

Financial Statements

Art Gallery of Ontario
March 31, 2016



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.

Michael and Sonja Koerner Director and CEO
June 22, 2016

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, 2016 and the statements of operations and changes in net 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, 2016 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 22, 2016

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Art Gallery of Ontario

BALANCE SHEET

[in thousands of dollars]

As at March 31

	2016	2015
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	16,885	16,625
Grants and accounts receivable	2,358	3,024
Inventories	875	813
Other [note 3]	1,397	834
Total current assets	21,515	21,296
Works of art, at nominal value [note 4]	1	1
Capital assets, net [note 5]	226,013	231,938
Accrued pension asset [note 12]	—	1,758
	247,529	254,993
LIABILITIES AND NET DEFICIT		
Current		
Accounts payable and accrued liabilities	8,741	10,636
Deferred contributions [note 7]	10,950	11,207
Deferred revenue	4,523	3,978
Total current liabilities	24,214	25,821
Deferred capital contributions [note 8]	224,621	229,539
Accrued pension liability [note 12]	333	—
Total liabilities	249,168	255,360
Net deficit [note 10]	(1,639)	(367)
	247,529	254,993

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 DEFICIT

[in thousands of dollars]

Year ended March 31

	2016	2015
	\$	\$
REVENUE		
Government grants <i>[note 9]</i>	22,767	23,641
Admissions	3,172	3,633
Membership fees	4,699	4,546
Donations and bequests <i>[note 7]</i>	10,148	13,582
Education, outreach and program	1,647	1,570
Gallery shop	4,330	4,364
Food and beverage	8,904	9,115
The Art Gallery of Ontario Foundation <i>[notes 14[b] and 15]</i>	1,932	984
Investment income	326	284
Gifted works of art <i>[note 4]</i>	24,638	244,787
Miscellaneous <i>[note 4]</i>	1,577	1,309
Amortization of deferred capital contributions <i>[note 8]</i>	8,914	8,799
	93,054	316,614
EXPENSES		
Administration <i>[notes 13 and 14[d]]</i>	5,911	6,816
Physical plant and security	9,683	9,519
Curatorial and exhibitions	14,199	14,827
Education, outreach and programs	5,601	5,251
Membership and fundraising	4,711	4,542
Marketing and promotion	4,051	4,527
Gallery shop <i>[note 13]</i>	4,215	4,255
Food and beverage <i>[note 13]</i>	8,845	8,829
Accession of art for collection <i>[note 4]</i>		
Gifted	24,638	244,787
Purchased	742	5,837
Amortization of capital assets	9,248	9,083
	91,844	318,273
Excess (deficiency) of revenue over expenses for the year	1,210	(1,659)
Net surplus (deficit), beginning of year	(367)	1,170
Remeasurements related to pension plan	(2,482)	122
Net deficit, end of year <i>[note 10]</i>	(1,639)	(367)

See accompanying notes

Art Gallery of Ontario

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2016	2015
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	1,210	(1,659)
Add (deduct) non-cash items		
Amortization of capital assets	9,248	9,083
Amortization of deferred capital contributions	(8,914)	(8,799)
Pension expense	1,583	1,631
Net change in non-cash working capital balances related to operations <i>[note 11]</i>	(1,566)	4,456
Employer contributions to pension plan	(1,974)	(1,899)
Cash provided by (used in) operating activities	(413)	2,813
INVESTING ACTIVITIES		
Purchase of capital assets	(3,323)	(1,062)
Cash used in investing activities	(3,323)	(1,062)
FINANCING ACTIVITIES		
Contributions restricted for capital asset purchases	3,996	1,546
Cash provided by financing activities	3,996	1,546
Net increase in cash and cash equivalents during the year	260	3,297
Cash and cash equivalents, beginning of year	16,625	13,328
Cash and cash equivalents, end of year	16,885	16,625

See accompanying notes

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

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 recorded 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, 2016

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, 2016

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

Foreign currencies translation

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 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 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.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2016

Financial instruments

The Gallery initially measures its financial assets and liabilities at fair value. The Gallery subsequently measures all its financial assets and liabilities at amortized cost, net of any provisions for impairment.

Financial assets and liabilities measured at amortized cost include cash and cash equivalents, grants and accounts receivable and accounts payable and accrued liabilities.

3. OTHER ASSETS

Other assets consist of the following:

	2016		2015
	\$	[000s]	\$
Future exhibition costs	1,040		656
Prepaid expenses	357		178
	1,397		834

4. WORKS OF ART

[a] As at March 31, 2016, the collection consisted of approximately 91,100 [2015 – 86,000] works of art. During fiscal 2016, the Gallery purchased 35 [2015 – 820] works of art at a total cost of \$742,000 [2015 – \$5,837,000]. Contributions to the collection included 5,165 [2015 – 822] works of art with an estimated fair value of \$24,638,000 [2015 – \$244,787,000]. During the year, 78 [2015 – 8] deaccessioned works of art were sold realizing proceeds of \$2,465,400 [2015 – \$67,500].

