

CANADIAN MUSEUM OF NATURE

QUARTERLY FINANCIAL REPORT

(Unaudited)

For the three and nine month periods
ended December 31, 2018

Canada



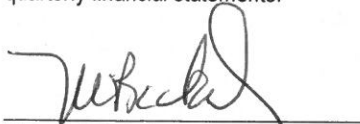
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STATEMENT OF MANAGEMENT RESPONSIBILITY BY SENIOR OFFICIALS

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

Ottawa, Canada
February 14, 2019

Statement of Financial Position (Unaudited)

<i>(in thousands of dollars)</i>	at December 31 2018	at March 31 2018
Assets		
Current		
Cash and cash equivalents	15,914	15,076
Restricted cash	211	190
Restricted investments	1,500	1,500
Accounts receivable		
Trade	551	914
Government departments and agencies (Note 12)	4	250
Inventories	156	44
Prepaid expenses	1,123	1,221
	19,459	19,195
Collections	1	1
Employee advances	519	538
Restricted investments	1,500	1,500
Investments	1,000	1,000
Capital assets (Note 3)	177,671	183,446
	200,150	205,680
Liabilities		
Current		
Accounts payable and accrued liabilities		
Trade	2,638	5,478
Government departments and agencies (Note 12)	263	971
Obligation under capital lease (Note 4)	1,038	964
Deferred revenues, contributions and parliamentary appropriations (Note 5)	6,567	4,908
Employee future benefits	235	242
	10,741	12,563
Obligation under capital lease (Note 4)	24,219	25,008
Deferred capital funding (Note 6)	164,498	169,522
Employee future benefits	2,741	2,741
	202,199	209,834
Accumulated Deficit		
Unrestricted	10,035	7,894
Investment in capital assets (Note 7)	(12,084)	(12,048)
	(2,049)	(4,154)
	200,150	205,680

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

Statement of Operations for the three and nine month periods ended December 31 (Unaudited)

<i>(in thousands of dollars)</i>	Three month period ended December 31		Nine month period ended December 31	
	2018	2017	2018	2017
Revenue				
Admission and program fees (Note 9)	961	687	3,426	3,134
Ancillary operations (Note 10)	616	450	1,744	1,509
Contributions (Note 11)	983	1,027	1,895	1,875
Interest	101	58	238	164
Other	275	138	607	457
	2,936	2,360	7,910	7,139
Expenses (Note 13)				
Inspiration and engagement	2,774	2,453	8,549	7,637
Collections care and access	767	1,123	2,306	2,391
Research and discovery	1,224	1,170	3,414	3,161
Internal support services	1,376	1,216	3,997	3,294
Buildings and grounds	4,719	4,247	13,504	13,093
	10,860	10,209	31,770	29,576
Net result of operations before government funding	(7,924)	(7,849)	(23,860)	(22,437)
Parliamentary appropriations (Note 8)	8,726	8,845	25,965	25,360
Net result of operations	802	996	2,105	2,923

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

Statement of Changes in Accumulated Deficit (Unaudited)

For the three-month period ended December 31

<i>(in thousands of dollars)</i>	Unrestricted	Invested in capital assets	2018	2017
Accumulated deficit, beginning of period	9,249	(12,100)	(2,851)	(4,429)
Net result of operations	802	-	802	996
Net change in investment in capital assets	(16)	16	-	-
Accumulated deficit, end of period	10,035	(12,084)	(2,049)	(3,433)

For the nine-month period ended December 31

<i>(in thousands of dollars)</i>	Unrestricted	Invested in capital assets	2018	2017
Accumulated deficit, beginning of period	7,894	(12,048)	(4,154)	(6,356)
Net result of operations	2,105	-	2,105	2,923
Net change in investment in capital assets (Note 7)	36	(36)	-	-
Accumulated deficit, end of period	10,035	(12,084)	(2,049)	(3,433)

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 nine month periods ended December 31
(Unaudited)**

