

Financial statements

Art Gallery of Nova Scotia

March 31, 2017



Building a better
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Management's report

The financial statements have been prepared by management of the **Art Gallery of Nova Scotia** in accordance with Canadian public sector accounting standards and the integrity and objectivity of these financial statements are management's responsibility. Management is also responsible for all of the notes to the financial statements, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Governors [the "Board"] is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews internal financial statements regularly and external audited financial statements yearly.

The external auditors, Ernst & Young LLP, conduct an independent examination, in accordance with Canadian generally accepted auditing standards, and express their opinion on the financial statements. The external auditors have full and free access to financial management of the Art Gallery of Nova Scotia and meet when required.

On behalf of the Art Gallery of Nova Scotia:

Nancy Noble
Director and CEO

Steve Emberly
Chief Financial Officer (Acting)

June 23, 2017

Independent auditors' report

To the Governors and Members of the
Art Gallery of Nova Scotia

We have audited the accompanying financial statements of the **Art Gallery of Nova Scotia** [the "Gallery"], which comprise the statement of financial position as at March 31, 2017 and the statements of operations and accumulated surplus, remeasurement gains and losses, changes in net financial assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

The Gallery derives revenue from donation receipts, special events, corporate campaigns, admissions and other income, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Gallery. Therefore, we were not able to determine whether any adjustments might be necessary to revenue, annual surplus, accumulated operating surplus, and cash flows from operations for the year ended March 31, 2017, current assets and net assets as at March 31, 2017.



Qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements, present fairly, in all material respects, the financial position of the Gallery as at March 31, 2017, and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Ernst & Young LLP

Halifax, Canada
June 23, 2017

Chartered Professional Accountants
Licensed Public Accountants

Art Gallery of Nova Scotia

Statement of financial position

As at March 31

	2017	2016
	\$	\$
Financial assets		
Cash	380,106	534,222
Accounts receivable	234,866	303,691
Inventory for resale	44,184	51,824
Investments – endowment <i>[notes 4 and 7]</i>	4,166,756	3,588,164
	<u>4,825,912</u>	<u>4,477,901</u>
Financial liabilities		
Accounts payable and accrued liabilities	406,976	424,728
Deferred revenue	373,347	369,381
	<u>780,323</u>	<u>794,109</u>
Net financial assets	<u>4,045,590</u>	3,683,792
Non-financial assets		
Tangible capital assets, net <i>[note 5]</i>	85,867	93,391
Prepaid expenses	37,696	31,103
Other assets	16,414	16,340
	<u>139,977</u>	140,834
Accumulated surplus <i>[note 6]</i>	<u>4,185,567</u>	3,824,626
Accumulated surplus is comprised of:		
Accumulated operating surplus	3,896,764	3,830,080
Accumulated remeasurement gains (losses)	288,803	(5,454)
	<u>4,185,567</u>	<u>3,824,626</u>

See accompanying notes

On behalf of the Board:

Governor

Governor

Art Gallery of Nova Scotia

Statement of operations and accumulated surplus

Year ended March 31

	2017	2017	2016
	\$	\$	\$
	[budget]	[actual]	[actual]
Revenue [schedule 1]			
Operating [note 3]	3,166,445	2,915,140	2,916,441
Programming	464,686	366,294	564,491
Gallery shop	162,500	114,253	146,135
Other revenue [notes 7 and 8]	45,000	163,665	1,042,329
	3,838,631	3,559,352	4,669,396
Expenditures [schedule 2]			
Salaries and benefits	2,227,907	2,085,453	1,977,746
Programming	590,617	449,713	648,198
Administration [notes 7 and 8]	337,460	448,650	355,829
Development and marketing	290,900	155,991	273,045
Acquisitions [note 8]	—	3,225	251,869
Western branch	152,643	157,546	223,637
Gallery shop	142,365	143,516	146,321
Building operations	19,800	13,386	11,682
	3,761,692	3,457,480	3,888,327
	76,939	101,872	781,069
Amortization of tangible capital assets	76,300	35,188	32,813
Annual surplus	639	66,684	748,256
Accumulated operating surplus, beginning of year	3,830,080	3,830,080	3,081,824
Accumulated operating surplus, end of year	3,830,719	3,896,764	3,830,080

