

Financial statements of

**THE McCORD MUSEUM OF CANADIAN
HISTORY**

March 31, 2010

THE McCORD MUSEUM OF CANADIAN HISTORY

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Auditors' report

To the Board of Trustees of
The McCord Museum of Canadian History

We have audited the balance sheet of The McCord Museum of Canadian History as at March 31, 2010 and the statements of operations and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As in the case of similar organizations, the Museum derives part of its revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of revenue from these sources was limited to substantiating the amounts recorded in the books of the Museum and we were unable to determine whether any adjustments might be necessary to fundraising revenue with the resulting effect on excess of revenue over expenses, assets and fund balances.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of donations referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Museum as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.¹

May 19, 2010

¹ Chartered accountant auditor permit no 22220

THE McCORD MUSEUM OF CANADIAN HISTORY

Statement of operations and changes in fund balances

year ended March 31, 2010

	Operating Fund	Restricted Fund	Capital Assets Fund	Endowment Fund	Total	
					2010	2009
	\$	\$	\$	\$	\$	\$
Revenue						
Government of Quebec (Note 4)	1,613,445	-	32,556	-	1,646,001	1,831,190
Government of Canada (Note 5)	134,430	23,800	-	-	158,230	416,715
Other grants	25,290	1,555	-	-	26,845	33,776
Montreal Urban Community	70,000	-	-	-	70,000	70,000
Ville de Montréal	17,196	-	-	-	17,196	48,857
Contributed services (Note 3)	144,144	-	-	-	144,144	152,904
Foundation grants	685,817	-	243,916	-	929,733	1,106,848
Investment income	17,578	-	-	-	17,578	21,648
Auxiliary services	302,594	-	-	-	302,594	385,590
Admissions	314,697	-	-	-	314,697	411,606
Fundraising	557,706	-	-	-	557,706	646,060
Sponsorship	48,389	-	7,116	-	55,505	203,391
Rental	149,632	-	-	-	149,632	152,838
Other	26,362	-	-	-	26,362	29,723
	4,107,280	25,355	283,588	-	4,416,223	5,511,146
Expenses						
Administration	848,800	-	-	-	848,800	766,616
Auxiliary services	290,665	-	-	-	290,665	357,229
Interest on long-term debt	7,967	-	32,556	-	40,523	50,743
Building and security	865,491	-	-	-	865,491	916,806
Collection (Note 3)	884,707	-	-	-	884,707	887,904
Education programs	358,603	23,800	-	-	382,403	914,888
Exhibitions	476,228	1,555	-	-	477,783	881,277
Development, marketing and communications	584,105	-	-	-	584,105	951,820
Amortization of capital assets	-	-	277,376	-	277,376	364,340
	4,316,566	25,355	309,932	-	4,651,853	6,091,623
Deficiency of revenue over expenses before the undernoted						
	(209,286)	-	(26,344)	-	(235,630)	(580,477)
Special foundation grant	365,447	-	-	-	365,447	450,000
Investment income	277,544	-	-	-	277,544	404,393
Change in fair value of investments	1,264,594	-	-	-	1,264,594	(1,731,622)
Endowment administration expenses	(50,996)	-	-	-	(50,996)	(49,866)
Excess (deficiency) of revenue over expenses						
	1,647,303	-	(26,344)	-	1,620,959	(1,507,572)
Fund balances, beginning of year	(1,017,174)	-	3,395,777	9,684,811	12,063,414	13,229,913
Endowment contributions	-	-	-	182,094	182,094	341,073
Interfund transfers (Note 6)	(1,140,657)	-	42,495	1,098,162	-	-
Fund balances, end of year	(510,528)	-	3,411,928	10,965,067	13,866,467	12,063,414

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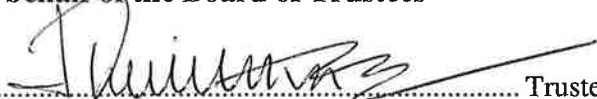
Balance sheet

