

Art Gallery of Hamilton

Financial Statements

December 31, 2022



June 6, 2023

Independent Auditor's Report

To the Board of Directors of Art Gallery of Hamilton

Opinion

We have audited the financial statements of Art Gallery of Hamilton (the "Organization"), which comprise the statement of financial position as at December 31, 2022, 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 and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2022, 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 Opinion

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 Organization 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 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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

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

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.



Independent Auditor's Report, continued

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 Organization'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 Organization'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 Organization 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.

Pettinelli Mastrolucchi LLP

Chartered Professional Accountants
Licensed Public Accountants

Hamilton, Ontario

Art Gallery of Hamilton

Statement of Financial Position


	December 31	
	2022	2021
Assets		
Current assets		
Accounts receivable	\$ 270,254	\$ 270,804
Prepaid expenses	243,079	334,482
Inventory (Note 2)	103,756	113,193
Restricted investments (Note 3)	<u>3,692,735</u>	<u>4,115,256</u>
	4,309,824	4,833,735
Permanent collection - works of art (Note 4)	1	1
Capital assets (Note 5)	<u>10,607,008</u>	<u>11,187,297</u>
	<u>\$ 14,916,833</u>	<u>\$ 16,021,033</u>
Liabilities		
Current liabilities		
Bank indebtedness (Note 6)	\$ 434,938	\$ 306,818
Accounts payable and accrued liabilities (Note 7)	702,099	677,078
Deferred revenue (Note 8)	830,698	990,040
Event deposits	87,984	138,001
Bank loans (Note 9)	<u>384,741</u>	<u>447,409</u>
	2,440,460	2,559,346
Deferred capital contributions (Note 10)	<u>9,372,458</u>	<u>9,901,830</u>
	<u>11,812,918</u>	<u>12,461,176</u>
Net assets		
Unrestricted	(812,029)	(332,044)
Externally Restricted Endowment	111,617	111,617
Invested in Capital Assets	1,234,550	1,285,467
Board Restricted	<u>2,569,777</u>	<u>2,494,817</u>
	<u>3,103,915</u>	<u>3,559,857</u>
	<u>\$ 14,916,833</u>	<u>\$ 16,021,033</u>

Commitments (Note 11)


Contingent liability (Note 12)

See accompanying notes to the financial statements.

APPROVED BY THE BOARD:



Director



Director

Art Gallery of Hamilton

Statement of Operations

	Year ended December 31	
	2022	2021
Revenues		
Earned revenue (Note 13)	\$ 2,731,389	\$ 1,411,438
Grants (Note 14)	2,714,408	3,025,560
Donations	962,225	528,387
Artwork acquisition revenue (Note 4)	60,294	22,600
Investment income, net (Notes 3 and 15)	41,250	489,446
	<u>6,509,566</u>	<u>5,477,431</u>
Expenditures		
Wages and benefits	2,895,502	2,635,180
Cost of earned revenue (Note 16)	1,386,835	740,240
Programming and acquisition costs	877,294	654,802
Utilities, building insurance and maintenance	559,215	512,592
Office, administrative and miscellaneous	413,502	343,583
Security	362,067	274,304
Marketing and communications	257,681	256,748
	<u>6,752,096</u>	<u>5,417,449</u>
(Deficiency) excess of revenues over expenditures from operations	<u>(242,530)</u>	<u>59,982</u>
Other income (expense)		
Amortization of deferred capital contributions	619,372	614,872
Amortization	(832,784)	(821,977)
	<u>(213,412)</u>	<u>(207,105)</u>
Deficiency of revenues over expenditures for the year	<u>\$ (455,942)</u>	<u>\$ (147,123)</u>

See accompanying notes to the financial statements.

Art Gallery of Hamilton

Statement of Changes in Net Assets

Year ended December 31 2022

	Unrestricted	Externally Restricted Endowment	Invested in Capital Assets	Board Restricted	Total
Balance at beginning of the year	\$ (332,044)	\$ 111,617	\$ 1,285,467	\$ 2,494,817	\$ 3,559,857
Deficiency of revenues over expenditures	(242,530)	-	(213,412)	-	(455,942)
Investment in capital assets (Note 17)	(162,495)	-	162,495	-	-
Interfund transfer (Note 18)	<u>(74,960)</u>	<u>-</u>	<u>-</u>	<u>74,960</u>	<u>-</u>
Balance at end of the year	<u>\$ (812,029)</u>	<u>\$ 111,617</u>	<u>\$ 1,234,550</u>	<u>\$ 2,569,777</u>	<u>\$ 3,103,915</u>

Year end December 31 2021

	Unrestricted	Externally Restricted Endowment	Invested in Capital Assets	Board Restricted	Total
Balance at beginning of the year	\$ (533,048)	\$ 111,617	\$ 1,433,594	\$ 2,694,817	\$ 3,706,980
Excess (deficiency) of revenues over expenditures	59,982	-	(207,105)	-	(147,123)
Investment in capital assets (Note 17)	(58,978)	-	58,978	-	-
Interfund transfer (Note 18)	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>	<u>-</u>
Balance at end of the year	<u>\$ (332,044)</u>	<u>\$ 111,617</u>	<u>\$ 1,285,467</u>	<u>\$ 2,494,817</u>	<u>\$ 3,559,857</u>

Art Gallery of Hamilton

Statement of Cash Flows

	Year ended December 31	
	2022	2021
Cash flows from (used in) operating activities		
Deficiency of revenues over expenditures for the year	\$ (455,942)	\$ (147,123)
Items not involving cash		
Amortization	832,784	821,977
Amortization of deferred capital contributions	(619,372)	(614,872)
Change in fair value of investments	308,071	(145,195)
	<u>65,541</u>	<u>(85,213)</u>
Net change in non-cash operating working capital balances		
Decrease (increase) in accounts receivable	550	(146,141)
Decrease (increase) in prepaid expenses	91,403	(69,235)
Decrease in inventory	9,437	5,730
Increase in accounts payable and accrued liabilities	25,021	165,129
(Decrease) increase in deferred revenue	(159,342)	279,762
(Decrease) increase in event deposits	(50,017)	27,266
	<u>(82,948)</u>	<u>262,511</u>
	<u>(17,407)</u>	<u>177,298</u>
Cash flows from (used in) investing activities		
Purchase of investments	(618,499)	(1,799,750)
Proceeds on disposal of investments	832,319	1,717,281
Purchase of capital assets	(252,495)	(58,978)
Reinvested investment income	(99,370)	(90,658)
Receipt of deferred capital contributions	90,000	-
	<u>(48,045)</u>	<u>(232,105)</u>
Cash flows from (used in) financing activities		
Bank indebtedness	128,120	169,106
Repayment of bank loans	(62,668)	(114,299)
	<u>65,452</u>	<u>54,807</u>
Net increase in cash during the year	-	-
Cash at beginning of the year	-	-
Cash at end of the year	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

