

Financial statements of

**THE McCORD MUSEUM OF CANADIAN
HISTORY**

March 31, 2011

THE McCORD MUSEUM OF CANADIAN HISTORY

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Independent auditor's report

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

We have audited the accompanying financial statements of The McCord Museum of Canadian History, which comprise the balance sheet as at March 31, 2011, and the statements of operations and changes in fund balances 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 generally accepted accounting principles, 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.

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 Museum derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our work in respect of this revenue 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 and to the statement of operations.

Qualified Opinion

In our opinion, except for the 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 the Museum as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

Without modifying our opinion, we bring to your attention Note 2 of the financial statements describing the prior year adjustment to the statement of operations and changes in fund balances and the balance sheet for the year ended March 31, 2010.

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

July 25, 2011

¹ Chartered accountant auditor permit No. 22220

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Statement of operations and changes in fund balances

year ended March 31, 2011

	Operating Fund	Restricted Fund	Capital Assets Fund	Endowment Fund	Total	
					2011	2010
	\$	\$	\$	\$	\$	(Restated)
Revenue						
Government of Quebec (Note 4)	1,705,548	-	24,993	-	1,730,541	1,646,001
Government of Canada (Note 5)	40,365	-	-	-	40,365	158,230
Other grants	17,605	28,813	-	-	46,418	26,845
Montreal Urban Community	70,000	-	-	-	70,000	70,000
Ville de Montréal	42,670	-	-	-	42,670	17,196
Contributed services (Note 3)	59,320	-	-	-	59,320	144,144
Foundation grants (Note 13)	968,771	-	129,905	-	1,098,676	1,223,609
Investment income	435,937	-	-	-	435,937	295,122
Auxiliary services	367,443	-	-	-	367,443	319,627
Admissions	394,739	-	-	-	394,739	314,697
Fundraising	684,164	-	-	-	684,164	540,673
Sponsorship	135,000	-	7,116	-	142,116	55,505
Rental	188,354	-	-	-	188,354	149,632
Other	65,485	-	-	-	65,485	26,362
	5,175,401	28,813	162,014	-	5,366,228	4,987,643
Expenses						
Administration	901,345	-	-	-	901,345	848,800
Auxiliary services	389,670	-	-	-	389,670	290,665
Interest on long-term debt	5,311	-	24,993	-	30,304	40,523
Building and security	948,471	-	-	-	948,471	865,491
Collection (Note 3)	896,952	-	-	-	896,952	884,707
Education programs	392,339	-	-	-	392,339	382,403
Exhibitions	817,103	28,813	-	-	845,916	477,783
Development, marketing and communications	870,358	-	-	-	870,358	635,101
Amortization of capital assets	-	-	241,309	-	241,309	277,376
	5,221,549	28,813	266,302	-	5,516,664	4,702,849
(Deficiency) excess of revenue over expenses before the undernoted items	(46,148)	-	(104,288)	-	(150,436)	284,794
Unrealized appreciation in fair value of investments	489,700	-	-	-	489,700	1,264,594
Excess (deficiency) of revenue over expenses	443,552	-	(104,288)	-	339,264	1,549,388
Fund balances, beginning of year, as previously reported	(510,528)	-	3,411,928	10,965,067	13,866,467	12,063,414
Restatement (Note 2)	-	-	(284,091)	-	(284,091)	(212,520)
As restated	(510,528)	-	3,127,837	10,965,067	13,582,376	11,850,894
Endowment contributions	-	-	-	321,536	321,536	182,094
Interfund transfers (Note 6)	(484,435)	-	91,976	392,459	-	-
Fund balances, end of year	(551,411)	-	3,115,525	11,679,062	14,243,176	13,582,376

