

Art Gallery of Nova Scotia

Financial statements
March 31, 2018



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 Ernst & Young LLP and management meet when required.

On behalf of the Art Gallery of Nova Scotia:



Nancy Noble
Director and CEO



Steve Emberly
Interim Chief Financial Officer

June 5, 2018



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, 2018, 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 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, 2018, or current assets and net assets as at March 31, 2018.



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 **Art Gallery of Nova Scotia** as at March 31, 2018, 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 5, 2018

Chartered Professional Accountants
Licensed Public Accountants



Art Gallery of Nova Scotia

Statement of financial position

As at March 31

	2018	2017
	\$	\$
Financial assets		
Cash <i>[note 13]</i>	607,153	380,106
Accounts receivable	166,030	234,866
Inventory for resale	128,283	44,184
Investments – endowment <i>[notes 4, 7 and 13]</i>	3,827,925	4,166,756
	<u>4,729,391</u>	<u>4,825,912</u>
Financial liabilities		
Accounts payable and accrued liabilities	319,106	406,976
Deferred revenue	339,768	373,347
	<u>658,874</u>	<u>780,323</u>
Net financial assets	<u>4,070,517</u>	4,045,590
Non-financial assets		
Tangible capital assets, net <i>[note 5]</i>	50,610	85,867
Prepaid expenses	14,529	37,696
Other assets	16,861	16,414
	<u>82,000</u>	139,977
Accumulated surplus <i>[note 6]</i>	<u>4,152,517</u>	4,185,567
Accumulated surplus is comprised of:		
Accumulated operating surplus	3,951,484	3,896,764
Accumulated remeasurement gains	201,033	288,803
	<u>4,152,517</u>	<u>4,185,567</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

	2018	2018	2017
	\$	\$	\$
	<i>[budget – unaudited]</i>	<i>[actual]</i>	<i>[actual]</i>
Revenue <i>[schedule 1]</i>			
Operating <i>[note 3]</i>	3,159,291	2,914,433	2,915,140
Programming <i>[note 3]</i>	436,784	369,710	366,294
Gallery shop	261,000	539,822	114,253
Other revenue <i>[notes 3, 7 and 8]</i>	66,800	122,208	163,665
	<u>3,923,875</u>	<u>3,946,173</u>	<u>3,559,352</u>
Expenditures <i>[schedule 2]</i>			
Salaries and benefits	2,264,071	2,244,112	2,085,453
Programming	666,920	485,731	449,713
Administration <i>[notes 7 and 8]</i>	325,421	333,153	448,650
Development and marketing	198,000	211,314	155,992
Acquisitions <i>[note 8]</i>	29,709	12,752	3,225
Western branch	133,849	148,822	157,546
Gallery shop	221,593	395,524	143,516
Building operations	17,100	14,557	13,386
	<u>3,856,663</u>	<u>3,845,965</u>	<u>3,457,481</u>
	67,212	100,208	101,871
Amortization of tangible capital assets	67,212	45,487	35,188
Annual surplus	—	54,721	66,683
Accumulated operating surplus, beginning of year	3,896,763	3,896,763	3,830,080
Accumulated operating surplus, end of year	<u>3,896,763</u>	<u>3,951,484</u>	<u>3,896,763</u>

See accompanying notes

Art Gallery of Nova Scotia

Statement of remeasurement gains

As at March 31

	2018	2017
	\$	\$
Accumulated remeasurement gains (losses), beginning of year	288,803	(5,453)
Unrealized (losses) gains attributable to investments	(83,634)	301,218
Capital gain reclassified to statement of operations	(4,136)	(6,962)
Net remeasurement (losses) gains for the year	(87,770)	294,256
Accumulated remeasurement gains, end of year	201,033	288,803

See accompanying notes

Art Gallery of Nova Scotia

Statement of changes in net financial assets

Year ended March 31

	2018	2018	2017
	\$	\$	\$
	<i>[budget – unaudited]</i>	<i>[actual]</i>	<i>[actual]</i>
Annual surplus	—	54,721	66,683
Acquisition of tangible capital assets	(35,000)	(10,230)	(27,664)
Amortization of tangible capital assets	67,212	45,487	35,188
Decrease (increase) in prepaid expenses	—	23,166	(6,593)
Increase in other assets	—	(447)	(74)
	32,212	112,697	67,540
Unrealized gains (losses) attributable to investments	—	(87,770)	294,256
Increase in net financial assets	32,212	24,927	361,796
Net financial assets, beginning of year	4,045,590	4,045,590	3,683,794
Net financial assets, end of year	4,077,802	4,070,517	4,045,590

See accompanying notes.

