

CANADIAN MUSEUM OF NATURE

QUARTERLY FINANCIAL REPORT

(Unaudited)

For the three and six month periods
ended September 30, 2018

Canada

 canadian museum of nature
nature
musée canadien de la nature

TABLE OF CONTENTS

Statement of Management Responsibility by Senior Officials.....	3
Financial Statements.....	4
Management Discussion and Analysis.....	17
Risk Analysis.....	19

STATEMENT OF MANAGEMENT RESPONSIBILITY BY SENIOR OFFICIALS

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the quarterly financial statements.

Margaret Beckel
President and Chief Executive Officer

Ikram Zouari, CPA, CGA
Chief Financial Officer and Director of Finance

Ottawa, Canada
November 7, 2018

Statement of Financial Position (Unaudited)

<i>(in thousands of dollars)</i>	at September 30 2018	at March 31 2018
Assets		
Current		
Cash and cash equivalents	16,282	15,076
Restricted cash	150	190
Restricted investments	1,500	1,500
Accounts receivable		
Trade	348	914
Government departments and agencies (Note 12)	112	250
Inventories	148	44
Prepaid expenses	652	1,221
	19,192	19,195
Collections	1	1
Employee advances	532	538
Restricted investments	1,500	1,500
Investments	1,000	1,000
Capital assets (Note 3)	179,797	183,446
	202,022	205,680
Liabilities		
Current		
Accounts payable and accrued liabilities		
Trade	1,916	5,478
Government departments and agencies (Note 12)	1,886	971
Obligation under capital lease (Note 4)	1,013	964
Deferred revenues, contributions and parliamentary appropriations (Note 5)	6,200	4,908
Employee future benefits	233	242
	11,248	12,563
Obligation under capital lease (Note 4)	24,488	25,008
Deferred capital funding (Note 6)	166,396	169,522
Employee future benefits	2,741	2,741
	204,873	209,834
Accumulated Deficit		
Unrestricted	9,249	7,894
Investment in capital assets (Note 7)	(12,100)	(12,048)
	(2,851)	(4,154)
	202,022	205,680

The accompanying notes form an integral part of the financial statements.

Statement of Operations for the three and six month periods ended September 30 (Unaudited)

<i>(in thousands of dollars)</i>	Three month period ended September 30		Six month period ended September 30	
	2018	2017	2018	2017
Revenue				
Admission and program fees (Note 9)	1,417	1,316	2,465	2,447
Ancillary operations (Note 10)	568	558	1,128	1,059
Contributions (Note 11)	448	353	912	848
Interest	84	47	137	106
Other	152	162	332	319
	2,669	2,436	4,974	4,779
Expenses (Note 13)				
Inspiration and engagement	2,852	2,653	5,775	5,184
Collections care and access	814	867	1,539	1,268
Research and discovery	1,034	885	2,190	1,991
Internal support services	1,277	949	2,621	2,078
Buildings and grounds	4,517	4,577	8,785	8,846
	10,494	9,931	20,910	19,367
Net result of operations before government funding	(7,825)	(7,495)	(15,936)	(14,588)
Parliamentary appropriations (Note 8)	8,851	8,253	17,239	16,515
Net result of operations	1,026	758	1,303	1,927

The accompanying notes form an integral part of the financial statements.

Statement of Changes in Accumulated Deficit (Unaudited)

For the three-month period ended September 30

<i>(in thousands of dollars)</i>	Invested in		2018	2017
	Unrestricted	capital assets		
Accumulated deficit, beginning of period	8,199	(12,076)	(3,877)	(5,187)
Net result of operations	1,026	-	1,026	758
Net change in investment in capital assets	24	(24)	-	-
Accumulated deficit, end of period	9,249	(12,100)	(2,851)	(4,429)

For the six-month period ended September 30

<i>(in thousands of dollars)</i>	Invested in		2018	2017
	Unrestricted	capital assets		
Accumulated deficit, beginning of period	7,894	(12,048)	(4,154)	(6,356)
Net result of operations	1,303	-	1,303	1,927
Net change in investment in capital assets (Note 7)	52	(52)	-	-
Accumulated deficit, end of period	9,249	(12,100)	(2,851)	(4,429)

The accompanying notes form an integral part of the financial statements.

