

NATIONAL GALLERY OF CANADA
UNAUDITED FINANCIAL STATEMENTS
QUARTERLY RESULTS

Nine months ended December 31, 2018

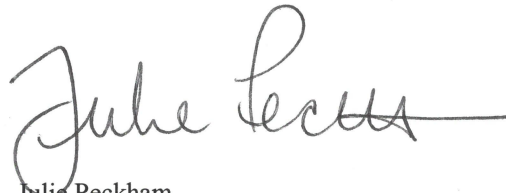
STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these quarterly financial statements of the National Gallery of Canada (the Gallery) in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines are necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Gallery, as at the date of and for the periods presented in the quarterly financial statements.



Anne Eschapasse
Interim Co-Director & CEO
Deputy Director, Exhibitions and Outreach



Julie Peckham
Interim Co-Director & CEO
Deputy Director, Administration
and Chief Financial Officer

Ottawa, Canada
February 22, 2019

STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)

Assets	As at	
Current	Dec 31, 2018	March 31, 2018
Cash and cash equivalents	\$ 5,936	\$ 5,570
Restricted cash and cash equivalents	-	1,309
Investment	636	-
Restricted investment	6,473	9,048
Accounts receivable	1,843	2,542
Inventory	928	710
Prepaid expenses	332	525
Total current assets	16,148	19,704
Collection	1	1
Capital assets	86,520	82,959
	\$ 102,669	\$ 102,664

Liabilities and Net Assets

Liabilities

Current liabilities

Accounts payable and accrued liabilities	\$ 4,898	\$ 5,115
Accrued salaries and benefits	1,235	1,812
Deferred contributions for the purchase of objects for the Collection (Note 4)	928	2,058
Deferred contributions for the purchase of capital assets (Note 4)	3,857	6,904
Other deferred contributions (Note 4)	1,572	1,279
Total current liabilities	12,490	17,168
Employee future benefits	873	873
Deferred contributions for the amortization of capital assets	85,898	82,337
Total liabilities	99,261	100,378

Net Assets

Unrestricted	2,670	1,548
Investment in capital assets	622	622
Permanently endowed	116	116
Total net assets	3,408	2,286
	\$ 102,669	\$ 102,664

The accompanying notes and schedules form an integral part of the financial statements.

STATEMENT OF CHANGES IN NET ASSETS**For the nine months ended December 31**

(in thousands of dollars)

	Unrestricted	Investment in capital assets	Permanently endowed	2018	2017
Net assets, beginning of the period	\$ 1,548	\$ 622	\$ 116	\$ 2,286	\$ 4,937
Net result of operations for the period	1,122	-	-	1,122	(1,822)
Net result for the remainder of the year	-	-	-	-	(829)
Net assets, end of the period	\$ 2,670	\$ 622	\$ 116	\$ 3,408	\$ 2,286

The accompanying notes and schedules form an integral part of the financial statements.

STATEMENT OF CHANGES IN NET ASSETS**For the three months ended December 31**

(in thousands of dollars)

	Unrestricted	Investment in capital assets	Permanently endowed	2018	2017
Net assets, beginning of the period	\$ 2,118	\$ 622	\$ 116	\$ 2,856	\$ 2,938
Net result of operations for the period	552	-	-	552	177
Net result for the remainder of the year	-	-	-	-	(829)
Net assets, end of the period	\$ 2,670	\$ 622	\$ 116	\$ 3,408	\$ 2,286

The accompanying notes and schedules form an integral part of the financial statements.

