

FINANCIAL STATEMENTS

For

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

For the year ended

DECEMBER 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the members of

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

Opinion

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, 2018, 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.

In our opinion, 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, 2018, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibility of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

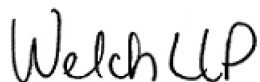
Auditor's Responsibility for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Organization's financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Organization's financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Organization's financial statements, including the disclosures, and whether the Organization's financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
May 2, 2019.

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

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 70,438	\$ 81,073
Short-term investments	458,905	376,013
Accounts receivable	26,827	24,222
Inventories	10,347	12,112
Prepaid expenses	<u>3,803</u>	<u>8,339</u>
	570,320	501,759
TANGIBLE CAPITAL ASSETS (note 4)	1,389,957	1,397,303
ARTIFACT COLLECTION (note 2)	<u>1</u>	<u>1</u>
	<u>\$ 1,960,278</u>	<u>\$ 1,899,063</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 5)	\$ 131,858	\$ 137,800
Deferred revenue	2,757	604
Deferred contributions (note 6)	<u>31,847</u>	<u>21,910</u>
	166,462	160,314
DEFERRED CONTRIBUTIONS RELATED TO TANGIBLE CAPITAL ASSETS (note 7)	<u>1,317,513</u>	<u>1,375,175</u>
	<u>1,483,975</u>	<u>1,535,489</u>
NET ASSETS		
Working capital fund - unrestricted	162,251	74,746
Capital acquisition fund - internally restricted	<u>314,052</u>	<u>288,828</u>
	<u>476,303</u>	<u>363,574</u>
	<u>\$ 1,960,278</u>	<u>\$ 1,899,063</u>

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, 2018

	2018			2017
	Working Capital Fund (Unrestricted)	Capital Acquisition Fund (Internally Restricted) (note 2)	Total	Total
Net assets, beginning of year	\$ 74,746	\$ 288,828	\$ 363,574	\$ 242,706
Excess of revenue over expenses	112,729	-	112,729	120,868
Interfund transfers (note 2):				
- Allocation of part of surplus	(84,547)	84,547	-	-
- Tangible capital asset purchases	<u>59,323</u>	<u>(59,323)</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 162,251</u>	<u>\$ 314,052</u>	<u>\$ 476,303</u>	<u>\$ 363,574</u>

(See accompanying notes)

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

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>
Revenue		
Museum tours	\$ 591,465	\$ 659,387
Operating grants	334,646	329,020
Facilities rental	153,867	153,534
Special program fees and miscellaneous income	79,321	68,757
Deferred contributions related to tangible capital assets (note 7)	57,662	60,875
Employment grants	70,672	50,357
Donation and fundraising (note 8)	50,517	41,995
Museum store	<u>45,327</u>	<u>46,157</u>
	<u>1,383,477</u>	<u>1,410,082</u>
Expenses		
Salaries and benefits	851,890	844,464
Amortization	66,669	68,189
Repairs and maintenance	58,039	50,918
Utilities	56,404	61,292
Office	43,498	34,044
Marketing	34,646	42,412
Museum exhibits and services	31,141	37,318
Professional fees	28,946	47,511
Rental	26,421	25,158
Museum store	23,583	26,878
Bank charges and interest	14,827	14,962
Insurance	15,621	14,365
Human resources support	11,868	12,571
Travel and meetings	7,195	8,151
Bad debt	-	637
Capital lease obligation interest	<u>-</u>	<u>344</u>
	<u>1,270,748</u>	<u>1,289,214</u>
Excess of revenue over expenses	<u>\$ 112,729</u>	<u>\$ 120,868</u>

(See accompanying notes)

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

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>
Cash provided (used for)		
Operating activities		
Excess of revenue over expenses	\$ 112,729	\$ 120,868
Add items not affecting cash:		
Amortization	66,669	68,189
Amortization of deferred contributions related to tangible capital assets	<u>(57,662)</u>	<u>(60,875)</u>
	121,736	128,182
Change in level of:		
Accounts receivable	(2,605)	116,981
Inventories	1,765	(2,323)
Prepaid expenses	4,536	(1,629)
Accounts payable and accrued liabilities	(5,942)	(890)
Deferred revenue	2,153	504
Deferred contributions	<u>9,937</u>	<u>(7,151)</u>
	<u>131,580</u>	<u>233,674</u>
Investing activities		
Tangible capital asset purchases	(59,323)	(8,929)
Net purchase of investments	<u>(82,892)</u>	<u>(172,290)</u>
	<u>(142,215)</u>	<u>(181,219)</u>
Financing activities		
Funding adjusted related to tangible capital assets	-	(2,186)
Capital lease obligation payments	<u>-</u>	<u>(2,685)</u>
	<u>-</u>	<u>(4,871)</u>
Increase (decrease) in cash	(10,635)	47,584
Cash at beginning of year	<u>81,073</u>	<u>33,489</u>
Cash at end of year	<u>\$ 70,438</u>	<u>\$ 81,073</u>