A statement of remeasurement gains and losses has been excluded as there have been no remeasurement gains or losses.

**Statement of Cash Flows for the three and six month periods ended September 30
(Unaudited)**

	Three month period ended September 30		Six month period ended September 30	
	2018	2017	2018	2017
<i>(in thousands of dollars)</i>				
Operating activities				
Cash receipts - customers and donors	2,064	2,318	4,225	4,090
Cash receipts - parliamentary appropriations	7,454	6,611	14,220	13,551
Cash disbursements - employees	(3,874)	(3,597)	(7,606)	(7,209)
Cash disbursements - suppliers	(3,732)	(4,902)	(8,397)	(8,395)
Interest received	84	68	137	139
Interest paid	(637)	(659)	(1,280)	(1,324)
Cash provided by (used in) operating activities	1,359	(161)	1,299	852
Capital activities				
Acquisition of capital assets	(689)	(1,277)	(1,802)	(3,955)
Cash used in capital activities	(689)	(1,277)	(1,802)	(3,955)
Investment activities				
Acquisition of restricted investment	-	-	-	(3,000)
Cash used in investing activities	-	-	-	(3,000)
Financing activities				
Obligation under capital lease	(238)	(215)	(471)	(426)
Parliamentary appropriations received for purchase of capital assets	1,070	1,518	2,140	3,036
Cash provided by financing activities	832	1,303	1,669	2,610
Increase (decrease) in cash and restricted cash	1,502	(135)	1,166	(3,493)
Cash and cash equivalents, beginning of period	14,796	13,762	15,076	14,190
Restricted cash, beginning of period	134	520	190	3,450
Cash and cash equivalents and restricted cash, end of period	16,432	14,147	16,432	14,147
Cash and cash equivalents, end of period	16,282	13,649	16,282	13,649
Restricted cash, end of period	150	498	150	498
Cash and cash equivalents and restricted cash, end of period	16,432	14,147	16,432	14,147

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements for the three and six month periods ended September 30, 2018 (Unaudited)

1. Authority and Mission

The Canadian Museum of Nature (the "Corporation") was established by the *Museums Act* on July 1st, 1990. It is an agent Crown corporation named in Part I of Schedule III of the *Financial Administration Act* (FAA) and is not subject to the provisions of the *Income Tax Act*. The Corporation is classified as a government not-for-profit organization (GNPO).

The Corporation's mission is to increase, throughout Canada and internationally, interest in, knowledge of and appreciation and respect for the natural world by establishing, maintaining and developing for research and posterity a collection of natural history objects, with special but not exclusive reference to Canada, by demonstrating the natural world and the knowledge and the understanding it represents.

Brief descriptions of the Corporation's activities are as follows:

- **Inspiration and engagement**
The Corporation develops and maintains exhibitions, programs, the **nature.ca** website, electronic and print publications, revenue-generating activities and other activities to foster an understanding of, and respect for, nature.
- **Collections care and access**
The Corporation acquires, develops, preserves and makes accessible collections of natural history specimens, objects and information to meet the growing needs of the public and private sectors for research, education and informed decision-making about the natural world.
- **Research and discovery**
The Corporation studies the past and helps Canadians prepare for the future by conducting systematics and applied research, and by developing and maintaining networks and linkages with Canadian and international science communities.
- **Internal support services**
The Corporation develops and implements the policies, processes and an accountability structure to oversee the fulfilment of its mandate, including governance, strategic direction, corporate services, monitoring of corporate performance, and reporting to Parliament.
- **Buildings and grounds**
The Corporation provides secure and functional facilities that meet all safety and building code requirements. Among these facilities is the renovated Victoria Memorial Museum Building that furthers the vision and mandate of the Corporation.

2. Significant Accounting Policies

A) Basis of Presentation

The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), and reflect the application of the Section 4200 series for GNPOs.

B) Inter-Entity Transactions

Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions, other than restructuring transactions, are recorded on a gross basis and are measured at the carrying amount, except for the following:

- i) Inter-entity transactions are measured at the exchange amount when undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length, or where costs provided are recovered.
- ii) Goods or services received without charge between commonly controlled entities are unallocated costs not recovered by the recipient and not recorded by the Corporation. Services received by the Corporation without charge include audit services from the Office of the Auditor General of Canada and pension services from Public Services and Procurement Canada.

