

**NATIONAL GALLERY OF CANADA
UNAUDITED FINANCIAL STATEMENTS**

QUARTERLY RESULTS

Nine months ended December 31st, 2016

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.



Marc Mayer
Director



Julie Peckham
Deputy Director,
Administration and Chief Financial Officer

Ottawa, Canada
February 23rd, 2017

STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)

Assets

Current	Dec 31, 2016	March 31, 2016
Cash and cash equivalents	\$ 10,931	\$ 13,061
Restricted cash and cash equivalents	204	10,254
Restricted investment	12,035	-
Accounts receivable	1,677	1,220
Inventory	720	567
Prepaid expenses	316	336
Total current assets	25,883	25,438
Collection	1	1
Capital assets	79,215	79,837
	\$ 105,099	\$ 105,276

Liabilities and Net Assets

Liabilities

Current liabilities

Accounts payable and accrued liabilities	\$ 4,632	\$ 4,027
Accrued salaries and benefits	1,414	1,770
Deferred contributions for the purchase of objects for the Collection (Note 4)	3,566	2,204
Deferred contributions for the purchase of capital assets (Note 4)	6,834	6,689
Other deferred contributions (Note 4)	1,217	1,245
Total current liabilities	17,663	15,935
Employee future benefits	932	932
Deferred contributions for the amortization of capital assets	78,593	79,215
Total liabilities	97,188	96,082

Net Assets

Unrestricted	7,173	8,456
Investment in capital assets	622	622
Permanently endowed	116	116
Total net assets	7,911	9,194
	\$ 105,099	\$ 105,276

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	2016	2015
Net assets, beginning of the period	\$ 8,456	\$ 622	\$ 116	\$ 9,194	\$ 8,147
Net result of operations for the nine month period	(1,283)	-	-	(1,283)	2,855
Net result for the remainder of the year	-	-	-	-	(1,808)
Net assets, end of the period	\$ 7,173	\$ 622	\$ 116	\$ 7,911	\$ 9,194

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	2016	2015
Net assets, beginning of the period	\$ 8,921	\$ 622	\$ 116	\$ 9,659	\$ 10,608
Net result of operations for the three month period	(1,748)	-	-	(1,748)	394
Net result for the remainder of the year	-	-	-	-	(1,808)
Net assets, end of the period	\$ 7,173	\$ 622	\$ 116	\$ 7,911	\$ 9,194

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, 2016	9 months ended Dec 31, 2015	3 months ended Dec 31, 2016	3 months ended Dec 31, 2015
Operating revenue, sponsorships, and contributions	\$ 8,205	\$ 7,457	\$ 1,957	\$ 1,972
Contributed items for the Collection	260	20,431	170	20,333
Total operating revenue, sponsorships, and contributions (Schedule 1)	8,465	27,888	2,127	22,305
Expenses				
Collection				
Operations	4,941	4,987	1,545	1,737
Purchase of items for the Collection	5,038	6,121	1,233	1,571
Contributed items for the Collection	260	20,431	170	20,333
Total - Collection	10,239	31,539	2,948	23,641
Outreach				
Accommodation	13,466	9,937	5,307	3,482
Administration	14,439	14,297	4,179	4,510
Administration	6,824	6,691	1,916	2,292
Total expenses (Schedule 2)	44,968	62,464	14,350	33,925
Net results before Parliamentary Appropriations	(36,503)	(34,576)	(12,223)	(11,620)
Parliamentary appropriations (Note 5)	35,220	37,431	10,475	12,014
Net result of operations	\$ (1,283)	\$ 2,855	\$ (1,748)	\$ 394

