

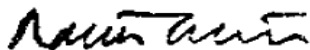
Financial Statements

Art Gallery of Ontario
March 31, 2009

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 generally accepted accounting principles, 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 9, 2009.

AUDITORS' REPORT

To the Members of the
Art Gallery of Ontario

We have audited the balance sheet of the **Art Gallery of Ontario** as at March 31, 2009 and the statements of operations and changes in net deficit and cash flows for the year then ended. These financial statements are the responsibility of the Gallery's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Gallery as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
June 9, 2009.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Art Gallery of Ontario

BALANCE SHEET

[in thousands of dollars]

As at March 31

	2009 \$	2008 \$
		<i>[restated – note 18]</i>
ASSETS		
Current		
Cash and cash equivalents	25,225	—
Due from the Province of Ontario <i>[note 8[a]]</i>	—	8,600
Other grants and accounts receivable <i>[note 13[d]]</i>	1,808	1,840
Inventories	1,934	282
Total current assets	28,967	10,722
Deferred expenses <i>[notes 11[c] and 15]</i>	2,574	2,977
Works of art, at nominal value <i>[note 3]</i>	1	1
Capital assets, net <i>[note 4]</i>	255,343	209,744
	286,885	223,444
LIABILITIES AND NET DEFICIT		
Current		
Bank indebtedness <i>[note 5[a]]</i>	—	1,828
Accounts payable and accrued liabilities	16,078	21,188
Deferred contributions <i>[note 6]</i>	3,620	4,366
Deferred revenue	2,070	894
Total current liabilities	21,768	28,276
Long-term debt <i>[note 5[b]]</i>	48,300	21,911
Deferred capital contributions <i>[note 7]</i>	225,258	173,933
Total liabilities	295,326	224,120
Commitments <i>[notes 5[b], 12 and 15]</i>		
Net deficit <i>[note 9]</i>	(8,441)	(676)
	286,885	223,444

See accompanying notes

On behalf of the Board:



A. Charles Baillie, Q.C.
Trustee



Avie Bennett, C.C. O. Ont
Trustee

Art Gallery of Ontario

STATEMENT OF OPERATIONS AND CHANGES IN NET DEFICIT

[in thousands of dollars]

Year ended March 31

	2009	2008
	\$	\$
		<i>[restated – note 18]</i>
REVENUE		
Government grants <i>[notes 6 and 8]</i>	12,981	21,088
Admissions	1,664	464
Membership fees <i>[note 18]</i>	1,296	907
Donations and bequests <i>[notes 6 and 15]</i>	12,228	9,049
Education, outreach and program income	661	553
Gallery shop	1,837	810
Dining services	2,634	129
The Art Gallery of Ontario Foundation <i>[notes 13[b] and 14]</i>	1,226	709
Investment income	151	114
Gifted works of art <i>[note 3]</i>	28,453	31,345
Miscellaneous	410	284
	63,541	65,452
EXPENSES		
Administration	5,408	4,324
Physical plant and security	8,825	5,575
Curatorial and exhibitions	11,036	7,935
Education, outreach and programs	3,124	2,812
Membership and fundraising <i>[note 15]</i>	4,465	3,728
Marketing and promotion	2,552	1,600
Gallery shop	2,324	1,275
Dining services	3,490	468
Accession of art for collection <i>[note 3]</i>		
Gifted	28,453	31,345
Purchased	965	866
Interest	266	50
	70,908	59,978
Excess (deficiency) of revenue over expenses before the following	(7,367)	5,474
Amortization of deferred capital contributions	5,549	2,658
Amortization of capital assets	(5,947)	(2,963)
Excess (deficiency) of revenue over expenses for the year	(7,765)	5,169
Net deficit, beginning of year	(676)	(5,845)
Net deficit, end of year <i>[note 9]</i>	(8,441)	(676)

See accompanying notes

Art Gallery of Ontario

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2009 \$	2008 \$
		<i>[restated – note 18]</i>
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	(7,765)	5,169
Add (deduct) non-cash items		
Amortization of capital assets	5,947	2,963
Amortization of deferred capital contributions	(5,549)	(2,658)
Net change in non-cash working capital balances related to operations <i>[note 10]</i>	10,977	(5,694)
Net decrease (increase) in deferred expenses	403	(919)
Cash provided by (used in) operating activities	4,013	(1,139)
INVESTING AND FINANCING ACTIVITIES		
Purchase of capital assets		
Transformation AGO	(49,432)	(59,479)
Other capital assets	(2,114)	(2,716)
Less amount funded by accounts payable and accrued liabilities	(8,677)	5,352
	(60,223)	(56,843)
Contributions restricted for capital asset purchases	56,874	23,607
Advances on long-term debt	26,389	21,911
Cash provided by (used in) investing and financing activities	23,040	(11,325)
Net increase (decrease) in cash and cash equivalents during the year	27,053	(12,464)
Cash and cash equivalents (bank indebtedness), beginning of year	(1,828)	10,636
Cash and cash equivalents (bank indebtedness), end of year	25,225	(1,828)

See accompanying notes

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

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 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 general 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 13].

