

Financial Statements

Art Gallery of Ontario
March 31, 2015



MANAGERIAL RESPONSIBILITIES

The Board of Trustees, which is responsible for, among other things, the financial statements of the **Art Gallery of Ontario** [the “Gallery”], delegates to management the responsibility of the financial statements. Responsibility for their review is that of the Finance Committee. Each year the Trustees of the Gallery appoint independent auditors to audit and report directly to them on the financial statements. The financial statements were prepared by management in accordance with Canadian accounting standards for not-for-profit organizations, which were consistently applied. Management maintains a system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. There are limits inherent in all systems based on the recognition that the cost of such systems should not exceed the benefits to be derived. Management believes its system provides the appropriate balance in this respect.

The Gallery’s Finance Committee, which carries out the function of an Audit Committee, is appointed by the Board of Trustees annually. The Finance Committee is comprised of members of the Board and two ex-officio non-voting members of management. The Finance Committee meets with management and with the independent auditors [who have free access to the Finance Committee] to satisfy itself that each group is properly discharging its responsibilities and to review the financial statements and the independent auditors’ report. The Finance Committee reports its findings to the Board of Trustees for its consideration in approving the financial statements for issuance to the Members of the Gallery.

Matthew Teitelbaum
Michael and Sonja Koerner Director and CEO
June 24, 2015

INDEPENDENT AUDITORS' REPORT

To the Members of the
Art Gallery of Ontario

We have audited the accompanying financial statements of the **Art Gallery of Ontario**, which comprise the balance sheet as at March 31, 2015 and the statements of operations and changes in net surplus (deficit) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 the **Art Gallery of Ontario** as at March 31, 2015 and 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.

Toronto, Canada
June 24, 2015

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Art Gallery of Ontario

BALANCE SHEET

[in thousands of dollars]

As at March 31

	2015	2014
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	16,625	13,328
Grants and accounts receivable	3,024	1,510
Inventories	813	683
Other [note 3]	834	3,114
Total current assets	21,296	18,635
Works of art, at nominal value [note 4]	1	1
Capital assets, net [note 5]	231,938	239,959
Accrued pension asset [note 12]	1,758	1,368
	254,993	259,963
LIABILITIES AND NET SURPLUS (DEFICIT)		
Current		
Accounts payable and accrued liabilities	10,636	8,528
Deferred contributions [note 7]	11,207	9,866
Deferred revenue	3,978	3,607
Total current liabilities	25,821	22,001
Deferred capital contributions [note 8]	229,539	236,792
Total liabilities	255,360	258,793
Net surplus (deficit) [note 10]	(367)	1,170
	254,993	259,963

See accompanying notes

On behalf of the Board of the Trustees:



Maxine Granovsky Gluskin
President
Trustee



Rupert Duchesne
Chair, Finance Committee
Trustee

Art Gallery of Ontario

STATEMENT OF OPERATIONS AND CHANGES IN NET SURPLUS (DEFICIT)

[in thousands of dollars]

Year ended March 31

	2015	2014
	\$	\$
REVENUE		
Government grants <i>[note 9]</i>	23,641	22,528
Admissions	3,633	4,776
Membership fees	4,546	4,347
Donations and bequests <i>[note 7]</i>	13,582	10,339
Education, outreach and program	1,570	1,547
Gallery shop	4,364	4,157
Food and beverage	9,115	9,350
The Art Gallery of Ontario Foundation <i>[notes 14[b] and 15]</i>	984	1,065
Investment income	284	271
Gifted works of art <i>[note 4]</i>	244,787	5,165
Miscellaneous	1,309	1,133
Amortization of deferred capital contributions <i>[note 8]</i>	8,799	9,130
	316,614	73,808
EXPENSES		
Administration <i>[notes 13 and 14[d]]</i>	6,816	5,686
Physical plant and security	9,519	8,916
Curatorial and exhibitions	14,827	15,756
Education, outreach and programs	5,251	4,971
Membership and fundraising	4,542	4,918
Marketing and promotion	4,527	5,140
Gallery shop <i>[note 13]</i>	4,255	4,238
Food and beverage <i>[note 13]</i>	8,829	8,705
Accession of art for collection <i>[note 4]</i>		
Gifted	244,787	5,165
Purchased	5,837	782
Amortization of capital assets	9,083	9,435
	318,273	73,712
Excess (deficiency) of revenue over expenses for the year	(1,659)	96
Net surplus (deficit), beginning of year	1,170	(1,582)
Remeasurements related to pension plan	122	2,656
Net surplus (deficit), end of year <i>[note 10]</i>	(367)	1,170

