

**NATIONAL GALLERY OF CANADA
UNAUDITED FINANCIAL STATEMENTS**

QUARTERLY RESULTS

Three months ended June 30, 2017

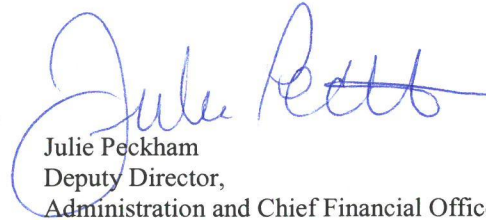
STATEMENT OF MANAGEMENT RESPONSIBILITY

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 29, 2017

STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)

Assets

Current	June 30, 2017	March 31, 2017
Cash and cash equivalents	\$ 2,697	\$ 4,548
Investment	3,915	5,665
Restricted investment	10,213	8,423
Accounts receivable	1,816	860
Inventory	843	719
Prepaid expenses	211	568
Total current assets	19,695	20,783
Collection	1	1
Capital assets	82,118	82,036
	\$ 101,814	\$ 102,820

Liabilities and Net Assets

Liabilities

Current liabilities

Accounts payable and accrued liabilities	\$ 5,436	\$ 5,179
Accrued salaries and benefits	1,525	2,041
Deferred contributions for the purchase of objects for the Collection (Note 4)	2,225	934
Deferred contributions for the purchase of capital assets (Note 4)	6,642	5,941
Other deferred contributions (Note 4)	1,230	1,431
Total current liabilities	17,058	15,526
Employee future benefits	943	943
Deferred contributions for the amortization of capital assets	81,496	81,414
Total liabilities	99,497	97,883
Net Assets		
Unrestricted	1,579	4,199
Investment in capital assets	622	622
Permanently endowed	116	116
Total net assets	2,317	4,937
	\$ 101,814	\$ 102,820

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	2017	2016
Net assets, beginning of the period	\$ 4,199	\$ 622	\$ 116	\$ 4,937	\$ 9,194
Net result of operations for the nine month period	(2,620)	-	-	(2,620)	(331)
Net result for the remainder of the year	-	-	-	-	(3,926)
Net assets, end of the period	\$ 1,579	\$ 622	\$ 116	\$ 2,317	\$ 4,937

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

STATEMENT OF OPERATIONS

(in thousands of dollars)

	3 months ended June 30, 2017	3 months ended June 30, 2016
Operating revenue, sponsorships, and contributions	\$ 2,277	\$ 1,720
Contributed items for the Collection	-	-
Total operating revenue, sponsorships, and contributions (Schedule 1)	2,277	1,720
Expenses		
Collection		
Operations	1,819	1,774
Purchase of items for the Collection	509	1,076
Contributed items for the Collection	-	-
Total - Collection	2,328	2,850
Outreach	5,303	3,654
Accommodation	4,866	5,135
Administration	2,388	2,185
Total expenses (Schedule 2)	14,885	13,824
Net results before Parliamentary Appropriations	(12,608)	(12,104)
Parliamentary appropriations (Note 5)	9,988	11,773
Net result of operations	\$ (2,620)	\$ (331)

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

STATEMENT OF CASH FLOWS

(in thousands of dollars)

	3 months ended June 30, 2017	3 months ended June 30, 2016
Operating activities		
Cash received from clients	\$ 605	\$ 977
Parliamentary appropriations received	9,575	10,851
Cash paid to suppliers	(4,405)	(4,990)
Payments related to salary and benefits	(6,667)	(6,234)
Interest received	43	22
Total cash flow used for operating activities	(849)	626
Investing activities		
Acquisition of investments	(5,025)	-
Disposal of investments	5,000	-
Total cash flow used for investing activities	(25)	-
Capital activities		
Payments related to capital assets	(3,568)	(1,612)
Total cash flow used for capital activities	(3,568)	(1,612)
Financing activities		
Funding for the acquisition of capital assets	2,535	250
Restricted contributions and related investment income	56	172
Total cash flow from financing activities	2,591	422
Total cash flow	(1,851)	(564)
Cash and cash equivalents, beginning of the year		
Cash and cash equivalents	4,548	13,061
Restricted cash and cash equivalents	-	10,254
	4,548	23,315
Cash and cash equivalents, end of the year		
Cash and cash equivalents	2,697	12,276
Restricted cash and cash equivalents	-	10,475
	\$ 2,697	\$ 22,751

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, 2017

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 government not-for-profit organizations.

