

NATIONAL GALLERY OF CANADA
UNAUDITED FINANCIAL STATEMENTS
QUARTERLY RESULTS

Six months ended September 30, 2017

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
November 28, 2017

STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)

Assets	As at	
Current	Sept 30, 2017	March 31, 2017
Cash and cash equivalents	\$ 3,590	\$ 4,548
Investment	1,297	5,665
Restricted investment	7,821	8,423
Accounts receivable	2,165	860
Inventory	781	719
Prepaid expenses	313	568
Total current assets	15,967	20,783
Collection	1	1
Capital assets	81,082	82,036
	\$ 97,050	\$ 102,820
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,470	\$ 5,179
Accrued salaries and benefits	1,534	2,041
Deferred contributions for the purchase of objects for the Collection (Note 4)	322	934
Deferred contributions for the purchase of capital assets (Note 4)	6,120	5,941
Other deferred contributions (Note 4)	1,263	1,431
Total current liabilities	12,709	15,526
Employee future benefits	943	943
Deferred contributions for the amortization of capital assets	80,460	81,414
Total liabilities	94,112	97,883
Net Assets		
Unrestricted	2,200	4,199
Investment in capital assets	622	622
Permanently endowed	116	116
Total net assets	2,938	4,937
	\$ 97,050	\$ 102,820

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

STATEMENT OF CHANGES IN NET ASSETS**For the six months ended September 30**

(in thousands of dollars)

	Unrestricted	Investment in capital assets	Permanently endowed	2017	2016
Net assets, beginning of the period	\$ 4,199	\$ 622	\$ 116	\$ 4,937	\$ 9,194
Net result of operations for the six month period	(1,999)	-	-	(1,999)	465
Net result for the remainder of the year	-	-	-	-	(4,722)
Net assets, end of the period	\$ 2,200	\$ 622	\$ 116	\$ 2,938	\$ 4,937

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

STATEMENT OF CHANGES IN NET ASSETS**For the three months ended September 30**

(in thousands of dollars)

	Unrestricted	Investment in capital assets	Permanently endowed	2017	2016
Net assets, beginning of the period	\$ 1,579	\$ 622	\$ 116	\$ 2,317	\$ 8,125
Net result of operations for the three month period	621	-	-	621	796
Net result for the remainder of the year	-	-	-	-	(3,984)
Net assets, end of the period	\$ 2,200	\$ 622	\$ 116	\$ 2,938	\$ 4,937

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

STATEMENT OF OPERATIONS

(in thousands of dollars)

	6 months ended Sept 30, 2017	6 months ended Sept 30, 2016	3 months ended Sept 30, 2017	3 months ended Sept 30, 2016
Operating revenue, sponsorships, and contributions	\$ 6,076	\$ 6,248	\$ 3,799	\$ 4,528
Contributed items for the Collection	265	90	265	90
Total operating revenue, sponsorships, and contributions (Schedule 1)	6,341	6,338	4,064	4,618
Expenses				
Collection				
Operations	3,690	3,396	1,871	1,622
Purchase of items for the Collection	4,485	3,805	3,976	2,729
Contributed items for the Collection	265	90	265	90
Total - Collection	8,440	7,291	6,112	4,441
Outreach	9,863	8,159	4,560	4,505
Accommodation	9,838	10,260	4,972	5,125
Administration	4,687	4,908	2,299	2,723
Total expenses (Schedule 2)	32,828	30,618	17,943	16,794
Net results before Parliamentary Appropriations	(26,487)	(24,280)	(13,879)	(12,176)
Parliamentary appropriations (Note 5)	24,488	24,745	14,500	12,972
Net result of operations	\$ (1,999)	\$ 465	\$ 621	\$ 796

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

STATEMENT OF CASH FLOWS

(in thousands of dollars)

