

Financial Statements

Art Gallery of Ontario

March 31, 2014



Building a better
working world

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 25, 2014



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, 2014 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, 2014 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 25, 2014.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants



Art Gallery of Ontario

BALANCE SHEET

[in thousands of dollars]

As at March 31

	2014	2013
	\$	\$
		<i>[restated - note 17]</i>
ASSETS		
Current		
Cash and cash equivalents	13,328	12,574
Grants and accounts receivable	1,510	1,653
Inventories	683	848
Other <i>[note 3]</i>	3,114	711
Total current assets	18,635	15,786
Works of art, at nominal value <i>[note 4]</i>	1	1
Capital assets, net <i>[note 5]</i>	239,959	246,337
Accrued pension asset <i>[note 12]</i>	1,368	—
	259,963	262,124
LIABILITIES AND NET SURPLUS (DEFICIT)		
Current		
Accounts payable and accrued liabilities	8,528	9,663
Deferred contributions <i>[note 7]</i>	9,866	6,117
Deferred revenue	3,607	3,122
Total current liabilities	22,001	18,902
Deferred capital contributions <i>[notes 8]</i>	236,792	242,981
Accrued pension liability <i>[note 12]</i>	—	1,823
Total liabilities	258,793	263,706
Net surplus (deficit) <i>[note 10]</i>	1,170	(1,582)
	259,963	262,124

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

	2014 \$	2013 \$
		<i>[restated - note 17]</i>
REVENUE		
Government grants <i>[notes 7 and 9]</i>	22,528	26,604
Admissions	4,776	5,618
Membership fees	4,347	4,275
Donations and bequests <i>[notes 7]</i>	10,339	9,283
Education, outreach and program	1,547	1,552
Gallery shop	4,157	4,839
Food and beverage	9,350	8,010
The Art Gallery of Ontario Foundation <i>[notes 14[b] and 15]</i>	1,065	793
Investment income	271	234
Gifted works of art <i>[note 4]</i>	5,165	8,839
Miscellaneous	1,133	892
Amortization of deferred capital contributions	9,130	9,207
	73,808	80,146
EXPENSES		
Administration <i>[notes 13 and 14[d]]</i>	5,686	7,435
Physical plant and security	8,916	9,564
Curatorial and exhibitions	15,756	15,980
Education, outreach and programs	4,971	4,676
Membership and fundraising	4,918	4,702
Marketing and promotion	5,140	5,112
Gallery shop <i>[note 13]</i>	4,238	4,551
Food and beverage <i>[note 13]</i>	8,705	8,060
Accession of art for collection <i>[note 4]</i>		
Gifted	5,165	8,839
Purchased	782	514
Interest	—	75
Amortization of capital assets	9,435	9,523
	73,712	79,031
Excess of revenue over expenses for the year	96	1,115
Remeasurements related to pension plan <i>[note 12[b]]</i>	2,656	708
Net deficit, beginning of year	(1,582)	(3,405)
Net surplus (deficit), end of year <i>[note 10]</i>	1,170	(1,582)

See accompanying notes



Art Gallery of Ontario

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2014	2013
	\$	\$
		<i>[restated - note 17]</i>
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	96	1,115
Add (deduct) non-cash items		
Amortization of capital assets	9,435	9,523
Amortization of deferred capital contributions	(9,130)	(9,207)
Pension expense	1,438	1,454
Net change in non-cash working capital balances related to operations <i>[note 11]</i>	1,004	1,401
Employer contributions to pension plan	(1,973)	(1,956)
Cash provided by operating activities	870	2,330
INVESTING ACTIVITIES		
Purchase of capital assets	(3,057)	(2,603)
Cash used in investing activities	(3,057)	(2,603)
FINANCING ACTIVITIES		
Contributions restricted for capital asset purchases	2,941	4,288
Repayment of long-term debt	—	(2,300)
Cash provided by financing activities	2,941	1,988
Net increase in cash and cash equivalents during the year	754	1,715
Cash and cash equivalents, beginning of year	12,574	10,859
Cash and cash equivalents, end of year	13,328	12,574

See accompanying notes



Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

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 and Culture 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 15].

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.