See accompanying notes

Art Gallery of Nova Scotia

Statement of remeasurement gains and losses

As at March 31

	2017	2016
	\$	\$
Accumulated remeasurement (losses) gains, beginning of year	<u>(5,454)</u>	696,656
Unrealized gains (losses) attributable to investments	301,219	(121,434)
Capital gain reclassified to statement of operations	<u>(6,962)</u>	(580,676)
Net remeasurement gains (losses) for the year	294,257	(702,110)
Accumulated remeasurement gains (losses), end of year	<u>288,803</u>	<u>(5,454)</u>

See accompanying notes

Art Gallery of Nova Scotia

Statement of changes in net financial assets

Year ended March 31

	2017	2017	2016
	\$	\$	\$
	[budget]	[actual]	[actual]
Annual surplus	639	66,684	748,256
Acquisition of tangible capital assets	(171,301)	(27,664)	(88,671)
Amortization of tangible capital assets	76,300	35,188	32,813
Increase in prepaid expenses	—	(6,593)	(1,467)
(Increase) Decrease in other assets	—	(74)	81,715
	(94,362)	67,541	772,646
Unrealized gains (losses) attributable to investments	—	294,257	(702,110)
Increase in net financial assets	(94,362)	361,798	70,536
Net financial assets, beginning of year	3,683,792	3,683,792	3,613,256
Net financial assets, end of year	3,589,430	4,045,590	3,683,792

See accompanying notes.

Art Gallery of Nova Scotia

Statement of cash flows

Year ended March 31

	2017	2016
	\$	\$
Operating activities		
Annual surplus	66,684	748,256
Add item not affecting cash:		
Amortization of tangible capital assets	35,188	32,813
Decrease in accounts receivable	68,825	(41,505)
Decrease in inventory for resale	7,640	19,327
Decrease in accounts payable and accrued liabilities	(17,752)	62,046
Increase in deferred revenue	3,966	35,053
Decrease (increase) in other assets	(74)	81,715
Decrease (increase) in prepaid expenses	(6,593)	(1,467)
Cash provided by operating activities	157,883	936,238
Capital activity		
Acquisition of tangible capital assets	(27,664)	(88,671)
Cash used in capital activity	(27,664)	(88,671)
Investing activity		
Additions to investments	(284,335)	(762,840)
Cash used in investing activity	(284,335)	(762,840)
Net change in cash during the year	(154,116)	84,727
Cash, beginning of year	534,222	449,495
Cash, end of year	380,106	534,222

See accompanying notes

Art Gallery of Nova Scotia

Notes to financial statements

March 31, 2017

1. Nature of the organization

The Art Gallery of Nova Scotia's ["AGNS" or the "Gallery"] mandate is to preserve the Province's unique visual and cultural history through the acquisition, preservation and exhibition of works of art, and the provision of art education to learners of all ages.

The AGNS is an agency of the Province of Nova Scotia established under the authority of the Art Gallery of Nova Scotia Act. The Gallery is a governmental unit as set out in the consolidated financial statements of the Province and reports to the Legislative Assembly through the Ministry of Communities, Culture and Heritage. As an agency of the Province, the Gallery is exempt from income taxes and is able to issue donation receipts for income tax purposes.

2. Summary of significant accounting policies

These financial statements have been prepared by management by applying the principles of the Chartered Professional Accountants of Canada Public Sector Accounting Standards for other government organizations as defined by the Canadian Public Sector Accounting Board, which sets out generally accepted accounting principles for government organizations.

Cash

Cash consists of bank balances and cash on hand.

Inventory for resale

Inventory is valued at the lower of historical cost and net realizable value.

Investments

Equity securities are valued at their market values. Short-term securities are valued based on cost plus accrued income, which approximates fair value. Transaction costs are recognized in the statements of operations and accumulated surplus in the period during which they are incurred. Investments at fair value are remeasured at their fair value at the end of each reporting period. Any revaluation gains and losses are recognized in the statement of remeasurement gains and losses and are reclassified to the statement of operations and accumulated surplus upon disposal or settlement.

