

# CANADIAN MUSEUM OF NATURE

## QUARTERLY FINANCIAL REPORT

(Unaudited)

For the six month period  
ended September 30, 2013

Canada



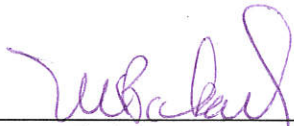
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## STATEMENT OF MANAGEMENT RESPONSIBILITY BY SENIOR OFFICIALS

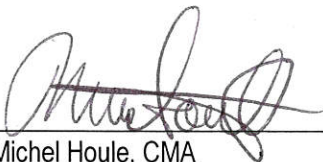
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects the financial position, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the quarterly financial statements.



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Margaret Beckel  
President and Chief Executive Officer



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Michel Houle, CMA  
Vice President, Corporate Services  
and Chief Financial Officer

Ottawa, Canada  
November 7, 2013

## FINANCIAL STATEMENTS

### *Statement of Financial Position as at September 30, 2013 (Unaudited)*

<i>(in thousands of dollars)</i>	at Sept. 30 2013	at Sept. 30 2012	at March 31 2013
<b>Assets</b>			
Current			
Cash and cash equivalents	8,279	9,489	8,619
Accounts receivable			
Trade	294	576	647
Government departments and agencies	129	512	1,133
Prepaid expenses	907	1,258	827
	9,609	11,835	11,226
Restricted cash, cash equivalents and receivables	1,612	2,007	1,904
Collections	1	1	1
Tangible capital assets (note 3)	200,869	205,835	204,457
	<b>212,091</b>	<b>219,678</b>	<b>217,588</b>
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities			
Trade	2,042	3,500	3,030
Government departments and agencies	316	1	30
Current portion - obligation under capital lease (note 4)	618	560	588
Deferred revenues, contributions and parliamentary appropriations (note 5)	5,241	7,187	6,680
Employee future benefits	236	1,711	795
	8,453	12,959	11,123
Obligation under capital lease (note 4)	28,685	29,303	29,002
Deferred capital funding (note 6)	182,380	186,347	185,468
Employee future benefits	3,113	3,130	3,113
	222,631	231,739	228,706
<b>Accumulated Deficit</b>			
Unrestricted	83	(1,991)	(822)
Endowment (note 7)	305	305	305
Investment in tangible capital assets (note 8)	(10,928)	(10,375)	(10,601)
	(10,540)	(12,061)	(11,118)
	<b>212,091</b>	<b>219,678</b>	<b>217,588</b>

The accompanying notes form an integral part of the financial statements.

## FINANCIAL STATEMENTS

### *Statement of Operations for the six month period ended September 30, 2013 (Unaudited)*

<i>(in thousands of dollars)</i>	Sept. 30 2013	Sept. 30 2012
<b>Revenue</b>		
Commercial operations (note 10)	2,214	2,351
Contributions	535	887
Educational programmes	276	95
Interest	48	73
Scientific services	10	5
Other	39	18
	<b>3,122</b>	<b>3,429</b>
<b>Expenses (note 12)</b>		
Public education programmes	3,669	5,041
Collections management	1,143	1,221
Research	1,954	2,135
Internal services	2,830	2,679
Accommodation	10,145	10,691
	<b>19,741</b>	<b>21,767</b>
<b>Net result of operations before government funding</b>	<b>(16,619)</b>	<b>(18,338)</b>
Parliamentary appropriations (note 9)	17,197	16,932
<b>Net result of operations</b>	<b>578</b>	<b>(1,406)</b>

The accompanying notes form an integral part of the financial statements.

### *Statement of Changes in Accumulated Deficit for the six month period ended September 30, 2013 (Unaudited)*

<i>(in thousands of dollars)</i>	Unrestricted	Endowment	Invested in tangible capital assets	Sept. 30 2013	Sept. 30 2012
Accumulated Deficit, beginning of year	(822)	305	(10,601)	(11,118)	(10,655)
Net result of operations	578			578	(1,406)
Net change in investment in tangible capital assets (note 8)	327		(327)	-	-
<b>Accumulated Deficit, end of period</b>	<b>83</b>	<b>305</b>	<b>(10,928)</b>	<b>(10,540)</b>	<b>(12,061)</b>

The accompanying notes form an integral part of the financial statements.