THE McCORD MUSEUM OF CANADIAN HISTORY


Balance sheet

as at March 31, 2011

	Operating Fund	Restricted Fund	Capital Assets Fund	Endowment Fund	Total	
					2011	2010
	\$	\$	\$	\$	\$	\$
Assets						
Current assets						
Cash	249,998	-	-	-	249,998	273,240
Amounts receivable	209,677	-	-	-	209,677	121,945
Grants receivable (Note 9)	103,558	-	137,586	-	241,144	204,935
Due from Operating Fund (Note 3)	-	29,451*	-	353,497*	-	-
Inventory	97,778	-	-	-	97,778	149,108
Prepaid expenses	56,122	-	-	-	56,122	41,586
Deferred costs	17,438	-	-	-	17,438	6,412
	734,571	29,451	137,586	353,497	872,157	797,226
Grants receivable (Note 9)	-	-	187,359	-	187,359	374,715
Investments (Note 12)	-	-	-	11,325,565	11,325,565	10,765,667
Capital assets (Note 7)	-	-	3,491,971	-	3,491,971	3,641,304
	734,571	29,451	3,816,916	11,679,062	15,877,052	15,578,912
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities	610,447	-	-	-	610,447	566,262
Due to Other Funds (Note 3)	381,648*	-	1,300*	-	-	-
Deferred revenue	242,817	29,451	-	-	272,268	350,417
Current portion of long- term debt (Note 9)	51,070	-	136,286	-	187,356	420,475
	1,285,982	29,451	137,586	-	1,070,071	1,337,154
Long-term debt (Note 9)	-	-	187,359	-	187,359	145,915
Deferred contributions (Note 10)	-	-	376,446	-	376,446	513,467
	1,285,982	29,451	701,391	-	1,633,876	1,996,536
Fund balances						
Invested in capital assets	-	-	3,115,525	-	3,115,525	3,127,837
Externally restricted (Note 11)	-	-	-	11,313,034	11,313,034	11,005,478
Internally restricted (Note 11)	-	-	-	366,028	366,028	(40,411)
Unrestricted	(551,411)	-	-	-	(551,411)	(510,528)
	(551,411)	-	3,115,525	11,679,062	14,243,176	13,582,376
	734,571	29,451	3,816,916	11,679,062	15,877,052	15,578,912

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

On behalf of the Board of Trustees

 Trustee

 Trustee

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Statement of cash flows

year ended March 31, 2011

	2011	2010
	\$	\$ (Restated)
Cash from operating activities		
Excess of revenue over expenses	339,264	1,549,388
Adjustments for:		
Amortization of capital assets	241,309	277,376
Amortization of deferred contributions	(137,021)	(179,461)
Change in the fair value of investments	(489,700)	(1,264,594)
	(46,148)	382,709
Net change in non-cash working capital items	(132,137)	319,880
Net cash (used in) from operating activities	(178,285)	702,589
Investing activities		
Purchase of capital assets	(91,976)	(42,495)
Net change in investments	(70,198)	(357,830)
Net cash used in investing activities	(162,174)	(400,325)
Financing activities		
Endowment contributions	321,536	182,094
Proceeds from long-term grant receivable	187,356	191,675
Repayment of long-term debt	(191,675)	(191,675)
Net cash from financing activities	317,217	182,094
Net (decrease) increase in cash	(23,242)	484,358
Cash (bank indebtedness), beginning of year	273,240	(211,118)
Cash, end of year	249,998	273,240
<i>Supplemental cash flow information</i>		
Interest on long-term debt paid	30,305	40,523

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Notes to the financial statements

March 31, 2011

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 ("minimum spending requirement") according to the *Income Tax Act*. The minimum spending requirement 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, 2011, the Museum complies with the requirement.

2. Prior year adjustment

In prior years the Museum overstated the amortization of deferred contributions into income. The figures for 2010 have been restated to reflect this change. Foundation grants revenue and excess of revenue over expenses decreased by \$71,571, fund balances decreased by \$284,091 and deferred contribution increased by \$284,091 from amounts previously presented.

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.

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Notes to the financial statements

March 31, 2011

3. Significant accounting policies (continued)

Fund accounting (continued)

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.

Contributed services

McGill University provides, at its expense, the services of certain employees. The amount of their salaries and fringe benefits is \$59,320 (\$144,144 in 2010) 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 Canadian Institute of Chartered Accountants ("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.

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Notes to the financial statements

March 31, 2011

3. Significant accounting policies (continued)

Financial instruments (continued)

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

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 \$528,999 (\$817,813 in 2010).

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 nil (\$10,995 in 2010).

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

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Notes to the financial statements

March 31, 2011

3. Significant accounting policies (continued)

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.

Future accounting changes - New accounting framework

The CICA has approved a new accounting framework applicable to not-for-profit organizations. Effective for fiscal years beginning on January 1, 2012, not-for-profit organizations will have to choose between International Financial Reporting Standards ("IFRS") and accounting standards for not-for-profit organizations, whichever suits them best. Early adoption of these standards is permitted. The Museum currently plans to adopt the new accounting standards for not-for-profit organizations, however, the date of transition to the new standards and the impact of this transition has not yet been determined.

