

THE NATIONAL GALLERY OF CANADA
AND THE CANADIAN MUSEUM
OF CONTEMPORARY PHOTOGRAPHY

**CAPITAL AND
OPERATING BUDGET**
2007-08

National Gallery of Canada
380 Sussex Drive
P.O. Box 427, Station A
Ottawa, Ontario
K1N 9N4
(613) 990-1985
national.gallery.ca
cybermuse.gallery.ca

Canadian Museum
of Contemporary Photography
1 Rideau Canal
P.O. Box 465, Station A
Ottawa, Ontario
K1N 9N6
(613) 990-8257
cmcp.gallery.ca
cybermuse.gallery.ca

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National Gallery Musée des beaux-arts
of Canada du Canada



Canadian Museum Musée canadien
of Contemporary de la photographie
Photography contemporaine

Canada

THIS DOCUMENT OUTLINES THE NATIONAL GALLERY OF CANADA'S CAPITAL AND OPERATING BUDGETS FOR 2007-08. THE NATIONAL GALLERY IS FUNCTIONING IN THE SECOND YEAR OF ITS 2006-07 TO 2011-12 FIVE-YEAR CORPORATE PLAN.

FINANCIAL PLAN; OPERATING AND CAPITAL BUDGETS

Government appropriations represent approximately 85% of the Gallery's funding each year on a cash basis. In the Gallery's Financial Plan for 2007-08 to 2011-12, Government appropriations for 2007-08 through 2009-10 are presented in the amounts approved during the 2006-07 Annual Reference Level Update process. Appropriations for the subsequent two years of the Plan assume no change to the 2009-10 level.

However, on an exceptional basis and for greater transparency, the \$14.8M funding from the Management Reserve has been included in the Long Term Capital Plan and operating budget. Although the funding has received Treasury Board approval it will still need Parliamentary approval. The amounts have been included because if they are approved they will have a considerable impact on the Gallery's capital plan over the next three years.

OPERATING PLAN

PROJECTED RESULTS FOR 2006–07

At the time of preparation of this Financial Plan, the Gallery is projecting a balanced budget for the year ending March 31, 2007.

On a cash basis, appropriations in 2006–07 remained approximately the same as in 2005–06. Although revenues were lower than projected this summer due to lower levels of tourism and a higher than normal number of Canadians travelling outside the country, the current exhibitions in the “shoulder season” are balancing the equation by attracting much higher than expected attendance. This year, capitalizing on revenue generating opportunities, coupled with cost-cutting efficiency measures in the operation of the Gallery facilities will be sufficient to offset rising salary and operating costs.

In addition, in 2006–07, the Gallery benefited from a one-time transfer of \$1 million in funding support from the Department of Canadian Heritage. The \$1 million matched the \$1 million donated by the private sector on the occasion of the Gala Renaissance Ball hosted by the National Gallery of Canada Foundation in 2005–06. Over the two year period, the \$2 million has been used to support the Gallery’s outreach and educational programming and supplement its art acquisition budget.

FUTURE YEARS

In estimating earned revenues for future years, the Gallery continues to take a conservative approach. Modest growth is projected for all years of the Plan with the exception of 2007–08 when the Gallery anticipates earning significantly higher revenues because of projected attendance at the summer exhibition, *Renoir Landscapes*. Fundraising, a growing component of the Gallery’s total available resources, will account for 3% of the Gallery’s budget during the planning period.

In the Financial Plan, the Gallery is required to reflect only its approved appropriations of \$46,715,200 in 2006–07, \$46,752,000 for 2007–08 and \$45,852,000 in subsequent years.

In addition, although the Gallery expects to receive additional funding annually through Supplementary Estimates (to offset some of its increased salary costs related to wage settlements), these amounts are not yet approved and consequently cannot be shown in the financial display. Expenditures have been understated in order to compensate for this reporting requirement.

Apart from partial funding for salaries, which covers approximately 60% of the actual increase in employee wages and benefits each year, the Gallery receives no assistance from Government to cover the effects of inflation on its fixed and operating costs. As a result, inflation is eroding the Gallery’s purchasing power by approximately \$600,000 to \$700,000 annually.