All investment transactions are recorded on a trade date basis.

Art Gallery of Nova Scotia

Notes to financial statements

March 31, 2017

Tangible capital assets

Tangible capital assets are recorded at cost and are depreciated on a straight-line basis at the following annual rates:

Storage vault	30%
Security system	50%
Software	50%
Equipment	30%
Leasehold improvements	10%
Website	25%

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Gallery's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations and accumulated surplus.

Contributed capital assets are recorded into revenues at their fair market value on the date of donation, except in circumstances where fair value cannot be reasonably determined, which are then recognized at nominal value. Transfers of capital assets from related parties are recorded at carrying value.

These financial statements do not include works of art owned by the Province of Nova Scotia. Works of art are not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made.

Prepaid expenses

Prepaid expenses include security contracts and information technology fees and are charged to expense over the period expected to benefit from it.

Other assets

Costs directly related to the development of future temporary exhibitions, future special events and special fundraising campaigns are presented as other assets when the Gallery can reliably demonstrate that there is a future economic benefit associated with these costs. These costs are expensed over the useful life. For temporary exhibitions, this is the period over which the exhibition is held, for future special events, this is the date of the event, and for special fundraising campaigns, this is the period over which pledges are collected. Such costs are expensed immediately when they are related to advertising or promotion and when there is insufficient evidence that the costs are recoverable.

Deferred revenue

Certain amounts are received pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs or in the delivery of specific services and transactions. These amounts are recognized as revenue in the fiscal year the related expenses are incurred, services are performed or when stipulations are met.

Art Gallery of Nova Scotia

Notes to financial statements

March 31, 2017

Revenue recognition

Revenue is recognized in the period in which the transactions or events occurred that gave rise to the revenue. All revenue is recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. Revenue from pledges, donations and life memberships is recognized when the cash is received.

Investment income, which consists of interest, dividends, income distributions from pooled funds, and realized gains and losses, is recorded as revenue in the statements of operations and accumulated surplus. Investment income, which consists of unrealized gains and losses, is recorded in the statement of remeasurement gains and losses.

Other income includes revenue from rent, rental spaces and advertising.

Transfers [revenue from non-exchange transactions] are recognized as revenue when the transfer is authorized, any eligibility criteria are met, and reasonable estimates of the amounts can be made. Transfers are recognized as deferred revenue when amounts have been received but not all stipulations have been met.

Expenditures

Expenditures are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

Measurement uncertainty

The preparation of the financial statements in conformity with Canadian Public Sector Accounting Standards requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of revenue and expenditures during the period.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from those estimates.

Acquisitions

Acquisitions of works of art, including donated works, become the property of the Province of Nova Scotia. Accordingly, acquisitions paid for by the AGNS are expensed in the year acquired. Acquisitions expensed in the current year amounted to \$3,225 [2016 – \$251,889].

Contributed goods and services

Volunteers contributed approximately 13,600 hours during fiscal 2017 to assist the AGNS in carrying out its mandate. Also, the Province of Nova Scotia provides the AGNS with use of its premises at a nominal cost. Because of the difficulty in determining their fair value, contributed goods and services are not recognized in the financial statements.

Art Gallery of Nova Scotia

Notes to financial statements

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Allocation of expenditures

The costs of each function include the costs of personnel and other expenditures that are directly related to the function. General support and other costs are not allocated.

3. Government assistance

During the year, the AGNS received funding from provincial, federal and other agencies as follows:

	2017	2016
	\$	\$
Nova Scotia Department of Communities, Culture and Heritage – operating grant	2,293,325	2,232,000
Canada Council for the Arts	158,000	158,000
Department of Education	60,000	50,000
Arts Nova Scotia	30,000	30,000
Canada Council Visual Arts Acquisition Grant	—	18,075
Canadian Heritage – MAP Grant	—	14,625
Young Canada Works	10,305	8,932
Movable Cultural Property Grant	—	8,346
	2,551,630	2,519,978

During the year, \$2,543,746 of the above funding is recognized in operating, programming and other revenue [2016 – \$2,519,978] and \$7,884 [2015 – \$0] was recorded in deferred revenue.

