

Financial Statements

**The George R. Gardiner
Museum of Ceramic Art**
December 31, 2014



Building a better
working world

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, 2014, 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, 2014 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.

Toronto, Canada
June 15, 2015

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

The George R. Gardiner Museum of Ceramic Art

STATEMENT OF FINANCIAL POSITION

As at December 31

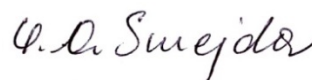
| | 2014 | 2013 |
|--|-------------------|-------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | 1,104,548 | 676,138 |
| Accounts receivable | 156,676 | 1,357,519 |
| Inventory | 124,456 | 102,544 |
| Prepaid expenses | 114,433 | 93,669 |
| Total current assets | 1,500,113 | 2,229,870 |
| Long-term | | |
| Investments [note 3[a]] | 24,213,363 | 21,780,805 |
| Capital assets, net [note 4] | 13,827,099 | 14,205,181 |
| Total long-term assets | 38,040,462 | 35,985,986 |
| | 39,540,575 | 38,215,856 |
| LIABILITIES AND NET ASSETS | | |
| Current | | |
| Accounts payable and accrued liabilities | 374,430 | 272,687 |
| Deferred revenue | 60,519 | 39,252 |
| Deferred contributions [note 5] | 438,887 | 431,506 |
| Total current liabilities | 873,836 | 743,445 |
| Long-term | | |
| Deferred capital contributions [note 6] | 12,188,646 | 12,432,477 |
| Total liabilities | 13,062,482 | 13,175,922 |
| Net assets | | |
| Unrestricted | — | — |
| Endowment [note 9] | 26,478,093 | 25,039,934 |
| Total net assets | 26,478,093 | 25,039,934 |
| | 39,540,575 | 38,215,856 |

See accompanying notes

On behalf of the Board:



Trustee



Trustee

The George R. Gardiner Museum of Ceramic Art

STATEMENT OF OPERATIONS

Year ended December 31

| | 2014 | | | 2013 |
|---|-----------------------------|------------------|------------------|------------------|
| | General operations \$ | Other \$ | Total \$ | Total \$ |
| REVENUE | | | | |
| Fundraising <i>[note 11]</i> | 1,062,325 | — | 1,062,325 | 2,032,981 |
| Government grants <i>[note 7]</i> | 698,025 | — | 698,025 | 465,690 |
| Education | 400,451 | — | 400,451 | 424,363 |
| Museum shop | 316,944 | — | 316,944 | 340,153 |
| Facility rental | 259,353 | — | 259,353 | 315,738 |
| Admissions | 110,981 | — | 110,981 | 73,425 |
| Investment income, net <i>[notes 3[b]</i> <i>and 9[b]]</i> | 925,000 | 1,310,643 | 2,235,643 | 3,893,300 |
| Amortization of deferred capital contributions | — | 468,272 | 468,272 | 465,069 |
| | 3,773,079 | 1,778,915 | 5,551,994 | 8,010,719 |
| EXPENSES | | | | |
| Facilities | 810,228 | — | 810,228 | 790,512 |
| Curatorial <i>[note 10]</i> | 810,245 | — | 810,245 | 719,725 |
| Administration | 635,315 | 21,665 | 656,980 | 556,730 |
| Marketing and publicity | 426,679 | — | 426,679 | 300,609 |
| Annual fundraising | 360,582 | — | 360,582 | 317,995 |
| Education | 348,713 | — | 348,713 | 382,548 |
| Museum shop <i>[note 8]</i> | 260,764 | — | 260,764 | 276,835 |
| Interest <i>[note 12[a]]</i> | — | — | — | 64,069 |
| Amortization of capital assets | — | 601,315 | 601,315 | 564,644 |
| | 3,652,526 | 622,980 | 4,275,506 | 3,973,667 |
| Excess (deficiency) of revenue over expenses before the following | 120,553 | 1,155,935 | 1,276,488 | 4,037,052 |
| Notional gain on interest rate swap, net of breakage fee <i>[note 12[b]]</i> | — | — | — | 33,015 |
| Excess (deficiency) of revenue over expenses for the year | 120,553 | 1,155,935 | 1,276,488 | 4,070,067 |

