

Financial statements of

Canadian Warplane Heritage

September 30, 2010

Canadian Warplane Heritage

September 30, 2010

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Auditor's Report

To the Members of
Canadian Warplane Heritage

We have audited the balance sheet of Canadian Warplane Heritage as at September 30, 2010 and the statements of operating revenues and expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, 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 common with many non-profit organizations, the Organization derives revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Organization and we were not able to determine whether any adjustments might be necessary to revenues, excess of revenues over expenses, assets and net assets.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the donations referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Organization as at September 30, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
November 29, 2010

Canadian Warplane Heritage

Statement of operating revenues and expenses year ended September 30, 2010

	2010	2009
	\$	\$
Revenues		
Memberships	232,777	224,036
Donations	351,511	393,870
Volunteer donations	631,376	570,574
Support clubs	461,236	378,705
Flying activities	228,675	132,863
Legends program	-	21,700
Education	225,013	179,839
Admissions	278,485	291,313
Retail	759,369	564,302
Facility and plane rental	25,753	42,429
Food, beverage and catering	704,828	598,808
Fund-raising and special events	491,409	694,001
Government grants	58,107	58,107
Other	99,133	(2,388)
	4,547,672	4,148,159
Expenses		
Membership	20,228	28,864
Volunteer expenses	631,376	570,574
Support clubs	14,817	8,339
Aircraft maintenance	161,857	194,408
Fuel and oil	195,822	216,142
Marketing	110,535	103,590
Curatorial	15,160	12,716
Retail	537,760	368,487
Fund-raising and special events	264,606	270,599
Education	28,451	17,702
Administrative	201,390	196,631
Interest	20,179	19,651
Food, beverage and catering	283,780	237,412
Salaries and benefits	1,512,392	1,309,361
Building maintenance	86,626	78,095
Utilities and taxes	123,672	151,457
Insurance	69,055	65,916
Legal and audit fees	18,663	16,400
	4,296,369	3,866,344
Operating revenues over expenses before the undernoted	251,303	281,815
Amortization	(85,812)	(91,308)
Excess of revenues over expenses	165,491	190,507

Canadian Warplane Heritage

Statement of changes in net assets
year ended September 30, 2010

	Operating	Invested in capital assets	Restricted endowment	2010 Total	2009 Total
	\$	\$	\$	\$	\$
Balance, September 30, 2009, as restated (Note 14)	(1,080,694)	8,641,092	203,753	7,764,151	7,573,644
Excess of revenues over expenses	165,491	-	-	165,491	190,507
Amortization	85,812	(85,812)	-	-	-
Purchase of capital assets	(159,983)	159,983	-	-	-
Donations in kind - capital assets	(105,450)	105,450	-	-	-
Balance, September 30, 2010	(1,094,824)	8,820,713	203,753	7,929,642	7,764,151

Canadian Warplane Heritage

Balance sheet
as at September 30, 2010

	2010	2009 (Restated - Note 14)
	\$	\$
Assets		
Current assets		
Accounts receivable	63,812	21,550
Inventory	216,966	235,320
Prepaid expenses	72,481	67,793
	353,259	324,663
Long-term		
Investment (Note 9)	28,000	-
Endowment fund	203,753	203,753
	231,753	203,753
Capital assets		
Equipment and furniture	526,258	510,577
Collection	6,071,835	5,822,083
Museum building (Note 4)	12,008,981	12,008,981
Grants (Note 4)	(9,010,190)	(9,010,190)
Land	593,481	593,481
	10,190,365	9,924,932
Accumulated amortization	(1,369,652)	(1,283,840)
	8,820,713	8,641,092
	9,405,725	9,169,508
Liabilities		
Current liabilities		
Bank indebtedness (Note 5)	370,032	106,533
Accounts payable and accrued liabilities (Note 6)	597,973	681,730
Current portion long-term debt (Note 7)	123,100	179,016
	1,091,105	967,279
Endowment fund	203,753	203,753
Long-term debt (Note 7)	181,225	234,325
	1,476,083	1,405,357
Commitments (Note 8)		
Net assets		
Operating	(1,094,824)	(1,080,694)
Invested in capital assets	8,820,713	8,641,092
Restricted endowment	203,753	203,753
	7,929,642	7,764,151
	9,405,725	9,169,508

Approved by the Board

Director

Director

Canadian Warplane Heritage

Statement of cash flows year ended September 30, 2010

	2010	2009
	\$	\$
Operating activities		
Excess of revenues over expenses	165,491	190,507
Items not affecting cash		
Amortization	85,812	91,308
Donations in kind - capital assets	(105,450)	-
Donations in kind - investment	(28,000)	-
Changes in non-cash working capital components		
Accounts receivable	(42,262)	48,648
Inventory	18,354	(46,042)
Prepaid expenses	(4,688)	(60,919)
Accounts payable and accrued liabilities	(83,757)	68,400
	5,500	291,902
Investing activity		
Purchase of capital assets	(159,983)	(170,728)
Financing activities		
Increase (decrease) in bank indebtedness	263,499	(103,223)
Repayments on long-term debt	(109,016)	(17,951)
	154,483	(121,174)
Net change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	-	-

See Note 11 for supplemental cash flow information.

