

CANADIAN MUSEUM OF NATURE

QUARTERLY FINANCIAL REPORT

(Unaudited)

For the six month period
ended September 30, 2014

Canada



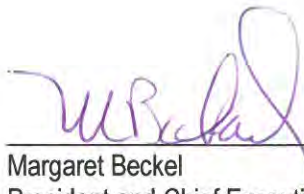
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STATEMENT OF MANAGEMENT RESPONSIBILITY BY SENIOR OFFICIALS

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.



Margaret Beckel
President and Chief Executive Officer



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

Ottawa, Canada
November 6, 2014

**Statement of Financial Position
as at September 30, 2014
(Unaudited)**

<i>(in thousands of dollars)</i>	at Sept. 30 2014	at Sept. 30 2013	at March 31 2014
Assets			
Current			
Cash and cash equivalents	5,964	8,279	7,888
Accounts receivable			
Trade	269	294	352
Government departments and agencies	80	129	293
Prepaid expenses	752	907	1,053
	7,065	9,609	9,586
Restricted cash and cash equivalents	1,260	1,612	1,416
Collections	1	1	1
Tangible capital assets (Note 3)	194,676	200,869	197,985
	203,002	212,091	208,988
Liabilities			
Current			
Accounts payable and accrued liabilities			
Trade	1,671	2,042	3,200
Government departments and agencies	1	316	165
Obligation under capital lease (Note 4)	682	618	649
Deferred revenues, contributions and parliamentary appropriations (Note 5)	2,197	5,241	3,283
Employee future benefits	277	236	422
	4,828	8,453	7,719
Obligation under capital lease (Note 4)	28,003	28,685	28,353
Deferred capital funding (Note 6)	177,189	182,380	179,997
Employee future benefits	3,055	3,113	3,055
	213,075	222,631	219,124
Accumulated Deficit			
Unrestricted	1,125	(31)	573
Endowment (Note 7)	-	305	305
Investment in tangible capital assets (Note 8)	(11,198)	(10,814)	(11,014)
	(10,073)	(10,540)	(10,136)
	203,002	212,091	208,988

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

Statement of Operations
for the six month period ended September 30, 2014
(Unaudited)

<i>(in thousands of dollars)</i>	Sept. 30 2014	Sept. 30 2013
Revenue		
Admission and program fees (Note 10)	2,412	1,600
Ancillary operations (Note 11)	791	746
Contributions (Note 12)	1,008	569
Interest	58	48
Other	248	193
	4,517	3,156
Expenses (Note 14)		
Inspiration and engagement	3,961	3,699
Collections care and access	1,475	1,147
Research and discovery	2,034	1,954
Internal support services	3,118	2,830
Buildings and grounds	9,878	10,145
	20,466	19,775
Net result of operations before government funding	(15,949)	(16,619)
Parliamentary appropriations (Note 9)	16,317	17,197
Net result of operations	368	578

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, 2014
(Unaudited)

<i>(in thousands of dollars)</i>	Unrestricted	Endowment	Invested in tangible capital assets	Sept. 30 2014	Sept. 30 2013
Accumulated deficit, beginning of year	573	305	(11,014)	(10,136)	(11,118)
Net result of operations	368	-	-	368	578
Transfer of endowment	-	(305)	-	(305)	-
Net change in investment in tangible capital assets (Note 8)	184	-	(184)	-	-
Accumulated deficit, end of period	1,125	-	(11,198)	(10,073)	(10,540)

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.

Statement of Cash Flows
for the six month period ended September 30, 2014
(Unaudited)

<i>(in thousands of dollars)</i>	Sept. 30 2014	Sept. 30 2013	March 31 2014
Operating activities			
Cash receipts - customers	4,342	3,739	6,628
Cash receipts - parliamentary appropriations	11,223	12,708	24,846
Cash disbursements - employees	(7,289)	(7,555)	(15,035)
Cash disbursements - suppliers	(8,372)	(7,845)	(14,280)
Interest received	71	62	113
Interest paid	(1,433)	(1,463)	(2,912)
Cash used in operating activities	(1,458)	(354)	(640)
Capital activities			
Acquisition of tangible capital assets	(1,099)	(640)	(2,302)
Disposition of tangible capital assets	-	9	9
Cash used in capital activities	(1,099)	(631)	(2,293)
Investing activities			
Decrease in restricted cash and cash equivalents	156	292	488
Cash provided by investing activities	156	292	488
Financing activities			
Appropriations used to purchase depreciable tangible capital assets	1,099	640	2,302
Obligation under capital lease	(317)	(287)	(588)
Transfer of endowment	(305)	-	-
Cash provided by financing activities	477	353	1,714
Decrease in cash and cash equivalents	(1,924)	(340)	(731)
Cash and cash equivalents, beginning of year	7,888	8,619	8,619
Cash and cash equivalents, end of period	5,964	8,279	7,888

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

Notes to the Financial Statements for the six month period ended September 30, 2014

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:

- **Inspiration and Engagement**

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

- **Collections Care and Access**

The Corporation acquires, 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 and Discovery**

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 Support 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.