See accompanying notes

The George R. Gardiner Museum of Ceramic Art

STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31

| | 2014 | | | 2013 | | |
|---|--------------------|-----------------|-------------|--------------------|-----------------|-------------|
| | Unrestricted \$ | Endowment \$ | Total \$ | Unrestricted \$ | Endowment \$ | Total \$ |
| | | <i>[note 9]</i> | | | <i>[note 9]</i> | |
| Net assets, beginning of year | — | 25,039,934 | 25,039,934 | — | 20,635,783 | 20,635,783 |
| Excess of revenue over expenses for the year | 1,276,488 | — | 1,276,488 | 4,070,067 | — | 4,070,067 |
| Endowment contributions | — | 10,000 | 10,000 | — | 40,740 | 40,740 |
| Investment income in excess of amount made available for spending <i>[note 9[b]]</i> | — | 151,671 | 151,671 | — | 293,344 | 293,344 |
| Interfund transfers <i>[note 9[c]]</i> | (1,276,488) | 1,276,488 | — | (4,070,067) | 4,070,067 | — |
| Net assets, end of year | — | 26,478,093 | 26,478,093 | — | 25,039,934 | 25,039,934 |

See accompanying notes

The George R. Gardiner Museum of Ceramic Art

STATEMENT OF CASH FLOWS

Year ended December 31

| | 2014 | 2013 |
|---|------------------|--------------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Excess of revenue over expenses for the year | 1,276,488 | 4,070,067 |
| Add (deduct) non-cash items | | |
| Notional gain on interest rate swap | — | (95,015) |
| Amortization of capital assets | 601,315 | 564,644 |
| Amortization of deferred capital contributions | (468,272) | (465,069) |
| Investment income reinvested, net of management fees | (2,235,643) | (3,893,300) |
| | (826,112) | 181,327 |
| Net change in non-cash working capital balances related to operations | 1,288,558 | (1,212,895) |
| Cash provided by (used in) operating activities | 462,446 | (1,031,568) |
| INVESTING ACTIVITIES | | |
| Withdrawals from (transfers to) externally managed investments, net | (45,244) | 3,771,561 |
| Purchase of capital assets | (223,233) | (851,212) |
| Cash provided by (used in) investing activities | (268,477) | 2,920,349 |
| FINANCING ACTIVITIES | | |
| Contributions restricted for capital purposes | 224,441 | 105,934 |
| Endowment contributions | 10,000 | 40,740 |
| Demand bank loan principal payments | — | (2,396,000) |
| Cash provided by (used in) financing activities | 234,441 | (2,249,326) |
| Net increase (decrease) in cash and cash equivalents during the year | 428,410 | (360,545) |
| Cash and cash equivalents, beginning of year | 676,138 | 1,036,683 |
| Cash and cash equivalents, end of year | 1,104,548 | 676,138 |

See accompanying notes

The George R. Gardiner Museum of Ceramic Art

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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 Canadian Professional Accountants of Canada [“CPA Canada”] Handbook – Accounting, 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.

The George R. Gardiner Museum of Ceramic Art

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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, derivative contracts, and 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.

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 is expensed. The value of donated collection items is not included in the statement of operations.

The George R. Gardiner Museum of Ceramic Art

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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 |

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 investment income (loss) recorded in the statement of operations and the amount made available for general operations approved by the Board of Trustees [the "Board"], investment management fees, interest on the demand bank loan, amortization of capital assets and deferred capital contributions, certain unusual revenue and expenses, and any fair value adjustments related to the interest rate swap.

Each year, the Board approves an amount of investment income to be made available for general operations and therefore recorded as general operations revenue.

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

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.

The George R. Gardiner Museum of Ceramic Art

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

3. INVESTMENTS

[a] Investments consist of the following:

| | Carrying value | 2014 \$ | 2013 \$ |
|-----------------------|---------------------------|--------------------|--------------------|
| Cash | Fair value | 130,470 | 56,791 |
| Units in pooled funds | | | |
| Canadian bonds | Fair value | 7,467,551 | 5,035,981 |
| Canadian equities | Fair value | 4,198,333 | 2,103,572 |
| Foreign equities | Fair value | 12,417,009 | 14,584,461 |
| | | 24,213,363 | 21,780,805 |

[b] Investment income is net of investment management fees of \$144,677 [2013 – \$151,750].