	Three month period ended December 31		Nine month period ended December 31	
	2018	2017	2018	2017
<i>(in thousands of dollars)</i>				
Operating activities				
Cash receipts - customers and donors	2,702	1,712	6,927	5,802
Cash receipts - parliamentary appropriations	5,973	7,147	20,193	20,698
Cash disbursements - employees	(3,608)	(3,831)	(11,214)	(11,040)
Cash disbursements - suppliers	(5,787)	(2,859)	(14,184)	(11,254)
Interest received	101	32	238	171
Interest paid	(379)	(654)	(1,659)	(1,978)
Cash provided by (used in) operating activities	(998)	1,547	301	2,399
Capital activities				
Acquisition of capital assets	(135)	(2,367)	(1,937)	(6,322)
Cash used in capital activities	(135)	(2,367)	(1,937)	(6,322)
Investment activities				
Acquisition of restricted investment	-	-	-	(3,000)
Acquisition of investment	-	(1,000)	-	(1,000)
Cash used in investing activities	-	(1,000)	-	(4,000)
Financing activities				
Obligation under capital lease	(244)	(221)	(715)	(647)
Parliamentary appropriations received for purchase of capital assets	1,070	1,518	3,210	4,554
Cash provided by financing activities	826	1,297	2,495	3,907
Increase (decrease) in cash and restricted cash	(307)	(523)	859	(4,016)
Cash and cash equivalents, beginning of period	16,282	13,649	15,076	14,190
Restricted cash, beginning of period	150	498	190	3,450
Cash and cash equivalents and restricted cash, end of period	16,125	13,624	16,125	13,624
Cash and cash equivalents, end of period	15,914	13,151	15,914	13,151
Restricted cash, end of period	211	473	211	473
Cash and cash equivalents and restricted cash, end of period	16,125	13,624	16,125	13,624

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

Notes to the Financial Statements for the three and nine month periods ended December 31, 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 Collection cabinets and compactors	35 years
Furnishings and office equipment General equipment Permanent exhibitions Research equipment	10 years
Building improvements	5 to 25 years
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 were 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>	December 31 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	57,677	147,106	204,783	53,926	150,858
Property under capital lease	35,040	22,558	12,482	35,040	21,814	13,226
Permanent exhibitions	10,122	3,975	6,147	10,011	3,217	6,794
Leasehold improvements	10,998	6,896	4,102	10,522	6,632	3,890
Research equipment	4,752	2,388	2,364	3,596	2,157	1,439
Collection cabinets and compactors	3,840	2,373	1,467	3,840	2,290	1,550
Building improvements	4,072	2,954	1,118	4,056	2,560	1,496
Computer equipment	3,677	2,992	685	3,283	2,434	849
General equipment	996	307	689	574	235	339
Furnishings and office equipment	1,530	1,348	182	1,519	1,299	220
Work in progress - Assets	702	-	702	2,158	-	2,158
	281,139	103,468	177,671	280,009	96,563	183,446

The amortization expense for the period amounts to \$6,905,000 (December 31, 2017 – \$6,590,000). During the period ended December 31, 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>		December 31 2018	March 31 2018
Total minimum future payments	(1)	44,625	47,250
Deduct: Imputed interest		(19,368)	(21,278)
Present value of financing obligations	(2)	25,257	25,972
Current portion		1,038	964
Long term portion		24,219	25,008
		25,257	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	875	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>	December 31 2018	March 31 2018
Deferred contributions from non-government sources	1,889	3,028
Deferred parliamentary appropriations	4,186	1,353
Total deferred contributions and parliamentary appropriations	6,075	4,381
Deferred revenues – goods and services	492	527
	6,567	4,908

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

<i>(in thousands of dollars)</i>	December 31 2018	March 31 2018
Balance, beginning of period	4,908	5,793
Add:		
Restricted contributions received	108	215
Restricted parliamentary appropriations received	3,210	6,072
Deferred revenue and contribution for the provision of goods and services	668	1,076
	3,986	7,363
Less:		
Restricted contributions recognized	(1,308)	(459)
Restricted parliamentary appropriations spent	(377)	(6,960)
Deferred revenue for the provision of goods and services recognized	(642)	(829)
	(2,327)	(8,248)
Balance, end of period	6,567	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>	December 31 2018	March 31 2018
Used for acquisitions:		
Deferred capital contributions from non-government sources	2,431	1,994
Deferred capital funding through parliamentary appropriations	162,067	167,528
	164,498	169,522

