

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, 2012 and December 31, 2011 and the statements of operations, changes in net assets and cash flows for the years 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.

.../2

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

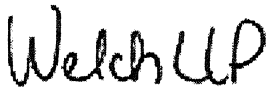
Basis for Qualified Opinion

In common with many non-profit organizations, the organization derives revenue from the general public in the form of donations, and fundraising activities, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the organization and we were not able to determine whether any adjustments might be necessary to revenue, excess of expenses over revenue and net assets.

The organization operates a museum store selling educational and cultural items. The inventory consisting of items held for resale at the store is recorded at the lower of cost and net realizable value and is determined on a first-in, first-out basis. Since the balance of inventory was insignificant historically, we did not participate in year-end physical inventory count on December 31, 2012. During our test of controls over inventory management and the use of ATMS system, we identified several deficiencies in internal control and as a result we were not able to determine whether any adjustments might be necessary to assets, expenses, excess of expenses over revenue and net assets.

Qualified Opinion

In our opinion, except for the matters described in the Basis for Qualified Opinion paragraphs, 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, 2012 and December 31, 2011 and 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.



Chartered Accountants
Licensed Public Accountants

Ottawa, Ontario
May 22, 2013.

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

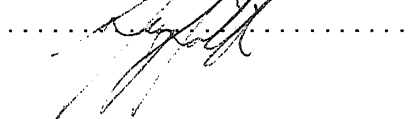
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 27,738	\$ 85,942
Short-term investments	70,596	194,860
Accounts receivable	82,224	46,876
Inventories	11,556	12,725
Prepaid expenses	<u>4,658</u>	<u>2,605</u>
	196,772	343,008
CAPITAL ASSETS (note 5)	1,550,212	1,612,192
OTHER ASSETS		
Works of art	<u>70,877</u>	<u>55,480</u>
	<u>\$ 1,817,861</u>	<u>\$ 2,010,680</u>
<u>NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 6)	\$ 61,025	\$ 61,055
Deferred contributions (note 7)	<u>14,109</u>	<u>55,000</u>
	75,134	116,055
DEFERRED BUILDING IMPROVEMENT CONTRIBUTIONS (note 8)	<u>1,567,186</u>	<u>1,632,485</u>
	<u>1,642,320</u>	<u>1,748,540</u>
NET ASSETS		
Working capital fund - unrestricted	52,763	112,140
Capital fund - internally restricted	<u>122,778</u>	<u>150,000</u>
	<u>175,541</u>	<u>262,140</u>
	<u>\$ 1,817,861</u>	<u>\$ 2,010,680</u>

Approved by the Board:

..... President

..... Vice-President

(See accompanying notes)

**DIEFENBUNKER, CANADA'S COLD WAR MUSEUM/
MUSÉE CANADIEN DE LA GUERRE FROIDE
STATEMENT OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	Working Capital Fund (Unrestricted)	2012 Capital Fund (Internally Restricted) (note 3)	Total	2011 Total
Net assets, beginning of year	\$ 112,140	\$ 150,000	\$ 262,140	\$ 399,136
Excess of expenses over revenue	(86,599)	-	(86,599)	(136,996)
Interfund transfer	<u>27,222</u>	<u>(27,222)</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 52,763</u>	<u>\$ 122,778</u>	<u>\$ 175,541</u>	<u>\$ 262,140</u>

(See accompanying notes)

