

Financial statements of

**THE McCORD MUSEUM OF CANADIAN
HISTORY**

March 31, 2012

THE McCORD MUSEUM OF CANADIAN HISTORY

Table of contents

Independent auditor's report	1-2
Statement of operations and changes in fund balances	3
Balance sheet.....	4
Statement of cash flows.....	5
Notes to the financial statements.....	6-14

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 (the "Museum"), which comprise the balance sheet as at March 31, 2012, 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 Museum and we were not able to determine whether any adjustments might be necessary to revenue, (deficiency) excess of revenue over expenses, and cash flows from operations for the years ended March 31, 2012 and March 31, 2011, current assets as at March 31, 2012 and March 31, 2011, and fund balances as at March 31, 2012, March 31, 2011 and April 1, 2010. Our audit opinion on the financial statements for the year ended March 31, 2011 was modified accordingly because of the possible effects of this limitation in scope.

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, 2012, 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

June 11, 2012

¹ CPA auditor, CA, public accountancy permit No. A125888

THE McCORD MUSEUM OF CANADIAN HISTORY

Statement of operations and changes in fund balances

year ended March 31, 2012

	Operating Fund	Restricted Fund	Capital Assets Fund	Endowment Fund	Total	
					2012	2011
	\$	\$	\$	\$	\$	\$
Revenue						
Government of Quebec (Note 3)	1,946,614	-	56,341	-	2,002,955	1,730,541
Government of Canada (Note 4)	16,058	-	-	-	16,058	40,365
Other grants	73,728	-	-	-	73,728	46,418
Montreal Urban Community	70,000	-	-	-	70,000	70,000
Ville de Montréal	60,000	-	-	-	60,000	42,670
Contributed services (Note 2)	59,420	-	-	-	59,420	59,320
Foundation grants (Note 12)	638,380	-	42,312	-	680,692	758,676
Special Foundation grants (Note 12)	950,000	-	-	-	950,000	150,000
Investment income	431,237	-	-	-	431,237	435,937
Auxiliary services	297,079	-	-	-	297,079	367,774
Admissions	340,412	-	-	-	340,412	394,408
Fundraising	843,384	-	-	-	843,384	874,164
Sponsorship	235,900	-	-	-	235,900	142,116
Rental	150,715	-	-	-	150,715	188,354
Other	38,579	-	-	-	38,579	65,485
	6,151,506	-	98,653	-	6,250,159	5,366,228
Expenses						
Administration	1,063,487	-	-	-	1,063,487	946,588
Auxiliary services	352,415	-	-	-	352,415	387,501
Interest on long-term debt	2,663	-	15,653	-	18,316	30,304
Building and security	942,974	-	-	-	942,974	948,471
Collection (Note 2)	795,804	-	-	-	795,804	896,952
Education programs	619,680	-	-	-	619,680	392,339
Exhibitions	1,315,316	-	-	-	1,315,316	845,916
Development, marketing and communications	1,043,632	-	-	-	1,043,632	827,284
Amortization of capital assets	-	-	191,429	-	191,429	241,309
	6,135,971	-	207,082	-	6,343,053	5,516,664
(Deficiency) excess of revenue over expenses before the undernoted items	15,535	-	(108,429)	-	(92,894)	(150,436)
Change in the fair value of investments	(259,435)	-	-	-	(259,435)	489,700
(Deficiency) excess of revenue over expenses	(243,900)	-	(108,429)	-	(352,329)	339,264
Fund balances, beginning of year	(551,411)	-	3,115,525	11,679,062	14,243,176	13,582,376
Endowment contributions	-	-	-	-	-	321,536
Interfund transfers (Note 5)	895,263	-	52,304	(947,567)	-	-
Fund balances, end of year	99,952	-	3,059,400	10,731,495	13,890,847	14,243,176

