

NATIONAL GALLERY OF CANADA
UNAUDITED FINANCIAL STATEMENTS
QUARTERLY RESULTS

Three months ended June 30, 2011

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



David A. Baxter
Deputy Director,
Administration and Finance

Ottawa, Canada
August 25, 2011

STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)

Unaudited

As at June 30, As at March 31,
2011 2011
Restated
(Note 4)

Assets**Current**

Cash and cash equivalents (Note 5)	9,460	9,167
Restricted cash and cash equivalents (Note 5)	11,435	10,841
Accounts receivable	859	1,313
Inventories	526	526
Prepaid expenses	61	1,237
Total current	22,341	23,084
Collection	1	1
Capital assets	90,421	91,350
	112,763	114,435

Liabilities and Net Assets**Liabilities****Current liabilities**

Accounts payable and accrued liabilities	4,256	5,767
Deferred revenue	66	189
Deferred appropriations for the purchase of objects for the collection (Note 6)	1,238	1,607
Deferred appropriations for the purchase of capital assets (Note 6)	7,961	7,187
Deferred contributions (Note 6)	2,120	1,931
Total current liabilities	15,641	16,681
Employee future benefits (Note 4)	2,586	2,586
Deferred appropriations for the amortization of capital assets	89,798	90,727
Total liabilities	108,025	109,994

Net Assets

Unrestricted	4,000	3,703
Investment in land	622	622
Permanently endowed	116	116
Total net assets	4,738	4,441
	112,763	114,435

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

STATEMENT OF CHANGES IN NET ASSETS

(in thousands of dollars)

Unaudited

				3 Months Ended	Year Ended
	Unrestricted	Investment in land	Permanently endowed	June 30, 2011	March 31, 2011 Restated (Note 4)
Net assets, beginning of the period	3,703	622	116	4,441	4,420
Excess of revenue over expenses for period	297	-	-	297	21
Net change in investment in land	-	-	-	-	-
Net assets, end of the period	4,000	622	116	4,738	4,441

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

STATEMENT OF OPERATIONS

(in thousands of dollars)

Unaudited

**3 Months Ended
June 30, 2011****Year Ended
March 31, 2011
Restated
(Note 4)**

Revenue		
Parliamentary appropriations (Note 7)	12,676	51,394
Operating revenue and contributions (Schedule 1)	1,967	7,869
Total revenue	14,643	59,263
Expenses		
Collection		
Operations	1,706	7,226
Art purchases	2,169	8,368
Total - Collection	3,875	15,594
Outreach	3,418	14,086
Accommodation	4,158	18,740
Administration	2,895	10,822
Total expenses (Schedule 2)	14,346	59,242
Excess of revenue over expenses for the period	297	21

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

STATEMENT OF CASH FLOWS

(in thousands of dollars)

Unaudited

**3 Months Ended
June 30, 2011****Year Ended
March 31, 2011
Restated
(Note 4)**

	3 Months Ended June 30, 2011	Year Ended March 31, 2011 Restated (Note 4)
Operating activities		
Cash received from clients	2,310	7,266
Parliamentary appropriations received	11,007	45,110
Cash paid to employees and suppliers	(13,431)	(53,049)
Interest received	38	234
Total cash flow from operations	(76)	(439)
Capital activities		
Acquisition of capital assets	(521)	(5,933)
Total cash flow from capital activities	(521)	(5,933)
Investing activities		
Increase in restricted cash and cash equivalents	(594)	(234)
Total cash flow from investing activities	(594)	(234)
Financing activities		
Funding for the acquisition of capital assets	1,295	5,898
Restricted contributions and related investment income	189	1,580
Total cash flow from financing activities	1,484	7,478
Total cash flow	293	872
Cash, beginning of the period	9,167	8,295
Cash, end of the period	9,460	9,167

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

SELECTED NOTES TO THE UNAUDITED QUARTERLY FINANCIAL STATEMENTS

Three months to June 30, 2011

(in thousands of dollars)

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 1 July 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, communications and marketing activities designed to reach as wide an audience as possible, as well as all fundraising activities.

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 the financial statements applying the Section 4200 series of PSAS. The Gallery applies the deferral method of accounting for contributions for not-for-profit organizations.