C) Measurement Uncertainty

The preparation of financial statements in accordance with PSAS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the year. Employee future benefits, the estimated useful lives of capital assets, and the fair market value of specimens donated to the collections are the most significant items for which estimates are used. Actual results could differ significantly from those estimated. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the fiscal year in which they become known.

D) Inventories

Inventories are valued at the lower of cost and net realizable value. Inventory cost is determined by using the average weighted cost method, and net realizable value is based on retail price.

E) Collections

The Corporation holds and preserves invaluable collections of natural history specimens for the benefit of Canadians, present and future. The collections are shown as an asset in the Statement of Financial Position at a nominal value of \$1,000 due to practical difficulties in determining a meaningful value for these assets. Specimens purchased for the collections are recorded as an expense in the year of acquisition.

F) Capital Assets

- Capital assets are recorded at cost, including material, equipment and other expenses acquired for the purpose of the design and the development of permanent exhibitions.
- Assets recorded as capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease.
- Land and building owned by the Government of Canada and that are under the control of the Corporation are recorded at their estimated cost.

Amortization is calculated on the straight-line method using rates based on the estimated useful life of the assets, except for leasehold improvements which are amortized on a straight-line basis over the shorter of the term of the lease agreement and the asset's useful life.

Asset	Useful life
Victoria Memorial Museum Building	40 years
Property under capital lease	35 years
Collection cabinets and compactors	
Furnishings and office equipment	
General equipment	10 years
Permanent exhibitions	
Research equipment	5 to 25 years
Building improvements	
Leasehold improvements	5 years to end of lease term
Computer equipment	3 years

When conditions indicate that an asset no longer contributes to the Corporation's ability to provide its services, the cost of the asset is written down to its residual value, if any.

G) Employee Future Benefits

i) Pension benefits

Substantially all the employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service costs. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Corporation.

ii) Severance benefits

Employees are entitled to severance benefits up to March 31, 2012, as provided for under labour contracts and conditions of employment.

The severance benefit obligation for employees who retire or resign, that accrued up to March 31, 2012, and remains unpaid, is measured using the projected benefit method. The actuarial gains (losses) are recognized on a systematic basis over the expected average remaining service life of the related employee group. Other events driven termination benefits are recognized in the period when the event that obligates the Corporation occurs.

iii) Sick leave benefits

The Corporation provides sick leave benefits for employees that accumulate but do not vest. The Corporation recognizes a liability and an expense for sick leave in the period in which employees render services in return for the benefits. The cost of the accrued benefit obligations related to sick leave entitlement earned by employees is actuarially determined using the projected benefit method prorated on service and Management's best estimate of inflation, discount rate, employee demographics and sick leave usage of active employees. Actuarial gains (losses) are recognized on a systematic basis over the remaining service life of active employees covered by these sick leave benefits.

H) Revenue Recognition

i) Admission and program fees, ancillary operations and other revenues

Revenues from admission and program fees, ancillary operations, and other revenues are recognized when persuasive evidence of an arrangement exists between the two parties, goods have been delivered or services have been provided to the customers, price is fixed and determinable and collection is reasonably assured. The Corporation also records deferred revenue when amounts are received in advance of providing goods and services.

ii) Contributions

Contributions are comprised of donations received from individuals, foundations and corporations. The Corporation applies the deferral method to recognize its contributions as applicable for not-for-profit organizations.

Unrestricted contributions are recognized as revenue in the Statement of Operations when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions externally restricted for specific projects or expenses are deferred in the Statement of Financial Position and recognized as revenue in the Statement of Operations in the fiscal year in which related obligations are fulfilled and the related expenses are incurred.

Investment income related to restricted contributions is first recorded in the Statement of Financial Position as deferred revenues and then recognized as revenue in the Statement of Operations in the fiscal year in which the related expenses are incurred.

iii) In-kind sponsorships and specimen donations

In-kind sponsorships involve obtaining non-financial support for a project, activity or product in return for substantial public relations benefit. An in-kind sponsorship is recognized if the contributed good or service is used in the normal course of operations and would otherwise have been purchased, and once the exchange has taken place. In-kind sponsorships are recorded at their fair market value as contributions with an offset to the related expense in the Statement of Operations.