A statement of remeasurement gains and losses has been excluded as there have been no remeasurement gains or losses.

## FINANCIAL STATEMENTS

### *Statement of Cash Flows for the six month period ended September 30, 2013 (Unaudited)*

<i>(in thousands of dollars)</i>	Sept. 30 2013	Sept. 30 2012
<b>Operating activities</b>		
Cash receipts - customers	3,739	2,337
Cash receipts - parliamentary appropriations	12,831	12,450
Cash disbursements - employees	(7,555)	(7,586)
Cash disbursements - suppliers	(7,845)	(8,381)
Interest received	62	82
Interest paid	(1,463)	(1,490)
<b>Cash used in operating activities</b>	<b>(231)</b>	<b>(2,588)</b>
<b>Capital activities</b>		
Acquisition of tangible capital assets	(640)	(4,152)
Disposition of tangible capital assets	9	-
<b>Cash used in capital activities</b>	<b>(631)</b>	<b>(4,152)</b>
<b>Investing activities</b>		
Decrease in restricted cash, cash equivalents and receivables	292	69
<b>Cash provided by investing activities</b>	<b>292</b>	<b>69</b>
<b>Financing activities</b>		
Appropriations used to purchase depreciable tangible capital assets	517	4,152
Obligation under capital lease	(287)	(259)
<b>Cash provided by financing activities</b>	<b>230</b>	<b>3,893</b>
<b>Decrease in cash and cash equivalents</b>	<b>(340)</b>	<b>(2,778)</b>
Cash and cash equivalents, beginning of year	8,619	12,267
<b>Cash and cash equivalents, end of period</b>	<b>8,279</b>	<b>9,489</b>

The accompanying notes form an integral part of the financial statements.

**Notes to the Financial Statements**  
**for the six month period ended September 30, 2013**  
**(Unaudited)**

## 1. Authority and Mission

The Canadian Museum of Nature (the "Corporation") was established by the *Museums Act* on July 1st, 1990, and is an agent Crown corporation named in Part I of Schedule III of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. The Corporation is classified as a government not-for-profit organization (GNPO).

The Corporation's mission is to increase, throughout Canada and internationally, interest in, knowledge of and appreciation and respect for the natural world by establishing, maintaining and developing for research and posterity a collection of natural history objects, with special but not exclusive reference to Canada, and by demonstrating the natural world, the knowledge derived from it and the understanding it represents.

Brief descriptions of the Corporation's activities are as follows:

### Public Education Programmes

The Corporation develops and maintains exhibitions, programmes, the **nature.ca** website, electronic and print publications, and activities to foster an understanding of, and respect for, nature.

### Collections Management

The Corporation develops, preserves and makes accessible collections of natural history specimens, objects and information to meet the growing needs of the public and private sectors for research, education and informed decision-making about the natural world.

### Research

The Corporation studies the past and helps Canadians prepare for the future by conducting systematics and applied research, and by developing and maintaining networks and linkages with Canadian and international science communities.

### Internal Services

The Corporation develops and implements the policies, processes and an accountability structure and processes to oversee the fulfilment of its mandate, including governance, strategic direction, corporate services, monitoring of corporate performance, reporting to Parliament and revenue generating activities.

### Accommodation

The Corporation provides secure and functional facilities that meet all safety and building code requirements. Among these facilities is the renovated Victoria Memorial Museum Building that furthers the vision and mandate of the Corporation.

## 2. Significant Accounting Policies

### A) Basis of Presentation

The financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS), and reflect the application of the Section 4200 series for GNPOs.

## FINANCIAL STATEMENTS

### B) Use of Estimates

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the period. Employee future benefits and the estimated useful lives of tangible capital assets are the most significant items for which estimates are used. Actual results could differ significantly from those estimated. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the fiscal year which they become known.

### C) Collections

The Corporation holds and preserves invaluable collections of natural history specimens for the benefit of Canadians, present and future. The collections are shown as an asset on the Statement of Financial Position at a nominal value of \$1,000 due to practical difficulties in determining a meaningful value for these assets. Objects purchased for the collections are recorded as an expense in the year of acquisition. Objects donated to the Corporation are recorded as assets at the nominal value.

