

NATIONAL GALLERY OF CANADA
UNAUDITED FINANCIAL STATEMENTS

QUARTERLY RESULTS

Three months ended June 30, 2014

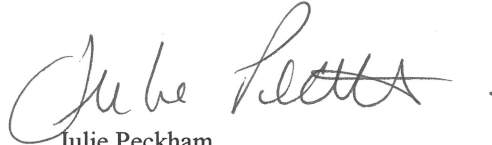
STATEMENT OF MANAGEMENT RESPONSIBILITY

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
August 27, 2014

STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)

Assets	As at		As at
Current	June 30, 2014		Mar 31, 2014
Cash and cash equivalents	\$	11,520	\$ 7,106
Restricted cash and cash equivalents		11,759	10,924
Investment		5,100	5,100
Accounts receivable		1,140	1,617
Inventory		575	542
Prepaid expenses		126	1,456
Total current assets		30,220	26,745
Collection		1	1
Capital assets		88,238	89,399
	\$	118,459	\$ 116,145
Liabilities and Net Assets			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	\$	5,692	\$ 3,367
Accrued salaries and benefits		2,637	2,905
Deferred contributions for the purchase of objects for the Collection (Note 4)		6,025	5,008
Deferred contributions for the purchase of capital assets (Note 4)		3,717	3,911
Other deferred contributions (Note 4)		1,901	1,889
Total current liabilities		19,972	17,080
Employee future benefits		2,494	2,494
Deferred contributions for the amortization of capital assets		87,616	88,776
Total liabilities		110,082	108,350
Net Assets			
Unrestricted		7,639	7,057
Investment in capital assets		622	622
Permanently endowed		116	116
Total net assets		8,377	7,795
	\$	118,459	\$ 116,145

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

STATEMENT OF CHANGES IN NET ASSETS**For the three months ended June 30**

(in thousands of dollars)

	Unrestricted	Investment in capital assets	Permanently endowed	2014	2013
Net assets, beginning of period	\$ 7,057	\$ 622	\$ 116	\$ 7,795	\$ 7,103
Net result of operations for the three month period	582	-	-	582	(622)
Net results of operations for the remainder of the year	-	-	-	-	1,314
Net assets, end of period	\$ 7,639	\$ 622	\$ 116	\$ 8,377	\$ 7,795

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

STATEMENT OF OPERATIONS**For the three months ended June 30**

(in thousands of dollars)

	2014	2013
Operating revenue and contributions (Schedule 1)	\$ 1,538	\$ 1,419
Expenses		
Collection		
Operations	1,718	1,735
Art purchases	1,783	517
Total - Collection	3,501	2,252
Outreach	2,749	3,861
Accommodation	4,744	4,807
Internal Services	2,241	2,134
Total expenses (Schedule 2)	13,235	13,054
Net results before Parliamentary Appropriations	(11,697)	(11,635)
Parliamentary appropriations (Note 5)	12,279	11,013
Net result of operations	\$ 582	\$ (622)

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

STATEMENT OF CASH FLOWS
For the three months ended June 30
(in thousands of dollars)

Operating activities	2014	2013
Cash received from clients	\$ 1,760	\$ 2,012
Parliamentary appropriations received	11,749	10,935
Cash paid to suppliers	(3,079)	(6,584)
Cash paid to employees	(5,268)	(7,031)
Interest received	84	101
Total cash flow from (to) operating activities	5,246	(567)
Investing activities		
Acquisition of investments	-	-
Total cash flow from investing activities	-	-
Capital activities		
Acquisition of capital assets	(444)	(2,000)
Total cash flow from capital activities	(444)	(2,000)
Financing activities		
Funding for the acquisition of capital assets	250	250
Restricted contributions and related investment income	197	289
Total cash flow from financing activities	447	539
Total cash flow	5,249	(2,028)
Cash and cash equivalents, beginning of the period		
Cash and cash equivalents	7,106	13,063
Restricted cash and cash equivalents	10,924	15,956
Total cash and cash equivalents	18,030	29,019
Cash and cash equivalents, end of the period		
Cash and cash equivalents	11,520	11,391
Restricted cash and cash equivalents	11,759	15,600
Total cash and cash equivalents	\$ 23,279	\$ 26,991

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

SELECTED NOTES TO THE UNAUDITED QUARTERLY FINANCIAL STATEMENTS

Three months ended June 30, 2014

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 not-for-profit organizations.

