

**THE BEAVERBROOK ART GALLERY**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**THE BEAVERBROOK ART GALLERY**

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# Shannon & Buffett, LLP

## Chartered Professional Accountants

HAL C. BUFFETT, CPA, CA GARRY L. ARMSTRONG, CPA, CA  
CLAUDE LEGER, CPA, CA RON W. SAUNTRY, CPA, CA

March 21, 2017

### Independent Auditors' Report

To the Members of:  
Beaverbrook Art Gallery

We have audited the accompanying financial statements of Beaverbrook Art Gallery, which comprise the statement of financial position as at December 31, 2016 and the statement of operations and changes in fund balances and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

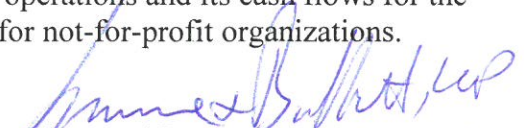
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Beaverbrook Art Gallery as at December 31, 2016, the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Professional Accountants



THE BEAVERBROOK ART GALLERY

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Lord Beaverbrook Fund	Unrestricted Endowment Fund	Restricted Senator Richard Hatfield Memorial Fund	Endowment 2012	Capital Campaign	Total 2016	Total 2015
<b>Revenues:</b>								
Fees, sales, donations and other revenue (note 8)	\$ 275,423	\$ -	\$ -	\$ -	\$ -	\$ 293,419	\$ 568,842	\$ 597,315
Investment (note 16)	4,891	152,895	188,870	338,085	367,879	-	1,052,620	123,773
Grants and contributions (note 9)	1,130,463	-	-	-	-	-	1,130,463	1,404,366
Deferred contributions	<u>323,375</u>	-	-	-	-	-	<u>323,375</u>	<u>291,597</u>
	<u>1,734,152</u>	<u>152,895</u>	<u>188,870</u>	<u>338,085</u>	<u>367,879</u>	<u>293,419</u>	<u>3,075,300</u>	<u>2,417,051</u>
<b>Expenses:</b>								
Administration (note 10)	271,939	-	-	-	-	-	271,939	228,736
Building maintenance (note 11)	212,779	-	-	-	-	-	212,779	540,160
Collections	68,534	-	-	-	-	-	68,534	119,925
Exhibitions	219,237	-	-	-	-	-	219,237	328,185
Programming and outreach	45,171	-	-	-	-	-	45,171	49,279
Investment management fees	-	8,351	10,308	18,499	20,059	-	57,217	54,922
Marketing and promotion	42,200	-	-	-	-	-	42,200	29,328
Salary and benefits	1,240,924	-	-	-	-	-	1,240,924	1,169,499
Capital Campaign (note 12)	-	-	-	-	-	325,778	325,778	447,899
Amortization	<u>323,375</u>	-	-	-	-	<u>440</u>	<u>323,815</u>	<u>287,215</u>
	<u>2,424,159</u>	<u>8,351</u>	<u>10,308</u>	<u>18,499</u>	<u>20,059</u>	<u>326,218</u>	<u>2,807,594</u>	<u>3,255,148</u>
<b>Excess revenue (expenses)</b>	(690,007)	144,544	178,562	319,586	347,820	(32,799)	267,706	(838,097)
Interfund transfers	536,124	(66,254)	(81,281)	(230,100)	(158,489)	-	-	-
Contributions to endowments	-	-	-	-	1,570,000	-	1,570,000	2,925,359
Forgiveness of debt (note 5)	<u>1,500,000</u>	-	-	-	-	-	<u>1,500,000</u>	-
Increase (decrease) in fund balances	1,346,117	78,290	97,281	89,486	1,759,331	(32,799)	3,337,706	2,087,262
Fund balances, beginning of year	<u>(1,675,571)</u>	<u>1,839,000</u>	<u>2,328,502</u>	<u>4,341,731</u>	<u>4,486,940</u>	<u>(859,280)</u>	<u>10,461,322</u>	<u>8,374,060</u>
<b>Fund balances, end of year</b>	<u>\$ (329,454)</u>	<u>\$ 1,917,290</u>	<u>\$ 2,425,783</u>	<u>\$ 4,431,217</u>	<u>\$ 6,246,271</u>	<u>\$ (892,079)</u>	<u>\$13,799,028</u>	<u>\$10,461,322</u>