4. DEFERRED CONTRIBUTIONS

For the three months ended June 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	2017	2016
Beginning balance, as at April 1	\$ 934	\$ 5,941	\$ 1,431	\$ 8,306	10,138
Appropriations received in the period	2,000	2,408	-	4,408	2,250
Non-Government funding received in the period	-	-	51	51	45
	2,934	8,349	1,482	12,765	12,433
Amounts recognized as revenue in the period	(509)	-	(252)	(761)	(1,132)
Related acquisition costs	(200)	-	-	(200)	(200)
Purchase of capital assets in the period	-	(1,707)	-	(1,707)	(1,248)
Ending balance, as at June 30	\$ 2,225	\$ 6,642	\$ 1,230	\$ 10,097	9,853

5. PARLIAMENTARY APPROPRIATIONS

For the three months ended June 30

(in thousands of dollars)

	2017	2016
For operating and capital expenditures		
Main estimates	\$ 10,062	\$ 8,972
Supplementary estimates	-	-
	10,062	8,972
Appropriations deferred for the purchase of capital assets	(1,590)	(250)
Appropriations restricted for the purchase of capital assets	(818)	-
Amortization of deferred funding for capital assets	1,625	1,775
	9,279	10,497
For the purchase of items for the Collection		
Main estimates	2,000	2,000
Appropriations recognized from prior years	934	2,204
Appropriations deferred to future years	(2,225)	(2,928)
	709	1,276
Total Parliamentary appropriations	\$ 9,988	\$ 11,773

6. INVESTMENTS IN CAPITAL ASSETS

For the three months ended June 30

(in thousands of dollars)

	2017	2016
Capital asset additions	\$ 1,707	\$ 1,248
Less: capital assets financed through contributions	(1,707)	(1,248)
	-	-
Deferred contributions used for the amortization of capital assets	1,625	1,775
Amortization of capital assets	(1,625)	(1,775)
Net change in investment in capital assets	\$ -	\$ -

SCHEDULE #1: OPERATING REVENUE, SPONSORSHIPS AND CONTRIBUTIONS

(in thousands of dollars)

	3 months ended June 30, 2017	3 months ended June 30, 2016
Operating revenue:		
Boutique and publishing	\$ 664	\$ 376
Admissions	473	405
Parking	284	255
Memberships	201	251
Rental of public spaces	121	67
Education services	104	51
Art loans – recovery of expenses	24	45
Travelling exhibitions	8	56
Audio guides	9	18
Food services	1	4
Interest	43	48
Other	8	11
	1,940	1,587
Sponsorships and Contributions:		
Sponsorships	85	77
Contributions		
Contributed items for the Collection	-	-
From the National Gallery of Canada Foundation	-	-
From other individuals, corporations and foundations	252	56
	337	133
Operating revenue, sponsorships and contributions	\$ 2,277	\$ 1,720

SCHEDULE #2: EXPENSES

(in thousands of dollars)

	3 months ended June 30, 2017	3 months ended June 30, 2016
Salaries and employee benefits	\$ 6,151	\$ 5,638
Purchased items for the Collection	509	1,076
Contributed items for the Collection	-	-
Amortization of capital assets	1,625	1,775
Payments in lieu of taxes	1,047	1,050
Professional and special services	1,195	522
Insurance	182	249
Repairs and maintenance of buildings and equipment	943	951
Protection services	667	707
Utilities, materials and supplies	557	525
Freight, cartage and postage	231	374
Travel for public servants	194	89
Travel for non-public servants	164	77
Hospitality	31	24
Conferences	27	27
Publications	398	113
Cost of goods sold – boutique	253	142
Advertising	375	183
Rent	114	112
Communications	54	48
Library purchases	95	94
Rentals of equipment	18	10
Fellowships	41	27
Miscellaneous	14	11
Total expenses	\$ 14,885	\$ 13,824

MANAGEMENT DISCUSSION AND ANALYSIS OF QUARTERLY FINANCIAL
For the three months ended June 30, 2017

Operating Environment

The first quarter of year was an exciting time at the NGC. In celebration of the Canadian Sesquicentennial, the Gallery completed the major project to re-imagine the Canadian and Indigenous galleries. The ambitious project was the first major revamp of the permanent exhibition spaces since the Gallery moved to its current facility. In these transformed galleries, the remarkable stories that have shaped our land are told through art.