The assets and liabilities of the Gallery's pension plan are reported separately and are not included in these financial statements.

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 have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

Revenue recognition

The Gallery follows the deferral method of accounting for contributions, which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Donations are recorded on a cash basis since pledges are not legally enforceable claims. Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are recognized. Endowment contributions are recognized as direct increases in net assets in the year in which they are received. 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, 2009

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

Interest costs related to the funding of capital assets are capitalized during the construction period.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the year end 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.

Financial instruments

The Gallery has chosen to apply Canadian Institute of Chartered Accountants ["CICA"] 3861: *Financial Instruments - Disclosure and Presentation* in place of CICA 3862: *Financial Instruments - Disclosures* and CICA 3863: *Financial Instruments - Presentation*.

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

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 accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance and salary escalation. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The transitional asset and the excess of the cumulative balance of any net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 16 years. Liabilities are discounted at current rates for long-term debt.

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

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

Changes in accounting policies

Effective April 1, 2008, the Gallery adopted the recommendations of CICA 1535: *Capital Disclosures*, which require the disclosure of qualitative and quantitative information that enables users of the financial statements to evaluate the Gallery's objectives, policies and processes for managing capital. The adoption of these recommendations only required additional disclosures which are provided in note 17.

Effective April 1, 2008, the Gallery adopted retroactively the changes to the recommendations in CICA 4400: *Financial Statement Presentation for Not-For-Profit Organizations* that eliminate the requirement to separately disclose the amount of net assets invested in capital assets. The Gallery has therefore eliminated from the financial statement details about the amount of net assets

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

invested in capital assets and the calculation of this amount. As a result, the Gallery has reclassified the prior year financial statements to include the amount of net assets invested in capital assets as at April 1, 2007 of \$2,179,000 and as at April 1, 2008 of \$2,245,000 in the operating deficit.

Future changes in accounting policies

The CICA has issued revisions to the 4400 series and certain other sections to amend or improve certain parts of the CICA Handbook that relate to not-for-profit organizations. With respect to presentation, these changes include making the disclosure of fund balances invested in capital assets optional, making CICA 1540: *Cash Flow Statements* applicable to not-for-profit organizations; and requiring the reporting of revenues and expenses on a gross basis in the statement of operations unless not required by other guidance. A new section, CICA 4470: *Disclosure of Allocated Expenses by Not-for-Profit Organizations*, was included in the revisions which requires certain disclosures when fundraising and general support expenses are allocated to other functions. These changes in accounting policies must be adopted by years beginning on or after January 1, 2009 with earlier adoption permitted. Management has adopted the recommendations related to the disclosure of net assets invested in capital assets and is assessing the impact of the other revisions. However, the impact will be limited to reclassification of numbers in the financial statements and additional disclosures.

In February 2008, the Accounting Standards Board amended CICA 1000: *Financial Statement Concepts* to clarify that assets not meeting the definition of an asset or the recognition criteria are not permitted to be recognized on the balance sheet. The amendments are effective for financial statements for fiscal years beginning on or after October 1, 2008. The Gallery is examining its current approach to recognizing costs as assets and will implement these standards effective April 1, 2009 retroactively with restatement of the prior year. The impact of implementing these amendments on the financial statements is currently not known.

3. WORKS OF ART

As at March 31, 2009, the collection consisted of approximately 82,200 [2008 - 72,880] works of art. During fiscal 2009, the Gallery purchased 69 [2008 - 61] works of art at a total cost of \$965,000 [2008 - \$866,000]. Contributions to the collection included 9,274 [2008 - 4,809] works of art with an estimated fair value of \$28,453,000 [2008 - \$31,345,000].

