

Financial Statements

Vancouver Museum Commission
December 31, 2003

AUDITORS' REPORT

To the Commissioners of
Vancouver Museum Commission

We have audited the statement of financial position of **Vancouver Museum Commission** as at December 31, 2003 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. 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 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Society Act of British Columbia, we report that in our opinion these principles have been applied on a basis consistent with that of the preceding year.

Vancouver, Canada,
March 12, 2004.

Ernst & Young LLP

Chartered Accountants

Vancouver Museum Commission
Incorporated under the Society Act of British Columbia

STATEMENT OF FINANCIAL POSITION

As at December 31

| | 2003 \$ | 2002 \$ [restated - note 12] |
|---|------------------|---------------------------------------|
| ASSETS [note 10] | | |
| Current | | |
| Cash and cash equivalents | 167,098 | 68,493 |
| Short-term investments [note 3] | 92,820 | 84,051 |
| Accounts receivable [note 4] | 53,699 | 696,300 |
| Inventory | 62,220 | 76,722 |
| Prepaid expenses | 11,438 | 4,518 |
| Total current assets | 387,275 | 930,084 |
| Capital assets [note 5] | 3,797,069 | 3,945,611 |
| Endowment fund investments [note 3] | 333,333 | 333,333 |
| Capital project investments [note 3] | 314,384 | 168,731 |
| Total assets | 4,832,061 | 5,377,759 |
| LIABILITIES AND NET ASSETS | | |
| Current | | |
| Accounts payable and accrued liabilities [note 6] | 172,385 | 511,543 |
| Deferred revenue [note 7] | 77,610 | 61,626 |
| Total current liabilities | 249,995 | 573,169 |
| Deferred revenue [note 7] | 406,172 | 450,463 |
| Deferred contributions related to capital assets [note 8] | 3,761,627 | 3,902,193 |
| Total liabilities | 4,417,794 | 4,925,825 |
| Net assets [note 9] | | |
| Net assets invested in capital assets | 35,442 | 43,418 |
| Net assets restricted for endowment purposes | 333,333 | 333,333 |
| Net assets internally restricted | 23,586 | 23,449 |
| Unrestricted net assets | 21,906 | 51,734 |
| Total net assets | 414,267 | 451,934 |
| Total liabilities and net assets | 4,832,061 | 5,377,759 |

See accompanying notes

On behalf of the Commission:

Commissioner

Commissioner

Vancouver Museum Commission

STATEMENT OF OPERATIONS

Year ended December 31

| | 2003 \$ | 2002 \$ |
|--|------------------|-------------------------|
| | | [restated - note 12] |
| REVENUE | | |
| Grant and project funding | | |
| Civic - City of Vancouver - core operating grant | 662,900 | 651,509 |
| - City of Vancouver - supplementary grant | — | 85,000 |
| Provincial - British Columbia Arts Council | 156,800 | 156,800 |
| Federal - Employment grants | 6,939 | 4,792 |
| - Museum Assistance Program | 71,516 | 116,941 |
| | 898,155 | 1,015,042 |
| Earned income | | |
| Admissions | 253,971 | 195,066 |
| Fundraising events | 5,883 | — |
| Giftshop - sales | 239,572 | 296,138 |
| Interest income | 14,696 | 11,507 |
| Miscellaneous income | 8,074 | 17,102 |
| Recovered costs | 11,049 | 69,363 |
| Rental income | 38,720 | 29,150 |
| Sponsorship and donations | 12,290 | 33,349 |
| | 584,255 | 651,675 |
| Total revenue | 1,482,410 | 1,666,717 |
| EXPENDITURES | | |
| Advertising and promotion | 49,072 | 99,066 |
| Bad debt expense | 2,490 | — |
| Bank charges | 22,602 | 18,989 |
| Contracted fees | 59,708 | 135,678 |
| Cost of goods sold | 123,520 | 161,221 |
| Insurance | 56,354 | 40,901 |
| Legal and professional | 22,908 | 21,453 |
| Meetings, Board, Staff | 845 | 1,576 |
| Membership and subscriptions | 3,002 | 3,953 |
| Photocopier | 5,623 | 8,880 |
| Postage and freight | 7,717 | 9,740 |
| Professional development | 2,485 | 1,507 |
| Repairs and maintenance | 4,120 | 6,222 |
| Salaries, benefits and fees | 1,044,093 | 1,028,183 |
| Staff travel | 366 | 2,313 |
| Supplies and materials | 94,190 | 126,331 |
| Telephone, fax and internet | 13,532 | 16,017 |
| Total expenditures | 1,512,627 | 1,682,030 |
| (Deficiency) of revenue over expenditures for the year before amortization | (30,217) | (15,313) |
| Amortization of deferred contributions related to capital assets | 219,180 | 79,924 |
| Amortization of capital assets | (226,767) | (83,596) |
| (Deficiency) of revenue over expenditures for the year | (37,804) | (18,985) |