STATEMENT OF OPERATIONS

(in thousands of dollars)

	9 months ended Dec 31, 2018	9 months ended Dec 31, 2017	3 months ended Dec 31, 2018	3 months ended Dec 31, 2017
Operating revenue, sponsorships, and contributions	\$ 10,334	\$ 8,319	\$ 2,749	\$ 2,243
Contributed items for the Collection	1,245	367	1,034	102
Total operating revenue, sponsorships, and contributions (Schedule 1)	11,579	8,686	3,783	2,345
Expenses				
Collection				
Operations	5,457	5,402	1,745	1,712
Purchase of items for the Collection	6,548	5,799	1,796	1,314
Contributed items for the Collection	1,245	367	1,034	102
Total - Collection	13,250	11,568	4,575	3,128
Outreach	13,097	14,108	3,854	4,245
Accommodation	15,775	14,749	5,200	4,911
Administration	7,691	7,041	2,341	2,354
Total expenses (Schedule 2)	49,813	47,466	15,970	14,638
Net results before Parliamentary Appropriations	(38,234)	(38,780)	(12,187)	(12,293)
Parliamentary appropriations (Note 5)	39,356	36,958	12,739	12,470
Net result of operations	\$ 1,122	\$ (1,822)	\$ 552	\$ 177

The accompanying notes and schedules form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

(in thousands of dollars)

	9 months ended Dec 31, 2018	9 months ended Dec 31, 2017	3 months ended Dec 31, 2018	3 months ended Dec 31, 2017
Operating activities				
Cash received from clients	\$ 6,554	\$ 5,490	\$ 1,631	\$ 1,456
Parliamentary appropriations received	32,688	32,005	10,872	11,331
Cash paid to suppliers	(24,689)	(22,985)	(7,510)	(6,413)
Payments related to salary and benefits	(18,573)	(18,862)	(6,194)	(6,351)
Interest received	171	106	78	32
Total cash flow from (used for) operating activities	(3,849)	(4,246)	(1,123)	55
Investing activities				
Acquisition of investments	(26,222)	(23,095)	(10,141)	(11,000)
Disposal of investments	28,154	26,130	10,092	9,070
Total cash flow from (used for) investing activities	1,932	3,035	(49)	(1,930)
Capital activities				
Payments related to capital assets	(9,515)	(5,465)	(2,731)	(1,308)
Total cash flow from (used for) capital activities	(9,515)	(5,465)	(2,731)	(1,308)
Financing activities				
Funding for the acquisition of capital assets	6,365	2,849	2,126	441
Restricted contributions and related investment income	4,124	2,539	2,938	2,412
Total cash flow from (used for) financing activities	10,489	5,388	5,064	2,853
Total cash flow	(943)	(1,288)	1,161	(330)
Cash and cash equivalents, beginning of the period				
Cash and cash equivalents	6,879	4,548	4,775	3,590
Restricted cash and cash equivalents	-	-	-	-
	6,879	4,548	4,775	3,590
Cash and cash equivalents, end of the period				
Cash and cash equivalents	5,936	3,260	5,936	3,260
Restricted cash and cash equivalents	-	-	-	-
	\$ 5,936	\$ 3,260	\$ 5,936	\$ 3,260

The accompanying notes and schedules form an integral part of the financial statements.

SELECTED NOTES TO THE UNAUDITED QUARTERLY FINANCIAL STATEMENTS

Nine months ended December 31, 2018

1. NOTICE TO READER

The unaudited quarterly financial statements must be read in conjunction with the most recent annual audited financial statements and with the narrative discussion that follows.

2. AUTHORITY, OBJECTIVES AND ACTIVITIES

The National Gallery of Canada (the Gallery) was established on July 1st, 1990 by the *Museums Act* as a Crown corporation under Part I of Schedule III to the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*.

The Gallery's mandate as stated in the *Museums Act* is to develop, maintain and make known throughout Canada and internationally, a collection of works of art, both historic and contemporary, with special but not exclusive reference to Canada, and to further knowledge, understanding and enjoyment of art in general among all Canadians.

The Gallery's operations are divided into four mutually supportive activities which work together to meet all aspects of its mandate. These activities are:

Collection

To acquire, preserve, research and document historic and contemporary works of art in order to represent and present arts heritage. It includes curatorial research, acquisitions and preservation.

Outreach

To foster broad access nationally and internationally to the Gallery's collection, research, exhibitions and expertise. It includes exhibitions, both in the National Capital Region and other venues in Canada and abroad, educational programming and publications, fundraising, communications and marketing activities designed to reach as wide an audience as possible.