(See accompanying notes)

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 1997 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 tangible capital assets are deferred and amortized using the same basis as the respective asset.

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

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2018

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 8 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 consists 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 revenues and expenses in the statement of operations at their appraised value.

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 principal 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;
- Facilities rental revenue is recognized when the rental agreement is fulfilled;
- 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 acquisition 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, \$25,224 (2017 - \$81,722) was transferred from the working capital fund to the capital fund. This amount is calculated as 75% of current year excess of revenue over expenses, less capital asset purchases.

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 accrued receivables and 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.

**DIEFENBUNKER, CANADA'S COLD WAR MUSEUM/
MUSÉE CANADIEN DE LA GUERRE FROIDE
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2018**

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 1.09% to 2.00% (2017 - 0.65% to 1.70%) with maturity dates ranging from February 2019 to December 2019.

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 significant 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, 2018**

4. TANGIBLE CAPITAL ASSETS

Tangible capital assets are comprised of:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Land	\$ 1	\$ -	\$ 1	\$ -
Buildings	128,708	18,870	128,708	14,294
Building improvements	1,677,862	459,147	1,647,638	409,525
Furniture and equipment	220,245	159,621	191,146	148,103
Computer equipment	44,390	43,611	44,390	42,658
Computer software	<u>27,653</u>	<u>27,653</u>	<u>27,653</u>	<u>27,653</u>
	2,098,859	<u>\$ 708,902</u>	2,039,536	<u>\$ 642,233</u>
Accumulated amortization	<u>708,902</u>		<u>642,233</u>	
	<u>\$ 1,389,957</u>		<u>\$ 1,397,303</u>	

5. GOVERNMENT REMITTANCES PAYABLE

Included in accounts payable and accrued liabilities are \$6,463 (2017 - \$23,390) in government remittances payable.

6. DEFERRED CONTRIBUTIONS

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

<u>Contributions</u>	<u>Beginning balance</u>	<u>Contributions received/ receivable in the year</u>	<u>Recognized in the year</u>	<u>Ending balance</u>
Canadian Museums Association - Young Canada Works at Building Careers in Heritage	\$ 11,377	\$ 20,000	\$ (26,376)	\$ 5,001
Canadian Heritage - Museum Assistance Program (MAP)	-	39,775	(22,000)	17,775
Plumbing refurbishment	7,414	1,657	-	9,071
Ottawa Museum Network Grant - French Translation and Staff Language Training	<u>3,119</u>	<u>-</u>	<u>(3,119)</u>	<u>-</u>
	<u>\$ 21,910</u>	<u>\$ 61,432</u>	<u>\$ (51,495)</u>	<u>\$ 31,847</u>

The amount recognized in the year is included in the operating grants revenue or in the deferred contributions related to tangible capital assets.

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

NOTES TO FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED DECEMBER 31, 2018

7. DEFERRED CONTRIBUTIONS RELATED TO TANGIBLE CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Revenue Recognized</u>	<u>Ending Balance</u>
Buildings retrofit	\$ 1,277,840	\$ (51,114)	\$ 1,226,726
Buildings	81,162	(3,334)	77,828
Furniture and equipment	15,941	(3,086)	12,855
Computer equipment	<u>232</u>	<u>(128)</u>	<u>104</u>
	<u>\$ 1,375,175</u>	<u>\$ (57,662)</u>	<u>\$ 1,317,513</u>

8. DONATION AND FUNDRAISING

Included in donation and fundraising revenue are \$2,341 (2017 - \$2,150) of donations in kind of Cold War artifacts and \$6,044 (2017 - \$2,482) of other supplies and materials.

9. 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.

10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified, where applicable, to conform to the presentation used in the current year.