- **Buildings and Grounds**

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.

At March 31, 2014, the Corporation made a change to the accounting policy it applies to record specimen donations and in-kind sponsorships. As a result of specimen donations and in-kind sponsorships received, the September 30, 2013 comparative figures were restated to account for an increase in Contributions revenue of \$33,701 with a corresponding increase in expenses.

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 year. 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. Specimens purchased for the collections are recorded as an expense in the year of acquisition. Specimens donated to the collections are recorded as contributions with an offsetting expense to collections care and access at fair market value, when the following three criteria are met: i) a fair market value has been established for the specimen; ii) the acquisition has been approved; and iii) transfer of the specimen's title to the Corporation has taken place.

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
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 the 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

Employees are entitled to severance benefits, as provided for under labor contracts and conditions of employment.

The severance benefit obligation for employees who retire or resign, that accrued up to March 31, 2012 and remains unpaid, is measured using the projected benefit method. The actuarial gains and losses are amortized over the expected average remaining service life of the related employee group.

Other event driven termination benefits will be recognized in the period when the event that obligates the Corporation occurs.

iii) Sick leave benefits

Employees are entitled to sick leave benefits, as provided for under labor contracts and conditions of employment.

The cost of sick leave benefits is accrued to operations as the employees earn them. The projected benefit 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.

F) Revenue Recognition

Revenues from admission and program fees, ancillary operations, 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) In-kind Sponsorships

In-kind sponsorships involve obtaining non-financial support for a project, activity or product in return for substantial public relations benefit. An in-kind sponsorship is recognized if the contributed good or service is used in the normal course of operations and would otherwise have been purchased. It is recorded in the financial statements only when there is a signed agreement between the Corporation and the sponsor, and once the exchange has taken place. In-kind sponsorships are recorded at their fair market value as contributions with an offset to the related expense on the Statement of Operations.

H) 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 for the purchase of depreciable tangible capital assets are recorded as deferred revenues, contributions and parliamentary appropriations on the Statement of Financial Position. When the depreciable tangible capital assets are purchased, the portion of the parliamentary appropriations used for 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 for specific expenses are recorded as deferred revenues, contributions and parliamentary appropriations on 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.

I) 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.

The externally restricted endowment agreement stipulates that the principal be maintained permanently. The principal has been transferred to the Community Foundation of Ottawa during the period. The transfer was authorized by the donor, and is recorded as a direct increase in accumulated deficit. 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.

J) Volunteer Services

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

K) 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, and accounts receivable 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.

L) 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 2014			Sept. 30 2013		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	627	-	627	627	-	627
Victoria Memorial Museum Building	204,727	36,404	168,323	204,727	31,402	173,325
Property under capital lease	35,040	18,343	16,697	35,040	17,352	17,688
Leasehold improvements	10,821	6,426	4,395	9,376	4,433	4,943
Collection cabinets and compactors	3,789	1,903	1,886	3,770	1,794	1,976
Building improvements	3,008	1,156	1,852	1,927	593	1,334
Furnishings and office equipment	1,495	1,094	401	1,483	1,017	466
Research equipment	3,340	3,152	188	3,310	3,114	196
General equipment	571	390	181	483	359	124
Computer equipment	3,119	2,993	126	3,058	2,868	190
	266,537	71,861	194,676	263,801	62,932	200,869

The amortization expense for the period amounts to \$4,408,000 (September 2013 – \$4,219,000). During the period, the Corporation retired tangible capital assets that were fully amortized. The total cost of the disposed tangible capital assets was \$25,000. For the same period last year, 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.