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

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.

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

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NOTES TO FINANCIAL STATEMENTS

March 31, 2014

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 liability is determined using a roll-forward technique to estimate the accrued 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, 2014

3. OTHER ASSETS

Other assets consist of the following:

	2014		2013
	\$	[000s]	\$
Future exhibition costs	1,282		603
Prepaid expenses	1,832		108
	3,114		711

4. WORKS OF ART

As at March 31, 2014, the collection consisted of approximately 89,200 [March 31, 2013 - 88,800] works of art. During fiscal 2014, the Gallery purchased 31 [2013 - 82] works of art at a total cost of \$782,000 [2013 - \$514,000]. Contributions to the collection included 361 [2013 - 4,978] works of art with an estimated fair value of \$5,165,000 [2013 - \$8,839,000].

5. CAPITAL ASSETS

Capital assets consist of the following:

	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	

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NOTES TO FINANCIAL STATEMENTS

March 31, 2014

	2013	
	Cost	Accumulated amortization
	\$	[000s] \$
Land	525	—
Buildings and building improvements		
Transformation AGO	220,725	25,193
Weston Family Learning Centre	19,187	1,429
Other	87,642	57,932
Equipment and furnishings	17,028	14,216
	345,107	98,770
Less accumulated amortization	98,770	
Net book value	246,337	

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, 2014 and 2013, 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:

	2014	2013
	\$	[000s] \$
Balance, beginning of year	6,117	7,247
Grants and donations received for restricted purposes	5,800	3,795
Less amounts recognized as revenue during the year	(2,051)	(4,925)
Balance, end of year	9,866	6,117

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NOTES TO FINANCIAL STATEMENTS

March 31, 2014

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:

	2014	2013
	\$	[000s] \$
Balance, beginning of year	242,981	247,900
Less amortization of deferred capital contributions	(9,130)	(9,207)
Contributions restricted for capital assets <i>[note 9[b]]</i>	2,941	4,288
Balance, end of year	236,792	242,981

9. GOVERNMENT GRANTS

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

	2014	2013
	\$	[000s] \$
Government of Ontario	21,647	25,606
Government of Canada	297	441
City of Toronto	584	557
	22,528	26,604

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NOTES TO FINANCIAL STATEMENTS

March 31, 2014

[b] During the year, the Gallery received \$1,300,000 [2013 - \$2,270,000] in government grants from the Government of Ontario for the acquisition or repair 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:

	2014			2013
	Accumulated surplus (deficit) \$	Board restricted \$	Total \$ [000s]	Total \$
Net surplus (deficit), beginning of year	(1,900)	318	(1,582)	(3,405)
Excess of revenue over expenses for the year	95	1	96	1,115
Remeasurements related to pension plan <i>[note 12[b]]</i>	2,656	—	2,656	708
Net surplus (deficit), end of year	851	319	1,170	(1,582)

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

11. STATEMENT OF CASH FLOWS

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

	2014		2013
	\$	[000s]	\$
Grants and accounts receivable	143		(658)
Inventories	165		17
Other assets	(2,403)		1,031
Accounts payable and accrued liabilities	(1,135)		1,831
Deferred contributions	3,749		(1,130)
Deferred revenue	485		310
	1,004		1,401

12. PENSION PLAN

- [a] 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.
- [b] The expense for the Gallery's pension plan for the year ended March 31 included in these financial statements is as follows:

	2014		2013
	\$	[000s]	\$
Defined benefit component	1,005		1,055
Money purchase component	433		399
	1,438		1,454

Remeasurements, which are recognized directly in net assets rather than in the statement of operations, consist of the difference between actual and expected return on plan assets, which is a gain of \$2,656,000 [2013 - \$708,000].