Nature of operations

Art Gallery of Hamilton (the "Organization") was founded in 1914 and holds its collection of works of art in trust for the people of Hamilton and Canada with a mandate to collect, preserve, exhibit, and interpret works of art for the community. As a public resource it conserves and communicates Canada's artistic, cultural and social heritage, and explores contemporary and historical art within local, national, and international contexts. The Organization houses eighteen exhibition spaces including several multi-use spaces for educational, programming and event purposes.

The Organization is a registered Canadian charity and is exempt from payment of income taxes as provided under the Income Tax Act.

1. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants of Canada Handbook. The Organization's significant accounting policies are as follows:

Cash / Bank indebtedness

Cash / Bank indebtedness includes cash on hand and held with financial institutions, net of outstanding cheques and deposits. Balances that fluctuate from positive to overdrawn are shown as cash or bank indebtedness depending on the accounts' net position at year-end.

Investments

Investments are recorded at their fair value. Investment income consists of interest, dividends and net change in unrealized gains and losses, and is recognized when declared, earned or received.

Inventory

Inventory is comprised of gift items, catalogues, books, jewelry, glassware, pottery, stationery and liquor. Inventory is valued at the lower of cost and net realizable value with cost determined substantially on a first-in, first-out basis.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

1. Significant accounting policies, continued

Capital assets

Capital assets are recorded at cost, less accumulated amortization. Contributions of capital assets are capitalized at fair value at the date of contribution. The Organization provides for amortization using the straight-line method at rates designed to amortize the cost of the capital assets over their estimated useful lives. The annual amortization rates are as follows:

Buildings and building improvements	10 to 40 years
Equipment and furnishings	10 years
Computer equipment	3 years

Capital assets under development or not yet in use are not subject to amortization. Upon substantial completion, the capital assets will be amortized at a method and rate designed to amortize the cost of the assets over their estimated useful lives.

The Organization reviews its capital assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable and exceeds its fair value. The impairment loss, if any, is the excess of carrying value over its fair value.

Expenditures for maintenance and repairs are charged to deficiency of revenues over expenditures as incurred.

Works of art

In conformity with accounting policies followed by art galleries and other organizations in possession of collections, the value of works of art may be excluded from the statement of financial position, except for a nominal carrying value. The Organization has chosen to carry a nominal value of \$1 to represent its works of art. The disbursements for purchased additions are reflected in the statement of operations as the excess cost over nominal value recognized.

The costs associated with the contributed works, including appraisal fees, shipping costs, storage fees, etc., are reported as programming and acquisition costs and are recognized when the deed of the gift is signed and the appraisal completed. Reimbursement of these costs by the donor is reported as artwork acquisition revenue.

Contributed services

Volunteers contribute their time to assist in the Organization's activities. While these services benefit the Organization considerably, a reasonable estimate of their amount and fair value cannot be made and, accordingly, these contributed services are not recognized in the financial statements. The notes to the financial statements include disclosure of the estimated number of recorded volunteer hours along with a corresponding estimated value.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

1. Significant accounting policies, continued

Revenue recognition

The Organization follows the deferral method of accounting for contributions which include donations and grants. 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.

Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are recognized. Endowment contributions are recognized as direct increases in net assets in the year in which they are received. Investment income earned on endowments is reported in the statement of operations and is used in accordance with the purposes established by the donors.

Annual membership and admission fees are included in operating revenue as received. Earned revenue is recognized when the service has been performed and collection is reasonably assured.

Externally restricted contributions for capital assets subject to amortization are deferred and amortized over the life of the related capital asset. Externally restricted capital asset contributions that have not been expended are recorded as deferred capital contributions on the statement of financial position.

Government assistance

Government assistance provided for non-capital expenditures of the current period have been accounted for in the deficiency of revenues over expenditures. Government assistance provided for expenses of future periods is initially deferred and subsequently recognized to deficiency of revenues over expenditures as eligible expenditures are incurred.

Board Restricted net assets

The balance of Board Restricted net assets represents the minimum internally restricted net amount required by the board of directors within the terms of the Endowment Fund Trust Deed. In addition, funds from the sale of artwork are restricted to purchase more artwork and to maintain the collection. Internally restricted funds must be used at the discretion of the board of directors.

Financial instruments

(i) Measurement of financial instruments

The Organization initially measures its financial assets and liabilities at fair value. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. Changes in fair value are recognized in the deficiency of revenues over expenditures in the period incurred.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

1. Significant accounting policies, continued

Financial instruments, continued

(ii) Impairment

For financial assets measured at cost or amortized cost, the Organization determines whether there are indications of possible impairment. When there is an indication of impairment, and the Organization determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows, a write-down is recognized in deficiency of revenues over expenditures. A previously recognized impairment loss may be reversed to the extent of the improvement. The carrying amount of the financial asset may not be 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 deficiency of revenues over expenditures.

(iii) Transaction costs

Transaction costs related to financial instruments that will be subsequently measured at fair value are recognized in deficiency of revenues over expenditures in the period incurred. Transaction costs related to financial instruments subsequently measured at amortized cost are included in the original cost of the asset or liability and recognized in deficiency of revenues over expenditures over the life of the instrument using the straight-line method.

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 at the statement of financial position date and the reported amounts of revenues and expenditures during the year. Actual results could differ from those estimates. In the current year, significant estimates exist related to the useful lives of capital assets.

2. Inventory

The amount of inventory included in cost of earned revenue is \$279,094 (2021 - \$264,675).

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

3. Restricted investments

Restricted investments comprise units of various pooled funds and guaranteed investment certificates. Investment amounts are restricted for specific use in future periods on both internally and externally restricted activities.