**THE BEAVERBROOK ART GALLERY**  
**STATEMENT OF CASH FLOWS - OPERATING FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b><u>2016</u></b>	<b><u>2015</u></b>
<b>Cash generated from (used in):</b>		
<b>Operating activities:</b>		
Excess (expenses over revenue) - operating fund	\$ (690,007)	\$ (652,301)
Amortization of capital assets	323,375	286,664
Amortization of deferred contributions	<u>(323,375)</u>	<u>(291,597)</u>
	(690,007)	(657,234)
Net change in non-cash working capital (note 13)	<u>211,508</u>	<u>(266,397)</u>
	<u>(478,499)</u>	<u>(923,631)</u>
<b>Financing activities:</b>		
Increase in bank indebtedness	5,800	-
Interfund transfers	536,124	646,012
Repayment of loans	(24,701)	-
Receipt (use) of deferred contributions	<u>1,448,933</u>	<u>69,750</u>
	<u>1,966,156</u>	<u>715,762</u>
<b>Investing activities:</b>		
Additions to capital assets	<u>(1,465,466)</u>	<u>(6,414)</u>
<b>Increase (decrease) in cash position</b>	22,191	(214,283)
<b>Cash position, beginning of year</b>	<u>(99,759)</u>	<u>114,524</u>
<b>Cash position, end of year</b>	<u>\$ (77,568)</u>	<u>\$ (99,759)</u>



# THE BEAVERBROOK ART GALLERY

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

### **Nature of operations:**

The Beaverbrook Art Gallery (the Gallery) operates and manages the Beaverbrook Art Gallery in Fredericton, New Brunswick. These operations include various cultural activities primarily centered around, but not limited to, the exhibition of works of art. The Gallery is a registered charity for income tax purposes and is therefore exempt from income tax under the Income Tax Act of Canada.

### **1. Significant accounting policies:**

#### **(a) Fund accounting**

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations published by the Chartered Professional Accountants of Canada (CPA Canada) using the deferral method of reporting revenues. The financial position and operations of the Gallery are presented using the Fund Method.

The specific funds in use are as follows:

#### **Operating Fund**

This fund consists of all amounts not internally or externally restricted and primarily relate to the day to day operations of the Gallery and the related assets and liabilities.

#### **Lord Beaverbrook Fund**

The assets of this fund grew from a gift to the Gallery from the Right Hon. William Maxwell Baron Beaverbrook in 1957. The primary purpose of this fund is to generate investment income to assist in supporting the operations of the Gallery.

#### **Unrestricted Endowment Fund**

The assets of the Endowment Fund accumulated over many years from various contributions to the Gallery. The primary purpose of this fund is to generate contributions and investment income to assist in supporting the operations of the Gallery.

#### **Senator Richard Hatfield Memorial Fund**

The assets of this externally restricted fund grew from an initial contribution of \$2,000,000 during 1992 - 1994 from the Federal Government Ministry of Communication. This contribution is to be used to fund acquisitions of Canadian works of art, for the establishment and operation of exhibitions and education extension programs. A percentage of the investment income may also be used to fund certain administrative expenses upon approval of the Government of Canada.

#### **Externally Restricted Endowment Fund 2012**

The assets of the Endowment Fund 2012 are being accumulated from funds contributed through the capital campaign that is currently underway. The primary purpose of this fund is to generate contributions and investment income to assist in supporting the charitable purposes of the Gallery. The terms of the endowment are such that no encroachment of original principal may be made for a period of ten years from the date of original gift. Any withdrawals of principal require approval by a special majority of the board of directors as well as the written consent of the Province of New Brunswick.