Canadian Warplane Heritage

Notes to the financial statements

September 30, 2010

1. Description of museum

The Canadian Warplane Heritage is a registered non-profit corporation, having been incorporated in December 1971 under the laws of Ontario. The museum's purpose can be stated as follows:

- To acquire, document, preserve and maintain a complete collection of aircraft that were flown by Canadians and the Canadian military services from the beginning of World War II to present, including other related aviation artifacts and memorabilia of significant historic importance to this period.
- To provide facilities for the restoration and protection, interpretation and exhibits of the collection. These will be displayed in their natural element – aerial or static, with emphasis on all aspects of safety and legal obligations in relation to both the artifacts and public and to deliver programs that meet the standards for community museums in Ontario.
- To instruct, educate and entertain the general public through the maintenance and rotation of displays; flight demonstrations; special events and activities and to encourage Canadians of all ages to become actively involved in the preservation of these aircraft and artifacts.
- To maintain supportive exhibits in tribute to the thousands of men and women who built, serviced and flew these aircraft and in memory of those who did not return.

2. Changes in accounting policies

Not-for-profit organization

In November 2008, the Canadian Institute of Chartered Accountants ("CICA") issued amendments to Section 1540, Cash flow statements, Section 1751, Interim financial statements, Section 4400, Financial statement presentation by not-for-profit organizations, Section 4430, Capital assets held by not-for-profit organizations, Section 4460, Disclosure of related party transactions by not-for-profit organizations and issued Section 4470, Disclosure of allocated expenses by not-for-profit organizations. The new and amended standards were applicable to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. Accordingly, the Organization has adopted the new standards as of October 1, 2009.

Sections 1540 and 1751 have been amended to include not-for-profit organizations within their scope.

Section 4400 has been amended in order to eliminate the requirement to treat net assets invested in capital assets as a separate component of net assets and, instead, permit a not-for-profit organization to present such an amount as a category of internally restricted net assets when it chooses to do so. It also clarifies that revenues and expenses must be recognized and presented on a gross basis when a not-for-profit organization is acting as a principal in transactions.

Section 4430 has been amended to specify that smaller organizations that capitalize their capital assets shall capitalize all classes of capital assets and amortize and write down those assets in accordance with relevant Handbook Sections.

Section 4460 has been amended to make the language in Section 4460 consistent with related party transactions, Section 3840.

Section 4470 establishes disclosure standards for a not-for-profit organization that classifies its expenses by function and allocates its expenses to a number of functions to which the expenses relate.

The adoption of these new and amended standards did not have a material impact on the Organization's financial statements.

Canadian Warplane Heritage

Notes to the financial statements

September 30, 2010

2. Changes in accounting policies (continued)

New accounting framework

The CICA has issued a new accounting framework applicable to not-for-profit organizations, CICA Handbook— Accounting Part III - Accounting Standards for Not-For-Profit Organizations. Effective for fiscal years beginning on or after January 1, 2012, not-for-profit organizations will have to choose between International Financial Reporting Standards (IFRSs) and accounting standards for not-for-profit organizations, whichever suits them best. The Organization currently plans to adopt the new accounting standards for not-for-profit organizations for its fiscal year beginning on October 1, 2012; however the impact of this transition has not yet been determined.

3. Accounting policies

Use of estimates

The financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Organization's designation of such instruments. Settlement date accounting is used.

Classification

Accounts receivable	Loans and receivables
Bank indebtedness	Held for trading
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Held for trading

Financial liabilities designated as held for trading are measured at their carrying amount since it is comparable to their fair value due to the approaching maturity of these financial instruments. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

Effective interest method

The Organization uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

The Organization has chosen to continue to apply the requirements of Section 3861, Financial Instruments - Presentation and Disclosure in place of application of Section 3862, Financial Instruments Disclosures and 3863, Financial Instruments – Presentation.

Canadian Warplane Heritage

Notes to the financial statements

September 30, 2010

3. Accounting policies (continued)

Revenue recognition

The Organization follows the deferral method for accounting for contributions. Revenues from cash donations and memberships are recognized when the funds are received. Revenues from government grants and air show performances are recognized when services are rendered or in accordance with contractual agreements. Other forms of revenue are recognized as earned.

Gifts in kind

Gifts in kind for larger capital assets only are recognized as additions to capital assets in the year in which they are received. Gifts in kind are estimated at fair market value.

Donated services

The Organization's activities include time donated by a substantial number of volunteers. Since no objective basis exists for recording and assigning values to these services, they are not reflected in the financial statements.