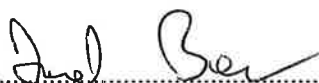
as at March 31, 2010

	Operating Fund	Restricted Fund	Capital Assets Fund	Endowment Fund	Total	
					2010	2009
	\$	\$	\$	\$	\$	\$
Assets						
Current assets						
Cash	273,240	-	-	-	273,240	-
Amounts receivable	121,945	-	-	-	121,945	187,898
Grants receivable	63,030	-	141,905	-	204,935	402,378
Due from Operating Fund (Note 3)	-	58,275*	42,298*	199,400*	-	-
Inventory	149,108	-	-	-	149,108	130,634
Prepaid expenses	41,586	-	-	-	41,586	41,246
Deferred costs	6,412	-	-	-	6,412	12,185
	655,321	58,275	184,203	199,400	797,226	774,341
Grants receivable	51,073	-	323,642	-	374,715	566,390
Investments (Note 12)	-	-	-	10,765,667	10,765,667	9,143,243
Capital assets (Note 7)	-	-	3,641,304	-	3,641,304	3,876,185
	706,394	58,275	4,149,149	10,965,067	15,578,912	14,360,159
Liabilities						
Current liabilities						
Bank indebtedness (Note 8)	-	-	-	-	-	211,118
Accounts payable and accrued liabilities	566,262	-	-	-	566,262	773,496
Due to Other Funds (Note 3)	299,973*	-	-	-	-	-
Deferred revenue	248,544	58,275	43,598	-	350,417	73,658
Current portion of long- term debt (Note 9)	51,070	-	369,405	-	420,475	191,675
	1,165,849	58,275	413,003	-	1,337,154	1,249,947
Long-term debt (Note 9)	51,073	-	94,842	-	145,915	566,390
Deferred contributions (Note 10)	-	-	229,376	-	229,376	480,408
	1,216,922	58,275	737,221	-	1,712,445	2,296,745
Fund balances						
Invested in capital assets	-	-	3,411,928	-	3,411,928	3,395,777
Externally restricted (Note 11)	-	-	-	11,005,478	11,005,478	10,823,284
Internally restricted (Note 11)	-	-	-	(40,411)	(40,411)	(1,138,473)
Unrestricted	(510,528)	-	-	-	(510,528)	(1,017,174)
	(510,528)	-	3,411,928	10,965,067	13,866,467	12,063,414
	706,394	58,275	4,149,149	10,965,067	15,578,912	14,360,159

* These amounts are not included in the total column because they offset each other.

On behalf of the Board of Trustees

 Trustee

 Trustee

THE McCORD MUSEUM OF CANADIAN HISTORY

Statement of cash flows

year ended March 31, 2010

	2010	2009
	\$	\$
Cash from operating activities		
Excess (deficiency) of revenue over expenses	1,620,959	(1,507,572)
Adjustments for:		
Amortization of capital assets	277,376	364,340
Amortization of deferred contributions	(251,032)	(293,964)
Change in the fair value of investments	(1,264,594)	1,731,622
Net change in non-cash working capital items	319,880	(304,610)
Net cash from (used in) operating activities	702,589	(10,184)
Investing activities		
Purchase of capital assets	(42,495)	(65,922)
Net change in investments	(357,830)	(382,320)
Net cash used in investing activities	(400,325)	(448,242)
Financing activities		
Endowment contributions	182,094	341,073
Proceeds from long-term grant receivable	191,675	191,675
Repayment of long-term debt	(191,675)	(191,675)
Net cash from financing activities	182,094	341,073
Net increase (decrease) in cash	484,358	(117,353)
Bank indebtedness, beginning of year	(211,118)	(93,765)
Cash (bank indebtedness), end of year	273,240	(211,118)
Consist of:		
Cash	273,240	-
Bank indebtedness	-	(211,118)
	273,240	(211,118)
<i>Supplemental cash flow information</i>		
Interest on long-term debt paid	40,523	50,743

THE McCORD MUSEUM OF CANADIAN HISTORY

Notes to the financial statements

March 31, 2010

1. Status and nature of activities

The Museum was incorporated under the name McCord Museum on May 12, 1980 under Part III of the *Companies Act* (Québec) as a not-for-profit organization and is a registered charity under the *Income Tax Act*. On March 28, 1988, its name was changed to The McCord Museum of Canadian History.