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

4. CAPITAL ASSETS

Capital assets consist of the following:

	2009		2008	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$ [000s]	\$	\$
Land	525	—	525	—
Buildings and building improvements	84,477	48,968	83,460	46,714
Equipment and furnishings	13,619	10,479	12,522	9,522
Transformation AGO - buildings <i>[note 15]</i>	218,905	2,736	169,473	—
	317,526	62,183	265,980	56,236
Less accumulated amortization	62,183		56,236	
Net book value	255,343		209,744	

During the year, interest of \$762,000 [2008 - \$371,000] was capitalized in the Transformation AGO project. As at March 31, 2009, total interest capitalized was \$1,133,000 [2008 - \$371,000].

5. CREDIT FACILITIES

- [a] The Gallery has a line of credit for operating purposes. It is a \$4,500,000 revolving demand loan bearing interest at the prime lending rate, of which nil [2008 - \$2,800,000] was drawn as at March 31, 2009.
- [b] On March 31, 2009, the Gallery converted its \$75,000,000 construction financing revolving loan for the Transformation AGO expansion project to a term loan, with an interest rate of prime. As at March 31, 2009, there was a total of \$48,300,000 outstanding drawn via bankers' acceptances at a rate of 2.50%. The loan agreement requires that all contributions to the Transformation AGO capital campaign *[note 15]* be applied to the term loan balance as received. The loan is repayable on March 31, 2011.

As at March 31, 2009, there were outstanding letters of credit of \$1,133,000 [2008 - \$1,133,000].

As at March 31, 2008, there were drawings on the construction financing revolving loan of \$21,911,000 bearing interest at a rate of 3.61%.

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

6. 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:

	2009		2008
	\$	[000s]	\$
Balance, beginning of year	4,366		2,056
Grants and donations received for restricted purposes	5,040		4,306
Less amounts recognized as revenue during the year	(5,786)		(1,996)
Balance, end of year	3,620		4,366

7. 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. 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:

	2009		2008
	\$	[000s]	\$
Balance, beginning of year	173,933		152,984
Less amortization of deferred capital contributions			
Transformation AGO [note 15]	(2,736)		—
Other capital assets	(2,813)		(2,658)
Contributions restricted for capital assets			
Transformation AGO [note 15]	54,671		21,589
Other capital assets	2,203		2,018
Balance, end of year	225,258		173,933

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

8. GOVERNMENT GRANTS

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

	2009		2008
	\$	[000s]	\$
Government of Ontario			
Operating	12,009		11,507
One-time supplement	—		8,600
Government of Canada	442		493
City of Toronto	530		488
	12,981		21,088

[b] During the year, the following government grants were received for the acquisition or repair of works of art or capital assets:

	2009		2008
	\$	[000s]	\$
Government of Ontario	1,170		1,400
Government of Canada	25		—
	1,195		1,400

These grants are recorded as deferred contributions *[note 6]* or deferred capital contributions *[note 7]* and recognized as revenue in the year in which the related expenses are recognized.

[c] In April 2009, the Province of Ontario announced a one-time grant of \$8,600,000 which will be recorded in revenue in fiscal 2010. The Gallery received this grant in May 2009.

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

9. NET DEFICIT

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

	2009		2008	
	Accumulated deficit \$	Board restricted \$	Total \$ [000s]	Total \$
				<i>[restated – note 18]</i>
Net deficit, beginning of year <i>[restated – note 18]</i>	(1,002)	326	(676)	(5,845)
Excess (deficiency) of revenue over expenses for the year	(7,765)	—	(7,765)	5,169
Transfers	(11)	11	—	—
Net surplus (deficit), end of year	(8,778)	337	(8,441)	(676)

The Board of Trustees approved a transfer of \$11,000 from accumulated deficit to Board restricted net assets [2008 - \$12,000 from accumulated deficit to Board restricted net assets] for educational purposes and for special projects in The Grange.

10. STATEMENT OF CASH FLOWS

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

	2009 \$	2008 \$
		<i>[restated – note 18]</i>
Other grants and accounts receivable	32	35
Due from the Province of Ontario	8,600	(8,600)
Inventories	(1,652)	227
Accounts payable and accrued liabilities	3,567	632
Deferred contributions	(746)	2,262
Deferred revenue	1,176	(250)
	10,977	(5,694)

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

11. 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:

	2009		2008
	\$	[000s]	\$
Defined benefit component	338		812
Money purchase component	346		309
	684		1,121

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

	2009		2008
	\$	[000s]	\$
Employees' contributions	247		209
Employer contributions - defined benefit component	809		717
Employer contributions - money purchase component	346		309

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

[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, 2008. 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:

	2009	2008
	\$	\$
	[000s]	
Accrued benefit obligation	13,651	17,008
Fair value of plan assets	14,060	16,140
Funded status - plan surplus (deficit)	409	(868)
Unamortized transitional asset	(615)	(718)
Unamortized net actuarial losses	940	1,826
Accrued benefit asset included in deferred expenses	734	240

Other information about the defined benefit component of the Gallery's pension plan for the year ended March 31 is as follows:

	2009	2008
	\$	\$
	[000s]	
Benefits paid	554	414

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

	2009	2008
	%	%
Accrued benefit obligation		
Discount rate	8.25	6.00
Salary increases	3.25	3.25
Expense		
Discount rate	6.00	5.25
Expected long-term rate of return on plan assets	7.00	7.00
Salary increases	3.25	3.75

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

[e] Investments managed by an external investment manager, at market value as at March 31, consist of the following:

	2009 %	2008 %
Money market	—	3
Canadian bonds	37	37
Canadian equities	35	33
U.S. equities	13	14
Other international equities	15	13
	100	100

12. LEASE COMMITMENTS

Future minimum annual payments under operating leases for premises and equipment, excluding operating costs, are as follows:

	\$ [000s]
2010	86
2011	63
2012	62
2013	52
2014	4
	267

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

13. 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:

	2008		2007
	\$	[000s]	\$
Unrestricted	200		248
Restricted	4,667		4,723
Endowment	19,087		22,624
	23,954		27,595

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

	2009		2008
	\$	[000s]	\$
Operations	644		510
Acquisitions	582		199
	1,226		709

[c] The Foundation receives consulting services from MT 101 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 Foundation's payments to the Gallery's Director and CEO for these services during the year ended December 31, 2008 totaled \$87,124 [2007 - \$100,168].

[d] Included in other grants and accounts receivable are amounts due from the Foundation of \$61,000 [2008 - \$50,000]. The amounts are non-interest bearing and due on demand.

Art Gallery of Ontario

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

14. 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 now reflected directly in the Gallery's revenue.

During the year ended March 31, 2009, the Volunteers of the Art Gallery of Ontario donated \$52,888 for the sponsorship of the book, *Highlights of the AGO*, 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. In fiscal 2008, an amount of \$52,777 was donated for sponsorship of the National Docent Symposium that will be held in October 2009. These funds will be recorded as deferred contributions in the balance sheet until the symposium is held.

15. TRANSFORMATION AGO

The expansion project, known as Transformation AGO, has expanded galleries and other public spaces. The public opening of the Transformation AGO was November 14, 2008. The project has been financed by both public sector and private contributions. To date, the Gallery has received \$24,000,000 from the Government of Canada and \$39,000,000 from the Government of Ontario.

As at March 31, 2009, the Gallery has incurred costs totaling \$218,905,000 [2008 - \$169,473,000] for the project, which are recorded on the balance sheet as a capital asset [note 4]. At March 31, 2009, the Gallery has received contributions of \$189,709,000 [2008 - \$135,038,000], which are recorded on the balance sheet as deferred capital contributions [note 7].

The Transformation AGO fundraising campaign is designed to raise funds for the capital construction, endowment funding for operating support and endowment funding for contemporary art acquisitions. Fundraising costs related to the fundraising campaign, which are to be covered by a levy applied to campaign donations, are being deferred and expensed based on the amount of the levy on the donations received during the year. As at March 31, 2009, there are deferred fundraising costs of \$927,000 [2008 - \$1,143,000] recorded as deferred expenses on the balance sheet. In 2009, \$1,035,000 [2008 - \$997,000] of fundraising costs were recorded as an expense and an equal amount of donations was recorded as donations and bequests revenue.

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

16. FINANCIAL INSTRUMENTS

The Gallery is subject to credit risk with respect to its accounts receivable and interest rate cash flow risk with respect to its long-term debt.

17. CAPITAL MANAGEMENT

In managing capital, the Gallery focuses on liquid resources available for operations. The Gallery's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The Gallery has available lines of credit that are used when sufficient cash flow is not available from operations to cover operating and capital expenditures [note 5]. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at March 31, 2009, the Gallery has met its objective of having sufficient liquid resources to meet its current obligations.

18. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2009 financial statements.

As at April 1, 2007, the Gallery has retroactively adjusted the financial statements to record deferred revenue related to membership fees where benefits are to be received in the future. As a result, deferred revenue and net deficit have both increased by \$967,788 as at April 1, 2007. Membership revenue and excess of revenue over expenses for the year ended March 31, 2008 have decreased and net deficit as of March 31, 2008 has increased by \$288,229.

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