4. Investments

The investments included in the AGNS's financial statements are comprised of the following:

	2017		2016	
	Cost	Market value	Cost	Market value
	\$	\$	\$	\$
Common equity	2,334,266	2,602,254	2,342,023	2,302,948
Short-term notes	300,141	300,141	4,709	4,709
Bonds and debentures	1,243,546	1,264,361	1,246,886	1,280,507
	3,877,953	4,166,756	3,593,618	3,588,164

Art Gallery of Nova Scotia

Notes to financial statements

March 31, 2017

5. Tangible capital assets

	2017 \$	2016 \$
Storage vault	152,330	152,330
Security system	21,593	21,593
Software	61,968	34,305
Equipment	14,114	14,114
Leasehold improvements	85,718	85,718
Website	39,330	39,330
POS System	19,146	19,146
	<u>394,200</u>	<u>366,536</u>
Less: accumulated depreciation	308,338	273,145
	<u>85,862</u>	<u>93,391</u>

6. Accumulated surplus

	2017 \$	2016 \$
Accumulated surplus, beginning of year	3,824,626	3,778,480
Annual surplus	66,684	748,256
Unrealized gains attributable to investments	294,257	(702,110)
Accumulated surplus, end of year	<u>4,185,567</u>	<u>3,824,626</u>

7. Endowment fund

The Endowment Fund consists of amounts that have been endowed by the donor and/or the Board of Governors of the AGNS. These funds are managed by a professional fund manager. The Finance and Audit Committee is responsible for monitoring the fund on behalf of the Board of Governors. It is the Gallery's intent that the Fund's capital be preserved and managed in a manner that ensures future resources will be available for the Gallery's requirements.

The AGNS recognizes the importance of developing and maintaining its Endowment Fund to further the objectives of the organization and realize certain strategic priorities such as:

- [a] enhance exhibitions and public programming;
- [b] increase visitation and membership;
- [c] continue to stabilize operational and program funding; and
- [d] enhance collection through acquisitions.

Art Gallery of Nova Scotia

Notes to financial statements

March 31, 2017

The funds which will be placed in the Endowment Fund will be:

- [a] donations designated as such by the donor; and
- [b] any funds specifically designated by the Board of Governors.

Revenues and expenditures related to the activities of the Endowment Fund are recorded on the statement of operations and accumulated surplus in "other revenue" and "administration", respectively.

	2017 \$	2016 \$
Endowment revenue	158,802	812,465
Less: endowment administration expenditures	(36,333)	(34,499)
Excess of revenue over expenditures for the year	122,469	777,966
Surplus, beginning of the year	4,048,434	4,063,967
Excess of revenue over expenditures for the year	122,469	777,966
Unrealized gains attributable to investments	294,257	(702,110)
Contributions to Acquisition Fund	(12,841)	(11,389)
Contributions to Gallery Fund	(100,000)	(80,000)
Surplus, end of the year	4,352,319	4,048,434

Included within the surplus balance noted above are restricted contributions in the amount of \$950,022 [2016 – \$839,646].

8. Acquisition fund

The purpose of the AGNS Acquisition Fund is to acquire, by gift or purchase, works of art for the Provincial Collection and to cover costs associated with acquiring these works.

Revenues related to acquisition activities are recorded on the statement of operations and accumulated surplus in "other revenue". Expenditures related to acquisition activities are recorded on the statement of operations and accumulated surplus in "administration" and "acquisitions".

	2017 \$	2016 \$
Acquisition revenue	4,863	229,864
Less: administration expenditures	(22,764)	(26,706)
Less: acquisitions	(3,225)	(251,869)
Deficiency of revenue over expenditures for the year	(21,126)	(48,711)
Surplus, beginning of the year	36,507	73,829
Deficiency of revenue over expenditures for the year	(21,126)	(48,711)
Contributions from Endowment Fund	12,841	11,389
Surplus, end of the year	28,222	36,507

Art Gallery of Nova Scotia

Notes to financial statements

March 31, 2017

9. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the AGNS Board of Governors.

10. Financial instruments

Financial instruments are defined as contractual rights to receive or deliver cash or another financial asset. Financial assets measured at amortized cost include accounts receivable and investments. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Risk management

The AGNS is exposed to various risks through transactions in financial instruments. The following provides helpful information in assessing the extent of the AGNS's exposure to these risks.