Accommodation

To provide secure and suitable facilities which are readily accessible to the public, for the preservation and exhibition of the national collections.

Administration

To provide direction, control and effective development and administration of resources.

3. BASIS OF PRESENTATION

These unaudited financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) for government not-for-profit organizations (GNFPO). The Gallery has prepared these financial statements under Section 4200 series of PSAS. The Gallery applies the deferral method of accounting for contributions for government not-for-profit organizations.

4. DEFERRED CONTRIBUTIONS

For the nine months ended December 31

(in thousands of dollars)

	Deferred contributions for the purchase of objects for the Collection	Deferred contributions for the purchase of capital assets	Other deferred contributions	2018	2017
Beginning balance, as at April 1	\$ 2,058	\$ 6,904	\$ 1,279	\$ 10,241	\$ 8,306
Appropriations received in the period	6,000	6,004	-	12,004	8,783
Non-Government funding received in the period	-	360	2,877	3,237	2,169
	8,058	13,268	4,156	25,482	19,258
Amounts recognized as revenue in the period	(6,530)	-	(2,584)	(9,114)	(7,461)
Related acquisition costs	(600)	-	-	(600)	(600)
Purchase of capital assets in the period	-	(9,411)	-	(9,411)	(3,604)
Ending balance, as at December 31	\$ 928	\$ 3,857	\$ 1,572	\$ 6,357	\$ 7,593

5. PARLIAMENTARY APPROPRIATIONS

(in thousands of dollars)

	9 months ended Dec 31, 2018	9 months ended Dec 31, 2017
For operating and capital expenditures		
Main estimates	\$ 32,539	\$ 28,006
Supplementary estimates	27	734
	32,566	28,740
Appropriations deferred for the purchase of capital assets	(6,004)	(1,840)
Appropriations restricted for the purchase of capital assets	-	(943)
Amortization of deferred funding for capital assets	5,664	4,875
	32,226	30,832
For the purchase of items for the Collection		
Main estimates	6,000	6,000
Appropriations recognized from prior periods	2,058	934
Appropriations deferred to future periods	(928)	(808)
	7,130	6,126
Total Parliamentary appropriations	\$ 39,356	\$ 36,958

6. INVESTMENTS IN CAPITAL ASSETS

(in thousands of dollars)		9 months ended Dec 31, 2018	9 months ended Dec 31, 2017
Capital asset additions	\$	9,411	\$ 3,604
Less: capital assets financed through appropriations		9,050	3,400
Less: capital assets financed through other contributions		(361)	(204)
		18,100	6,800
Deferred appropriations used for the amortization of capital assets		5,664	4,875
Deferred contributions used for the amortization of capital assets		186	-
Amortization of capital assets		(5,850)	(4,875)
Net change in investment in capital assets	\$	-	\$ -

SCHEDULE #1: OPERATING REVENUE, SPONSORSHIPS AND CONTRIBUTIONS

(in thousands of dollars)

	9 months ended Dec 31, 2018	9 months ended Dec 31, 2017	3 months ended Dec 31, 2018	3 months ended Dec 31, 2017
Operating revenue:				
Boutique and publishing	\$ 2,463	\$ 2,171	\$ 754	\$ 687
Admissions	2,484	1,626	422	376
Parking	1,012	918	303	301
Memberships	696	552	197	187
Rental of public spaces	241	367	132	133
Education services	157	132	31	20
Art loans – recovery of expenses	156	142	47	60
Travelling exhibitions	242	89	166	22
Audio guides	14	37	4	10
Food services	21	1	20	-
Interest	163	106	65	32
Other	13	53	3	2
	7,662	6,194	2,144	1,830
Sponsorships and Contributions:				
Sponsorships	88	189	35	104
Contributions				
Contributed items for the Collection	1,245	367	1,034	102
From the National Gallery of Canada Foundation	1,992	1,373	62	36
From other individuals, corporations and foundations	592	563	508	273
	3,917	2,492	1,639	515
Operating revenue, sponsorships and contributions	\$ 11,579	\$ 8,686	\$ 3,783	\$ 2,345

