

Quarterly Financial Statements of:

NATIONAL ARTS CENTRE CORPORATION

For the 3 months ended November 30, 2012

Management Responsibilities

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 my knowledge, the unaudited quarterly financial report presents 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 report.

A handwritten signature in black ink, appearing to read 'Peter A. Herrndorf', with a stylized flourish at the end.

Peter A. Herrndorf, O.C.

President and Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Daniel Senyk', with a stylized flourish at the end.

Daniel Senyk, CA

Chief Financial Officer

January 31, 2013

NATIONAL ARTS CENTRE CORPORATION

Statement of Financial Position

As at November 30, 2012

(Unaudited)

(In thousands of dollars)

	November 30 2012	August 31 2012
ASSETS		
Current		
Cash	\$ 5,807	\$ 3,209
Investments	2,022	2,679
Accounts receivable	3,299	1,142
Inventories	288	280
Prepaid expenses	1,435	1,702
	12,852	9,012
Restricted cash held for specified capital projects (Note 5)	10,335	11,563
Investments	11,215	10,412
Property, plant and equipment	52,616	52,319
	\$ 87,017	\$ 83,306
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 8,402	\$ 7,541
Deferred parliamentary appropriations (Note 6)	6,981	3,678
Deferred revenue	6,662	5,790
	22,045	17,009
Deferred parliamentary appropriations, specified capital projects (Note 6)	10,335	11,563
Deferred capital funding	52,616	52,319
Provision for employee future benefits	3,662	3,630
	88,658	84,521
NET ASSETS		
Accumulated deficit	(2,039)	(1,619)
Accumulated remeasurement gains	398	404
	(1,641)	(1,215)
	\$ 87,017	\$ 83,306

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

NATIONAL ARTS CENTRE CORPORATION

Statement of Operations

For the 3 months ended November 30, 2012

(Unaudited)

(In thousands of dollars)

	November 30 2012	November 30 2011
REVENUES		
Commercial operations (Schedule 1)	\$ 3,667	\$ 3,577
Programming (Schedule 2)	2,345	2,389
Grant from the National Arts Centre Foundation	1,034	1,088
Investment and other	204	194
Facility Fees	242	178
	<u>7,492</u>	<u>7,426</u>
Parliamentary appropriations	9,505	9,591
	<u>16,997</u>	<u>17,017</u>
EXPENSES (Schedule 3)		
Commercial operations (Schedule 1)	2,427	2,441
Programming (Schedule 2)	9,573	10,297
Building operations	3,560	3,469
Administration and technology	1,857	2,218
	<u>17,417</u>	<u>18,425</u>
NET RESULTS OF OPERATIONS	<u>\$ (420)</u>	<u>\$ (1,408)</u>

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

Statement of Changes in Net Assets

For the 3 months ended November 30, 2012

(Unaudited)

(In thousands of dollars)

	November 30 2012	November 30 2011
NET ASSETS		
Accumulated deficit, beginning of the period	\$ (1,619)	\$ (1,213)
Net results of operations	(420)	(1,408)
Accumulated deficit, end of the period	<u>(2,039)</u>	<u>(2,621)</u>
Accumulated remeasurement gains, beginning of the period	404	461
Change in unrealized gains on investments	(6)	(81)
Accumulated remeasurement gains, end of the period	<u>398</u>	<u>380</u>
NET ASSETS, END OF THE PERIOD	<u>\$ (1,641)</u>	<u>\$ (2,241)</u>

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

NATIONAL ARTS CENTRE CORPORATION

Statement of Cash Flows

For the 3 months ended November 30, 2012

(Unaudited)

(In thousands of dollars)

	November 30 2012	November 30 2011
Operating Activities		
Net results of operations	\$ (420)	\$ (1,408)
Change in unrealized gains on investments	(6)	(81)
Items not affecting cash		
Amortization	1,253	1,191
Amortization of deferred capital funding	(1,253)	(1,191)
	(426)	(1,489)
Change in non-cash operating assets and liabilities	3,138	(1,412)
Changes in provision for employee future benefits	32	1,003
Cash flow from (used for) operating activities	2,744	(1,898)
Investing Activities		
Purchase of investments	(146)	(46)
Change in restricted cash held for specified capital projects (Note 5)	(1,228)	(857)
Additions to property, plant and equipment	(1,550)	(1,584)
Cash flow used for investment activities	(2,924)	(2,487)
Financing Activities		
Deferred parliamentary appropriations, specified capital projects (Note 2)	1,228	857
Parliamentary appropriations received for the acquisition of property, plant and equipment	1,550	1,584
Cash flow from financing activities	2,778	2,441
Increase (decrease) in cash position	2,598	(1,944)
Cash at beginning of period	3,209	6,456
Cash at end of period	\$ 5,807	\$ 4,512