The Gallery has successfully secured \$14.8M in funding from the Treasury Board Management Reserve to address its immediate capital pressures associated with repairs to its buildings and facilities. This funding, beginning in 2007–08 and ending in 2009–10 will allow the Gallery to complete those urgent repairs that have been deferred due to a lack of financial and human resources. This funding will allow the Gallery to provide for the continued integrity of capital assets that house and exhibit the collection in the near future.

However, for the years subsequent to 2009–10, when the Management Reserve funded projects will have been completed and capital funding will return to pre 2007–08 levels, the Gallery will again face rising financial challenges. Unless a long-term solution for funding of capital expenditures and building operations can be established during the early stages of the planning period, the Gallery could once again be faced with the possibility of having to reduce its public programming and eventually personnel each year of the Plan to address its increasing salary and fixed building operating costs.

The Gallery is dedicated to doing everything it can to generate revenue and donations from private sector sources. It is aligning significant resources to maximize its commercial revenue generation and through the important work of the NGC Foundation continues to be successful in the pursuit of philanthropic opportunities and the development of fundraising initiatives.

The financial projections for 2007–08 and subsequent years assume that sufficient revenue increases and cost reductions can and will be made to continue to produce balanced budgets. They also assume the cost reductions will be made in roughly the same proportion across all key activity areas.

The Gallery is striving to reduce its dependence on Government funding but realistically there is not a potential for major revenue growth to address the magnitude of the issues facing the Gallery. At best, the required share of Government funding may drop by a few percentage points, perhaps from 85% to 80%. The resulting net income from increased revenues will offset a portion of the erosion of purchasing power caused by inflation but it is unlikely to cover it all.

The long-term solution, after the completion of the Management Reserve funded projects, is to develop and implement a funding formula solution that would deal with the continued effects of inflation on the operating and recapitalizing of the Gallery’s facilities.

CAPITAL PLAN

The Capital Plan is designed to support the Gallery's efforts to provide facilities that are suitable for the preservation and exhibition of the national collection and works of art on loan to the Gallery, are readily accessible to the public, are safe and secure for art, visitors and staff, and are maintained for future generations in a manner fitting to their cultural and historical importance. The information technology portion of the Capital Plan supports the Gallery's outreach and educational efforts and its ongoing business activities..

