

Financial statements

**The George R. Gardiner
Museum of Ceramic Art**
December 31, 2017



Independent auditors' report

To the Trustees of
The George R. Gardiner Museum of Ceramic Art

We have audited the accompanying financial statements of **The George R. Gardiner Museum of Ceramic Art**, which comprise the statement of financial position as at December 31, 2017, and the statements of operations, changes in net 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 accounting standards for not-for-profit organizations, 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **The George R. Gardiner Museum of Ceramic Art** as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
June 14, 2018



The George R. Gardiner Museum of Ceramic Art

Statement of financial position

As at December 31

	2017 \$	2016 \$
Assets		
Current		
Cash and cash equivalents	810,789	917,348
Accounts receivable	272,142	169,670
Inventory	117,149	119,467
Prepaid expenses	110,194	89,834
Total current assets	1,310,274	1,296,319
Long-term		
Investments <i>[note 3[a]]</i>	27,246,184	26,284,543
Capital assets, net <i>[note 4]</i>	13,706,658	13,891,353
Total long-term assets	40,952,842	40,175,896
	42,263,116	41,472,215
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities	217,937	212,044
Deferred revenue	129,393	157,004
Deferred contributions <i>[note 5]</i>	564,668	577,443
Total current liabilities	911,998	946,491
Long-term		
Deferred capital contributions <i>[note 6]</i>	11,823,222	11,814,062
Total liabilities	12,735,220	12,760,553
Net assets		
Unrestricted	—	—
Endowment <i>[note 9]</i>	29,527,896	28,711,662
Total net assets	29,527,896	28,711,662
	42,263,116	41,472,215

See accompanying notes



The George R. Gardiner Museum of Ceramic Art

Statement of operations

Year ended December 31

	2017		2016	
	General operations	Other	Total	Total
	\$	\$	\$	\$
Revenue				
Fundraising <i>[note 11]</i>	1,142,697	50,035	1,192,732	1,184,185
Government grants <i>[note 7]</i>	550,444	58,618	609,062	667,697
Education	511,993	—	511,993	464,883
Facility rental <i>[note 14]</i>	444,084	—	444,084	386,361
Museum shop	324,244	—	324,244	364,551
Admissions	163,816	—	163,816	146,018
Investment income, net <i>[notes 3[b]</i> <i>and 9[b]]</i>	862,000	802,678	1,664,678	2,297,058
Amortization of deferred capital contributions <i>[note 6]</i>	—	418,086	418,086	461,596
Other income <i>[note 14]</i>	8,031	—	8,031	78,836
	4,007,309	1,329,417	5,336,726	6,051,185
Expenses				
Facilities <i>[note 14]</i>	878,886	—	878,886	864,861
Administration	766,552	—	766,552	793,016
Curatorial <i>[note 10]</i>	706,220	108,653	814,873	673,593
Marketing and publicity	411,673	—	411,673	404,687
Annual fundraising	413,135	—	413,135	563,754
Education	500,715	—	500,715	420,778
Museum shop and commercial <i>[note 8]</i>	327,653	—	327,653	326,596
Amortization of capital assets	—	636,649	636,649	598,207
	4,004,834	745,302	4,750,136	4,645,492
Excess of revenue over expenses for the year	2,475	584,115	586,590	1,405,693

See accompanying notes

The George R. Gardiner Museum of Ceramic Art

Statement of changes in net assets

Year ended December 31

	2017			2016		
	Unrestricted \$	Endowment \$	Total \$	Unrestricted \$	Endowment \$	Total \$
		<i>[note 9]</i>		<i>[note 9]</i>		
Net assets, beginning of year	—	28,711,662	28,711,662	—	27,176,842	27,176,842
Excess of revenue over expenses for the year	586,590	—	586,590	1,405,693	—	1,405,693
Endowment contributions	—	161,265	161,265	—	15,000	15,000
Investment income in excess of amount made available for spending <i>[note 9[b]]</i>	—	68,379	68,379	—	114,127	114,127
Interfund transfers <i>[note 9[c]]</i>	(586,590)	586,590	—	(1,405,693)	1,405,693	—
Net assets, end of year	—	29,527,896	29,527,896	—	28,711,662	28,711,662