SCHEDULE #2: EXPENSES

(in thousands of dollars)

	9 months ended Dec 31, 2018	9 months ended Dec 31, 2017	3 months ended Dec 31, 2018	3 months ended Dec 31, 2017
Salaries and employee benefits	\$ 17,996	\$ 17,920	\$ 5,714	\$ 5,916
Purchased items for the Collection	6,548	5,799	1,796	1,314
Contributed items for the Collection	1,245	367	1,034	102
Amortization of capital assets	5,850	4,875	1,950	1,625
Payments in lieu of taxes	2,461	2,582	820	851
Professional and special services	3,010	3,173	862	902
Insurance	239	250	(8)	29
Repairs and maintenance of buildings and equipment	2,853	2,779	852	922
Protection services	2,447	2,235	688	737
Utilities, materials and supplies	1,889	2,271	680	711
Freight, cartage and postage	934	539	214	147
Travel for public servants	315	494	110	223
Travel for non-public servants	220	252	71	-
Hospitality	144	151	44	51
Conferences	47	86	13	40
Publications	608	760	239	235
Cost of goods sold – boutique	1,154	968	371	290
Advertising	912	1,083	213	266
Rent	383	343	122	115
Communications	192	185	67	62
Library purchases	180	171	39	52
Rentals of equipment	91	111	35	10
Fellowships	52	50	28	30
Miscellaneous	43	22	16	8
Total expenses	\$ 49,813	\$ 47,466	\$ 15,970	\$ 14,638

MANAGEMENT DISCUSSION AND ANALYSIS OF QUARTERLY FINANCIAL STATEMENTS

For the nine months ended December 31, 2018

Operating Environment

The third quarter saw the end of a very successful summer exhibition season which included *Impressionist Treasures: The Ordurpgaard Collection*, *The Extended Moment: Fifty Years of Collecting Photographs*, *New Generation Photography Award 2018*, and *Masterpiece in Focus: Masters of Venetian Portraiture: Veronese, Tiepolo, Vittoria*. The third quarter also saw the opening of *Anthropocene*, thirty new photographic prints along with high-definition murals by Ed Burtynsky and film installations by Jennifer Baichwal and Nicholas de Pencier. It explores the effects of human activity on the planet in artworks that are at once subtle and striking. The *2018 Sobey Art Award* exhibition is a celebration of newest and best of Canadian contemporary art. *Oscar G. Rejlander: Artist Photographer* explores the artist's career as painter, photographer and experimental artist. The exhibition features some 140 works, from landscapes and portraits to allegories and witty commentaries on contemporary society. *Masterpiece in Focus: Halifax Harbour 1918* depicts the city's waterfront through the eyes of artists Arthur Lismer and Harold Gilman, following one of the most searing events in Canadian history. Finally, *Paul Klee: The Berggruen Klee Collection from the Metropolitan Museum of Art* opened in November 2018 and is scheduled to be on view until mid-March 2019. Klee's meticulous yet whimsical approach to art-making in which colour, expressiveness and poetry prevail, is highlighted in this exhibition of 75 drawings, watercolours and paintings from the prestigious Berggruen Klee Collection at The Metropolitan Museum of Art, the largest collection of works by Paul Klee in North America.

For the nine month period, total visitor attendance to permanent, temporary and travelling exhibitions was 739,001. Attendance at the Ottawa facility surpassed attendance for the same period in the prior year.

For the nine months ended December 31	2018	2017
NGC Ottawa	358,389	324,514
Travelling Exhibitions	68,291	68,345
NGC@ Partnerships and special projects	147,321	75,665
Venice Biennale	165,000	400,524
Attendance to all venues this period	739,001	869,048

Financial Overview

The Gallery generated an operating surplus of \$1.1 million over the first nine months of the year. This compares to an operating deficit of \$1.8 million for the same period last year. The prior year deficit arose due to the accounting treatment of the investment in the Canadian and Indigenous Galleries transformation project.