#### **Capital Campaign**

The capital campaign is a temporary fund, the purpose of which is to generate contributions to support proposed infrastructure projects and to provide capital for the Endowment Fund - 2012.

All balances due amongst funds are non-interest bearing and have no set terms of repayment.

**THE BEAVERBROOK ART GALLERY**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**1. Significant accounting policies (continued):**

**(b) Revenue recognition**

Restricted contributions are recognized as revenue of the appropriate fund in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue of the appropriate fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

**(c) Inventory**

Inventory is recorded at the lower of cost and net realizable value. Cost is determined on the average cost basis.

**(d) Capital assets**

Land and buildings acquired before 1970 are recorded at their replacement cost as at December 31, 1970. Additions since that date have been capitalized at cost. Amortization of the building is provided for on a straight line basis over 40 years. No amortization is recorded for assets under construction.

All purchases of equipment, furniture and fixtures are capitalized and amortized at 20% per year on a declining balance basis.

**(e) Paintings and other works of art**

The Gallery's collection of works of art is recorded at a nominal amount. Costs relating to the acquisition of works of art for the collection are included in expenses in the period in which they are incurred.

**(f) Investments**

Investments are recorded at fair value using quoted market prices with changes in fair value recognized as unrealized gains or losses in net income. Transaction costs related to the purchase of investments are charged to income in the period they occur.

**(g) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and balances with banks.

**(h) Use of estimates**

In preparing the Gallery's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual amounts could differ from these estimates.



**THE BEAVERBROOK ART GALLERY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**1. Significant accounting policies (continued):**

**(i) Financial instruments**

**(i) Measurement of financial instruments**

The Gallery initially measures its financial instruments at fair value.

The Gallery subsequently measures its financial instruments at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Gallery has elected to carry investments at fair value.

Transaction costs on the acquisition of financial instruments subsequently carried at fair value are expensed as incurred. The carrying value of all other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

**(ii) Impairment**

At the end of each reporting period the Gallery assesses whether there are any indications that the financial asset measured at amortized cost may be impaired.

When there is an indication of impairment, the Gallery determines whether a significant adverse change has occurred during the period in the expected timing or amount of future in cash flows from the financial asset. Where there is a significant adverse change, the carrying amount of the asset is reduced to the highest of the present value of future cash flows, the amount that could be realized from selling the financial asset or the amount that could be realized from exercising any collateral. If events and circumstances reverse in a future period, an impairment loss may be reversed to the extent of the improvement, not exceeding the initial carrying value.

**(j) Allocation of expenses**

Overhead and wage expenses are allocated to the capital campaign on the following bases:

Wages and benefits	Employees primarily responsible for capital campaign activities are fully charged to the capital campaign. General administration wages are allocated based on estimated percentage of time spent on the capital campaign.
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Overhead	Overhead expenses are allocated based on estimated percentage of usage of the facilities involved.
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**THE BEAVERBROOK ART GALLERY**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**2. Restricted funds:**

Restricted funds reflected under the operating fund column relate to a working capital reserve funded by the NB Foundation for the Arts.

**3. Capital assets - operating fund:**

	-----2016-----			-----2015-----
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Building:				
Original building	\$ 1,185,493	\$ 1,024,347	\$ 161,146	\$ 190,784
East wing	3,298,550	2,836,167	462,383	544,846
North and south wall reconstruction	389,583	292,189	97,394	107,134
Marion McCain Atlantic Gallery	1,368,092	752,452	615,640	649,842
Building retrofit	1,278,551	596,048	682,503	714,466
Phase 1 improvements	3,787,404	662,976	3,124,428	3,219,113
Harriet Irving Gallery	<u>1,448,934</u>	<u>36,223</u>	<u>1,412,711</u>	<u>-</u>
	12,756,607	6,200,402	6,556,205	5,426,185
Equipment	<u>232,474</u>	<u>198,102</u>	<u>34,372</u>	<u>22,302</u>
	<u>\$ 12,989,081</u>	<u>\$ 6,398,504</u>	<u>\$ 6,590,577</u>	<u>\$ 5,448,487</u>

