

NATIONAL GALLERY OF CANADA
UNAUDITED FINANCIAL STATEMENTS
QUARTERLY RESULTS

Nine months ended December 31, 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
February 23rd, 2018

STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)

Assets	As at	
Current	Dec 31, 2017	As at March 31, 2017
Cash and cash equivalents	\$ 3,260	\$ 4,548
Investment	3,298	5,665
Restricted investment	7,709	8,423
Accounts receivable	1,088	860
Inventory	741	719
Prepaid expenses	404	568
Total current assets	16,500	20,783
Collection	1	1
Capital assets	80,765	82,036
	\$ 97,266	\$ 102,820
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,374	\$ 5,179
Accrued salaries and benefits	1,099	2,041
Deferred contributions for the purchase of objects for the Collection (Note 4)	808	934
Deferred contributions for the purchase of capital assets (Note 4)	5,247	5,941
Other deferred contributions (Note 4)	1,538	1,431
Total current liabilities	13,066	15,526
Employee future benefits	943	943
Deferred contributions for the amortization of capital assets	80,142	81,414
Total liabilities	94,151	97,883
Net Assets		
Unrestricted	2,377	4,199
Investment in capital assets	622	622
Permanently endowed	116	116
Total net assets	3,115	4,937
	\$ 97,266	\$ 102,820

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	2017	2016
Net assets, beginning of the period	\$ 4,199	\$ 622	\$ 116	\$ 4,937	\$ 9,194
Net result of operations for the nine month period	(1,822)	-	-	(1,822)	465
Net result for the remainder of the year	-	-	-	-	(4,722)
Net assets, end of the period	\$ 2,377	\$ 622	\$ 116	\$ 3,115	\$ 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 December 31**

(in thousands of dollars)

	Unrestricted	Investment in capital assets	Permanently endowed	2017	2016
Net assets, beginning of the period	\$ 2,200	\$ 622	\$ 116	\$ 2,938	\$ 8,125
Net result of operations for the three month period	177	-	-	177	796
Net result for the remainder of the year	-	-	-	-	(3,984)
Net assets, end of the period	\$ 2,377	\$ 622	\$ 116	\$ 3,115	\$ 4,937

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, 2017	9 months ended Dec 31, 2016	3 months ended Dec 31, 2017	3 months ended Dec 31, 2016
Operating revenue, sponsorships, and contributions	\$ 8,319	\$ 8,205	\$ 2,243	\$ 1,957
Contributed items for the Collection	367	260	102	170
Total operating revenue, sponsorships, and contributions (Schedule 1)	8,686	8,465	2,345	2,127
Expenses				
Collection				
Operations	5,402	4,941	1,712	1,545
Purchase of items for the Collection	5,799	5,038	1,314	1,233
Contributed items for the Collection	367	260	102	170
Total - Collection	11,568	10,239	3,128	2,948
Outreach	14,108	13,466	4,245	5,307
Accommodation	14,749	14,439	4,911	4,179
Administration	7,041	6,824	2,354	1,916
Total expenses (Schedule 2)	47,466	44,968	14,638	14,350
Net results before Parliamentary Appropriations	(38,780)	(36,503)	(12,293)	(12,223)
Parliamentary appropriations (Note 5)	36,958	35,220	12,470	10,475
Net result of operations	\$ (1,822)	\$ (1,283)	\$ 177	\$ (1,748)

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, 2017	9 months ended Dec 31, 2016	3 months ended Dec 31, 2017	3 months ended Dec 31, 2016
Operating activities				
Cash received from clients	\$ 5,490	\$ 5,286	\$ 1,456	\$ 2,654
Parliamentary appropriations received	32,005	31,386	11,331	5,727
Cash paid to suppliers	(22,985)	(21,416)	(6,413)	(7,302)
Payments related to salary and benefits	(18,862)	(17,205)	(6,351)	(5,795)
Interest received	106	132	32	46
Total cash flow from (used for) operating activities	(4,246)	(1,817)	55	(4,670)
Investing activities				
Acquisition of investments	(23,095)	(26,035)	(11,000)	(26,035)
Disposal of investments	26,130	14,000	9,070	14,000
Total cash flow from investing activities	3,035	(12,035)	(1,930)	(12,035)
Capital activities				
Payments related to capital assets	(5,465)	(5,304)	(1,308)	(2,582)
Total cash flow used for capital activities	(5,465)	(5,304)	(1,308)	(2,582)
Financing activities				
Funding for the acquisition of capital assets	2,849	4,849	441	3,895
Restricted contributions and related investment income	2,539	2,127	2,412	430
Total cash flow from financing activities	5,388	6,976	2,853	4,325
Total cash flow	(1,288)	(12,180)	(330)	(14,962)
Cash and cash equivalents, beginning of the year				
Cash and cash equivalents	4,548	13,061	3,590	15,458
Restricted cash and cash equivalents	-	10,254	-	10,639
	4,548	23,315	3,590	26,097
Cash and cash equivalents, end of the year				
Cash and cash equivalents	3,260	10,931	3,260	10,931
Restricted cash and cash equivalents	-	204	-	204
	\$ 3,260	\$ 11,135	\$ 3,260	\$ 11,135