	6 months ended Sept 30, 2017	6 months ended Sept 30, 2016	3 months ended Sept 30, 2017	3 months ended Sept 30, 2016
Operating activities				
Cash received from clients	\$ 4,034	\$ 2,632	\$ 3,429	\$ 1,655
Parliamentary appropriations received	20,674	25,659	11,099	14,808
Cash paid to suppliers	(16,572)	(14,114)	(12,294)	(9,124)
Payments related to salary and benefits	(12,511)	(11,410)	(5,844)	(5,176)
Interest received	74	86	31	64
Total cash flow from (used for) operating activities	(4,301)	2,853	(3,579)	2,227
Investing activities				
Acquisition of investments	(12,095)	-	(7,070)	-
Disposal of investments	17,060	-	12,060	-
Total cash flow from investing activities	4,965	-	4,990	-
Capital activities				
Payments related to capital assets	(4,157)	(2,722)	(589)	(1,110)
Total cash flow used for capital activities	(4,157)	(2,722)	(589)	(1,110)
Financing activities				
Funding for the acquisition of capital assets	2,408	954	-	704
Restricted contributions and related investment income	127	1,697	71	1,525
Total cash flow from financing activities	2,535	2,651	71	2,229
Total cash flow	(958)	2,782	893	3,346
Cash and cash equivalents, beginning of the year				
Cash and cash equivalents	4,548	13,061	2,697	12,276
Restricted cash and cash equivalents	-	10,254	-	10,475
	4,548	23,315	2,697	22,751
Cash and cash equivalents, end of the year				
Cash and cash equivalents	3,590	15,458	3,590	15,458
Restricted cash and cash equivalents	-	10,639	-	10,639
	\$ 3,590	\$ 26,097	\$ 3,590	\$ 26,097

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

SELECTED NOTES TO THE UNAUDITED QUARTERLY FINANCIAL STATEMENTS

Six months ended September 30, 2017

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 six months ended September 30

(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	2017	2016
Beginning balance, as at April 1	\$ 934	\$ 5,941	\$ 1,431	\$ 8,306	\$ 10,138
Appropriations received in the period	4,000	2,408	-	6,408	6,454
Non-Government funding received in the period	-	67	1,459	1,526	1,547
	4,934	8,416	2,890	16,240	18,139
Amounts recognized as revenue in the period	(4,212)	-	(1,627)	(5,839)	(5,364)
Related acquisition costs	(400)	-	-	(400)	(400)
Purchase of capital assets in the period	-	(2,296)	-	(2,296)	(2,358)
Ending balance, as at September 30	\$ 322	\$ 6,120	\$ 1,263	\$ 7,705	\$ 10,017

5. PARLIAMENTARY APPROPRIATIONS

For the six months ended September 30

(in thousands of dollars)

For operating and capital expenditures

	2017	2016
Main estimates	\$ 19,034	\$ 17,944
Supplementary estimates	-	-
	19,034	17,944
Appropriations deferred for the purchase of capital assets	(1,590)	(500)
Appropriations restricted for the purchase of capital assets	(818)	(454)
Amortization of deferred funding for capital assets	3,250	3,550
	19,876	20,540

For the purchase of items for the Collection

Main estimates	4,000	5,500
Appropriations recognized from prior periods	934	2,204
Appropriations deferred to future periods	(322)	(3,499)
	4,612	4,205
Total Parliamentary appropriations	\$ 24,488	\$ 24,745

6. INVESTMENTS IN CAPITAL ASSETS

For the six months ended September 30

(in thousands of dollars)

	2017	2016
Capital asset additions	\$ 2,296	\$ 2,358
Less: capital assets financed through contributions	(2,296)	(2,358)
Deferred contributions used for the amortization of capital assets	3,250	3,550
Amortization of capital assets	(3,250)	(3,550)
Net change in investment in capital assets	\$ -	\$ -

SCHEDULE #1: OPERATING REVENUE, SPONSORSHIPS AND CONTRIBUTIONS

(in thousands of dollars)