Parliamentary Appropriations, revenues, sponsorships and contributions

The Gallery recognized Parliamentary appropriations totalling \$39.4 million, compared to \$37.0 in the same period of the prior year. During the prior year, the Board of Trustees restricted \$0.9 million from operational appropriations to capital funding to support the Canadian and Indigenous Galleries transformation project.

Operating revenue for the period was \$7.7 million, compared to \$6.2 million in the same period of the prior year. The increase in attendance to the Ottawa facility together with a special exhibition admission fee for *Impressionist Treasures: The Ordurpgaard Collection* resulted in increased revenue during the period. During the prior period, the gallery did not charge an additional special exhibition fee. Sponsorships and contributions totalled \$3.9 million for the period, compared to \$2.5 million in the prior year, the increase is a result of \$1.2 million in Contributed items for the Collection and \$2.0 million in recognized contributions from the National Gallery of Canada Foundation.

The Gallery is on track to surpass its annual target for operating revenue:

	Full-Year Target	Actual to Dec 31	% of Completion
Operating revenue	8,198,000	7,662,000	93%
Sponsorships and contributions	6,008,000	3,917,000	65%
	14,206,000	11,579,000	82%

Expenditures

Expenditures totalled \$49.8 million to the end of the third quarter, compared to \$47.5 million in the prior year. The two primary reasons for this increase were a significantly larger number of Contributed Items for the Collection for the first nine months and an increase in amortization expense arising after the completion of major capital projects such as the Canadian and Indigenous Galleries transformation in the prior year.

The Collection

The Gallery purchased \$6.5 million in items for the Collection compared to \$5.8 million in the same period last year. Notable purchases include *La Partie Carrée, 1870* by Jacques Tissot and *Stacked Porcelain Vases as a Pillar, 2017* by Ai Weiwei. In addition to amounts purchased, the Gallery was pleased to receive contributed items including *Journey to the End of Blue* by Claude Tousignant and *The Spectrum and the Hand* by David Altmejd. At the end of December, the Gallery had \$0.9 million in appropriations available for future acquisitions.

Capital

The Gallery expended \$9.4 million for capital assets year to date, compared to \$3.6 million in the same period in the prior year. The majority of the capital expenditures relate to the replacement of windows, roofs, sails and blinds in the Main Entrance and Colonnade, a project funded through Budget 2016. This project was completed by December 2018. At the end of December, the Gallery had \$3.9 million available for future purchases of capital assets.

Outlook

The Gallery will continue to ensure that public money is managed prudently and, to this end, it is forecasting a balanced budget for the current fiscal year. The Gallery continues to explore and invest in targeted initiatives designed to increase self-generated revenues, and to collaborate with the NGC Foundation to align contributions with the Gallery's strategic initiatives.

The Gallery continues to address life-cycle issues at its ageing Ottawa facility. Over the 2018–19 to 2022–23 planning period, improvements to the Gallery's capital infrastructure will continue. Parliamentary funding in Budget 2016 of \$18.4 million over five years, starting in 2016–17, relieves significant pressure on the long-term capital plan; however, the institution continues to be challenged by limited base capital resources, which in turn limit the number of capital projects that can be initiated in any given year. The demand for investment in life-cycle maintenance and repairs to the architectural, electrical, and mechanical systems still exists, as do emerging demands associated with remaining relevant in the digital age. The Gallery will continue to pay considerable attention to the physical plant with the overarching aim to ensure that the Gallery's infrastructure supports the achievement of the Gallery's mandate and balance that demand with the need for capital resources to achieve strategic objectives. Capital resources will be prioritized to ensure that the most pressing projects are completed.

For the 2018–19 to 2022–23 planning period, the Board of Trustees established the following three strategic priorities:

- Collections Management
- Audience Development
- Operational Excellence

Under the theme of Collections Management, two key areas have emerged: art storage, and dissemination and digitization of the Collection.