	December 31 2022		December 31 2021	
	Market	Cost	Market	Cost
Cash and equivalents	\$ 168,497	\$ 168,487	\$ 171,067	\$ 171,942
Fixed income securities	618,728	691,659	808,647	816,546
Non-traditional capital preservation securities	595,922	664,291	631,920	635,149
Equity instruments	1,301,411	1,193,085	1,501,575	1,214,467
Guaranteed investment certificates	<u>1,008,178</u>	<u>1,008,178</u>	<u>1,002,047</u>	<u>1,002,047</u>
	<u>\$ 3,692,735</u>	<u>\$ 3,725,701</u>	<u>\$ 4,115,256</u>	<u>\$ 3,840,151</u>

Guaranteed investment certificates bear interest at 3.50% - 4.40% with maturity dates ranging from March 2023 to September 2023.

Included in investment income on the statement of operations are unrealized losses of \$308,071 (2021 - \$145,195 gain) related to the change in the fair market value of the investments during the fiscal year.

4. Permanent collection - works of art

As at December 31, 2022, the permanent collection consisted of approximately 10,260 works of art. Contributions to the collection in the year included 70 (2021 - 31) works of art, independently appraised at a fair value of \$616,475 (2021 - \$1,415,267). Reimbursement by donors for related direct expenditures such as appraisal fees, shipping costs, storage fees, etc. totaled \$60,294 (2021 - \$22,600) and have been recorded as artwork acquisition revenue in the statement of operations.

During the year the Organization acquired 25 (2021 - 14) works of art at an excess cost over nominal value of \$113,560 (2021 - \$72,500) which is included in programming and acquisition costs in the statement of operations.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

5. Capital assets

	Cost	Accumulated Amortization	December 31	
			2022 Net Book Value	2021 Net Book Value
Buildings and building improvements	\$ 24,680,244	\$ 14,786,243	\$ 9,894,001	\$ 10,391,922
Equipment and furnishings	1,814,035	1,144,869	669,166	727,518
Computer equipment	124,586	80,745	43,841	67,857
	<u>\$ 26,618,865</u>	<u>\$ 16,011,857</u>	<u>\$ 10,607,008</u>	<u>\$ 11,187,297</u>

Included in buildings and building improvements is \$76,655 (2021 - \$Nil) related to costs incurred towards certain building improvements. As at the year end date, the related project had not reached substantial completion and as a result the incurred costs have not yet been subject to amortization.

6. Bank indebtedness

The Organization has secured a revolving line of credit with a maximum borrowings under the agreement of \$650,000 (2021 - \$650,000). Interest on any borrowings is calculated at the bank's prime rate. As at December 31, 2022, the outstanding balance on the line of credit was \$434,938 (2021 - \$306,178). See Note 9 for related security on the facility.

7. Accounts payable and accrued liabilities

Government remittances consist of sales taxes payable which are recognized when the amounts become due. In respect of government remittances, a recoverable amount of \$9,574 (2021 - \$6,076 payable) was included in accounts payable and accrued liabilities as at the year-end date.

8. Deferred revenue

Deferred revenue represents externally restricted grants and donations for specifically restricted purposes for which expenditure has not yet been made. Included in the deferred revenue balance are advanced payments from the Ontario Arts Council of \$220,165 (2021 - \$455,002) to be applied against expenditures in the following year.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

9. Bank loans

	December 31	
	2022	2021
Demand loan, prime rate, repayable in monthly instalments of \$1,041	\$ 147,825	\$ 160,317
Demand loan, prime plus 0.5%, repayable in monthly instalments of \$1,039	121,572	134,041
Demand loan, prime rate, repayable in monthly instalments of \$977	115,344	127,074
Demand loan repaid during the year	-	15,785
Demand loan repaid during the year	-	10,192
	<u>\$ 384,741</u>	<u>\$ 447,409</u>
Estimated principal repayments are as follows:		
2023	\$ 36,691	
2024	36,691	
2025	36,691	
2026	36,691	
2027	36,691	
Subsequent years	<u>201,286</u>	
	<u>\$ 384,741</u>	

The above loans, including the line of credit facility in Note 6, are secured by guaranteed investment certificates in the amount of \$650,000. These certificates are included in the balance of the restricted investments.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

10. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations on a straight-line basis over 10 to 40 years for the building and building improvements, and 10 years for equipment and furnishings. The change in the balance of deferred capital contributions was as follows:

	December 31	
	2022	2021
Balance at beginning of the year	\$ 9,901,830	\$ 10,516,702
Add: Capital contributions received during the year	90,000	-
Less: Amortization of deferred capital contributions	<u>(619,372)</u>	<u>(614,872)</u>
Balance at end of the year	<u>\$ 9,372,458</u>	<u>\$ 9,901,830</u>

11. Commitments

The Organization is committed to annual lease payments under various operating leases for office and maintenance contracts as follows:

2023	\$ 500,772
2024	500,653
2025	464,782
2026	414,613
2027	<u>3,451</u>
	<u>\$ 1,884,271</u>

12. Contingent liability

The Organization has paid its monthly utility costs at the rate consistent with previous years. However, the provider claims that additional costs of approximately \$258,000 are outstanding. This amount is not represented in the financial statements as the Organization is disputing these costs and the likelihood or results of any future settlement are not yet determinable.

Management will continue to assess the situation and the likelihood of the outcome and any economic loss will be reflected in the year of settlement or when it has been determined to be likely.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

13. Earned revenue

	December 31	
	2022	2021
Client events	\$ 1,617,742	\$ 571,473
Retail and art sales	652,056	524,922
Admission and other	217,924	75,213
Educational programs	151,942	118,754
Memberships	91,725	121,076
	<u>\$ 2,731,389</u>	<u>\$ 1,411,438</u>

14. Grant revenue

Included in grant revenue are the following amounts having met the requirements in the terms and conditions of the related grant applications and agreements for fiscal year 2022:

	December 31	
	2022	2021
City of Hamilton - City Enrichment Fund	\$ 1,000,000	\$ 1,000,000
All other grant revenue	731,188	511,131
Ontario Arts Council	455,002	220,165
Canada Council for the Arts	417,200	347,600
Government of Canada - Tourism Hospitality Recovery program (formerly CEWS)	68,338	734,534
Department of Canadian Heritage	42,680	212,130
	<u>\$ 2,714,408</u>	<u>\$ 3,025,560</u>

Management determined that the Organization was eligible for the Tourism and Hospitality Recovery Program (THRP), previously the Canadian Emergency Wage Subsidy (CEWS), based on the established criteria and applied to receive the subsidy. Management determined that the Organization was eligible for the subsidy in the amount of \$68,338 (2021 - \$734,534) as it related to the current fiscal year, of which \$Nil (2021 - \$79,800) was recorded in accounts receivable as at the year-end date. The THRP covered the period October 24, 2021 to May 7, 2022 and as such ended during the fiscal year.