	6 months ended Sept 30, 2017	6 months ended Sept 30, 2016	3 months ended Sept 30, 2017	3 months ended Sept 30, 2016
Operating revenue:				
Boutique and publishing	\$ 1,484	\$ 1,246	\$ 820	\$ 870
Admissions	1,250	1,393	777	988
Parking	617	620	333	365
Memberships	365	454	164	203
Rental of public spaces	234	295	113	228
Education services	112	57	8	6
Art loans – recovery of expenses	82	69	58	24
Travelling exhibitions	67	95	59	39
Audio guides	27	95	18	77
Food services	1	42	-	38
Interest	74	86	31	38
Other	51	16	43	5
	4,364	4,468	2,424	2,881
Sponsorships and Contributions:				
Sponsorships	85	221	-	144
Contributions				
Contributed items for the Collection	265	90	265	90
From the National Gallery of Canada Foundation	1,337	1,153	1,337	1,153
From other individuals, corporations and foundations	290	406	38	350
	1,977	1,870	1,640	1,737
Operating revenue, sponsorships and contributions	\$ 6,341	\$ 6,338	\$ 4,064	\$ 4,618

SCHEDULE #2: EXPENSES

(in thousands of dollars)

	6 months ended Sept 30, 2017	6 months ended Sept 30, 2016	3 months ended Sept 30, 2017	3 months ended Sept 30, 2016
Salaries and employee benefits	\$ 12,004	\$ 11,501	\$ 5,853	\$ 5,863
Purchased items for the Collection	4,485	3,805	3,976	2,729
Contributed items for the Collection	265	90	265	90
Amortization of capital assets	3,250	3,550	1,625	1,775
Payments in lieu of taxes	1,721	2,042	674	992
Professional and special services	2,261	1,064	1,066	542
Insurance	221	293	39	44
Repairs and maintenance of buildings and equipment	1,857	1,842	914	891
Protection services	1,498	1,443	831	736
Utilities, materials and supplies	1,560	1,336	1,003	811
Freight, cartage and postage	392	1,260	161	886
Travel for public servants	271	175	77	86
Travel for non-public servants	262	167	98	90
Hospitality	100	39	69	15
Conferences	46	46	19	19
Publications	525	240	127	127
Cost of goods sold – boutique	678	625	425	483
Advertising	817	518	442	335
Rent	228	226	114	114
Communications	123	146	69	98
Library purchases	119	128	24	34
Rentals of equipment	40	14	22	4
Fellowships	81	49	40	22
Miscellaneous	24	19	10	8
Total expenses	\$ 32,828	\$ 30,618	\$ 17,943	\$ 16,794

MANAGEMENT DISCUSSION AND ANALYSIS OF QUARTERLY FINANCIAL
For the six months ended September 30, 2017

Operating Environment

Through the second quarter, the Gallery continued its celebration of the Canadian Sesquicentennial. For the first time since moving to the current facility, the Gallery has completed a major transformation of the permanent Canadian and Indigenous galleries. The exhibition space opened to the public to great critical acclaim. These transformed galleries tell, through art, the remarkable stories that have shaped our land.

While the Canadian and Indigenous galleries were the primary exhibition throughout the summer, the Gallery continued to work towards an exciting slate of exhibitions set to open in October and early November. Exhibitions include the 2017 Canadian Biennial which brings together a comprehensive selection of works acquired since 2014 by the Gallery's departments of Contemporary Art, Indigenous Art, and the Canadian Photography Institute, and is the first to date to feature artists working both in Canada and internationally.

Canada's celebration of the visual arts during 2017 also includes the National Gallery's presentation of Geoffrey Farmer at the Venice Biennale. Canada's representation at the Biennale has played a part in shaping the role and place of Canadian contemporary art within the international circle and has helped to launch the international careers of many of Canada's most celebrated artists. This exhibition would not be possible without the support of the National Gallery of Canada Foundation and its generous donors.

For the six month period, total visitor attendance to permanent, temporary, and travelling exhibitions was 580,915.

For the six months ended September 30	2017	2016
NGC Ottawa	241,349	246,829
Travelling Exhibitions	43,941	11,923
NGC@ Partnerships	54,450	25,021
Venice	241,175	-
Attendance to all venues this period	580,915	283,773

Financial Overview

The Gallery posted a net operating deficit of \$2.0 million during the six month period, compared to a net operating surplus of \$0.5 million in the same period of the prior year. The deficit is the result of the accounting treatment for the Canadian and Indigenous Galleries project.