THE McCORD MUSEUM OF CANADIAN HISTORY

Balance sheet

as at March 31, 2012

	Operating Fund	Restricted Fund	Capital Assets Fund	Endowment Fund	Total	
					2012	2011
	\$	\$	\$	\$	\$	\$
Assets						
Current assets						
Cash	431,432	-	-	-	431,432	249,998
Amounts receivable	131,002	-	-	-	131,002	209,677
Grants receivable (Note 8)	107,721	-	43,496	-	151,217	241,144
Due from Other Funds (Note 2)	183,395*	8,387*	-	-	-	-
Inventory	122,322	-	-	-	122,322	97,778
Prepaid expenses	47,140	-	-	-	47,140	56,122
Deferred costs	42,077	-	-	-	42,077	17,438
	1,065,089	8,387	43,496	-	925,190	872,157
Grants receivable (Note 8)	408,323	-	143,863	-	552,186	187,359
Investments (Note 11)	-	-	-	10,923,277	10,923,277	11,325,565
Capital assets (Note 6)	-	-	3,352,846	-	3,352,846	3,491,971
	1,473,412	8,387	3,540,205	10,923,277	15,753,499	15,877,052
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities	628,638	-	-	-	628,638	610,447
Due to Other Funds (Note 2)	-	-	-	191,782*	-	-
Deferred revenue	244,822	8,387	-	-	253,209	272,268
Current portion of long- term debt (Note 8)	91,677	-	43,496	-	135,173	187,356
	965,137	8,387	43,496	191,782	1,017,020	1,070,071
Long-term debt (Note 8)	408,323	-	143,863	-	552,186	187,359
Deferred contributions (Note 9)	-	-	293,446	-	293,446	376,446
	1,373,460	8,387	480,805	191,782	1,862,652	1,633,876
Fund balances						
Invested in capital assets	-	-	3,059,400	-	3,059,400	3,115,525
Externally restricted (Note 10)	-	-	-	10,813,034	10,813,034	11,313,034
Internally restricted (Note 10)	-	-	-	(81,539)	(81,539)	366,028
Unrestricted	99,952	-	-	-	99,952	(551,411)
	99,952	-	3,059,400	10,731,495	13,890,847	14,243,176
	1,473,412	8,387	3,540,205	10,923,277	15,753,499	15,877,052

* 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, 2012

	2012	2011
	\$	\$
Cash from operating activities		
(Deficiency) excess of revenue over expenses	(352,329)	339,264
Adjustments for:		
Amortization of capital assets	191,429	241,309
Amortization of deferred contributions	(83,000)	(137,021)
Change in the fair value of investments	259,435	(489,700)
	15,535	(46,148)
Net change in non-cash working capital items	127,533	(132,137)
Net cash from (used in) operating activities	143,068	(178,285)
Investing activities		
Purchase of capital assets	(52,304)	(91,976)
Net change in investments	142,853	(70,198)
Net cash from (used in) investing activities	90,549	(162,174)
Financing activities		
Endowment contributions	-	321,536
Proceeds from long-term grant receivable	135,173	187,356
Increase of long-term grant receivable	(500,000)	-
Repayment of long-term debt	(187,356)	(191,675)
Proceeds from long-term debt	500,000	-
Net cash (used in) from financing activities	(52,183)	317,217
Net increase (decrease) in cash	181,434	(23,242)
Cash, beginning of year	249,998	273,240
Cash, end of year	431,432	249,998
<i>Supplemental cash flow information</i>		
Interest on long-term debt paid	18,316	30,304

THE McCORD MUSEUM OF CANADIAN HISTORY

Notes to the financial statements

March 31, 2012

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 (the “Museum”) 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 McCord Museum Foundation (formerly the Temple Grove Foundation) and McGill University must appoint one and three seats, respectively, out of a minimum of seven seats and a maximum of thirty seats, on the Board of Trustees. Accordingly, 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, 2012, the Museum complies with the requirement.

2. 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.

THE McCORD MUSEUM OF CANADIAN HISTORY

Notes to the financial statements

March 31, 2012

2. Significant accounting policies (continued)

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 \$59,420 (\$59,320 in 2011) 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.

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

THE McCORD MUSEUM OF CANADIAN HISTORY

Notes to the financial statements

March 31, 2012

2. Significant accounting policies (continued)

Financial instruments (continued)

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 \$1,023,923 (\$528,999 in 2011).

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 (nil in 2011).

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

THE McCORD MUSEUM OF CANADIAN HISTORY

Notes to the financial statements

March 31, 2012

2. 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. Key components of the financial statements requiring management to make estimates include the useful lives of long-lived assets and the fair value of certain financial instruments. 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. The Museum currently plans to adopt the new accounting standards for not-for-profit organizations; however, the impact of this transition has not yet been determined.

3. Revenue - Government of Quebec

	<u>2012</u>	<u>2011</u>
	\$	\$
Ministère de la Culture, des Communications et de la Condition féminine		
Soutien aux institutions muséales	1,421,100	1,567,545
Fonds du patrimoine québécois, Volet 4	464,560	-
Soutien aux équipements culturels	59,004	30,305
Bibliothèque et Archives nationales du Québec	44,685	37,725
Secrétariat à la politique linguistique	1,775	-
Ministère des Affaires municipales, des Régions et de l'Occupation du territoire	-	62,500
Ministère de l'Immigration et des Communautés culturelles	-	25,000
Ministère de l'Éducation, du Loisir et du Sport	11,831	7,466
	<u>2,002,955</u>	<u>1,730,541</u>

THE McCORD MUSEUM OF CANADIAN HISTORY

Notes to the financial statements

March 31, 2012

4. Revenue - Government of Canada

	<u>2012</u>	<u>2011</u>
	\$	\$
Canadian Heritage		
Museum Assistance Program	16,058	40,365

5. Interfund transfers

The Operating Fund transferred \$52,304 (\$91,976 in 2011) to the Capital Assets Fund, representing the acquisition of capital assets from operating resources.

