidity risk is the risk that the Gallery will not be able to meet a demand for cash or fund its obligations as they come due. The Gallery has sufficient funds to settle current liabilities and has no debt obligations. The Gallery manages liquidity risk by monitoring cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash.

It is management's opinion that the Gallery is not exposed to any significant credit or market risk. There has been no change to the risk exposures noted above from the prior year.

**10. COMPARATIVE FIGURES**

The comparative figures were subject to a review engagement by another firm of chartered professional accountants. Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

**THE DURHAM ART GALLERY**  
**Schedule of Expenditures**  
**Year Ended December 31, 2017**

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	2017	2016
<b>Programming</b>		
Artistic and programming personnel	\$ 60,506	\$ 56,108
Production and technical personnel	6,156	6,683
Performance, exhibitions and production	11,496	14,427
Professional development programming	2,818	5,810
Catalogues, programs and publications	1,422	1,381
Education, audience development, outreach	332	607
Other programming and production expenses	<u>3,085</u>	<u>3,117</u>
	<u>\$ 85,815</u>	<u>\$ 88,133</u>
<b>Facilities</b>		
Amortization	\$ 3,123	\$ 2,959
Facility management personnel	823	731
General facility costs	5,871	5,854
Mortgage interest	-	1,107
	<u>\$ 9,817</u>	<u>\$ 10,651</u>
<b>Marketing and Communications</b>		
Marketing and communications personnel	\$ 7,871	\$ 7,597
Marketing and communications expenses	<u>7,145</u>	<u>6,510</u>
	<u>\$ 15,016</u>	<u>\$ 14,107</u>
<b>Fundraising</b>		
Fundraising personnel	\$ 3,838	\$ 5,533
Fundraising event expenses	-	95
Other fundraising costs	<u>26</u>	<u>720</u>
	<u>\$ 3,864</u>	<u>\$ 6,348</u>
<b>Administrative</b>		
Administrative personnel	\$ 48,739	\$ 40,338
Other administrative expenses	8,426	7,726
Professional fees	32,720	3,779
Cost of sales - art & publications	<u>3,664</u>	<u>1,307</u>
	<u>\$ 93,549</u>	<u>\$ 53,150</u>