### D) Tangible Capital Assets

- Tangible capital assets are recorded at cost.
- Assets recorded as capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease.
- Land and building owned by the Government of Canada and that are under the control of the Corporation are recorded at their estimated cost.
- Material and equipment acquired for the purpose of the design, development and maintenance of exhibits are charged to operations in the year of acquisition.

40 years	Victoria Memorial Museum Building
35 years	Property under capital lease
35 years	Collection cabinets and compactors
10 years	Research equipment General equipment Furnishings and office equipment
5 to 25 years	Building improvements
5 years	Motor vehicles
3 to 5 years	Leasehold improvements
3 years	Computer equipment

Amortization is calculated on the straight-line method using rates based on the estimated useful life of the assets, except for leasehold improvements which are amortized on a straight line basis over the shorter of the term of lease agreement or the asset's useful life.

When conditions indicate that an asset no longer contributes to the Corporation's ability to provide its services, the cost of the asset is written down to its residual value, if any.

### E) Employee Future Benefits

#### *i) Pension benefits*

Substantially all of the employees of the Corporation are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Corporation.



### *ii) Severance benefits and sick leave benefits*

Employees are entitled to severance benefits and sick leave benefits, as provided for under labor contracts and conditions of employment. The cost of these benefits is accrued to operations as the employees render the services necessary to earn them. Management determined the accrued severance benefit obligation by using a method based upon assumptions and its best estimates while an actuarial method is used to determine the value of the sick leave obligation. The actuarial gains and losses are amortized over the expected average remaining service life of the related employee group. The severance benefits represent the only obligation of the Corporation that entails settlement by future payment. As a result of collective bargaining and consistent with the Government of Canada's approach, effective April 1, 2012, employees no longer accumulate severance pay upon resignation or retirement. The accumulated severance pay will be calculated at the rate of one week of pay for each year of service.

### **F) Revenue Recognition**

Revenues from commercial operations, educational programmes, scientific services and other revenues are recognized when persuasive evidence of an arrangement exists between the two parties, goods have been delivered or services have been provided to the customers, price is fixed and determinable and collection is reasonably assured. The Corporation also records deferred revenue when amounts are received in advance of providing goods and services.

### **G) Parliamentary Appropriations**

The Government of Canada provides financing to the Corporation through parliamentary appropriations.

- The parliamentary appropriations for operating expenditures are recognized as revenue in the fiscal years for which they are approved.
- The parliamentary appropriations allocated to the purchase of depreciable tangible capital assets are recorded as deferred revenues, contributions and parliamentary appropriations on the Statement of Financial Position. When depreciable tangible capital assets are purchased, the portion of the parliamentary appropriations used for the acquisition of these tangible capital assets is then reclassified as deferred capital funding on the Statement of Financial Position and recognized as revenue on the Statement of Operations on the same basis as the amortization of the corresponding tangible capital assets.
- Parliamentary appropriations allocated to specific expenses are deferred in the Statement of Financial Position and recognized as revenue in the Statement of Operations in the fiscal year in which the related expenses are incurred.

The Corporation is required to report on the spending of appropriations in its annual report.

### **H) Contributions**

Contributions are comprised of donations received from individuals, foundations and corporations. The Corporation applies the deferral method to recognize its contributions as applicable for not-for-profit organizations.

Unrestricted contributions are recognized as revenue in the Statement of Operations when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions externally restricted for specific projects or expenses are deferred in the Statement of Financial Position and recognized as revenue in the Statement of Operations in the fiscal year in which the related expenditures are incurred.

Investment income related to restricted contributions is first recorded in the Statement of Financial Position as deferred revenues and then recognized as revenue in the Statement of Operations in the fiscal year in which the related expenses are incurred.

## FINANCIAL STATEMENTS

Externally restricted endowment stipulating that the principal of the endowment fund be maintained permanently is recorded as direct decreases to accumulated deficit during the year in which they are received. Investment income on the endowment is externally restricted for specific purposes and is first recorded in the Statement of Financial Position as deferred revenues until it is used for specific externally restricted purposes and consequently recognized as revenue in the Statement of Operations.

