Art Gallery of Ontario

Financial statements
March 31, 2018

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.

Stephan Jost
Michael and Sonja Koerner Director and CEO
June 27, 2018

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, 2018, and the statements of operations and changes in net surplus 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, 2018, 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.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
June 27, 2018

Art Gallery of Ontario

Balance sheet

[in thousands of dollars]

As at March 31

	2018 $	2017 $
Assets		
Current		
Cash and cash equivalents	**10,149**	20,171
Short-term investments	**10,000**	—
Grants and accounts receivable	**2,148**	1,129
Inventories	**927**	849
Other *[note 3]*	**724**	695
Total current assets	**23,948**	22,844
Works of art, at nominal value *[note 4]*	**1**	1
Capital assets, net *[note 5]*	**234,708**	227,821
Accrued pension asset *[note 12]*	**1,701**	3,115
	260,358	253,781
Liabilities and net surplus		
Current		
Accounts payable and accrued liabilities *[note 14[d]]*	**9,374**	10,270
Deferred contributions *[note 7]*	**12,347**	12,895
Deferred revenue	**6,780**	4,529
Current portion of long-term debt *[note 6[b]]*	**444**	—
Total current liabilities	**28,945**	27,694
Long-term debt *[note 6[b]]*	**5,911**	—
Deferred capital contributions *[note 8]*	**222,747**	224,453
Total liabilities	**257,603**	252,147
Net surplus *[note 10]*	**2,755**	1,634
	260,358	253,781

See accompanying notes

On behalf of the Board of the Trustees:

Robert J. Harding. C.M.
President
Trustee

Camillo di Prata
Chair, Finance Committee
Trustee

Art Gallery of Ontario

Statement of operations and changes in net surplus

[in thousands of dollars]

Year ended March 31

	2018 $	2017 $
Revenue		
Government grants *[note 9]*	**22,166**	22,714
Admissions	**5,687**	5,183
Membership fees	**5,850**	4,636
Donations and bequests *[note 7]*	**10,504**	10,189
Programming and outreach	**1,708**	1,910
Gallery shop	**5,383**	5,333
Food and beverage	**10,986**	11,392
The Art Gallery of Ontario Foundation *[note 14[b]]*	**2,021**	2,368
Investment income	**295**	232
Gifted works of art *[note 4]*	**39,364**	16,878
Miscellaneous	**1,292**	1,216
Amortization of deferred capital contributions *[note 8]*	**9,165**	8,951
	114,421	91,002
Expenses		
Administration *[notes 13 and 14[d]]*	**7,947**	7,580
Physical plant and security	**10,009**	9,804
Curatorial, collections and exhibitions	**13,381**	13,968
Programming and outreach	**4,847**	4,926
Membership and fundraising	**5,223**	4,851
Visitor welcome, marketing and promotion	**7,557**	7,302
Gallery shop *[note 13]*	**4,703**	4,646
Food and beverage *[note 13]*	**10,370**	10,360
Accession of art for collection *[note 4]*		
Gifted	**39,364**	16,878
Purchased	**1,280**	1,344
Amortization of capital assets	**9,589**	9,314
Interest *[note 6[b]]*	**135**	—
	114,405	90,973
Excess of revenue over expenses for the year	**16**	29
Net surplus (deficit), beginning of year	**1,634**	(1,639)
Remeasurements related to pension plan	**(1,590)**	3,244
Land contribution *[note 5]*	**2,695**	—
Net surplus, end of year *[note 10]*	**2,755**	1,634

See accompanying notes

Art Gallery of Ontario

Statement of cash flows

[in thousands of dollars]

Year ended March 31

	2018 $	2017 $
Operating activities		
Excess of revenue over expenses for the year	**16**	29
Add (deduct) non-cash items		
Amortization of capital assets	**9,589**	9,314
Amortization of deferred capital contributions	**(9,165)**	(8,951)
Pension expense	**1,924**	1,719
Loss on disposal of capital assets	**—**	25
Net change in non-cash working capital balances related to operations *[note 11]*	**1,048**	2,516
Employer contributions to pension plan	**(2,100)**	(1,923)
Cash provided by operating activities	**1,312**	2,729
Investing activities		
Purchase of short-term investments	**(10,000)**	—
Purchase of capital assets *[note 11]*	**(14,368)**	(10,366)
Cash used in investing activities	**(24,368)**	(10,366)
Financing activities		
Advances from long-term debt	**6,650**	—
Repayment of long-term debt	**(295)**	—
Contributions restricted for capital asset purchases *[note 8]*	**6,679**	10,923
Cash provided by financing activities	**13,034**	10,923
Net (decrease) increase in cash during the year	**(10,022)**	3,286
Cash and cash equivalents, beginning of year	**20,171**	16,885
Cash and cash equivalents, end of year	**10,149**	20,171

