

NATIONAL GALLERY OF CANADA
UNAUDITED FINANCIAL STATEMENTS

QUARTERLY RESULTS

Six months ended September 30, 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.



Marc Mayer
Director



Julie Peckham
Deputy Director,
Administration and Chief Financial Officer

Ottawa, Canada
November 26, 2018

STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)

Assets	As at	
Current	Sept 30, 2018	March 31, 2018
Cash and cash equivalents	\$ 4,775	\$ 5,570
Restricted cash and cash equivalents	-	1,309
Investment	1,059	-
Restricted investment	6,012	9,048
Accounts receivable	3,581	2,542
Inventory	820	710
Prepaid expenses	268	525
Total current assets	16,515	19,704
Collection	1	1
Capital assets	86,610	82,959
	\$ 103,126	\$ 102,664

Liabilities and Net Assets

Liabilities

Current liabilities

Accounts payable and accrued liabilities	\$ 5,799	\$ 5,115
Accrued salaries and benefits	1,715	1,812
Deferred contributions for the purchase of objects for the Collection (Note 4)	907	2,058
Deferred contributions for the purchase of capital assets (Note 4)	3,716	6,904
Other deferred contributions (Note 4)	1,273	1,279
Total current liabilities	13,410	17,168
Employee future benefits	873	873
Deferred contributions for the amortization of capital assets	85,987	82,337
Total liabilities	100,270	100,378

Net Assets

Unrestricted	2,118	1,548
Investment in capital assets	622	622
Permanently endowed	116	116
Total net assets	2,856	2,286
	\$ 103,126	\$ 102,664

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	2018	2017
Net assets, beginning of the period	\$ 1,548	\$ 622	\$ 116	\$ 2,286	\$ 4,937
Net result of operations for the period	570	-	-	570	(1,999)
Net result for the remainder of the year	-	-	-	-	(652)
Net assets, end of the period	\$ 2,118	\$ 622	\$ 116	\$ 2,856	\$ 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 September 30, 2018**

(in thousands of dollars)

	Unrestricted	Investment in capital assets	Permanently endowed	2018	2017
Net assets, beginning of the period	\$ 526	\$ 622	\$ 116	\$ 1,264	\$ 2,317
Net result of operations for the period	1,592	-	-	1,592	621
Net result for the remainder of the year	-	-	-	-	(652)
Net assets, end of the period	\$ 2,118	\$ 622	\$ 116	\$ 2,856	\$ 2,286

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, 2018	6 months ended Sept 30, 2017	3 months ended Sept 30, 2018	3 months ended Sept 30, 2017
Operating revenue, sponsorships, and contributions	\$ 7,585	\$ 6,076	\$ 5,295	\$ 3,799
Contributed items for the Collection	211	265	211	265
Total operating revenue, sponsorships, and contributions (Schedule 1)	7,796	6,341	5,506	4,064
Expenses				
Collection				
Operations	3,712	3,690	1,779	1,871
Purchase of items for the Collection	4,752	4,485	3,745	3,976
Contributed items for the Collection	211	265	211	265
Total - Collection	8,675	8,440	5,735	6,112
Outreach	9,243	9,863	4,646	4,560
Accommodation	10,575	9,838	5,420	4,972
Administration	5,350	4,687	2,790	2,299
Total expenses (Schedule 2)	33,843	32,828	18,591	17,943
Net results before Parliamentary Appropriations	(26,047)	(26,487)	(13,085)	(13,879)
Parliamentary appropriations (Note 5)	26,617	24,488	14,677	14,500
Net result of operations	\$ 570	\$ (1,999)	\$ 1,592	\$ 621