The Endowment Fund transferred \$395,727 to the Operating Fund (\$392,459 from the Operating Fund to the Endowment Fund in 2011) 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 \$496,900 (\$465,200 in 2011).

During the year, pursuant to a resolution by the Board of Trustees and the consent of the original donor, a loan of \$500,000 plus accrued interest of \$51,840 between the Endowment Fund and the Operating Fund has been forgiven. Accordingly, the Endowment Fund transferred \$551,840 to the Operating Fund.

6. Capital assets

	<u>2012</u>			<u>2011</u>
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>	<u>Net book value</u>
	\$	\$	\$	\$
Computer equipment	215,055	116,636	98,419	105,488
Furniture and fixtures	74,083	38,295	35,788	31,890
Leasehold improvements	877,746	671,172	206,574	291,144
Building	1,284,589	892,524	392,065	443,449
Land	2,620,000	-	2,620,000	2,620,000
	5,071,473	1,718,627	3,352,846	3,491,971

7. Bank indebtedness

The Museum has an authorized unsecured line of credit of \$1,000,000, bearing interest at the prime rate plus 1% (4% as at March 31, 2012 and March 31, 2011). As at March 31, 2012, the amount outstanding under this credit facility is nil (nil as at March 31, 2011).

THE McCORD MUSEUM OF CANADIAN HISTORY

Notes to the financial statements

March 31, 2012

8. Long-term debt

	<u>2012</u>	<u>2011</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	-	145,915
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	187,359	228,800
Bank loan, bearing interest at 4.30%, amortized over 5 years, due March 30, 2017, 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	500,000	-
	<u>687,359</u>	<u>374,715</u>
Current portion	135,173	187,356
	<u>552,186</u>	<u>187,359</u>

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 \$
2013	135,173	135,173
2014	141,315	141,315
2015	147,736	147,736
2016	154,451	154,451
2017	108,684	108,684
	<u>687,359</u>	<u>687,359</u>

THE McCORD MUSEUM OF CANADIAN HISTORY

Notes to the financial statements

March 31, 2012

9. 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>2012</u>	<u>2011</u>
	\$	\$
Opening balance, as previously reported	376,446	513,467
Amount amortized to revenue	<u>(83,000)</u>	<u>(137,021)</u>
Closing balance	<u>293,446</u>	<u>376,446</u>

10. Restrictions on fund balances

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

	<u>2012</u>	<u>2011</u>
	\$	\$
Externally restricted funds		
Endowments	<u>10,813,034</u>	<u>11,313,034</u>
Internally restricted funds		
Reinvested realized endowment income ⁽¹⁾	-	164,112
Cumulative unrealized (depreciation) appreciation on investments	<u>(96,864)</u>	186,591
Designated endowment ⁽²⁾	<u>15,325</u>	15,325
	<u>(81,539)</u>	<u>366,028</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.

THE McCORD MUSEUM OF CANADIAN HISTORY

Notes to the financial statements

March 31, 2012

11. 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, 38% Global Equity and 42% Fixed Income. (20%, 37% and 43%, respectively, in 2011).

Fair value

The fair value of investments is based on bid prices.

At March 31, 2012, the carrying value of all other 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.

12. Related party transactions

During the year ended March 31, 2012, the Museum received \$1,588,380 (\$700,620 in 2011) in grants from the McCord Museum Foundation, of which \$950,000 (\$150,000 in 2011) related to a Special Foundation grant. Furthermore, of the externally restricted endowment fund balance at year-end, \$9,500,000 pertains to amounts previously received from the McCord Museum Foundation (\$10,000,000 in 2011). This amount was reduced by \$500,000 in 2012 as described in note 5.

THE McCORD MUSEUM OF CANADIAN HISTORY

Notes to the financial statements

March 31, 2012

13. Subsequent event

On March 19, 2012, the Board of Trustees approved the transfer of the Museum's endowment fund to the McCord Museum Foundation. The transfer of these funds is expected to occur in fiscal year 2013. The purpose of the McCord Museum Foundation is to support the activities of the Museum.

14. Comparative figures

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