See accompanying notes

Art Gallery of Ontario

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2015	2014
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	(1,659)	96
Add (deduct) non-cash items		
Amortization of capital assets	9,083	9,435
Amortization of deferred capital contributions	(8,799)	(9,130)
Pension expense	1,631	1,438
Net change in non-cash working capital balances related to operations <i>[note 11]</i>	4,456	1,004
Employer contributions to pension plan	(1,899)	(1,973)
Cash provided by operating activities	2,813	870
INVESTING ACTIVITIES		
Purchase of capital assets	(1,062)	(3,057)
Cash used in investing activities	(1,062)	(3,057)
FINANCING ACTIVITIES		
Contributions restricted for capital asset purchases	1,546	2,941
Cash provided by financing activities	1,546	2,941
Net increase in cash and cash equivalents during the year	3,297	754
Cash and cash equivalents, beginning of year	13,328	12,574
Cash and cash equivalents, end of year	16,625	13,328

See accompanying notes

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2015

1. DESCRIPTION

The Art Gallery of Ontario [the “Gallery”] is incorporated under the Art Gallery of Ontario Act, 1966 [the “Act”] and is a transfer payment recipient of the Ministry of Tourism, Culture and Sport of the Province of Ontario by virtue of this Act. The Gallery holds its collection of works of art in trust for the people of Ontario.

The Art Gallery of Ontario Foundation [the “Foundation”] is incorporated under the laws of Ontario as a separate corporation without share capital and receives and manages the endowment funds held for the benefit of the Gallery. The accounts of the Foundation are not included in the accompanying financial statements. Funds from the Foundation are given to the Gallery when approved by the independent Board of Trustees of the Foundation [note 14].

The assets and liabilities of the Gallery’s pension plan are reported separately and are not included in these financial statements [note 12].

The Gallery is a registered charity under the Income Tax Act (Canada) and, as such, is exempt from income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Part III of the Chartered Professional Accountants of Canada [“CPA Canada”] Handbook - Accounting which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

Revenue recognition

The Gallery follows the deferral method of accounting for contributions, which include donations and government grants. Grants are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Donations are recorded when received since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized. Membership fees are deferred and recognized as revenue over the term covered by the fees. Revenue from the sale of goods and services is recorded when the goods are delivered and the services are rendered.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2015

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit, bankers' acceptances and guaranteed investment certificates with an original term to maturity of less than 90 days.

Inventories

Inventories, which represent goods held for resale, are valued at the lower of cost and net realizable value. Inventory value is determined using the weighted average method.

Works of art

The value of works of art has been excluded from the balance sheet except for a nominal value of \$1,000. Gifted works of art are recorded as revenue at values based on appraisals by independent appraisers. Accession of art for collection, both gifted and purchased, is expensed.

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

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are capitalized at fair market value at the date of contribution. Capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Buildings and building improvements	20 to 40 years
Equipment and furnishings	3 to 10 years

Other assets

Costs directly related to the development of future temporary exhibitions, future special events and special fundraising campaigns are presented as other assets when the Gallery can reliably demonstrate that there is a future economic benefit associated with these costs. These costs are expensed over their useful life, which for future temporary exhibitions is the period over which the exhibition is held, for future special events is the date of the event and for special fundraising campaigns is the period over which pledges are collected. Such costs are expensed immediately

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NOTES TO FINANCIAL STATEMENTS

March 31, 2015

when they are related to advertising or promotion and when there is insufficient evidence that the costs are recoverable.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the year end exchange rate. Revenue and expenses are translated at the rate in effect on the settlement date. Foreign exchange gains and losses are recorded in the statement of operations and changes in net surplus (deficit).

Donated materials and services

The value of materials and volunteer and other services donated to the Gallery is not recorded in the financial statements.

Pension plan

The Gallery maintains a defined benefit pension plan and accounts for this plan using the immediate recognition approach. Under this approach, the Gallery recognizes the amount of the accrued obligation net of the fair value of plan assets in the balance sheet. Current service and finance costs are expensed during the year, while remeasurements and other items, representing the total of the difference between actual and expected return on plan assets, actuarial gains and losses, and past service costs, are recognized as a direct increase or decrease in net surplus (deficit). The accrued pension asset (liability) is determined using a roll-forward technique to estimate the accrued asset (liability) using funding assumptions from the most recent actuarial valuation report prepared at least every three years. Pension plan assets are measured at fair value at the date of the balance sheet.

