

**NATIONAL GALLERY OF CANADA**  
**UNAUDITED FINANCIAL STATEMENTS**

**QUARTERLY RESULTS**

**Period ended December 31, 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  
February 23rd, 2012

**STATEMENT OF FINANCIAL POSITION**

(in thousands of dollars)

Unaudited

As at Dec 31,  
2011 As at March 31,  
2011  
Restated**Assets**

## Current

Cash and cash equivalents	\$	10,208	\$	9,167
Restricted cash and cash equivalents		16,596		10,841
Accounts receivable		1,053		1,313
Inventories		625		526
Prepaid expenses		213		1,237
Total current		28,695		23,084
Collection		1		1
Capital assets		88,228		91,350
	\$	116,924	\$	114,435

**Liabilities and Net Assets**

## Liabilities

## Current liabilities

Accounts payable and accrued liabilities	\$	4,707	\$	5,956
Deferred contributions for the purchase of objects for the Collection (Note 5)		4,922		1,607
Deferred contributions for the purchase of capital assets (Note 5)		9,843		7,187
Other deferred contributions (Note 5)		1,715		1,931
Total current liabilities		21,187		16,681
Employee future benefits		2,586		2,586
Deferred contributions for the amortization of capital assets		87,606		90,727
Total liabilities		111,379		109,994

## Net Assets

Unrestricted		4,807		3,703
Investment in capital assets (Note 7)		622		622
Permanently endowed		116		116
Total net assets		5,545		4,441
	\$	116,924	\$	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

	Year to Date at December 31, 2011				Year Ended
	Unrestricted	Investment in capital assets	Permanently endowed	Total Net Assets	March 31, 2011 Restated
Net assets, beginning of the period	\$ 3,703	\$ 622	\$ 116	\$ 4,441	\$ 4,420
Excess of revenue over expenses for the period	1,104	0	0	1,104	21
Net assets, end of the period	\$ 4,807	\$ 622	\$ 116	\$ 5,545	\$ 4,441

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

**STATEMENT OF OPERATIONS**

(in thousands of dollars)

Unaudited

	Quarter ended	Year to date	Year Ended
	Dec 31, 2011	Dec 31, 2011	March 31, 2011 Restated
<b>Revenues</b>			
Parliamentary appropriations (Note 6)	\$ 12,068	\$ 35,915	\$ 51,394
Operating revenue and contributions (Schedule 1)	2,230	7,828	7,869
<b>Total revenues</b>	<b>14,298</b>	<b>43,743</b>	<b>59,263</b>
<b>Expenses</b>			
<b>Collection</b>			
Operations	1,620	5,422	7,226
Art purchases	1,567	4,401	8,368
<b>Total - Collection</b>	<b>3,187</b>	<b>9,823</b>	<b>15,594</b>
<b>Outreach</b>			
Outreach	3,803	11,706	14,086
Accommodation	4,507	14,063	18,740
Administration	2,165	7,047	10,822
<b>Total expenses (Schedule 2)</b>	<b>13,662</b>	<b>42,639</b>	<b>59,242</b>
<b>Excess of revenue over expenses for the period</b>	<b>\$ 636</b>	<b>\$ 1,104</b>	<b>\$ 21</b>

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

**STATEMENT OF CASH FLOWS**

(in thousands of dollars)

Unaudited	Quarter ended Dec 31, 2011	Year to date Dec 31, 2011	Year Ended March 31, 2011 Restated
<b>Operating activities</b>			
Cash received from clients	\$ 1,866	\$ 7,519	\$ 7,266
Parliamentary appropriations received	11,167	35,030	45,110
Cash paid to employees and suppliers	(11,718)	(40,006)	(53,049)
Interest received	75	230	234
<b>Total cash flow from operations</b>	<b>1,390</b>	<b>2,773</b>	<b>(439)</b>
<b>Capital activities</b>			
Acquisition of capital assets	(297)	(1,229)	(5,933)
<b>Total cash flow from capital activities</b>	<b>(297)</b>	<b>(1,229)</b>	<b>(5,933)</b>
<b>Investing activities</b>			
Increase in restricted cash and cash equivalents	(1,910)	(5,754)	(234)
<b>Total cash flow from investing activities</b>	<b>(1,910)</b>	<b>(5,754)</b>	<b>(234)</b>
<b>Financing activities</b>			
Funding for the acquisition of capital assets	1,295	3,885	5,898
Restricted contributions and related investment income	811	1,366	1,580
<b>Total cash flow from financing activities</b>	<b>2,106</b>	<b>5,251</b>	<b>7,478</b>
<b>Total cash flow</b>	<b>1,289</b>	<b>1,041</b>	<b>872</b>
Cash, beginning of period	8,919	9,167	8,295
<b>Cash, end of period</b>	<b>\$ 10,208</b>	<b>\$ 10,208</b>	<b>\$ 9,167</b>

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, 2011

### 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 these financial statements under 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 (PSAS) including the 4200 series of accounting standards applicable for Government Not-For-Profit Organizations. This change has been applied retroactively and prior periods have been restated.

