F I N A N C I A L S T A T E M E N T S

For

**DIEFENBUNKER, CANADA'S COLD WAR MUSEUM/
MUSÉE CANADIEN DE LA GUERRE FROIDE**

For year ended

DECEMBER 31, 2015

INDEPENDENT AUDITOR'S REPORT

To the members of

DIEFENBUNKER, CANADA'S COLD WAR MUSEUM/
MUSÉE CANADIEN DE LA GUERRE FROIDE

We have audited the accompanying financial statements of Diefenbunker, Canada's Cold War Museum/ Musée canadien de la guerre froide, which comprise the statement of financial position as at December 31, 2015, the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the museum derives revenue from donations and fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of this revenue was limited to the amounts recorded in the records of the museum. Therefore, we were not able to determine whether any adjustments might be necessary to donation and fundraising revenue, excess of revenue over expenses and cash flows from operations for the years ended December 31, 2015 and 2014, current assets as at December 31, 2015 and 2014, and net assets as at January 1 and December 31 for the 2014 and 2015 years. Our audit opinion on the financial statements for the year ended December 31, 2014 was modified accordingly because of the possible effects of this limitation in scope.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Diefenbunker, Canada's Cold War Museum/Musée canadien de la guerre froide as at December 31, 2015, the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Welch LLP

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
May 3, 2016.

DIEFENBUNKER, CANADA'S COLD WAR MUSEUM/
MUSÉE CANADIEN DE LA GUERRE FROIDE

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash	$ 47,407	$ 43,729
Short-term investments	113,031	132,788
Accounts receivable	24,126	8,751
Inventories	13,077	8,676
Prepaid expenses	6,306	4,595
	203,947	198,539
TANGIBLE CAPITAL ASSETS (note 4)	1,463,053	1,487,822
ARTIFACT COLLECTION (note 2)	1	1
	$ 1,667,001	$ 1,686,362
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 5)	$ 122,077	$ 98,120
Current portion of capital lease obligation (note 6)	4,602	4,602
Deferred revenue	704	830
Deferred contributions (note 7)	7,500	41,718
	134,883	145,270
CAPITAL LEASE OBLIGATION (note 6)	2,685	7,287
DEFERRED CONTRIBUTIONS RELATED TO TANGIBLE CAPITAL ASSETS (note 8)	1,457,951	1,490,410
	1,595,519	1,642,967
NET ASSETS (LIABILITIES)		
Working capital fund - unrestricted	(7,207)	(55,854)
Capital fund - internally restricted	78,689	99,249
	71,482	43,395
	$ 1,667,001	$ 1,686,362

Approved by the Board:

. . . . . President

. . . . . Treasurer

(See accompanying notes)

DIEFENBUNKER, CANADA'S COLD WAR MUSEUM/
MUSÉE CANADIEN DE LA GUERRE FROIDE

STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2015

	2015			2014
	Working Capital Fund (Unrestricted)	Capital Fund (Internally Restricted) (note 2)	Total	Total
Net assets (liabilities), beginning of year	$ (55,854)	$ 99,249	$ 43,395	$ 41,998
Excess of revenue over expenses	28,087	-	28,087	1,397
Interfund transfer - note	20,560	(20,560)	-	-
Net assets (liabilities), end of year	$ (7,207)	$ 78,689	$ 71,482	$ 43,395

(See accompanying notes)

DIEFENBUNKER, CANADA'S COLD WAR MUSEUM/
MUSÉE CANADIEN DE LA GUERRE FROIDE

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2015

	2015	2014
Revenue		
Museum tours	$ 480,952	$ 432,719
Operating grants	331,877	382,232
Miscellaneous income	65,696	56,741
Deferred contributions related to tangible capital assets (note 8)	65,131	67,921
Storage and tower rental	35,349	27,824
Donation and fundraising (note 9)	28,832	29,900
Museum store - gross profit (note 10)	20,627	13,426
	1,028,464	1,010,763
Expenses		
Salaries and benefits (note 11)	638,861	601,509
Amortization	72,002	78,489
Repairs and maintenance	58,855	55,644
Marketing	58,749	54,515
Utilities	50,604	44,807
Museum exhibits and services	35,303	50,766
Human resources support	27,670	35,562
Office	19,347	20,446
Professional fees	13,154	42,866
Insurance	11,787	10,739
Bank charges and interest	10,706	10,652
Travel and meetings	2,748	2,780
Capital lease obligation interest	591	591
	1,000,377	1,009,366
Excess of revenue over expenses	$ 28,087	$ 1,397

(See accompanying notes)