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, 2016	9 months ended Dec 31, 2015	3 months ended Dec 31, 2016	3 months ended Dec 31, 2015
Operating activities				
Cash received from clients	\$ 5,286	\$ 6,311	\$ 2,654	\$ 2,348
Parliamentary appropriations received	31,386	37,596	5,727	10,694
Cash paid to suppliers	(21,416)	(20,146)	(7,302)	(6,374)
Payments related to salary and benefits	(17,205)	(18,826)	(5,795)	(5,883)
Interest received	132	115	46	9
Total cash flow from operating activities	(1,817)	5,050	(4,670)	794
Investing activities				
Acquisition of investments	(26,035)	(17,000)	(26,035)	-
Disposal of investments	14,000	17,093	14,000	-
Total cash flow from investing activities	(12,035)	93	(12,035)	-
Capital activities				
Payments related to capital assets	(5,304)	(928)	(2,582)	(330)
Total cash flow used for capital activities	(5,304)	(928)	(2,582)	(330)
Financing activities				
Funding for the acquisition of capital assets	4,849	750	3,895	250
Restricted contributions and related investment income	2,127	926	430	48
Total cash flow from financing activities	6,976	1,676	4,325	298
Total cash flow	(12,180)	5,891	(14,962)	762
Cash and cash equivalents, beginning of the year				
Cash and cash equivalents	13,061	6,094	15,458	11,223
Restricted cash and cash equivalents	10,254	-	10,639	-
	23,315	6,094	26,097	11,223
Cash and cash equivalents, end of the year				
Cash and cash equivalents	10,931	11,985	10,931	11,985
Restricted cash and cash equivalents	204	-	204	-
	\$ 11,135	\$ 11,985	\$ 11,135	\$ 11,985

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 31st, 2016

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 include its affiliate, the Canadian Museum of Contemporary Photography (CMCP).

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	2016	2015
Beginning balance, as at April 1	\$ 2,204	\$ 6,689	\$ 1,245	\$ 10,138	9,336
Appropriations received in the period	7,000	4,848	-	11,848	8,750
Non-Government funding received in the period	-	-	1,818	1,818	487
	9,204	11,537	3,063	23,804	18,573
Amounts recognized as revenue in the period	(5,038)	-	(1,846)	(6,884)	(7,031)
Related acquisition costs	(600)	-	-	(600)	(600)
Purchase of capital assets in the period	-	(4,703)	-	(4,703)	(879)
Ending balance, as at Dec 31	\$ 3,566	\$ 6,834	\$ 1,217	\$ 11,617	10,063

5. PARLIAMENTARY APPROPRIATIONS

For the nine months ended December 31

(in thousands of dollars)

	2016	2015
For operating and capital expenditures		
Main estimates	\$ 26,916	\$ 26,830
Supplementary estimates	2,190	-
	29,106	26,830
Appropriations deferred for the purchase of capital assets	(2,940)	(750)
Appropriations restricted for the purchase of capital assets	(1,909)	-
Amortization of deferred funding for capital assets	5,325	4,650
	29,582	30,730
For the purchase of items for the Collection		
Main estimates	7,000	8,000
Appropriations recognized from prior years	2,204	2,787
Appropriations deferred to future years	(3,566)	(4,086)
	5,638	6,701
Total Parliamentary appropriations	\$ 35,220	\$ 37,431

6. INVESTMENTS IN CAPITAL ASSETS

For the nine months ended December 31

(in thousands of dollars)

	2016	2015
Capital asset additions	\$ 4,703	\$ 879
Less: capital assets financed through contributions	(4,703)	(879)
	-	-
Deferred contributions used for the amortization of capital assets	5,325	4,650
Amortization of capital assets	(5,325)	(4,650)
Net change in investment in capital assets	\$ -	\$ -

SCHEDULE #1: OPERATING REVENUE, SPONSORSHIPS AND CONTRIBUTIONS

(in thousands of dollars)