Capital assets

Capital assets are recorded at cost. Cost is defined as laid-down cost or receipted donation value plus the costs of restoration. Amortization is recorded on a straight-line basis as follows:

Museum building, net of grants	50 years
Equipment and furniture	10% per annum
Automotive equipment	20% per annum
Computer equipment	25% per annum

The collection is not amortized.

The collection consists of aircraft, parts and display assets and the museum building. Equity in the collection consists of these assets recorded at cost or donated value, less any corresponding long-term debt.

Based on the most recent appraisal done in fiscal 2001, the fair market value of the aircraft is approximately \$14,240,000.

Inventory

Inventory is valued at the lower of cost (on the first-in, first-out method) and net realizable value.

Inventories recognized as expense during the year amounted to \$619,322 (2009 - \$490,718).

4. Museum building

In 1994, the Organization entered into a contract with the Regional Municipality of Hamilton-Wentworth under the Canada/Ontario Infrastructure Works Program to assist in financing the new museum. The cost of the project was funded as follows:

- \$4 million from the Government of Canada
- \$4 million from the Government of Ontario
- \$1 million from the Region of Hamilton-Wentworth
- \$3 million provided by Canadian Warplane Heritage from insurance proceeds, fund raising and sale of hangars

The new museum was completed in the spring of 1996.

Canadian Warplane Heritage

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5. Bank indebtedness

Bank indebtedness is a credit facility with the bank to a maximum of \$450,000 (2009 - \$300,000), bearing interest at prime rate plus 1.00%, and is payable on demand. The unused portion of this credit facility at September 30, 2010 is \$175,903 (2009 - \$259,366).

6. Accounts payable and accrued liabilities

	2010	2009
	\$	\$
Accounts payable consists of:		
Trade	204,309	250,736
Accruals and other	393,664	430,994
	597,973	681,730

7. Long-term debt

	2010	2009
	\$	\$
Bank demand loan, principal repayments of \$3,606 monthly, plus interest at prime plus 2.25%	222,325	238,425
Other interest-free loan, annual principal repayments of \$25,000	25,000	50,000
Other interest-free loan, monthly principal repayments of \$1,000	27,000	39,000
Other interest-free loan, \$10,000 principal repayment November 2008 with monthly principal repayments of \$2,000 beginning January 1, 2009	-	22,000
Other interest-free loan, due on demand	30,000	-
Other interest-free loan, due on demand	-	63,916
	304,325	413,341
Current portion	123,100	179,016
	181,225	234,325

The Organization is committed to the following principal repayments:

	\$
2011	123,100
2012	68,100
2013	59,100
2014	54,025
	304,325

The bank demand loan is collateralized by a general security agreement and a general assignment of book debts.

Canadian Warplane Heritage

Notes to the financial statements

September 30, 2010

8. Commitments

The Organization is committed under terms of operating leases for the following minimum lease payments:

	\$
2011	15,009
2012	14,211
2013	13,298
	<u>42,518</u>

9. Investment

During the year, the Organization received shares in Luscair Corp. by way of donation.

10. Insurance

The Organization carries ordinary comprehensive liability insurance; however, it does not carry hull insurance on its aircraft.

11. Supplemental cash flow information

	2010	2009
	\$	\$
Interest paid	<u>20,179</u>	<u>19,651</u>

12. Related party transactions

During the year, a loan was advanced by the CEO of the Organization. The balance is non-interest bearing and payable upon demand. At September 30, 2010, the amount payable in respect of this transaction was \$30,000.

13. Financial instruments

Financial risk

The financial risk is the risk to the Organization's earnings that arises from fluctuations in interest rates, foreign exchange rates and the degree of volatility of these rates. The Organization does not use derivative instruments to reduce its exposure to interest and foreign exchange risk as management does not consider financial risk to be material.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Organization is exposed to credit risk from customers. The Organization has a significant number of diverse customers which reduces the concentration of credit risk to the Organization.

Fair value

The fair value of accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate their carrying value due to their short-term maturity.

The fair value of long-term debt could not be determined as the cost to establish fair value exceeds the benefit of disclosure.

Canadian Warplane Heritage

Notes to the financial statements

September 30, 2010

14. Comparative figures

The Organization has determined that the closing net assets as at September 30, 2008 and September 30, 2009 as previously reported in its financial statements was overstated by \$361,367. The Organization determined that \$361,367 of capital assets in respect of equipment and furniture were disposed of for no proceeds prior to fiscal 2008 and the resultant loss had not been recognized in the Organization's previously reported financial statements.

Consequently, the opening net assets as at October 1, 2008 and October 1, 2009 has been decreased as follows:

	\$
Opening net assets adjustment	
Net assets - October 1, 2008, as previously reported	7,935,011
Loss on disposal of capital assets	(361,367)
<u>Net assets - October 1, 2008, as restated</u>	<u>7,573,644</u>
Excess of revenues over expenses, as previously reported	190,507
<u>Net assets - October 1, 2009, as restated</u>	<u>7,764,151</u>

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