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, 2014	September 30, 2013
2015	1,750	1,750
2016	3,500	3,500
2017	3,500	3,500
2018	3,500	3,500
2019	3,500	3,500
Thereafter	43,750	47,250
Total minimum future payments	(1) 59,500	63,000
Deduct: Imputed interest	(30,815)	(33,697)
Present value of financing obligations	(2) 28,685	29,303
Current portion	682	618
Long term portion	28,003	28,685
	28,685	29,303

(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 \$31 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 2014	September 30 2013
Deferred contributions from non-government sources	1,034	1,296
Deferred parliamentary appropriations	798	3,788
Total deferred contributions and parliamentary appropriations	1,832	5,084
Deferred revenues – goods and services	365	157
Balance, end of period	2,197	5,241

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

<i>(in thousands of dollars)</i>	September 30 2014	September 30 2013
Balance, beginning of year	3,283	6,680
Add:		
Restricted contributions received	29	275
Deferred revenue for the provision of goods and services	532	555
	561	830
Less:		
Restricted contributions recognized	(36)	(419)
Restricted parliamentary appropriations spent	(1,241)	(1,192)
Deferred revenue for the provision of goods and services recognized	(370)	(658)
	(1,647)	(2,269)
Balance, end of period	2,197	5,241

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 2014	September 30 2013
Balance, beginning of year	179,997	185,468
Appropriations used to purchase tangible capital assets	1,099	640
Amortization of deferred contributions related to tangible capital assets	(3,907)	(3,728)
Balance, end of period	177,189	182,380

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.

During the period, the principal amount of \$305,000 was transferred to the Community Foundation of Ottawa. The transfer was authorized by the donor. Annually, the Corporation will continue to receive the net investment income earned on this endowment.

The net investment income earned on resources held for endowment is \$3,501 (September 2013 – \$1,626). The total accumulated amount of deferred investment income earned on resources held for endowment is \$13,761 (September 2013 – \$13,295). 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, 2014 and 2013.

8. Investment in Tangible Capital Assets

The investment in tangible capital assets consists of the following:

<i>(in thousands of dollars)</i>	September 30 2014	September 30 2013
Tangible capital assets	194,676	200,869
Less amounts financed by capital lease	(28,685)	(29,303)
Less amounts financed by deferred contributions related to tangible capital assets	(177,189)	(182,380)
	(11,198)	(10,814)

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

<i>(in thousands of dollars)</i>	September 30 2014	September 30 2013
Net tangible capital asset additions	1,099	631
Add repayment of obligation under capital lease	317	287
Less tangible capital assets financed with deferred capital contributions	(1,099)	(640)
Tangible capital assets purchased with the Corporation's funds	317	278
Amortization of deferred capital contributions	3,907	3,728
Amortization of tangible capital assets	(4,408)	(4,219)
Net change in investment in tangible capital assets	(184)	(213)

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 2014	September 30 2013
Appropriations received and receivable:		
Operating and Capital Budgets	12,268	12,917
Supplementary Budgets	-	-
	12,268	12,917
Previous year's appropriations used in current period to complete specific projects	1,241	1,192
Appropriations used to purchase depreciable tangible capital assets	(1,099)	(640)
Amortization of deferred capital funding	3,907	3,728
Appropriations recognized during the period	16,317	17,197

10. Admission and Program Fees

Admission and program fees are comprised as follows:

<i>(in thousands of dollars)</i>	September 30 2014	September 30 2013
Admission fees – general	1,427	1,204
Admission fees – temporary exhibitions	469	76
Programs	293	192
Memberships	223	128
	2,412	1,600

11. Ancillary Operations

Ancillary operations are comprised as follows:

<i>(in thousands of dollars)</i>	September 30 2014	September 30 2013
Parking	365	356
Rental of facilities	309	291
Boutique and cafeteria leases	117	99
	791	746

12. Contributions

Contributions are comprised as follows:

<i>(in thousands of dollars)</i>	September 30 2014	September 30 2013
Cash contributions and sponsorships	431	535
In-kind sponsorships	76	30
Specimen donations	501	4
	1,008	569

13. Related Party Transactions

The Corporation is related to all Government of Canada departments, agencies and Crown corporations. The Corporation conducted transactions with these entities in the normal course of operations, under the same terms and conditions that applied to outside parties and recorded at the exchange amount.

<i>(in thousands of dollars)</i>	September 30 2014	September 30 2013
Revenues from Government of Canada related parties:		
Admission and program fees	1	-
Ancillary operations	2	-
Contributions	-	139
Other	5	3
	8	142

<i>(in thousands of dollars)</i>	September 30 2014	September 30 2013
Expenses with Government of Canada parties:		
Personnel costs	781	759
Operation and maintenance of buildings	2	-
Exhibitions	-	2
Real property taxes	853	783
Professional and special services	8	42
Information management infrastructure and systems	7	7
Marketing and communications	1	4
	1,652	1,597

14. Summary of Expenses by Object

<i>(in thousands of dollars)</i>	Sept. 30 2014	Sept. 30 2013
Personnel costs	7,144	6,996
Amortization of tangible capital assets	4,408	4,219
Operation and maintenance of buildings	1,781	2,122
Interest on capital lease obligation	1,433	1,463
Real property taxes	1,361	1,326
Professional and special services	1,116	1,366
Exhibitions	878	541
Information management infrastructure and systems	674	572
Marketing and communications	667	577
Repairs and maintenance	210	293
Travel	142	133
Freight and cartage	23	30
Objects for collections	525	34
Other	104	103
	20,466	19,775

15. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation of the six month period ended September 30, 2014.