#### Employee Future Benefits

The Gallery provides severance benefits to its employees based on years of service and final salary. The financial statements reflect the Gallery's estimate of the accumulated liability for these benefits. Under PSAS section 3255, Post-employment Benefits and Termination Benefits, government organizations are required to recognize an actuarially determined liability and expense for future benefits. The Gallery is consulting with an actuary to assist in estimating the accrued benefit obligation

which should be recognized for these future benefits. 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 estimate.

### Financial Instruments and Exposure to Risk

In June 2011, the CICA issued a new standard, PSAS section 3450 Financial Instruments. The Public Sector Accounting Board 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 Handbook. 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.

## 5. DEFERRED CONTRIBUTIONS

(in thousands of dollars)	Contributions for the purchase of objects for the Collection	Contributions for the purchase of capital assets	Other Contributions	As at Dec 31, 2011	As at Mar 31, 2011 Restated
Beginning balance	\$ 1,607	\$ 7,187	\$ 1,931	\$ 10,725	\$ 10,491
Appropriations received in the period	8,000	3,885	0	11,885	13,898
Non-Government contributions received in the period	0	0	1,366	1,366	2,242
	9,607	11,072	3,297	23,976	26,631
Amounts recognized as revenue in the period	(4,685)	0	(1,582)	(6,267)	(9,973)
Purchase of capital assets in the period	0	(1,229)	0	(1,229)	(5,933)
Ending balance	\$ 4,922	\$ 9,843	\$ 1,715	\$ 16,480	\$ 10,725

The Gallery receives an annual appropriation of \$8,000,000 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.

The Gallery is in receipt of appropriations that have been identified by Treasury Board as funding for projects of a capital nature. These amounts are initially credited to deferred contributions received for the purchase of capital assets and are transferred to deferred contributions for the amortization of capital assets when the purchases are made.

Other 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.

## 6. PARLIAMENTARY APPROPRIATIONS

(in thousands of dollars)	Quarter ended Dec 31, 2011	Year to date Dec 31, 2011	Year Ended Mar 31, 2011 Restated
<b>For operating and capital expenditures</b>			
Main estimates	\$ 10,152	\$ 30,455	\$ 41,266
Supplementary estimates	310	310	1,836
	10,462	30,765	43,102
Appropriations deferred for the purchase of capital assets	(1,295)	(3,885)	(5,898)
Amortization of deferred funding for capital assets	1,450	4,350	5,573
	10,617	31,230	42,777
<b>For the purchase of objects for the Collections</b>			
Main estimates	2,000	8,000	8,000
Appropriations recognized from prior periods	4,373	1,607	2,224
Appropriations deferred to future periods	(4,922)	(4,922)	(1,607)
	1,451	4,685	8,617
<b>Total Parliamentary appropriations</b>	<b>\$ 12,068</b>	<b>\$ 35,915</b>	<b>\$ 51,394</b>

## 7. INVESTMENT IN CAPITAL ASSETS

(in thousands of dollars)	Year to date Dec 31, 2011	Year Ended March 31, 2011
Capital asset additions	\$ 1,229	\$ 5,898
Less: capital assets financed through Appropriations	(1,229)	(5,898)
	0	0
Amortization of deferred contributions for the amortization of capital assets	4,350	5,573
Amortization of capital assets	(4,350)	(5,573)
<b>Net change in investment in capital assets</b>	<b>\$ 0</b>	<b>\$ 0</b>

**SCHEDULE 1 - OPERATING REVENUE AND CONTRIBUTIONS**

Unaudited	Quarter ended Dec 31, 2011	Year to date Dec 31, 2011	Year Ended March 31, 2011 Restated
(in thousands of dollars)			
<b>Operating revenue:</b>			
Bookstore and publishing	\$ 647	\$ 2,037	\$ 1,862
Admissions	176	1,502	1,302
Parking	189	710	835
Memberships	214	392	456
Rental of public spaces	145	490	854
Sponsorships	34	359	456
Education services	16	87	96
Art loans – recovery of expenses	29	61	169
Travelling exhibitions	57	127	118
Audio guides	6	159	67
Food services	11	54	54
Interest	75	230	234
Other	4	38	10
	1,603	6,246	6,513
<b>Contributions:</b>			
From National Gallery of Canada Foundation	337	337	622
Other	290	1,245	734
	627	1,582	1,356
	\$ 2,230	\$ 7,828	\$ 7,869