Specimens donated to the collections are recorded as contributions with an offsetting expense to collections care and access at fair market value, when the following three criteria are met: i) a fair market value has been established for the specimen; ii) the acquisition has been approved; and iii) transfer of the specimen's title to the Corporation has taken place.

iv) Parliamentary appropriations

The Government of Canada provides financing to the Corporation through parliamentary appropriations.

- The parliamentary appropriations for operating expenditures are recognized as revenue in the fiscal years for which they are approved.
- The parliamentary appropriations for the purchase of depreciable capital assets are recorded as deferred parliamentary appropriations in the Statement of Financial Position. When the depreciable capital assets are purchased, the portion of the parliamentary appropriations used for acquisition of these capital assets is then reclassified as deferred capital funding in the Statement of Financial Position and recognized as revenue in the Statement of Operations on the same basis as the amortization of the corresponding capital assets.
- Parliamentary appropriations for specific expenses are recorded as deferred parliamentary appropriations in the Statement of Financial Position and recognized as revenue in the Statement of Operations in the fiscal year in which the related expenses are incurred.

The Corporation is required to report on the spending of appropriations in its annual report.

v) Restricted investments

Spend-down amounts and investment income distributed from the fund for the purchase of depreciable capital assets are recorded as deferred revenues in the Statement of Financial Position. When the depreciable capital assets are purchased, the portion of the revenues used for acquisition of these capital assets is then reclassified as deferred capital funding in the Statement of Financial Position and recognized as revenue in the Statement of Operations on the same basis as the amortization of the corresponding capital assets. Spend-down amounts and investment income distributed from the fund for specific expenses are deferred in the Statement of Financial Position and recognized as revenue in the Statement of Operations in the fiscal year in which related obligations are fulfilled and the related expenses are incurred.

vi) Investments

Investment income distributed from the term fund is recognized as revenue in the Statement of Operations.

I) Volunteer Services

Volunteers contribute a significant number of hours every year. Due to the difficulty of determining their fair value, those contributed services are not recognized in the financial statements.

J) Financial Instruments

The Corporation's financial assets and financial liabilities are measured at cost or amortized cost. Financial assets include cash and cash equivalents, restricted cash, restricted investments, investments and accounts receivable while financial liabilities include accounts payable and accrued liabilities.

Financial instruments are tested annually for impairment at the financial statements date, and any permanent impairment is reported in the Statement of Operations.

Transaction costs are added to the carrying value of items in the cost when they are initially recognized.

K) Restricted investments

Restricted Investments within the Ottawa Community Foundation (OCF) as spend-down fund are recorded at amortized cost on the Statement of Financial Position, Spend-down amounts and investment income distributed from the fund for the purchase of depreciable capital assets are recorded as deferred revenues in the Statement of Financial Position.

Service fees charged by the OCF for the management of the fund are recorded as expenses in the Statement of Operations in the year incurred.

L) Investments

Investments within OCF as 10-year term fund are recorded at amortized cost in the Statement of Financial Position.

Service fees charged by the OCF for the management of the fund are recorded as expenses in the Statement of Operations in the year incurred.

M) Allocation of Expenses

The Corporation does not apply the method of allocating costs for the purpose of distributing expenses between functions.

3. Capital Assets

<i>(in thousands of dollars)</i>	September 30 2018			March 31 2018		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	627	-	627	627	-	627
Victoria Memorial Museum Building	204,783	56,426	148,357	204,783	53,926	150,858
Property under capital lease	35,040	22,310	12,730	35,040	21,814	13,226
Permanent exhibitions	10,122	3,722	6,400	10,011	3,217	6,794
Leasehold improvements	10,573	6,809	3,764	10,522	6,632	3,890
Research equipment	4,335	2,287	2,048	3,596	2,157	1,439
Collection cabinets and compactors	3,840	2,345	1,495	3,840	2,290	1,550
Building improvements	4,071	2,801	1,270	4,056	2,560	1,496
Computer equipment	3,672	2,805	867	3,283	2,434	849
General equipment	976	282	694	574	235	339
Furnishings and office equipment	1,523	1,332	191	1,519	1,299	220
Work in progress - Assets	1,354	-	1,354	2,158	-	2,158
	280,916	101,119	179,797	280,009	96,563	183,446

The amortization expense for the period amounts to \$4,556,000 (September 30, 2017 – \$4,266,000). During the period ended September 30, 2018, the Corporation did not sell or retire assets.