See accompanying notes

Vancouver Museum Commission

STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31

| | Invested in Capital Assets \$ | Restricted for Endowment \$ | Restricted for Collections \$ | Unrestricted \$ | 2003 Total \$ | 2002 Total \$ |
|--|--|--------------------------------------|--|--------------------|---------------------|-------------------------|
| | | | | | | [restated - note 12] |
| Balance, beginning of year | 43,418 | 333,333 | 23,449 | 51,734 | 451,934 | 470,434 |
| (Deficiency) surplus of revenue over expenditures for the year | (7,587) | — | — | (30,217) | (37,804) | (18,985) |
| Funds transfer Internally imposed restriction [note 9] | (389) | — | — | 389 | — | — |
| | — | — | 137 | — | 137 | 485 |
| Balance, end of year | 35,442 | 333,333 | 23,586 | 21,906 | 414,267 | 451,934 |

See accompanying notes

Vancouver Museum Commission

STATEMENT OF CASH FLOWS

Year ended December 31

| | 2003 \$ | 2002 \$ |
|---|-----------------|-------------------------|
| | | [restated - note 12] |
| OPERATING ACTIVITIES | | |
| (Deficiency) of revenue over expenditures for the year | (37,804) | (18,985) |
| Amortization of capital assets | 226,767 | 83,596 |
| Amortization of deferred contributions related to capital assets | (219,180) | (79,924) |
| Changes in non-cash working capital relating to operating activities: | | |
| Accounts receivable | 67,601 | (57,920) |
| Inventory | 14,502 | 8,628 |
| Prepaid expenses | (6,920) | 2,176 |
| Accounts payable and accrued liabilities | (18,032) | 5,386 |
| Deferred revenue | 15,984 | (49,595) |
| Net cash provided by (used in) operating activities | 42,918 | (106,638) |
| INVESTING ACTIVITIES | | |
| Purchase of capital assets | (78,225) | (2,808,109) |
| Grants receivable | 575,000 | (601,495) |
| Accounts payable and accrued liabilities | (321,126) | 321,356 |
| Deferred revenue | (44,291) | (1,246,010) |
| Increase in short-term investments | (8,769) | (7,016) |
| (Increase) decrease in capital project investments | (145,653) | 1,480,373 |
| Net cash (used in) investing activities | (23,064) | (2,860,901) |
| FINANCING ACTIVITIES | | |
| Restricted contributions | 137 | 485 |
| Deferred contributions related to capital assets, net | 78,614 | 2,849,557 |
| Net cash provided by financing activities | 78,751 | 2,850,042 |
| Net increase (decrease) in cash and cash equivalents | 98,605 | (117,497) |
| Cash and cash equivalents, beginning of year | 68,493 | 185,990 |
| Cash and cash equivalents, end of year | 167,098 | 68,493 |

See accompanying notes

Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

1. PURPOSE OF ORGANIZATION AND BASIS OF PRESENTATION

The Vancouver Museum Commission (the "VMC") was registered as a charitable society under the Society Act of British Columbia on August 23, 1996 and commenced activity on October 1, 1996, the date it received certain assets, liabilities and funds from the Vancouver Museum Association as agreed. The mandate of the VMC is to operate the Vancouver Museum to generally promote the study of and to communicate information about the human, natural, and cultural history and heritage of the City of Vancouver.

