

THE ROBERT MCLAUGHLIN GALLERY
Financial Statements
Year Ended December 31, 2019

THE ROBERT MCLAUGHLIN GALLERY
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Year Ended December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Members of The Robert McLaughlin Gallery

Qualified Opinion

We have audited the financial statements of The Robert McLaughlin Gallery (the Gallery), which comprise the statement of financial position as at December 31, 2019, and the statements of operations, changes in fund balances and cash flow 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, 2019, and the results of its operations and its cash flow 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 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 not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the year ended December 31, 2019, current assets and net assets as at December 31, 2019.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the 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 those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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

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

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

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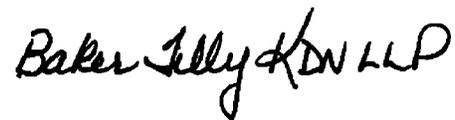
Independent Auditor's Report to the Members of The Robert McLaughlin Gallery (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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.



Baker Tilly KDN LLP
Chartered Professional Accountants
Licensed Public Accountants

Courtice, Ontario
June 18, 2020

THE ROBERT MCLAUGHLIN GALLERY
Statement of Financial Position
December 31, 2019

	2019	2018
Assets		
Current		
Cash	\$ 113,030	\$ 292,309
Accounts receivable	46,703	43,823
Portfolio investments <i>(Note 3)</i>	83,931	-
Harmonized sales tax rebate	80,849	71,313
Inventory <i>(Note 4)</i>	29,704	31,549
Prepaid expenses	9,984	11,132
	364,201	450,126
Capital assets <i>(Note 5)</i>	25,262	-
Works of art, at nominal value <i>(Note 6)</i>	1	1
Portfolio investments, restricted <i>(Note 3)</i>	3,273,893	3,234,811
	\$ 3,663,357	\$ 3,684,938
Liabilities		
Current		
Accounts payable	\$ 74,591	\$ 75,955
Government remittances payable	14,864	15,602
Deferred contributions <i>(Note 7)</i>	380,465	424,293
	469,920	515,850
Net assets		
Unrestricted	(131,668)	(130,755)
Permanently endowed	3,299,843	3,299,843
Invested in capital assets	25,262	-
	3,193,437	3,169,088
	\$ 3,663,357	\$ 3,684,938

ON BEHALF OF THE BOARD

_____ *Director*

_____ *Director*

The accompanying notes are an integral part of these financial statements

THE ROBERT MCLAUGHLIN GALLERY
Statement of Operations
Year Ended December 31, 2019

	2019	2018
Revenues		
Grant revenue <i>(Note 10)</i>	\$ 1,142,801	\$ 1,095,429
Education	96,060	91,584
Gifted works of art	85,500	273,060
Exhibition and catalogue income	85,721	18,062
Memberships and miscellaneous donations	44,686	41,165
Fundraising	41,434	46,951
Restaurant and rental facilities	40,732	35,687
Gift shop revenue	23,725	25,108
Landmark fees	6,256	2,828
Corporate sponsorships	4,300	38,120
Interest and other income	3,954	7,020
	<u>1,575,169</u>	<u>1,675,014</u>
Expenses		
Salaries and benefits	881,851	788,464
Facility expenses	295,552	297,677
Exhibition and curatorial	170,265	160,757
Administration	92,474	105,586
Gifted works of art <i>(Note 6)</i>	85,500	273,060
Education	55,796	83,922
Marketing and communications	35,510	37,869
Fundraising	27,515	61,155
Purchased works of art <i>(Note 6)</i>	25,985	-
Other earned revenue expenses	21,759	18,731
Community engagement	20,807	18,985
Insurance	19,977	42,454
Travel and professional development	8,687	15,747
Amortization	4,210	-
Rental	1	1
	<u>1,745,889</u>	<u>1,904,408</u>
Deficiency of revenues over expenses from operations	(170,720)	(229,394)
Investment income and expendable capital <i>(Note 11)</i>	195,069	230,094
Excess of revenues over expenses	\$ 24,349	\$ 700

The accompanying notes are an integral part of these financial statements

THE ROBERT MCLAUGHLIN GALLERY
Statement of Changes in Fund Balances
Year Ended December 31, 2019

	Unrestricted	Permanently endowed	Invested in capital assets	2019	2018
Fund balances - beginning of year					
As previously reported	\$ (130,755)	\$ 3,299,843	\$ -	\$ 3,169,088	\$ 3,343,783
Correction of an error	-	-	-	-	(175,395)
As restated	(130,755)	3,299,843	-	3,169,088	3,168,388
Excess of revenues over expenses	28,559	-	(4,210)	24,349	700
Capital asset additions	(29,472)	-	29,472	-	-
Fund balances - end of year	\$ (131,668)	\$ 3,299,843	\$ 25,262	\$ 3,193,437	\$ 3,169,088