4. Obligation Under Capital Lease

The Natural Heritage Campus houses the Corporation's natural history collections and administrative functions, on the Corporation's site in Gatineau, Quebec. The Corporation is acquiring the building through a lease-purchase agreement with a term of 35 years. It is committed to pay rent under all circumstances and in the event of termination of the lease, at the Corporation's option or otherwise, pay sufficient rent to repay all financing on the building. Management intends to completely discharge its obligation under the lease and obtain free title to the building in 2031, after the Corporation uses its right to purchase the building for ten dollars.

Future minimum lease payments in aggregate, under the financing obligation are as follows:

<i>(in thousands of dollars)</i>		September 30 2018	March 31 2018
Total minimum future payments	(1)	45,500	47,250
Deduct: Imputed interest		(19,999)	(21,278)
Present value of financing obligations	(2)	25,501	25,972
Current portion		1,013	964
Long term portion		24,488	25,008
		25,501	25,972

(1) The amounts payable under the capital lease are based on the fixed interest rate of 9.88%, for a period of 35 years, established at the time of signing the lease.

(2) The present value of the capital lease obligation based on a current market interest rate of 8.75% is estimated at \$27 million.

Future minimum lease payments, by year under the financing obligation are as follows:

<i>(in thousands of dollars)</i>	2019	2020	2021	2022	2023	thereafter
Future minimum payments	1,750	3,500	3,500	3,500	3,500	29,750

5. Deferred Revenues, Contributions and Parliamentary Appropriations

Deferred revenues, contributions and parliamentary appropriations were as follows:

<i>(in thousands of dollars)</i>	September 30 2018	March 31 2018
Deferred contributions from non-government sources	2,297	3,028
Deferred parliamentary appropriations	3,328	1,353
Total deferred contributions and parliamentary appropriations	5,625	4,381
Deferred revenues – goods and services	575	527
	6,200	4,908

Changes in the deferred revenues, contributions and parliamentary appropriations were as follows:

<i>(in thousands of dollars)</i>	September 30 2018	March 31 2018
Balance, beginning of period	4,908	5,793
Add:		
Restricted contributions received	43	215
Restricted parliamentary appropriations received	2,140	6,072
Deferred revenue and contribution for the provision of goods and services	423	1,076
	2,606	7,363
Less:		
Restricted contributions recognized	(835)	(459)
Restricted parliamentary appropriations spent	(164)	(6,960)
Deferred revenue for the provision of goods and services recognized	(315)	(829)
	(1,314)	(8,248)
Balance, end of period	6,200	4,908

6. Deferred Capital Funding

Deferred capital funding represents the portion of the parliamentary appropriations and contributions from non-government sources used to purchase depreciable capital assets.

The deferred capital funding consists of the following:

<i>(in thousands of dollars)</i>	September 30 2018	March 31 2018
Used for acquisitions:		
Deferred capital contributions from non-government sources	2,543	1,994
Deferred capital funding through parliamentary appropriations	163,853	167,528
	166,396	169,522

Changes in the deferred capital funding balance are as follows:

<i>(in thousands of dollars)</i>	September 30 2018	March 31 2018
Balance, beginning of period	169,522	169,324
Add: Capital asset acquisitions	907	8,151
Less: Capital assets disposals	-	(1)
	907	8,152
Less amounts recognized as revenue:		
Contributions	(205)	(412)
Parliamentary appropriations	(3,828)	(7,542)
	(4,033)	(7,954)
Balance, end of period	166,396	169,522

7. Investment in Capital Assets

The investment in capital assets consists of the following:

<i>(in thousands of dollars)</i>	September 30 2018	March 31 2018
Capital assets	179,797	183,446
Less amounts financed by:		
Capital lease	(25,501)	(25,972)
Deferred capital funding	(166,396)	(169,522)
	(12,100)	(12,048)

The net change in investment in capital assets is calculated as follows:

<i>(in thousands of dollars)</i>	September 30 2018	March 31 2018
Capital asset additions	907	8,151
Less: capital assets disposal	-	(10)
Add: repayment of obligation under capital lease	471	873
Less: capital assets financed with deferred capital funding	(907)	(8,151)
Capital assets purchased with the Corporation's funds	471	863
Amortization of deferred capital funding	4,033	7,954
Amortization of capital assets	(4,556)	(9,002)
Net change in investment in capital assets	(52)	(185)

8. Parliamentary Appropriations

To achieve its mission, the Corporation relies on government funding. This government funding is comprised as follows:

<i>(in thousands of dollars)</i>	Three month period ended September 30		Six month period ended September 30	
	2018	2017	2018	2017
Appropriations received and receivable:				
Operating and capital budgets	7,770	8,131	15,540	16,260
Parliamentary appropriations deferred for future capital projects	(768)	(396)	(3,328)	(2,699)
Deferred parliamentary appropriations used in current period to complete specific projects	-	-	1,352	2,240
Appropriations used to purchase depreciable capital assets	(85)	(1,271)	(153)	(2,789)
Amortization of deferred capital funding	1,934	1,789	3,828	3,503
Appropriations recognized during the period	8,851	8,253	17,239	16,515

9. Admission and Program Fees

Admission and program fees are comprised as follows:

<i>(in thousands of dollars)</i>	Three month period ended September 30		Six month period ended September 30	
	2018	2017	2018	2017
Admission fees – general	1,011	1,124	1,671	1,929
Admission fees – temporary exhibitions	197	-	258	20
Memberships	136	141	231	240
Programs	73	51	305	258
	1,417	1,316	2,465	2,447

10. Ancillary Operations

Ancillary operations are comprised as follows:

<i>(in thousands of dollars)</i>	Three month period ended September 30		Six month period ended September 30	
	2018	2017	2018	2017
Parking	252	279	437	504
Rental of facilities	132	250	345	500
Boutique revenues	166	9	312	18
Cafeteria leases	18	20	34	37
	568	558	1,128	1,059

11. Contributions

Contributions are comprised as follows:

<i>(in thousands of dollars)</i>	Three month period ended September 30		Six month period ended September 30	
	2018	2017	2018	2017
Cash contributions and sponsorships	299	292	656	505
In-kind sponsorships	99	59	206	317
Specimen donations	50	2	50	26
	448	353	912	848

12. Related Party Transactions

The Corporation is related to all Government of Canada departments, agencies and Crown corporations. The Corporation conducted transactions with these entities in the normal course of operations, under the same terms and conditions that applied to outside parties and recorded at the exchange amount.

<i>(in thousands of dollars)</i>	Three month period ended September 30		Six month period ended September 30	
	2018	2017	2018	2017
Revenues from Government of Canada related parties:				
Admission and program fees	-	-	-	5
Ancillary operations	-	8	8	23
Other	3	71	37	145
	3	79	45	173

	Three month period ended September 30		Six month period ended September 30	
	2018	2017	2018	2017
<i>(in thousands of dollars)</i>				
Expenses with Government of Canada related parties:				
Real property taxes	302	442	602	930
Personnel costs	407	380	816	774
Professional and special services	-	3	86	4
Marketing and communications	10	2	10	114
Freight and cartage	1	1	2	9
Repairs and maintenance	-	-	1	-
Information management infrastructure and systems	1	1	1	4
	721	829	1,518	1,835

The following balances with Government of Canada related parties were outstanding at the end of the period:

	September 30 2018	March 31 2018
<i>(in thousands of dollars)</i>		
Due from related parties	112	250
Due to related parties	1,886	971

