

**FINANCIAL STATEMENTS**  
**For**  
**DIEFENBUNKER, CANADA'S COLD WAR MUSEUM/  
MUSÉE CANADIEN DE LA GUERRE FROIDE**  
**For year ended**  
**DECEMBER 31, 2013**

## 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, 2013, 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 expenses over revenue and cash flows from operations for the years end December 31, 2013 and 2012, current assets as at December 31, 2013 and 2012, and net assets as at January 1 and December 31 for the 2012 and 2013 years. Our audit opinion on the financial statements for the year ended December 31, 2012 was modified accordingly because of the possible effects of this limitation in scope.

As a result of the deficiencies in internal control that we identified in the use of the inventory point-of-sales system during 2012 audit, we were not able to determine whether any adjustments to expenses, excess of expenses over revenue and net assets might be necessary for the year ended December 31, 2012. Our audit opinion on the financial statements for the year then ended was modified accordingly. Our opinion on the current year's financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures on the statement of operations.

*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, 2013, 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 Accountants  
Licensed Public Accountants

Ottawa, Ontario  
June 10, 2014.

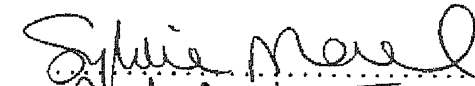

**DIEFENBUNKER, CANADA'S COLD WAR MUSEUM/  
MUSÉE CANADIEN DE LA GUERRE FROIDE**

**STATEMENT OF FINANCIAL POSITION**

**DECEMBER 31, 2013**

	<u>2013</u>	<u>2012</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 12,471	\$ 27,738
Short-term investments	80,563	70,596
Accounts receivable	91,813	82,224
Inventories	9,252	11,556
Prepaid expenses	<u>5,137</u>	<u>4,658</u>
	199,236	196,772
<b>TANGIBLE CAPITAL ASSETS (note 4)</b>	<b>1,561,591</b>	<b>1,550,212</b>
<b>OTHER ASSETS</b>		
Works of art (note 9)	<u>74,401</u>	<u>70,877</u>
	<b>\$ 1,835,228</b>	<b>\$ 1,817,861</b>
<b><u>NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities (note 5)	\$ 101,887	\$ 61,025
Current portion of capital lease obligation (note 6)	4,602	-
Deferred revenue	704	-
Deferred contributions (note 7)	<u>43,946</u>	<u>14,109</u>
	151,139	75,134
<b>CAPITAL LEASE OBLIGATION (note 6)</b>	<b>11,889</b>	<b>-</b>
<b>DEFERRED CONTRIBUTIONS RELATED TO TANGIBLE CAPITAL ASSETS (note 8)</b>	<u>1,555,802</u>	<u>1,567,186</u>
	<u>1,718,830</u>	<u>1,642,320</u>
<b>NET ASSETS</b>		
Working capital fund - unrestricted	17,149	52,763
Capital fund - internally restricted	<u>99,249</u>	<u>122,778</u>
	<u>116,398</u>	<u>175,541</u>
	<b>\$ 1,835,228</b>	<b>\$ 1,817,861</b>

Approved by the Board:

 President  
 Treasurer

(See accompanying notes)

**Welch** LLP

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

**STATEMENT OF CHANGES IN NET ASSETS**

**YEAR ENDED DECEMBER 31, 2013**

	2013			2012
	Working Capital Fund (Unrestricted)	Capital Fund (Internally Restricted) (note 2)	Total	Total
Net assets, beginning of year	\$ 52,763	\$ 122,778	\$ 175,541	\$ 262,140
Excess of expenses over revenue	(59,143)	-	(59,143)	(86,599)
Interfund transfer	<u>23,529</u>	<u>(23,529)</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 17,149</u>	<u>\$ 99,249</u>	<u>\$ 116,398</u>	<u>\$ 175,541</u>

(See accompanying notes)

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

**STATEMENT OF OPERATIONS**

**YEAR ENDED DECEMBER 31, 2013**

	<u>2013</u>	<u>2012</u>
<b>Revenue</b>		
Museum tours	\$ 375,587	\$ 360,264
Operating grants	357,471	389,817
Capital campaign (note 8)	62,687	65,299
Miscellaneous income	40,679	54,145
Donation and fundraising (note 9)	20,739	28,944
Storage and tower rental	19,424	18,520
Museum store - gross profit (note 10)	14,281	16,793
Deferred contributions related to tangible capital assets (note 8)	<u>4,496</u>	<u>-</u>
	<u>895,364</u>	<u>933,782</u>
<b>Expenses</b>		
Salaries and benefits (note 11)	569,894	549,742
Amortization	76,658	69,970
Professional fees	65,098	65,907
Museum exhibits and services	50,014	15,178
Utilities	48,433	47,144
Marketing	44,676	45,125
Repairs and maintenance	41,841	160,708
Office	21,212	30,248
Human Resources Support	14,465	11,130
Insurance	9,967	8,905
Bank charges and interest	8,765	8,761
Travel and meetings	3,238	6,878
Capital lease obligation interest	246	-
Bad debt	<u>-</u>	<u>685</u>
	<u>954,507</u>	<u>1,020,381</u>
<b>Excess of expenses over revenue</b>	<u>\$ (59,143)</u>	<u>\$ (86,599)</u>

(See accompanying notes)

