

**THE DURHAM ART GALLERY
DURHAM, ONTARIO
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023**

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INDEPENDENT AUDITORS' REPORT

To the Members of
The Durham Art Gallery

Qualified Opinion

We have audited the financial statements of The Durham Art Gallery (the Gallery), which comprise the statement of financial position as at December 31, 2023, and the statements of operations, 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 Gallery as at December 31, 2023, 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, 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 not able to determine whether any adjustments might be necessary to donations revenue, (deficiency of) excess revenue over expenditures, and cash flows from operations for the years ended December 31, 2023 and 2022, current assets as at December 31, 2023 and 2022, and net assets as at January 1 and December 31 for both the 2023 and 2022 years. Our audit opinion on the financial statements for the year ended December 31, 2022 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. Our responsibilities under those standards are further described in the *Auditors' 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 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 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.

Auditors' 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 auditors' 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 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, 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 auditors' 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 auditors' 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.

HAMILTON, ONTARIO
June 5, 2024

Handwritten signature in black ink that reads "HGK Partners LLP". The letters are cursive and somewhat stylized.

HGK PARTNERS LLP
Chartered Professional Accountants
Licensed Public Accountants

THE DURHAM ART GALLERY
Statement of Financial Position
As at December 31, 2023

	2023	2022
ASSETS		
Current		
Cash and cash equivalents	\$ 264,657	\$ 317,759
Accounts receivable	26,507	-
Harmonized sales tax rebate receivable	11,677	10,639
Prepaid expenditures	<u>665</u>	<u>-</u>
	<u>303,506</u>	<u>328,398</u>
Investments (Note 2)	1,267,028	1,222,003
Capital assets (Note 3)	<u>32,820</u>	<u>35,347</u>
	<u>1,299,848</u>	<u>1,257,350</u>
	<u>\$ 1,603,354</u>	<u>\$ 1,585,748</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 20,173	\$ 14,266
Government remittances payable	7,806	5,662
Deferred contributions (Note 4)	<u>1,610</u>	<u>4,110</u>
	<u>29,589</u>	<u>24,038</u>
NET ASSETS		
Internally Restricted Net Assets (Page 6)		
Net assets invested in capital assets	32,820	35,347
Capital Improvement and Maintenance Fund	50,000	50,000
Operating Reserve Fund	75,000	200,000
Fallis Family Scholarship Fund	55,500	55,500
Future Reserve Fund	1,288,386	1,288,386
Unrestricted (deficit) net assets	<u>72,059</u>	<u>(67,523)</u>
	<u>1,573,765</u>	<u>1,561,710</u>
	<u>\$ 1,603,354</u>	<u>\$ 1,585,748</u>

On behalf of the Board:

Director

Director

(See Accompanying Notes and Schedule)

THE DURHAM ART GALLERY
Statement of Operations
Year Ended December 31, 2023

	2023	2022
Revenue		
Earned Revenue		
Admission and ticket sales	\$ 1,281	\$ 1,456
Educational program fees	2,406	-
Membership	2,286	1,115
Rentals, sales and services	2,705	2,200
Investment revenue <i>(Note 5)</i>	62,116	70,400
Private Sector Revenue		
Donations	6,947	3,324
Foundations	750	-
Other private sector revenues	158	-
Public Sector Revenue <i>(Note 6)</i>	<u>41,257</u>	<u>65,257</u>
	<u>119,906</u>	<u>143,752</u>
Expenditures		
Programming <i>(Page 15)</i>	71,292	41,509
Facilities <i>(Page 15)</i>	19,826	23,578
Marketing and Communications <i>(Page 15)</i>	13,108	14,510
Fundraising <i>(Page 15)</i>	8,030	2,520
Administrative <i>(Page 15)</i>	<u>55,419</u>	<u>48,953</u>
	<u>167,675</u>	<u>131,070</u>
(Deficiency of) surplus revenue over expenditures before undernoted items	(47,769)	12,682
Unrealized gain (loss) on fair value of investments	<u>59,824</u>	<u>(214,857)</u>
EXCESS (DEFICIENCY OF) REVENUE OVER EXPENDITURES	<u>\$ 12,055</u>	<u>\$ (202,175)</u>

(See Accompanying Notes and Schedule)

THE DURHAM ART GALLERY
Statement of Changes in Net Assets
Year Ended December 31, 2023