The comparative figures for the year ended March 31, 2011 have been restated to reflect the Gallery's changes in accounting policies.

4. CHANGE IN ACCOUNTING POLICIES

Effective April 1, 2011, the Gallery adopted Public Sector Accounting Standards including the 4200 series of accounting standards applicable for Government Not-For-Profit Organizations. This change has been applied retrospectively and prior periods have been restated. This change in accounting policy has changed amounts reported in prior periods as follows:

- Other comprehensive income is not recognized under public sector accounting standards applicable for a government not-for-profit organization. Consequently, other comprehensive income and comprehensive income are no longer reported on the Gallery's Statement of Operations. The 2011 financial statements have been adjusted to record amounts previously recognized as other comprehensive income as deferred contributions and restricted net assets for endowment purposes.

As a result previously reported accumulated other comprehensive income of \$2,047,430 has been reclassified as \$1,931,000 to deferred contributions and \$116,430 to net assets restricted for endowment purposes. Other comprehensive income previously recognized as income in 2011 has been reversed.

- Accounts payable and accrued liabilities previously included \$708,000 relating to the current portion of employee future benefit obligations of the Gallery. Under the public sector accounting standards, there is no requirement to present or disclose the current and long- term portion of the employee future benefits liability separately. This amount has been reclassified from accounts payable and accrued liabilities to employee future benefits.

The impact of these restatements on the 2011 figures is as follows:

	2011 Audited	2011 Adjustments	2011 Restated
Statement of Financial Position			
Liabilities			
Accounts payable and accrued liabilities	6,475	(708)	5,767
Employee future benefits	1,878	708	2,586
Deferred contributions	-	1,931	1,931
		1,931	
Net Assets			
Accumulated Other Comprehensive Income	2,047	(2,047)	-
Permanently endowed	-	116	116
		(1,931)	

Post Employment Benefits and Termination Benefits

The Gallery provides severance benefits to its employees based on years of service and final salary. Under PSAS section 3255, Post-employment Benefits and Termination Benefits, government organizations are required to recognize a liability and an expense for post-employment benefits and compensated absences that vest or accumulate in the period in which employees render services to the government in return for the benefits. The financial statements reflect the accumulated liability for these benefits that have vested. The Gallery will consult with an actuary to assist in determining the accrued benefit obligation which should be recognized for severance benefits that have not vested. This accounting policy change will be adopted for the first time in the year end financial statements, and the quarterly financial statements do not include the impact of the new accounting policy.

Financial Instruments and Exposure to Risk

In June 2011, the CICA issued a new PSA standard, Section PS 3450 Financial Instruments. The Public Sector Accounting Board (PSAB) undertook to develop a new standard to improve the reporting of derivative and non-derivative financial instruments in financial statements prepared in accordance with the CICA Public Sector Accounting (PSA) Handbook. The new standard achieves this objective by requiring the recognition of derivatives and consistent reporting of their effect on financial measures, and by improving disclosures associated with financial instruments and financial risks. Given the timing of the release of the new standard, the Gallery has not yet assessed the impact on its financial statements, but it is likely to require changes to the accounting and note disclosure of financial instruments and exposure to risk. This accounting policy change will be adopted for the first time in the year end financial statements, and the quarterly financial statements do not include the impact of the new accounting policy.

SELECTED NOTES TO THE UNAUDITED QUARTERLY FINANCIAL STATEMENTS (CONTINUED)

Three months to June 30, 2011

5. CASH AND CASH EQUIVALENTS

The Gallery makes short-term, low risk investments in money market funds, and in guaranteed investment certificates.

	As at June 30, 2011	As at March 31, 2011 Restated (Note 4)
<i>(in thousands of dollars)</i>		
Cash	9,571	8,690
Money Market and Short term Investments	11,324	11,318
	20,895	20,008
Less amounts allocated for restricted purposes		
Deferred appropriations for the purchase of objects for the Collection	1,238	1,607
Deferred appropriations for the purchase of capital assets	7,961	7,187
Deferred contributions	2,120	1,931
Endowments	116	116
	11,435	10,841
Unrestricted cash and cash equivalents	9,460	9,167