See accompanying notes

The George R. Gardiner Museum of Ceramic Art

Statement of cash flows

Year ended December 31

	2017	2016
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	586,590	1,405,693
Add (deduct) items not involving cash		
Amortization of capital assets	636,649	598,207
Amortization of deferred capital contributions	(418,086)	(461,596)
Investment income reinvested, net of management fees	(1,664,678)	(2,297,058)
	(859,525)	(754,754)
Net change in non-cash working capital balances related to operations	(78,563)	36,543
Cash used in operating activities	(938,088)	(718,211)
Investing activities		
Withdrawals from externally managed investments	771,416	1,025,120
Purchase of capital assets	(451,954)	(499,125)
Cash provided by investing activities	319,462	525,995
Financing activities		
Contributions restricted for capital purposes	350,802	203,478
Endowment contributions	161,265	15,000
Cash provided by financing activities	512,067	218,478
Net increase (decrease) in cash during the year	(106,559)	26,262
Cash and cash equivalents, beginning of year	917,348	891,086
Cash and cash equivalents, end of year	810,789	917,348

See accompanying notes

The George R. Gardiner Museum of Ceramic Art

Notes to financial statements

December 31, 2017

1. General

The George R. Gardiner Museum of Ceramic Art [the "Museum"] was incorporated under the *Gardiner Museum Act* passed in 1981 by the Ontario Legislature.

The purpose of the Museum is to:

- [a] collect, conserve, lend and exhibit to the public works of ceramic, decorative and fine art and materials associated with civilizations producing art;
- [b] promote research, education and public interest in the origin, history, development, techniques and appreciation of ceramic, decorative and fine art; and
- [c] provide facilities and services for the purposes referred to above.

The Museum is a registered charity under the *Income Tax Act* (Canada) and, as such, 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 are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, "Accounting Standards for Not-for-Profit Organizations", which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

Revenue recognition

The Museum follows the deferral method of accounting for contributions, which include grants, bequests and other donations. Grants and bequests are recognized in the accounts when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received, since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized. Endowment contributions are recognized as a direct increase in net assets when initially recorded in the accounts.

Sales and service revenue is recognized when goods are delivered and services rendered.

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds, and realized gains and losses on all investments and unrealized gains and losses on investments recorded at fair value, is recorded as investment income (loss) in the statement of operations, except where it is externally restricted, in which case it is added to or deducted from endowment net assets or other restricted balances.

Financial instruments

Investments reported at fair value consist of equity instruments that are quoted in an active market, investments in pooled funds, as well as any investments in fixed income securities that the Museum designates upon purchase to be measured at fair value. Transaction costs are recognized in the statement of operations in the period during which they are incurred.

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Notes to financial statements

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Investments in fixed income securities not designated to be measured at fair value are initially recorded at fair value net of transaction costs and are subsequently measured at amortized cost using the straight-line method, less any provision for impairment.

Other financial instruments, including accounts receivable and accounts payable, are initially recorded at their fair value and are subsequently measured at amortized cost, net of any provisions for impairment.

Cash and cash equivalents

Cash and cash equivalents consist of cash deposits and short-term investments with original terms to maturity of 90 days or less. Cash and investments meeting the definition of cash and cash equivalents that are held for investing rather than liquidity purposes are classified as long-term investments.

Inventory

Inventory is valued at the lower of cost, determined on a weighted average basis, and net realizable value.

Collections

The cost of ceramics and other collection items are expensed. The value of donated collection items is not included in the statement of operations.

Capital assets

Purchased capital assets are stated at acquisition cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Tangible

Land-use costs	term of lease
Building and building improvements	10 – 40 years
Exhibit cases, furniture and other equipment	3 – 10 years

Intangible

Website costs	3 – 5 years
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Contributed materials and services

Contributed materials and services are not recognized in the financial statements.

Segmented information

The statement of operations separates transactions between general operations and other. Other includes the difference between net investment income (loss) less investment fees recorded in the statement of operations and the amount made available for general operations approved by the Board of Trustees [the "Board"], amortization of capital assets and deferred capital contributions, and certain unusual revenue and expenses.

All other revenue and expenses of the Museum are recorded in general operations in the statement of operations.

The George R. Gardiner Museum of Ceramic Art

Notes to financial statements

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Allocation of expenses

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

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenue and expenses, and disclosure of contingent assets and liabilities. Areas requiring the use of management's estimates include the estimated useful lives of capital assets. Actual results could differ from those estimates.