DIEFENBUNKER, CANADA'S COLD WAR MUSEUM/
MUSÉE CANADIEN DE LA GUERRE FROIDE

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

	2015	2014
Cash provided (used for)		
Operating activities		
Excess of revenue over expenses	$ 28,087	$ 1,397
Add items not affecting cash:		
Amortization	72,002	78,489
Amortization of deferred contributions related to tangible capital assets	(65,131)	(67,921)
	34,958	11,965
Change in level of:		
Accounts receivable	(15,375)	83,062
Inventories	(4,401)	576
Prepaid expenses	(1,711)	542
Accounts payable and accrued liabilities	23,957	(3,767)
Deferred revenue	(126)	126
Deferred contributions	(34,218)	(2,228)
	3,084	90,276
Investing activities		
Tangible capital asset additions	(47,233)	(4,720)
Proceeds from sale (purchase) of short term investments	19,757	(52,225)
	(27,476)	(56,945)
Financing activities		
Funding received related to tangible capital assets	32,672	2,529
Capital lease obligation payments	(4,602)	(4,602)
	28,070	(2,073)
Increase in cash	3,678	31,258
Cash at beginning of year	43,729	12,471
Cash at end of year	$ 47,407	$ 43,729

(See accompanying notes)

1. PURPOSES OF THE ORGANIZATION

The Museum was formed to increase throughout Canada and the world, an interest in, and an understanding of, the Cold War by preserving the Diefenbunker as a National Historical Site and operating a Cold War Museum.

The Diefenbunker, Canada's Cold War Museum/Musée canadien de la guerre froide was incorporated under the Canada Corporations Act in November 1998 without share capital as a not-for-profit organization and was continued under the Canada Not-for-profit Corporations Act on September 5, 2014. The Museum is a registered charity under the Income Tax Act; hence, it is exempt from paying income taxes pursuant to Section 149 of the Income Tax Act.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

Financial instruments

i) *Measurement of financial instruments*

All financial assets and liabilities are initially recognized at fair value and are subsequently measured at cost or amortized cost.

ii) *Transaction costs*

Transaction costs associated with the acquisition and disposal of investments are included in the carrying amount of the investments, where applicable.

Inventories

Inventory consists of items held for resale at the museum store. Museum store inventory is stated at the lower of cost and net realizable value and is determined on a first-in, first-out basis.

Tangible capital assets and amortization

Tangible capital assets are stated at acquisition cost. Amortization is recorded on a declining balance basis using the following annual rates, provided at one-half the annual rates in the years of acquisition and disposition:

Building and improvements	4%
Furniture and equipment	20%
Computer equipment	55%
Computer software	100%

Contributions received specifically for the acquisition of capital assets are deferred and amortized using the same basis as the respective asset.

2. **SIGNIFICANT ACCOUNTING POLICIES** - Cont'd.

Contributed services and materials

Contributed services and materials are recognized in the financial statements at fair market value (see note 9 for details).

Volunteers contribute hundreds of hours per year to assist in the operations of the Museum. Because of the difficulty in determining their fair value, contributed labour is not recognized in the financial statements.

Artifact collection

The museum's collection consist of Cold War artifacts and is recorded at a nominal value of $1 due to the practical difficulties in determining a meaningful value for this asset. The museum acquires some of its artifacts through purchase or by in-kind donations. Items purchased for the collection are recorded as an expense on the statement of operations in the year of acquisition. In-kind artifact donations are recorded as a revenue and expense in the statement of operations at their appraised values.

Revenue recognition

The museum follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenditures are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Grants received specifically for the acquisition of depreciable tangible capital assets are deferred and amortized using the same basis as the respective asset.

The principle sources of revenue and their respective recognition policies are as follows:

- Museum tour and hospitality services revenue is recognized as services are provided;
- Museum store sales are recognized when sales are made;
- Storage and tower rental revenue is recognized ratably over the terms of the lease;
- Donations and fundraising revenue is recognized as revenue when received; and
- All other revenue is recognized when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Internally restricted fund

The purpose of the capital fund is to build a reserve for capital projects relating to the building as needed to ensure that building is in good condition at all times for receiving visitors. During the year, $20,560 (2014 - $Nil) was transferred from the capital fund to the working capital fund.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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 reporting period. Significant estimates include the determination of the collectibility of accounts receivable, the fair value of contributed artifacts, the estimated useful life of tangible capital assets, and accrued liabilities. Actual results could differ from these estimates and adjustments are made to the statement of operations as appropriate in the year they become known.

3. FINANCIAL INSTRUMENTS

The museum is exposed to various risks through its financial instruments. The following analysis provides a measure of the museum's risk exposure and concentrations.

The museum does not use derivative financial instruments to manage its risks.