The McCord Museum of Canadian History is a public research and teaching museum dedicated to the preservation, study, diffusion and appreciation of Canadian history.

As per the bylaws of the Museum, the Temple Grove Foundation and McGill University must appoint four and three seats, respectively, out of seven seats on the Board of Trustees. These entities are considered related parties.

In order to maintain its registered charity status, the Museum must meet certain spending requirements (“disbursement quota”) according to the *Income Tax Act*. The disbursement quota is a minimum amount that the registered charity must spend on charitable programs or as gifts to qualified donees in order to maintain its registered charity status. As at March 31, 2010, the Museum complies with the requirement.

2. Changes in accounting policies

Not-for-profit organizations

On April 1, 2009, the Museum adopted the changes made to Sections 1540, 4400, 4460 and the new recommendations of Section 4470 of the Canadian Institute of Chartered Accountants (“CICA”) Handbook.

Section 1540, *Cash flow statements*, has been amended to include not-for-profit organizations within its scope.

Section 4400, *Financial statement presentation by not-for-profit organizations*, has been amended in order to eliminate the requirement to treat net assets invested in capital assets as a separate component of net assets and, instead, permit a not-for-profit organization to present such an amount as a category of internally restricted net assets when it chooses to do so. It also clarifies that revenues and expenses must be recognized and presented on a gross basis when a not-for-profit organization is acting as a principal in transactions.

Section 4460, *Disclosure of related party transactions by not-for-profit organizations*, has been amended to make the language in Section 4460 consistent with related party transactions, Section 3840.

Section 4470, *Disclosure of allocated expenses by not-for-profit organizations*, establishes disclosure standards for a not-for-profit organization that classifies its expenses by function and allocates its expenses to a number of functions to which the expenses relate.

As a result of the applications of these new standards, the statement of cash flows now presents investing and financing activities separately, and a related party transaction note was added.

THE McCORD MUSEUM OF CANADIAN HISTORY

Notes to the financial statements

March 31, 2010

3. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reflect the following significant accounting policies:

Fund accounting

The Museum follows the deferral method of accounting for contributions.

The Operating Fund accounts for the Museum's program delivery and administrative activities. This fund reports unrestricted resources and restricted operating grants.

The Restricted Fund records funds for specific purposes other than operations as defined by the grantor.

The Capital Assets Fund accounts for the Museum's capital assets, either purchased or donated, and which are used for all of its operations.

The Endowment Fund records gifts received for endowment purposes and amounts designated by the Board of Trustees to be treated as endowments.

Revenue recognition

Restricted contributions are recognized as revenue of the appropriate fund in the year in which the related expenses are incurred or the related capital assets are amortized. Unexpended funds are recorded on the balance sheet as deferred revenue or deferred contributions.

Unrestricted contributions are recognized as revenue of the Operating Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions for endowment are recognized as direct increases in the Endowment Fund balance.

Investment income is recognized as revenue when earned. Investment income earned on the Museum's endowments is available for use in operations or other activities subject to approval by the Board of Trustees and is reported as income of the Operating Fund. Each year, the excess of actual endowment income over amounts approved for use in operations is reinvested, or transferred back to the Endowment Fund. Such amounts are classified as internally restricted in the Endowment Fund balance. In years where there is a deficiency, this amount may be transferred to the Operating Fund.

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Notes to the financial statements

March 31, 2010

3. Significant accounting policies (continued)

Contributed services

McGill University provides, at its expense, the services of certain employees. The amount of their salaries and fringe benefits is \$144,144 (\$152,904 in 2009) and is reported as both a revenue and an expense in the Operating Fund.

The Museum is renting the building at 690 Sherbrooke Street West from McGill University for a period of 99 years ending in the year 2086. The rent is \$1 per annum.

Volunteers contribute numerous hours each year to the Museum to help it carry out its service delivery activities. Due to the difficulty of determining their fair value, these contributed services are not recognized in the financial statements.

Financial instruments

The Museum has elected to use the exemption provided by the CICA permitting not-for-profit organizations not to apply Sections 3862 and 3863 of the CICA Handbook, which would otherwise have applied to the financial statements of the Museum. The Museum applies the requirements of Section 3861 of the CICA Handbook.