4. Revenue - Government of Quebec

	<u>2011</u>	<u>2010</u>
	\$	\$
Ministère de la Culture, des Communications et de la Condition féminine		
Soutien aux institutions muséales	1,567,545	1,545,373
Soutien aux équipements culturels	30,305	40,523
Bibliothèque et Archives nationales du Québec	37,725	30,145
Ministère des Affaires municipales, des Régions et de l'Occupation du territoire	62,500	-
Ministère de l'Immigration et des Communautés culturelles	25,000	25,000
Ministère de l'Éducation, du Loisir et du Sport	7,466	4,960
	<u>1,730,541</u>	<u>1,646,001</u>

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Notes to the financial statements

March 31, 2011

5. Revenue - Government of Canada

	<u>2011</u>	<u>2010</u>
	\$	\$
Canadian Heritage		
Movable Cultural Property Grant	-	5,497
Canadian Heritage Information Network	-	23,800
Museum Assistance Program	40,365	28,933
Canadian Cultural Space Agency	-	100,000
	<u>40,365</u>	<u>158,230</u>

6. Interfund transfers

The Operating Fund transferred \$91,976 (\$42,495 in 2010) to the Capital Assets Fund, representing the acquisition of capital assets from operating resources.

The Operating Fund transferred \$392,459 to the Endowment Fund (received \$1,793,592 from the Endowment Fund in 2010) representing the difference between the current year's actual endowment investment income earned, including the change in fair value of investments and net of investment expenses, and to the amount approved for spending of \$465,200 (\$404,300 in 2010).

The Endowment Fund amount due from the Operating Fund bears notional interest. An amount of \$13,836 has been transferred to the Endowment Fund on this balance.

7. Capital assets

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>	<u>Net book value</u>
	\$	\$	\$	\$
Computer equipment	201,452	95,964	105,488	74,583
Furniture and fixtures	66,957	35,067	31,890	19,477
Leasehold improvements	1,412,662	1,121,518	291,144	432,411
Building	1,284,589	841,140	443,449	494,833
Land	2,620,000	-	2,620,000	2,620,000
	<u>5,585,660</u>	<u>2,093,689</u>	<u>3,491,971</u>	<u>3,641,304</u>

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Notes to the financial statements

March 31, 2011

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, 2011, the amount outstanding under this credit facility is nil.

9. Long-term debt

	<u>2011</u>	<u>2010</u>
	\$	\$
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⁾	145,915	291,830
Bank loan, bearing interest at 4.90%, amortized over 5 years, due October 30, 2015, 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	228,800	274,560
	<u>374,715</u>	<u>566,390</u>
Current portion	187,356	420,475
	<u>187,359</u>	<u>145,915</u>

⁽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.

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
	\$	\$
2012	187,356	137,586
2013	43,496	43,496
2014	45,653	45,653
2015	47,917	47,917
2016	50,293	50,293
	<u>374,715</u>	<u>324,945</u>

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Notes to the financial statements

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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:

	<u>2011</u>	<u>2010</u>
	\$	\$ (Restated)
Opening balance, as previously reported	229,376	480,408
Restatement (Note 2)	284,091	212,520
As restated	<u>513,467</u>	<u>692,928</u>
Amount amortized to revenue	(137,021)	(179,461)
Closing balance	<u>376,446</u>	<u>513,467</u>

11. Restrictions on fund balances

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

	<u>2011</u>	<u>2010</u>
	\$	\$
Externally restricted funds		
Endowments	11,313,034	11,005,478
Internally restricted funds		
Reinvested realized endowment income ⁽¹⁾	164,112	247,373
Cumulative unrealized appreciation (depreciation)		
on investments	186,591	(303,109)
Designated endowment ⁽²⁾	15,325	15,325
	<u>366,028</u>	<u>(40,411)</u>

⁽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.

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Notes to the financial statements

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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 20% Canadian Equity, 37% Global Equity and 43% Fixed Income.

Fair value

At March 31, 2011, 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.

Credit risk

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

Market risk

Market risk represents the potential loss that can be caused by a change in the fair value of an investment. The investments of the museum are subject to normal market fluctuations. The Museum intends to continue investing taking a long-term perspective while focusing on diversification.

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, 2011, the Museum received \$700,620 (\$935,320 in 2010) in grants from the Temple Grove Foundation, of which \$150,000 (\$365,477 in 2010) related to a Special foundation grant. Furthermore, of the externally restricted endowment fund balance at year end, \$10,000,000 pertains to amounts previously received from Temple Grove Foundation.

14. Comparative figures

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