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

STATEMENT OF OPERATIONS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Revenue		
Museum tours	\$ 360,264	\$ 357,375
Operating grants	389,817	269,645
Capital campaign (note 8)	65,299	68,020
Storage and tower rental	18,520	19,662
Miscellaneous income	54,145	17,594
Donations (note 9)	28,944	13,807
Museum store - gross profit (note 10)	<u>16,793</u>	<u>8,031</u>
	<u>933,782</u>	<u>754,134</u>
Expenses		
Salaries and benefits (note 11)	549,742	532,901
Repairs and maintenance	160,708	44,576
Amortization	69,970	85,420
Professional fees	65,907	24,925
Marketing	45,125	48,810
Utilities	47,144	40,470
Office	30,248	31,633
Museum exhibits and services	15,178	7,808
Human Resources Support	11,130	48,612
Insurance	8,905	8,590
Bank charges and interest	8,761	7,408
Travel and meetings	6,878	6,050
Bad debt	<u>685</u>	<u>3,927</u>
	<u>1,020,381</u>	<u>891,130</u>
Excess of expenses over revenue	<u>\$ (86,599)</u>	<u>\$ (136,996)</u>

(See accompanying notes)

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

STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash provided (used for)		
Operating activities		
Excess of expenses over revenue	\$ (86,599)	\$ (136,996)
Add items not affecting cash:		
Amortization	69,970	85,420
Amortization of deferred building improvement contribution	<u>(65,299)</u>	<u>(68,020)</u>
	(81,928)	(119,596)
Change in level of:		
Accounts receivable	(35,348)	139,291
Inventories	1,169	(307)
Prepaid expenses	(2,053)	8,472
Accounts payable and accrued liabilities	(30)	13,111
Deferred contributions	<u>(40,891)</u>	<u>55,000</u>
	<u>(159,081)</u>	<u>95,971</u>
Investing activities		
Capital asset additions	(7,990)	(7,789)
Additions to works of art	(15,397)	(4,241)
Sale (purchase) of short term investments	<u>124,264</u>	<u>(41,544)</u>
	<u>100,877</u>	<u>(53,574)</u>
Increase (decrease) in cash	(58,204)	42,397
Cash at beginning of year	<u>85,942</u>	<u>43,545</u>
Cash at end of year	<u>\$ 27,738</u>	<u>\$ 85,942</u>

(See accompanying notes)

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

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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 is a registered charity under the Income Tax Act. The Museum is exempt from paying income taxes pursuant to Section 149 of the Income Tax Act.

2. ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

Effective January 1, 2012, the museum has adopted the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting, Canadian accounting standards for not-for-profit organizations (ASNFPPO). These are the museum's first financial statements prepared in accordance with the accounting standards for not-for-profit organizations and these standards have been applied retrospectively. The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2012 and the comparative information presented in the financial statements for the year ended December 31, 2011.

The museum had previously issued financial statements for the year ended December 31, 2011 using a different accounting framework known as Canadian generally accepted accounting principles. The adoption of ASNFPPO had no impact on previously reported assets, liabilities, net assets, revenue and expenses of the museum and accordingly no adjustments have been recorded to the comparative financial statements. There were also no required adjustments to the opening ASNFPPO statement of financial position as at January 1, 2011 (the organization's date of transition) and as a result, these figures were not presented. The account balances under ASNFPPO at January 1, 2011 are consistent with the account balances that were reflected in the museum's previously issued statement of financial position at December 31, 2010.

Certain disclosures have been added to these financial statements to comply with the new ASNFPPO disclosure requirements.

3. 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 expensed as incurred.

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

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2012 AND 2011

3. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

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.

Capital assets and amortization

Capital assets are stated at acquisition cost. Amortization is provided on a declining balance basis using the following annual rates:

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

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

Contributed services and materials

Contributed services and materials are recognized in the financial statements at fair market value.

Contributed labour

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.

Donated exhibits

Donated museum exhibits are recognized in revenue and expensed in the financial statements at fair market value.

Works of art

Works of art are recognized and capitalized in the financial statements at their appraised values. The works of art are not amortized.

These are paintings on canvas relating to the cold war.

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 capital assets are deferred and amortized using the same basis as the respective asset.

Museum tour and hospitality services revenue is recognized as services are provided. Gift shop sales are recognized when sales are made. Storage and tower rental revenue is recognized ratably over the terms of the lease.