The CEWS and THRP are subject to review by the Government of Canada and its related authorities. Any resulting adjustments or required repayments that may result from such a review will be reflected in the year of settlements.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

15. Endowments

Each year, when available, the Organization receives income from the funds held for its benefit and this income is to be used for operating purposes. Included in investment income are distributions from endowment funds which have been established and are maintained by third party foundations. The funds held by the foundations are not reflected in these financial statements.

(i) Hamilton Community Foundation

In 2002, the Organization established a program with the Hamilton Community Foundation (HCF) whereby a separate trust was established and is maintained by HCF. In 2022, the Organization received \$61,477 (2021 - \$Nil) income distributions from the HCF which are included in investment income on the statement of operations. As at December 31, 2022, the fair value of the funds being held by the HCF for the benefit of the Organization was \$277,271 (2021 - \$362,612).

(ii) Ontario Arts Foundation

In 1999, the Province of Ontario established the Arts Endowment Program within the Ontario Arts Foundation (OAF) whereby for each participating arts organization, a separate trust was established and is maintained by the OAF. In 2022, the Organization received \$188,474 (2021 - \$176,443) in income distributions from the OAF which are included in investment income on the statement of operations. As at December 31, 2022, the fair value of the funds being held by the OAF for the benefit of the Organization was \$3,446,635 (2021 - \$4,046,046).

16. Cost of earned revenue

	December 31	
	2022	2021
Cost of catered events	\$ 883,377	\$ 302,935
Retail costs	309,880	284,791
Fundraising	82,147	32,596
Cost of ticketed events	42,815	51,057
Office and general	38,598	4,889
Business development	30,018	63,972
	<u>\$ 1,386,835</u>	<u>\$ 740,240</u>

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

17. Invested in Capital Assets

Invested in Capital Assets consists of the following:

	December 31	
	2022	2021
Capital assets	\$ 10,607,008	\$ 11,187,297
Less: Amounts financed by deferred capital contributions	<u>(9,372,458)</u>	<u>(9,901,830)</u>
	<u>\$ 1,234,550</u>	<u>\$ 1,285,467</u>

Change in Investment in Capital Assets is calculated as follows:

	December 31	
	2022	2021
Balance at beginning of the year	\$ 1,285,467	\$ 1,433,594
Add: Amortization of deferred capital contributions	619,372	614,872
Add: Purchase of capital assets	252,495	58,978
Less: Capital contributions received during the year	(90,000)	-
Less: Amortization of capital assets	<u>(832,784)</u>	<u>(821,977)</u>
Balance at end of the year	<u>\$ 1,234,550</u>	<u>\$ 1,285,467</u>

18. Fund transfers

During the year, the Board approved net transfers of \$74,960 to the Board Restricted fund from the Unrestricted fund to support its ongoing operating and strategic initiatives. In 2021, \$200,000 was transferred from the Board Restricted fund to the Unrestricted fund.

19. Contributed services

Volunteers support the Organization's mission through their active support of gallery initiatives and programming. During the year, volunteers reported contributing approximately 3,580 (2021 - 3,009) hours to the Organization which management determined to have an estimated value of approximately \$72,000 (2021 - \$62,186) using Statistics Canada's average hourly rate for Canadian Arts, Entertainment and Recreation industries of \$20.67 (2021 - \$20.67).

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

20. Impact of COVID-19

On March 11, 2020 the World Health Organization declared the outbreak of the coronavirus ("COVID-19"), a pandemic resulting in economic uncertainties potentially affecting the Organization's cash flows, financial position and results of operations.

During the current year, most government restrictions were lifted and many operations were permitted to return to pre-pandemic norms. Management expects that the Organization will be able to return to its full service offerings.

21. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

(a) Liquidity risk

The Organization has a liquidity risk in the bank indebtedness, accounts payable and accrued liabilities and bank loans. Liquidity risk is the risk that the Organization will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Organization manages its liquidity risk by monitoring its operating requirements, maintaining available credit facilities and ensuring principal and interest payments are made on a timely basis. The Organization prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. The board of directors has the ability to fund operating cash flow shortages by transferring investments from the Board Restricted fund to the Unrestricted fund, or to use proceeds from the future sale of artwork for general operating purposes. Any deaccessioning by the Organization recognizes and supports all ethical practices set out in the Canadian Art Museum Directors Organization's 'Guidelines for Deaccessioning', which restricts funds to acquisitions and the care, conservation and benefit of the Organization's permanent collection. There has been no change to the risk exposure from 2021.

(b) Credit risk

The Organization has credit risk in accounts receivable. Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The Organization assesses, on a continuous basis, the collectability of accounts receivable and provides for any amounts that are not collectable in the allowance for doubtful accounts. There has been no change to the risk exposure from 2021.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

21. Financial instruments, continued

(c) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Organization is exposed to the following market risks:

(i) Interest rate risk

Interest rate risk is the risk that the Organization has exposure to changes in the interest rates which could effect its future cash flows or the fair values of its financial instruments. The Organization is exposed to interest rate risk on its financial instruments, including its investments and bank loans. Further details regarding the bank loans are included in Note 9. The Organization's primary objective is to ensure the security of principal amounts invested and provide a high degree of liquidity, while achieving a satisfactory return. Management deems there has been no significant change to the interest rate risk exposure from December 2021 despite the increase in prime rates during the year.

(ii) Price risk

Other price risk is the risk the fair value of a financial instrument will fluctuate because of changes in market prices (other than interest rate risk). The Organization's investment portfolio, included in restricted investments, is exposed to other price risk.

22. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation. These changes do not impact the prior year's deficiency of revenues over expenditures.

