

CITY OF VANCOUVER

ADMINISTRATIVE REPORT



Report Date: June 22, 2005
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Meeting Date: July 14, 2005

TO: Standing Committee on City Services and Budgets
FROM: Managing Director of Cultural Services
SUBJECT: Vancouver Museum – Annual Review & 2005 Operating Grant Request

RECOMMENDATION

THAT an operating grant of \$689,700 be approved to the Vancouver Museum Commission; source of funds to be the 2005 "Other" Grants budget.

GENERAL MANAGERS' COMMENTS

The General Managers of Community and Corporate Services RECOMMEND approval of the foregoing.

COUNCIL POLICY

Council has approved annual operating grants to the Vancouver Museum to support ongoing operations since its formation as an independent non-profit society in 1971.

Approval of grants requires eight affirmative votes of Council.

PURPOSE

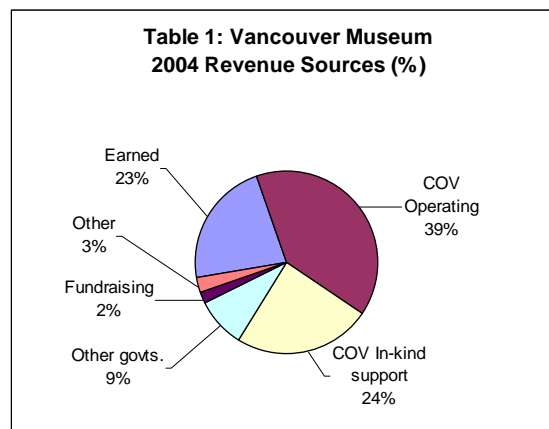
This report provides a review of the organization's 2004 activities and recommends a 2005 Operating Grant for Council's consideration.

BACKGROUND

The Vancouver Museum has been the keeper and interpreter of the City's history since 1894, and since inception, has held the City's collections in trust for the citizens of Vancouver. The Vancouver Museum collects, preserves, researches and exhibits artifacts and specimens that illuminate the human and natural history of Vancouver. The Museum is an independent not-for-profit society governed by the Vancouver Museum Commission, employs 13 full-time staff and 20 part-time/seasonal staff, with over 150 volunteers providing 5,800 hours of service to visitors and the organization.

The Museum occupies a City-owned building in Vanier Park that it shares with the H.R. MacMillan Space Centre. The Museum's relationship with the City is generally outlined in lease terms approved by Council in 2002. The lease discussions have been complex and required working through the relationship between the two institutions sharing the building and the City. Good progress has been made and the final lease agreements have been sent to both institutions for execution. The City anticipates that the lease will be executed by the fall of 2005, and upon execution, the lease terms and operating agreement will be implemented.

In addition to capital and operating support through grants to the Vancouver Museum Commission, the City currently provides occupancy of the facility at a nominal rent, property tax exemption, utilities, janitorial services, and grounds and building maintenance through the City's Facilities Design and Management department. Table 1 reflects the Museum's sources of revenue, including City support (63% of revenues from all sources).



The revitalization of the Museum and the retelling of *The Vancouver Story* is a ten-year \$8.9 million project that began in 1996/97. The City's capital contribution of \$3 million supports upgrading the facility to current building codes and museum standards, improving the lay-out and accessibility of the museum, and to provide current and relevant exhibits necessary to attract new and repeat visitors. In addition to the City's investment, the Museum has received \$500,000 from the Department of Canadian Heritage through the Cultural Spaces Canada Program, and \$150,000 from the Vancouver Foundation. The first three phases of the capital project are complete - improvements to the public areas of the museum, a new orientation gallery, upgrades to 'A' wing, and the opening of the Joyce Walley Learning Centre ('Walley wing').

2004 Year in Review

The focus for the Museum this year has been to deliver programs and sustain operations within a balanced budget, and simultaneously, to continue with its capital revitalization program. The Museum received \$2 million in Canada/BC Infrastructure support, and together with the remaining City funds and private fund raising, has \$3 million in place for the next phase. This phase of construction includes mechanical, sprinkler and seismic upgrades to 'B' wing, as well as the rejuvenation of four permanent galleries which tell *The Vancouver Story*. Exhibit content and design has been developed for the next two galleries and the Museum must raise \$1.3 million from the private sector to complete the capital project.