See accompanying notes

Art Gallery of Ontario

Notes to financial statements

March 31, 2018

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 an independent corporation, incorporated under the laws of Ontario without share capital. The Foundation receives, accumulates and distributes funds and/or the income therefrom 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 *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, bequests and government grants. Grants and bequests 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. Lease revenue is recognized as rents become due and is recorded as miscellaneous revenue in the statement of operations and changes in net surplus.

Cash and cash equivalents and short-term investments

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, or are readily convertible to cash with no penalty. Other redeemable short-term investments that have maturities beyond the 90 days are classified as short-term investments.

Notes to financial statements

March 31, 2018

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 and future special events 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 and for future special events is the date of the event. Such costs are expensed immediately when they are related to advertising or promotion and when there is insufficient evidence that the costs are recoverable.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars 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.

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.

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, short-term investments, grants and accounts receivable and accounts payable and accrued liabilities.

3. Other assets

Other assets consist of the following:

	2018	**2017**
	$	$
	[000s]	
Future exhibition costs	**283**	395
Prepaid expenses	**441**	300
	724	695

4. Works of art

As at March 31, 2018, the collection consisted of approximately 92,300 [2017 – 92,100] works of art. During fiscal 2018, the Gallery purchased 50 [2017 – 38] works of art at a total cost of $1,280,000 [2017 – $1,344,000]. Contributions to the collection included 240 [2017 – 1,029] works of art with an estimated fair value of $39,364,000 [2017 – $16,878,000]. During the year, 41 [2017 – 52] deaccessioned works of art were sold realizing proceeds of $241,000 [2017 – $464,500] *[note 7]*.

Notes to financial statements

March 31, 2018

5. Capital assets

Capital assets consist of the following:

	2018	
	Cost	**Accumulated amortization**
	$	$
	[000s]	
Land	**8,125**	—
Buildings and building improvements		
Transformation AGO	**220,989**	**52,825**
Weston Family Learning Centre	**19,331**	**6,405**
Other	**106,918**	**67,745**
Equipment and furnishings	**24,575**	**18,255**
	379,938	**145,230**
Less accumulated amortization	**145,230**	
Net book value	**234,708**	

	2017	
	Cost	**Accumulated amortization**
	$	$
	[000s]	
Land	525	—
Buildings and building improvements		
Transformation AGO	220,989	47,293
Weston Family Learning Centre	19,331	5,408
Other	101,388	65,697
Equipment and furnishings	21,229	17,243
	363,462	135,641
Less accumulated amortization	135,641	
Net book value	227,821	

Included in other buildings and building improvements is $2,378,869 [2017 – $11,373,118] related to construction in progress, which will be amortized once the capital assets are put in service.

On July 28, 2017, the Gallery entered into an agreement to purchase two properties from a corporation in which a Gallery Board member had a controlling interest. The appraised value of the property was $9,800,000 of which $6,325,000 was paid for by the Gallery and $3,475,000 was recorded as an in-kind contribution split between land and building. The land portion is recorded directly through net assets *[note 10],* it is non-amortizable and the amount allocated to the building is recorded as a deferred capital contribution *[note 8].*

6. Credit facility

[a] 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, 2018 and 2017, no amount was drawn on this line of credit.

[b] On July 27, 2017, the Gallery entered into an unsecured loan agreement with a fifteen year amortization period for an amount of $6,650,000. This loan bears interest at a fixed rate of 3.060% per annum for the first five years and can be renegotiated at the end of the five-year period. The loan is repayable in principal monthly installments of $37,000 plus interest. As at March 31, 2018 $6,355,000 is outstanding of which $444,000 is the current portion and $5,911,000 is long term. The interest on the loan for the period ended March 31, 2018 was $135,000 and is included in interest expense in the statement of operations and changes in net surplus.

