

Financial Statements of

**THE ROYAL ONTARIO
MUSEUM FOUNDATION**

Years ended June 30, 2013 and 2012



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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 sheets as at June 30, 2013, June 30, 2012 and July 1, 2011, the statements of revenue, expenses and changes in fund balances and cash flows for the years ended June 30, 2013 and June 30, 2012, 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 audits. We conducted our audits 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 in our audits 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 Royal Ontario Museum Foundation as at June 30, 2013, June 30, 2012 and July 1, 2011, and its results of operations and its cash flows for the years ended June 30, 2013 and June 30, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Accountants, Licensed Public Accountants

September 25, 2013
Toronto, Canada

THE ROYAL ONTARIO MUSEUM FOUNDATION

Balance Sheets

(In thousands of dollars)

June 30, 2013, June 30, 2012 and July 1, 2011

	June 30, 2013	June 30, 2012	July 1, 2011
Assets			
Cash and cash equivalents	\$ 2,393	\$ 4,966	\$ 1,800
Investments (note 3)	39,281	35,250	36,881
Due from The Royal Ontario Museum (note 6(c))	–	–	192
Other	283	876	519
	<u>\$ 41,957</u>	<u>\$ 41,092</u>	<u>\$ 39,392</u>

Liabilities and Fund Balances

Current liabilities:

Accounts payable and accrued liabilities	\$ 394	\$ 283	\$ 301
Due to The Royal Ontario Museum (note 6(c))	528	45	–
	<u>922</u>	<u>328</u>	<u>301</u>

Fund balances:

Unrestricted Fund	(2,687)	(2,921)	(3,154)
Restricted Fund (note 4)	9,199	9,968	8,945
Endowment Fund (note 5)	34,523	33,717	33,300
	<u>41,035</u>	<u>40,764</u>	<u>39,091</u>
	<u>\$ 41,957</u>	<u>\$ 41,092</u>	<u>\$ 39,392</u>

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Years ended June 30, 2013 and 2012

	Unrestricted Fund		Restricted Fund		Endowment Fund		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Revenue:								
Donations (notes 6(a) and 8)	\$ 1,546	\$ 1,701	\$ 6,927	\$ 7,819	\$ 78	\$ 94	\$ 8,551	\$ 9,614
Investment income (note 5)	420	631	1,264	1,237	2,282	2,201	3,966	4,069
Fundraising events	228	159	521	416	–	–	749	575
Transfers from The Royal Ontario Museum	–	–	–	–	8	9	8	9
	2,194	2,491	8,712	9,472	2,368	2,304	13,274	14,267
Expenses:								
Grants to The Royal Ontario Museum	233	2,277	8,767	6,818	–	–	9,000	9,095
Administrative	2,816	2,919	578	–	–	–	3,394	2,919
Fundraising events	127	128	244	231	–	–	371	359
Investment management fees	25	34	76	67	137	120	238	221
	3,201	5,358	9,665	7,116	137	120	13,003	12,594
Excess (deficiency) of revenue over expenses	(1,007)	(2,867)	(953)	2,356	2,231	2,184	271	1,673
Fund balances, beginning of year	(2,921)	(3,154)	9,968	8,945	33,717	33,300	40,764	39,091
Interfund transfers (note 7)	1,241	3,100	184	(1,333)	(1,425)	(1,767)	–	–
Fund balances, end of year	\$ (2,687)	\$ (2,921)	\$ 9,199	\$ 9,968	\$ 34,523	\$ 33,717	\$ 41,035	\$ 40,764

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM FOUNDATION

Statements of Cash Flows
(In thousands of dollars)

Years ended June 30, 2013 and 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 271	\$ 1,673
Change in unrealized loss (gain) on investments	62	(3,315)
Change in non-cash operating working capital:		
Due from/to The Royal Ontario Museum	483	237
Other assets	593	(357)
Accounts payable and accrued liabilities	111	(18)
	1,520	(1,780)
Investing activities:		
Decrease (increase) in investments	(4,093)	4,946
Increase (decrease) in cash and cash equivalents	(2,573)	3,166
Cash and cash equivalents, beginning of year	4,966	1,800
Cash and cash equivalents, end of year	\$ 2,393	\$ 4,966

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM FOUNDATION

Notes to Financial Statements
(In thousands of dollars)

Years ended June 30, 2013 and 2012

1. Incorporation and organization:

The Royal Ontario Museum Foundation, which operates under the name of ROM Governors, was incorporated under the Corporations Act (Ontario) on July 1, 1992 to co-ordinate all private-sector fundraising activities undertaken on behalf of The Royal Ontario Museum (the "Museum") and its affiliates. The objective of ROM Governors is to raise funds to be available for enhancing exhibitions and public programs, research, acquisitions and capital projects.

The Royal Ontario Museum Foundation is registered as a public foundation under the Income Tax Act (Canada) (the "Act") and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes.

On July 1, 2012, ROM Governors adopted Canadian Accounting Standards for Not-For-Profit Organizations ("Not-For-Profit Standards") in Part III of The Canadian Institute of Chartered Accountants' Handbook. These are the first financial statements prepared in accordance with Not-For-Profit Standards.

In accordance with the transitional provisions in Not-For-Profit Standards, ROM Governors has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is July 1, 2011 and all comparative information provided has been presented by applying Not-For-Profit Standards.