**Capital assets - development fund:**

	-----2016-----			-----2015-----
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Projects in progress	\$ 7,616,579	\$ -	\$ 7,616,579	\$ 2,951,177
Equipment	<u>10,091</u>	<u>8,329</u>	<u>1,762</u>	<u>2,202</u>
	<u>\$ 7,626,670</u>	<u>\$ 8,329</u>	<u>\$ 7,618,341</u>	<u>\$ 2,953,379</u>

**THE BEAVERBROOK ART GALLERY**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**4. Bank indebtedness:**

	<u>2016</u>	<u>2015</u>
Royal Bank of Canada revolving demand facility to a maximum of \$300,000, interest payable monthly at prime plus 0.25%.	\$ 250,000	\$ 244,200
Royal Bank of Canada revolving demand facility to a maximum of \$4,900,000 interest payable monthly at prime plus 0.25%.	<u>1,640,000</u>	<u>-</u>
	<u>\$ 1,890,000</u>	<u>\$ 244,200</u>

The above debts are secured by a General Security Agreement, a collateral mortgage over Gallery property and assignment of the proceeds of all pledges made towards the construction of the Gallery expansion (this relates to the revolving demand facility to a maximum of \$4,900,000).

**5. Demand loan:**

	<u>2016</u>	<u>2015</u>
Province of New Brunswick, Regional Development Corporation, demand loan. The debt is secured by the assets of the Gallery with the exception of the assets of the endowment fund and is non-interest bearing as long as scheduled payments made. In the event of late payments or act of default, interest of 2.6% compounded semi-annually will be applied. The debt is repayable in monthly principal instalments of \$4,167 and matures in 2026.		
The original loan balance of \$2,000,000 has been reduced by \$1,500,000 subject to conditions, some of which have not yet been met. The primary condition in question is that the terms of repayment of the remaining balance must not be in default. The Gallery also must continue to operate a Gallery business and not become bankrupt as well some other conditions, readers may require further information.		
Should default occur, the entire balance of \$1,500,000 would become a liability of the Gallery. It is management's opinion that a breach of the conditions attached to this item are not likely and, as a result, the liability has not been recorded.	<u>\$ 475,299</u>	<u>\$ 2,000,000</u>

Principal repayments expected within each of the five next years are as follows:

2017	\$ 50,000
2018	50,000
2019	50,000
2020	50,000
2021	50,000

**THE BEAVERBROOK ART GALLERY**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**6. Deferred revenue:**

	<b><u>Opening Balances</u></b>	<b><u>Funds Received</u></b>	<b><u>Revenue Recognized</u></b>	<b><u>Closing Balances 2016</u></b>
Nellie Alberta Peacock Taylor Fund	\$ 55,572	\$ -	\$ -	\$ 55,572
Mary Hashey	29,924	-	-	29,924
Province of New Brunswick various exhibitions and projects	-	51,189	9,500	41,689
Canadian Heritage	-	62,876	-	62,876
Toronto Dominion Bank - Capital Maintenance fund	27,900	60,000	13,950	73,950
Funds related to various exhibitions and Publications	<u>57,030</u>	<u>53,950</u>	<u>33,138</u>	<u>77,842</u>
Total deferred operating fund revenue	<u>170,426</u>	<u>228,015</u>	<u>56,588</u>	<u>341,853</u>
Capital Campaign - funds deferred for:				
Infrastructure projects	4,242,133	937,020	-	5,179,153
Programs	456,710	245,288	125,053	576,945
Unrestricted	300,640	12,137	181,963	130,814
Endowment	133,132	2,238,841	2,371,973	-
Harriet Irving Gallery	<u>-</u>	<u>1,395,000</u>	<u>1,395,000</u>	<u>-</u>
Total deferred Capital Campaign revenue	<u>5,132,615</u>	<u>4,828,286</u>	<u>4,073,989</u>	<u>5,886,912</u>
	<u>\$ 5,303,041</u>	<u>\$ 5,056,301</u>	<u>\$ 4,130,577</u>	<u>\$ 6,228,765</u>