Art Gallery of Nova Scotia

Statement of cash flows

Year ended March 31

	2018	2017
	\$	\$
Operating activities		
Annual surplus	54,721	66,683
Add item not affecting cash		
Amortization of tangible capital assets	45,487	35,188
Decrease in accounts receivable	68,837	68,825
(Increase) decrease in inventory for resale	(84,099)	7,640
Decrease in accounts payable and accrued liabilities	(87,870)	(17,752)
(Decrease) increase in deferred revenue	(33,579)	3,966
Increase in other assets	(447)	(74)
Decrease (increase) in prepaid expenses	23,166	(6,593)
Cash (used in) provided by operating activities	(13,784)	157,883
Capital activities		
Acquisition of tangible capital assets	(10,230)	(27,664)
Cash used in capital activities	(10,230)	(27,664)
Investing activities		
Additions to investments	251,061	(284,335)
Cash provided by (used in) investing activities	251,061	(284,335)
Net increase (decrease) in cash during the year	227,047	(154,116)
Cash, beginning of year	380,106	534,222
Cash, end of year	607,153	380,106

See accompanying notes

Art Gallery of Nova Scotia

Notes to financial statements

March 31, 2018

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 statement 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 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, 2018

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, in which case they 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.

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Notes to financial statements

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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 statement of operations and accumulated surplus. Investment income, which consists of unrealized gains and losses, is recorded in the statement of remeasurement gains.

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 \$12,752 [2017 – \$3,225].

Contributed goods and services

Volunteers contributed approximately 13,200 hours during fiscal 2018 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.

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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:

	2018 \$	2017 \$
Nova Scotia Department of Communities, Culture and Heritage – operating grant	2,109,655	2,293,325
Canada Council for the Arts	158,000	158,000
Department of Education	60,000	60,000
Arts Nova Scotia	30,000	30,000
Canadian Heritage – MAP Grant	15,750	—
Young Canada Works	6,277	10,305
	2,379,682	2,551,630

During the year, \$2,363,932 of the above funding is recognized in operating, programming and other revenue [2017 – \$2,543,746], and \$15,750 [2017 – \$7,884] was recorded in deferred revenue.

4. Investments

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

	2018		2017	
	Cost \$	Market value \$	Cost \$	Market value \$
Common equity	2,352,630	2,550,751	2,334,266	2,602,351
Short-term notes	—	—	300,141	300,141
Bonds and debentures	1,274,261	1,277,174	1,243,546	1,264,264
	3,626,891	3,827,925	3,877,953	4,166,756

Art Gallery of Nova Scotia

Notes to financial statements

March 31, 2018

5. Tangible capital assets

	2018	2017
	\$	\$
Storage vault	152,330	152,330
Security system	21,593	21,593
Software	61,968	61,968
Equipment	24,345	14,115
Leasehold improvements	85,718	85,718
Website	39,330	39,330
POS system	19,146	19,146
	<u>404,430</u>	<u>394,200</u>
Less accumulated depreciation	353,820	308,338
	<u>50,610</u>	<u>85,862</u>

6. Accumulated surplus

	2018	2017
	\$	\$
Accumulated surplus, beginning of year	4,185,566	3,824,625
Annual surplus	54,721	66,684
Unrealized (losses) gains attributable to investments	(87,770)	294,257
Accumulated surplus, end of year	<u>4,152,517</u>	<u>4,185,566</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.

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March 31, 2018

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.