4. CAPITAL ASSETS

Capital assets consist of the following:

| | 2014 | |
|--|--------------------|--|
| | Cost \$ | Accumulated amortization \$ |
| Tangible | | |
| Land-use costs | 550,000 | 176,000 |
| Building and building improvements | 16,697,496 | 3,467,028 |
| Exhibit cases, furniture and other equipment | 1,170,212 | 947,581 |
| | 18,417,708 | 4,590,609 |
| Less accumulated amortization | 4,590,609 | |
| Net book value | 13,827,099 | |

The George R. Gardiner Museum of Ceramic Art

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

| | 2013 | |
|--|-------------------|--------------------|
| | Cost | Accumulated |
| | \$ | amortization \$ |
| Tangible | | |
| Land-use costs | 550,000 | 170,500 |
| Building and building improvements | 16,527,288 | 3,020,528 |
| Exhibit cases, furniture and other equipment | 1,121,286 | 802,365 |
| | <u>18,198,574</u> | <u>3,993,393</u> |
| Less accumulated amortization | 3,993,393 | |
| Net book value | <u>14,205,181</u> | |

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

5. DEFERRED CONTRIBUTIONS

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

| | 2014 | 2013 |
|-----------------------------------|-----------------------|----------------|
| | \$ | \$ |
| Balance, beginning of year | 431,506 | 401,702 |
| Recognized as revenue | (431,506) | (401,702) |
| Recorded in the accounts | 438,887 | 431,506 |
| Balance, end of year | <u>438,887</u> | <u>431,506</u> |

The George R. Gardiner Museum of Ceramic Art

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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:

| | 2014 | 2013 |
|--|-------------------|------------|
| | \$ | \$ |
| Balance, beginning of year | 12,432,477 | 12,791,612 |
| Contributions restricted for capital purposes | 224,441 | 105,934 |
| Amortization of deferred capital contributions | (468,272) | (465,069) |
| Balance, end of year | 12,188,646 | 12,432,477 |

7. GOVERNMENT GRANTS

Government grants consist of the following:

| | 2014 | 2013 |
|-----------------------------------|----------------|---------|
| | \$ | \$ |
| Ministry of Tourism and Culture | 173,697 | 145,482 |
| City of Toronto | 152,220 | 146,000 |
| Canadian Heritage | 151,108 | — |
| Ontario Arts Council | 91,000 | 102,908 |
| Canada Council for the Arts | 70,000 | 71,300 |
| Ontario Cultural Attractions Fund | 60,000 | — |
| | 698,025 | 465,690 |

8. EXPENSES

Museum shop expenses include cost of sales of \$135,920 [2013 – \$198,584].

The George R. Gardiner Museum of Ceramic Art

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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:

| | 2014 | 2013 |
|--------------------|-------------------|-------------------|
| | \$ | \$ |
| Externally endowed | 2,176,602 | 2,014,931 |
| Internally endowed | 24,301,491 | 23,025,003 |
| | 26,478,093 | 25,039,934 |

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

In 2014, investment income of \$221,650 [2013 – \$349,558] was earned on investments held for the externally endowed portion of endowment net assets. Of this total, \$69,979 [2013 – \$56,214] was made available for spending and recorded as general operations revenue in the statement of operations. The amount earned on externally endowed funds in excess of the amount available for spending of \$151,671 [2013 – \$293,344] was added to endowment net assets in the statement of changes in net assets. Investment income of \$2,165,664 [2013 – \$3,837,086] was earned on the internally endowed portion of endowment net assets and recorded in the statement of operations.

[c] Effective December 31, 2014, the Board approved a transfer of \$1,276,488 [2013 – \$4,070,067], representing the excess of revenue over expenses, to the internally endowed portion of endowment net assets from unrestricted net assets.

The George R. Gardiner Museum of Ceramic Art

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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 2014, collections with a fair value of \$349,444 [2013 – \$273,242] were donated to the Museum. These donations have not been recorded in the financial statements. In 2014, curatorial expenses included acquisitions of ceramic art with a cost of \$20,932 [2013 – \$61,792].

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, 2014, the OAF held \$999,426 [2013 – \$946,465] for the benefit of the Museum which is not reflected in the financial statements.

During 2014, \$41,154 [2013 – \$33,172], representing amounts distributed under the Arts Endowment Fund Program, is included in fundraising revenue.

12. CREDIT FACILITIES

- [a] In 2013, interest of \$64,069 was paid on a line of credit facility that was cancelled during that year.
- [b] When the Museum repaid the outstanding balance of its line of credit on July 12, 2013, it also settled an interest rate swap contract designed to fix the rate of interest on the outstanding balance of the line of credit which resulted in a breakage fee of \$62,000. This amount was recorded in the statement of operations, together with the reversal of the fair value of the swap as at December 31, 2012, which was recorded as a notional gain.

The George R. Gardiner Museum of Ceramic Art

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

13. 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 publically 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, \$152,200 [2013 – \$10,390] in cash and an object with a fair value of \$69,000 was received from The George R. Gardiner Museum of Ceramic Art – U.S.. As at December 31, 2014, The George R. Gardiner Museum of Ceramic Art – U.S. had no net assets.

14. 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.