	Internally Restricted						
	Net Assets Invested in Capital Assets	Capital Improvement and Maintenance Fund	Operating Reserve Fund	Fallis Family Scholarship Fund	Future Fund	Unrestricted Net Assets (Deficit)	2023 Total
Balance, beginning of year	\$ 35,347	\$ 50,000	\$ 200,000	\$ 55,500	\$ 1,288,386	\$ (67,523)	\$ 1,561,710
Excess (deficiency of) revenue over							
expenditures	-	-	-	-	-	12,055	12,055
Amortization	(2,527)	-	-	-	-	2,527	-
Interfund transfers and internal restrictions							
<i>(Note 7)</i>	-	-	(125,000)	-	-	125,000	-
Balance, end of year	<u>\$ 32,820</u>	<u>\$ 50,000</u>	<u>\$ 75,000</u>	<u>\$ 55,500</u>	<u>\$ 1,288,386</u>	<u>\$ 72,059</u>	<u>\$ 1,573,765</u>
							<u>2022</u>
Balance, beginning of year	\$ 39,339	\$ 50,000	\$ 200,000	\$ 55,500	\$ 1,288,386	\$ 130,660	\$ 1,763,885
Deficiency of revenue over expenditures	-	-	-	-	-	(202,175)	(202,175)
Amortization	(3,992)	-	-	-	-	3,992	-
Balance, end of year	<u>\$ 35,347</u>	<u>\$ 50,000</u>	<u>\$ 200,000</u>	<u>\$ 55,500</u>	<u>\$ 1,288,386</u>	<u>\$ (67,523)</u>	<u>\$ 1,561,710</u>

(See Accompanying Notes)

THE DURHAM ART GALLERY
Statement of Cash Flows
Year Ended December 31, 2023

	2023	2022
OPERATING ACTIVITIES		
Excess (deficiency of revenue) over expenditures	\$ 12,055	\$ (202,175)
Items not affecting cash:		
Amortization	2,527	3,992
Non-cash investment cost adjustment	14,799	-
Unrealized (gain) loss on fair value of investments	<u>(59,824)</u>	<u>214,857</u>
	(30,443)	16,674
(Increase) decrease in accounts receivable	(26,507)	-
(Increase) decrease in harmonized sales tax rebate receivable	(1,038)	(5,961)
(Increase) decrease in prepaid expenditures	(665)	-
Increase (decrease) in accounts payable and accrued liabilities	5,907	(39,935)
Increase (decrease) in government remittances payable/receivable	2,144	5,662
Increase (decrease) in deferred contributions	<u>(2,500)</u>	<u>600</u>
Net cash (used for) provided by operating activities	<u>(53,102)</u>	<u>(22,960)</u>
Acquisition of investments	<u>-</u>	<u>(14,763)</u>
Net cash (used for) provided by investing activities	<u>-</u>	<u>(14,763)</u>
Increase (decrease) in cash and cash equivalents	(53,102)	(37,723)
Cash and cash equivalents, beginning of year	<u>317,759</u>	<u>355,482</u>
Cash and cash equivalents, end of year	<u>\$ 264,657</u>	<u>\$ 317,759</u>
Cash and cash equivalents consist of:		
Cash	\$ 31,662	\$ 21,880
Broker cash	166,160	109,853
Money market mutual funds	<u>66,835</u>	<u>186,026</u>
	<u>\$ 264,657</u>	<u>\$ 317,759</u>

(See Accompanying Notes and Schedule)

THE DURHAM ART GALLERY
Notes to Financial Statements
Year Ended December 31, 2023

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) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank balances and investments in money market instruments.

(b) Financial Instruments

(i) Measurement of Financial Instruments

The Durham Art Gallery initially measures its financial assets and liabilities originated or exchanged in arm's length transactions at fair value. Transaction costs related to financial assets that will be subsequently measured at fair value are recognized in the statement of operations in the year in which they are incurred. 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.

Financial assets and financial liabilities originated or exchanged in related party transactions, except for those that involve parties whose sole relationship with the organization is in the capacity of management, are initially measured at cost. The cost of a financial instrument in a related party transaction depends on whether the instrument has repayment terms.

Financial assets measured at amortized cost include cash and cash equivalents. Financial instruments measured at fair value are investments. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

(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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Investments

Investments consisting of Canadian equities, foreign securities and mutual funds are capable of prompt liquidation. Investments are initially recognized and subsequently measured at fair value using quoted market prices. Investment revenue includes interest and dividend revenue. Transaction costs associated with the acquisition and disposal of investments are expensed as incurred.

(d) 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%
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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) 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.

(f) 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. The Fallis Family Scholarship Fund provides funds to distribute as scholarships to artists.

(g) 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.

Revenue from rental sales and service is recorded when the goods are delivered or services rendered. Other revenue is recognized using the accrual method of accounting whereby revenue is recognized as it is earned, rather than when it is received.

Investment revenue includes interest income, dividends, distributions, realized gains and losses and unrealized increases and decreases in the fair value of investments.

(h) 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.

THE DURHAM ART GALLERY
Notes to Financial Statements
Year Ended December 31, 2023

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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.

(j) 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.

(k) 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.

(l) 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. Principal estimates include the estimated life of the capital assets. These estimates are reviewed periodically and as adjustments become necessary, are reported in the period in which they become known.

2. INVESTMENTS

	<u>2023</u>	<u>2022</u>
Canadian equities	<u>\$ 1,267,028</u>	<u>\$ 1,222,003</u>

Subsequent to the year end, the services of an investment manager were arranged in accordance with the Gallery's revised investment management policies.