The accompanying notes are an integral part of these financial statements

THE ROBERT MCLAUGHLIN GALLERY
Statement of Cash Flow
Year Ended December 31, 2019

	2019	2018
Operating activities		
Excess of revenues over expenses	\$ 24,349	\$ 700
Items not affecting cash:		
Amortization of capital assets	4,210	-
Realized (gain) loss on disposal of investments	(58,373)	(5,808)
Change in unrealized (gain) loss on investments	(184,973)	183,426
	<u>(214,787)</u>	<u>178,318</u>
Changes in non-cash working capital:		
Accounts receivable	(2,880)	(17,684)
Harmonized sales tax rebate	(9,536)	(27,563)
Inventory	1,845	667
Prepaid expenses	1,148	(10,949)
Accounts payable	(1,364)	15,391
Government remittances payable	(738)	678
Deferred contributions	(43,828)	(118,852)
	<u>(55,353)</u>	<u>(158,312)</u>
	<u>(270,140)</u>	<u>20,006</u>
Investing activities		
Purchase of capital assets	(29,472)	-
Purchase of investments	(1,294,066)	(1,510,742)
Proceeds from investments	1,414,399	1,638,871
	<u>90,861</u>	<u>128,129</u>
Increase (decrease) in cash	(179,279)	148,135
Cash - beginning of year	292,309	144,174
Cash - end of year	\$ 113,030	\$ 292,309

The accompanying notes are an integral part of these financial statements

THE ROBERT MCLAUGHLIN GALLERY
Notes to Financial Statements
Year Ended December 31, 2019

1. Description of the Organization

The Robert McLaughlin Gallery's (the "Gallery") mandate is to meet the growing and diverse needs of its community through the advancement and appreciation of the visual arts. This will be achieved through the collection, preservation, and conservation of fine art, particularly related to Canadian arts and culture, as well as the exhibition and interpretation of the collection through educational programming.

The Gallery's collection and resources are available for public research, and the Gallery strives to serve the educational, intellectual and aesthetic needs of the community both locally and nationally, while cooperating with galleries with similar goals.

In accordance with the provisions of the Income Tax Act, the Gallery is exempt from income taxes and is classified as a registered charitable organization.

The Gallery was incorporated by Letters Patent on July 17, 1967 as a corporation without share capital in the Province of Ontario.

2. Summary of significant accounting policies

Basis of presentation

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPO).

Revenue recognition

The Robert McLaughlin Gallery follows the deferral method of accounting for contributions.

Revenue containing restrictions as to its use (restricted contributions) is deferred until the conditions are met.

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. Revenues from education, restaurant and rental facilities are recognized as revenue when the events are held.

Investment income generated from restricted contributions is deferred when earned, and recognized as revenue in the in the year the conditions are met. Unrestricted investment income is recognized as revenue when earned.

Endowments are recognized as a direct increase to net assets, as the principal is required to remain intact. Investment income generated from endowments is deferred until it is used in accordance with the purposes established by the donor, at which point it is recognized as revenue.

Cash and cash equivalents

Cash includes funds held in the Gallery's general bank accounts and also includes cash on hand.

Inventory

Inventory of the gift shop is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis. Inventory also includes works of art by I. McLaughlin that were contributed as an endowment and are held for sale and are recorded at cost less an allowance to reduce the cost to their estimated net realizable value.

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THE ROBERT MCLAUGHLIN GALLERY
Notes to Financial Statements
Year Ended December 31, 2019

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

Capital assets

Capital assets recorded at cost less any specifically identified capital grants or donations received. The capital assets acquired for the years prior to 2006 are fully amortized and are not included in the cost or accumulated amortization. Capital assets are amortized over their estimated useful lives at the following rates and methods:

Furniture and equipment	5 years	straight-line method
Security equipment	7 years	straight-line method

Capital assets are reviewed for impairment whenever events or conditions indicate that the assets no longer contribute to the Organization's ability to provide services or that the service potential of the assets are less than their net carrying amount. When conditions indicate that a capital asset is impaired, the net carrying amount of the asset is written down to the asset's fair value or replacement cost.

Capital assets acquired during the year but not placed into use are not amortized until they are placed into use.

Works of art

The value of works of art has been excluded from the balance sheet except for a nominal value of \$1. Gifted works of art are recorded as revenue at values based on appraisals by independent appraisers. Acquisition of art for collection, both gifted and purchased is expensed.

When works of art are sold, proceeds from the sale must be restricted to purchase works of art and therefore recorded as deferred contributions when received. Revenue is recognized when the expense related to the purchase of the new works of art is recorded.

