



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: May 26, 2006
Author: Karen Hasselfelt
Phone No.: 604.871.6045
RTS No.: 05834
CC File No.: 05-5000-10
Meeting Date: June 15, 2006

TO: Standing Committee on City Services and Budgets

FROM: Assistant Director, Office of Cultural Affairs

SUBJECT: Vancouver Museum – Annual Review & 2006 Operating Grant Request

RECOMMENDATION

THAT an operating grant of \$703,500 be approved to the Vancouver Museum Commission; source of funds to be the 2006 "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

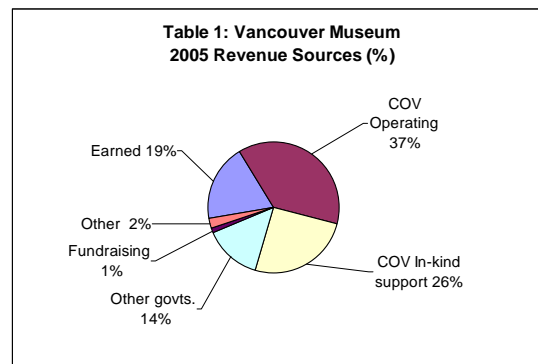
This report provides a review of the organization's 2005 activities and recommends a 2006 Operating Grant for Council's approval.

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. In addition to collecting, the Vancouver Museum 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 12 full-time staff and 17 part-time/seasonal staff, with over 180 volunteers providing 6,700 hours of service.

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. City staff anticipate that the lease will be signed by the end of July.

In addition to capital and operating support through grants to the Vancouver Museum Commission (VMC), the City currently provides occupancy of the facility at 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 \$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 providing current and relevant exhibits necessary to attract new and repeat visitors. In addition to the City's investment, the Museum has received \$2 million from the Canada/BC Infrastructure Program, \$530,000 from the Department of Canadian Heritage, and \$210,000 from foundations, and over \$1.8 million from private donors. The first three phases of the capital project are complete – improvements to the public areas of the museum, an orientation gallery, upgrades to 'A' wing, and the opening of the Joyce Walley Learning Centre ('Walley wing').

2005 Year in Review

The focus for the Museum continued to be delivering programs and sustaining operations, while simultaneously completing its capital revitalization program. The Museum also had a

change in leadership in November, and the institution managed the transition smoothly, with the outgoing CEO overlapping with the new CEO on both operating and capital responsibilities.

The Museum made significant progress on its renovations and opened the next phase of the permanent exhibition galleries – *You Say You Want a Revolution* – in April. In 2005, the Museum also completed the demolition and upgrade to the mechanical systems of ‘B’ wing galleries, and began construction of the next two galleries – *Gateway to the Pacific* and *Boom, Bust, War*. Collection activity continues as part of developing these galleries which span the 1920’s to the 1950’s, with volunteers contributing over 750 hours work on the collections.

In-house temporary exhibitions were supplemented with exhibitions from other institutions to allow staff to focus on the development of the new permanent galleries. Often temporary exhibitions reflected the diversity of Vancouver’s citizens including *Chinese Script*, *Manchu Era*, and *Skateboarding*. New temporary and travelling exhibitions featured in 2005 were:

- *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 a book of the same name by Barbara Hodgson, featured artifacts and images that re-create exotic lands that attracted women travellers and writers in the 18th and 19th centuries.
- *Reflecting Identities* – examined the wealth of objects created by cultures from around the world for the tourist trade.

The last two exhibitions received federal Museum Assistance Program (MAP) funding and together will feature over 500 objects from the collection. The Museum also sent two of its exhibitions to other museums: *Opium: the Heavenly Demon* and *Through the Eye of the Needle: Stories from the Indian Desert*. Several community-based exhibitions were presented and three new and innovative education programs were developed including *Immigration Nation*, which examined the many cultures that have built Vancouver including First Nations people who lived on the land where the Museum is currently located. The Museum’s ten affiliate groups held regular lectures and special events at the Museum throughout the year, attracting 3,280 of their members to these events.