### I) Volunteer Services

Volunteers contribute a significant number of hours every year. Due to the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

### J) Financial Instruments

The Corporation's financial assets and financial liabilities are measured at cost. Financial assets include cash and cash equivalents, restricted cash and cash equivalents, accounts receivable and restricted receivables while financial liabilities include accounts payable and accrued liabilities.

Financial instruments are tested annually for impairment at the financial statements date, and any permanent impairment is reported in the Statement of Operations.

Transaction costs are added to the carrying value of items in the cost when they are initially recognized.

### K) Allocation of expenses

The Corporation does not apply the method of allocating costs for the purpose of distributing expenses between functions.

## 3. Tangible Capital Assets

<i>(in thousands of dollars)</i>	Sept. 30 2013			Sept. 30 2012		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	627	-	627	627	-	627
Victoria Memorial Museum Building	204,727	31,402	173,325	204,727	26,401	178,326
Property under capital lease	35,040	17,352	17,688	35,040	16,361	18,679
Collection cabinets and compactors	3,770	1,794	1,976	3,737	1,686	2,051
Leasehold improvements	9,376	4,433	4,943	7,122	2,549	4,573
Furnishings and office equipment	1,483	1,017	466	1,271	930	341
Research equipment	3,310	3,114	196	3,401	3,163	238
Computer equipment	3,058	2,868	190	2,871	2,734	137
Building improvements	1,927	593	1,334	910	174	736
General equipment	483	359	124	465	338	127
Motor vehicles	-	-	-	42	42	-
	<b>263,801</b>	<b>62,932</b>	<b>200,869</b>	<b>260,213</b>	<b>54,378</b>	<b>205,835</b>

The amortization expense for the period amounts to \$4,219,000 (September 2012 - \$3,882,000). During the period, the Corporation sold a spectrometer for \$10,000. The recorded cost of the spectrometer was \$123,000, and the accumulated amortization was recorded at \$114,000, resulting in a gain of \$1,000.

## FINANCIAL STATEMENTS

### 4. Obligation Under Capital Lease

The Natural Heritage Campus houses the Corporation's natural history collections and administrative functions, on the Corporation's site in Gatineau, Quebec. The Corporation is acquiring the building through a lease purchase agreement with a term of 35 years. It is committed to pay rent under all circumstances and in the event of termination of the lease, at the Corporation's option or otherwise, pay sufficient rent to repay all financing on the building. Management intends to completely discharge its obligation under the lease and obtain free title to the building in 2031, after the Corporation uses its right to purchase the building for ten dollars.

Future minimum lease payments, by year and in aggregate, under the financing obligation are as follows:

<i>(in thousands of dollars)</i>	September 30, 2013	September 30, 2012
2014	1,750	1,750
2015	3,500	3,500
2016	3,500	3,500
2017	3,500	3,500
2018	3,500	3,500
Thereafter	47,250	50,750
Total minimum future payments	(1) 63,000	66,500
Deduct: Imputed interest	(33,697)	(36,637)
<b>Present value of financing obligations</b>	<b>(2) 29,303</b>	<b>29,863</b>
Current portion	618	560
Long term portion	28,685	29,303
	<b>29,303</b>	<b>29,863</b>

(1) The amounts payable under the capital lease are based on the fixed interest rate of 9.88%, for a period of 35 years, established at the time of signing the lease.

(2) The present value of the capital lease obligation based on a current market interest rate of 8.75% is estimated at \$32 million.

### 5. Deferred Revenues, Contributions and Parliamentary Appropriations

Deferred revenues, contributions and parliamentary appropriations during the period were as follows:

<i>(in thousands of dollars)</i>	September 30, 2013	September 30, 2012
Deferred contributions from non-government sources	1,296	1,693
Deferred parliamentary appropriations	3,788	5,362
Total deferred contributions and parliamentary appropriations	5,084	7,055
Deferred revenues – goods and services	157	132
<b>Balance, end of period</b>	<b>5,241</b>	<b>7,187</b>

## FINANCIAL STATEMENTS

Changes in the deferred revenues, contributions and parliamentary appropriations during the period were as follows:

<i>(in thousands of dollars)</i>	September 30, 2013	September 30, 2012
Balance, beginning of year	6,680	8,790
Add:		
Restricted contributions received	275	363
Restricted parliamentary appropriations received	-	3,234
Deferred revenue for the provision of goods and services	555	170
	830	3,767
Less:		
Deferred revenue for the provision of goods and services recognized	(658)	(317)
Restricted contributions recognized	(419)	(681)
Restricted parliamentary appropriations spent	(1,192)	(4,372)
	(2,269)	(5,370)
<b>Balance, end of period</b>	<b>5,241</b>	<b>7,187</b>

### 6. Deferred Capital Funding

Deferred capital funding represents the portion of the parliamentary appropriations used to purchase depreciable tangible capital assets.

Changes in the deferred capital funding balance are as follows:

<i>(in thousands of dollars)</i>	September 30, 2013	September 30, 2012
Balance, beginning of year	185,468	185,575
Appropriations used to purchase tangible capital assets	517	4,152
Amortization of deferred contributions related to tangible capital assets	(3,605)	(3,380)
<b>Balance, end of period</b>	<b>182,380</b>	<b>186,347</b>

### 7. Endowment Restrictions

An endowment fund for Systematic Entomology was received from Anne and Henry Howden in the principal amount of \$305,000, as well as a significant entomological collection. The endowment was established to enable professional studies and research of entomological collections for the Corporation.

The entire amount restricted for endowment purposes is subject to externally imposed restrictions stipulating that the resources be maintained permanently in the principal of the endowment fund.

The net investment income earned on resources held for endowment is \$1,626 (September 2012 - \$1,498). The total amount deferred of investment income earned on resources held for endowment is \$13,295 (September 2012 - \$10,276). This amount is available for activities related to systematic entomology. No amount was recognized in the statement of operations for the period ended September 30, 2013 and 2012.

## FINANCIAL STATEMENTS

In the event that the Corporation decides not to maintain entomological collections, the Systematic Entomology Endowment Fund shall be transferred, along with any entomological collections, to the Royal Ontario Museum.

### 8. Investment in Tangible Capital Assets

A. The investment in tangible capital assets consists of the following:

<i>(in thousands of dollars)</i>	September 30 2013	September 30 2012
Tangible capital assets	200,869	205,835
Less: amounts financed by capital lease	(29,303)	(29,863)
Less: amounts financed by deferred contributions related to tangible capital assets	(182,380)	(186,347)
	<b>(10,814)</b>	<b>(10,375)</b>

B. The net change in investment in tangible capital assets is calculated as follows:

<i>(in thousands of dollars)</i>	September 30 2013	September 30 2012
Tangible capital asset additions	631	4,152
Add: repayment of obligation under capital lease	287	259
Less: tangible capital assets financed with deferred capital contributions	(631)	(4,152)
Tangible capital assets purchased with the Corporation's funds	287	259
Amortization of deferred capital contributions	3,605	3,380
Amortization of tangible capital assets	(4,219)	(3,882)
Net change in investment in tangible capital assets	<b>(327)</b>	<b>(243)</b>

### 9. Parliamentary Appropriations

To achieve its mission, the Corporation relies on government funding. This government funding is comprised as follows:

<i>(in thousands of dollars)</i>	September 30 2013	September 30 2012
<b>Appropriations received and receivable:</b>		
Operating and Capital Budgets	12,917	16,567
Supplementary Budgets	-	-
	<b>12,917</b>	<b>16,567</b>
Portion of parliamentary appropriations received in current year deferred for future capital projects	-	(3,235)
Previous year's appropriations used in current year to complete specific projects	1,192	4,372
Appropriations used to purchase depreciable tangible capital assets	(517)	(4,152)
Amortization of deferred capital funding	3,605	3,380
<b>Appropriations recognized during the period</b>	<b>17,197</b>	<b>16,932</b>

## FINANCIAL STATEMENTS

### 10. Commercial Operations

Commercial operations revenue is comprised as follows:

<i>(in thousands of dollars)</i>	September 30, 2013	September 30, 2012
Admission fees – general	1,206	1,192
Admission fees – temporary exhibitions	75	311
Parking	356	362
Rental of facilities	291	229
Boutique and cafeteria leases	153	96
Memberships	128	152
Publishing royalties	3	3
Publishing revenues	2	6
	<b>2,214</b>	<b>2,351</b>

### 11. Related Party Transactions

The Corporation is related to all Government of Canada departments, agencies and Crown corporations.