**THE BEAVERBROOK ART GALLERY**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**7. Deferred contributions:**

The Gallery has received donations for the acquisition of building facilities and improvements as follows:

<u>Assets</u>	<u>Sources</u>	<u>Value (Year of acquisition)</u>	<u>Year Acquired</u>
Original building	Lord Beaverbrook	\$ <u>890,000</u>	1970
East Wing	Beaverbrook Canadian Foundation	1,074,877	1983
	City of Fredericton	20,000	
	Government of Canada	750,000	
	Province of New Brunswick	300,000	
	Vaughan Foundation	1,084,414	
	Friends of the Beaverbrook Art Gallery	<u>10,000</u>	
		<u>3,239,291</u>	
North and South Wall Reconstruction	Endowment Fund	<u>389,583</u>	1987
Marion McCain Atlantic Gallery	Harrison McCain	<u>1,368,092</u>	1995
Retrofit	Endowment Fund	<u>1,255,000</u>	1998
Various Building Fund	Various	<u>103,861</u>	2001 to 2008
	Joseph and Fanny Oppenheimer Foundation	<u>200,000</u>	2003 and 2004
Revitalization project - phase I	Atlantic Canada Opportunities Agency	1,872,448	2010
	Canadian Heritage	1,500,000	2010
	TD Bank	<u>153,450</u>	2013 to 2015
Total Phase I Revitalization		<u>3,525,898</u>	
Harriet Irving Gallery		<u>1,448,933</u>	2016
		<u>\$ 12,420,658</u>	

These unamortized contributions are recognized as revenue at the same rate as the related building facilities and improvements are amortized.

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 4,982,533	\$ 5,204,380
Add: contributions allocated	1,448,933	69,750
Less: amortization (transfer to operating revenue)	<u>(323,375)</u>	<u>(291,597)</u>
Balance, end of year	<u>\$ 6,108,091</u>	<u>\$ 4,982,533</u>

**THE BEAVERBROOK ART GALLERY**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**8. Revenue - fees, sales, donations and other revenue:**

	<b><u>2016</u></b>	<b><u>2015</u></b>
<b>General fund:</b>		
Admissions	\$ 28,376	\$ 39,943
Advertising	11,650	1,200
Annual appeal	11,495	25,720
Catalogues and book sales	9,233	20,069
Donations	5,126	70,458
Education programme	61,809	71,051
Fundraising and special events	27,847	33,016
Gift shop (net of cost of sales - \$19,106, 2015 - \$19,130)	11,379	24,752
Loan fees	50,000	58,000
Membership fees	38,616	22,137
Miscellaneous	562	1,529
Photography	2,475	4,585
Rentals	<u>16,855</u>	<u>11,276</u>
Total operating fund fees, sales, donations and other revenue	275,423	383,736
<b>Capital Campaign:</b>		
Portion of contributions retained for administration (7% of total contributions)	<u>293,419</u>	<u>213,579</u>
	<u>\$ 568,842</u>	<u>\$ 597,315</u>

**9. Revenue - grants and contributions:**

	<b><u>2016</u></b>	<b><u>2015</u></b>
C.E. Baker Trust	\$ 13,808	\$ 9,077
Canada Council	45,000	45,000
City of Fredericton	36,453	36,453
Federal grants	20,225	-
Program grants, donations and fundraising	283,421	501,795
Province of New Brunswick	706,556	787,041
The Tecolote Foundation	<u>25,000</u>	<u>25,000</u>
Total operating fund grants and contributions	1,130,463	1,404,366
<b>Endowment 2012:</b>		
Capital Campaign contributions	<u>1,570,000</u>	<u>2,925,359</u>
	<u>\$ 2,700,463</u>	<u>\$ 4,329,725</u>