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, 2018	6 months ended Sept 30, 2017	3 months ended Sept 30, 2018	3 months ended Sept 30, 2017
Operating activities				
Cash received from clients	\$ 4,923	\$ 4,034	\$ 3,307	\$ 3,429
Parliamentary appropriations received	21,816	20,674	10,845	11,099
Cash paid to suppliers	(17,179)	(16,572)	(11,654)	(12,294)
Payments related to salary and benefits	(12,379)	(12,511)	(5,827)	(5,844)
Interest received	93	74	48	31
Total cash flow from (used for) operating activities	(2,726)	(4,301)	(3,281)	(3,579)
Investing activities				
Acquisition of investments	(16,081)	(12,095)	(7,048)	(7,070)
Disposal of investments	18,062	17,060	9,033	12,060
Total cash flow from investing activities	1,981	4,965	1,985	4,990
Capital activities				
Payments related to capital assets	(6,784)	(4,157)	(3,463)	(589)
Total cash flow used for capital activities	(6,784)	(4,157)	(3,463)	(589)
Financing activities				
Funding for the acquisition of capital assets	4,239	2,408	2,012	-
Restricted contributions and related investment income	1,186	127	48	71
Total cash flow from financing activities	5,425	2,535	2,060	71
Total cash flow	(2,104)	(958)	(2,699)	893
Cash and cash equivalents, beginning of the period				
Cash and cash equivalents	5,570	4,548	6,477	2,697
Restricted cash and cash equivalents	1,309	-	997	-
	6,879	4,548	7,474	2,697
Cash and cash equivalents, end of the period				
Cash and cash equivalents	4,775	3,590	4,775	3,590
Restricted cash and cash equivalents	-	-	-	-
	\$ 4,775	\$ 3,590	\$ 4,775	\$ 3,590

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, 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 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	2018	2017
Beginning balance, as at April 1	\$ 2,058	\$ 6,904	\$ 1,279	\$ 10,241	\$ 8,306
Appropriations received in the period	4,000	4,002	-	8,002	6,408
Non-Government funding received in the period	-	361	2,008	2,369	1,526
	6,058	11,267	3,287	20,612	16,240
Amounts recognized as revenue in the period	(4,751)	-	(2,014)	(6,765)	(5,839)
Related acquisition costs	(400)	-	-	(400)	(400)
Purchase of capital assets in the period	-	(7,551)	-	(7,551)	(1,707)
Ending balance, as at September 30	\$ 907	\$ 3,716	\$ 1,273	\$ 5,896	\$ 8,294

5. PARLIAMENTARY APPROPRIATIONS

(in thousands of dollars)

	6 months ended Sept 30, 2018	6 months ended Sept 30, 2017
For operating and capital expenditures		
Main estimates	\$ 21,692	\$ 19,034
Supplementary estimates	-	-
	21,692	19,034
Appropriations deferred for the purchase of capital assets	(4,002)	(1,590)
Appropriations restricted for the purchase of capital assets	-	(818)
Amortization of deferred funding for capital assets	3,776	3,250
	21,466	19,876
For the purchase of items for the Collection		
Main estimates	4,000	4,000
Appropriations recognized from prior periods	2,058	934
Appropriations deferred to future periods	(907)	(322)
	5,151	4,612
Total Parliamentary appropriations	\$ 26,617	\$ 24,488

6. INVESTMENTS IN CAPITAL ASSETS

(in thousands of dollars)	6 months ended Sept 30, 2018	6 months ended Sept 30, 2017
Capital asset additions	\$ 7,551	\$ 2,296
Less: capital assets financed through appropriations	(7,190)	(2,092)
Less: capital assets financed through other contributions	(361)	(204)
	-	-
Deferred appropriations used for the amortization of capital assets	3,776	3,250
Deferred contributions used for the amortization of capital assets	124	-
Amortization of capital assets	(3,900)	(3,250)
Net change in investment in capital assets	\$ -	\$ -

SCHEDULE #1: OPERATING REVENUE, SPONSORSHIPS AND CONTRIBUTIONS

(in thousands of dollars)

	6 months ended Sept 30, 2018	6 months ended Sept 30, 2017	3 months ended Sept 30, 2018	3 months ended Sept 30, 2017
Operating revenue:				
Boutique and publishing	\$ 1,709	\$ 1,484	\$ 1,064	\$ 820
Admissions	2,062	1,250	1,413	777
Parking	709	617	405	333
Memberships	499	365	263	164
Rental of public spaces	109	234	69	113
Education services	126	112	10	8
Art loans – recovery of expenses	109	82	47	58
Travelling exhibitions	76	67	30	59
Audio guides	10	27	4	18
Food services	1	1	-	-
Interest	98	74	46	31
Other	10	51	8	43
	5,518	4,364	3,359	2,424
Sponsorships and Contributions:				
Sponsorships	53	85	18	-
Contributions				
Contributed items for the Collection	211	265	211	265
From the National Gallery of Canada Foundation	1,930	1,337	1,868	1,337
From other individuals, corporations and foundations	84	290	50	38
	2,278	1,977	2,147	1,640
Operating revenue, sponsorships and contributions	\$ 7,796	\$ 6,341	\$ 5,506	\$ 4,064