2006 Plans

This year is a time of rebuilding for the institution under a new director, and the Board and staff are currently re-defining a vision for the Museum through the development of a new strategic plan. Some of the key goals and objectives that were identified in its Strategic Review process and Business Planning for 2006 include:

- Governance Review
- Reorganization
- Opening Two New Permanent Galleries
- Programs Review
- Developing final two permanent galleries that tell *The Vancouver Story*

In 2005, the Board began reviewing the structure of the VMC. A former Museum Commissioner and professional in the field of non-profit governance is preparing a report for the Vancouver Museum Commission with recommended options to be presented to the VMC in the coming months. Should the VMC wish to adopt recommendations to change the nature of the nomination process from a Council-appointed structure, staff will report back to Council and seek the necessary authorization to amend the VMC Constitution and By-laws which require Council approval.

A new organizational structure is also being implemented and includes the creation of a senior management team to lead planning and operations within the organization. Key organizational changes are as follows:

- ◆ Amalgamation of the public and education program departments under one manager, with additional support from a Programs Assistant and Interpreters.
- ◆ Creation of a Marketing department with a Manager, a Marketing Assistant and a Sales Position that will take responsibility for rentals, events and other revenue-generating activities, as well as Guest Services.
- ◆ The creation of a Manager of Human Resources position, which will oversee all the Museum's human resources including staff and volunteers.
- ◆ The appointment (on a rotating basis) of one or two representatives from the Curatorial department to sit on the management team.

Another key priority for the Museum is the completion of *The Vancouver Story* permanent galleries. The main focus of the first half of 2006 is the completion of *Gateway to the Pacific* and *Boom, Bust, War* and the Museum will open these two galleries on June 8. The openings of *Gateway to the Pacific* and *Boom, Bust, War* play a significant role in reflecting Vancouver's diversity, as these refurbished exhibits allow the Museum to tell the stories of all of Vancouver's residents past 1910 and are therefore much more reflective of those who make Vancouver their home. Exhibit content and design is currently under development for the final two galleries - *Early Years* and *First Nations* galleries. A complete fundraising plan will be developed and implemented to raise the additional \$2 million required to complete the capital project.

In addition developing at least two new programs based on the new galleries, the Museum will also be reviewing its existing public and educational programs, in order to increase program effectiveness and delivery. The department's main objective is to increase the number of students attending educational programs by 20%. Temporary exhibitions planned for 2006 include the continuation of *Reflecting Identities* and *No Place for a Lady*, as well as two new in-house exhibitions: *Persian Steel: A Mirror of Life in Iran* and *Fashionable Dress of the Belle Époque*.

In the fall of 2006, the Museum intends to apply to the Museums Assistance Program of Canadian Heritage to undertake a multi-year Collections Assessment Project, which will eliminate the backlog of cataloguing, review the Museum's database and digitize collections' data, assess the collections and identify duplications or gaps, improve storage conditions, and develop collecting plans with priorities for collecting.

Earlier this year the Museum undertook a complete revision of its Collections Policy, which has been submitted to City staff for review and will be brought forward to Council with the

collection policies from the other two major collecting institutions (Vancouver Maritime Museum and Vancouver Art Gallery) in a separate report in July.

DISCUSSION

The Museum accomplished much in 2005 and, at the same time, faced the challenge of expanding resources to keep pace with operational requirements. The Museum opened the 1960's and 70's galleries and substantially completed two more. Staff and volunteers developed and delivered over 120 school and public programs, hosted two fundraising events, and created or hosted six temporary exhibitions. However, the Museum had to address many of the issues that have persisted over the years.

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. The Museum had projected a 5.5% increase in admission revenues for 2005, which was optimistic given that there would be several permanent galleries in 'B' wing closed for renovation. In 2005, total attendance dropped by 3% to 45,700, and admission revenues dropped by 12.7% over 2004, as the price of adult admission was reduced by 50% for almost two months because of the gallery closures. The capital revitalization was intended to address declining attendance by refreshing the permanent exhibits to attract new and repeat visitors, but the closures affected the Museum's ability to attract repeat local and new visitors, despite six temporary exhibitions offered over the year.

Capital revitalization has had an impact on other areas of the Museum's operations, and operational growth has not kept pace with operational requirements. New programs, galleries, exhibits and fund raising activities have all been added to the workload, with no additional human resources and little, if any, increase to operational budgets. The Museum's attention has been diverted away from implementing an annual fund raising campaign to support its ongoing operations, as many of the funds raised are related to the capital project and are not available to offset the considerable overhead required to operate the Museum.