While the capital program progressed on refurbishing the permanent galleries, several temporary exhibitions were mounted in 2004 including:

- *Skateboarding in Vancouver* – provided an in-depth look at the history of skateboarding and stories of the skateboarding culture in Vancouver;
- *Meet the Sasquatch* – explored the evidence for and against the existence of the Sasquatch through original documents, plaster casts and film;
- *By Herta* – featured a distinctive line of ceramics ware that was developed in Vancouver from 1955-1967; and
- *Lost Nuke* – documented the first nuclear accident to take place in BC in 1952.

Collection management is a significant responsibility of the Museum and during the past year, the Museum has been acquiring works in the course of developing the new 60's & 70's gallery largely through donations. Also in 2004, approximately 2,000 collection items were de-installed in preparation for the renovation of the galleries in 'B' wing, and were subsequently condition reported, received conservation treatment and cataloguing as required.

The Museum also began highlighting the range and quality of the City's collection in a project that will ultimately display several thousand objects that would otherwise remain in storage. "Treasures" is a long-term exhibition that will also enable the Museum to carry out important work on the collection, as research, documentation, condition reports and conservation will be completed on each artifact before it goes on exhibition.

2005 Plans

The Museum is currently in the midst of the final phase of renovations and opened the first of these galleries – *You Say You Want a Revolution* – in April. To date, the Museum estimates that the renewal of the permanent exhibits has increased the number of collection items on public display from 4% to nearly 30%. Collection activity continues as part of developing the next two galleries which span the 1920's to the 1950's. The design of the next two galleries is complete and the Museum anticipates opening these two galleries in the spring of 2006.

Travelling exhibitions have been supplementing in-house temporary exhibitions to allow staff to focus on the development of the new permanent galleries. New temporary and travelling exhibitions scheduled in 2005 include:

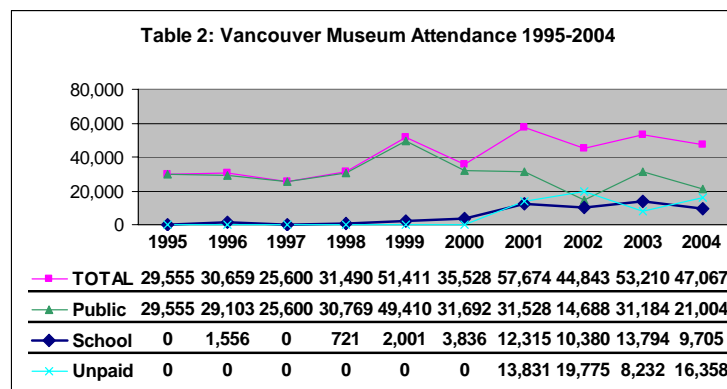
- *Mail, Rail & Retail* – organized and funded by the Canadian Pacific Railway, Canada Post Corp. and Hudson’s Bay Co., in partnership with the Canadian Postal Museum.
- *No Place for a Lady* – an exhibit based on the 2002 book of the same name by Barbara Hodgson, features artifacts and images that re-create exotic lands that attracted women travellers and writers in the 18th and 19th centuries.
- *Reflecting Identities* – examines the wealth of objects created by cultures from around the world for the tourist trade.

The last two exhibitions have received federal Museum Assistance Program (MAP) funding and together will feature over 500 objects from the collection. The Museum also offers space for several community-based exhibitions. In 2005, the Kitsilano Centennial will be featured in a display of photographs and artifacts that highlight the past 100 years of the growth and development of this Vancouver neighbourhood.

DISCUSSION

The Museum experienced both successes and challenges in 2004. The new 60’s & 70’s gallery continues to revitalize the Museum’s permanent exhibits, and efforts to display more of the collection in temporary exhibitions has increased public access to collection artifacts that have been in storage. The Museum continues to face the challenge of expanding resources to keep pace with operational requirements, and at the same time execute the capital program.

Developing audiences and growing attendance has been an ongoing challenge for the Museum ever since it re-opened in 1996. In the late 1980’s-early 90’s, total Museum attendance ranged from 72,000 to 98,000 visitors. Table 2 provides a 10 year history and indicates that attendance has not recovered to the pre-1994 levels.



