

Financial Statements of

**THE ROYAL ONTARIO  
MUSEUM FOUNDATION**

Year ended March 31, 2016



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## INDEPENDENT AUDITORS' REPORT

To the Governors of The Royal Ontario Museum Foundation

We have audited the accompanying financial statements of The Royal Ontario Museum Foundation, which comprise the balance sheet as at March 31, 2016, the statements of revenue, expenses and changes in fund balances and cash flows for the year then ended, and notes, comprising 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 our 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, we 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.



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*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Royal Ontario Museum Foundation as at March 31, 2016, 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.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

June 22, 2016  
Toronto, Canada

# THE ROYAL ONTARIO MUSEUM FOUNDATION

Balance Sheet  
(In thousands of dollars)

March 31, 2016, with comparative information for 2015

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 691	\$ 2,489
Investments (note 3)	50,682	52,689
Other	358	182
	<u>\$ 51,731</u>	<u>\$ 55,360</u>
<b>Liabilities and Fund Balances</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 301	\$ 252
Due to The Royal Ontario Museum (note 6(c))	185	716
	<u>486</u>	<u>968</u>
Fund balances:		
Unrestricted Fund	(1,048)	(932)
Restricted Fund (note 4)	11,612	12,613
Endowment Fund (note 5)	40,681	42,711
	<u>51,245</u>	<u>54,392</u>
	<u>\$ 51,731</u>	<u>\$ 55,360</u>

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, 2016, with comparative information for 2015

	Unrestricted Fund		Restricted Fund		Endowment Fund		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Revenue:</b>								
Donations (notes 6(a) and 8)	\$ 2,259	\$ 2,002	\$ 9,017	\$ 12,150	\$ 468	\$ 3,020	\$ 11,744	\$ 17,172
Investment income (note 5)	(170)	1,208	(238)	1,765	(501)	3,491	(909)	6,464
Fundraising events	17	148	523	1,758	–	–	540	1,906
Transfers from The Royal Ontario Museum	–	–	2	–	–	6	2	6
	2,106	3,358	9,304	15,673	(33)	6,517	11,377	25,548
<b>Expenses:</b>								
Grants to The Royal Ontario Museum	591	242	10,039	11,177	–	–	10,630	11,419
Administrative	2,549	2,461	915	953	–	–	3,464	3,414
Fundraising events	(7)	126	199	791	–	–	192	917
Investment management fees	45	46	62	68	131	135	238	249
	3,178	2,875	11,215	12,989	131	135	14,524	15,999
Excess of revenue over expenses (expenses over revenue)	(1,072)	483	(1,911)	2,684	(164)	6,382	(3,147)	9,549
Fund balances, beginning of year	(932)	(2,315)	12,613	10,694	42,711	36,464	54,392	44,843
Interfund transfers (note 7)	956	900	910	(765)	(1,866)	(135)	–	–
<b>Fund balances, end of year</b>	<b>\$ (1,048)</b>	<b>\$ (932)</b>	<b>\$ 11,612</b>	<b>\$ 12,613</b>	<b>\$ 40,681</b>	<b>\$ 42,711</b>	<b>\$ 51,245</b>	<b>\$ 54,392</b>

See accompanying notes to financial statements.

# THE ROYAL ONTARIO MUSEUM FOUNDATION

Statement of Cash Flows  
(In thousands of dollars)

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses (expenses over revenue)	\$ (3,147)	\$ 9,549
Change in unrealized gain on investments	7,980	(2,753)
Change in non-cash operating working capital:		
Due to The Royal Ontario Museum	(531)	646
Other assets	(176)	(132)
Accounts payable and accrued liabilities	49	5
	<u>4,175</u>	<u>7,315</u>
Investing activities:		
Increase in investments	(5,973)	(6,015)
Increase (decrease) in cash and cash equivalents	(1,798)	1,300
Cash and cash equivalents, beginning of year	2,489	1,189
Cash and cash equivalents, end of year	<u>\$ 691</u>	<u>\$ 2,489</u>

See accompanying notes to financial statements.

# THE ROYAL ONTARIO MUSEUM FOUNDATION

Notes to Financial Statements  
(In thousands of dollars)

Year ended March 31, 2016

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## 1. Incorporation and organization:

The Royal Ontario Museum Foundation (the "Foundation"), 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 for enhancing 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 Unrestricted Fund reports unrestricted resources available for immediate purposes.

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, 2016

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## 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 Unrestricted Fund in the year received since pledges are not legally enforceable claims.

### (c) Cash and cash equivalents:

Cash and cash equivalents consist of cash and short-term interest-bearing deposits with original maturities of 90 days or less at the date of purchase.

### (d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. 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 any such financial instruments at fair value.

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

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.



# THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended March 31, 2016

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## 2. Significant accounting policies (continued):

### (e) Grants:

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

### (f) 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.

### (g) Contributed goods and services:

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

## 3. Investments:

	2016	2015
Cash	\$ 6,530	\$ 7,569
Foreign equities:		
Australian	303	287
U.S.	13,401	13,603
Asian	4,369	4,888
Fixed income:		
Canadian	14,801	15,383
U.S.	11,278	10,959
	<u>\$ 50,682</u>	<u>\$ 52,689</u>

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

# THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended March 31, 2016

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### 3. Investments (continued):

Foreign equities have been converted to Canadian dollars as at March 31, 2016, using the applicable exchange rates at that date.