4. DEFERRED CONTRIBUTIONS AND APPROPRIATIONS

For the three months ended June 30

(in thousands of dollars)

	Appropriations for the purchase of objects for the Collection	Appropriations for the purchase of capital assets	Other deferred contributions	2014	2013
Balance, beginning of period	\$ 5,008	\$ 3,911	\$ 1,889	\$ 10,808	\$ 15,840
Appropriations received in the period	3,000	250	-	3,250	2,250
Non-Government funding received in the period	-	-	197	197	289
	8,008	4,161	2,086	14,255	18,379
Amounts recognized as revenue in the period	(1,983)	-	(185)	(2,168)	(895)
Purchase of capital assets in the period	-	(444)	-	(444)	(2,000)
Balance, end of period	\$ 6,025	\$ 3,717	\$ 1,901	\$ 11,643	\$ 15,484

5. PARLIAMENTARY APPROPRIATIONS

For the three months ended June 30

(in thousands of dollars)

For operating and capital expenditures	2014	2013
Main estimates	\$ 8,943	\$ 9,021
Supplementary estimates	-	-
	8,943	9,021
Appropriations deferred for the purchase of capital assets	(250)	(250)
Amortization of deferred funding for capital assets	1,603	1,525
	10,296	10,296
For the purchase of objects for the Collection		
Main estimates	3,000	2,000
Appropriations recognized from prior periods	5,008	4,152
Appropriations deferred to future periods	(6,025)	(5,435)
	1,983	717
Total Parliamentary appropriations	\$ 12,279	\$ 11,013

6. INVESTMENTS IN CAPITAL ASSETS

For the three months ended June 30

(in thousands of dollars)

	2014		2013
Capital asset additions in the period	\$ 444	\$	2,000
Less: capital assets financed through appropriations	(444)		(2,000)
	-		-
Deferred contributions for the amortization of capital assets	1,603		1,525
Amortization of capital assets	(1,603)		(1,525)
Net change in investment in capital assets	\$ -	\$	-

SCHEDULE 1: SCHEDULE OF OPERATING REVENUE AND CONTRIBUTIONS

For the three months ended June 30

(in thousands of dollars)

Operating revenue:	2014		2013
Bookstore and publishing	\$ 392	\$	389
Admissions	284		241
Parking	215		220
Memberships	141		110
Rental of public spaces	85		32
Education services	68		37
Art loans – recovery of expenses	31		69
Travelling exhibitions	30		11
Audio guides	14		7
Food services	6		-
Interest	84		101
Other	3		24
	1,353		1,241
Sponsorships and Contributions:			
Sponsorships	117		20
Contributions:			
From the National Gallery of Canada Foundation	-		-
From other individuals, corporations and foundations	68		158
	185		178
Operating revenue and contributions	\$ 1,538	\$	1,419

SCHEDULE 2: SCHEDULE OF EXPENSES**For the three months ended June 30**

(in thousands of dollars)

		2014		2013
Salaries and employee benefits	\$	5,000	\$	5,437
Purchase of works of art for the collection		1,783		517
Amortization of capital assets		1,603		1,525
Payments in lieu of taxes		1,061		1,047
Professional and special services		491		778
Insurance		166		139
Repairs and maintenance of buildings and equipment		959		973
Protection services		681		702
Utilities, materials and supplies		332		498
Freight, cartage and postage		275		280
Travel		137		341
Publications		56		210
Cost of goods sold		258		133
Advertising		143		164
Rent		111		123
Communications		54		56
Library purchases		78		81
Fellowship		17		-
Rentals of equipment		22		50
Miscellaneous		8		-
Total expenses	\$	13,235	\$	13,054

MANAGEMENT DISCUSSION AND ANALYSIS OF QUARTERLY FINANCIAL STATEMENTS

Three months ended June 30, 2014

Operating Environment

On view from June 12 to September 14, 2014, the Gallery's major summer exhibition for the year, *Gustave Doré (1832–1883): Master of Imagination* opened during the first quarter. This ambitious exhibition, organized in collaboration with the Musée d'Orsay in Paris, features a wide range of artistic expression from sketch to sculpture, from illustrated books to audio-visual presentations.

During the first quarter, the Gallery also featured *Charles Edenshaw*, a retrospective exhibition devoted to an outstanding Haida artist and master carver, who is regarded as one of the Northwest Coast's most accomplished and influential artists.

From May 10 to August 14, the Gallery is also presenting the 2014 *Governor General's Awards in Visual and Media Arts*. Organized by the National Gallery of Canada, in collaboration with the Canada Council for the Arts and the Governor General of Canada, this exhibition celebrates the remarkable career achievements of artists in fine or applied arts, film, video, audio, or new media and fine crafts.

Other exhibitions presented during the quarter include ...*from the Transit Bar, John Ruskin: Artist and Observer, Masterpiece in Focus: Thomas Couture in the Studio*, and *The Library of Fritz Brandtner*.