The capital revitalization was intended to address declining attendance by providing refreshed permanent exhibits to attract new and repeat visitors. As experienced with the construction of the Walley wing, many challenges arise from being open to the public while under construction. The revitalization of the Museum has taken longer than anticipated, and as seen in Table 2, attendance increases and then decreases on a two-year cycle beginning in 1998. This cycle may be a result of the multi-year capital project, which completes construction in phases and affects the Museum’s ability to generate consistent increases in attendance and operating revenues. While the downward cycle in 2004 (several of the permanent galleries closed in late summer to begin renovations) was less severe than in 2002

(construction of Walley wing), the projected 13% increase in attendance for 2004 did not materialize, as the emphasis shifted from operations to capital once again. Total attendance was down 12% to 47,067. While there is a summer joint admission program between the Museum, the Maritime Museum and the H.R. MacMillan Space Centre, there are likely other partnership opportunities to increase attendance.

Capital revitalization has had an impact on other areas of the Museum's operations. The Museum's attention has been diverted away from implementing an annual fund raising campaign to support its ongoing operations, as most of the funds raised are related to the capital project and are not available to offset the considerable overhead required to operate the Museum. In 2004, operational fund raising and donations were \$11,589, and while slightly higher than 2003, continue to be very low relative to other comparable organizations. While private sector donations have been low, the new Walley wing has generated some operational support, with rentals up by 61% over the previous year. The Museum has also received funds from Department of Canadian Heritage to conduct a market research project to assist the organization in identifying donors and increase fund raising revenues.

The Museum concluded 2004 with an annual deficit of (\$900) on a budget of \$1.5 million, with an accumulated surplus of \$3,335. The Museum's financial statements for the year ending December 31, 2003 are attached to this report as Appendix A. The Museum's accumulated surplus has been eroding and, in addition to depleting cash reserves, will not be available to maintain the Museum's positive financial position. Staff are concerned that this pattern is the reverse to what needs to occur, as the Museum is not in a position to reduce expenditures further without compromising operations.

The Museum has projected a 4.4% increase in revenues and a 2.7% increase in expenditures for 2005 which are reasonable, provided that the Museum can meet the 5.5% increase in admission revenue projections given that several of the permanent galleries are closed for renovation. The Museum has been approached by both the H.R. MacMillan Space Centre and the Maritime Museum to discuss a variety of potential collaborations that may lead to greater efficiencies and public service. While the three institutions have had several discussions and implemented some joint programming and marketing initiatives, staff encourage the institutions to follow up on these discussions with actions that will increase admissions, revenues and sustainability. Staff will monitor and report back to Council on their progress.

The Museum is also facing a change in leadership, as the current CEO has resigned effective the end of August. The search for a new CEO is underway and it is anticipated that the position will be filled prior to the end of August. The current CEO has agreed to continue under contract to manage the capital project which will provide continuity, although care will be needed to clarify roles and responsibilities between the two positions.

FINANCIAL IMPLICATIONS

Staff recommend a 2005 operating grant in the amount of \$689,700 based on a general inflationary increase of 2.0% over the 2004 grant as approved by Council in the 2005 Operating Budget. Source of funds is the "Other" Grants allocation in the 2005 Operating Budget.

CONCLUSION

Throughout construction, the Museum has provided basic service to the public through a range of exhibits and public programs that celebrate the diversity of our City. However, the Museum faces multiple challenges as it continues operations while executing the capital revitalization project, including increasing attendance and fund raising revenues. Implementing marketing strategies, building on its successes with newly opened galleries, capitalizing on potential partnerships with sister institutions, and having Commissioners and staff actively engaged in both annual and capital campaigns will be key to meeting the organization's operational and capital commitments.

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Financial Statements

Vancouver Museum Commission
December 31, 2004



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, 2004 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, 2004 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 11, 2005.

Ernst & Young LLP

Chartered Accountants

Vancouver Museum Commission
Incorporated under the Society Act of British Columbia

STATEMENT OF FINANCIAL POSITION

As at December 31

	2004 \$	2003 \$
ASSETS [note 10]		
Current		
Cash and cash equivalents	90,753	167,098
Short-term investments [note 3]	74,813	92,820
Accounts receivable	21,264	27,204
Accounts receivable - capital project [note 4]	237,665	26,495
Inventory	61,235	62,220
Prepaid expenses	3,705	11,438
Total current assets	489,435	387,275
Capital assets [note 5]	4,089,643	3,797,069
Capital project investments	—	314,384
Endowment fund investments [note 3]	333,333	333,333
Total assets	4,912,411	4,832,061
LIABILITIES AND NET ASSETS		
Current		
Operating line of credit [note 10]	40,000	—
Accounts payable and accrued liabilities	147,366	172,156
Accounts payable - capital project	22,747	229
Obligations under capital lease [note 6]	2,602	—
Deferred revenue [note 7]	84,770	77,610
Total current liabilities	297,485	249,995
Obligations under capital lease [note 6]	15,121	—
Deferred revenue [note 7]	167,882	406,172
Deferred contributions related to capital assets [note 8]	4,018,807	3,761,627
Total liabilities	4,499,295	4,417,794
Net assets [note 9]		
Net assets invested in capital assets	53,113	35,442
Net assets restricted for endowment purposes	333,333	333,333
Net assets internally restricted	23,335	23,586
Unrestricted net assets	3,335	21,906
Total net assets	413,116	414,267
Total liabilities and net assets	4,912,411	4,832,061