There were no adjustments to fund balances as at July 1, 2011 or excess (deficiency) of revenue over expenses for the year ended June 30, 2012 as a result of the transition to Not-For-Profit Standards.

THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Years ended June 30, 2013 and 2012

2. Significant accounting policies:

The financial statements of ROM Governors have been prepared by management in accordance with Not-For-Profit Standards.

(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.

(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. Sponsorships are recognized as revenue when the event has occurred.

(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.

THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Years ended June 30, 2013 and 2012

2. Significant accounting policies (continued):

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 period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(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 statements 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.

THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Years ended June 30, 2013 and 2012

3. Investments:

	June 30, 2013	June 30, 2012	July 1, 2011
Cash	\$ 3,631	\$ 633	\$ 1,181
Canadian equities	–	–	2,668
Foreign equities:			
Australian	46	–	–
U.S.	10,910	8,808	11,228
Asian	3,729	2,702	4,532
Fixed income:			
Canadian	13,772	12,903	10,655
U.S.	7,193	10,204	6,617
	<u>\$ 39,281</u>	<u>\$ 35,250</u>	<u>\$ 36,881</u>

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

Foreign equities have been converted to Canadian dollars as at June 30, 2013, 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 2.75% to 3.125% (June 30, 2012 - 4.38% to 4.75%, July 1, 2011 - 4.15% to 4.75%) and maturing from 2025 to 2042 (June 30, 2012 - 2025 to 2041; July 1, 2011 - 2025 to 2041). There has been no change to the risk exposure from 2012.

(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 investments are denominated. There has been no change to the risk exposure from 2012.

THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Years ended June 30, 2013 and 2012

3. Investments (continued):

(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 2012.

4. Restricted Fund:

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

	June 30, 2013	June 30, 2012	July 1, 2011
Acquisitions and research	\$ 2,724	\$ 2,561	\$ 2,833
Exhibitions and public programs	3,438	3,305	3,327
Gallery development	2,755	3,525	2,279
Renaissance ROM	282	577	506
	<u>\$ 9,199</u>	<u>\$ 9,968</u>	<u>\$ 8,945</u>

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 statements 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 ROYAL ONTARIO MUSEUM FOUNDATION

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

Years ended June 30, 2013 and 2012

5. Endowment Fund (continued):

The amount available for spending is calculated based on 5% of the market value of individual funds, with 3.75% available for grants and 1.25% for administrative expenses of the Unrestricted Fund.

In 2013, there was an investment gain of \$3,506 (June 30, 2012 - \$3,514; July 1, 2011 - \$3,293) on investments held for the Endowment Fund. A gain of \$2,282 (June 30, 2012 - \$2,201; July 1, 2011 - \$1,959) related to externally endowed funds is recorded as investment income in the Endowment Fund. Gains of \$889 (June 30, 2012 - \$827; July 1, 2011 - \$772) and \$335 (June 30, 2012 - \$486; July 1, 2011 - \$572) 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 \$1,592 (June 30, 2012 - \$1,381; July 1, 2011 - \$1,183) 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 Endowment Fund consists of the following:

	June 30, 2013	June 30, 2012	July 1, 2011
Externally endowed with income available for the following purposes:			
Endowed chairs	\$ 12,354	\$ 11,736	\$ 11,041
Acquisitions and research	7,669	7,220	6,702
Exhibitions and public programs	1,208	1,147	1,081
Gallery development	1,928	1,816	1,683
Unrestricted	1,443	1,375	1,306
	24,602	23,294	21,813
Internally endowed:			
Restricted funds	9,074	8,531	7,359
Unrestricted funds	847	1,892	4,128
	9,921	10,423	11,487
	\$ 34,523	\$ 33,717	\$ 33,300

THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Years ended June 30, 2013 and 2012

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 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%.
- (b) The Museum provides space and certain administrative support to ROM Governors at no cost.
- (c) Amounts due to/from 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.

7. Interfund transfers:

Transfers between funds consist of the following:

	Unrestricted Fund		Restricted Fund		Endowment Fund	
	2013	2012	2013	2012	2013	2012
Allocation of investment income (loss) in accordance with Board policy (note 5)	\$ (315)	\$ (460)	\$ (835)	\$ (782)	\$ 1,150	\$ 1,242
Amount made available for spending (note 5)	571	540	1,021	841	(1,592)	(1,381)
Board approved transfers	–	–	(76)	(342)	76	342
Other	985	3,020	74	(1,050)	(1,059)	(1,970)
	\$ 1,241	\$ 3,100	\$ 184	\$ (1,333)	\$ (1,425)	\$ (1,767)

THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Years ended June 30, 2013 and 2012

8. Income beneficiary:

During 1999, ROM Governors became the income beneficiary of an externally administered trust with an approximate market value of \$61,623 at June 30, 2013 (2012 - \$55,918). Income received from this trust is to be used for publications about the Museum and acquisitions of artifacts. During the year, \$1,978 (2012 - \$2,002) 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 2012.

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 the year, the ROM Governors entered into a foreign exchange contract to sell U.S. \$6,000 at an exchange rate of 1.0463%, with an expiry date of September 30, 2013, resulting in no gain as at June 30, 2013.