**THE BEAVERBROOK ART GALLERY**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**10. Expenses - administration:**

	<b><u>2016</u></b>	<b><u>2015</u></b>
Information technology	\$ 17,414	\$ 13,327
Insurance	57,077	59,075
Interest and bank charges	14,263	15,331
Miscellaneous	5,790	3,544
Off-site storage	16,673	15,569
Office	23,030	25,251
Postage	13,933	15,517
Printing	6,342	6,840
Professional fees	29,445	22,635
Purchases - special events	7,902	4,024
Telephone	41,806	31,304
Travel and conferences	<u>38,264</u>	<u>16,319</u>
	<u>\$ 271,939</u>	<u>\$ 228,736</u>

**11. Expenses - building maintenance and repairs:**

	<b><u>2016</u></b>	<b><u>2015</u></b>
Building and equipment repairs	\$ 113,044	\$ 420,978
Electricity	80,923	103,337
Steam heat/water	<u>18,812</u>	<u>15,845</u>
	<u>\$ 212,779</u>	<u>\$ 540,160</u>

**12. Expenses - Capital Campaign:**

	<b><u>2016</u></b>	<b><u>2015</u></b>
Consulting	\$ 97,953	\$ 134,719
Insurance	149	-
Marketing and promotion	36,638	86,577
Miscellaneous	1,002	5,303
Office supplies and postage	-	7,399
Professional fees	-	9,930
Rent	24,000	30,000
Telephone	1,765	4,717
Travel	1,450	344
Salary and benefits	<u>162,821</u>	<u>168,910</u>
	<u>\$ 325,778</u>	<u>\$ 447,899</u>

**THE BEAVERBROOK ART GALLERY**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**13. Net change in non-cash working capital:**

	<b><u>2016</u></b>	<b><u>2015</u></b>
Decrease (increase) in accounts receivable	\$ (137,144)	\$ (142,986)
Decrease (increase) in inventory	6,426	(9,415)
Decrease (increase) in prepaid expenses	(99,629)	(7,983)
Decrease (increase) in interfund accounts	281,333	(77,660)
Increase (decrease) in accounts payable and accrued liabilities	(10,905)	75,735
Increase (decrease) in deferred revenue	<u>171,427</u>	<u>(104,088)</u>
	<u>\$ 211,508</u>	<u>\$ (266,397)</u>

**14. Employee future benefits:**

The Gallery has a defined contribution pension plan for qualifying full time employees. Under the plan the Gallery contributes 5% of employee's earnings, not exceeding the limits set under the Income Tax Act of Canada. The amount contributed in 2016 related to the pension plan was \$36,195 (2015 - \$30,690).

**15. Financial instruments:**

The Gallery is exposed to the following risks through its financial instruments:

**Credit risk -**

The Gallery is exposed to credit risk with regards to its cash, accounts receivable and fixed income investments. Credit risk is the risk that a party may default on their financial obligations to the Gallery. The Gallery manages this risk by diversifying its fixed income investments by issuer and sector, dealing with major chartered banks and related institutions as well as other reputable institutions.

**Liquidity risk -**

Liquidity risk is the risk that the Gallery will not be able to meet a demand for cash or fund its obligations as they come due. The Gallery is exposed to liquidity risk and manages that risk through monitoring, budgeting and maintaining sufficient reserves to offset any foreseeable demand for liquidity.

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**15. Financial instruments (continued):**

**Market risk -**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risk. The Gallery is exposed to the three components of market risk through its portfolio investments and manages these risks by investing in a diversified portfolio through balanced pooled funds as well as on-going monitoring of those funds.

**Changes in risk -**

There have been no significant changes in the Gallery's risk exposures from the prior year.

**16. Investment income:**

All investments are held in balanced pooled funds and are presented at fair market value based on publicly available quotations. As a result a large proportion of the amounts reported as investment income are unrealized gains.