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, 2014 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 \$4,517,000, an increase of \$1,361,000 or 43 percent, compared to the \$3,156,000 for the first six months of the previous year. Revenue from admission and program fees increased by \$812,000 to \$2,412,000 as a result of the increase in memberships and admission fees related to the *Creatures of Light: Nature's Bioluminescence* temporary exhibition. This is in addition to the program fees related to the successful *Nature Nocturne* evenings. The remaining increase in revenue is attributable to contributions recognized. Included in contributions are specimen donations to the collections with a fair market value of \$501,000.

On an accrual basis, parliamentary appropriations for the first six months of the year amounted to \$16,317,000 compared to the \$17,197,000 for the first six months of the previous year. The difference is mainly due to the variation in deferred capital appropriations and purchases of depreciable tangible capital assets.

Expenses

Expenses for the first six months of the year amounted to \$20,466,000 compared to the \$19,775,000 for the first six months of the previous year. Of the \$691,000 or 3 percent increase, \$337,000 is due mainly to costs related to the *Creatures of Light: Nature's Bioluminescence* temporary exhibition. Expenses for objects for collections included the offset of \$501,000 for specimen donations to the collections.

Expenses related to buildings and grounds represent 48 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 programs.

Net Result of Operations

The net result of operations for the first six months of the year was a surplus of \$368,000. The surplus is mainly attributable to a timing difference in the recognition of expenses related to programs that are expected to be incurred later in the fiscal year. Partially offsetting the surplus is \$178,000 in expenses 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.

Statement of Financial Position

Assets

The level of cash and cash equivalents of \$5,964,000 as at September 30, 2014 represents a decrease of \$2,315,000 or 28 percent from the September 30, 2013 level of \$8,279,000 mainly as a result of acquisitions of capital assets consistent with the Museum's long term capital plan.

Restricted cash and cash equivalents decreased to \$1,260,000 as at September 30, 2014 from \$1,612,000 reported as at September 30, 2013, mainly as a result of the transfer of the endowment fund of \$305,000.

Tangible capital assets decreased to \$194,676,000 as at September 30, 2014 from the \$200,869,000 reported as at September 30, 2013, mainly as a result of the amortization expense related to the Victoria Memorial Museum Building.

Liabilities

Deferred revenues, contributions and parliamentary appropriations decreased to \$2,197,000 as at September 30, 2014 from \$5,241,000 as at September 30, 2013 due to restricted parliamentary appropriations spent to acquire tangible capital assets and restricted contributions spent for public education programming.

Deferred capital funding decreased to \$177,189,000 as at September 30, 2014 from the \$182,380,000 reported as at September 30, 2013 as deferred capital funding is recognized as revenue at the same pace as the amortization of the corresponding tangible capital assets.

Accumulated Deficit

The accumulated deficit of \$10,073,000 as at September 30, 2014, 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 2031. 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. This Corporate Plan identifies five risks and their related mitigation strategies:

1. Risk that a limited donor pipeline may constrain financial resources available to support the investment required for initial implementation of the Museum's strategic objectives. This is mitigated by an aggressive prospecting program by a team of fundraising professionals and a new group of committed volunteers and board members.
2. Risk that the structural deficit will continue to increase due to expenses increasing at a greater rate than revenues, such as facilities maintenance, taxes and general inflation. This is mitigated by a continuous process of expenditure review and new revenue centre creation.
3. Risk that new skills and responsibilities of staff evolve at a different pace than needed by the enterprise business model. This is mitigated by a performance management program supported by coaching, training, clear accountabilities and regular tracking of progress against plan.
4. Risk that information technologies and systems are not available or leveraged to support organizational objectives. This is mitigated by new leadership and skills in IT and an IT plan that responds to and enables the strategic objectives of the Museum.
5. Risk that aging research equipment, funding constraints, and other factors impair the ability of the Museum to attract research talent and/or collaborators to fulfill research objectives. This is mitigated by continuous investment in equipment through resource reallocation and ongoing fundraising in support of research equipment and fieldwork.