Contributions to the money purchase component of the pension plan are expensed when due.

Allocation of expenses

The costs of each function include the costs of personnel and other expenses that are directly related to the function. General support costs are not allocated except for amounts allocated to gallery shop and food and beverage related to facility operating costs.

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2015

3. OTHER ASSETS

Other assets consist of the following:

	2015		2014
	\$	[000s]	\$
Future exhibition costs	656		1,282
Prepaid expenses	178		1,832
	834		3,114

4. WORKS OF ART

- [a] As at March 31, 2015, the collection consisted of approximately 90,800 [2014 – 89,200] works of art. During fiscal 2015, the Gallery purchased 820 [2014 - 31] works of art at a total cost of \$5,837,000 [2014 - \$782,000]. Contributions to the collection included 822 [2014 - 361] works of art with an estimated fair value of \$244,787,000 [2014 - \$5,165,000].
- [b] A work of art with a net cost of \$933,000 [2014 – nil] was purchased in fiscal 2015 that will be funded by the proceeds of works of art sold through deaccessioning. During the year, 8 [2014 – nil] works of art were sold through deaccessioning for proceeds of \$67,500 [2014 – nil]. These proceeds were recognized as revenue in fiscal 2015. The remaining \$865,500 will be funded by the proceeds of deaccessioned works of art in fiscal 2016.
- [c] During the year, the Gallery entered into a donation agreement to fund the purchase of a collection of photographs with a cost of \$1,515,300. The donation is to be received in three installments with the first installment of \$756,500 received and recorded as revenue in fiscal 2015. The second and third installments totalling US\$605,900 are to be received on March 1, 2016 and March 1, 2017.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2015

5. CAPITAL ASSETS

Capital assets consist of the following:

	2015	
	Cost	Accumulated amortization
	\$	[000s] \$
Land	525	—
Buildings and building improvements		
Transformation AGO	220,964	36,240
Weston Family Learning Centre	19,327	3,417
Other	89,715	61,931
Equipment and furnishings	18,679	15,684
	349,210	117,272
Less accumulated amortization	117,272	
Net book value	231,938	
	2014	
	Cost	Accumulated amortization
	\$	[000s] \$
Land	525	—
Buildings and building improvements		
Transformation AGO	220,915	30,716
Weston Family Learning Centre	19,318	2,423
Other	89,320	60,094
Equipment and furnishings	18,086	14,972
	348,164	108,205
Less accumulated amortization	108,205	
Net book value	239,959	

Included in other buildings and building improvements is \$1,601,500 [2014 - \$2,184,500] related to construction in progress which will be amortized once the capital assets are put in service.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2015

6. CREDIT FACILITY

The Gallery has a \$4,500,000 revolving demand line of credit for operating purposes bearing interest at the bank's prime lending rate. As at March 31, 2015 and 2014, no amount was drawn on this line of credit.

7. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted grants and donations for acquisitions of works of art and other restricted purposes. The changes in the deferred contributions balance are as follows:

	2015		2014
	\$	[000s]	\$
Balance, beginning of year	9,866		6,117
Grants and donations received for restricted purposes	6,257		5,800
Proceeds from sale of deaccessioned works of art <i>[note 4]</i>	68		—
Less amounts recognized as revenue during the year <i>[note 4]</i>	(4,984)		(2,051)
Balance, end of year	11,207		9,866

8. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets and repayment of debt incurred to fund capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations and changes in net surplus (deficit). The changes in the deferred capital contributions balance are as follows:

	2015		2014
	\$	[000s]	\$
Balance, beginning of year	236,792		242,981
Less amortization of deferred capital contributions	(8,799)		(9,130)
Contributions restricted for capital assets <i>[note 9[b]]</i>	1,546		2,941
Balance, end of year	229,539		236,792

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NOTES TO FINANCIAL STATEMENTS

March 31, 2015

9. GOVERNMENT GRANTS

[a] Details of government grants recorded as revenue are as follows:

	2015		2014
	\$	[000s]	\$
Government of Ontario	21,647		21,647
Government of Canada	1,339		297
City of Toronto	655		584
	23,641		22,528

[b] During the year, the Gallery received \$1,170,000 [2014 - \$1,300,000] in government grants from the Government of Ontario for the acquisition of capital assets. These grants are recorded as deferred capital contributions [note 8] and recognized as revenue in the year in which the related expenses are recognized.