	9 months ended Dec 31, 2016	9 months ended Dec 31, 2015	3 months ended Dec 31, 2016	3 months ended Dec 31, 2015
Operating revenue:				
Boutique and publishing	\$ 1,845	\$ 2,202	\$ 599	\$ 674
Admissions	1,641	1,898	248	360
Parking	874	893	254	323
Memberships	586	560	132	205
Rental of public spaces	374	141	79	52
Education services	71	73	14	9
Art loans – recovery of expenses	215	133	146	72
Travelling exhibitions	134	5	39	-
Audio guides	101	41	6	20
Food services	42	39	-	12
Interest	132	115	46	9
Other	25	18	9	7
	6,040	6,118	1,572	1,743
Sponsorships and Contributions:				
Sponsorships	319	409	98	29
Contributions				
Contributed items for the Collection	260	20,431	170	20,333
From the National Gallery of Canada Foundation	1,153	203	-	-
From other individuals, corporations and foundations	693	727	287	200
	2,425	21,770	555	20,562
Operating revenue, sponsorships and contributions	\$ 8,465	\$ 27,888	\$ 2,127	\$ 22,305

SCHEDULE #2: EXPENSES

(in thousands of dollars)

	9 months ended Dec 31, 2016	9 months ended Dec 31, 2015	3 months ended Dec 31, 2016	3 months ended Dec 31, 2015
Salaries and employee benefits	\$ 16,849	\$ 15,636	\$ 5,348	\$ 5,654
Purchased items for the Collection	5,038	6,121	1,233	1,571
Contributed items for the Collection	260	20,431	170	20,333
Amortization of capital assets	5,325	4,650	1,775	1,550
Payments in lieu of taxes	3,063	3,088	1,021	921
Professional and special services	2,343	1,796	1,267	600
Insurance	332	307	39	-
Repairs and maintenance of buildings and equipment	2,734	2,427	892	793
Protection services	1,970	2,115	527	627
Utilities, materials and supplies	1,955	1,529	619	392
Freight, cartage and postage	1,449	587	189	386
Travel	679	745	264	224
Publications	525	448	285	176
Cost of goods sold – boutique	744	1,065	119	279
Advertising	789	646	271	146
Rent	339	337	113	112
Communications	210	205	64	70
Library purchases	186	157	58	41
Rentals of equipment	29	31	15	1
Fellowships	116	109	67	36
Miscellaneous	33	34	14	13
Total expenses	\$ 44,968	\$ 62,464	\$ 14,350	\$ 33,925

MANAGEMENT DISCUSSION AND ANALYSIS OF QUARTERLY FINANCIAL For the nine months ended December 31, 2016

Operating Environment

During the first half of 2016-17, the Gallery presented a broad program of exhibitions in Ottawa. The major summer exhibition in Ottawa, *Elisabeth Louise Vigée Le Brun (1755–1842)*, was a critical success and attracted 91,104 visitors. The exhibition was organized by the National Gallery of Canada, The Metropolitan Museum of Art, and the Réunion des musées nationaux–Grand Palais. The Gallery also hosted one of Canada’s most notable contemporary artists with the exhibition *Chris Cran, Sincerely Yours*. One of the treasures of the National Collection, *Picasso: Man and Beast. The Vollard Suite of Prints* was exhibited at the Gallery for the first time in nearly 60 years. *Tamayo: A Solitary Mexican Modernist* explored the work of one of Mexico’s masters and featured prints and paintings from the collections of the National Institute of Fine Arts, Mexico. The Gallery also hosted The Governor General’s Awards in Visual and Media Arts 2016, which celebrates the best and brightest in Canadian contemporary art and craft.

Throughout the fall of 2016, the Gallery continued to exhibit a broad range of exhibitions in Ottawa. *Alex Janvier* opened in late November 2016. The exhibition celebrates the artist’s lifetime of creativity, knowledge and perspective gained through his love of the land, art and Dene culture. In late October, the Canadian Photography Institute of the National Gallery of Canada opened *The Intimate World of Josef Sudek* and *Cutline: The Photography Archives of the Globe and Mail*. The latter, revisits the golden age of newspaper photography, while the former is the first major show to examine the Czech photographers work, life, and intimate circle of artist friends during the decades before and after the Second World War. The Gallery also launched *The Advent of Abstraction: Russia, 1914-1923*, an exhibition that centres on the emergence of the avant-garde movement in Moscow.