Credit risk

The museum is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The museum's maximum exposure to credit risk represents the sum of the carrying value of its cash, short-term investments and its accounts receivable. The museum's cash and short-term investments are deposited with a Canadian chartered bank and as a result, management believes the risk of loss on these items to be remote. The museum manages its credit risk by reviewing accounts receivable aging monthly and following up on outstanding amounts. Management believes that all accounts receivable at year end will be collected and that a provision for uncollectible amounts is not considered necessary.

Liquidity risk

Liquidity risk is the risk that the organization cannot meet a demand for cash or fund its obligations as they become due. The museum meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flow from operations, anticipated investing and financing activities and holding assets that can be readily converted into cash.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

i) Currency risk

Currency risk refers to the risk that the fair value of instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates.

The museum's financial instruments are all denominated in Canadian dollars and it transacts primarily in Canadian dollars. As a result, management does not believe it is exposed to significant currency risk.

ii) Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates.

The museum's exposure to interest rate risk arises from its short-term investments which include amounts invested in guaranteed investment certificates (GICs) that earn interest at market rates. These GICs bear interest rates ranging from 0.57% to 0.75% with maturity dates ranging from May 2016 to December 2016.

iii) Other price risk

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of the changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market. Since the museum does not have investments in marketable securities, it is not exposed to other price risk.

Changes in risk

There have been no changes in the museum's risk exposures from the prior year.

4. TANGIBLE CAPITAL ASSETS

Tangible capital assets are comprised of:

	2015		2014	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Land	$ 1	$ -	$ 1	$ -
Buildings	74,421	6,909	53,861	4,524
Building improvements	1,647,638	304,200	1,647,638	248,223
Furniture and equipment	175,121	127,081	148,447	118,406
Computer equipment	42,469	38,407	42,469	33,441
Computer software	27,653	27,653	27,653	27,653
	1,967,303	$ 504,250	1,920,069	$ 432,247
Accumulated amortization	504,250		432,247	
	$ 1,463,053		$ 1,487,822	

Included in computer equipment are assets under a capital lease with a net book value of $2,703 (2014 - $6,006).

5. GOVERNMENT REMITTANCES PAYABLE

Included in accounts payable and accrued liabilities are $11,116 (2014 - $20,325) in government remittances payable.

6. CAPITAL LEASE OBLIGATION

Future payments for capital leases in existence at December 31, 2015 were as follows:

2017	$ 5,193
2018	3,029
	8,222
Less: imputed interest	(935)
	7,287
Less: current portion	(4,602)
Long-term portion	$ 2,685

7. DEFERRED CONTRIBUTIONS

Deferred contributions represent restricted project funding received from governments, government agencies and other organizations that are related to expenses to be incurred in subsequent years:

Contributions	Beginning balance	Contributions received in the year	Recognized in the year	Ending balance
Ontario Trillium Foundation	$ 7,533	$ -	$ (7,533)	$ -
City of Ottawa - Cultural Facilities Fund	7,500	7,500	(7,500)	7,500
Minister of Canada Heritage - CCIF joint rural marketing project	15,472	7,532	(23,004)	-
Service Canada - EAF Accessible Washroom	11,213	-	(11,213)	-
	$ 41,718	$ 15,032	$ (49,250)	$ 7,500

8. DEFERRED CONTRIBUTIONS RELATED TO TANGIBLE CAPITAL ASSETS

	Beginning balance	Contributions received	Recognized as revenue	Ending balance
Buildings retrofit	$ 1,444,319	$ -	$ 57,774	$ 1,386,545
Buildings	28,247	18,712	1,504	45,455
Furniture and equipment	15,300	13,960	4,454	24,806
Computer equipment	2,544	-	1,399	1,145
	$ 1,490,410	$ 32,672	$ 65,131	$ 1,457,951

9. DONATION AND FUNDRAISING

Included in donation and fundraising revenue are $1,588 (2014 - $3,327) of donations in kind which consist of Cold War artifacts and $203 (2014 - $4,352) of other supplies and materials.

10. MUSEUM STORE

	2015	2014
Revenue	$ 47,066	$ 28,981
Cost of goods sold	26,439	15,555
Gross profit	$ 20,627	$ 13,426

There were no writedowns of inventories or reversals of prior writedowns recorded in the year.

11. SALARIES AND BENEFITS

	2015	2014
Salaries and benefits	$ 681,541	$ 640,760
Employment grants	(42,680)	(39,251)
	$ 638,861	$ 601,509

12. BANK LINE OF CREDIT

The Museum has available an operating line of credit of $20,000 bearing interest at 4.7%, none of which was drawn upon at year-end.

13. GROSS REVENUE AND EXPENSES

The museum's total gross revenue and expenses reflected in the statement of operations amount to $1,097,583 (2014 - $1,065,569) and $1,069,496 (2014 - $1,064,172) respectively.