The Gallery was proud to share in the organization of Canada's exhibition at 2017 Venice Biennale, by renowned artist Geoffrey Farmer. Canada's representation at the Biennale has played a part in shaping the role and place of Canadian contemporary art within international circle and has helped to launch the international careers of many of our most celebrated artists. This exhibition would not be possible without the support of the National Gallery of Canada Foundation and its generous donors.

For the three month period, total visitor attendance to permanent, temporary, and travelling exhibitions was 248,186

For the three months ended June 30	2017	2016
NGC Ottawa	106,033	98,624
Travelling Exhibitions	29,297	11,372
NGC@ Partnerships	20,752	2,003
Venice	92,104	-
Attendance to all venues this period	248,186	111,999

Financial Overview

The Gallery posted a net operating deficit of \$2.6 million during the three month period, compared to a net operating deficit of \$0.3 million in the same period of the prior year. The first quarter loss is largely driven by the accounting treatment for the Canadian and Indigenous galleries project.

Parliamentary Appropriations, revenues, sponsorships and contributions

The Gallery recognized \$10.0 million in Parliamentary appropriations, compared to \$11.7 million in the same period of the prior year. The Gallery, by resolution of its Board of Trustees, internally 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 \$1.9 million, compared to \$1.6 million in same period of the prior year. Attendance driven revenues, such as admissions, Boutique sales, and parking increased significantly over the comparative period.

Sponsorships and contributions were \$0.3 million in the period compared to \$0.1 million in same period of the prior year.

The Gallery anticipates receiving contributions from the Foundation in support of the Canadian Photography Institute, Canada's participation in the 2017 Venice Biennale, the renovation and restoration of the Venice Pavilion, the transformation of the Canadian and Indigenous Galleries, and various exhibitions, special projects and research, as well as public programs and outreach. The Foundation contributions will be distributed later in the year.

	Full-Year Target	Actual to June 30	% of Completion
Operating revenue	7,700,000	1,940,000	25%
Sponsorships and contributions	7,062,000	337,000	5%
	14,762,000	2,277,000	15%

Expenditures

The Gallery's operating expenditures for the first quarter were \$14.9 million, compared to \$13.8 million for the same period last year. Higher expenditures, including increased payments for salaries and employee benefits and professional services, reflect the Gallery's efforts to deliver on a number of key projects. Travel costs increases relate primarily to the 2017 Venice Biennale. Publication costs increased by \$0.3 million largely related to the production of the commemorative publication, Art in Canada, and the 2017 Venice Biennale catalogue.

The Collection

The Gallery purchased objects for the Collection valued at \$0.5 million in the period, compared to purchases totalling \$1.3 million in the same period of the prior year. At the end of June, the Gallery had \$2.2 million of deferred contributions available for the purchase of objects for the collection.

Capital

The Gallery invested \$1.7 million in capital assets during the period, compared to \$1.2 million in the same period in the prior year. While the largest capital project in the first quarter was the Canadian and Indigenous galleries transformation, the Gallery also made significant capital investments in the auditorium and lecture hall audiovisual refurbishment, wayfinding, and web redevelopment projects. The Gallery has funded the Canadian and Indigenous Gallery project from unrestricted net assets and through a Board approved external restriction of appropriations. At the end of June, the Gallery had \$6.8 million of deferred contributions available for the purchase of capital assets.

Outlook

As was the case in 2016-17, in 2017-18, the Gallery is forecasting an operating deficit equivalent to the capital and operating investment associated with the completion of the transformation of the Canadian and Indigenous Galleries. Expenses related to this project are funded through unrestricted net assets, Board approved reallocation of appropriations from operating budgets to capital budgets, and contributions from the NGC Foundation and other sources. The costs associated with this project are both capital and operating in nature.

Canada's celebration of the visual arts during 2017 also includes the National Gallery's presentation of Geoffrey Farmer at the Venice Biennale. In addition, after a lengthy design and negotiation process, involving multiple stakeholders in both Canada and Italy, a plan has been finalized for a complete restoration and renewal of the Canada pavilion building and the surrounding gardens in Venice. This work will take place between January 2017 and May 2018. Both the Venice Biennale and the pavilion restoration will be supported by the National Gallery of Canada Foundation.

In 2017, as Canada celebrates 150 years as a nation, the City of Ottawa has planned a variety of events with its community of partners at the local, regional and national levels. The impact of these initiatives has not had as meaningful an impact on attendance at the NGC Ottawa facility as first expected. Second quarter attendance trends at the NGC Ottawa facility indicated that visitor attendance projections will not be met. A revised annual forecast of 380,000, from the original 475,000, visitors to the NGC Ottawa facility will be used for the remainder of the year. Management will continue to monitor the attendance and make necessary budgetary adjustments.