3. Investments

[a] Investments recorded at fair value consist of the following:

	2017 \$	2016 \$
Cash	144,059	140,683
Units in pooled funds		
Canadian bonds	7,251,399	7,280,967
Canadian equities	4,719,482	4,592,844
Foreign equities	15,131,244	14,270,049
	27,246,184	26,284,543

[b] Investment income is net of investment management fees of \$134,756 [2016 – \$128,458].

The George R. Gardiner Museum of Ceramic Art

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4. Capital assets

Capital assets consist of the following:

	2017		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Tangible			
Land-use costs	550,000	192,500	357,500
Building and building improvements	18,220,551	5,045,189	13,175,362
Exhibit cases, furniture and other equipment	1,270,817	1,173,501	97,316
	20,041,368	6,411,190	13,630,178
Intangible			
Website costs	114,720	38,240	76,480
	20,156,088	5,449,430	13,706,658
	2016		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Tangible			
Land-use costs	550,000	187,000	363,000
Building and building improvements	17,831,599	4,477,672	13,353,927
Exhibit cases, furniture and other equipment	1,207,815	1,148,109	59,706
	19,589,414	5,812,781	13,776,633
Intangible			
Website costs	114,720	—	114,720
	19,704,134	5,812,781	13,891,353

Exhibit cases, furniture and other equipment include items of \$26,592 [2016 – nil] and building and building improvements include renovation costs of nil [2016 – \$297,636], which were in progress as at December 31, 2017. Accordingly, no amortization was recorded during the year on assets in progress.

Land-use costs represent those incurred in 1983 associated with a \$1 per year land lease expiring in 2082.

The George R. Gardiner Museum of Ceramic Art

Notes to financial statements

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5. Deferred contributions

Deferred contributions represent grants and donations related to future years' operations. The continuity of deferred contributions is as follows:

	2017	2016
	\$	\$
Balance, beginning of year	577,443	542,350
Amounts received during the year	532,464	552,621
Amounts recognized as revenue during the year	(468,795)	(324,172)
Amounts transferred to deferred capital contributions	(76,444)	(193,356)
Balance, end of year	564,668	577,443

6. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations received for the purchase of capital assets. The annual amortization of deferred capital contributions is recorded as revenue in the statement of operations. The changes in the deferred capital contributions balance are as follows:

	2017	2016
	\$	\$
Balance, beginning of year	11,814,062	12,072,180
Contributions restricted for capital purposes	350,802	10,122
Amounts transferred from deferred contributions	76,444	193,356
Amortization of deferred capital contributions	(418,086)	(461,596)
Balance, end of year	11,823,222	11,814,062

The George R. Gardiner Museum of Ceramic Art

Notes to financial statements

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7. Government grants

Government grants include operational support and project specific grants and consist of the following:

	2017 \$	2016 \$
City of Toronto – Operating	155,265	155,265
Ministry of Tourism and Culture – Operating	145,482	145,482
Canada Council for the Arts – Operating	70,000	70,000
Ontario Arts Council – Operating	69,160	86,450
Canadian Heritage – Lobby & Clay Studio	60,429	—
City of Toronto – National Sculpture Competition	58,618	—
Canadian Heritage – Van Horne	30,108	165,500
Federal Economic Development Agency – Lobby & Clay Studio	20,000	—
Ontario Trillium Foundation – Community Arts Space	—	25,000
Canada Council for the Arts – York Wilson Award	—	20,000
	609,062	667,697

8. Expenses

Museum shop expenses include cost of sales of \$171,581 [2016 – \$186,199].

9. Endowment net assets

[a] Endowment net assets consist of amounts subject to donor and Board imposed restrictions relating to maintaining the principal and using the income in accordance with any purposes established by the donor or the Board. Endowment net assets consist of the following:

	2017 \$	2016 \$
Externally endowed	2,594,808	2,365,164
Internally endowed	26,933,088	26,346,498
	29,527,896	28,711,662

The internally endowed net assets include amounts that have been restricted by the Board to help ensure the long-term financial security of the Museum.

[b] The Board has established a policy with the objective of protecting the real value of endowment net assets by limiting the amount of income made available for spending and requiring the reinvestment of any income earned in excess of this limit. The amount available for spending is calculated based on a percentage [4.75%] of the five-year moving average of the market value of investments at year-end.