THE CAPITAL PLAN FOR 2007-08

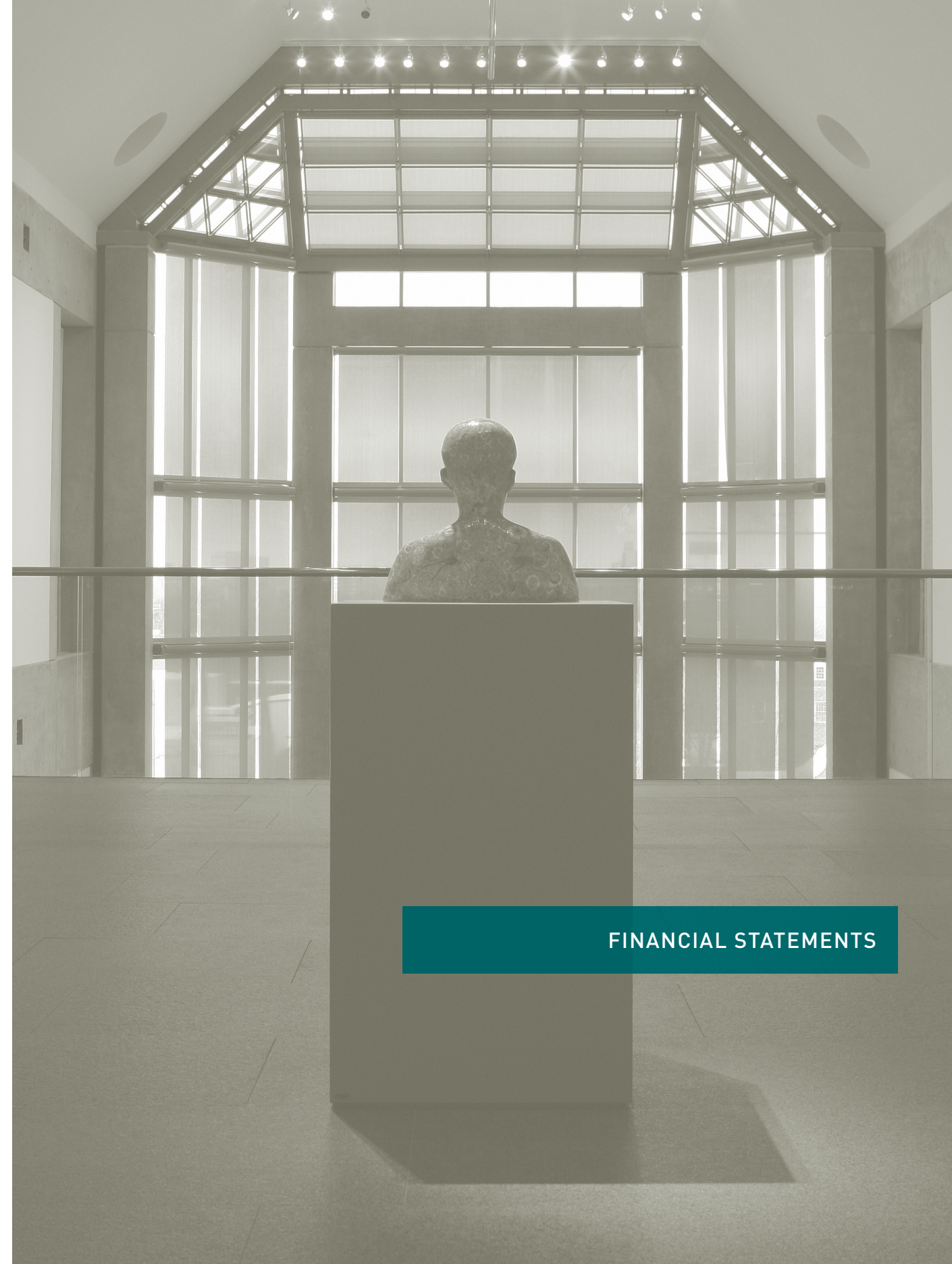
For 2007-08, the Gallery had previously identified a shortfall of approximately \$4.5M between its capital requirements for all sectors and the \$1M capital allocation in its approved reference levels. The Treasury Board Secretariat (TBS) has established a Management Reserve Fund to assist with capital infrastructure renewal, of which the Gallery obtained \$14.8M of approved funding over the next three fiscal years. For 2007-08, this fund will finance approximately \$4.5M of facilities-related capital requirements. This will allow the Gallery to address all high priority projects related to the facility and also address the remaining \$1M worth of capital requests through its approved reference levels.

FUTURE YEARS

The Gallery is in a favourable financial position for the next three fiscal years due to the funding obtained from the TBS Management Reserve Fund. The high priority deferred maintenance items identified in the Facilities Long-Term Capital Plan can all be addressed through 2009-10 with this funding. Other capital pressures from internal departments (Information Technology, Multi-Media, Education and Public Programs) can then be financed through the Gallery's approved reference levels of \$1M annually.

As it stands, the final two years of the planning period will see the Gallery facing the same capital pressures experienced in the recent past with asset re-capitalization requirements that far exceed approved reference level funding. Current estimates for 2010-11 and 2011-12 indicate shortfalls of \$4.8M and \$4.5M respectively in capital funding.

The Gallery, in conjunction with other portfolio corporations and agencies, is currently reviewing long-term solution scenarios to address its ongoing financial pressures. To this end, it is engaged in discussions with the Department of Canadian Heritage. In order to arrive at a sustainable long-term solution to address the asset re-capitalization requirements of its aging facilities and infrastructure and provide for its collection and public programming activities it will need to investigate funding solutions from both private and public sources.