THE DURHAM ART GALLERY
Notes to Financial Statements
Year Ended December 31, 2023

3. CAPITAL ASSETS

	<u>2023</u>			<u>2022</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Land	\$ 1,183	\$ -	\$ 1,183	\$ 1,183
Buildings	98,012	72,180	25,832	26,909
Landscaping	10,919	10,731	188	236
Equipment	40,417	35,816	4,601	5,751
Computer equipment	23,775	22,848	927	1,157
Art (outdoor sculpture)	3,500	3,411	89	111
	<u>\$ 177,806</u>	<u>\$ 144,986</u>	<u>\$ 32,820</u>	<u>\$ 35,347</u>

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>2023</u>	<u>2022</u>
Deferred contributions, beginning of year	\$ 4,110	\$ 3,510
Add deferred contributions received in the year	1,500	600
Less recognized in the current year	<u>(4,000)</u>	<u>-</u>
Deferred contributions, end of year	<u>\$ 1,610</u>	<u>\$ 4,110</u>
Deferred contributions are comprised of the following:		
Fallis Family Scholarship Fund	<u>\$ 1,610</u>	<u>\$ 4,110</u>

5. INVESTMENT REVENUE

	<u>2023</u>	<u>2022</u>
Dividend income	\$ 56,307	\$ 70,400
Interest income	5,809	-
	<u>\$ 62,116</u>	<u>\$ 70,400</u>

THE DURHAM ART GALLERY
Notes to Financial Statements
Year Ended December 31, 2023

6. PUBLIC SECTOR REVENUE

	<u>2023</u>	<u>2022</u>
Canadian Heritage Foundation	\$ 13,750	\$ 28,750
Ontario Arts Council (OAC) (operating grant)	26,507	26,507
Provincial summer employment grant	-	10,000
Municipality of West Grey (operating grant)	<u>1,000</u>	<u>-</u>
	<u>\$ 41,257</u>	<u>\$ 65,257</u>

7. INTERFUND TRANSFERS AND INTERNAL RESTRICTIONS

The Board of Directors has allocated a total of \$1,468,886 (2022 - \$1,593,886) of unrestricted net assets to four internally restricted net assets funds. These are the Capital Improvement and Maintenance Fund \$50,000 (2022 - \$50,000), the Operating Reserve Fund \$75,000 (2022 - \$200,000), the Fallis Family Scholarship Fund \$55,500 (2022 - \$55,500), and the Future Fund \$1,288,386 (2022 - \$1,288,386). In addition, the Board of Directors has internally restricted net assets invested in capital assets of \$32,820 (2022 - \$35,347). These internally restricted amounts are not available for any other purpose without approval of the Board of Directors.

During the year, the Board of Directors authorized a transfer of \$125,000 (2022 - \$Nil) from the Operating Reserve Fund to unrestricted net assets.

8. FINANCIAL INSTRUMENTS

The Gallery is exposed to risks through its financial instruments. The following analysis provides a measure of the Gallery's significant risk exposure and concentrations as at December 31, 2023.

(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.

(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 currency risk or interest rate risk.

8. FINANCIAL INSTRUMENTS (Continued)

(c) Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether or not those changes are caused by factors specific to the individual instruments traded in the market. The Gallery is exposed to other price risk for the fiscal year ended December 31, 2023 through its investments in quoted shares as described in *Note 2*. The risk is mitigated through the use of an investment committee which is guided by the Gallery's investment policies designed to achieve the optimal return within reasonable risk tolerances.

(d) 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.

There have been no significant changes to the risk exposures noted above from the prior year.

9. COMPARATIVE FIGURES

The comparative figures have been restated to conform with the current year presentation.

THE DURHAM ART GALLERY
Schedule of Expenditures
Year Ended December 31, 2023

	2023	2022
Programming		
Artistic and programming personnel	\$ 41,367	\$ 27,932
Production and technical personnel	14,521	8,568
Performance, exhibitions and production	7,560	2,825
Catalogues, programs and publications	-	596
Education, audience development, outreach	5,142	88
Other programming and production expenses	2,702	1,500
	<u>\$ 71,292</u>	<u>\$ 41,509</u>
Facilities		
Amortization	\$ 2,527	\$ 3,992
Facility management personnel	8,365	4,032
General facility costs	8,934	15,554
	<u>\$ 19,826</u>	<u>\$ 23,578</u>
Marketing and Communications		
Marketing and communications personnel	\$ 12,431	\$ 10,080
Marketing and communications expenses	677	4,430
	<u>\$ 13,108</u>	<u>\$ 14,510</u>
Fundraising		
Fundraising personnel	<u>\$ 8,030</u>	<u>\$ 2,520</u>
Administrative		
Administrative personnel	\$ 16,731	\$ 6,048
Other administrative expenses	21,302	36,835
Professional fees	17,386	36,069
Settlement provision (recovery of provision)	-	(29,999)
	<u>\$ 55,419</u>	<u>\$ 48,953</u>