SCHEDULE #2: EXPENSES

(in thousands of dollars)

	6 months ended Sept 30, 2018	6 months ended Sept 30, 2017	3 months ended Sept 30, 2018	3 months ended Sept 30, 2017
Salaries and employee benefits	\$ 12,282	\$ 12,004	\$ 6,223	\$ 5,853
Purchased items for the Collection	4,752	4,485	3,745	3,976
Contributed items for the Collection	211	265	211	265
Amortization of capital assets	3,900	3,250	1,950	1,625
Payments in lieu of taxes	1,641	1,721	821	674
Professional and special services	2,148	2,261	1,257	1,066
Insurance	247	221	42	39
Repairs and maintenance of buildings and equipment	2,001	1,857	927	914
Protection services	1,759	1,498	932	831
Utilities, materials and supplies	1,209	1,560	663	1,003
Freight, cartage and postage	720	392	327	161
Travel for public servants	205	271	84	77
Travel for non-public servants	149	262	82	98
Hospitality	100	100	39	69
Conferences	34	46	5	19
Publications	369	525	151	127
Cost of goods sold – boutique	783	678	537	425
Advertising	699	817	279	442
Rent	261	228	135	114
Communications	125	123	66	69
Library purchases	141	119	41	24
Rentals of equipment	56	81	37	40
Fellowships	24	40	20	22
Miscellaneous	27	24	17	10
Total expenses	\$ 33,843	\$ 32,828	\$ 18,591	\$ 17,943

MANAGEMENT DISCUSSION AND ANALYSIS OF QUARTERLY FINANCIAL STATEMENTS

For the six months ended September 30, 2018

Operating Environment

Through the first half of the year the Gallery opened a broad range of exhibitions. The major summer exhibition, *Impressionist Treasures: The Ordrupgaard Collection*, featured masterpieces from the renowned Ordrupgaard Museum in Copenhagen and its exquisite collection of works by the top artists of 19th-century French painting. *Laurent Amiot: Canadian Master Silversmith* brought together an exceptional selection of silver pieces from one of the most influential Canadian silversmiths of the 18th and 19th centuries. *The Extended Moment* explored photographic synergies in this thought-provoking exhibition showcasing photographs collected by the National Gallery of Canada over the past fifty years. *Masters of Venetian Portraiture* provided a glimpse into the world of Venetian portraiture through an iconic work from the National Gallery of Canada collection centred on Alessandro Vittoria's terracotta bust of Giulio Contarini.

With the great support of generous Foundation donors, the Gallery completed in May the restoration of the Canada Pavilion in Venice, Italy. The Pavilion was unveiled on May 26, 2018, at the 16th International Architecture Biennale on the occasion of the 60th anniversary of the Pavilion's inauguration. Upon re-opening, the revitalized facility is host to a special exhibition entitled *Canada Builds/Rebuilds a Pavilion* for the 16th International Architecture Biennale.

For the six month period, total visitor attendance to permanent, temporary, and travelling exhibitions was 464,416.

For the six months ended September 30	2018	2017
NGC Ottawa	269,968	241,349
Travelling Exhibitions	65,863	43,941
NGC@ Partnerships and special projects	128,585	54,450
Venice Biennale	-	241,175
Attendance to all venues this period	464,416	580,915

Financial Overview

The Gallery posted a net operating surplus of \$0.6 million during the period, compared to a net operating deficit of \$2.0 million in the same period of the prior year. Given the seasonal nature of the Gallery operations, with the majority of revenues earned during the summer, a surplus at the end of the second quarter is common. The deficit in the prior year was as a result of the accounting treatment of the investment made to complete a major transformation of the permanent Canadian and Indigenous galleries.

Parliamentary Appropriations, revenues, sponsorships and contributions

The Gallery recognized \$26.7 million in Parliamentary appropriations, compared to \$24.5 million in the same period of the prior year. In the same period in the prior year, by resolution of the Board of Trustees, the Gallery 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 \$5.5 million, compared to \$4.4 million in same period of the prior year. Admission, Boutique and publishing, and membership revenues all increased significantly relative to the comparative period, a reflection of the 12% increased attendance at the NGC Ottawa location compared to the prior year.