For the nine month period, total visitor attendance to permanent, temporary, and travelling exhibitions was 373,426.

For the nine months ended December 31	2016	2015
NGC Ottawa	311,619	329,621
Travelling Exhibitions	20,210	3,062
NGC@ Partnerships	41,597	104,812
Venice	-	260,000
Special Projects	-	84,210
Attendance to all venues this period	373,426	781,705

Financial Overview

The Gallery posted a net operating deficit of \$1.3 million during the nine month period. The Gallery posted a net operating surplus of \$2.9 million in the same period of the prior year.

Parliamentary Appropriations, revenues, sponsorships and contributions

The Gallery recognized \$35.2 million in Parliamentary appropriations, compared to \$37.4 million in the same period of the prior year. Approximately \$1.0 million of that variance is due to a timing difference in the drawdown of appropriations for purchases of items for the Collection. In addition, the Gallery, by resolution of its Board of Trustees, internally restricted \$1.9 million from operating appropriations to capital funding to support the investment in the Canadian and Indigenous Galleries project.

Operating revenue for the period was \$6.0 million, compared to \$6.1 million in same period of the prior year. Admissions and Boutique sales are down relative to the comparative period due to a later start date for the summer exhibition. Also, Boutique revenue is reduced, as the main facility was under construction for a period in the spring.

On June 29th, Canada hosted the North American Leaders’ Summit. The Gallery was pleased to provide facilities and welcome Prime Minister of Canada Justin Trudeau, President of the United States of America Barack Obama, and President of Mexico Enrique Peña Nieto. The Gallery closed to the public for two days to support this important event, and rental fees earned from hosting the event account for the year over year revenue increase in the rental of public spaces.

Excluding contributed items for the Collection, sponsorships and contributions were \$2.2 million in the period compared to \$1.3 million in same period of the prior year, largely due to increased funding from the National Gallery of Canada Foundation. Contributions from the Foundation are in support of the Canadian Photography Institute, Canada’s participation in the 2017 Venice Biennale, the renovation and restoration of the Venice Pavilion, the transformation of the Canadian and Indigenous Galleries, and various exhibitions, special projects and research, as well as public programs and outreach.

	Full-Year Target	Actual to Dec 31, 2016	% of Completion
Operating revenue	5,895,000	6,040,000	102%
Sponsorships and contributions	4,080,000	2,425,000	59%
	9,975,000	8,465,000	85%

At the end of December the Gallery has already surpassed its full year target for operating revenue, and expects to achieve the target for sponsorships and contributions as well.

Expenditures

The Gallery's operating expenditures to the end of the third quarter were \$45.0 million, compared to \$62.5 million for the same period last year. Fluctuations result from purchased and contributed items for the Collection; excluding this line item, operating costs were \$39.7 million to the end of December, compared to \$35.9 million in the same period in the prior year. Salaries expense has increased by approximately \$1.2 million, as the Gallery expanded its workforce temporarily to deliver on several strategic initiatives. Professional services have increased by \$0.5 million year-over-year due to Venice Exhibition production costs. Repairs and maintenance have increased by \$0.3 million as a result of more expensive fit ups for special and temporary exhibitions. Utilities, materials and supplies have increased by \$0.3 million for hydro and chilled water compared to the same period last year. Freight, cartage and postage costs remain high relative to the same period of the prior year, largely due to shipping costs associated with the summer exhibition, *Vigée Le Brun*.

The Collection

The Gallery purchased objects for the Collection valued at \$5.0 million in the period, compared to purchases totalling \$6.1 million in the same period of the prior year. Notable purchases include *NoNoseKnows* by Mika Rottenberg, *Tree* by Ai Weiwei and *More Sweetly Play the Dance, 2015* by William Kentridge. The Gallery was pleased to receive \$0.3 million in contributed items for the Collection in the period. At the end of December, the Gallery had \$3.6 million of deferred contributions available for the purchase of objects for the collection.