BALANCE SHEET

(in thousands of dollars)	05-06 Actual	06-07 Budget	06-07 Forecast	07-08 Budget	08-09 Budget	09-10 Budget	10-11 Budget	11-12 Budget
Assets								
Current:								
Cash and investments	9,175	9,142	7,765	8,140	8,290	8,465	8,640	8,815
Restricted cash and investments	1,381	1,054	740	765	790	815	840	865
Accounts receivable	471	650	650	700	750	775	800	825
Inventories	778	878	1,000	800	825	850	875	900
Prepaid expenses	1,380	1,498	1,405	1,430	1,455	1,480	1,505	1,530
	13,185	13,222	11,560	11,835	12,110	12,385	12,660	12,935
Collection	1	1	1	1	1	1	1	1
Capital assets	100,114	95,731	95,584	94,910	97,051	93,922	88,607	83,292
	113,300	108,954	107,145	106,746	109,162	106,308	101,268	96,228
Liabilities								
Current:								
Accounts payable and accrued liabilities	6,467	6,849	5,500	5,600	5,700	5,800	5,900	6,000
Deferred revenue	453	0	0	0	0	0	0	0
Unused appropriations for the purchase of objects for the Collection	12	0	0	0	0	0	0	0
Unused appropriations for the purchase of capital assets	368	0	0	0	0	0	0	0
	7,300	6,849	5,500	5,600	5,700	5,800	5,900	6,000
Accrued employee termination benefits	1,626	2,314	1,776	1,926	2,076	2,226	2,376	2,526
Deferred contributions	715	801	740	765	790	815	840	865
Deferred capital funding	99,492	95,109	94,962	94,288	96,429	93,300	87,985	82,670
	109,133	105,073	102,978	102,579	104,995	102,141	97,101	92,061
Endowments	116	116	116	116	116	116	116	116
Equity of Canada								
Balance at beginning of year	3,765	3,765	4,051	4,051	4,051	4,051	4,051	4,051
Excess of revenues over expenses	286	0	0	0	0	0	0	0
	4,051	3,765	4,051	4,051	4,051	4,051	4,051	4,051
	113,300	108,954	107,145	106,746	109,162	106,308	101,268	96,228

STATEMENT OF OPERATIONS

(in thousands of dollars)	05-06 Actual	06-07 Budget	06-07 Forecast	07-08 Budget	08-09 Budget	09-10 Budget	10-11 Budget	11-12 Budget
Expenses by activity								
Collections								
Operations	6,860	6,496	6,950	7,016	6,773	6,782	6,795	6,821
Art acquisitions	8,914	7,400	7,412	7,400	7,400	7,400	7,400	7,400
	15,774	13,896	14,362	14,416	14,173	14,182	14,195	14,221
Outreach	13,511	14,705	13,689	13,818	13,340	13,358	13,383	13,434
Accommodation	20,633	20,721	20,905	21,527	21,146	21,292	21,154	21,232
Corporate Management	11,418	10,344	11,569	11,677	11,273	11,288	11,310	11,352
	61,336	59,666	60,525	61,438	59,932	60,120	60,042	60,239
Revenue and contributions	9,454	8,150	8,814	9,362	8,507	8,677	8,875	9,072
Net cost of operations before government funding	51,882	51,516	51,711	52,076	51,425	51,443	51,167	51,167
Parliamentary appropriations								
For operating and capital on a cash basis	38,126	38,618	38,801	43,402	45,566	40,314	37,852	37,852
Appropriations deferred for the purchase of depreciable capital assets	(1,000)	(1,000)	(1,000)	(5,650)	(8,714)	(3,462)	(1,000)	(1,000)
Amortization of deferred capital funding	6,045	5,898	5,898	6,324	6,573	6,591	6,315	6,315
	43,171	43,516	43,699	44,076	43,425	43,443	43,167	43,167
For the purchase of objects for the collection on a cash basis	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Drawn from prior years	1,009		12					
Deferred to future years	(12)		0					
	8,997	8,000	8,012	8,000	8,000	8,000	8,000	8,000
Total appropriations on an accrual basis	52,168	51,516	51,711	52,076	51,425	51,443	51,167	51,167
Excess of revenues over expenditures	286	0	0	0	0	0	0	0