During 2017-18, the Gallery will turn its attention to several key facilities capital projects funded through Budget 2016 Federal Cultural Infrastructure. The Gallery will receive \$8.6 million this fiscal year, having received \$1 million in fiscal 2016-17, for total funding of \$9.6 million over two years. The funding is earmarked to replace windows and skylights in the Main Entrance Pavilion and Colonnade; to refurbish the Main Entrance public elevators; and to rectify a code deficiency along the mezzanine of the Colonnade.

The Gallery tendered the Main Entrance Pavilion and Colonnade project in June 2017, a process that resulted in only one qualified bidder, and a bid price that exceeded the budget. Management has assessed that it is unable to augment the project budget to bridge the variance between the bid price and Budget 2016 funding available. Accordingly, the Gallery will retender the window and roof components of the project, isolating the requirements for each area and requesting separate financial bids for each of the Main Entrance Pavilion and the Colonnade. This will allow the Gallery to award a contract for at least one of these areas. Should the financial bids allow for the completion of both areas, the Gallery will proceed accordingly. It is clear that the most urgent and critical repairs are in the Colonnade, so if the financial bids preclude completing the work in both areas, the Gallery will proceed with only the Colonnade window and roof replacement portion. The Gallery is confident that it can complete the retender process and award a contract with sufficient time for the bidder to complete site measurements and shop drawings before winter snowfall. The project schedule would hold, with construction phase mobilization commencing in January 2018, with a temporary closure of the Gallery to the public between January 8 and 19, 2018, and scheduled completion in November 2018.

The Gallery continues to address life-cycle issues at its aging Ottawa facility, and was the grateful beneficiary of additional Parliamentary funding of \$8.8 million over 5 years to complete thirty-five health and safety-related projects. This funding relieves significant pressure on the long-term capital plan; however, 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 review its Long Term Capital Plan and will prioritize available resources to ensure that the most pressing projects are completed.

Through Federal Budget 2016, the Canada Science and Technology Museum Corporation (CSTMC) received \$156.4 million over three years to support the construction of a new collection and conservation centre (CCC) to preserve and protect priceless Canadian heritage artifacts, including overflow of the Collections from the National Gallery of Canada and Canadian Conservation Institute. In December 2016, the Gallery was advised that the CCC cannot be completed as first specified as the cost estimates have come in much higher than anticipated, due to a broader functional program, unforeseen site works and elevated mechanical costs. The CSTMC has proposed a reduced building size, and a modular design that would facilitate expansion in a phased approach to meet the full needs of all three institutions in the medium to long term. The Gallery will work closely with CSTMC over the coming year to develop phase 2 of the CCC. The first phase, set to be completed in late fall 2018, will continue to accommodate the immediate storage needs of the Gallery, for large 3D art storage, totaling 1,300 square meters. The project site mobilization is underway, and the Gallery is collaborating on the schematic layout review of design drawings. Once a final design is approved, the Gallery will begin its work to estimate the cost of fit-up requirements for the space allocated to it and to secure a source of funds. Until the facility comes on line, the Gallery will require temporary storage to meet the requirements of a collecting institution and ensure that the assets are appropriately safeguarded.

The Gallery was pleased with the Government of Canada's decision to maintain its current level of operating funding in 2017-18, however we are still affected by past funding reductions and cost-containment measures, including the operating funding freeze announced for 2014-2015 and 2015-2016. These measures, along with increasing costs to operate the corporation's buildings, have resulted in a fiscal environment that remains challenging. The Gallery's largest expense is employee salary and benefits, and negotiated salary increases are funded through reallocation. The Gallery successfully concluded the negotiation of a collective agreement with the Public Service Alliance of Canada during the first quarter of fiscal 2017-18. The two year agreement came into force July 1, 2017. The collective agreement with the Professional Institute of the Public Service of Canada will expire at the end of September 2017.

During 2017-18, the Gallery will continue to face escalating non-discretionary costs associated with operating and maintaining its facilities and ensuring the protection of the collection, particularly with contracts that are linked to Ontario minimum wage. With stable Parliamentary funding for operating costs, inflationary increases for salaries, utilities and protection services must be funded either by internal reallocation or by revenue growth. In the absence of relief from Government, the Gallery continues to explore and invest in targeted initiatives designed to expand and diversify self-generated revenues, sponsorships, and contributions.