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, 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 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	2017	2016
Beginning balance, as at April 1	\$ 934	\$ 5,941	\$ 1,431	\$ 8,306	10,138
Appropriations received in the period	6,000	2,783	-	8,783	11,848
Non-Government funding received in the period	-	127	2,042	2,169	1,818
	6,934	8,851	3,473	19,258	23,804
Amounts recognized as revenue in the period	(5,526)	-	(1,935)	(7,461)	(6,884)
Related acquisition costs	(600)	-	-	(600)	(600)
Purchase of capital assets in the period	-	(3,604)	-	(3,604)	(4,703)
Ending balance, as at September 30	\$ 808	\$ 5,247	\$ 1,538	\$ 7,593	11,617

5. PARLIAMENTARY APPROPRIATIONS

For the nine months ended December 31

(in thousands of dollars)

	2017	2016
For operating and capital expenditures		
Main estimates	\$ 28,006	\$ 26,916
Supplementary estimates	734	2,190
	28,740	29,106
Appropriations deferred for the purchase of capital assets	(1,840)	(2,940)
Appropriations restricted for the purchase of capital assets	(943)	(1,909)
Amortization of deferred funding for capital assets	4,875	5,325
	30,832	29,582
For the purchase of items for the Collection		
Main estimates	6,000	7,000
Appropriations recognized from prior periods	934	2,204
Appropriations deferred to future periods	(808)	(3,566)
	6,126	5,638
Total Parliamentary appropriations	\$ 36,958	\$ 35,220

6. INVESTMENTS IN CAPITAL ASSETS

For the nine months ended December 31

(in thousands of dollars)

	2017	2016
Capital asset additions	\$ 3,604	\$ 4,703
Less: capital assets financed through contributions	(3,604)	(4,703)
Deferred contributions used for the amortization of capital assets	4,875	5,325
Amortization of capital assets	(4,875)	(5,325)
Net change in investment in capital assets	\$ -	\$ -

SCHEDULE #1: OPERATING REVENUE, SPONSORSHIPS AND CONTRIBUTIONS

(in thousands of dollars)

	9 months ended Dec 31, 2017	9 months ended Dec 31, 2016	3 months ended Dec 31, 2017	3 months ended Dec 31, 2016
Operating revenue:				
Boutique and publishing	\$ 2,171	\$ 1,845	\$ 687	\$ 599
Admissions	1,626	1,641	376	248
Parking	918	874	301	254
Memberships	552	586	187	132
Rental of public spaces	367	374	133	79
Education services	132	71	20	14
Art loans – recovery of expenses	142	215	60	146
Travelling exhibitions	89	134	22	39
Audio guides	37	101	10	6
Food services	1	42	-	-
Interest	106	132	32	46
Other	53	25	2	9
	6,194	6,040	1,830	1,572
Sponsorships and Contributions:				
Sponsorships	189	319	104	98
Contributions				
Contributed items for the Collection	367	260	102	170
From the National Gallery of Canada Foundation	1,373	1,153	36	-
From other individuals, corporations and foundations	563	693	273	287
	2,492	2,425	515	555
Operating revenue, sponsorships and contributions	\$ 8,686	\$ 8,465	\$ 2,345	\$ 2,127

SCHEDULE #2: EXPENSES

(in thousands of dollars)

	9 months ended Dec 31, 2017	9 months ended Dec 31, 2016	3 months ended Dec 31, 2017	3 months ended Dec 31, 2016
Salaries and employee benefits	\$ 17,920	\$ 16,849	\$ 5,916	\$ 5,348
Purchased items for the Collection	5,799	5,038	1,314	1,233
Contributed items for the Collection	367	260	102	170
Amortization of capital assets	4,875	5,325	1,625	1,775
Payments in lieu of taxes	2,582	3,063	861	1,021
Professional and special services	3,173	2,285	902	1,246
Insurance	250	332	29	39
Repairs and maintenance of buildings and equipment	2,779	2,734	922	892
Protection services	2,235	1,970	737	527
Utilities, materials and supplies	2,271	1,955	711	619
Freight, cartage and postage	539	1,449	147	189
Travel for public servants	494	359	223	144
Travel for non-public servants	252	241	-	89
Hospitality	151	60	51	21
Conferences	86	77	40	31
Publications	760	525	235	285
Cost of goods sold – boutique	968	744	290	119
Advertising	1,083	789	266	271
Rent	343	339	115	113
Communications	185	210	62	64
Library purchases	171	186	52	58
Rentals of equipment	50	29	10	15
Fellowships	111	116	30	67
Miscellaneous	32	33	8	14
Total expenses	\$ 47,476	\$ 44,968	\$ 14,648	\$ 14,350