Although many of the challenges the Museum faced in 2005 still exist in 2006, a number of opportunities will allow the Museum to improve its programming and relevance to the community by focusing on its priorities and improving the overall financial situation. The opening of two more permanent galleries in June provides the Museum a great opportunity to increase its visibility and gives local people the impetus to come back to the Museum. Another factor that affected attendance in 2005 was the resignation of the Marketing Manager and an inability to replace that position due to financial constraints. In fact, the Museum's lack of visibility in the community is a key concern and one that the Museum plans to address immediately.

A key strategic priority for 2006 is the articulation of a new vision and identity for the Vancouver Museum. The absence of a clear brand has contributed to the lack of visibility and the organizational restructure has freed up resources to hire a new Marketing Manager. The organizational restructure will also improve other areas of the Museum's operations. The new senior staff management team will better reflect the priorities of the Museum and streamline staff functions.

The VMC's Board has created a new Strategic Plan outlining the broad priorities for the coming years. The first strategic priority is to review the relationship of the Vancouver Museum with the Vancouver Maritime Museum and the Space Centre. In the latter part of 2005, the Museum began the process of establishing a greater level of collaboration with the Space Centre, which has progressed in a number of key areas:

- ◆ Negotiating both lease and operating agreements which are now in their final draft stages and should be signed by the summer of 2006;
- ◆ Streamlining certain administrative tasks to realize greater efficiencies for both organizations and sharing I.T. resources;
- ◆ Joint staff meetings;
- ◆ Joint marketing initiatives and cooperative rental bookings;
- ◆ Development of a paid parking proposal for the shared lot including negotiations with other Vanier Park partners; and
- ◆ Investigating insurance coverage for both organizations.

The Vancouver Museum, Vancouver Maritime Museum and the Space Centre have also submitted a joint application to Canadian Heritage to develop a strategic framework that will identify strategies for greater efficiencies, improved public service and increased sustainability for all three organizations.

Although many of the targets set for 2005 were not met, there were some successes. Both the fund raising events and rentals came close to their targets and in 2006, the Museum's management has set more realistic targets to ensure the Museum is operating within its means. The Museum's accumulated surplus has eroded and will need to be rebuilt in order for the Museum to maintain a positive financial position each year. The Museum concluded 2005 with an annual deficit of (\$8,588) on a budget of \$1.5 million, with an accumulated deficit of (\$9,822). The Museum's financial statements for the year ending December 31, 2005 are attached to this report as Appendix A.

FINANCIAL IMPLICATIONS

Staff recommend a 2006 operating grant of \$703,500 based on a general inflationary increase of 2.0% over the 2005 grant as approved by Council in the 2006 Operating Budget. Source of funds is the Other Grants allocation in the 2006 Operating Budget.

CONCLUSION

Throughout construction, the Museum has provided 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 the staff reorganization, marketing and development strategies, and building on the opportunity presented by newly opened galleries, as well as capitalizing on potential partnerships with sister institutions, will be key to meeting the organization's operating and capital requirements over the next year.

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Financial Statements

Vancouver Museum Commission
December 31, 2005

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, 2005 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, 2005 and the results of its operations and cash flows 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,
April 24, 2006.

Chartered Accountants

Vancouver Museum Commission
Incorporated under the Society Act of British Columbia