Contributed services

The operations of the Gallery depends on the contribution of a substantial amount of time by volunteers. The fair value of services cannot be reasonably determined and are therefore not reflected in these financial statements.

Donated materials and services

The Gallery does not record donated materials and services unless a charitable donation receipt has been issued for these materials and services thereby establishing their fair market value.

Financial instruments

The Gallery initially measures its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions. 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 earnings.

Financial assets measured at amortized cost include cash, debentures, government bonds, notes of various Canadian public companies, Ontario Arts Council Foundation investment and accounts receivable. Financial liabilities measured at amortized cost include accounts payable.

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THE ROBERT MCLAUGHLIN GALLERY
Notes to Financial Statements
Year Ended December 31, 2019

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

The Gallery's financial assets measured at fair value include equity based investments.

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 earnings. 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 earnings.

The Gallery recognizes its transaction costs in net earnings 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.

Measurement uncertainty

The preparation of the financial statements in conformity with 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Estimates are used when accounting for items and matters such as allowance for uncollectible accounts receivable, inventory obsolescence, amortization, asset valuations, donated works of art, provisions, deferred contributions and contingencies. Actual results could differ from these estimates.

3. Portfolio investments

	2019	2018
Cash in investment account	\$ 10,512	\$ 5,322
Debentures, government bonds and notes of various Canadian public corporations (Market value \$1,306,347)	1,298,621	1,394,892
Equity based investments (Cost \$1,985,031)	2,019,671	1,805,577
Ontario Arts Council Foundation (Market value \$111,355)	29,020	29,020
	3,357,824	3,234,811
Investments restricted for endowments	(3,273,893)	(3,234,811)
Unrestricted investments	\$ 83,931	\$ -

Debentures, government bonds, and notes are comprised of various bonds and guaranteed investment certificates with interest rates ranging from 0.75% - 8% that mature from March 2020 to February 2024.

THE ROBERT MCLAUGHLIN GALLERY
Notes to Financial Statements
Year Ended December 31, 2019

4. Inventory

	2019	2018
<u>General</u>		
Gift shop inventory	\$ 3,754	\$ 5,599
 <u>Endowed</u>		
Works of art - I. McLaughlin	25,950	25,950
	\$ 29,704	\$ 31,549

5. Capital assets

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Furniture and equipment	\$ 66,854	\$ 66,854	\$ -	\$ -
Security equipment	29,472	4,210	25,262	-
	\$ 96,326	\$ 71,064	\$ 25,262	\$ -

During 2019, the Gallery applied and obtained government assistance from the Ontario Trillium Foundation for capital assets. The Gallery purchased various capital assets totaling \$85,572. The total grant of \$56,100 has been applied against capital assets.

6. Works of art

As at December 31, 2019, the collection consisted of approximately 4,716 works of art. During the year, the Gallery purchased 1 work of art at a cost of \$25,985 (2018 - 0). Contributions to the collection included 6 (2018 - 31) works of art with an estimated fair market value of \$85,500 (2018 - \$273,060).

7. Deferred contributions

Deferred contributions represent revenues and grants for operating funding received in the current period that are related to the subsequent period. Deferred endowment income and expendable capital include investment income earned on permanently endowed investments and expendable capital contributed that are to be used in accordance with the various purposes established by the donor. Changes in the deferred contributions balance are as follows:

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THE ROBERT MCLAUGHLIN GALLERY
Notes to Financial Statements
Year Ended December 31, 2019

7. Deferred contributions *(continued)*

	2019	2018
<u>Operating grants</u>		
Balance, beginning of year	\$ 309,646	\$ 108,651
Amounts received during the year	979,109	1,228,853
Amounts recognized as revenue in the year	(1,145,185)	(1,027,858)
	143,570	309,646
 <u>Endowment income and expendable capital</u>		
Balance, beginning of year	114,647	434,494
Investment income (loss)	317,317	(89,753)
Amounts recognized as revenue in the year	(195,069)	(230,094)
	236,895	114,647
 Balance at December 31	 \$ 380,465	 \$ 424,293

8. Deferred endowment income and expendable capital

	2019	2018
Restricted for operating purposes	\$ 108,058	\$ 194,341
Restricted for works of art acquisitions and conservation	93,339	70,177
Restricted for scholarships	854	338
Restricted for research of permanent collection and sculpture conservation	-	121
	202,251	264,977
Unrealized gain (loss) on marketable securities	34,644	(150,330)
	\$ 236,895	\$ 114,647

9. Operating line of credit

The Gallery has available a demand operating line of credit with an authorized limit of \$250,000 bearing interest at the bank's prime rate plus 1.00%. As at December 31, 2019, the Gallery had utilized \$NIL of the operating line.