Capital

The Gallery invested \$4.7 million in capital assets during the period, compared to \$0.9 million in the same period in the prior year. The increase in capital expenditure relates to the Boutique renovation completed in June 2016, on-going redevelopment of the website, and the Canadian and Indigenous Galleries transformation. The Gallery has secured funding for the Canadian and Indigenous Gallery project from unrestricted net assets and through an internal restriction of appropriations. At the end of December, the Gallery had \$6.9 million of deferred contributions available for the purchase of capital assets.

Outlook

The Gallery welcomed additional capital funding allocated through Budget 2016 for Federal Cultural Infrastructure. The Gallery will receive \$9.6 million over two fiscal years: to replace windows and skylights in the Main Entrance Pavilion and Colonnade; to refurbish the Main Entrance public elevators; and to rectify a code deficiency along the mezzanine of the Colonnade. The Gallery will also receive \$8.8 million over five years to complete thirty-five health and safety-related projects. This funding relieves significant pressure on the long-term capital plan; however, 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 review its Long Term Capital Plan and will prioritize available resources to ensure that the most pressing projects are completed.

Through Federal Budget 2016, the Canada Science and Technology Museum (CSTM) received \$156.4 million over three years to support the construction of a new collection and conservation centre (CCC) to preserve and protect priceless Canadian heritage artifacts, including overflow of the Collections from the National Gallery of Canada and Canadian Conservation Institute. In December 2016, the Gallery was advised that the CCC cannot be completed as first specified as the cost estimates have come in much higher than anticipated, due to a broader functional program, unforeseen site works and elevated mechanical costs. The CSTM has proposed a reduced building size, and a modular design that would facilitate expansion in a phased approach to meet the full needs of all three institutions in the medium to long term. The Gallery will work closely with CSTM over the coming year to develop phase 2 of the CCC. The first phase, set to be completed in late fall 2018, will continue to accommodate the immediate storage needs of the Gallery, for large 3D art storage, totalling 1,975 square meters. The project site mobilization is underway, and the Gallery is collaborating on the schematic layout review of design drawings. Once a final design is approved, the Gallery will begin its work to estimate the cost of fit-up requirements for the space allocated to it and to secure a source of funds. Until the facility comes on line, the Gallery will require temporary storage to meet the requirements of a collecting institution and ensure that the assets are appropriately safeguarded.

During 2016-17, the Gallery will invest in the visitor experience and engagement through website redevelopment, revitalization of audiovisual equipment in its auditorium and lecture hall, and wayfinding and signage in public and gallery spaces, including the group and main entrances and the parkade. To celebrate Canada's 150th anniversary of Confederation in 2017, the Gallery will transform the Canadian and Indigenous galleries with funding from its unrestricted net assets and appropriations. To this end, the Gallery will work with its Board to pass necessary resolutions over the next two fiscal years to create internal restrictions from operating to capital funding in order to match capital investments and funding sources. This accounting treatment could result in a deficit during the current and future fiscal years. Canada's celebration of the visual arts during 2017 will also include the National Gallery's presentation of Geoffrey Farmer at the Venice Biennale. In addition, after a lengthy design and negotiation process, involving multiple stakeholders in both Canada and Italy, a plan has been finalized for a complete restoration and renewal of the pavilion building and the surrounding gardens to take place over the 2017-18 timeframe. Both the Venice Biennale and the pavilion restoration will be supported by the National Gallery of Canada Foundation.

The Gallery will also continue to face escalating non-discretionary costs associated with operating and maintaining its facilities and ensuring the protection of the collection. Increased salary costs are also expected in 2016-17, as a result of merit and economic increases and the hiring of additional resources associated with the Gallery's strategic initiatives to engage and attract audiences. With stable Parliamentary funding for operating costs, inflationary increases for salaries, utilities and contract protection services must be funded through targeted cost savings, internal reallocation and revenue growth.