STATEMENT OF FINANCIAL POSITION

As at December 31

	2005	2004
	\$	\$
ASSETS [note 10]		
Current		
Cash and cash equivalents	96,803	90,753
Short-term investments [note 3]	4,124	74,813
Accounts receivable	38,468	21,264
Accounts receivable - capital project [note 4]	277,709	237,665
Inventory	70,408	61,235
Prepaid expenses	2,275	3,705
Total current assets	489,787	489,435
Property and equipment [note 5]	5,646,449	4,089,643
Endowment fund investments [note 3]	342,833	333,333
Total assets	6,479,069	4,912,411
LIABILITIES AND NET ASSETS		
Current		
Operating line of credit [note 10]	76,461	40,000
Accounts payable and accrued liabilities	158,731	147,366
Accounts payable - capital project	78,711	22,747
Obligations under capital lease [note 6]	3,081	2,602
Deferred revenue [note 7]	19,136	84,770
Total current liabilities	336,120	297,485
Obligations under capital lease [note 6]	12,041	15,121
Deferred revenue [note 7]	142,961	167,882
Deferred contributions related to property and equipment [note 8]	5,581,264	4,018,807
Total liabilities	6,072,386	4,499,295
Net assets [note 9]		
Net assets invested in property and equipment	50,063	53,113
Net assets restricted for endowment purposes	342,833	333,333
Net assets internally restricted	23,609	23,335
Unrestricted net assets	(9,822)	3,335
Total net assets	406,683	413,116
Total liabilities and net assets	6,479,069	4,912,411

See accompanying notes

On behalf of the Commission:

Commissioner

Commissioner

Vancouver Museum Commission

STATEMENT OF OPERATIONS

Year ended December 31

	2005	2004
	\$	\$
REVENUE		
Grant and project funding		
Civic - City of Vancouver - core operating grant	689,700	676,470
Provincial - British Columbia Arts Council	154,800	154,800
Federal - Employment grants	6,530	6,432
- Museum Assistance Program	105,930	73,561
	956,960	911,263
Earned income		
Admissions	190,248	217,978
Fundraising events	10,764	6,280
Giftshop - sales	240,926	214,500
Interest income	7,211	7,623
Miscellaneous income	33,853	38,795
Recovered costs	2,987	544
Rental income	51,493	62,344
Sponsorship and donations	30,556	25,820
	568,038	573,884
Total revenue	1,524,998	1,485,147
EXPENDITURES		
Advertising and promotion	40,357	33,550
Bad debt expense	3,081	4,686
Bank charges	19,109	17,044
Contracted fees	116,692	48,881
Cost of goods sold	125,513	111,698
Insurance	59,991	60,302
Interest expense - capital lease	2,816	1,564
Legal and professional	22,090	25,220
Meetings, Board, Staff	565	1,387
Membership and subscriptions	2,819	3,085
Photocopier	11,635	15,934
Postage and freight	7,933	6,244
Professional development	3,058	4,636
Repairs and maintenance	7,485	6,487
Salaries, benefits and fees	977,193	1,049,087
Staff travel	6,093	512
Supplies and materials	115,171	94,418
Telephone, fax and internet	11,985	14,390
Total expenditures	1,533,586	1,499,125
(Deficiency) of revenue over expenditures for the year before amortization	(8,588)	(13,978)
Amortization of deferred contributions related to property and equipment	228,472	255,372
Amortization of property and equipment	(236,091)	(242,294)
(Deficiency) of revenue over expenditures for the year	(16,207)	(900)

See accompanying notes

Vancouver Museum Commission

STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31

	Invested in Property and Equipment \$	Restricted for Endowment \$	Restricted for Collections \$	Unrestricted \$	2005 Total \$	2004 Total \$
Balance, beginning of year	53,113	333,333	23,335	3,335	413,116	414,267
Deficiency of revenue over expenditures for the year	(7,619)	6,457	—	(15,045)	(16,207)	(900)
Funds transfer	4,569	(6,457)	—	1,888	—	—
Internally imposed restriction	—	—	274	—	274	(251)
Addition	—	9,500	—	—	9,500	—
Balance, end of year	50,063	342,833	23,609	(9,822)	406,683	413,116

