

Financial Statements of

**THE ROYAL ONTARIO
MUSEUM FOUNDATION**

And Independent Auditors' Report thereon

Year ended March 31, 2019



KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

INDEPENDENT AUDITORS' REPORT

To the Governors of The Royal Ontario Museum Foundation

Opinion

We have audited the financial statements of The Royal Ontario Museum Foundation (the Entity), which comprise:

- the balance sheet as at March 31, 2019
- the statement of revenue, expenses and changes in fund balances for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.



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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 20, 2019

THE ROYAL ONTARIO MUSEUM FOUNDATION

Balance Sheet
(In thousands of dollars)

March 31, 2019, with comparative information for 2018

				2019	2018
	General Fund	Restricted Fund	Endowment Fund	Total	Total
Assets					
Current assets:					
Cash	\$ 497	\$ 4,244	\$ –	\$ 4,741	\$ 5,894
Due from The Royal Ontario Museum (note 7)	–	–	–	–	253
Other assets	92	–	–	92	330
	589	4,244	–	4,833	6,477
Investments (note 3)	–	10,374	51,286	61,660	61,151
	\$ 589	\$ 14,618	\$ 51,286	\$ 66,493	\$ 67,628

Liabilities and Fund Balances

Current liabilities:					
Accounts payable and accrued liabilities	\$ 602	\$ –	\$ –	\$ 602	\$ 535
Due to The Royal Ontario Museum (note 7)	1,248	–	–	1,248	–
	1,850	–	–	1,850	535
Fund balances:					
General Fund - Operations	8	–	–	8	1,553
General Fund - RenROM	(1,269)	–	–	(1,269)	(1,563)
Restricted Fund (note 5)	–	14,618	–	14,618	16,626
Endowment Fund (note 6)	–	–	51,286	51,286	50,477
	(1,261)	14,618	51,286	64,643	67,093
	\$ 589	\$ 14,618	\$ 51,286	\$ 66,493	\$ 67,628

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM FOUNDATION

Statement of Revenue, Expenses and Changes in Fund Balances
(In thousands of dollars)

Year ended March 31, 2019, with comparative information for 2018

	General Fund		Restricted Fund	Endowment Fund	2019	Total 2018
	Operations	RenROM				
Revenue:						
Donations (note 9)	\$ 2,750	\$ 294	\$ 9,898	\$ 2,895	\$ 15,837	\$ 17,427
Fundraising events	1,057	—	—	—	1,057	877
Investment income (loss) (note 3)	182	—	(15)	(198)	(31)	3,358
Transfers from The Royal Ontario Museum	—	—	131	—	131	46
	<u>3,989</u>	<u>294</u>	<u>10,014</u>	<u>2,697</u>	<u>16,994</u>	<u>21,708</u>
Expenses:						
Administrative	4,144	—	—	—	4,144	4,080
Investment counsel fees	63	—	16	220	299	496
Fundraising events	469	—	—	—	469	715
	<u>4,676</u>	<u>—</u>	<u>16</u>	<u>220</u>	<u>4,912</u>	<u>5,291</u>
Excess of revenue over expenses (expenses over revenue) before the undernoted	(687)	294	9,998	2,477	12,082	16,417
Grants to The Royal Ontario Museum	546	—	13,058	—	13,604	11,073
Campaign costs	928	—	—	—	928	—
Excess of revenue over expenses (expenses over revenue)	(2,161)	294	(3,060)	2,477	(2,450)	5,344
Fund balances, beginning of year	1,553	(1,563)	16,626	50,477	67,093	61,749
Interfund transfers (note 8)	616	—	1,052	(1,668)	—	—
Fund balances, end of year	\$ 8	\$ (1,269)	\$ 14,618	\$ 51,286	\$ 64,643	\$ 67,093

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM FOUNDATION

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses (expenses over revenue)	\$ (2,450)	\$ 5,344
Items not involving cash:		
Change in net unrealized gains on investments	3,241	1,223
Net realized gains on sale of investments	(2,707)	(592)
Change in non-cash operating working capital:		
Other assets	238	37
Accounts payable and accrued liabilities	67	185
Due to/from The Royal Ontario Museum	1,501	(1,578)
	(110)	4,619
Investing activities:		
Increase in investments, net	(1,043)	(4,603)
Increase (decrease) in cash	(1,153)	16
Cash, beginning of year	5,894	5,878
Cash, end of year	\$ 4,741	\$ 5,894

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM FOUNDATION

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2019

1. Incorporation and organization:

The Royal Ontario Museum Foundation (the "Foundation" or "ROM Governors"), which operates under the name of ROM Governors, was incorporated under the Corporations Act (Ontario) on July 1, 1992 to coordinate all private-sector fundraising activities undertaken on behalf of The Royal Ontario Museum (the "Museum"), and its affiliates. The Foundation was continued under the Canada Not-for-profit Corporations Act in November 2014. The objective of ROM Governors is to raise funds to be available to enhance exhibitions and public programs, research, acquisitions and capital projects.