[b] A work of art with a net cost of \$933,000 was purchased in fiscal 2015 that was funded by the proceeds of works of art sold through deaccessioning during the year. Of the proceeds from deaccessioned works of art, \$865,500 was recognized as revenue in fiscal 2016 related to this work of art.

[c] During fiscal 2015, 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 installment of US\$302,950 was received and recorded during the year. The third installment of US\$302,950 is to be received on March 1, 2017.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2016

5. CAPITAL ASSETS

Capital assets consist of the following:

	2016	
	Cost	Accumulated amortization
	\$	[000s] \$
Land	525	—
Buildings and building improvements		
Transformation AGO	220,989	41,763
Weston Family Learning Centre	19,331	4,412
Other	91,669	63,790
Equipment and furnishings	20,019	16,555
	352,533	126,520
Less accumulated amortization	126,520	
Net book value	226,013	
	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	

Included in other buildings and building improvements is \$3,035,696 [2015 – \$1,601,500] 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, 2016

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, 2016 and 2015, 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:

	2016	2015
	\$	[000s] \$
Balance, beginning of year	11,207	9,866
Grants and donations received for restricted purposes	4,798	6,257
Proceeds from sale of deaccessioned works of art <i>[note 4]</i>	2,465	68
Less amounts recognized as revenue during the year <i>[note 4]</i>	(7,520)	(4,984)
Balance, end of year	10,950	11,207

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 deficit. The changes in the deferred capital contributions balance are as follows:

	2016	2015
	\$	[000s] \$
Balance, beginning of year	229,539	236,792
Less amortization of deferred capital contributions	(8,914)	(8,799)
Contributions restricted for capital assets <i>[note 9[b]]</i>	3,996	1,546
Balance, end of year	224,621	229,539

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NOTES TO FINANCIAL STATEMENTS

March 31, 2016

9. GOVERNMENT GRANTS

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

	2016		2015
	\$	[000s]	\$
Government of Ontario	21,837		21,647
Government of Canada	303		1,339
City of Toronto	627		655
	22,767		23,641

[b] During the year, the Gallery received \$1,010,000 [2015 – \$1,170,000] in government grants from the Government of Ontario for the acquisition of capital assets. These grants are recorded as deferred capital contributions [note 8].

10. NET DEFICIT

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

	2016			2015
	Accumulated surplus (deficit)	Board restricted	Total	Total
	\$	\$	\$ [000s]	\$
Net deficit, beginning of year	(613)	246	(367)	1,170
Excess (deficiency) of revenue over expenses for the year	1,210	—	1,210	(1,659)
Transfers	7	(7)	—	—
Remeasurements related to pension plan	(2,482)	—	(2,482)	122
Net deficit, end of year	(1,878)	239	(1,639)	(367)

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NOTES TO FINANCIAL STATEMENTS

March 31, 2016

11. STATEMENT OF CASH FLOWS

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

	2016		2015
	\$	[000s]	\$
Grants and accounts receivable	666		(1,514)
Inventories	(62)		(130)
Other assets	(563)		2,280
Accounts payable and accrued liabilities	(1,895)		2,108
Deferred contributions	(257)		1,341
Deferred revenue	545		371
	(1,566)		4,456

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:

	2016		2015
	\$	[000s]	\$
Accrued benefit obligation	33,382		31,090
Fair value of plan assets	33,049		32,848
Accrued pension liability (asset)	333		(1,758)

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

13. ALLOCATION OF EXPENSES

General support costs have been allocated to the following functions:

	2016		2015
	\$	[000s]	\$
Gallery shop	62		58
Food and beverage	245		232
	307		290

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	1,579		1,436
Restricted	6,766		6,756
Endowment	65,158		38,856
	73,503		47,048

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

	2016		2015
	\$	[000s]	\$
Operations	1,331		783
Acquisitions	601		201
	1,932		984

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- [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 for the year ended December 31, 2015 related to these services was \$77,955 [2014 – \$177,362]. The 2014 year expense includes an amount related to services provided in fiscal 2013 that was approved in fiscal 2014.
- [d] During the year, the Gallery made a grant of \$22,100 [2015 – \$54,300] 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, 2016, the Volunteers of the Art Gallery of Ontario donated \$47,000 [2015 – \$43,000] for the sponsorship of an upcoming exhibition titled, *Icon of a New Nature* [2015 - *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 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.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2016

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.

Liquidity risk

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