In addition to those related party transactions disclosed elsewhere in these financial statements, the Corporation incurred expenses for the work and services provided by other government departments, agencies, and Crown corporations such as employee benefit administration, realty taxes and postage fees. These services totalled \$1,988,000 (September 2012 - \$2,532,000). The Corporation from time to time may receive grants for certain projects or provide rental services to related parties. The earned revenues totalled \$142,000 (September 2012 - \$199,000). These transactions were conducted in the normal course of operations, under the same terms and conditions that applied to outside parties and recorded at the exchange amount.

### 12. Summary of Expenses by Object

<i>(in thousands of dollars)</i>	September 30, 2013	September 30, 2012
Personnel costs	6,996	7,586
Depreciation of capital assets	4,219	3,882
Operation and maintenance of buildings	2,122	2,068
Interest on capital lease obligation	1,463	1,490
Professional and special services	1,366	1,819
Real property taxes	1,326	1,578
Marketing and communications	577	751
Information management infrastructure and systems	572	628
Exhibitions	541	1,495
Repairs and maintenance	293	191
Travel	133	138
Freight and cartage	30	25
Other	103	116
	<b>19,741</b>	<b>21,767</b>

**13. Comparative Figures**

Certain comparative figures have been reclassified to conform to the presentation of the six month period ended September 30, 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

These quarterly financial statements must be read in conjunction with the Canadian Museum of Nature's most recent audited annual financial statements for the year ended March 31, 2013 and with the narrative discussion included in this quarterly financial report.

The Canadian Museum of Nature's primary objective is to fulfill its national mandate as described in the *Museums Act*, within the context of the governance and accountability regime established in that Act and in Part X of the *Financial Administration Act*. To this end, the Museum's Board of Trustees and Management are committed to managing the public and private funds invested in the Museum in a transparent, accountable manner and to optimizing the value of the contribution the Museum makes to Canadians and to Canadian society.

The strategic directions for the Museum acknowledge the intent to be a leading source of natural history knowledge and scientific inquiry for scientists and the public, thus contributing a distinctly Canadian perspective to the global body of knowledge. The Museum will disseminate the results of this scientific inquiry, thus helping inspire Canadians to act conscientiously about the natural environment. As a public institution, the Museum also wishes to continue to demonstrate accountability, value and fiscal effectiveness through achieving measurable, meaningful results.

Achieving financial sustainability has been, and will continue to be, one of the main priorities of the Museum. The Museum has in place a number of strategies designed to manage both known and anticipated pressures. An enterprise risk management approach is being used to manage these strategies and pressures in support of the vision to be a national institution providing maximum value and service to the public.

### Revenue

Revenue for the first six months of the year amounted to \$3,122,000, a decrease of \$307,000 or 9 percent, compared to the \$3,429,000 reported for the first six months of the previous year. Revenue from educational programmes increased by \$181,000 to \$276,000 due mainly to the introduction of new programmes such as Nature Nocturne. This was offset by a decrease of \$352,000 in the recognition of contributions, and a decrease of \$137,000 from commercial operations. Revenue from contributions is normally linked to exhibitions activity. The amount reported in the previous year included contributions related to the development of phase 2 of the Vale Earth Gallery that opened in the fall of 2012. The decrease in revenue from commercial operations is due to a \$236,000 decrease in admission fees related to surcharges for temporary exhibitions. Consistent with the Museum's exhibition plan, temporary exhibitions for the first six months of the year were targeted at a narrower audience base than in the previous year, thus resulting in a lower capture rate. However, the lower temporary exhibitions costs more than offset the reduction in admission fees related to surcharges for temporary exhibitions.

On an accrual basis, parliamentary appropriations for the first six months of the year amounted to \$17,197,000 compared to the \$16,932,000 for the first six months of the previous year. The year over year increase is mainly due to the utilization of deferred parliamentary appropriations related to capital assets.