Credit risk

The AGNS is an agency of the Province of Nova Scotia that is subject to credit risk through its accounts receivable, which consist primarily of revenue from its members and donors who operate in various industries. An appropriate allowance is established for doubtful accounts based on the factors surrounding the credit risk of specific government or members, historical trends and other information.

Liquidity risk

Liquidity risk is the risk that the AGNS will encounter difficulty in meeting obligations associated with financial liabilities. The AGNS is exposed to this risk mainly in respect to its accounts payable and accrued liabilities. Given the AGNS's currently available liquid resources, from both financial assets and on-going operations, as compared to its contractual obligations, management assesses the AGNS's liquidity risk to be low.

Market, foreign currency and interest rate price risks

The AGNS is subject to market, foreign currency and interest rate price risks with respect to its investment portfolio. To manage these risks, the AGNS has established a target mix of investment types designed to achieve the optimal return within reasonable risk tolerances.

Capital management

In managing capital, the AGNS focuses on liquid resources available for operations. The AGNS's objective is to have sufficient liquid resources to continue operating despite events with adverse financial consequences and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at March 31, 2017, the AGNS has met its objective of having sufficient liquid resources to meet its current obligations.

Art Gallery of Nova Scotia

Notes to financial statements

March 31, 2017

11. Contingencies

From time to time, the AGNS may incur costs related to a piece of art that was damaged while on loan to the Gallery. Discussions are currently ongoing between the AGNS and an artist in this regard. At this time, the outcome of these discussions cannot be determined. Management believes that any claim against the Gallery will be fully recovered from the Province of Nova Scotia under the province's insurance. Accordingly, the AGNS has not recorded a liability related to this matter in these financial statements.

12. Comparative figures

Certain comparative figures have been reclassified to conform with current year financial statement presentation.

Schedule of revenue

Year ended March 31

	2017	2016
	\$	\$
Operating		
Nova Scotia Department of Communities, Culture and Heritage – operating grant <i>[note 3]</i>	2,285,441	2,305,884
Donations	231,398	70,295
Admission	111,960	94,386
Sponsorships	103,160	173,044
Rental recoveries	73,876	48,819
Memberships	49,231	50,465
Special events	43,207	134,424
Others	16,867	39,124
	2,915,140	2,916,441
Programming		
Exhibitions	185,514	385,546
Education and outreach	180,780	178,945
	366,294	564,491
Gallery Shop		
Art and craft sales	107,213	121,506
Wholesale	7,040	24,629
	114,253	146,135
Other revenue		
Endowment fund	158,802	812,465
Acquisition fund	4,863	229,864
	163,665	1,042,329

See accompanying notes

Schedule of expenditures

Year ended March 31

	2017	2016
	\$	\$
Salaries and benefits		
Salaries and employee benefits	2,085,453	1,977,746
Programming		
Exhibitions	198,555	382,963
Collection management	140,816	143,657
Education	87,641	90,097
Others	22,701	31,481
	449,713	648,198
Administration		
Capital campaign	113,690	73,883
Technology	48,857	28,767
Trustee fees	31,333	29,499
Professional fees	126,207	82,850
Stationery and postage	25,872	28,338
Memberships	21,150	6,788
Bank charges	18,193	15,265
Telephone	15,790	20,309
Travel	12,575	30,353
Bad debts	8,160	4,895
Appraisal fees	7,428	20,069
Equipment rental	7,870	9,813
Leasehold Inducements	6,525	-
Designated gallery expenses	5,000	5,000
	448,650	355,829
Communications and marketing		
Development/public relations	130,559	214,601
Special events	25,432	58,444
	155,991	273,045
Acquisitions	3,225	251,869
Western branch		
Salaries and benefits	134,554	140,907
Building operations	10,906	74,857
Programming	8,418	4,932
Others	3,668	2,941
	157,546	223,637
Gallery shop	143,516	146,321
Building operations		
Building maintenance and cleaning	6,656	3,936
Security	5,839	6,533
Insurance	891	1,213
	13,386	11,682

See accompanying notes