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For externally endowed funds, the preservation of capital is recorded as a direct increase in endowment net assets. In any year, should net investment income not be sufficient to fund the amount to be made available for spending on externally endowed funds or the investment return is negative, the amount to be made available is recorded as a decrease in the endowment fund. For internally endowed funds, investment income is recorded in the statement of operations, with the amount to be made available recorded in general operations. Any excess of revenue over expenses for the year is transferred to the internally endowed funds. In any year if there is a deficiency of revenue over expenses related to operations, an amount is transferred from internally endowed net assets to the unrestricted net assets for this purpose.

In 2017, net investment income of \$168,508 [2016 – \$205,699] was earned on investments held for the externally endowed portion of endowment net assets. Of this total, \$100,129 [2016 – \$91,572] was made available for spending and included in general operations revenue in the statement of operations. The amount earned on externally endowed funds in excess of the amount available for spending of \$68,379 [2016 – \$114,127] was added to endowment net assets in the statement of changes in net assets. Investment income of \$1,564,549 [2016 – \$2,205,486] was earned on the internally endowed portion of endowment net assets and recorded in the statement of operations, of which \$862,000 [2016 – \$830,000] was available for spending and recorded in general operations.

[c] Effective December 31, 2017, the Board approved a transfer of \$586,590 [2016 – \$1,405,693], representing the excess of revenue over expenses, to the internally endowed portion of endowment net assets from unrestricted net assets.

10. Collection of ceramic art

The Museum has an extensive collection of ceramic art, the value of which is not recorded in the statement of financial position. In 2017, collections with a fair value of \$207,840 [2016 – \$323,874] were donated to the Museum. These donations have not been recorded in the financial statements. In 2017, curatorial expenses included acquisitions of ceramic art with a cost of \$8,528 [2016 – \$3,525].

11. Ontario Arts Foundation Endowment Fund Program

The Museum participates in the Arts Endowment Fund Program administered by the Ontario Arts Foundation [the "OAF"]. As at December 31, 2017, the OAF held \$1,078,846 [2016 – \$1,069,138] for the benefit of the Museum, which is not reflected in the financial statements.

During 2017, \$46,382 [2016 – \$44,542], representing amounts distributed under the Arts Endowment Fund Program, is included in fundraising revenue.

12. The George R. Gardiner Museum of Ceramic Art – U.S.

The George R. Gardiner Museum of Ceramic Art – U.S. is a separate corporation without share capital and with its own Board of Directors; its purpose is to support and carry out tax exempt purposes of the George R. Gardiner Museum of Ceramic Art and other publicly supported organizations with compatible purposes. It is able to accept donations, gifts, legacies and bequests and issue U.S. charitable donation receipts. The George R. Gardiner Museum of Ceramic Art – U.S. is exempt from U.S. federal and state income taxes. During the year, the museum received in-kind contributions [note 10] with a fair value of \$12,500 [2016 – \$10,500 in cash] from The George R. Gardiner Museum of Ceramic Art – U.S. As at December 31, 2017 and 2016, The George R. Gardiner Museum of Ceramic Art – U.S. had no net assets.

The George R. Gardiner Museum of Ceramic Art

Notes to financial statements

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13. Financial instruments

The Museum is exposed to various financial risks through transactions in its financial instruments.

Currency risk

The Museum is exposed to foreign currency risk with respect to the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

Credit risk

The Museum is exposed to credit risk in connection with its accounts receivable and the underlying fixed income investments of its pooled funds because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation.

Interest rate risk

The Museum is exposed to interest rate risk with respect to the underlying fixed income investments in pooled funds because the fair value will fluctuate due to changes in market interest rates.

Other price risk

The Museum is exposed to other price risk through changes in market prices [other than changes arising from interest rate or currency risks] in connection with its investments in pooled funds.

14. Insurance proceeds

The Museum received additional proceeds of \$78,836 in 2016 related to the replacement cost of fully amortized assets that were also damaged in the power outage. These proceeds have been recorded in other income in the statement of operations in 2016.

15. Comparative financial statements

The comparative financial statements have been reclassified from financial statements previously presented to conform to the presentation of the 2017 financial statements.