(a) Maturity and interest rate risk:

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 2.50% to 3.125% (2015 - 2.50% to 3.125%) and maturing from 2042 to 2045 (2015 - 2042 to 2045). There has been no change to the risk exposure from 2015.

(b) Foreign currency risk:

The value of investments denominated in a currency other than the Canadian dollar will be affected by changes in the value of the Canadian dollar in relation to the value of the currency in which the investments are denominated. There has been no change to the risk exposure from 2015.

(c) Market risk:

Market risk arises as a result of trading fixed income investments. Fluctuation in the market exposes ROM Governors to a risk of loss. There has been no change to the risk exposure from 2015.

### 4. Restricted Fund:

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

	2016	2015
Acquisitions and research	\$ 4,418	\$ 4,762
Exhibitions and public programs	3,882	4,478
Gallery development	3,365	3,426
Renaissance ROM Campaign	(53)	(53)
	<hr/>	<hr/>
	\$ 11,612	\$ 12,613

# THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended March 31, 2016

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## 5. 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. For internally endowed funds, the preservation of capital is recorded as income of the Unrestricted Fund or Restricted Fund and transferred to the Endowment Fund in the statement of revenue, expenses and changes in fund balances. In any year, should net investment income not be sufficient to fund the amount required for spending, an amount is transferred to the Unrestricted Fund or Restricted Fund from the Endowment Fund for this purpose.

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 Unrestricted Fund.

In 2016, there was an investment loss of \$0.723 (2015 - gain of \$5,080) on investments held for the Endowment Fund. A loss of \$0.501 (2015 - gain of \$3,491) related to externally endowed funds is recorded as investment income in the Endowment Fund. Losses of \$0.176 (2015 - gain of \$1,258) and \$0.046 (2015 - gain of \$331) related to internally endowed funds are recorded as investment income in the Restricted Fund and Unrestricted Fund, respectively. An amount equal to the gains recorded in these funds has been transferred from the Endowment Fund (note 7). The amount available for spending of \$2,013 (2015 - \$1,877) calculated in accordance with ROM Governors' policy has been recorded as a transfer from the Endowment Fund to the Restricted Fund and Unrestricted Fund (note 7).

# THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended March 31, 2016

## 5. Endowment Fund (continued):

The Endowment Fund consists of the following:

	2016	2015
Externally endowed with income available for the following purposes:		
Endowed chairs	\$ 16,046	\$ 17,183
Acquisitions and research	8,556	8,726
Exhibitions and public programs	1,431	1,537
Gallery development	2,062	2,184
Unrestricted	1,504	1,621
	<u>29,599</u>	<u>31,251</u>
Internally endowed:		
Restricted funds	10,049	10,359
Unrestricted funds	1,033	1,101
	<u>11,082</u>	<u>11,460</u>
	<u>\$ 40,681</u>	<u>\$ 42,711</u>

## 6. Transactions with The Royal Ontario Museum:

- (a) 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 will be recorded as donations to the Restricted Fund when collected. When received, a percentage of the donations are made available to cover fundraising costs related to the campaign. Effective June 1, 2006, the percentage is 10%. Prior to that date, the percentage was 7%.
- (b) A percentage of restricted donations are made available to cover current fundraising costs and for the Museum's debt reduction. Effective October 1, 2013, the percentage is 10% for ROM Governors administrative costs and 5% for the Museum's debt reduction on donations of \$5,000 and greater.
- (c) The Museum provides space and certain administrative support to ROM Governors at no cost.
- (d) Amounts due to the Museum are non-interest bearing with no fixed terms of repayment. ROM Governors has provided an undertaking to transfer all of its unrestricted donations to the Museum under certain circumstances.

# THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended March 31, 2016

## 7. Interfund transfers:

Transfers between funds consist of the following:

	Unrestricted Fund		Restricted Fund		Endowment Fund	
	2016	2015	2016	2015	2016	2015
Allocation of investment income (loss) in accordance with Board policy (note 5)	\$ 58	\$ (318)	\$ 222	\$ (1,210)	\$ (280)	\$ 1,528
Amount made available for spending (note 5)	603	564	1,410	1,313	(2,013)	(1,877)
Board-approved transfers	–	–	(427)	(214)	427	214
Other	295	654	(295)	(654)	–	–
	\$ 956	\$ 900	\$ 910	\$ (765)	\$ (1,866)	\$ (135)

## 8. Income beneficiary:

During 1999, ROM Governors became the income beneficiary of an externally administered trust with an approximate market value of \$72,645 at March 31, 2016 (2015 - \$76,463). 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, \$2,466 (2015 - \$2,253) has been received and recorded as donations revenue in the Restricted Fund. This distribution from the trust represents dividends and interest earned during the year.

## 9. Financial risks:

ROM Governors is subject to market risk, foreign currency risk and interest rate price 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 exposure from 2015.

From time to time, the ROM Governors enters into derivative financial instruments to reduce its exposure to fluctuations in foreign currency exchange rates with its foreign currency investments and, therefore, is subject to gains and losses due to fluctuations in foreign currency exchange rates.

During 2016, the ROM Governors entered into a foreign exchange contract to sell U.S. \$8,000 at an exchange rate of 1.31114%, with an expiry date of June 29, 2016, resulting in a nominal gain as at March 31, 2016.