7. Deferred contributions

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

	2018 $	**2017** $
	[000s]	
Balance, beginning of year	**12,895**	13,090
Grants and donations received for restricted purposes *[notes 9[b] and 15]*	**8,454**	9,800
Proceeds from sale of deaccessioned works of art *[note 4]*	**241**	465
Less amounts transferred to deferred capital contributions *[note 8]*	**(4,006)**	(3,150)
Less amounts transferred to the Foundation *[note 14[d]*	**(892)**	(726)
Less amounts recognized as revenue during the year *[note 4]*	**(4,345)**	(6,584)
Balance, end of year	**12,347**	12,895

8. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations and grants received and spent for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations and changes in net surplus. The changes in the deferred capital contributions balance are as follows:

	2018 $	2017 $
	[000s]	
Balance, beginning of year	**224,453**	222,481
Less amortization of deferred capital contributions	**(9,165)**	(8,951)
Contributions transferred from deferred contributions *[note 7]*	**4,006**	3,150
Contributions restricted for capital assets *[note 9[b]]*	**2,673**	7,773
Contribution of a building *[note 5]*	**780**	—
Balance, end of year	**222,747**	224,453

9. Government grants

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

	2018 $	2017 $
	[000s]	
Government of Ontario	**21,047**	21,722
Government of Canada	**421**	303
City of Toronto	**698**	689
	22,166	22,714

[b] During the year, the Gallery received an additional $1,870,000 [2017 – $2,195,000] in government grants from the Government of Ontario for the acquisition of capital assets. These grants are recorded as deferred contributions *[note 7]* when first received and then transferred to deferred capital contributions *[note 8]* as they are spent.

Notes to financial statements

March 31, 2018

10. Net surplus

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

	2018			2017
	Accumulated surplus	**Board restricted**	**Total**	**Total**
	$	$	$	$
	[000s]			
Net surplus (deficit), beginning of year	**1,409**	**225**	**1,634**	(1,639)
Excess of revenue over expenses for the year	**298**	**—**	**16**	29
Land contribution *[note 5]*	**2,695**	**—**	**2,695**	
Transfers	**(3)**	**3**	**—**	—
Remeasurements related to pension plan	**(1,590)**	**—**	**(1,590)**	3,244
Net surplus, end of year	**2,809**	**228**	**2,755**	1,634

11. Statement of cash flows

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

	2018	2017
	$	$
	[000s]	
Grants and accounts receivable	**(1,019)**	1,229
Inventories	**(78)**	26
Other assets	**(29)**	702
Accounts payable and accrued liabilities	**471**	748
Deferred contributions	**(548)**	(195)
Deferred revenue	**2,251**	6
	1,048	2,516

As at March 31, 2018, $198,674 [2017 – $1,565,876] is included in accounts payable and accrued liabilities related to capital asset acquisitions.

Notes to financial statements

March 31, 2018

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, 2017. 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:

	2018	**2017**
	$	$
	[000s]	
Fair value of plan assets	**40,676**	38,700
Accrued benefit obligation	**38,975**	35,585
Accrued pension asset	**1,701**	3,115

13. Allocation of expenses

General support costs have been allocated to the following functions:

	2018	**2017**
	$	$
	[000s]	
Gallery shop	**60**	57
Food and beverage	**244**	234
	304	291

Notes to financial statements

March 31, 2018

14. The Art Gallery of Ontario Foundation

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

	2017 $	**2016** $
	[000s]	
Unrestricted	**1,888**	1,702
Restricted	**15,784**	7,383
Endowment	**70,058**	70,500
	87,730	79,585

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

	2018 $	**2017** $
	[000s]	
Operations *[note 15]*	**1,682**	1,631
Acquisitions	**549**	737
	2,231	2,368

[c] The Foundation receives consulting services from Stephan Jost, 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, 2017 related to these services was $103,940 [2016 – $73,387].

[d] During the year, the Gallery made a grant of $1,800,000 [2017 – $778,200] to the Foundation, which is included in administration expenses. As at March 31, 2018, $1,800,000 [2017 – $750,000] is included in accounts payable and accrued liabilities. In addition to this grant, the Gallery transferred $525,049 [2017 – $725,900] to the Foundation to be held in an established endowment fund for the purpose designated by a donor *[note 7]* and other miscellaneous transfers of $367,000 [2017 – nil].

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, 2018, the Volunteers of the Art Gallery of Ontario donated $54,108 [2017 – $50,160] for the sponsorship of an upcoming exhibition titled, *Look Forward* [2017 – *Out of the Vaults*], from endowment income of the Volunteer Endowment Trust. These funds were transferred from the Volunteer Funds held within the Foundation *[note 14]* and are recorded as deferred contributions on the balance sheet.

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.

Currency risk

The Gallery is exposed to 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.

17. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2018 financial statements.