Art Gallery of Hamilton

Financial Statements

December 31, 2022



June 6, 2023

Independent Auditor's Report

To the Board of Directors of Art Gallery of Hamilton

Opinion

We have audited the financial statements of Art Gallery of Hamilton (the "Organization"), which comprise the statement of financial position as at December 31, 2022, 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 and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2022, 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 Opinion

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 Organization 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 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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

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

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.



Independent Auditor's Report, continued

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 Organization'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 Organization'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 Organization 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.

Pettinelli Mastrolucchi LLP

Chartered Professional Accountants
Licensed Public Accountants

Hamilton, Ontario

Art Gallery of Hamilton

Statement of Financial Position

	December 31	
	2022	2021
Assets		
Current assets		
Accounts receivable	\$ 270,254	\$ 270,804
Prepaid expenses	243,079	334,482
Inventory (Note 2)	103,756	113,193
Restricted investments (Note 3)	<u>3,692,735</u>	<u>4,115,256</u>
	4,309,824	4,833,735
Permanent collection - works of art (Note 4)	1	1
Capital assets (Note 5)	<u>10,607,008</u>	<u>11,187,297</u>
	<u>\$ 14,916,833</u>	<u>\$ 16,021,033</u>
Liabilities		
Current liabilities		
Bank indebtedness (Note 6)	\$ 434,938	\$ 306,818
Accounts payable and accrued liabilities (Note 7)	702,099	677,078
Deferred revenue (Note 8)	830,698	990,040
Event deposits	87,984	138,001
Bank loans (Note 9)	<u>384,741</u>	<u>447,409</u>
	2,440,460	2,559,346
Deferred capital contributions (Note 10)	<u>9,372,458</u>	<u>9,901,830</u>
	<u>11,812,918</u>	<u>12,461,176</u>
Net assets		
Unrestricted	(812,029)	(332,044)
Externally Restricted Endowment	111,617	111,617
Invested in Capital Assets	1,234,550	1,285,467
Board Restricted	<u>2,569,777</u>	<u>2,494,817</u>
	<u>3,103,915</u>	<u>3,559,857</u>
	<u>\$ 14,916,833</u>	<u>\$ 16,021,033</u>

Commitments (Note 11)

Contingent liability (Note 12)

See accompanying notes to the financial statements.

APPROVED BY THE BOARD:

Director

Director

Art Gallery of Hamilton

Statement of Operations

	Year ended December 31	
	2022	2021
Revenues		
Earned revenue (Note 13)	\$ 2,731,389	\$ 1,411,438
Grants (Note 14)	2,714,408	3,025,560
Donations	962,225	528,387
Artwork acquisition revenue (Note 4)	60,294	22,600
Investment income, net (Notes 3 and 15)	41,250	489,446
	<u>6,509,566</u>	<u>5,477,431</u>
Expenditures		
Wages and benefits	2,895,502	2,635,180
Cost of earned revenue (Note 16)	1,386,835	740,240
Programming and acquisition costs	877,294	654,802
Utilities, building insurance and maintenance	559,215	512,592
Office, administrative and miscellaneous	413,502	343,583
Security	362,067	274,304
Marketing and communications	257,681	256,748
	<u>6,752,096</u>	<u>5,417,449</u>
(Deficiency) excess of revenues over expenditures from operations	<u>(242,530)</u>	<u>59,982</u>
Other income (expense)		
Amortization of deferred capital contributions	619,372	614,872
Amortization	(832,784)	(821,977)
	<u>(213,412)</u>	<u>(207,105)</u>
Deficiency of revenues over expenditures for the year	<u>\$ (455,942)</u>	<u>\$ (147,123)</u>

See accompanying notes to the financial statements.

Art Gallery of Hamilton

Statement of Changes in Net Assets

Year ended December 31 2022

	Unrestricted	Externally Restricted Endowment	Invested in Capital Assets	Board Restricted	Total
Balance at beginning of the year	\$ (332,044)	\$ 111,617	\$ 1,285,467	\$ 2,494,817	\$ 3,559,857
Deficiency of revenues over expenditures	(242,530)	-	(213,412)	-	(455,942)
Investment in capital assets (Note 17)	(162,495)	-	162,495	-	-
Interfund transfer (Note 18)	<u>(74,960)</u>	<u>-</u>	<u>-</u>	<u>74,960</u>	<u>-</u>
Balance at end of the year	<u>\$ (812,029)</u>	<u>\$ 111,617</u>	<u>\$ 1,234,550</u>	<u>\$ 2,569,777</u>	<u>\$ 3,103,915</u>

Year end December 31 2021

	Unrestricted	Externally Restricted Endowment	Invested in Capital Assets	Board Restricted	Total
Balance at beginning of the year	\$ (533,048)	\$ 111,617	\$ 1,433,594	\$ 2,694,817	\$ 3,706,980
Excess (deficiency) of revenues over expenditures	59,982	-	(207,105)	-	(147,123)
Investment in capital assets (Note 17)	(58,978)	-	58,978	-	-
Interfund transfer (Note 18)	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>	<u>-</u>
Balance at end of the year	<u>\$ (332,044)</u>	<u>\$ 111,617</u>	<u>\$ 1,285,467</u>	<u>\$ 2,494,817</u>	<u>\$ 3,559,857</u>

Art Gallery of Hamilton

Statement of Cash Flows

	Year ended December 31	
	2022	2021
Cash flows from (used in) operating activities		
Deficiency of revenues over expenditures for the year	\$ (455,942)	\$ (147,123)
Items not involving cash		
Amortization	832,784	821,977
Amortization of deferred capital contributions	(619,372)	(614,872)
Change in fair value of investments	308,071	(145,195)
	<u>65,541</u>	<u>(85,213)</u>
Net change in non-cash operating working capital balances		
Decrease (increase) in accounts receivable	550	(146,141)
Decrease (increase) in prepaid expenses	91,403	(69,235)
Decrease in inventory	9,437	5,730
Increase in accounts payable and accrued liabilities	25,021	165,129
(Decrease) increase in deferred revenue	(159,342)	279,762
(Decrease) increase in event deposits	(50,017)	27,266
	<u>(82,948)</u>	<u>262,511</u>
	<u>(17,407)</u>	<u>177,298</u>
Cash flows from (used in) investing activities		
Purchase of investments	(618,499)	(1,799,750)
Proceeds on disposal of investments	832,319	1,717,281
Purchase of capital assets	(252,495)	(58,978)
Reinvested investment income	(99,370)	(90,658)
Receipt of deferred capital contributions	90,000	-
	<u>(48,045)</u>	<u>(232,105)</u>
Cash flows from (used in) financing activities		
Bank indebtedness	128,120	169,106
Repayment of bank loans	(62,668)	(114,299)
	<u>65,452</u>	<u>54,807</u>
Net increase in cash during the year	-	-
Cash at beginning of the year	-	-
Cash at end of the year	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