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

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2012 AND 2011

3. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

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 receiving visitors. During the year, \$27,222 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 revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates include the determination of the fair value of donated exhibits and works of art, the estimated useful life of capital assets, allowance of doubtful accounts and accrued liabilities.

4. FINANCIAL INSTRUMENTS

The museum is exposed to various risks through its financial instruments. The following analysis provides a measure of the organization'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 no provision for uncollectible amounts is 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.

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

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2012 AND 2011

4. FINANCIAL INSTRUMENTS - Cont'd.

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 (GIC's) that earn interest at market rates. These GIC's bear interest at a rate of 1.0% and will mature on April 30, 2013.

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.

The museum 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.

5. CAPITAL ASSETS

Capital assets are comprised of:

	2012		2011	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Land	\$ 1	\$ -	\$ 1	\$ -
Buildings	8,631	1,447	8,631	1,148
Building improvements	1,647,638	129,175	1,647,638	65,906
Furniture and equipment	126,463	104,256	120,602	99,437
Computer equipment	16,927	14,570	14,798	12,987
Computer software	<u>27,653</u>	<u>27,653</u>	<u>27,653</u>	<u>27,653</u>
	1,827,313	\$ 277,101	1,819,323	\$ 207,131
Accumulated amortization	<u>277,101</u>		<u>207,131</u>	
	<u>\$ 1,550,212</u>		<u>\$ 1,612,192</u>	

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

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2012 AND 2011

6. GOVERNMENT REMITTANCES PAYABLE

Included in accounts payable and accrued liabilities are \$4,001 (2011 - \$6,310) in government remittances payable.

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:

<u>Contributions</u>	<u>Beginning balance</u>	<u>Contributions received in the year</u>	<u>Recognized as revenue in the year</u>	<u>Ending balance</u>
City of Ottawa - Museum Sustainability Plan Capital Funding	\$ 50,000	\$ -	\$ 49,136	\$ 864
Virtual Museums of Canada	-	4,500	-	4,500
OMN Grant - French Translation and Staff Language Training	<u>5,000</u>	<u>7,500</u>	<u>3,755</u>	<u>8,745</u>
	<u>\$ 55,000</u>	<u>\$ 12,000</u>	<u>\$ 52,891</u>	<u>\$ 14,109</u>

8. DEFERRED BUILDING IMPROVEMENTS CONTRIBUTIONS

Deferred contributions for the building improvements represent restricted contributions received to fund the building renovations.

	<u>2012</u>	<u>2011</u>
Beginning balance	\$ 1,632,485	\$ 1,700,505
Amounts recognized as revenue in the year	<u>(65,299)</u>	<u>(68,020)</u>
Ending balance	<u>\$ 1,567,186</u>	<u>\$ 1,632,485</u>

9. DONATIONS

Included in donations are \$15,484 (2011 - \$4,850) of donations in kind which consist of photos, magazines, maps, and other various artifacts relating to the Cold War; \$350 (2011 - \$5,820) of donations in kind of other used items.

There were no other contributed materials or services recorded in the period.

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

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEARS ENDED DECEMBER 31, 2012 AND 2011

10. MUSEUM STORE

	<u>2012</u>	<u>2011</u>
Revenue	\$ 36,080	\$ 44,143
Cost of goods sold	<u>19,287</u>	<u>36,112</u>
Gross profit	<u>\$ 16,793</u>	<u>\$ 8,031</u>

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

11. SALARIES AND BENEFITS

	<u>2012</u>	<u>2011</u>
Salaries and benefits	\$ 590,368	\$ 569,905
Employment grants	<u>(40,626)</u>	<u>(37,004)</u>
	<u>\$ 549,742</u>	<u>\$ 532,901</u>

12. BANK LINE OF CREDIT

The Museum has available an operating line of credit of \$20,000 bearing interest at 5.0%, 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 \$993,695 (2011- \$827,250) and \$1,080,294 (2011 - \$964,246) respectively.