MANAGEMENT DISCUSSION AND ANALYSIS OF QUARTERLY FINANCIAL
For the nine months ended December 31, 2017

Operating Environment

In the third quarter, the Gallery expanded on its Sesquicentennial celebrations and opened a number of exciting exhibitions: 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; *James Wilson Morrice, The A. K. Prakash Collection in Trust to the Nation* takes visitors on a three-decade journey of collecting weaving the intricate story of the artist with that of the collector; *Gold and Silver: Images and Illusions of the Gold Rush* follows the hopes, dreams and illusions of an entire generation of prospectors who took to the road in search of gold; *Frontera: Views of the U.S.-Mexico Border* brings together eight contemporary photographers' views of a highly topical subject: the border separating Mexico and the United States; and *PhotoLab 3: Between Friends* features the work of young Canadian photographer Andreas Rutkauskas.

The National Gallery's presentation of Geoffrey Farmer at the Venice Biennale concluded late in the third quarter. 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 nine month period, total visitor attendance to permanent, temporary, and travelling exhibitions was 869,048.

For the nine months ended December 31	2017	2016
NGC Ottawa	324,514	311,619
Travelling Exhibitions	68,345	20,210
NGC@ Partnerships	75,665	41,597
Venice	400,524	-
Attendance to all venues this period	869,048	373,426

Financial Overview

The Gallery posted a net operating deficit of \$1.8 million during the nine month period, compared to a net operating deficit of \$1.3 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 \$37.0 million in Parliamentary appropriations, compared to \$35.2 million in the same period of the prior year. The Gallery, by resolution of its Board of Trustees, restricted \$0.9 million from operating appropriations to capital funding to support the investment in the Canadian and Indigenous Galleries project.

Operating revenue for the period was \$6.2 million, compared to \$6.0 million in same period of the prior year. Notably, sales in the redesigned Boutique have increased by \$0.3 million year over year.

Sponsorships and contributions were \$2.5 million in the period compared to \$2.4 million in same period of the prior year. Contributions recognized from the National Gallery of Canada Foundation totalled \$1.4 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 December 31	% of Completion
Operating revenue	7,700,000	6,194,000	80%
Sponsorships and contributions	7,062,000	2,492,000	35%
	14,762,000	8,686,000	59%

The Gallery anticipates funding from the National Gallery of Canada Foundation in the fourth quarter. The contribution targets are expected to be met.

Expenditures

The Gallery's total expenditures through the third quarter were \$47.5 million, compared to \$45.0 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. Freight, cartage and postage costs are significantly reduced compared to the prior year due to reduced shipping costs for the summer exhibition.

The Collection

The Gallery purchased items for the Collection valued at \$5.8 million year to date, compared to purchases totalling \$5.0 million in the same period of the prior year. Notable purchases include *The Triumph of Galatea* by Simon Vouet, *Conjured Parts (heart)*, *Aleppo* by Julie Mehretu, *Scruff of the Neck* by Nairy Baghramian and *Praying Mantis 2017* by Geoffrey Farmer. The Gallery was pleased to receive contributed items for the Collection valued at \$0.4 million. At the end of December, the Gallery has \$0.8 million of deferred contributions available for the purchase of objects for the Collection.

Capital

The Gallery expended \$3.6 million for capital assets year to date, compared to \$4.7 million in the same period in the prior year. During the third quarter, the Gallery had significant expenditures for auditorium upgrades, the renovation of the Venice Pavilion as well as electrical and mechanical projects at the Ottawa facility. The Gallery has \$5.2 million in deferred contributions available for capital projects at the end of December.

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.

Early in the fourth quarter, the Gallery kicked off 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. Site mobilization for the window replacement and elevator repairs began in early January 2018.

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 kicked off in early January 2018, and is scheduled to conclude in May 2018. The pavilion restoration is supported by the National Gallery of Canada Foundation.

The Gallery continues to address life-cycle issues at its aging Ottawa facility, and was the beneficiary of additional Parliamentary funding of \$8.8 million over 5 years to complete 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 construction of the facility is underway and it is set to be completed by the end of 2018. The Canada Science and Technology Museum Corporation (CSTMC) has indicated that the National Gallery's collection could begin to occupy the site in April 2019. The Gallery will begin to estimate the cost of fit-up requirements for the space and to secure a source of funds in the 2018-19 fiscal year. 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. The costs for temporary storage will be funded by internal reallocation of operating budgets.

The Gallery is completing its annual budget for the 2018-19 fiscal year. With stable Parliamentary funding for operating costs, inflationary increases for salaries, escalating non-discretionary costs associated with operating and maintaining the facilities and ensuring the protection of the collection 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.