STATEMENT OF CASH FLOWS

(in thousands of dollars)	05-06 Actual	06-07 Budget	06-07 Forecast	07-08 Budget	08-09 Budget	09-10 Budget	10-11 Budget	11-12 Budget
Cash flow from operations								
Cash received from clients	9,648	8,150	8,814	9,362	8,507	8,677	8,875	9,072
Parliamentary Appropriations received	46,051	46,618	46,801	51,402	53,566	48,314	45,852	45,852
Cash paid (employees and suppliers)	(56,495)	(57,520)	(59,630)	(61,771)	(63,370)	(58,328)	(56,129)	(56,391)
Interest received	302	270	310	320	330	340	350	360
Total cash flows used in operating activities	(494)	(2,482)	(3,705)	(687)	(967)	(997)	(1,052)	(1,107)
Cash flow from investing activities								
Acquisition of property and equipment	(955)	(1,000)	(1,368)	(5,650)	(8,714)	(3,462)	(1,000)	(1,000)
Decrease in restricted cash and cash equivalents	955	1,282	641	(25)	(25)	(25)	(25)	(25)
Total cash flows from investing activities	0	282	(727)	(5,675)	(8,739)	(3,487)	(1,025)	(1,025)
Cash flows from financing activities								
Funding for the acquisition of property and equipment	955	1,000	1,368	5,650	8,714	3,462	1,000	1,000
Restricted contributions and related investment income	913	1,300	1,654	1,087	1,142	1,197	1,252	1,307
Total cash flows from financing activities	1,868	2,300	3,022	6,737	9,856	4,659	2,252	2,307
Increase (decrease) in cash and cash equivalents	1,374	100	(1,410)	375	150	175	175	175
Cash and cash equivalents, beginning of the year	7,801	9,042	9,175	7,765	8,140	8,290	8,465	8,640
Cash and cash equivalents, end of the year	9,175	9,142	7,765	8,140	8,290	8,465	8,640	8,815

SCHEDULE OF OPERATING AND CONTRIBUTION REVENUE

(in thousands of dollars)	05-06 Actual	06-07 Budget	06-07 Forecast	07-08 Budget	08-09 Budget	09-10 Budget	10-11 Budget	11-12 Budget
Operating revenue								
Bookstores and publishing	2,544	2,330	2,458	2,750	2,390	2,430	2,470	2,510
Admissions	1,767	1,200	1,245	2,000	1,500	1,500	1,525	1,550
Parking	638	650	604	675	650	650	650	650
Interest	302	270	310	320	330	340	350	360
Sponsorship	1,129	425	525	450	400	400	400	400
Traveling exhibitions	204	225	300	225	225	225	225	225
Rental of public spaces	663	725	650	675	700	725	750	775
Art loans-recovery of expenses	181	125	137	150	155	160	165	170
Memberships	481	500	528	550	575	600	625	650
Audio guides	200	125	121	200	150	150	153	155
Food services	35	30	35	35	35	35	35	35
Educational services	254	225	210	225	235	245	255	265
Other	21	20	37	20	20	20	20	20
	8,419	6,850	7,160	8,275	7,365	7,480	7,623	7,765
Contributions								
From National Gallery Foundation	867	850	1,566	1,000	1,050	1,100	1,150	1,200
From annual giving (membership)	74	250	0	0	0	0	0	0
From others	94	200	88	87	92	97	102	107
	1,035	1,300	1,654	1,087	1,142	1,197	1,252	1,307
Total revenue	9,454	8,150	8,814	9,362	8,507	8,677	8,875	9,072

CAPITAL BUDGET

(in thousands of dollars)	05-06 Actual	06-07 Budget	06-07 Forecast	07-08 Budget	08-09 Budget	09-10 Budget	10-11 Budget	11-12 Budget
Unused appropriations for the purchase of capital assets at beginning of year	323	0	368	0	0	0	0	0
Capital appropriations	1,000	1,000	1,000	5,650	8,714	3,462	1,000	1,000
Capital funding available	1,323	1,000	1,368	5,650	8,714	3,462	1,000	1,000
Purchase of capital assets	955	1,000	1,368	5,650	8,714	3,462	1,000	1,000
Unused appropriations for the purchase of capital assets at end of year	368	0	0	0	0	0	0	0
Capital assets								
Net book value at beginning of year	105,204	100,629	100,114	95,584	94,910	97,051	93,922	88,607
Capital additions	955	1,000	1,368	5,650	8,714	3,462	1,000	1,000
	106,159	101,629	101,482	101,234	103,624	100,513	94,922	89,607
Less amortization:								
Amortization of building	3,898	3,898	3,898	3,898	3,898	3,898	3,898	3,898
Amortization other	2,147	2,000	2,000	2,426	2,675	2,693	2,417	2,417
	6,045	5,898	5,898	6,324	6,573	6,591	6,315	6,315
Net book value at end of year	100,114	95,731	95,584	94,910	97,051	93,922	88,607	83,292