See accompanying notes

On behalf of the Commission:


Commissioner


Commissioner

Vancouver Museum Commission

STATEMENT OF OPERATIONS

Year ended December 31

	2004 \$	2003 \$
REVENUE		
Grant and project funding		
Civic - City of Vancouver - core operating grant	676,470	662,900
Provincial - British Columbia Arts Council	154,800	156,800
Federal - Employment grants	6,432	6,939
- Museum Assistance Program	73,561	71,516
	911,263	898,155
Earned income		
Admissions	217,978	253,971
Fundraising events	6,280	5,883
Giftshop - sales	214,500	239,572
Interest income	7,623	14,696
Miscellaneous income	38,795	8,074
Recovered costs	544	11,049
Rental income	62,344	38,720
Sponsorship and donations	25,820	12,290
	573,884	584,255
Total revenue	1,485,147	1,482,410
EXPENDITURES		
Advertising and promotion	33,550	49,072
Bad debt expense	4,686	2,490
Bank charges	17,044	22,602
Contracted fees	48,881	59,708
Cost of goods sold	111,698	123,520
Insurance	60,302	56,354
Interest expense - current	1,564	—
Legal and professional	25,220	22,908
Meetings, Board, Staff	1,387	845
Membership and subscriptions	3,085	3,002
Photocopier	15,934	5,623
Postage and freight	6,244	7,717
Professional development	4,636	2,485
Repairs and maintenance	6,487	4,120
Salaries, benefits and fees	1,049,087	1,044,093
Staff travel	512	366
Supplies and materials	94,418	94,190
Telephone, fax and internet	14,390	13,532
Total expenditures	1,499,125	1,512,627
(Deficiency) of revenue over expenditures for the year before amortization	(13,978)	(30,217)
Amortization of deferred contributions related to capital assets	255,372	219,180
Amortization of capital assets	(242,294)	(226,767)
(Deficiency) of revenue over expenditures for the year	(900)	(37,804)

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 \$	2004 Total \$	2003 Total \$
Balance, beginning of year (Deficiency) surplus of	35,442	333,333	23,586	21,906	414,267	451,934
revenue over expenditures for the year	13,078	6,317	—	(20,295)	(900)	(37,804)
Funds transfer	4,593	(6,317)	—	1,724	—	—
Internally imposed restriction [note 9]	—	—	(251)	—	(251)	137
Balance, end of year	53,113	333,333	23,335	3,335	413,116	414,267

See accompanying notes

Vancouver Museum Commission

STATEMENT OF CASH FLOWS

Year ended December 31

	2004 \$	2003 \$
OPERATING ACTIVITIES		
(Deficiency) of revenue over expenditures for the year	(900)	(37,804)
Amortization of capital assets	242,294	226,767
Amortization of deferred contributions related to capital assets	(255,372)	(219,180)
Changes in non-cash working capital relating to operating activities:		
Accounts receivable	5,940	67,601
Inventory	985	14,502
Prepaid expenses	7,733	(6,920)
Accounts payable and accrued liabilities	(24,790)	(18,032)
Deferred revenue	7,160	15,984
Net cash (used in) provided by operating activities	(16,950)	42,918
INVESTING ACTIVITIES		
(Increase) decrease in short-term investments	18,007	(8,769)
(Increase) decrease in capital project investments	314,384	(145,653)
Purchase of capital assets	(515,548)	(78,225)
(Increase) decrease in accounts receivable - capital project	(211,170)	575,000
(Increase) decrease in accounts payable - capital project	22,518	(321,126)
Deferred revenue	(238,290)	(44,291)
Net cash (used in) investing activities	(610,099)	(23,064)
FINANCING ACTIVITIES		
Repayment of capital lease obligations	(1,597)	—
Proceeds from line of credit	40,000	—
Increase (decrease) in restricted contributions	(251)	137
Deferred contributions related to capital assets, net	512,552	78,614
Net cash provided by financing activities	550,704	78,751
Net (decrease) increase in cash and cash equivalents	(76,345)	98,605
Cash and cash equivalents, beginning of year	167,098	68,493
Cash and cash equivalents, end of year	90,753	167,098
Supplemental information		
Interest paid	1,742	—

See accompanying notes



Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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. As the VMC is a charitable society it is not subject to taxation. 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.