13. Summary of Expenses by Object

	Three month period ended September 30		Six month period ended September 30	
	2018	2017	2018	2017
<i>(in thousands of dollars)</i>				
Personnel costs	3,806	3,607	7,607	7,004
Amortization of capital assets	2,299	2,177	4,556	4,266
Operation and maintenance of buildings	1,024	859	1,886	1,624
Professional and special services	839	894	1,625	1,613
Real property taxes	613	808	1,188	1,523
Interest on capital lease obligation	637	659	1,280	1,324
Information management infrastructure and systems	302	343	660	639
Marketing and communications	314	280	612	646
Exhibitions	273	20	672	106
Travel	124	51	252	112
Repairs and maintenance	121	193	244	346
Cost of goods sold - natureBOUTIQUE	73	-	137	-
Objects for collections	50	17	50	26
Freight and cartage	19	23	28	23
Other	-	-	113	115
	10,494	9,931	20,910	19,367

14. Comparative Figures

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

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

These quarterly financial statements must be read in conjunction with the Canadian Museum of Nature's most recent audited annual financial statements for the year ended March 31, 2018, and with the narrative discussion included in this quarterly financial report.

The Canadian Museum of Nature's primary objective is to fulfill its national mandate as described in the *Museums Act*, within the context of the governance and accountability regime established in that Act and in Part X of the *Financial Administration Act*. To this end, the Museum's Board of Trustees and Management are committed to managing the public and private funds invested in the Museum in a transparent, accountable manner and to optimizing the value of the contribution the Museum makes to Canadians and to Canadian society.

The strategic directions for the Museum acknowledge the intent to be a leading source of natural history knowledge and scientific inquiry for scientists and the public, thus contributing a distinctly Canadian perspective to the global body of knowledge. The Museum will disseminate the results of this scientific inquiry, thus helping inspire Canadians to act conscientiously about the natural environment. As a public institution, the Museum also wishes to continue to demonstrate accountability, value and fiscal effectiveness through achieving measurable, meaningful results.

Achieving financial sustainability has been, and will continue to be, one of the main priorities of the Museum. The Museum has in place a number of strategies designed to manage both known and anticipated pressures. An enterprise risk management approach is being used to manage these strategies and pressures in support of the vision to be a national institution providing maximum value and service to the public.

Revenue

Revenue for the six-month period ended September 30, 2018 amounted to \$4,974,000, an increase of \$195,000 or 4 percent, compared to the \$4,779,000 for the six-month period of the previous year. This increase is mainly due to the recognition of restricted contributions related to the arctic digitization project and the change of the Nature Boutique operation from leasing to a hybrid business model.

On an accrual basis, parliamentary appropriations for the six-month period ended September 30, 2018 amounted to \$17,239,000 compared to the \$16,515,000 for the six-month period of the previous year. The difference is mainly due to appropriations received and used to purchase depreciable capital assets and the variation in deferred capital funding.

Revenue for the three-month period ended September 30, 2018 amounted to \$2,669,000, an increase of \$233,000 or 10 percent, compared to the \$2,436,000 for the three-month period of the previous year. This increase is mainly due to the increase in revenue related to admission and program fees and the recognition of restricted contributions related to the arctic digitization project.

On an accrual basis, parliamentary appropriations for the three-month period ended September 30, 2018 amounted to \$8,851,000 compared to the \$8,253,000 for the three-month period of the previous year. The difference is mainly due to appropriations received and used to purchase depreciable capital assets and the variation in deferred capital funding.

Expenses

Expenses for the six-month period ended September 30, 2018 amounted to \$20,910,000 compared to the \$19,367,000 for the six-month period of the previous year, an increase of \$1,543,000 or 8 percent. The increase is due to \$600,000 increase attributable to exhibitions expenses related to the major temporary exhibition *Brain: the inside story*, \$135,000 increase attributable to the new Nature Boutique operation, \$150,000 increase attributable to travel expenses, \$600,000 increase attributable to personnel and training costs related to research and collections and capitalization of personnel costs during 2017-18 and \$58,000 increase attributable to operating and maintenance expenses for the buildings.

Expenses for the three-month period ended September 30, 2018 amounted to \$10,494,000 compared to the \$9,931,000 for the three-month period of the previous year, an increase of \$563,000 or 6 percent. The increase is due to \$253,000 increase attributable to exhibitions expenses related to the major temporary exhibition *Brain: the inside story*, \$70,000 increase attributable to the new Nature Boutique operation, \$70,000 increase attributable to travel expenses, \$170,000 increase attributable to personnel and training costs related to research and collections.