Financial instruments are initially recorded at their fair value and their subsequent measurement is dependent on their classification as described below:

Cash and investments are classified as held for trading and are carried at their fair value using bid prices. The change in fair value of the investments is recognized in the statement of operations. Investment transactions are recorded at the settlement date.

Amounts receivable and grants receivable are classified as loans and receivables and are recorded at amortized cost using the effective interest method.

Accounts payable and accrued liabilities and long-term debt are classified as other liabilities and are recorded at amortized cost using the effective interest method.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is reported in the Capital Assets Fund and is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment	5 years
Furniture and fixtures	8 years
Leasehold improvements	10 years
Building	25 years

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Notes to the financial statements

March 31, 2010

3. Significant accounting policies (continued)

Collection

The collection consists of items and artifacts relating to Canadian history. The majority of these items are held as part of a custodial agreement between McGill University and the Museum whereby the University conferred upon the Museum the custody and care of its collection.

Due to the difficulty in determining fair value, the assets of the collection are not recognized in the Museum's balance sheet.

Additions to the collection received from gifts in-kind are not reflected in the financial statements. The estimated fair value of such items received during the year is \$817,813 (\$357,150 in 2009).

Cash contributions received for the purchase of items for the Museum's collection are deferred and recognized in revenue when the purchase is made. Actual purchases of collection items amounts to \$10,995 (nil in 2009).

Direct costs incurred for the preservation, restoration and management of the collection are included in the collection expenses line in the statement of operations.

Inventory

Inventory of goods held for resale is valued at the lower of cost and net realizable value.

Due from (to) other funds

Due from (to) other funds comprise interfund advances which are non-interest bearing and without specific terms of repayment.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

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Notes to the financial statements

March 31, 2010

4. Revenue - Government of Quebec

	2010	2009
	\$	\$
Ministère de la Culture, des Communications et de la Condition féminine		
Soutien aux institutions muséales	1,545,373	1,712,100
Soutien aux équipements culturels	40,523	50,743
Archives nationales du Québec	30,145	43,347
Ministère de l'Immigration et des Communautés culturelles	25,000	25,000
Ministère de l'Éducation, du Loisir et du Sport	4,960	-
	<u>1,646,001</u>	<u>1,831,190</u>

5. Revenue - Government of Canada

	2010	2009
	\$	\$
Canadian Heritage		
Movable Cultural Property Grant	5,497	-
Canadian Heritage Information Network	23,800	390,611
Canadian Arts and Heritage Sustainability Program	-	8,735
Museum Assistance Program	28,933	14,818
Public Works and Government Services Canada	-	2,551
Canadian Space Agency	100,000	-
	<u>158,230</u>	<u>416,715</u>

6. Interfund transfers

The Operating Fund transferred \$42,495 (\$65,922 in 2009) to the Capital Assets Fund, representing the acquisition of capital assets from operating resources.

The Operating Fund transferred \$1,086,842 to the Endowment Fund (received \$1,793,592 from the Endowment Fund in 2009) representing the difference in the current year's actual endowment investment income earned, including the change in fair value of investments and net of investment expenses, relative to the amount approved for spending of \$404,300 (\$439,340 in 2009).

The Endowment Fund amount due from the Operating Fund bears notional interest. An amount of \$11,320 has been transferred to the Endowment Fund on this balance.

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Notes to the financial statements

March 31, 2010

7. Capital assets

	2010		2009	
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Computer equipment	173,022	98,439	74,583	70,392
Furniture and fixtures	65,685	46,208	19,477	23,980
Leasehold improvements	1,831,962	1,399,551	432,411	615,596
Building	1,284,589	789,756	494,833	546,217
Land	2,620,000	-	2,620,000	2,620,000
	5,975,258	2,333,954	3,641,304	3,876,185

8. Bank indebtedness

The Museum has an authorized unsecured line of credit of \$500,000, bearing interest at the prime rate plus 1%. As at March 31, 2010, the amount outstanding under this credit facility is nil.

