

Financial Statements of

**THE ROYAL ONTARIO
MUSEUM FOUNDATION**

Year ended June 30, 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 sheet as at June 30, 2012, 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 generally accepted accounting principles, 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.

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, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

September 19, 2012
Toronto, Canada

THE ROYAL ONTARIO MUSEUM FOUNDATION

Balance Sheet
(In thousands of dollars)

June 30, 2012, with comparative figures for 2011

	2012	2011
Assets		
Cash and cash equivalents	\$ 4,966	\$ 1,800
Investments (note 3)	35,250	36,881
Due from The Royal Ontario Museum (note 6(c))	–	192
Other	876	519
	\$ 41,092	\$ 39,392

Liabilities and Fund Balances

Current liabilities:

Accounts payable and accrued liabilities	\$ 283	\$ 301
Due to The Royal Ontario Museum (note 6(c))	45	–
	328	301

Fund balances:

Unrestricted Fund	(2,921)	(3,154)
Restricted Fund (note 4)	9,968	8,945
Endowment Fund (note 5)	33,717	33,300
	40,764	39,091

	\$ 41,092	\$ 39,392
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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 June 30, 2012, with comparative figures for 2011

	Unrestricted Fund		Restricted Fund		Endowment Fund		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Revenue:								
Donations (notes 6(a) and 8)	\$ 1,701	\$ 1,438	\$ 7,819	\$ 12,137	\$ 94	\$ 2,206	\$ 9,614	\$ 15,781
Investment income (note 5)	631	763	1,237	1,161	2,201	1,959	4,069	3,883
Fundraising events	159	178	416	2,749	–	–	575	2,927
Transfers from The Royal Ontario Museum	–	–	–	–	9	10	9	10
	2,491	2,379	9,472	16,047	2,304	4,175	14,267	22,601
Expenses:								
Grants to The Royal Ontario Museum	2,277	276	6,818	10,924	–	–	9,095	11,200
Administrative (note 6(a))	2,919	2,610	–	–	–	–	2,919	2,610
Fundraising events	128	106	231	2,083	–	–	359	2,189
Investment management fees	34	67	67	103	120	173	221	343
	5,358	3,059	7,116	13,110	120	173	12,594	16,342
Excess (deficiency) of revenue over expenses	(2,867)	(680)	2,356	2,937	2,184	4,002	1,673	6,259
Fund balances, beginning of year	(3,154)	(4,418)	8,945	8,012	33,300	29,238	39,091	32,832
Interfund transfers (note 7)	3,100	1,944	(1,333)	(2,004)	(1,767)	60	–	–
Fund balances, end of year	\$ (2,921)	\$ (3,154)	\$ 9,968	\$ 8,945	\$ 33,717	\$ 33,300	\$ 40,764	\$ 39,091

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM FOUNDATION

Statement of Cash Flows
(In thousands of dollars)

Year ended June 30, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 1,673	\$ 6,259
Change in unrealized loss (gain) on investments	(3,315)	112
Change in non-cash operating working capital:		
Due from/to The Royal Ontario Museum	237	(1,199)
Other assets	(357)	(419)
Accounts payable and accrued liabilities	(18)	4
	(1,780)	4,757
Investing activities:		
Decrease (increase) in investments	4,946	(5,076)
Increase (decrease) in cash and cash equivalents	3,166	(319)
Cash and cash equivalents, beginning of year	1,800	2,119
Cash and cash equivalents, end of year	\$ 4,966	\$ 1,800

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM FOUNDATION

Notes to Financial Statements
(In thousands of dollars)

Year ended June 30, 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.

2. Significant accounting policies:

The financial statements of ROM Governors have been prepared in accordance with Canadian generally accepted accounting principles. The following summary of significant accounting policies is set forth to facilitate the understanding of these financial statements:

(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.

THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended June 30, 2012

2. Significant accounting policies (continued):

(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 other than investments:

ROM Governors designates its cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

(e) Investments and investment income (loss):

Investments are classified as held-for-trading and are stated at fair value. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of revenue, expenses and changes in fund balances.

Publicly traded securities are valued based on the latest bid prices and pooled funds are valued based on reported unit values. Short-term securities are valued based on cost plus accrued income, which approximates fair value. Transactions are recorded on a settlement date basis and transaction costs are expensed as incurred. Investment income (loss), which consists of interest, dividends, income distributions from pooled funds and realized and unrealized gains and losses, is recorded in the statement of revenue, expenses and changes in fund balances.

