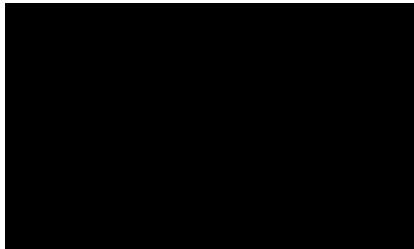
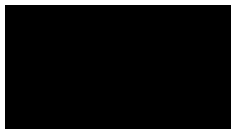


Financial Statements of

**THE AGA KHAN MUSEUM -
LE MUSÉE AGA KHAN**

And Independent Auditors' Report thereon

Year ended December 31, 2019



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Aga Khan Museum - Le Musée Aga Khan

Opinion

We have audited the financial statements of The Aga Khan Museum - Le Musée Aga Khan (the Entity), which comprise:

- the balance sheet as at December 31, 2019
- the statement of operations for the year then ended
- the statement of changes in net assets 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 December 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.

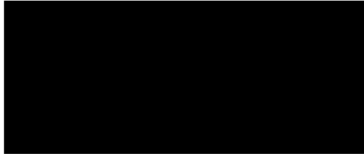
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

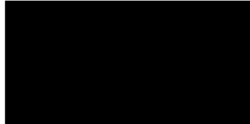
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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.
- 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.



Chartered Professional Accountants, Licensed Public Accountants



THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Balance Sheet

December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 1,991,563	\$ 3,506,883
Short-term investment (note 2)	2,601,704	—
Accounts receivable	667,616	363,571
Harmonized sales tax receivable	390,078	458,845
Prepaid expenses	325,941	348,523
Inventory	365,931	584,208
	<u>6,342,833</u>	<u>5,262,030</u>
Capital assets and intangible assets (note 3)	2,800,966	3,154,693
Collections (note 4)	1	1
	<u>\$ 9,143,800</u>	<u>\$ 8,416,724</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,356,979	\$ 1,273,096
Deferred revenue	3,675,992	2,625,939
	<u>5,032,971</u>	<u>3,899,035</u>
Long-term liabilities:		
Deferred capital contributions (note 5)	8,323	12,375
	<u>5,041,294</u>	<u>3,911,410</u>
Net assets:		
Unrestricted	(1,263,526)	(337,004)
Invested in capital assets (note 10)	2,792,643	3,142,318
Endowment Fund (note 6)	2,573,389	1,700,000
	<u>4,102,506</u>	<u>4,505,314</u>
Commitment (note 8)		
Subsequent event and contingencies (note 13)		
	<u>\$ 9,143,800</u>	<u>\$ 8,416,724</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Statement of Operations

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

	2019	2018
Revenue:		
Grants (note 7)	\$ 4,901,248	\$ 5,978,257
Admission fees	727,340	613,182
Education, performances and museum programs	415,680	397,034
Ancillary services	2,016,317	2,276,751
Memberships, donations and sponsorships (note 9)	8,217,895	7,086,119
Amortization of deferred capital contributions (note 5)	4,052	4,431
	<u>16,282,532</u>	<u>16,355,774</u>
Expenses:		
Exhibitions and collections care (note 4)	3,451,707	3,881,548
Education, performances and museum programs	1,571,579	1,388,652
Ancillary services	1,351,990	1,487,932
General and administration	6,061,446	5,564,315
Marketing and public relations	1,981,981	2,096,452
Facilities	2,648,392	2,566,762
Amortization	491,634	470,717
	<u>17,558,729</u>	<u>17,456,378</u>
Deficiency of revenue over expenses	<u>\$ (1,276,197)</u>	<u>\$ (1,100,604)</u>

See accompanying notes to financial statements.

THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Statement of Changes in Net Assets

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

				2019	2018
	Endowment Fund (note 6)	Unrestricted	Invested in capital assets (note 10)	Total	Total
Net assets, beginning of year	\$ 1,700,000	\$ (337,004)	\$ 3,142,318	\$ 4,505,314	\$ 5,355,918
Deficiency of revenue over expenses	–	(788,615)	(487,582)	(1,276,197)	(1,100,604)
Net change in invested in capital assets	–	(137,907)	137,907	–	–
Contributions to Endowment Fund	873,389	–	–	873,389	250,000
Net assets, end of year	\$ 2,573,389	\$ (1,263,526)	\$ 2,792,643	\$ 4,102,506	\$ 4,505,314

See accompanying notes to financial statements.

THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Statement of Cash Flows

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

	2019	2018
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (1,276,197)	\$ (1,100,604)
Items not involving cash:		
Amortization of capital assets and intangible assets	491,634	470,717
Amortization of deferred capital contributions	(4,052)	(4,431)
Change in non-cash operating working capital (note 11)	1,139,517	306,223
	350,902	(328,095)
Investing activities:		
Purchase of capital assets and intangible assets	(137,907)	(474,309)
Purchase of short-term investment	(2,601,704)	—
	(2,739,611)	(474,309)
Financing activities:		
Payment of long-term payable	—	(143,134)
Receipts for Endowment Fund	873,389	250,000
	873,389	106,866
Decrease in cash	(1,515,320)	(695,538)
Cash, beginning of year	3,506,883	4,202,421
Cash, end of year	\$ 1,991,563	\$ 3,506,883

See accompanying notes to financial statements.

THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Notes to Financial Statements

Year ended December 31, 2019

The Aga Khan Museum - Le Musée Aga Khan (the "Museum") was incorporated on June 8, 2012 under the Canada Not-for-profit Corporations Act and is part of the worldwide Aga Khan Development Network. The Museum is a registered charity within the meaning of the Income Tax Act (Canada) and is exempt from income taxes and is able to issue donation receipts for income tax purposes.

The Museum in Toronto is dedicated to the intellectual, cultural and artistic heritage of Islamic civilizations. Through art, performances, exhibitions, research, education and collaboration with other leading international institutions, the Museum promotes knowledge of the contributions of Islamic civilizations to world heritage.

The Museum is situated in a leased, purpose-built facility and opened to the public in September 2014. Conceived primarily as an educational institution, the Museum floor plan includes permanent and temporary exhibition gallery spaces, education classrooms, a 336-seat auditorium, a café, museum shop and free publicly accessible spaces for the general public.

Within these spaces, the Museum distinguishes itself through a unique integration of public programming based on an exceptional permanent collection, rotating contemporary and historical exhibitions, a range of performances and live arts and education and scholarship programs.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

(a) Revenue recognition:

The Museum follows the deferral method of accounting for contributions, which includes grants, bequests, contributions for acquisitions and other donations. Grants and bequests are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when received. Externally restricted contributions are deferred when received and recognized as revenue in the year in which the related expenses are recognized.

THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

1. Significant accounting policies (continued):

Friends and patrons and sponsorship fees are deferred and recognized as revenue over the term covered by the fees.

Endowments are recognized as direct increases in net assets and required to be maintained on a permanent basis and only the income derived therefrom is available to support the Museum's activities.

Admission fees, ancillary services, education, performances and museum programs, and other revenue are recorded as revenue when the services have been provided or the goods delivered.

(b) Contributed materials and time:

The Museum recognizes the contribution of materials at fair value when it can be reasonably estimated, when it is used in the normal course of operations and would have been otherwise purchased. Because of the difficulty in determining the fair value, contributed services and volunteer time is not recognized in the financial statements.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Museum has not 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. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

1. 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 Museum 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 Museum 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) Inventory:

Gift store and publishing inventory are recorded at the lower of cost, determined on a weighted average basis, and net realizable value.

(e) Capital assets and intangible assets:

Capital assets purchased are recorded at cost. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated useful life of an asset are capitalized. When a capital asset no longer contributes to the Museum's ability to provide services, its carrying amount is written down to its residual value.

Intangible assets comprise assets that have a definite life and are amortized on a straight-line basis over their estimated useful life. Intangible assets include computer software and website. Intangible assets are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

Capital assets and intangible assets are amortized over their estimated useful lives on a straight-line basis, as follows:

Computer software and technology equipment	3 years
Library books	10 years
Website	3 years
Furniture and equipment	3 - 10 years

Leasehold improvements are amortized over their estimated useful lives.

THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

1. Significant accounting policies (continued):

(f) Collections:

Collections are recognized on the balance sheet at a nominal value. For a purchased collection item, the difference between the purchase price and nominal value and all other costs attributable to purchasing the collection item are recognized in the statement of operations.