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

**STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2013**

	<u>2013</u>	<u>2012</u>
<b>Cash provided (used for)</b>		
<b>Operating activities</b>		
Excess of expenses over revenue	\$ (59,143)	\$ (86,599)
Add items not affecting cash:		
Amortization	76,658	69,970
Amortization of deferred contributions related to tangible capital assets	(4,496)	-
Amortization of deferred building improvement contribution	<u>(62,687)</u>	<u>(65,299)</u>
	(49,668)	(81,928)
Change in level of:		
Accounts receivable	(9,589)	(35,348)
Inventories	2,304	1,169
Prepaid expenses	(479)	(2,053)
Accounts payable and accrued liabilities	40,862	(30)
Deferred revenue	704	-
Deferred contributions	<u>29,837</u>	<u>(40,891)</u>
	<u>13,971</u>	<u>(159,081)</u>
<b>Investing activities</b>		
Capital asset additions	(88,037)	(7,990)
Additions to works of art	(3,524)	(15,397)
Sale (purchase) of short term investments	<u>(9,967)</u>	<u>124,264</u>
	<u>(101,528)</u>	<u>100,877</u>
<b>Financing activities</b>		
Funding received related to tangible capital assets	55,799	-
Capital lease obligation	<u>16,491</u>	<u>-</u>
	<u>72,290</u>	<u>-</u>
<b>Decrease in cash</b>	(15,267)	(58,204)
<b>Cash at beginning of year</b>	<u>27,738</u>	<u>85,942</u>
<b>Cash at end of year</b>	<u>\$ 12,471</u>	<u>\$ 27,738</u>

(See accompanying notes)

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2013**

**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. 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.

*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*

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

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.

*Contributed services and materials*

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

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.



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

**NOTES TO FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2013**

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

*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.

*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.

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.

*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, \$23,529 (2012 - \$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 revenue and expenses during the reporting period. Significant estimates include the determination of the collectibility of accounts receivable, the fair value of donated exhibits and works of art, 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 no provision for uncollectible amounts is necessary.

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

**NOTES TO FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2013**

**3. FINANCIAL INSTRUMENTS - Cont'd.**

*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 0.85% to 1.88% with maturity dates ranging from March 2014 to December 2014.

*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. Considering the investment portfolio that the museum has had in recent years, 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.

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

**NOTES TO FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2013**

**4. TANGIBLE CAPITAL ASSETS**

Tangible capital assets are comprised of:

	2013		2012	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Land	\$ 1	\$ -	\$ 1	\$ -
Buildings	49,687	2,555	8,631	1,447
Building improvements	1,647,638	189,913	1,647,638	129,175
Furniture and equipment	148,447	110,896	126,463	104,256
Computer equipment	41,924	22,742	16,927	14,570
Computer software	27,653	27,653	27,653	27,653
	1,915,350	<u>\$ 353,759</u>	1,827,313	<u>\$ 277,101</u>
Accumulated amortization	<u>353,759</u>		<u>277,101</u>	
	<u>\$ 1,561,591</u>		<u>\$ 1,550,212</u>	

**5. GOVERNMENT REMITTANCES PAYABLE**

Included in accounts payable and accrued liabilities are \$5,986 (2012 - \$4,001) in government remittances payable.

**6. CAPITAL LEASE OBLIGATION**

During the year, the museum has entered into a capital lease for certain computer equipment. Future payments for capital leases in existence at December 31, 2013 were as follows:

2014	\$ 4,602
2015	4,602
2016	4,602
2017	2,685
	16,491
Less: current portion	<u>4,602</u>
Long-term portion	<u>\$ 11,889</u>

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

**NOTES TO FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2013**

**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	\$ 864	\$ -	\$ -	\$ 864
Ontario Trillium Foundation	-	17,400	-	17,400
Minister of Canada Heritage	-	9,500	7,928	1,572
City of Ottawa - Cultural Facilities	-	3,864	-	3,864
Mississippi Valley Textile Museum	-	16,346	1,591	14,755
Virtual Museums of Canada	4,500	-	4,500	-
OMN Grant - French Translation and Staff Language Training	<u>8,745</u>	<u>7,440</u>	<u>10,694</u>	<u>5,491</u>
	<u>\$ 14,109</u>	<u>\$ 54,550</u>	<u>\$ 24,713</u>	<u>\$ 43,946</u>

**8. DEFERRED CONTRIBUTIONS RELATED TO TANGIBLE CAPITAL ASSETS**

	<u>Beginning balance</u>	<u>Contributions received</u>	<u>Recognized as revenue</u>	<u>Ending balance</u>
Buildings - retrofit	\$ 1,567,186	\$ -	\$ 62,687	\$ 1,504,499
Buildings	-	27,958	559	27,399
Furniture and equipment	-	21,253	2,125	19,128
Computer equipment	<u>-</u>	<u>6,588</u>	<u>1,812</u>	<u>4,776</u>
	<u>\$ 1,567,186</u>	<u>\$ 55,799</u>	<u>\$ 67,183</u>	<u>\$ 1,555,802</u>

**9. DONATION AND FUNDRAISING**

Included in donation and fundraising revenue are \$3,524 (2012 - \$15,484) of donations in kind which consist of photos, magazines, maps, and other various artifacts relating to the Cold War and \$10,585 (2012 - \$350) of other materials.

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

**NOTES TO FINANCIAL STATEMENTS - Cont'd.**

**YEAR ENDED DECEMBER 31, 2013**

**10. MUSEUM STORE**

	<u>2013</u>	<u>2012</u>
Revenue	\$ 39,804	\$ 36,080
Cost of goods sold	<u>25,523</u>	<u>19,287</u>
Gross profit	<u>\$ 14,281</u>	<u>\$ 16,793</u>

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

**11. SALARIES AND BENEFITS**

	<u>2013</u>	<u>2012</u>
Salaries and benefits	\$ 601,169	\$ 590,368
Employment grants	<u>(31,275)</u>	<u>(40,626)</u>
	<u>\$ 569,894</u>	<u>\$ 549,742</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 \$952,162 (2012- \$993,695) and \$1,011,305 (2012 - \$1,080,294) respectively.