Nature of operations

Art Gallery of Hamilton (the "Organization") was founded in 1914 and holds its collection of works of art in trust for the people of Hamilton and Canada with a mandate to collect, preserve, exhibit, and interpret works of art for the community. As a public resource it conserves and communicates Canada's artistic, cultural and social heritage, and explores contemporary and historical art within local, national, and international contexts. The Organization houses eighteen exhibition spaces including several multi-use spaces for educational, programming and event purposes.

The Organization is a registered Canadian charity and is exempt from payment of income taxes as provided under the Income Tax Act.

1. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants of Canada Handbook. The Organization's significant accounting policies are as follows:

Cash / Bank indebtedness

Cash / Bank indebtedness includes cash on hand and held with financial institutions, net of outstanding cheques and deposits. Balances that fluctuate from positive to overdrawn are shown as cash or bank indebtedness depending on the accounts' net position at year-end.

Investments

Investments are recorded at their fair value. Investment income consists of interest, dividends and net change in unrealized gains and losses, and is recognized when declared, earned or received.

Inventory

Inventory is comprised of gift items, catalogues, books, jewelry, glassware, pottery, stationery and liquor. Inventory is valued at the lower of cost and net realizable value with cost determined substantially on a first-in, first-out basis.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

1. Significant accounting policies, continued

Capital assets

Capital assets are recorded at cost, less accumulated amortization. Contributions of capital assets are capitalized at fair value at the date of contribution. The Organization provides for amortization using the straight-line method at rates designed to amortize the cost of the capital assets over their estimated useful lives. The annual amortization rates are as follows:

Buildings and building improvements	10 to 40 years
Equipment and furnishings	10 years
Computer equipment	3 years

Capital assets under development or not yet in use are not subject to amortization. Upon substantial completion, the capital assets will be amortized at a method and rate designed to amortize the cost of the assets over their estimated useful lives.

The Organization reviews its capital assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable and exceeds its fair value. The impairment loss, if any, is the excess of carrying value over its fair value.

Expenditures for maintenance and repairs are charged to deficiency of revenues over expenditures as incurred.

Works of art

In conformity with accounting policies followed by art galleries and other organizations in possession of collections, the value of works of art may be excluded from the statement of financial position, except for a nominal carrying value. The Organization has chosen to carry a nominal value of \$1 to represent its works of art. The disbursements for purchased additions are reflected in the statement of operations as the excess cost over nominal value recognized.

The costs associated with the contributed works, including appraisal fees, shipping costs, storage fees, etc., are reported as programming and acquisition costs and are recognized when the deed of the gift is signed and the appraisal completed. Reimbursement of these costs by the donor is reported as artwork acquisition revenue.

Contributed services

Volunteers contribute their time to assist in the Organization's activities. While these services benefit the Organization considerably, a reasonable estimate of their amount and fair value cannot be made and, accordingly, these contributed services are not recognized in the financial statements. The notes to the financial statements include disclosure of the estimated number of recorded volunteer hours along with a corresponding estimated value.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

1. Significant accounting policies, continued

Revenue recognition

The Organization follows the deferral method of accounting for contributions which include donations and grants. 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.

Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are recognized. Endowment contributions are recognized as direct increases in net assets in the year in which they are received. Investment income earned on endowments is reported in the statement of operations and is used in accordance with the purposes established by the donors.

Annual membership and admission fees are included in operating revenue as received. Earned revenue is recognized when the service has been performed and collection is reasonably assured.

Externally restricted contributions for capital assets subject to amortization are deferred and amortized over the life of the related capital asset. Externally restricted capital asset contributions that have not been expended are recorded as deferred capital contributions on the statement of financial position.

Government assistance

Government assistance provided for non-capital expenditures of the current period have been accounted for in the deficiency of revenues over expenditures. Government assistance provided for expenses of future periods is initially deferred and subsequently recognized to deficiency of revenues over expenditures as eligible expenditures are incurred.

Board Restricted net assets

The balance of Board Restricted net assets represents the minimum internally restricted net amount required by the board of directors within the terms of the Endowment Fund Trust Deed. In addition, funds from the sale of artwork are restricted to purchase more artwork and to maintain the collection. Internally restricted funds must be used at the discretion of the board of directors.

Financial instruments

(i) Measurement of financial instruments

The Organization initially measures its financial assets and liabilities at fair value. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. Changes in fair value are recognized in the deficiency of revenues over expenditures in the period incurred.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

1. Significant accounting policies, continued

Financial instruments, continued

(ii) Impairment

For financial assets measured at cost or amortized cost, the Organization determines whether there are indications of possible impairment. When there is an indication of impairment, and the Organization determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows, a write-down is recognized in deficiency of revenues over expenditures. A previously recognized impairment loss may be reversed to the extent of the improvement. The carrying amount of the financial asset may not be 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 deficiency of revenues over expenditures.

(iii) Transaction costs

Transaction costs related to financial instruments that will be subsequently measured at fair value are recognized in deficiency of revenues over expenditures in the period incurred. Transaction costs related to financial instruments subsequently measured at amortized cost are included in the original cost of the asset or liability and recognized in deficiency of revenues over expenditures over the life of the instrument using the straight-line method.

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 at the statement of financial position date and the reported amounts of revenues and expenditures during the year. Actual results could differ from those estimates. In the current year, significant estimates exist related to the useful lives of capital assets.

2. Inventory

The amount of inventory included in cost of earned revenue is \$279,094 (2021 - \$264,675).

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

3. Restricted investments

Restricted investments comprise units of various pooled funds and guaranteed investment certificates. Investment amounts are restricted for specific use in future periods on both internally and externally restricted activities.