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

Other information about the Gallery's pension plan included in these financial statements for the year ended March 31 is as follows:

	2014		2013
	\$	[000s]	\$
Employees' contributions	382		357
Employer's contributions - defined benefit component			
Normal	1,070		1,006
Special	470		551
Employer's contributions - money purchase component	433		399
Benefits paid - defined benefit component	675		873

[c] 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, 2011. 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:

	2014		2013
	\$	[000s]	\$
Accrued benefit obligation	27,816		25,824
Fair value of plan assets	29,184		24,001
Accrued pension (asset) liability	(1,368)		1,823

[d] The significant actuarial assumptions adopted in measuring the Gallery's accrued benefit obligation and expense are as follows:

	2014		2013
	%		%
Accrued benefit obligation			
Discount rate	5.20		5.20
Salary increases	3.00		3.00
Expense			
Discount rate	5.20		5.20
Expected long-term rate of return on plan assets	5.20		5.20
Salary increases	3.00		3.00

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

[e] The pension plan assets are held in investments managed by an external investment manager. As at March 31, the mix of the investments is as follows:

	2014	2013
	%	%
Money market	2	3
Canadian bonds	31	33
Canadian equities	32	33
U.S. equities	17	16
Other international equities	18	15
	100	100

13. ALLOCATION OF EXPENSES

General support costs have been allocated to the following functions:

	2014	2013
	\$	\$
	[000s]	[000s]
Gallery shop	65	58
Food and beverage	220	207
	285	265

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

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:

	2013		2012
	\$	[000s]	\$
Unrestricted	1,289		1,106
Restricted	6,064		4,691
Endowment	34,682		30,410
	42,035		36,207

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

	2014		2013
	\$	[000s]	\$
Operations	584		509
Acquisitions	481		284
	1,065		793

[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 related to payments to the Gallery's Director and CEO for these services during the year ended December 31, 2013 totalled \$127,306 [2012 - \$127,306].

[d] During the year, the Gallery made a grant of \$137,000 [2013 - \$566,000] 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.

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

During the year ended March 31, 2014, the Volunteers of the Art Gallery of Ontario donated \$43,000 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). In fiscal 2013, an amount of \$38,000 was donated for the exhibition sponsorship of *Joseph Sudek: The Legacy of a Deeper Vision*.

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.

Liquidity risk

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

17. ADOPTION OF REPORTING EMPLOYEE FUTURE BENEFITS BY NOT-FOR-PROFIT ORGANIZATIONS

Effective April 1, 2013, the Gallery early adopted Section 3463, *Reporting Employee Future Benefits by Not-for-Profit Organizations*, of the CPA Canada Handbook - Accounting, on a retrospective basis. Section 3463.01 provides that a not-for-profit organization applies Section 3462 except as otherwise provided for in Section 3463.

In accordance with Section 3463, remeasurements and other items are recognized directly in net assets on the balance sheet, rather than in the statement of operations and changes in net surplus (deficit), and presented as a separately identified item in the changes in net surplus (deficit). In adopting Section 3463, the Gallery now determines its obligations for its employee future benefits using funding assumptions rather than using accounting assumptions.

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

The following table provides a reconciliation of the net assets as at April 1, 2012 and the excess of revenue over expenses for the year ended March 31, 2013 as previously reported with those computed after adopting Section 3463:

	Excess of revenue over expenses for the year ended March 31, 2013	Net surplus (deficit) as at April 1, 2012
	\$	\$
Excess of revenues over expenses for the year and net surplus – as previous reported	735	2,604
Employee future benefits:		
Immediate recognition approach	480	(10,011)
Use of funding assumptions	(100)	4,002
Excess of revenues over expenses for the year and net deficit – restated	1,115	(3,405)

Immediate recognition approach

Prior to adopting Section 3463, the Gallery used the deferral and amortization approach to account for its pension plan. Section 3463 requires the use of the immediate recognition approach whereby the accrued benefit obligation, net of plan assets, is recognized on the balance sheet. As a result of this change, the unamortized loss as at April 1, 2012 of \$10,011,000 was deducted from the net surplus balance as at that date.

Use of funding assumptions

The Gallery, as provided for in Section 3462, now measures its defined benefit employee future benefit obligations using actuarial valuations prepared using funding assumptions, rather than using accounting assumptions. As April 1, 2012, the employee future benefit obligation decreased by \$4,002,000 as a result of this change. The Gallery's excess of revenue over expenses for the year ended March 31, 2013 decreased by \$100,000 as a result of an increase in employee future benefits expense caused by the change in the discount rate assumptions.