Changes in the deferred capital funding balance are as follows:

<i>(in thousands of dollars)</i>	December 31 2018	March 31 2018
Balance, beginning of period	169,522	169,324
Add: Capital asset acquisitions	1,130	8,151
Less: Capital asset disposals	-	(1)
	1,130	8,152
Less amounts recognized as revenue:		
Contributions	(368)	(412)
Parliamentary appropriations	(5,786)	(7,542)
	(6,154)	(7,954)
Balance, end of period	164,498	169,522

7. Investment in Capital Assets

The investment in capital assets consists of the following:

<i>(in thousands of dollars)</i>	December 31 2018	March 31 2018
Capital assets	177,671	183,446
Less amounts financed by:		
Capital lease	(25,257)	(25,972)
Deferred capital funding	(164,498)	(169,522)
	(12,084)	(12,048)

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

<i>(in thousands of dollars)</i>	December 31 2018	March 31 2018
Capital asset additions	1,130	8,151
Less: capital asset disposals	-	(10)
Add: repayment of obligation under capital lease	715	873
Less: capital assets financed with deferred capital funding	(1,130)	(8,151)
Capital assets purchased with the Corporation's funds	715	863
Amortization of deferred capital funding	6,154	7,954
Amortization of capital assets	(6,905)	(9,002)
Net change in investment in capital assets	(36)	(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 December 31		Nine month period ended December 31	
	2018	2017	2018	2017
Appropriations received and receivable:				
Operating and capital budgets	7,798	8,662	23,338	24,922
Parliamentary appropriations deferred for future capital projects	(858)	683	(4,186)	(2,016)
Deferred parliamentary appropriations used in current period to complete specific projects	-	-	1,352	2,240
Appropriations used to purchase depreciable capital assets	(172)	(2,365)	(325)	(5,154)
Amortization of deferred capital funding	1,958	1,865	5,786	5,368
Appropriations recognized during the period	8,726	8,845	25,965	25,360

9. Admission and Program Fees

Admission and program fees are comprised as follows:

<i>(in thousands of dollars)</i>	Three month period ended December 31		Nine month period ended December 31	
	2018	2017	2018	2017
Admission fees – general	497	443	2,168	2,372
Admission fees – temporary exhibitions	142	21	400	41
Memberships	146	103	377	343
Programs	176	120	481	378
	961	687	3,426	3,134

10. Ancillary Operations

Ancillary operations are comprised as follows:

<i>(in thousands of dollars)</i>	Three month period ended December 31		Nine month period ended December 31	
	2018	2017	2018	2017
Parking	202	179	639	683
Rental of facilities	281	251	626	751
Boutique revenues	120	9	432	27
Cafeteria leases	13	11	47	48
	616	450	1,744	1,509

11. Contributions

Contributions are comprised as follows:

<i>(in thousands of dollars)</i>	Three month period ended December 31		Nine month period ended December 31	
	2018	2017	2018	2017
Cash contributions and sponsorships	801	488	1,457	993
In-kind sponsorships	141	42	347	359
Specimen donations	41	497	91	523
	983	1,027	1,895	1,875

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 December 31		Nine month period ended December 31	
	2018	2017	2018	2017
Revenues from Government of Canada related parties:				
Admission and program fees	-	-	-	5
Ancillary operations	3	4	11	27
Other	2	2	39	147
	5	6	50	179

	Three month period ended December 31		Nine month period ended December 31	
	2018	2017	2018	2017
<i>(in thousands of dollars)</i>				
Expenses with Government of Canada related parties:				
Personnel costs	382	333	1,198	1,107
Real property taxes	305	(575)	907	795
Professional and special services	-	-	86	4
Marketing and communications	-	3	10	117
Freight and cartage	2	4	4	13
Repairs and maintenance	-	3	1	3
Information management infrastructure and systems	-	1	1	5
	689	(230)	2,207	2,045

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

	December 31 2018	March 31 2018
<i>(in thousands of dollars)</i>		
Due from related parties	4	250
Due to related parties	263	971