	2018 \$	2017 \$
Endowment revenue	102,107	158,802
Less endowment administration expenditures	(36,520)	(36,333)
Excess of revenue over expenditures for the year	65,587	122,469
Surplus, beginning of the year	4,352,319	4,048,434
Excess of revenue over expenditures for the year	65,587	122,469
Unrealized (losses) gains attributable to investments	(87,770)	294,257
Contributions to Acquisition Fund	(11,619)	(12,841)
Contributions to Gallery Fund	(100,000)	(100,000)
Surplus, end of the year	4,218,517	4,352,319

Included within the surplus balance noted above are restricted contributions in the amount of \$927,188 [2017 – \$950,022].

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".

	2018 \$	2017 \$
Acquisition revenue	20,101	4,863
Less administration expenditures	(23,727)	(22,764)
Less acquisitions	(12,752)	(3,225)
Deficiency of revenue over expenditures for the year	(16,378)	(21,126)
Surplus, beginning of the year	28,222	36,507
Deficiency of revenue over expenditures for the year	(16,378)	(21,126)
Contributions from Endowment Fund	11,619	12,841
Surplus, end of the year	23,463	28,222

Notes to financial statements

March 31, 2018

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, 2018, the AGNS has met its objective of having sufficient liquid resources to meet its current obligations.

Notes to financial statements

March 31, 2018

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. Accordingly, the AGNS has not recorded a liability related to this matter in these financial statements. Management believes that any claim against the Gallery will be fully recovered from the Province of Nova Scotia under the Province's insurance.

12. Comparative figures

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

13. Subsequent Events

On March 17, 2018, a one year GIC in the amount of \$303,000 held with Scotiabank in the Endowment Fund matured (\$300,000 plus \$3,000 accrued interest). On March 20, 2018, \$100,000 was authorized by the Board of Governors to be transferred to operations. Subsequent to year end, the remaining \$203,000 was authorized and issued for reinvestment with the investment fund manager of the Endowment Fund.

Schedule of revenue

Year ended March 31

	2018	2017
	\$	\$
Operating		
Nova Scotia Department of Communities, Culture and Heritage – operating grant <i>[note 3]</i>	2,109,655	2,285,441
Donations	169,324	231,398
Admission	284,148	111,960
Sponsorships	144,750	103,160
Rental recoveries	70,142	73,876
Memberships	51,831	49,231
Special events	57,655	43,207
Others	26,928	16,867
	<u>2,914,433</u>	<u>2,915,140</u>
Programming		
Exhibitions	158,000	185,514
Education and outreach	211,710	180,780
	<u>369,710</u>	<u>366,294</u>
Gallery shop		
Art and craft sales	200,453	107,213
Wholesale	339,369	7,040
	<u>539,822</u>	<u>114,253</u>
Other revenue		
Endowment fund	102,107	158,802
Acquisition fund	20,101	4,863
	<u>122,208</u>	<u>163,665</u>

See accompanying notes

Schedule of expenditures

Year ended March 31

	2018	2017
	\$	\$
Salaries and benefits		
Salaries and employee benefits	2,244,112	2,085,453
Programming		
Exhibitions	195,009	198,555
Collection management	108,846	140,816
Education	143,519	87,641
Others	38,357	22,701
	<u>485,731</u>	<u>449,713</u>
Administration		
Capital campaign	4,683	113,690
Technology	79,593	48,857
Trustee fees	31,521	31,333
Professional fees	41,294	126,207
Stationery and postage	31,858	25,872
Memberships	16,370	21,150
Bank charges	32,261	18,193
Telephone	14,045	15,790
Travel	21,466	12,575
Bad debts	21,526	8,160
Appraisal fees	18,157	7,428
Equipment rental	8,854	7,870
Leasehold inducements	6,525	6,525
Designated gallery expenses	5,000	5,000
	<u>333,153</u>	<u>448,650</u>
Development and marketing		
Marketing	93,661	84,493
Development	117,653	71,499
	<u>211,314</u>	<u>155,992</u>
Acquisitions		
Acquisitions	12,752	3,225
Western branch		
Salaries and benefits	124,642	134,554
Building operations	5,744	10,906
Programming	2,581	8,418
Others	15,855	3,668
	<u>148,822</u>	<u>157,546</u>
Gallery shop		
Gallery shop	395,524	143,516
Building operations		
Building maintenance and cleaning	9,673	6,656
Security	4,187	5,839
Insurance	697	891
	<u>14,557</u>	<u>13,386</u>

See accompanying notes