Net Result of Operations

The net result of operations for the six-month period ended September 30, 2018 was a surplus of \$1,303,000. The surplus is mainly attributable to higher appropriations received and used to purchase capital assets and a timing difference in the recognition of expenses related to programs that are expected to be incurred later in the fiscal year. Partially offsetting this timing difference is \$52,000 in expenses due to the accounting treatment related to the Museum's Natural Heritage Campus located in Gatineau, Quebec, which is recorded in the Statement of Financial Position as an obligation under capital lease.

The net result of operations for the three-month period ended September 30, 2018 was a surplus of \$1,026,000. The surplus is mainly attributable to higher appropriations received and used to purchase capital assets and a timing difference in the recognition of expenses related to programs that are expected to be incurred later in the fiscal year. Partially offsetting this timing difference is \$24,000 in expenses due to the accounting treatment related to the Museum's Natural Heritage Campus located in Gatineau, Quebec, which is recorded in the Statement of Financial Position as an obligation under capital lease.

Statement of Financial Position

Assets

The level of cash and cash equivalents of \$16,282,000 as at September 30, 2018, represents an increase of \$1,206,000 or 8 percent from the March 31, 2018, level of \$15,076,000. This increase is mainly due to the timing difference in the payment of invoices.

Capital assets decreased to \$179,797,000 as at September 30, 2018, from \$183,446,000 as at March 31, 2018, mainly due to amortization expense offset by acquisition of capital assets.

Liabilities

Deferred revenues, contributions and parliamentary appropriations increased to \$6,200,000 as at September 30, 2018, from \$4,908,000 as at March 31, 2018, mainly due to the deferral of parliamentary appropriations received to purchase capital assets.

Deferred capital funding decreased to \$166,396,000 as at September 30, 2018, from the \$169,522,000 as at March 31, 2018, as deferred capital funding is recognized as revenue at the same pace as the amortization of the corresponding capital assets.

Accumulated Deficit

The accumulated deficit of \$2,851,000 as at September 30, 2018, is due to the accounting treatment related to the Museum's Natural Heritage Campus located in Gatineau, Quebec, which is recorded in the Statement of Financial Position as an obligation under capital lease. This accounting treatment will keep the Museum's accumulated deficit in a deficit position for many years due to the interest expense on the capital lease obligation being higher in the earlier years than in the years closer to the end of the lease term. Accordingly, the accumulated deficit related to this accounting treatment will begin to reverse in 2019-2020 until it is fully eliminated by the end of the lease term in 2031. This does not impact the Museum's cash flow or financial stability in any way.

RISK ANALYSIS

The Museum has in place an enterprise risk management framework designed to effectively and proactively manage the risks that could prevent the Museum from achieving its objectives. The Museum Corporate Plan identifies four risks and their related mitigation strategies. The risk mitigation step involves development of mitigation strategies designed to manage, eliminate, or reduce risk to an acceptable level, ideally low. Once a strategy is implemented, it is continually monitored to assess its efficacy with the intent of revising the course of action if needed.

Summary of key risks and mitigation strategies are as follows:

1. Advancement – Risk that a limited donor pipeline may constrain financial resources available to support the investment required for initial implementation of the Museum’s strategic objectives. This is mitigated by a comprehensive advancement program that identifies, cultivates, solicits and stewards donors and prospects, led by a team of fundraising professionals and a new group of committed fundraising volunteers and board members.
2. Structural Deficit - Risk that the structural deficit will continue to increase due to expenses increasing at a greater rate than revenue, such as utilities, property, taxes and general inflation. This is mitigated by a continuous process of expenditure review, admission revenue monitoring and earned revenue growth.
3. Succession - Risk that a significant number of employees are eligible for retirement resulting in the loss of corporate memory and key skills. To mitigate this risk the Museum developed and monitors a succession plan that includes skills development.
4. Budget 2016 - Risk that capital projects funded through budget 2016 would not be completed on time and on budget to meet the required scope. Quarterly tracking internally will ensure the Museum fulfills its spending commitments.