

Financial Statements of

**THE ROYAL ONTARIO  
MUSEUM FOUNDATION**

Year ended March 31, 2017



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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, 2017, 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, 2017, 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 28, 2017  
Vaughan, Canada

# THE ROYAL ONTARIO MUSEUM FOUNDATION

Balance Sheet  
(In thousands of dollars)

March 31, 2017, with comparative information for 2016

				2017	2016
	General Fund	Restricted Fund	Endowment Fund	Total	Total
<b>Assets</b>					
Current assets:					
Cash	\$ 1,677	\$ 4,201	\$ –	\$ 5,878	\$ 691
Other assets	367	–	–	367	358
	2,044	4,201	–	6,245	1,049
Investments (note 3)	–	12,419	44,760	57,179	50,682
	\$ 2,044	\$ 16,620	\$ 44,760	\$ 63,424	\$ 51,731

## Liabilities and Fund Balances

Current liabilities:					
Accounts payable and accrued liabilities	\$ 350	\$ –	\$ –	\$ 350	\$ 301
Due to The Royal Ontario Museum (note 7)	461	864	–	1,325	185
	811	864	–	1,675	486
Fund balances:					
General Fund - Operations	2,928	–	–	2,928	1,047
General Fund - RenROM	(1,695)	–	–	(1,695)	(2,139)
Restricted Fund (note 5)	–	15,756	–	15,756	11,657
Endowment Fund (note 6)	–	–	44,760	44,760	40,680
	1,233	15,756	44,760	61,749	51,245
	\$ 2,044	\$ 16,620	\$ 44,760	\$ 63,424	\$ 51,731

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, 2017, with comparative information for 2016

	General Fund		Restricted Fund	Endowment Fund	Total	
	Operations	RenROM			2017	2016
<b>Revenue:</b>						
Donations (notes 7 and 9)	\$ 2,172	\$ –	\$ 15,999	\$ 231	\$ 18,402	\$ 11,744
Fundraising events	1,314	–	–	–	1,314	540
Investment income (loss) (note 3)	1,336	–	524	6,016	7,876	(909)
Transfers from The Royal Ontario Museum	–	–	25	–	25	2
	4,822	–	16,548	6,247	27,617	11,377
<b>Expenses:</b>						
Administrative	3,836	–	–	–	3,836	3,464
Investment counsel fees	51	–	21	234	306	238
Fundraising events	171	–	–	–	171	192
	4,058	–	21	234	4,313	3,894
Excess of revenue over expenses before grants to The Royal Ontario Museum	764	–	16,527	6,013	23,304	7,483
Grants to The Royal Ontario Museum	112	–	12,688	–	12,800	10,630
Excess of revenue over expenses (expenses over revenue)	652	–	3,839	6,013	10,504	(3,147)
Fund balances, beginning of year	1,047	(2,139)	11,657	40,680	51,245	54,392
Interfund transfers (note 8)	1,229	444	260	(1,933)	–	–
Fund balances, end of year	\$ 2,928	\$ (1,695)	\$ 15,756	\$ 44,760	\$ 61,749	\$ 51,245

See accompanying notes to financial statements.

# THE ROYAL ONTARIO MUSEUM FOUNDATION

Statement of Cash Flows  
(In thousands of dollars)

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses (expenses over revenue)	\$ 10,504	\$ (3,147)
Items not involving cash:		
Change in unrealized (gains) losses on investments	(2,845)	4,133
Net realized gains	(2,282)	(1,189)
Change in non-cash operating working capital:		
Other assets	(9)	(176)
Accounts payable and accrued liabilities	49	49
Due to The Royal Ontario Museum	1,140	(531)
	6,557	(861)
Investing activities:		
Increase in investments	(1,370)	(937)
Increase (decrease) in cash	5,187	(1,798)
Cash, beginning of year	691	2,489
Cash, end of year	\$ 5,878	\$ 691

See accompanying notes to financial statements.

# THE ROYAL ONTARIO MUSEUM FOUNDATION

Notes to Financial Statements  
(In thousands of dollars)

Year ended March 31, 2017

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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 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, 2017

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

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. 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, 2017

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## 2. Significant accounting policies (continued):

(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.