Parliamentary Appropriations, revenues, sponsorships and contributions

The Gallery recognized \$24.5 million in Parliamentary appropriations, compared to \$24.7 million in the same period of the prior year. The Gallery, by resolution of its Board of Trustees, restricted \$0.8 million from operating appropriations to capital funding to support the investment in the Canadian and Indigenous Galleries project.

Operating revenue for the period was \$4.4 million, compared to \$4.5 million in same period of the prior year. Notably, sales in the redesigned Boutique have increased by \$0.2 million year over year.

Sponsorships and contributions were \$1.7 million in the period compared to \$1.9 million in same period of the prior year. Contributions recognized from the National Gallery of Canada Foundation totalled \$1.3 million and were in support of the Canadian Photography Institute, Canada's participation in the 2017 Venice Biennale, the 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 September 30	% of Completion
Operating revenue	7,700,000	4,364,000	57%
Sponsorships and contributions	7,062,000	1,712,000	24%
	14,762,000	6,076,000	41%

Due to anticipated project funding from the National Gallery of Canada Foundation it is expected that these targets will be met for the fiscal year.

Expenditures

The Gallery's operating expenditures through the second quarter were \$24.8 million, compared to \$23.2 million for the same period last year. Higher expenditures, including increased payments for salaries and employee benefits and professional services, reflect the Gallery's efforts to deliver a number of key projects.

The Collection

The Gallery purchased items for the Collection valued at \$4.5 million in the period, compared to purchases totalling \$3.8 million in the same period of the prior year. Notable purchases include *The Triumph of Galatea* by Simon Vouet and *Conjured Parts (heart)*, *Aleppo* by Julie Mehretu. The Gallery was pleased to receive contributed items for the Collection valued at \$0.3 million. At the end of September, the Gallery had \$0.3 million of deferred contributions available for the purchase of objects for the Collection.

Capital

The Gallery invested \$2.3 million in capital assets during the period, compared to \$2.4 million in the same period in the prior year. During the second quarter the Gallery had significant capital expenditure on auditorium renovations, wayfinding, website redevelopment in addition to a number of health and safety projects. At the end of the September, the Gallery had \$6.1 million available for capital expenditures.

Outlook

The Gallery is forecasting an operating deficit in 2017-18 equivalent to the capital and operating investment associated with the completion of the transformation of the Canadian and Indigenous Galleries. The costs associated with this project are both capital and operating in nature, and are funded through unrestricted net assets, Board approved reallocation of appropriations from operating budget to capital budget, and contributions from the NGC Foundation and other sources.

During 2017-18, the Gallery will turn its attention to several key capital projects.

The Gallery received funding through Budget 2016 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. This project is set to begin in November 2017.

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 of the Canada pavilion building and the surrounding gardens in Venice. This work will take place between January 2017 and May 2018. The pavilion restoration will be supported by the National Gallery of Canada Foundation.

The Gallery continues to address life-cycle issues at its aging Ottawa facility, and was the grateful beneficiary of additional Parliamentary funding of \$8.8 million over 5 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 Corporation (CSTMC) 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. The facility is set to be completed in late fall 2018, and will accommodate the immediate storage needs of the Gallery, for large 3D art storage, totaling 1,300 square meters. The construction of the facility is underway. Once the final schematic layout is approved, the Gallery will begin its work to estimate the cost of fit-up requirements for the space 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 2017-18, the Gallery will continue to face escalating non-discretionary costs associated with operating and maintaining its facilities and ensuring the protection of the collection, particularly with contracts that are linked to Ontario minimum wage. With stable Parliamentary funding for operating costs, inflationary increases for salaries, utilities and protection services must be funded either by internal reallocation or by revenue growth. In the absence of relief from Government, the Gallery continues to explore and invest in targeted initiatives designed to expand and diversify self-generated revenues, sponsorships, and contributions.