	December 31 2022		December 31 2021	
	Market	Cost	Market	Cost
Cash and equivalents	\$ 168,497	\$ 168,487	\$ 171,067	\$ 171,942
Fixed income securities	618,728	691,659	808,647	816,546
Non-traditional capital preservation securities	595,922	664,291	631,920	635,149
Equity instruments	1,301,411	1,193,085	1,501,575	1,214,467
Guaranteed investment certificates	<u>1,008,178</u>	<u>1,008,178</u>	<u>1,002,047</u>	<u>1,002,047</u>
	<u>\$ 3,692,735</u>	<u>\$ 3,725,701</u>	<u>\$ 4,115,256</u>	<u>\$ 3,840,151</u>

Guaranteed investment certificates bear interest at 3.50% - 4.40% with maturity dates ranging from March 2023 to September 2023.

Included in investment income on the statement of operations are unrealized losses of \$308,071 (2021 - \$145,195 gain) related to the change in the fair market value of the investments during the fiscal year.

4. Permanent collection - works of art

As at December 31, 2022, the permanent collection consisted of approximately 10,260 works of art. Contributions to the collection in the year included 70 (2021 - 31) works of art, independently appraised at a fair value of \$616,475 (2021 - \$1,415,267). Reimbursement by donors for related direct expenditures such as appraisal fees, shipping costs, storage fees, etc. totaled \$60,294 (2021 - \$22,600) and have been recorded as artwork acquisition revenue in the statement of operations.

During the year the Organization acquired 25 (2021 - 14) works of art at an excess cost over nominal value of \$113,560 (2021 - \$72,500) which is included in programming and acquisition costs in the statement of operations.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

5. Capital assets

			December 31	
	Cost	Accumulated Amortization	2022 Net Book Value	2021 Net Book Value
Buildings and building improvements	\$ 24,680,244	\$ 14,786,243	\$ 9,894,001	\$ 10,391,922
Equipment and furnishings	1,814,035	1,144,869	669,166	727,518
Computer equipment	124,586	80,745	43,841	67,857
	<u>\$ 26,618,865</u>	<u>\$ 16,011,857</u>	<u>\$ 10,607,008</u>	<u>\$ 11,187,297</u>

Included in buildings and building improvements is \$76,655 (2021 - \$Nil) related to costs incurred towards certain building improvements. As at the year end date, the related project had not reached substantial completion and as a result the incurred costs have not yet been subject to amortization.

6. Bank indebtedness

The Organization has secured a revolving line of credit with a maximum borrowings under the agreement of \$650,000 (2021 - \$650,000). Interest on any borrowings is calculated at the bank's prime rate. As at December 31, 2022, the outstanding balance on the line of credit was \$434,938 (2021 - \$306,178). See Note 9 for related security on the facility.

7. Accounts payable and accrued liabilities

Government remittances consist of sales taxes payable which are recognized when the amounts become due. In respect of government remittances, a recoverable amount of \$9,574 (2021 - \$6,076 payable) was included in accounts payable and accrued liabilities as at the year-end date.

8. Deferred revenue

Deferred revenue represents externally restricted grants and donations for specifically restricted purposes for which expenditure has not yet been made. Included in the deferred revenue balance are advanced payments from the Ontario Arts Council of \$220,165 (2021 - \$455,002) to be applied against expenditures in the following year.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

9. Bank loans

	December 31	
	2022	2021
Demand loan, prime rate, repayable in monthly instalments of \$1,041	\$ 147,825	\$ 160,317
Demand loan, prime plus 0.5%, repayable in monthly instalments of \$1,039	121,572	134,041
Demand loan, prime rate, repayable in monthly instalments of \$977	115,344	127,074
Demand loan repaid during the year	-	15,785
Demand loan repaid during the year	-	10,192
	<u>\$ 384,741</u>	<u>\$ 447,409</u>
Estimated principal repayments are as follows:		
2023	\$ 36,691	
2024	36,691	
2025	36,691	
2026	36,691	
2027	36,691	
Subsequent years	<u>201,286</u>	
	<u>\$ 384,741</u>	

The above loans, including the line of credit facility in Note 6, are secured by guaranteed investment certificates in the amount of \$650,000. These certificates are included in the balance of the restricted investments.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

10. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations on a straight-line basis over 10 to 40 years for the building and building improvements, and 10 years for equipment and furnishings. The change in the balance of deferred capital contributions was as follows:

	December 31	
	2022	2021
Balance at beginning of the year	\$ 9,901,830	\$ 10,516,702
Add: Capital contributions received during the year	90,000	-
Less: Amortization of deferred capital contributions	<u>(619,372)</u>	<u>(614,872)</u>
Balance at end of the year	<u>\$ 9,372,458</u>	<u>\$ 9,901,830</u>

11. Commitments

The Organization is committed to annual lease payments under various operating leases for office and maintenance contracts as follows:

2023	\$ 500,772
2024	500,653
2025	464,782
2026	414,613
2027	<u>3,451</u>
	<u>\$ 1,884,271</u>

12. Contingent liability

The Organization has paid its monthly utility costs at the rate consistent with previous years. However, the provider claims that additional costs of approximately \$258,000 are outstanding. This amount is not represented in the financial statements as the Organization is disputing these costs and the likelihood or results of any future settlement are not yet determinable.

Management will continue to assess the situation and the likelihood of the outcome and any economic loss will be reflected in the year of settlement or when it has been determined to be likely.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

13. Earned revenue

	December 31	
	2022	2021
Client events	\$ 1,617,742	\$ 571,473
Retail and art sales	652,056	524,922
Admission and other	217,924	75,213
Educational programs	151,942	118,754
Memberships	91,725	121,076
	<u>\$ 2,731,389</u>	<u>\$ 1,411,438</u>

14. Grant revenue

Included in grant revenue are the following amounts having met the requirements in the terms and conditions of the related grant applications and agreements for fiscal year 2022:

	December 31	
	2022	2021
City of Hamilton - City Enrichment Fund	\$ 1,000,000	\$ 1,000,000
All other grant revenue	731,188	511,131
Ontario Arts Council	455,002	220,165
Canada Council for the Arts	417,200	347,600
Government of Canada - Tourism Hospitality Recovery program (formerly CEWS)	68,338	734,534
Department of Canadian Heritage	42,680	212,130
	<u>\$ 2,714,408</u>	<u>\$ 3,025,560</u>

Management determined that the Organization was eligible for the Tourism and Hospitality Recovery Program (THRP), previously the Canadian Emergency Wage Subsidy (CEWS), based on the established criteria and applied to receive the subsidy. Management determined that the Organization was eligible for the subsidy in the amount of \$68,338 (2021 - \$734,534) as it related to the current fiscal year, of which \$Nil (2021 - \$79,800) was recorded in accounts receivable as at the year-end date. The THRP covered the period October 24, 2021 to May 7, 2022 and as such ended during the fiscal year.