Investment income (loss) is allocated to funds based on month-end balances. Investment income (loss) that must be spent on donor-restricted activities is recognized in the Restricted Fund. Unrestricted investment income (loss) earned on the Endowment Fund, Restricted Fund and Unrestricted Fund resources is recognized in the Unrestricted Fund.

(f) Grants:

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

THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended June 30, 2012

2. Significant accounting policies (continued):

(g) 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.

(h) Contributed goods and services:

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

3. Investments:

Investments, at fair value, consist of the following:

	2012		2011	
	Fair value	Cost	Fair value	Cost
Cash	\$ 633	\$ 629	\$ 1,181	\$ 1,223
Canadian equities	—	—	2,668	2,286
Foreign equities:				
U.S.	8,808	8,361	11,228	11,099
Asian	2,702	2,652	4,532	4,269
Fixed income:				
Canadian	12,903	12,467	10,655	10,310
U.S.	10,204	7,264	6,617	7,132
	<u>\$ 35,250</u>	<u>\$ 31,373</u>	<u>\$ 36,881</u>	<u>\$ 36,319</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 June 30, 2012

3. Investments (continued):

Foreign equities have been converted to Canadian dollars as at June 30, 2012, 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 4.38% to 4.75% (2011 - 4.15% to 4.75%) and maturing from 2025 to 2041 (2011 - 2025 to 2041).

(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.

(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.

4. Restricted Fund:

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

	2012	2011
Acquisitions and research	\$ 2,561	\$ 2,833
Exhibitions and public programs	3,305	3,327
Gallery development	3,525	2,279
Renaissance ROM	577	506
	<hr/>	<hr/>
	\$ 9,968	\$ 8,945

THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended June 30, 2012

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% of the market value of individual funds, with 3.75% available for grants and 1.25% for administrative expenses of the Unrestricted Fund.

In 2012, there was an investment gain of \$3,514 (2011 - \$3,293) on investments held for the Endowment Fund. A gain of \$2,201 (2011 - \$1,959) related to externally endowed funds is recorded as investment income in the Endowment Fund. Gains of \$827 (2011 - \$772) and \$486 (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 \$1,381 (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 ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended June 30, 2012

5. Endowment Fund (continued):

The Endowment Fund consists of the following:

	2012	2011
Externally endowed with income available for the following purposes:		
Endowed chairs	\$ 11,736	\$ 11,041
Acquisitions and research	7,220	6,702
Exhibitions and public programs	1,147	1,081
Gallery development	1,816	1,683
Unrestricted	1,375	1,306
	<u>23,294</u>	<u>21,813</u>
Internally endowed:		
Restricted funds	8,531	7,359
Unrestricted funds	1,892	4,128
	<u>10,423</u>	<u>11,487</u>
	<u>\$ 33,717</u>	<u>\$ 33,300</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. The Foundation 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.

THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended June 30, 2012

7. Interfund transfers:

Transfers between funds consist of the following:

	Unrestricted Fund		Restricted Fund		Endowment Fund	
	2012	2011	2012	2011	2012	2011
Allocation of investment income (loss) in accordance with Board policy (note 5)	\$ (460)	\$ (523)	\$ (782)	\$ (707)	\$ 1,242	\$ 1,230
Amount made available for spending (note 5)	540	495	841	688	(1,381)	(1,183)
Board approved transfers	–	–	(342)	(13)	342	13
Other	3,020	1,972	(1,050)	(1,972)	(1,970)	–
	\$ 3,100	\$ 1,944	\$ (1,333)	\$ (2,004)	\$ (1,767)	\$ 60

8. Income beneficiary:

During 1999, ROM Governors became the income beneficiary of an externally administered trust with an approximate market value of \$55,918 at June 30, 2012 (2011 - \$59,062). Income received from this trust is to be used for publications about the Museum and acquisitions of artifacts. During the year, \$2,002 (2011 - \$1,930) 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 instruments:

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.

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.

THE ROYAL ONTARIO MUSEUM FOUNDATION

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

Year ended June 30, 2012

9. Financial instruments (continued):

During the year, the ROM Governors entered into a foreign exchange contract to sell U.S. \$6,000 at an exchange rate of 1.02687%, with an expiry date of September 28, 2012, resulting in no gain as at June 30, 2012.

10. Capital management:

In managing capital, ROM Governors keeps sufficient resources readily available to meet its obligations to make grants. As at June 30, 2012, ROM Governors has met its objective of keeping sufficient resources available to meet its obligations to make grants.