### Expenses

Expenses decreased to \$19,741,000 in the first six months of the year from the \$21,767,000 reported in the first six months of the previous year. Of the \$2,026,000 or 9 percent decrease, \$954,000 is due to costs related to exhibitions which included in the previous year costs related to the temporary exhibition *Whales Tohora* and costs related to the development of phase 2 of the Vale Earth Gallery that opened in the fall of 2012. The remainder of the year over year decrease is mainly attributable to the \$590,000 decrease in personnel costs as a result of work force adjustments initiated on June 27<sup>th</sup>, 2012 that resulted in the abolishment of 10 positions in order to address the Museum's structural deficit.



## MANAGEMENT DISCUSSION AND ANALYSIS

Expenses related to accommodation represent 51 percent of total expenses. The new museum-standard environmental control systems and additional space that must now be maintained at the renovated Victoria Memorial Museum Building have placed additional severe pressure on the Museum's operating budget. The Museum continues to explore additional facilities cost reduction and control measures in order to minimize the financial impact on its programmes.

### Net Result of Operations

The net result of operations for the first six months of the year was a surplus of \$578,000 that is mainly attributable to a timing difference in the recognition of expenses related to public education programmes that are expected to be incurred later in the fiscal year.

### Statement of Financial Position

#### Assets

The level of cash and cash equivalents of \$8,279,000 as of September 30, 2013 represents a decrease of \$1,210,000 or 13 percent from the September 30, 2012 level of \$9,489,000 mainly as a result of acquisitions of capital assets consistent with the Museum's long term capital plan.

The decrease in capital assets reflects the depreciation related to the Victoria Memorial Museum Building and other capital assets.

#### Liabilities

Total employee future benefits decreased to \$3,349,000 as at September 30, 2013 from the \$4,841,000 reported as at September 30, 2012. This represents a decrease of \$1,492,000 or 31 percent, due to severance benefits paid during the year. The payments were the result of collective bargaining and consistent with the Government of Canada's approach, whereby, effective April 1, 2012, employees no longer accumulate severance pay upon resignation or retirement. The accumulated severance recorded as an accrued benefit obligation was recognized in prior years and in part paid in the 2012-2013 and 2013-2014 fiscal years.

#### Accumulated Deficit

The accumulated deficit of \$10.5 million as at September 30, 2013, is due to the accounting treatment related to the Museum's Natural Heritage Campus located in Gatineau, Quebec which is recorded on the Statement of Financial Position as an obligation under capital lease. This accounting treatment will keep the Museum's accumulated deficit in a deficit position for many years due to the interest expense on the capital lease obligation being higher in the earlier years than in the years closer to the end of the lease term. Accordingly, the accumulated deficit related to this accounting treatment will begin to reverse in 2019-2020 until it is fully eliminated by the end of the lease term in 2032. This does not impact the Museum's cash flow or financial stability in any way.

## RISK ANALYSIS

The Museum has in place an enterprise risk management framework designed to effectively and proactively manage the risks that could prevent the Museum from achieving its objectives. The Museum identifies four risks and their related mitigation strategies:

1. The risk that marketing, communications and positioning mechanisms will not sufficiently promote and demonstrate the strengths and value of the Museum to Canadians and key stakeholders. The Museum will address this risk by ensuring that adequate resources are allocated to the marketing of revenue-generation activities and to the communication of research, collections and public education services to clients.
2. The risk that the total operating funds will not meet the Museum's resource requirements. This may result in insufficient resources to develop adequate programmes. The Museum will address this risk by continuing to collaborate with central agencies and by reviewing and monitoring its budget looking for opportunities for efficiencies and/or reallocations.
3. The risk that the revenue generation targets will not be achieved due to increasing competition for visitors, rental of facilities and contributions or other factors. This may result in insufficient resources to develop programmes. The Museum will address this risk by developing divisional work plans in order to achieve targets related to commercial operations and development and partnerships, and by monitoring and revising the divisional work plans when appropriate.
4. The risk that there will be insufficient and/or inadequately skilled human resources (e.g. number, capability, skills, training and career development, recruiting, retaining, succession planning) to achieve the Museum's objectives and current and future needs. The Museum will address this risk by maintaining detailed succession plans; developing annual training and development plans; and, by providing competitive salaries and working conditions.