During the three month period, the Gallery welcomed 70,613 visitors to its main location in Ottawa. In addition, 18,362 visited the Gallery's travelling exhibitions, 39,002 visited NGC@ partner sites, and 32,792 attended NGC special projects exhibitions, which included works of art on loan from the national Collection.

The financial impact of these key activities is reflected in the net results of the first quarter.

Financial Overview

The Gallery ended the first quarter with a surplus of \$582,000. Given the cyclical nature of the Gallery's operations, with the summer months generating revenues from the special exhibition, a surplus is not unusual. Despite the first quarter surplus position, the Gallery continues to face financial pressures, both in terms of revenues and expenses.

Revenues and Contributions

Revenues from all sources totalled \$13.8 million, representing an increase of \$1.4 million compared to the same period last year.

Parliamentary appropriations totalled \$12.3 million at the end of the first quarter, an increase of \$1.3 million over the comparative period. The increase is mainly the result of increased parliamentary appropriations recognized to fund purchases of works of art for the Collection.

Operating revenue was \$1.4 million at the end of the first quarter, an increase of \$112,000 over the comparative period. The Gallery had increased revenue in admissions, membership sales, and rentals of public spaces. Sponsorships and contributions were \$185,000 at the end of the first quarter, an increase of \$7,000 over the comparative period. The Gallery expects to receive \$1.2 million in funding from the National Gallery of Canada Foundation during the year, of which the first installment will be received at the end of the second quarter.

	Annual Target for 2014-15	Three months ended June 30, 2014	% of Annual Target
Self-generated revenue	\$ 5,565,000	\$ 1,353,000	24%
Sponsorship & contributions	1,950,000	185,000	9%
Total	\$ 7,515,000	\$ 1,538,000	20%

Expenditures

Total expenditures at the end of the first quarter were \$13.2 million, which represents a slight increase of \$181,000 over the comparative period. The increase is attributable to increased purchases of works of art for the Collection when compared to the first quarter of last fiscal year. This increase is partially offset by cost savings for salary and employee benefits, as previously announced workforce reductions have begun to have a measurable effect.

Professional services and travel costs also decreased by \$287,000 and \$204,000 respectively, when compared to the same period last year. The June 30, 2013 results were higher as they included travel and professional costs for Indigenous artists who participated in the 2013 summer exhibition, *Sakahàn: International Indigenous Art*, along with costs for staff travel to install the

2013 Venice Biennale. Higher materials, supplies and publication costs related to the Venice Biennale were also incurred in 2013. The Venice Biennale project is funded through sponsorships and contributions from individuals, corporations and foundations.

Collection

The Gallery purchased \$1.8 million in works of art for the Collection during the period, an increase of \$1.3 million when compared to the same period last year. At the end of the quarter, the Gallery had \$6.0 million in appropriations available for the acquisition of objects for the Collection.

Capital

In April 2014, the Gallery successfully completed its largest and most complex capital project to date, the Great Hall Window and Roof Replacement. The re-opening of this marquee space is expected to have positive effect on revenue generation potential.

The Gallery purchased \$444,000 in capital assets during the period. The Gallery currently receives \$1.0 million in annual Parliamentary appropriations for capital use. Given the size, age and complexity of the Gallery's main facility, even normal life cycle capital replacements and improvements will present very serious challenges to an annual capital allotment of \$1.0 million. 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.

Outlook

The Gallery is committed to achieve a balanced budget for the year. There are several challenges to obtaining this goal. The Gallery is facing significant inflationary pressures on non-discretionary costs, including insurance, utilities, protection services, and maintenance. In addition, the Gallery is currently in collective bargaining with the Public Service Alliance of Canada. Given the current freeze on government funding, any cost or salary increase must be funded either by internal reallocation or by increasing and diversifying self-generated revenue.

On June 12, 2014, the Gallery received the written judgment of the Supreme Court of Canada (SCC) that clarified the right of the Canadian Artists Representation/Front des artistes canadiens (CARFAC) and le Regroupement des artistes en arts Visuels du Quebec (RAAV) to include the negotiation of minimum terms and conditions for the use of artists' existing artworks in their bargaining mandate with the Gallery. A first-ever agreement between the Gallery and CARFAC/RAAV will be established under the *Status of the Artist Act* to ensure a compensation framework for artists in the area of professional services. Minimum fees for the use of existing artworks will be discussed, taking into consideration the SCC's ruling. Negotiations among the parties will resume in September 2014. The Gallery looks forward to finalizing this agreement for the visual arts sector.

Lastly, it is expected that construction along Sussex Drive will continue to have a negative impact on attendance and operating revenues at the main facility.

To ensure a balanced budget, the Gallery intends to fund these various cost and revenue pressures through internal budget re-allocations and by continuing to implement initiatives to reduce costs and increase self-generated revenues.