The Foundation is registered as a public foundation 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. Significant accounting policies:

The financial statements of ROM Governors have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations.

(a) Fund accounting:

ROM Governors follows the restricted fund method of accounting for contributions.

The General Fund reports unrestricted resources available for operations and Renaissance ROM Campaign operations.

The Restricted Fund reports resources that are to be used for specific purposes, as specified by the donor or as determined by the Board of Governors (the "Board").

The Endowment Fund reports resources where either donor or internal restrictions require that the principal must be maintained permanently.

THE ROYAL ONTARIO MUSEUM FOUNDATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2019

2. Significant accounting policies (continued):

(b) Revenue recognition:

Donor-restricted donations are recognized as revenue of the Restricted Fund unless the capital is to be maintained permanently, in which case, donations are recognized as revenue of the Endowment Fund. Unrestricted donations are recognized as revenue of the General Fund in the year received.

ROM Governors completed the Renaissance ROM Campaign on June 30, 2010. Donations to the campaign and related fundraising expenses are recorded in the Restricted Fund. ROM Governors continues to collect on pledges, which are recorded as donations in the Restricted Fund when collected. A percentage of the donations to the Renaissance ROM Campaign is made available to cover fundraising costs related to the campaign. Effective June 1, 2006, this percentage is 10%. Prior to that date, this percentage was 7%.

A percentage of restricted donations is made available to cover current fundraising costs and for the Museum's debt reduction. Effective October 1, 2013, this percentage is 10% for ROM Governors' administrative costs and 5% for the Museum's debt reduction.

Investment income, which is recorded on the accrual basis, includes interest income, dividends, net realized gains (losses) on the sale of investments and change in net unrealized gains (losses) on investments. Investment income earned on restricted funds is recognized in the Restricted Fund or in the General Fund - Operations, depending on donor restriction.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Foreign currency contracts and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The ROM Governors has elected to carry all financial investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred.

THE ROYAL ONTARIO MUSEUM FOUNDATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2019

2. Significant accounting policies (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the ROM Governors determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the ROM Governors expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(d) Grants:

Grants are recorded in the year payable based on the authorization of the Board.

(e) Fundraising expenses:

Costs incurred to carry out specific events held for fundraising initiatives in support of ROM Governors are recorded as fundraising events expenses in the statement of revenue, expenses and changes in fund balances. All other fundraising-related expenses are recorded as administrative expenses.

(f) Contributed goods and services:

The value of goods and services contributed to ROM Governors is not reflected in these financial statements.

(g) Translation of foreign currencies:

Assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at exchange rates prevailing at the year end date. Revenue and expenses and allocations have been translated using exchange rates prevailing on the transaction date.

THE ROYAL ONTARIO MUSEUM FOUNDATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2019

2. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

3. Investments:

	2019	2018
Cash	\$ 4,928	\$ 5,505
Canadian equities	3,044	2,931
Foreign equities	40,800	40,380
Canadian fixed income	12,888	12,335
	<hr/>	<hr/>
	\$ 61,660	\$ 61,151

Certain investments are held in pooled funds and the underlying investments in these funds are allocated to the appropriate category in the table.

Investment income (loss) comprises the following:

	2019	2018
Interest and dividends	\$ 1,186	\$ 3,737
Net realized gains	2,024	844
Change in net unrealized gains on investments	(3,241)	(1,223)
	<hr/>	<hr/>
	\$ (31)	\$ 3,358

THE ROYAL ONTARIO MUSEUM FOUNDATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2019

4. Financial risks:

ROM Governors is subject to interest rate risk and foreign currency risk with respect to its investment portfolio. To manage these risks, ROM Governors has established a target mix of investment types designed to achieve the optimal return within reasonable risk tolerances. There has been no change to the risk exposures from 2018.

(a) Interest rate risk:

The Foundation is exposed to interest rate risk on its fixed interest financial instruments given the value of fixed income investments will generally rise if interest rates fall and decrease if interest rates rise. Changes in interest rates may also affect the value of equity investments. The fixed income investments consist of bond funds and treasury bonds, bearing interest at rates ranging from 2.780% to 12.750% (2018 - 0.500% to 12.750%) and maturing from 2019 to 2050 (2018 - 2018 to 2036).