**SCHEDULE 2 - EXPENSES**

Unaudited	Quarter ended Dec 31, 2011	Year to date Dec 31, 2011	Year Ended March 31, 2011 Restated
(in thousands of dollars)			
Salaries and employee benefits	\$ 5,367	\$ 16,974	\$ 22,129
Purchase of works of art for the collection	1,567	4,401	8,368
Amortization of capital assets	1,450	4,350	5,573
Payments in lieu of taxes	924	3,182	4,376
Professional and special services	844	2,330	3,858
Repairs and maintenance of buildings and equipment	847	2,764	3,623
Protective services	565	1,994	2,541
Utilities, materials and supplies	455	1,466	2,147
Freight, cartage and postage	692	1,789	1,765
Travel	185	507	985
Publications	236	787	972
Cost of goods sold – bookstore	188	765	927
Advertising	54	514	890
Rent	121	361	373
Communications	53	173	264
Library purchases	78	164	253
Rentals of equipment	24	70	170
Fellowships	12	40	26
Miscellaneous	0	8	2
	\$ 13,662	\$ 42,639	\$ 59,242



## MANAGEMENT DISCUSSION AND ANALYSIS OF QUARTERLY FINANCIAL STATEMENTS

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. Significant financial items for the nine months ended December 31, 2011 are as follows.

### Operations

The Gallery achieved a net operating surplus of \$1,104,000 for the first nine months of 2011-12. Given the cyclical nature of the Gallery's operations, with summer months generating significant revenue from the Special Exhibition, a surplus for this period is not unusual. In addition, as was the case in this year and in the previous fiscal year, the timing of the receipt of special funding has had a positive effect on the results. Notwithstanding these favourable timing issues, the Gallery continues to monitor its financial pressures, both in terms of revenues and expenditures and to take corrective action where necessary—with the aim of balancing its budget and better positioning the corporation to meet the financial challenges for the remainder of the fiscal year and beyond.

### Revenue

Total revenue earned from all sources for the nine month period was \$43,743,000. This is comprised of \$35,915,000 in Parliamentary appropriations and \$7,828,000 in self generated operating revenue and contributions. Below is a comparison of self generated revenue versus Corporate Plan targets for the 2011-12 fiscal year.

	<b>2011-12 Corporate Plan Target</b>	<b>Actual as at December 31, 2011</b>
Operating Revenue	13%	14%
Contributions	4%	4%
<b>Total Self Generated</b>	<b>17%</b>	<b>18%</b>

Operating revenue was driven primarily by high visitor attendance for the well-received summer exhibition *Caravaggio and His Followers in Rome*. Contributions are comprised largely of amounts received from the Foundation and generous private support for such important projects as the *2011 Venice Biennale* and the purchase of *The Clock* by Christian Marclay.

### Expenditures

Total expenses for the nine month period were \$42,639,000. Many operating costs such as education, membership and building related items occur in the final three months of the year. In addition, art acquisitions are expected to increase significantly during the fourth quarter.

Salary and benefit costs continue to be the largest expense item at \$16,974,000 for the nine month period. These costs increased by \$670,000 over the same period last year due to nominal salary increases as well as increases to accruals relating to the employee classification system.

**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. During the nine month period, the Gallery used these appropriations to purchase works of art in the amount of \$4,085,000 and to support related acquisition and installation costs of \$600,000. The Gallery currently has \$4,922,000 available for art purchases.

**Capital Funding**

Capital resources have been prioritized to the most urgent projects. The Gallery is in receipt of a base appropriation of \$1,000,000 annually for capital expenditures. This annual allocation has been supplemented with targeted capital funding announced in Budget 2008. The Gallery has spent \$1,229,000 on capital improvements in the first nine months of 2011-12. Amounts deferred for the purchase of capital assets as at December 31, 2011 were \$9,843,000. These funds will be used to resolve the most pressing areas of capital deterioration that pose a risk to the Collection or to the health and safety of visitors and staff. Lower-priority projects have been deferred or funded through internal reallocations.