Sponsorships and contributions for the period amounted to \$2.3 million compared to \$2.0 million in same period of the prior year. During the period, the Gallery received \$1.9 million from the National Gallery of Canada Foundation (\$1.3 million in the prior period). This contribution is in line with expectations.

	Full-Year Target	Actual to Sept 30	% of Completion
Operating revenue	7,684,000	5,518,000	72%
Sponsorships and contributions	4,180,000	2,278,000	54%
	11,864,000	7,796,000	66%

The Gallery anticipates that these targets will be met over the full fiscal year.

Expenditures

The Gallery's total expenditures through the second quarter were \$33.8 million, compared to \$32.8 million for the same period last year. Compared to the prior year, the Gallery had significantly higher expenditures related to items purchased for the Collection; this amount fluctuates based on the objects acquired during any given period. Amortization, a non-cash expenditure, has increased compared to the prior period due to the significant capital projects recently completed. In addition, the gallery

saw an increase in salaries and employee benefits related to negotiated economic and service pay rate increases. This fiscal year, the Gallery is also faced with meeting the demands of negotiated increases for service contracts passed along following the legislated increase to Ontario minimum wage. This partly explains the increase in expenditures for protection services. The normal operations of the Gallery cause the expenditures of the gallery to increase and decrease. In the period under review, the Gallery experienced significant increases in protection services and freight, cartage and postage, and as well the Gallery had significantly lower expenditures for utilities, materials and supplies.

The Collection

The Gallery purchased items for the Collection valued at \$4.8 million in the first half of the year, compared to purchases totalling \$4.5 million in the same period of the prior year. Notable purchases include *La Partie carrée 1870* by James Tissot, and *Stacked Porcelain Vases as a Pillar* by Ai Weiwei. At the end of September, the Gallery had \$0.9 million of deferred contributions available for the purchase of objects for the Collection.

Capital

The Gallery expended \$7.6 million for capital assets year to date, compared to \$1.7 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. It is anticipated that this major project will be completed by November 2018. At the end of September, the Gallery had \$3.7 million available in deferred contributions for the purchase of capital assets.

Outlook

The Gallery will continue to ensure that public money is managed prudently and, to this end, it has developed a balanced budget for the current fiscal year. Parliamentary funding will increase by 1.4% this fiscal year, which will assist the Gallery in funding negotiated economic and service pay increases. Inflationary pressures are anticipated in 2018–19, that will be reflected in the Gallery's contracts for non-discretionary costs associated with operating and maintaining the facilities and ensuring protection of the Collection. The Gallery is also expecting higher costs associated with the normal operations of Collections, Outreach, and Internal Services, which it intends to fund through internal reallocation, revenue growth, and contributions. 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.

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

As part of Collections Management, two key areas have emerged for the 2018–19 fiscal year: 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 centre (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 metres, will accommodate crated and large 3D objects. The exact number of crated works to be moved will depend on the final configuration of rack systems installed in the space.

During 2018–19, the Gallery will undertake the design and procurement 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 third quarter of 2018-19.

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 lease 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 brought to light by the recent web redevelopment project. Areas of review include data integrity and quality assurance, managing copyrights in a digital environment, auditing processes, benchmarking online collections, and prioritizing works of art and collections for digitization.

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 forecasted 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.

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

Over the 2018–19 to 2022–23 planning period, the Gallery will seek to engage diverse audiences, both within and beyond the National Capital Region. Looking forward, the 2018-19 fall exhibition season promises to be equally engaging, with *PhotoLab 5: Althea Thauberger: L'arbre est dans ces feuilles; Anthropocene; Sobey Art Award; Halifax Harbour 1918: Harold Gilman (1876–1919) and Arthur Lismer (1885–1969); Oscar G. Rejlander: Artist Photographer; and Paul Klee (1879–1940): The Berggruen Paul Klee Collection* from the Metropolitan Museum of Art.

During 2018–19, with the NGC Foundation's support, the Gallery will continue to prepare for the 2019 Biennale di Venezia with video artist collective, ISUMA Productions, and will develop an international touring exhibition of Canadian art, called *Impressionism in Canada*.

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.