Contributed artifacts and specimen are recorded at a nominal amount on the balance sheet.

(g) Foreign currency translation:

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction date. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the date of the balance sheet. Non-monetary assets and liabilities are translated at the historic rate. Exchange gains and losses are included in the statement of operations.

(h) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Museum's functional currency.

(i) 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.

(j) Changes in accounting policy:

In March 2018, the Accounting Standards Board issued "Basis for Conclusions - Accounting Standards Improvements for Not-for-Profit Organizations" resulting in the introduction of a new handbook section, Section 4441 - Collections held by not-for-profit organizations in the Accounting Standards for Not-for-Profit Organizations in Part III of the Handbook.

THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

1. Significant accounting policies (continued):

Section 4441, Collections held by not-for-profit organizations, defines a collection and directs organizations to record such assets on the balance sheet at either cost or nominal value. It is anticipated that all collections will be accounted for using the same method, with the exception of organizations that opt to account for collections at cost, whereby the cost for certain collections either held or contributed cannot be determined. Such items are to be accounted for at a nominal value. The standard is effective for the Museum's financial statements for the year ended December 31, 2019 with retrospective application.

Management assessed the impact on the adoption to this new standard and concluded that other than minor financial presentation changes, there is no significant impact to the Museum. There is no change to opening net assets as at January 1, 2018 or deficiency of revenue over expenses in the comparative period.

Refer to note 1(f) for the Museum's accounting policy pertaining to Collections.

2. Short-term investments:

In 2019, the Museum invested \$2,601,704 in guaranteed investment certificates (GICs) bearing interest ranging from 1.84% to 2.15% and maturing between February 2020 and October 2020 (2018 - nil).

3. Capital assets and intangible assets:

Capital assets and intangible assets consist of the following:

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
Computer software and technology equipment	\$ 406,652	\$ 341,806	\$ 64,846	\$ 101,503
Library books	123,432	80,372	43,060	55,403
Website	447,651	308,096	139,555	156,889
Furniture and equipment	2,398,386	1,223,393	1,174,993	1,427,476
Leasehold improvements	1,787,664	409,152	1,378,512	1,413,422
	<u>\$ 5,163,785</u>	<u>\$ 2,362,819</u>	<u>\$ 2,800,966</u>	<u>\$ 3,154,693</u>

THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

4. Collections:

The permanent collection (the "collection") of the Museum currently comprises around 1,000 pieces of artifacts and specimen covering well over a thousand years of artistic accomplishment by Muslim cultures stretching from the Iberian Peninsula and the Maghreb to Southeast Asia and China. The main strength of the collection is works on paper, including manuscripts, individual folios of calligraphy, miniature paintings and related documents. The collection also includes ceramics, metalwork, scientific and musical instruments, luxury objects and architectural pieces.

During 2019, artifacts and specimen totalling \$24,992 (2018 - \$55,464) were recognized in the statement of operations.

5. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of restricted contributions used for the purchase of capital assets or contributed capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations. Changes in the deferred capital contributions balance are as follows:

	2019	2018
Balance, beginning of year	\$ 12,375	\$ 16,806
Amortization of deferred capital contributions	(4,052)	(4,431)
Balance, end of year	\$ 8,323	\$ 12,375

6. Endowment Fund:

The Endowment Fund (the "Fund") has been established by the Museum in accordance with guidelines set out by the Board of Directors (the "Board"). The Board approved an Investment Policy for the Fund on March 13, 2018. The investment and disbursement of the Endowment Funds are established to preserve the funds' capital and grow the real value of the funds' assets over time, while maintaining a predictable, stable and growing level of long term financial support to the Museum. Contributions to the Fund are recognized as a direct increase to net assets. Investment income related to the Fund is unrestricted and is recognized as revenue when earned.

THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

6. Endowment Fund (continued):

The Fund consists of the following:

	2019	2018
Internally endowed	\$ 1,200,000	\$ 1,200,000
Externally endowed	1,373,389	500,000
	<u>\$ 2,573,389</u>	<u>\$ 1,700,000</u>

Externally endowed represents funds set aside for specific purposes as specified by the donor. These funds are to be maintained permanently as endowments. Annual interest earned on this externally endowed amount is used to cover the costs incurred every year to serve the underlying objective as outlined in the donor agreement.