The CEWS and THRP are subject to review by the Government of Canada and its related authorities. Any resulting adjustments or required repayments that may result from such a review will be reflected in the year of settlements.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

15. Endowments

Each year, when available, the Organization receives income from the funds held for its benefit and this income is to be used for operating purposes. Included in investment income are distributions from endowment funds which have been established and are maintained by third party foundations. The funds held by the foundations are not reflected in these financial statements.

(i) Hamilton Community Foundation

In 2002, the Organization established a program with the Hamilton Community Foundation (HCF) whereby a separate trust was established and is maintained by HCF. In 2022, the Organization received \$61,477 (2021 - \$Nil) income distributions from the HCF which are included in investment income on the statement of operations. As at December 31, 2022, the fair value of the funds being held by the HCF for the benefit of the Organization was \$277,271 (2021 - \$362,612).

(ii) Ontario Arts Foundation

In 1999, the Province of Ontario established the Arts Endowment Program within the Ontario Arts Foundation (OAF) whereby for each participating arts organization, a separate trust was established and is maintained by the OAF. In 2022, the Organization received \$188,474 (2021 - \$176,443) in income distributions from the OAF which are included in investment income on the statement of operations. As at December 31, 2022, the fair value of the funds being held by the OAF for the benefit of the Organization was \$3,446,635 (2021 - \$4,046,046).

16. Cost of earned revenue

	December 31	
	2022	2021
Cost of catered events	\$ 883,377	\$ 302,935
Retail costs	309,880	284,791
Fundraising	82,147	32,596
Cost of ticketed events	42,815	51,057
Office and general	38,598	4,889
Business development	30,018	63,972
	<u>\$ 1,386,835</u>	<u>\$ 740,240</u>

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

17. Invested in Capital Assets

Invested in Capital Assets consists of the following:

	December 31	
	2022	2021
Capital assets	\$ 10,607,008	\$ 11,187,297
Less: Amounts financed by deferred capital contributions	<u>(9,372,458)</u>	<u>(9,901,830)</u>
	<u>\$ 1,234,550</u>	<u>\$ 1,285,467</u>

Change in Investment in Capital Assets is calculated as follows:

	December 31	
	2022	2021
Balance at beginning of the year	\$ 1,285,467	\$ 1,433,594
Add: Amortization of deferred capital contributions	619,372	614,872
Add: Purchase of capital assets	252,495	58,978
Less: Capital contributions received during the year	(90,000)	-
Less: Amortization of capital assets	<u>(832,784)</u>	<u>(821,977)</u>
Balance at end of the year	<u>\$ 1,234,550</u>	<u>\$ 1,285,467</u>

18. Fund transfers

During the year, the Board approved net transfers of \$74,960 to the Board Restricted fund from the Unrestricted fund to support its ongoing operating and strategic initiatives. In 2021, \$200,000 was transferred from the Board Restricted fund to the Unrestricted fund.

19. Contributed services

Volunteers support the Organization's mission through their active support of gallery initiatives and programming. During the year, volunteers reported contributing approximately 3,580 (2021 - 3,009) hours to the Organization which management determined to have an estimated value of approximately \$72,000 (2021 - \$62,186) using Statistics Canada's average hourly rate for Canadian Arts, Entertainment and Recreation industries of \$20.67 (2021 - \$20.67).

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

20. Impact of COVID-19

On March 11, 2020 the World Health Organization declared the outbreak of the coronavirus ("COVID-19"), a pandemic resulting in economic uncertainties potentially affecting the Organization's cash flows, financial position and results of operations.

During the current year, most government restrictions were lifted and many operations were permitted to return to pre-pandemic norms. Management expects that the Organization will be able to return to its full service offerings.

21. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

(a) Liquidity risk

The Organization has a liquidity risk in the bank indebtedness, accounts payable and accrued liabilities and bank loans. Liquidity risk is the risk that the Organization will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Organization manages its liquidity risk by monitoring its operating requirements, maintaining available credit facilities and ensuring principal and interest payments are made on a timely basis. The Organization prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. The board of directors has the ability to fund operating cash flow shortages by transferring investments from the Board Restricted fund to the Unrestricted fund, or to use proceeds from the future sale of artwork for general operating purposes. Any deaccessioning by the Organization recognizes and supports all ethical practices set out in the Canadian Art Museum Directors Organization's 'Guidelines for Deaccessioning', which restricts funds to acquisitions and the care, conservation and benefit of the Organization's permanent collection. There has been no change to the risk exposure from 2021.

(b) Credit risk

The Organization has credit risk in accounts receivable. Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The Organization assesses, on a continuous basis, the collectability of accounts receivable and provides for any amounts that are not collectable in the allowance for doubtful accounts. There has been no change to the risk exposure from 2021.

Art Gallery of Hamilton

Notes to Financial Statements

December 31, 2022

21. Financial instruments, continued

(c) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Organization is exposed to the following market risks:

(i) Interest rate risk

Interest rate risk is the risk that the Organization has exposure to changes in the interest rates which could effect its future cash flows or the fair values of its financial instruments. The Organization is exposed to interest rate risk on its financial instruments, including its investments and bank loans. Further details regarding the bank loans are included in Note 9. The Organization's primary objective is to ensure the security of principal amounts invested and provide a high degree of liquidity, while achieving a satisfactory return. Management deems there has been no significant change to the interest rate risk exposure from December 2021 despite the increase in prime rates during the year.

(ii) Price risk

Other price risk is the risk the fair value of a financial instrument will fluctuate because of changes in market prices (other than interest rate risk). The Organization's investment portfolio, included in restricted investments, is exposed to other price risk.

22. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation. These changes do not impact the prior year's deficiency of revenues over expenditures.