6. DEFERRED APPROPRIATIONS AND CONTRIBUTIONS

	Appropriations for the purchase of objects for the Collection	Appropriations for the purchase of capital assets	Contributions	As at June 30, 2011	As at March 31, 2011 Restated (Note 4)
<i>(in thousands of dollars)</i>					
Beginning balance	1,607	7,187	1,931	10,725	10,491
Appropriations received in the period	2,000	1,295	-	3,295	13,898
Non-Government funding received in the period	-	-	463	463	2,242
	3,607	8,482	2,394	14,483	26,631
Amounts recognized as revenue in the period	(2,369)	-	(274)	(2,643)	(9,973)
Purchase of capital assets in the period	-	(521)	-	(521)	(5,933)
Ending balance	1,238	7,961	2,120	11,319	10,725

SELECTED NOTES TO THE UNAUDITED QUARTERLY FINANCIAL STATEMENTS (CONTINUED)
Three months to June 30, 2011

6. DEFERRED APPROPRIATIONS AND CONTRIBUTIONS (CONTINUED)

The Gallery receives an \$8,000,000 annual appropriation for the purchase of objects for the collection. The Gallery accumulates these funds in a separate account which it uses to acquire, when opportunities arise, historically important, unique and high quality works that strengthen the collection.

Within the Gallery's general Parliamentary appropriation for operating and capital expenditures, there are amounts that have been identified by Treasury Board as funding for projects of a capital nature. These amounts are initially credited to deferred appropriation received for the purchase of capital assets and are transferred to deferred capital funding when the purchases are made.

Contributions received from non-government entities that are restricted for a specific purpose are deferred, and recognized as revenue in the period that the related expenses are incurred.

7. PARLIAMENTARY APPROPRIATIONS

(in thousands of dollars)	3 Months Ended June 30, 2011	Year Ended March 31, 2011 Restated (Note 4)
For operating and capital expenditures		
Main estimates	10,152	41,266
Supplementary estimates		1,836
	10,152	43,102
Appropriations deferred for the purchase of:		
Capital assets	(1,295)	(5,898)
Amortization of deferred funding for capital assets	1,450	5,573
	10,307	42,777
For the purchase of objects for the Collections		
Main estimates	2,000	8,000
Appropriations recognized from prior periods	1,607	2,224
Appropriations deferred to future periods	(1,238)	(1,607)
	2,369	8,617
Total Parliamentary appropriations	12,676	51,394

SELECTED NOTES TO THE UNAUDITED QUARTERLY FINANCIAL STATEMENTS (CONTINUED)
Three months to June 30, 2011

Schedule of Operating Revenue and Contributions - Schedule 1

	3 Months Ended June 30, 2011	Year Ended March 31, 2011 Restated (Note 4)
(in thousands of dollars)		
Operating revenue:		
Bookstore and publishing	485	1,862
Admissions	311	1,302
Parking	205	835
Memberships	55	456
Rental of public spaces	121	854
Sponsorships	300	456
Education services	60	96
Art loans – recovery of expenses	13	169
Travelling exhibitions	59	118
Audio guides	24	67
Food services	10	54
Interest	38	234
Other	12	10
	1,693	6,513
Contributions:		
From National Gallery of Canada Foundation	-	622
Other	274	734
	274	1,356
	1,967	7,869

SELECTED NOTES TO THE UNAUDITED QUARTERLY FINANCIAL STATEMENTS (CONTINUED)

Three months to June 30, 2011

Schedule of Expenses - Schedule 2**3 Months Ended
June 30, 2011****Year Ended
March 31, 2011****Restated
(Note 4)****(in thousands of dollars)**

Salaries and employee benefits	5,514	22,129
Purchase of works of art for the collection	2,169	8,368
Amortization of capital assets	1,450	5,573
Payments in lieu of taxes	1,129	4,376
Professional and special services	657	3,858
Repairs and maintenance of buildings and equipment	891	3,623
Protective services	672	2,541
Utilities, materials and supplies	536	2,147
Freight, cartage and postage	249	1,765
Travel	169	985
Publications	216	972
Cost of goods sold – bookstore	281	927
Advertising	173	890
Rent	120	373
Communications	45	264
Library purchases	37	253
Rentals of equipment	18	170
Fellowships	19	26
Miscellaneous	1	2
	14,346	59,242

MANAGEMENT DISCUSSION AND ANALYSIS OF QUARTERLY FINANCIAL STATEMENTS

FINANCIAL HIGHLIGHTS

The Gallery has identified the following five strategic priorities.