The demand operating line of credit is secured by a general security agreement consisting of a first ranking security interest in all personal property of the Gallery and a first ranking security interest in securities held in an investment account with the bank.

THE ROBERT MCLAUGHLIN GALLERY
Notes to Financial Statements
Year Ended December 31, 2019

10. Grant revenue

	2019	2018
City of Oshawa Operating Grant	\$ 813,332	\$ 813,332
Canada Council Operating Grant	100,000	50,000
Ontario Arts Council Operating Grant	87,078	78,660
RBC Foundation Grant	49,000	-
Young Canada Works Grant	31,611	29,501
Canada Council - One-time Grant	25,000	63,977
Other Grants	22,780	25,700
Ontario Arts Council - Other Grants	14,000	16,000
Summer Experience Program Grant	-	3,658
Museums Assistance Program Grants - Other	-	14,601
	\$ 1,142,801	\$ 1,095,429

11. Investment income and expendable capital

	2019	2018
Interest and other investment income	\$ 104,298	\$ 119,313
Realized gain on disposal	58,373	5,808
Investment management fees	(30,327)	(31,448)
Change in unrealized gain (loss)	184,973	(183,426)
	317,317	(89,753)
Use of endowment income and expendable capital	(122,248)	319,847
	\$ 195,069	\$ 230,094

12. Financial instruments

The Gallery is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Gallery's risk exposure and concentration as of December 31, 2019.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Gallery is exposed to credit risk related to its accounts receivable. Credit risk associated with accounts receivable is minimized by following a program of monitoring collections on accounts and by a careful evaluation of customers and credit limits allowed.

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THE ROBERT MCLAUGHLIN GALLERY
Notes to Financial Statements
Year Ended December 31, 2019

12. Financial instruments (*continued*)

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Gallery meets its liquidity requirements by closely monitoring its cash flows using operating budgets and by planning for the utilization of investment income earned on endowment funds as permitted.

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 whether those changes are caused by factors specific to the individual instrument or its issuer or facts affecting all instruments traded in the market. The Gallery has implemented an investment policy whereby future risk and volatility of investment returns are mitigated through the nature of the investments acquired.

Currency risk

Currency risk is the risk to the company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Gallery is exposed to foreign currency exchange risk on cash and investments held in US dollars. The company does not use derivative instruments to reduce its exposure to foreign currency risk. The average US exchange rate for 2019 was \$1.33 (2018 \$1.30). The following are denominated in US dollars:

	2019	2018
Cash	\$ 811	\$ 841
Equity based investments	79,820	55,000
Common shares	788,686	655,798
	\$ 869,317	\$ 711,639

Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments will fluctuate due to changes in market rates. The primary objective of the Gallery is the security of principal amounts invested and to provide a high degree of liquidity, while achieving a satisfactory investment return. The Gallery has established an investment policy to provide guidance in its investment approach in order to meet its objective.

Bank indebtedness bears interest at a floating rate based on the bank prime rate, and as such, is subject to interest rate cash flow risk resulting from market fluctuations in interest rates.

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 those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Gallery is exposed to other price risk through its investment in quoted shares.

Unless otherwise noted, it is management's opinion that the Gallery is not exposed to significant other price risks arising from these financial instruments.

13. Lease commitments

The land and the building occupied by The Robert McLaughlin Gallery are owned by the Corporation of the City of Oshawa ("the City"). This property is leased by the Gallery for \$1 per annum under a long-term lease expiring in 2023. The City holds a lien on the Gallery's equipment and supplies located on the premises as security against any loss or damage arising under the lease. The fair value of the rent cannot be readily determined and is not recorded in these financial statements.

14. Economic dependence

The Gallery is substantially dependent on the ongoing financial support and continuation of the leased premises agreement with the City of Oshawa.

15. Subsequent events

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the Gallery's environment and in the global markets, possible disruption in supply chains, and measures being introduced at various levels of government to curtail the spread of the virus (such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing) could have a material impact on the Gallery's operations.

The Gallery closed to the public March 14, 2020 due to measures enforced by the Government of Ontario. This closure will have a significant impact on the revenue and expenses of the gallery for the foreseeable future. To mitigate the financial impact, management of the Gallery is keeping abreast of all available subsidies, applying for those subsidies that it is eligible for and reducing operating costs where possible. Management does not anticipate any reductions in grants however, management does expect the utilization of the grants will be decreased. The extent of the impact of this outbreak and related containment measures on the Company's operations cannot be reliably estimated at this time.

As of June 17, 2020, the fair values of the portfolio investments of the Gallery depreciated by approximately \$270,000.