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.



Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Investments

Investments are recorded at the lower of cost plus accrued interest and market value.

Inventory

Inventory, consisting of finish goods for resale, is stated at the lower of cost, determined on an average basis, and net realizable 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, 2004, contributions of items valued at \$11,844 [2003 - \$57,143] 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.

Capital assets

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

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.

Leases

Leases have been classified as either capital or operating. Leases which transfer substantially all of the benefits and risks incidental to the ownership of assets are accounted for as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.



Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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.

Contributed services

Volunteers contributed approximately 5,521 [2003 - 5,317] 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.

3. INVESTMENTS

Short-term investments

These investments, with maturities greater than 90 days and less than one year, consist of a bond earning interest at an average interest rate of 2.25% [2003 - 2.05%] per annum. The market value of these short-term investments at December 31, 2004 amounted to \$74,813 [2003 - \$96,066].

Endowment fund investments

The use of the Endowment fund is restricted [note 9] and the funds are invested in a bond earning interest at an average interest rate of 1.50% [2003 - 2.05%] per annum, a money market fund, earning interest at an average rate of 2.02% [2003 - 2.50%] per annum, a T-bill pooled fund earning interest at an average interest rate of 0.78% [2003 - 1.50%] per annum, and common shares paying dividends of 1.30% [2003 - 2.25%] per annum. The market value of these Endowment fund investments at December 31, 2004 amounted to \$333,333 [2003 - \$333,333].

Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

4. ACCOUNTS RECEIVABLE AND CREDIT RISK

Accounts receivable include funds committed by the Federal and Provincial Government relating to the Capital Revitalization Program committed under the Canada/British Columbia Infrastructure Program.

Included in accounts receivable is \$229,648 due from the Federal and Provincial Government and no amounts due from the City of Vancouver [2003 - no amounts due from the Federal and Provincial Government and \$26,495 due from the City of Vancouver].

5. CAPITAL ASSETS

	Cost \$	Accumulated Amortization \$	Net Book Value \$
2004			
Leasehold improvements	4,412,214	841,076	3,571,138
Equipment	159,279	113,534	45,745
Construction in progress	472,760	—	472,760
	5,044,253	954,610	4,089,643
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

During the year ended December 31, 2004 construction began on the Capital Revitalization Program. The costs incurred to date are included in construction in progress.

Included in equipment are assets under capital lease with an original cost of \$19,320 [2003 - \$nil] and accumulated amortization of \$4,830 [2003 - \$nil].



Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

6. CAPITAL LEASE OBLIGATIONS

VMC leases office equipment under capital leases. Future minimum lease payments under the capital lease are as follows:

	\$
2005	5,418
2006	5,418
2007	5,418
2008	5,418
2009	4,393
	<u>26,065</u>
Less: amount representing interest, approximating 17% per annum	(8,342)
	<u>17,723</u>
Less: current portion of capital lease obligations	(2,602)
Long-term portion of capital lease obligations	<u>15,121</u>

7. DEFERRED REVENUE

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

	2004 \$	2003 \$
Operating deferred revenue	<u>84,770</u>	<u>77,610</u>
	2004 \$	2003 \$
Capital deferred revenue	<u>167,882</u>	<u>406,172</u>

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 the acquisition of equipment. Deferred contributions are amortized to the Statement of Operations at the same rate the related capital asset is being amortized.



Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

9. RESTRICTIONS ON NET ASSETS

Net assets invested in capital assets represent leasehold improvements made and equipment purchased and leased with 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 \$6,371 for the year ended December 31, 2004 [2003 - \$7,614] and is available on a regular basis to support the operations of the VMC.

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

10. OPERATING LINE OF CREDIT

The VMC has an 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. As at December 31, 2004, VMC had utilized \$40,000 [2003 - \$nil] of the operating line of credit. Prime rate at December 31, 2004 was 4.5% per annum.

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 significant interest rate risk as the VMC has an operating line of credit in the amount of \$40,000 bearing interest at bank prime plus 1½%. 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.

12. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year.