The VMC receives operating grants from the City of Vancouver, the British Columbia Arts Council and other federal grants and assistance programs.

The VMC occupies and manages the Museum facilities, including receiving janitorial and security services, and receives an annual subsidy grant from the City of Vancouver. A lease agreement is currently being negotiated.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of the financial statements:

Management's estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent; however actual results could differ from these estimates.

Revenue recognition

The VMC follows the deferral method of accounting for contributions. Restricted contributions related to expenses are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions for the purchase of capital assets that will be amortized are deferred and recognized as revenue on the same basis as the amortization expense related to the acquired capital assets. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can reasonably be estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Inventory

Inventory is stated at the lower of cost, determined on an average basis, and net realizable value.

Capital assets

The City of Vancouver owns the land, buildings, and collections of the Vancouver Museum.

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis over the useful lives of the assets, which for leasehold improvements is 20 years and for equipment is 4 years. Construction in progress is not amortized.

Investments

Investments are recorded at the lower of cost plus accrued interest and market value. Where there has been an impairment in value that is other than temporary, the investments are carried at the lower value.

Cash and cash equivalents

The VMC considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money invested in a money market fund and are recorded at cost plus accrued interest, which approximates market value.

Contributed services

Volunteers contributed approximately 5,317 [2002 - 6,300] hours during the year to assist the Museum in the evaluation of the collection, fundraising and advisory boards and committees. Contributed services are not recognized in the financial statements as they are impractical to record and value.

Collections

The collections protected, cared for and preserved by the VMC include historical treasures, natural history specimens and works of art. During the year ended December 31, 2003, contributions of items valued at \$57,143 [2002 - \$60,489] were received by the VMC. No collection items were purchased or sold during the period. The collections are not recorded in the statement of financial position.

Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

3. INVESTMENTS

Short-term investments

These investments, with maturities greater than 90 days and less than one year, consist of bonds earning interest at an average interest rate of 2.05% [2002 - 2.35%] per annum, a money market fund which earns an average interest rate of 2.50% [2002 - 1.01%] per annum, a T-bill pooled fund which earns an average rate of 1.50% [2002 - nil] per annum, and common shares paying dividends of 2.25% [2002 - nil] per annum. The market value of these short-term investments at December 31, 2003 amounted to \$96,066.

Capital project investments

The use of the capital project investments is restricted [note 9] and is held in a banking institution earning interest at a rate of 1.25% [2002 - 3%] per annum. The market value of these capital project investments at December 31, 2003 amounted to \$314,384.

Endowment fund investments

The use of the Endowment fund is restricted [note 9] and is invested in bonds earning interest at an average rate of 2.05% [2002 - 2.35%] per annum, a money market fund, earning interest at an average rate of 2.50% [2002 - 1.01%] per annum, a T-bill pooled fund which earns an average interest rate of 1.50% [2002 - nil] per annum, and common shares paying dividends of 2.25% [2002 - nil] per annum. The market value of these Endowment fund investments at December 31, 2003 amounted to \$333,333.

4. ACCOUNTS RECEIVABLE AND CREDIT RISK

Accounts receivable include funds committed by the City of Vancouver and Department of Canadian Heritage relating to the construction of the Walley Wing and other approved capital projects.

Included in accounts receivable is \$26,495 due from the City of Vancouver [2002 - \$101,495 due from the City of Vancouver and \$500,000 due from the Government of Canada].

Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

5. CAPITAL ASSETS

| | Cost \$ | Accumulated Amortization \$ | Net Book Value \$ |
|--------------------------|------------------|-----------------------------------|-------------------------|
| 2003 | | | |
| Leasehold improvements | 4,412,213 | 620,465 | 3,791,748 |
| Equipment | 97,172 | 91,851 | 5,321 |
| | 4,509,385 | 712,316 | 3,797,069 |
| 2002 | | | |
| Leasehold improvements | 1,386,739 | 399,854 | 986,885 |
| Equipment | 97,172 | 85,695 | 11,477 |
| Construction in progress | 2,947,249 | — | 2,947,249 |
| | 4,431,160 | 485,549 | 3,945,611 |

During the year ended December 31, 2003 the construction in progress was completed and was transferred to leasehold improvements and amortization of the asset commenced.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Included in accounts payable and accrued liabilities is \$299 [2002 - \$321,356] relating to the construction of the Walley Wing.

7. DEFERRED REVENUE

Deferred revenue represent operating and capital funding received in a prior or the current period that is related to expenses or acquisitions of a subsequent period.

| | 2003 \$ | 2002 \$ |
|----------------------------|------------|------------|
| Operating deferred revenue | 77,610 | 61,626 |
| | 2003 \$ | 2002 \$ |
| Capital deferred revenue | 406,172 | 450,463 |

Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

8. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Deferred contributions related to capital assets include the unamortized portions of restricted contributions from various government agencies and other sources used for leasehold improvements and equipment. Deferred contributions are amortized to the Statement of Operations at the same rate the related capital asset is being amortized.

9. RESTRICTIONS ON NET ASSETS

Net assets invested in capital assets represent leasehold improvements made and equipment purchased from the deferred revenue, deferred capital contributions and restricted and unrestricted net assets of the organization.

The net assets restricted for endowment purposes represent funds received from the Province of British Columbia on which a restriction on the reduction of the capital balance has been placed. Investment income amounted to \$7,614 for the year ended December 31, 2003 [2002 - \$2,115] and is available on a regular basis to support the operations of the Museum.

Internally restricted assets for collections include funds donated for the purpose of making acquisitions and for the restoration of Museum's totem poles.

10. OPERATING LINE OF CREDIT

The VMC has an unutilized operating line of credit with the bank, available to a maximum of \$200,000, bearing interest at prime plus 1½% which may be used for general operating purposes. The operating line of credit is collateralized by a general security agreement over the assets of the VMC.

11. FINANCIAL INSTRUMENTS AND RISK

Unless otherwise stated, the carrying values of financial instruments approximate their fair market values due to the short-term nature of these instruments. It is management's opinion that the VMC is not exposed to interest rate risk as the VMC has no loans outstanding. Management also believes the VMC is not exposed to significant foreign exchange risk as the majority of the VMC's assets, liabilities, revenues and expenses are denominated in Canadian dollars.

Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

12. RESTATEMENT OF PRIOR YEAR

The financial position at December 31, 2002 reflected deferred contributions as net assets invested in capital assets. These contributions should have been recorded as deferred contributions related to capital assets which will be amortized to the Statement of Operations over the useful life of the assets to which the contributions relate. Accordingly, the statement of financial position has been retroactively restated to:

- [a] increase deferred revenue as at December 31, 2002 by \$447,690 to reflect the total amount of deferred revenue related to capital assets.
- [b] increase deferred contributions related to capital assets as at December 31, 2002 by \$1,242,862 to record contributions related to capital asset purchases, which will be amortized to the Statement of Operations over the useful life of the capital asset.
- [c] decrease net assets invested in capital assets as at December 31, 2002 by \$1,521,821 to properly record all deferred contributions as deferred revenue or deferred contributions related to capital assets.
- [d] decrease net assets externally restricted as at December 31, 2002 by \$168,731 to properly record deferred revenue and deferred contributions related to capital assets.