- **Funding** – to maximize contributions (sponsorships and donations in cash and in-kind) and self-generated revenue as a percentage of total resources.
- **Access and Digital Innovation** – to be accessible within Canada and abroad through innovative and engaging Gallery outreach programs and through use of web-based communication tools.
- **Diversity** – to respond to the changing face of Canada by adapting the development of programming and promotion to the shifting needs of Canadians, and engaging in a focused employee recruitment program.
- **Infrastructure** – to optimize space efficiency for art storage, gallery and programming spaces, and accommodation. As well, information is managed as a strategic resource supported by enterprise-wide integrated processes and enabling technologies.
- **Strengthening the Collection** – to enhance and capitalize on the strengths of the national collection, while focusing on excellence.

The Corporate Plan Summary 2011-12 to 2015-16 sets out the goals and objectives in relation to each of these strategic priorities. Details of the actual financial results for the quarter ended June 30, 2011 and significant variances from results anticipated in the Corporate Plan Summary are as follows.

STATEMENT OF FINANCIAL POSITION

ASSETS

Total assets decreased by \$1,672,000 compared to the balance at March 31, 2011.

- Current assets decreased by \$743,000, mainly due to collection of accounts receivable and recognizing prepaid expenses in the period.
- Capital assets decreased by \$929,000 in the quarter. The Gallery spent \$521,000 during the quarter on capital assets, and recorded an amortization charge during the period of \$1,450,000.

LIABILITIES

Total liabilities decreased by \$1,969,000 compared to the balance at March 31, 2011.

- Current liabilities decreased by \$1,040,000, mainly due to the payment of accounts payable and the release of year end accrued liabilities.
- Long term liabilities decreased by \$929,000, resulting from the amortization charge during the period of \$1,450,000, less the addition of capital assets in the period of \$521,000.

Art Acquisitions

Parliament has fixed a separate appropriation of \$8,000,000 per year for the specific purpose of art acquisitions and other costs associated with this activity. The Gallery accumulates these funds until the appropriate works of art can be purchased; any balance in the acquisitions budget at the end of the year is available for purchases in subsequent years. The amount of deferred appropriations for the purchase of objects for the collection as at June 30, 2011 was \$1,238,000.

Capital Funding

The Gallery has prioritized its capital resources to the most urgent projects. The amount of special capital funding deferred as at June 30, 2011 was \$7,961,000.

For many years, the Gallery has faced considerable challenges associated with its iconic facility in Ottawa, the custody of which was transferred to it in the early 1990s. The main facility continues to face a range of life-cycle issues that typically confront a facility of this nature in the 20 year range. The on-going recapitalization requirements for the building have never been fully addressed. However, the Gallery has benefitted from some much-welcomed capital investments:

- \$14.8 million over 3 years from Management Reserve Fund starting in 2007-2008; and
- \$15.3 million over 5 years from Federal Budget of 2008, starting in 2008-2009.

These funds have been used to resolve the most pressing areas of capital deterioration that pose a risk to the collection and/or to health and safety issues for visitors and staff. Lower-priority projects have been deferred and/or funded through internal reallocations. The supplementary government funding for capital will cease by 2013 and the annual capital budget will revert back to \$1 million per year. This will require the Gallery to reprioritize its capital projects to resolve the most pressing issues in the aging building.

The most significant project that remains, in terms of scope and cost, is the Great Hall window replacement, tentatively scheduled for 2013. This project poses significant challenges because of escalating construction costs, which have been increasing more than anticipated.

NET ASSETS

Net assets increased by \$297,000 compared to the balance at March 31, 2011, due to the excess of revenue over expenses for the period. This increase was recorded as an unrestricted net asset.

STATEMENT OF OPERATIONS

Through proactive and prudent management, the Gallery was able to achieve a net operating surplus of \$297,000 for the first quarter. Given the cyclical nature of the Gallery's operations, with summer months generating significant revenue from the Special Exhibition, a small surplus is not unusual. However, The Gallery continues to face significant financial pressures in the current fiscal year, both in terms of revenues and expenditures. The Gallery continues to take a very serious approach to monitoring its financial situation – and to taking corrective action where necessary—with the aim of balancing its budget and better positioning the corporation to meet the financial challenges ahead.