In line with its mandate as a collecting institution — and with an ever-growing collection spurred by the outstanding achievements of Canadian artists, some of whom are producing large contemporary art installations — the Gallery is very near capacity for art storage in its existing facilities. The Gallery established a Storage Steering Committee in February 2018. The Committee is tasked with monitoring storage-capacity risk and contributing to all plans for storage, be it new construction, expansion of existing storage, or optimization of storage space for the Gallery. During 2018–19, the Gallery will set in motion plans to optimize onsite storage: the first major re-capitalization of onsite storage since the building opened in 1988. This initiative seeks to expand high-density mobile shelving to make the most effective use of the available footprint.

Through Federal Budget 2016, the Canada Science and Technology Museum (now known as Ingenium) received \$156.4 million to support construction of a new collection and conservation center (C3) to preserve and protect priceless Canadian heritage artifacts, including overflow of the Gallery's Collection. This new warehouse space is critical for the Gallery's ongoing art-storage operations, and will be used in addition to two long-term leased storage facilities currently nearing capacity. The C3 facility has experienced some construction delays, however the Gallery anticipates that it will have access to the space for fit-up in April 2019. The space, totaling 1,975 square meters, will accommodate crated and large 3D objects.

During the third quarter of 2018–19, the Gallery undertook the design of the rack systems for the C3 facility. The Gallery, by resolution of the Board of Trustees, restricted \$0.7 million from operating appropriations to capital funding in the prior fiscal year to support the investment; however, the total cost for the design and fit-up will not be known until a tender process is completed during the fourth quarter of 2018-19. The Gallery will consider all options should the tender exceed the funding available.

Once the C3 facility becomes available, the Gallery will transfer objects from three rented, temporary offsite storage locations being used to bridge the current and emerging storage requirements. The rental fees for these facilities are funded through internal reallocation of operating budgets. The Gallery will negotiate a lease agreement with Canada Museum of Science and Technology during the last quarter of 2018-19, and this leased storage facility will form part of on-going costs of the gallery once the space is occupied.

In 2018–19, the Gallery will make modest investments in the digitization of its records. While the Gallery has progressively digitized works in the Collection, efforts to accelerate the digitization and dissemination of objects, archives and publications have been hampered by insufficient resources, making it difficult to implement a coordinated, comprehensive digitization initiative with appropriate infrastructure and workflows. In March 2018, the Gallery struck a Digital Collections Committee to collectively devise, recommend and implement solutions to address display, digitization, database and workflow issues that currently impede dissemination. Areas of review include data integrity and quality assurance, managing copyrights in a digital environment, auditing workflows and internal processes, benchmarking online collections, and prioritizing works of art and collections for digitization. The development of a Digital Strategy is underway.

A fully funded digitization program at the Gallery would not only safeguard information assets, but also permit the Gallery to play a central role in the development and promotion of Canadian culture, at home and abroad, in a way that reflects Canada’s diversity. The requirements for investments that would enable the Gallery to accelerate the digitization and dissemination of its world-class art collection, as well as its archives and publications, will be identified in 2018–19. The Gallery has forecast that the required investment in this initiative exceeds current funding levels; however, this investment would improve public accessibility to the Gallery’s collections and knowledge, help facilitate innovative program delivery, and enable the Gallery to remain relevant and successful in the digital age.

Under the strategic priority for Audience Development, the gallery has identified the following key initiatives: Re-engineer the national outreach program; and with NGC Foundation funding support, develop an exhibition and publication on historical Canadian art for an international tour.

The strategic review of the national outreach program is underway, and will define how the Gallery will engage diverse audiences across the country both with physical and virtual delivery to further knowledge, understanding and enjoyment of art. The Gallery has targeted the fall of 2019 for implementation of a renewed program, in recognition of the 100th anniversary of the first travelling exhibition.

With the NGC Foundation’s support, the Gallery will continue to prepare for the 2019 Venice Biennale with video artist collective, ISUMA Productions, and will develop an international touring exhibition of Canadian art, *Canada and Impressionism: New Horizons* with venues booked in Germany, Switzerland and France before returning to Ottawa for presentation in fall 2020, thereby contributing to the Government’s priority of Showcasing Canada’s Cultural Industries to the World.

The Gallery will use all available avenues to secure the necessary funding over the planning period for requirements related to art storage, national outreach and dissemination and digitization of the Collection.