(b) Foreign currency risk:

The value of investments denominated in a currency other than Canadian dollars will be affected by changes in the value of the Canadian dollar in relation to the value of the currency in which the investment is denominated. The Foundation mitigates foreign currency risk by hedging investments denominated in U.S. dollars. As at year end, the Foundation has a foreign currency contract outstanding to sell U.S. \$8,000 (2018 - U.S. \$8,000) at a rate of \$1.3357 (2018 - 1.2793) and an obligation to repurchase the same amount at a variable rate. The contract matures on June 28, 2019 (2018 - June 28, 2018).

THE ROYAL ONTARIO MUSEUM FOUNDATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2019

5. Restricted Fund:

The Restricted Fund consists of externally restricted funds held for the following purposes:

	2019	2018
OFA Levy	\$ 87	\$ 51
General purpose	498	205
Acquisitions and research	5,265	6,376
Curatorial positions	333	809
Exhibitions and programs	4,537	6,107
Galleries and capital projects	3,384	920
Louise Hawley Stone Charitable Trust	514	533
Renaissance ROM Campaign	–	50
Welcome Project	–	1,575
	<u>\$ 14,618</u>	<u>\$ 16,626</u>

6. Endowment Fund:

The Endowment Fund consists of amounts subject to donor and Board-imposed restrictions stipulating that the principal be maintained intact and the income used in accordance with the various purposes established by the donor or the Board.

The Board has a policy with the objective of protecting the real value of the Endowment Fund by limiting the amount of income made available for spending and requiring the reinvestment of any income earned in excess of this limit. This preservation of capital is recorded as revenue of the Endowment Fund for externally endowed funds.

The amount available for spending is calculated based on 5.0% of the market value of individual funds, with 3.75% available for grants and 1.25% for administrative expenses of the General Fund - Operations.

The amount available for spending of \$2,193 (2018 - \$2,059) calculated in accordance with ROM Governors' policy has been recorded as a transfer from the Endowment Fund to the Restricted Fund (note 8).

THE ROYAL ONTARIO MUSEUM FOUNDATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2019

6. Endowment Fund (continued):

The Endowment Fund consists of the following:

	2019	2018
Endowed with income available for the following purposes:		
General purpose	\$ 415	\$ 430
Acquisitions and research	14,478	14,907
Curatorial positions	27,772	26,092
Exhibitions and public programs	2,628	2,784
Galleries and capital projects	5,993	6,264
	<u>\$ 51,286</u>	<u>\$ 50,477</u>

An amount of \$10,842 (2018 - \$10,903) of the above has been internally endowed by the Board.

7. Transactions with The Royal Ontario Museum:

- (a) The Museum provides space and certain administrative support to ROM Governors at no cost.
- (b) Amounts due from (to) the Museum include reimbursement of operating costs paid on behalf of the Foundation and unpaid grants owing to the Museum at year end. This amount is non- interest bearing with no fixed terms of repayment.

THE ROYAL ONTARIO MUSEUM FOUNDATION

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2019

8. Interfund transfers:

Transfers between funds consist of the following:

	General Fund		Restricted Fund		Endowment Fund	
	2019	2018	2019	2018	2019	2018
Endowment distribution (note 6)	\$ –	\$ –	\$ 2,193	\$ 2,059	\$ (2,193)	\$ (2,059)
Administrative allocation (note 6)	537	514	(537)	(514)	–	–
Other (a)	79	(896)	(604)	(1,225)	525	2,121
	<u>\$ 616</u>	<u>\$ (382)</u>	<u>\$ 1,052</u>	<u>\$ 320</u>	<u>\$ (1,668)</u>	<u>\$ 62</u>

(a) The Board approves various transfers throughout the year, which include transfers to (from) the restricted fund for specific projects and transfers to (from) the internally restricted endowment funds. The internally restricted amounts are not available for other purposes without the approval of the Board.

9. Income beneficiary:

During 1999, ROM Governors became the income beneficiary of an externally administered trust with a market value of \$80,810 at March 31, 2019 (2018 - \$78,852). Income received from this trust is to be used for the Museum's own publications relating to its collections or any part of them and for purchases of artifacts. During the year, \$1,219 (2018 - \$1,148) has been received and recorded as donations revenue in the Restricted Fund and \$1,500 (2018 - \$1,500) in the Endowment Fund. This distribution from the trust represents dividends and interest earned during the year.