10. NET SURPLUS (DEFICIT)

Changes in the components of net surplus (deficit) as at March 31 are as follows:

	2015			2014
	Accumulated surplus (deficit)	Board restricted	Total	Total
	\$	\$	\$ [000s]	\$
Net surplus (deficit), beginning of year	851	319	1,170	(1,582)
Excess (deficiency) of revenue over expenses for the year	(1,659)	—	(1,659)	96
Transfers	73	(73)	—	—
Remeasurements related to pension plan	122	—	122	2,656
Net surplus (deficit), end of year	(613)	246	(367)	1,170

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NOTES TO FINANCIAL STATEMENTS

March 31, 2015

11. STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2015		2014
	\$	[000s]	\$
Grants and accounts receivable	(1,514)		143
Inventories	(130)		165
Other assets	2,280		(2,403)
Accounts payable and accrued liabilities	2,108		(1,135)
Deferred contributions	1,341		3,749
Deferred revenue	371		485
	4,456		1,004

12. PENSION PLAN

The Gallery maintains a pension plan that covers substantially all of its employees. The plan provides retirees with pensions on a money purchase basis or on a defined benefit basis using a formula based on service and the best five years of earnings.

The assets and liabilities of the Gallery's pension plan are reported separately and not included in these financial statements. The latest actuarial valuation for the pension plan was performed as of January 1, 2014. The Gallery measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at March 31 of each year. Information about the defined benefit component of the Gallery's pension plan is as follows:

	2015		2014
	\$	[000s]	\$
Accrued benefit obligation	31,090		27,816
Fair value of plan assets	32,848		29,184
Accrued pension asset	(1,758)		(1,368)

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2015

13. ALLOCATION OF EXPENSES

General support costs have been allocated to the following functions:

	2015		2014
	\$	[000s]	\$
Gallery shop	58		65
Food and beverage	232		220
	290		285

14. THE ART GALLERY OF ONTARIO FOUNDATION

[a] The accounts of the Foundation are presented separately and are not consolidated in these financial statements. As at December 31, the fund balances of the Foundation were as follows:

	2015		2014
	\$	[000s]	\$
Unrestricted	1,436		1,289
Restricted	6,756		6,064
Endowment	38,856		34,682
	47,048		42,035

[b] During the year ended March 31, the Foundation contributed the following amounts for the indicated purposes:

	2015		2014
	\$	[000s]	\$
Operations	783		584
Acquisitions	201		481
	984		1,065

[c] The Foundation receives consulting services from MT101 Corp., a corporation controlled by Matthew Teitelbaum, the Michael and Sonja Koerner Director and CEO of the Gallery, who is not an employee of the Foundation. The expenses recorded in the Foundation accounts

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2015

related to payments to the Gallery's Director and CEO for these services during the year ended December 31, 2014 totalled \$177,362 [2013 - \$127,304].

[d] During the year, the Gallery made a grant of \$54,300 [2014 - \$137,000] to the Foundation which is included in administration expenses.

15. VOLUNTEERS OF THE ART GALLERY OF ONTARIO

The Volunteers of the Art Gallery of Ontario support the Gallery's mission through their active support of Gallery initiatives and programming. In accordance with the current partnership between the Gallery and the Volunteers of the Art Gallery of Ontario, all monies attributable to volunteer efforts are reflected directly in the Gallery's revenue.

During the year ended March 31, 2015, the Volunteers of the Art Gallery of Ontario donated \$43,000 [2014 - \$40,000] for the sponsorship of *Kid's Activity Bag*, from endowment income of the Volunteer Endowment Trust. These funds were transferred from the Volunteer Funds held within the Foundation and are recorded as Foundation revenue in the statement of operations and changes in net surplus (deficit).

16. FINANCIAL INSTRUMENTS

The Gallery is exposed to various financial risks through transactions in financial instruments.

Credit risk

The Gallery is exposed to credit risk in connection with its grants and accounts receivable because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. The Gallery is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

Currency risk

The Gallery is exposed to foreign currency risk with respect to its accounts receivable and accounts payable denominated in foreign currencies, as the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

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Liquidity risk

The Gallery is exposed to the risk that it will encounter difficulty in meeting obligations associated with its financial liabilities.