See accompanying notes

Vancouver Museum Commission

STATEMENT OF CASH FLOWS

Year ended December 31

	2005	2004
	\$	\$
OPERATING ACTIVITIES		
(Deficiency) of revenue over expenditures for the year	(16,207)	(900)
Amortization of property and equipment	236,091	242,294
Amortization of deferred contributions related to property and equipment	(228,472)	(255,372)
Changes in non-cash working capital relating to operating activities:		
Accounts receivable	(17,204)	5,940
Inventory	(9,173)	985
Prepaid expenses	1,430	7,733
Accounts payable and accrued liabilities	11,365	(24,790)
Deferred revenue	(65,634)	7,160
Net cash (used in) operating activities	(87,804)	(16,950)
INVESTING ACTIVITIES		
Short-term investments	70,689	18,007
Capital project investments	(1,790,208)	314,384
Purchase of property and equipment	(2,689)	(515,548)
Accounts receivable - capital project	(40,044)	(211,170)
Accounts payable - capital project	55,964	22,518
Deferred revenue	(24,921)	(238,290)
Net cash (used in) investing activities	(1,731,209)	(610,099)
FINANCING ACTIVITIES		
Repayment of capital lease obligations	(2,601)	(1,597)
Proceeds from line of credit	36,461	40,000
Increase (decrease) in restricted contributions	274	(251)
Deferred contributions related to property and equipment, net	1,790,929	512,552
Net cash provided by financing activities	1,825,063	550,704
Net increase (decrease) in cash and cash equivalents	6,050	(76,345)
Cash and cash equivalents, beginning of year	90,753	167,098
Cash and cash equivalents, end of year	96,803	90,753
Supplemental information		
Interest paid	5,329	1,742

See accompanying notes

Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

1. PURPOSE OF ORGANIZATION AND CONTINUED OPERATIONS

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 Counsel 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.

The VMC's ability to continue as a going concern is dependent upon achieving profitable operations, maintaining the bank line of credit and upon the support of donors, the provincial government and City of Vancouver. The outcome of this matter cannot be predicted at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the VMC be unable to continue in business.

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.

Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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.

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 a weighted 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, 2005, contributions of items valued at \$9,291 [2004 - \$11,844] 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.

Property and equipment

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

Purchased property and equipment is recorded at cost. Contributed property and equipment is 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.

Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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.

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 property and equipment that will be amortized are deferred and recognized as revenue on the same basis as the amortization expense related to the acquired property and equipment. 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 6,702 [2004 - 5,521] 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

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 3.61% [2004 - 1.50%] per annum, a T-bill pooled fund earning interest at an average interest rate of 2.56% [2004 - 0.78%] per annum, and common shares paying dividends of 3.42% [2004 - 1.30%] per annum. The market value of these Endowment fund investments at December 31, 2005 amounted to \$346,958 [2004 - \$333,333].

Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

4. ACCOUNTS RECEIVABLE AND CREDIT RISK

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

Included in accounts receivable is \$264,299 due from the Federal and Provincial Governments and \$13,410 due from the City of Vancouver [2004 - \$229,648 due from the Federal and Provincial Government and no amounts due from the City of Vancouver].

5. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Book Value \$
2005			
Leasehold improvements	4,412,213	1,061,687	3,350,526
Equipment	161,967	129,733	32,234
Construction in progress	2,263,689	—	2,263,689
	6,837,869	1,191,420	5,646,449
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

During 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 [2004 - \$19,320] and accumulated amortization of \$9,660 [2004 - \$4,830].

Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

6. CAPITAL LEASE OBLIGATIONS

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

	\$
2006	5,418
2007	5,418
2008	5,418
2009	4,393
	20,647
Less: amount representing interest, approximating 17% per annum	(5,525)
	15,122
Less: current portion of capital lease obligations	(3,081)
Long-term portion of capital lease obligations	12,041

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.

	2005 \$	2004 \$
Operating deferred revenue	34,419	84,770
	2005 \$	2004 \$
Capital deferred revenue	142,961	167,882

8. DEFERRED CONTRIBUTIONS RELATED TO PROPERTY AND EQUIPMENT

Deferred contributions related to property and equipment 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 property and equipment is being amortized.

Vancouver Museum Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

9. RESTRICTIONS ON NET ASSETS

Net assets invested in property and equipment 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 \$6,457 for the year ended December 31, 2005 [2004 - \$6,371] 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 a demand operating line of credit with a bank, available to a maximum of \$330,000, bearing interest at prime plus 1% per annum which may be used to acquire property and equipment. The line of credit is collateralized by an endowment fund. As at December 31, 2005, the VMC had utilized \$76,461 [2004 - \$40,000] of the line of credit. Prime rate at December 31, 2005 was 5.0% per annum. The line of credit is collateralized by a General Security Agreement over all present and after acquired property.

11. FINANCIAL INSTRUMENTS AND RISK

Unless otherwise noted, 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 \$76,461 bearing interest at bank prime plus 1.0% per annum. 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.