REVENUE

Total revenue for the three-month period ended June 30, 2011 was \$14,643,000.

Parliamentary Appropriations

On a cash basis, Parliamentary appropriations for the quarter were \$12,152,000. This is in-line with one fourth of the 2011-2012 Main Estimates of \$48,606,000. The appropriations received during the quarter included \$2,000,000 for the acquisition of objects of art for the collection and other costs attributable to this activity, and \$1,295,000 for the purchase of capital assets. On an accrual basis, the Gallery defers the recognition of appropriation income for both art and capital acquisitions until the related purchases are made. On an accrual basis, the Gallery recognized Parliamentary appropriations of \$12,676,000 for the quarter.

Operating Revenue

The Gallery, like other national museums, is committed to make every effort to enhance self-generated revenues. The Gallery earned \$1,693,000 of operating revenue in the quarter, meeting the performance target for self-generating revenue of 13% of total resources. The Gallery's annual operating revenue is highly dependent on attendance at its special exhibitions, particularly its primary summer exhibition. Many revenue streams performed well during the quarter due to strong visitor attendance of exhibitions opened during the quarter. Attendance at all exhibitions venues this quarter was 207,612 visitors. The combined attendance target for 2011-2012 is 693,000. In addition, sponsorship revenue from the Canadian Association of Petroleum Producers support of the summer exhibition, *Caravaggio and his Followers in Rome* helped to achieve the performance target this quarter. Despite this strong performance, some areas of operating revenue are notably lower than the prior year, due to fluctuating economy, tourism levels and competition for discretionary spending.

Contributions

The Gallery recognized revenue from contributions of \$274,000 and deferred \$189,000 for future use – on a cash basis, the Gallery received contributions of \$463,000 in the quarter, representing 3.6% of total resources available (versus the performance target of 4%). The Gallery did not receive any contributions from the National Gallery of Canada Foundation (the Foundation) in the first quarter. In prior periods, the Gallery's largest single source of donations was the Foundation. At the end of the 2009-2010 fiscal year, the Foundation was re-aligned and is now focused on providing leadership with regard to Major Gifts, Endowments, and Planned Giving. The Foundation provides funding in accordance with donor restrictions for art purchases and specific projects and programs such as internships, research, education activities, and exhibitions. In 2011-2012, the Gallery anticipates a contribution of \$500,000 (2010-2011- \$622,000) from the Foundation.

EXPENSES

Total expenses for the quarter ended June 30, 2011 were \$14,643,000. Total expenditures forecast in the 2011-12 – 2015-16 Corporate Plan Summary are \$58,049,000.

Expenditures

- Salary and benefit costs for the quarter were \$5,514,000 and are in-line with prior year expenses. Due to cost containment measures announced in Budget 2010 that applied to all government departments, agencies and Crown corporations, including the Gallery, cost pressures on the salary envelope are expected to increase. Effective in fiscal year 2010-11 and on-going, Government funding to the Gallery was reduced by \$314,000; as a result, previously approved increases for its negotiated labour contracts must be managed by the Gallery through re-allocation. This cost

pressure will increase over the term of the existing collective agreements. In response to this cost pressure, the Gallery undertook further workforce adjustments during the quarter in the curatorial and marketing and communications divisions, and eliminated 6 positions. Since 2009, the Gallery has eliminated 48 positions and laid-off 37 employees.

- The Gallery acquired 101 objects and received 42 works by gift and bequest for the Collection during the quarter. The value of works acquired and associated acquisition costs were \$2,169,000.
- Amortization for the quarter was \$1,450,000. This estimate includes new projects that came on-line in the quarter and had not been amortized in previous periods.
- The Gallery's fixed costs for its facilities are not indexed against inflation and price increases for heat, hydro and outsourced service contracts are projected for the 2011-2012 fiscal year. These cost pressures are to be funded through internal reallocations.
- Professional and special services are expected to increase in 2011-2012 fiscal year as limits to the Federal Indemnity Program mean that exhibition budgets must absorb the cost of commercial insurance. In addition, legal support services for labour relations and copyright continue to increase.
- Protective services costs are expected to increase due to changes in the minimum wage in the province of Ontario that resulted in an 8% increase in the guard contract.