9. Long-term debt

	2010	2009
	\$	\$
Bank loan, bearing interest at 5.20%, amortized over 5 years, due March 31, 2012, and secured by a grant receivable of the same amount from the Government of Quebec, advanced on the same basis as the repayment of principal and interest ⁽¹⁾	291,830	437,745
Bank loan, bearing interest at 5.75%, amortized over 10 years, due October 30, 2010, and secured by a grant receivable of the same amount from the Government of Quebec, advanced on the same basis as the repayment of principal and interest	274,560	320,320
	566,390	758,065
Current portion	420,475	191,675
	145,915	566,390

⁽¹⁾ At the time of the grant, the proceeds were allocated according to their use for operations or capital asset acquisitions. As a result, 35% of the debt and corresponding grant receivable is accounted for in the Operating Fund and 65% is accounted for in the Capital Assets Fund.

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Notes to the financial statements

March 31, 2010

9. Long-term debt (continued)

Principal repayments required on long-term debt and the related grants receivable in the forthcoming years are as follows:

	Long-term debt repayments	Grants receivable
	\$	\$
2011	420,475	191,675
2012	145,915	191,675
2013	-	183,040
	<u>566,390</u>	<u>566,390</u>

10. Deferred contributions

Deferred contributions in the Capital Assets Fund represent the unamortized portions of restricted contributions for the purchase of capital assets. The deferred contributions are brought into income on the same basis as the capital assets purchased are being amortized.

The activity for the year in the deferred contributions balance is as follows:

	2010	2009
	\$	\$
Opening balance	480,408	774,372
Amount amortized to revenue	(251,032)	(293,964)
Closing balance	<u>229,376</u>	<u>480,408</u>

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Notes to the financial statements

March 31, 2010

11. Restrictions on fund balances

Major categories of external and internal restrictions on net assets of the Endowment Fund are as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
Externally restricted funds		
Endowments	11,005,478	10,823,284
Internally restricted funds		
Reinvested realized endowment income ⁽¹⁾	247,373	414,222
Cumulative unrealized depreciation on investments ⁽³⁾	(303,109)	(1,567,703)
Designated endowment ⁽²⁾	15,325	15,008
	(40,411)	(1,138,473)

(1) Investment income earned on the Museum's endowments is available for use in operations or other activities subject to approval by the Board of Trustees. Reinvested realized endowment income consists of the accumulated realized income generated from endowments less accumulated approved uses of those funds paid out.

(2) The designated endowment consists of a donation which management has formally established as an endowment for recurring use in the area of costumes and textiles.

(3) The shortfall of the fair value of investments to the original endowment amounts is expected to be recuperated over time from the Museum's long-term investment and disbursement strategy.

12. Financial instruments

The Museum holds and issues financial instruments such as investments, grants receivable and debt instruments. The investments are made up of mutual funds, which invest primarily in publicly traded shares, bonds and debentures. The portfolio breakdown is 17% Canadian Equity, 37% Global Equity and 46% Fixed Income.

Fair value

At March 31, 2010, the carrying value of all financial instruments approximates fair value, with the exception of long-term debt and corresponding grants receivable for which the determination of fair value is not readily determinable given the specific nature of these items.

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Notes to the financial statements

March 31, 2010

12. Financial instruments (continued)

Credit risk

The Museum has determined that credit risk is minimal, given that the counterparties with which it conducts business are mainly government agencies.

Interest rate risk

A portion of the investments of the Museum is invested in mutual funds which hold bonds. Consequently, a change in market interest rates will have an impact on the fair value of the units held by the Museum.

The long-term debt bears interest at fixed rates and consequently, the cash flow exposure is not significant. However, the fair value of long-term debt, bearing interest at fixed rates, could fluctuate because of changes in market interest rates.

13. Related party transactions

During the year ended March 31, 2010, the Museum received \$935,320 (\$1,125,000 in 2009) in grants from the Temple Grove Foundation, of which \$365,477 (\$450,000 in 2009) related to a Special foundation grant. Furthermore, of the externally restricted endowment fund balance at year end, \$10,000,000 pertains to amounts received from Temple Grove Foundation.

14. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.