13. Summary of Expenses by Object

	Three month period ended December 31		Nine month period ended December 31	
	2018	2017	2018	2017
<i>(in thousands of dollars)</i>				
Personnel costs	3,877	3,543	11,484	10,547
Amortization of capital assets	2,349	2,324	6,905	6,590
Operation and maintenance of buildings	1,133	1,269	3,019	2,893
Professional and special services	1,097	840	2,722	2,453
Interest on capital lease obligation	723	455	1,911	1,978
Real property taxes	379	383	1,659	1,707
Information management infrastructure and systems	365	300	1,025	939
Exhibitions	325	-369	937	277
Marketing and communications	176	720	848	826
Repairs and maintenance	135	266	387	378
Travel	131	-72	375	274
Cost of goods sold - natureBOUTIQUE	67	-	204	-
Objects for collections	41	498	91	524
Freight and cartage	16	20	44	43
Other	46	32	159	147
	10,860	10,209	31,770	29,576

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 nine-month period ended December 31, 2018 amounted to \$7,910,000, an increase of \$771,000 or 11 percent, compared to the \$7,139,000 for the nine-month period of the previous year. This increase is mainly due to the increase in revenue related to admission fees including surcharges related to the Museum's major temporary exhibitions *The Brain: The inside Story*, *Butterflies in Flight* and *Survival of the Slowest*, the change of the Nature Boutique operation from leasing to a hybrid business model and the recognition of restricted contributions related to the arctic digitization project. This increase is partially offset by lower specimen donations.

On an accrual basis, parliamentary appropriations for the nine-month period ended December 31, 2018 amounted to \$25,965,000 compared to the \$25,360,000 for the nine-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 December 31, 2018 amounted to \$2,936,000, an increase of \$576,000 or 24 percent, compared to the \$2,360,000 for the three-month period of the previous year. This increase is mainly due to the increase in revenue related to admission fees including surcharges related to the Museum's major temporary exhibitions *Butterflies in Flight* and *Survival of the Slowest* and the change of the Nature Boutique operation from leasing to a hybrid business model and the recognition of restricted contributions related to the arctic digitization project. This increase is partially offset by lower specimen donations.

On an accrual basis, parliamentary appropriations for the three-month period ended December 31, 2018 amounted to \$8,726,000 compared to the \$8,845,000 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 nine-month period ended December 31, 2018 amounted to \$31,770,000 compared to the \$29,576,000 for the nine-month period of the previous year, an increase of \$2,194,000 or 7 percent. The increase is due to \$675,000 increase attributable to exhibitions expenses related to the major temporary exhibitions *The Brain: The inside Story*, *Butterflies in Flight*, and *Survival of the Slowest*, \$204,000 increase attributable to the new Nature Boutique operation, \$1,000,000

increase attributable to personnel and training costs, \$100,000 increase attributable to travel expenses, \$90,000 increase attributable to information technology costs and \$125,000 increase attributable to property management and security costs.

Expenses for the three-month period ended December 31, 2018 amounted to \$10,860,000 compared to the \$10,209,000 for the three-month period of the previous year, an increase of \$651,000 or 6 percent. The increase is due to \$94,000 increase attributable to exhibitions expenses related to the major temporary exhibitions *Butterflies in Flight* and *Survival of the Slowest t*, \$67,000 increase attributable to the new Nature Boutique operation, \$90,000 increase attributable to repairs and maintenance expenses and \$400,000 increase attributable to personnel and training costs.

Net Result of Operations

The net result of operations for the nine-month period ended December 31, 2018 was a surplus of \$2,105,000. 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 \$36,000 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 December 31, 2018 was a surplus of \$802,000. 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 \$16,000 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 \$15,914,000 as at December 31, 2018, represents an increase of \$838,000 or 6 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 \$177,671,000 as at December 31, 2018, from \$183,446,000 as at March 31, 2018, mainly due to amortization expense offset by acquisition of capital assets.

Liabilities

Trade payables decreased to \$2,638,000 as at December 31, 2018, from \$5,478,000 as at March 31, 2018, mainly due to the timing difference in the payment of expenditures funded through deferred parliamentary appropriations received to purchase capital assets.

Deferred revenues, contributions and parliamentary appropriations increased to \$6,567,000 as at December 31, 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 \$164,498,000 as at December 31, 2018, from \$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 \$2,049,000 as at December 31, 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. 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.
2. 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.
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.