(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.

# THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended March 31, 2017

## 3. Investments:

	2017	2016
Cash	\$ 8,660	\$ 6,530
Foreign equities	30,933	18,073
Fixed income:		
Canadian	17,586	14,801
U.S.	–	11,278
	<u>\$ 57,179</u>	<u>\$ 50,682</u>

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

Investment income (loss) comprises the following:

	2017	2016
Investment income	\$ 2,749	\$ 2,035
Net realized gains	2,282	1,189
Unrealized gains (losses)	2,845	(4,133)
	<u>\$ 7,876</u>	<u>\$ (909)</u>

## 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 2016.

### (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 2.500% to 3.125% (2016 - 2.500% to 3.125%) and maturing from 2042 to 2045 (2016 - 2042 to 2045). There has been no change to the risk exposure from 2016.

# THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended March 31, 2017

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## 4. Financial risks (continued):

### (b) Foreign currency risk:

The Foundation is exposed to financial risk as a result of exchange rate fluctuations and the volatility of these rates. 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.

From time to time, the ROM Governors enters 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. As at year end, there are no foreign currency contracts outstanding.

## 5. Restricted Fund:

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

	2017	2016
OFA Levy	\$ 61	\$ 11
General purpose	80	49
Acquisitions and research	6,272	2,941
Curatorial positions	769	749
Exhibitions and programs	7,209	5,760
Galleries and capital projects	647	1,425
Louise Hawley Stone Charitable Trust	718	674
Renaissance ROM Campaign	—	48
	<u>\$ 15,756</u>	<u>\$ 11,657</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 ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended March 31, 2017

## 6. Endowment Fund (continued):

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.

Total net investment income (loss) earned on the endowment investments were recognized as follows:

	2017	2016
General fund	\$ 1,284	\$ (46)
Restricted fund	503	(176)
Endowment fund	5,783	(501)
	<u>\$ 7,570</u>	<u>\$ (723)</u>

The amount available for spending of \$1,939 (2016 - \$2,013) calculated in accordance with ROM Governors' policy has been recorded as a transfer from the Endowment Fund to the Restricted Fund and General Fund (note 8).

The Endowment Fund consists of the following:

	2017	2016
Endowed with income available for the following purposes:		
General purpose	\$ 1,240	\$ 1,134
Acquisitions and research	14,508	13,068
Curatorial positions	19,985	18,282
Exhibitions and public programs	2,793	2,562
Galleries and capital projects	6,234	5,634
	<u>\$ 44,760</u>	<u>\$ 40,680</u>

An amount of \$12,607 (2016 - \$11,774) of the above has been internally endowed by the Board.

# THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended March 31, 2017

## 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 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.

## 8. Interfund transfers:

Transfers between funds consist of the following:

	General Fund		Restricted Fund		Endowment Fund	
	2017	2016	2017	2016	2017	2016
Board policy levy <sup>(ii)</sup>	\$ 487	\$ 473	\$ (487)	\$ (473)	\$ –	\$ –
RenROM levy <sup>(i)</sup>	444	137	(444)	(137)	–	–
Endowment distribution (note 6)	–	–	1,939	2,013	(1,939)	(2,013)
Administrative allocation (note 6)	484	467	(484)	(467)	–	–
Other	258	627	(264)	(627)	6	–
	<b>\$ 1,673</b>	<b>\$ 1,704</b>	<b>\$ 260</b>	<b>\$ 309</b>	<b>\$ (1,933)</b>	<b>\$ (2,013)</b>

<sup>(i)</sup> 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 is 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%.

<sup>(ii)</sup> A percentage of restricted donations is 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.

## 9. Income beneficiary:

During 1999, ROM Governors became the income beneficiary of an externally administered trust with an approximate market value of \$78,649 at March 31, 2017 (2016 - \$72,645). 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, \$2,571 (2016 - \$2,466) 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.

# THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended March 31, 2017

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## **10. Comparative information:**

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.