7. Grants and economic dependence:

The Museum receives a significant amount of its revenue in the form of grants from the Aga Khan Foundation, Canada ("AKFC"). The Museum's continuing operations are dependent on the continuation of these grants, including additional funding to address any potential financial impact as described in note 13.

The Museum received \$4,300,000 in grants from AKFC related to operations for the year ended December 31, 2019 (2018 - \$5,426,525), which are included in grants revenue.

8. Contributed property:

In 2014, the Museum took occupancy of the purpose-built facility that is owned by AKFC. The Museum and AKFC continue to negotiate the terms of a 99-year lease agreement for 77 Wynford Drive, Toronto, for a nominal amount of \$2 per year. The proposed lease specifies that all costs related to the land and building, including renovation costs, operating costs and taxes, are to be borne by the lessee. The Museum is currently occupying the property under these proposed terms. Given the unique nature of the property and the consequent difficulties in assessing its fair market value, the lease has been valued at a nominal amount of \$1.

9. In-kind contributions:

During 2019, the Museum recorded in-kind contributions totaling \$6,650 (2018 - nil).

THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

10. Invested in capital assets and intangible assets:

The Museum internally restricts an amount representing the unamortized portion of capital assets and intangible assets purchased with unrestricted resources.

(a) The Museum has an investment in capital assets and intangible assets, which is calculated as follows:

	2019	2018
Capital assets and intangible assets (note 3)	\$ 2,800,966	\$ 3,154,693
Amounts funded by deferred capital contributions (note 5)	(8,323)	(12,375)
	<u>\$ 2,792,643</u>	<u>\$ 3,142,318</u>

(b) The change in this balance is calculated as follows:

	2019	2018
Excess (deficiency) of revenue over expenses:		
Amortization of deferred contributions related to capital assets and intangible assets (note 5)	\$ 4,052	\$ 4,431
Amortization of capital assets and intangible assets	(491,634)	(470,717)
	<u>(487,582)</u>	<u>(466,286)</u>
Net change in invested in capital assets and intangible assets:		
Purchase of capital assets and intangible assets	137,907	474,309
Increase (decrease) in invested in capital assets and intangible assets	<u>\$ (349,675)</u>	<u>\$ 8,023</u>

THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

11. Statement of cash flows:

The change in non-cash operating working capital consists of the following:

	2019	2018
Increase in accounts receivable	\$ (304,045)	\$ (101,407)
Decrease (increase) in harmonized sales tax receivable	68,767	(101,461)
Decrease in prepaid expenses	22,582	30,378
Decrease (increase) in inventory	218,277	(107,879)
Increase in accounts payable and accrued liabilities	83,883	280,990
Increase in deferred revenue	1,050,053	305,602
	<u>\$ 1,139,517</u>	<u>\$ 306,223</u>

12. Financial risks:

(a) Liquidity risk:

Liquidity risk is the risk that the Museum will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Museum manages its liquidity risk by monitoring its operating requirements. The Museum prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

(b) Credit risk:

Credit risk arises as a result of the possibility that one party to a financial instrument will fail to discharge an obligation and cause the Museum to incur financial loss. The Museum manages this risk by dealing with reputable and creditworthy counterparties.

(c) Interest rate risk:

Interest rate risk arises when the value of investments fluctuates in accordance with fluctuations in interest rates. The Museum manages its interest rate risk by investing in GICs and fixing the interest rate on each investment.

The Museum does not believe that it is exposed to significant market and currency risks arising from its financial instruments. There has been no significant change to the risk exposure from 2018.

THE AGA KHAN MUSEUM - LE MUSÉE AGA KHAN

Notes to Financial Statements (continued)

Year ended December 31, 2019

13. Subsequent event and contingencies:

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. In response to the pandemic, the Museum was closed effective March 14, 2020 until further notice. The Museum will follow the recommendation of public health for the reopening date. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Museum is not known at this time. These impacts could include potential future decreases in revenue and cash flows.

14. Comparative information:

Certain comparative information has been reclassified to conform with the current year presentation.