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

NATIONAL ARTS CENTRE CORPORATION

Schedule 1

Schedule of revenues and expenses - Commercial Operations

For the 3 months ended November 30, 2012

(Unaudited)

(In thousands of dollars)

	2012		
	Revenues	Expenses	Net
Food and Beverage Services	\$ 1,681	\$ 1,591	\$ 90
Parking Services	1,131	227	904
Rental of Halls	855	609	246
	<u>\$ 3,667</u>	<u>\$ 2,427</u>	<u>\$ 1,241</u>

	2011		
	Revenues	Expenses	Net
Food and Beverage Services	\$ 1,879	\$ 1,799	\$ 80
Parking Services	1,084	205	879
Rental of Halls	614	437	177
	<u>\$ 3,577</u>	<u>\$ 2,441</u>	<u>\$ 1,136</u>

NATIONAL ARTS CENTRE CORPORATION

Schedule 2

Schedule of revenues and expenses - Programming

For the 3 months ended November 30, 2012

(Unaudited)

(In thousands of dollars)

	November 30 2012	November 30 2011
<hr/>		
REVENUES		
Music	\$ 962	\$ 985
Dance	478	318
English Theatre	324	322
Other Programming	269	525
Programming Support	172	127
French Theatre	140	112
	<hr/> 2,345	<hr/> 2,389
<hr/>		
EXPENSES		
Music	4,229	4,450
Dance	825	749
English Theatre	997	949
Other Programming	662	1,273
Programming Support	2,177	2,206
French Theatre	683	670
	<hr/> 9,573	<hr/> 10,297
<hr/>		
EXCESS OF EXPENSES OVER REVENUES	<hr/> \$ 7,228	<hr/> \$ 7,908

NATIONAL ARTS CENTRE CORPORATION

Schedule 3

Schedule of Expenses

For the 3 months ended November 30, 2012

(Unaudited)

(In thousands of dollars)

	November 30 2012	November 30 2011
Salaries and benefits	\$ 7,199	\$ 7,119
Artistic fees	2,611	2,983
National Arts Centre Orchestra fees	1,745	1,940
Amortization	1,253	1,191
Advertising	957	1,014
Utilities	540	484
Cost of sales	523	601
Payments to municipalities	509	508
Maintenance and repairs	545	513
Contract fees	311	238
Financial charges and bad debts	161	411
Production	128	209
Professional fees	111	117
In-kind contributions of goods and services	24	61
Promotion	117	211
Staff travel	147	167
Equipment	101	102
Education and training	30	63
Supplies	63	76
Insurance	56	56
Telecommunications	68	85
Office expenses	60	95
Rental of facilities	23	52
Board expenses	58	62
Miscellaneous	75	70
	\$ 17,417	\$ 18,425

NATIONAL ARTS CENTRE CORPORATION

Notes to the Quarterly Financial Statements

November 30, 2012

1. Authority, objectives and operations

The National Arts Centre Corporation (the "Corporation") was established in 1966 pursuant to the *National Arts Centre Act* and began operating the National Arts Centre (the "Centre") in 1969. The Corporation is not subject to the provisions of the *Income Tax Act*. In accordance with Section 85 (1.1) of Part X of the *Financial Administration Act*, Divisions I to IV of the *Act* do not apply to the Corporation, except for subsection 105(2) and sections 113.1, 119, 131 to 148 and section 154.01, which do apply to the Corporation. The Corporation is deemed, under Section 15 of the *National Arts Centre Act*, to be a registered charity within the meaning of that expression in the *Income Tax Act*. The Corporation is not an agent of Her Majesty. Except for the purposes of the *Public Service Superannuation Act* and the *Government Employees Compensation Act*, the President and Chief Executive Officer, the officers, and employees of the Corporation are not part of the federal public administration.

The objectives of the Corporation are to operate and maintain the Centre, to develop the performing arts in the National Capital Region, and to assist the Canada Council for the Arts in the development of the performing arts elsewhere in Canada.

In furtherance of its objectives, the Corporation may arrange for and sponsor performing arts activities at the Centre; encourage and assist in the development of performing arts companies resident at the Centre; arrange for or sponsor radio and television broadcasts and the screening of films in the Centre; provide accommodation at the Centre, on such terms and conditions as the Corporation may fix, for national and local organizations whose objectives include the development and encouragement of the performing arts in Canada and, at the request of the Government of Canada or the Canada Council for the Arts, arrange for performances elsewhere in Canada by performing arts companies, whether resident or non-resident in Canada, and arrange for performances outside Canada by performing arts companies resident in Canada.

2. Notice to reader

These quarterly financial statements have not been audited and must be read in conjunction with the accompanying Narrative Discussion, and the most recent audited annual financial statements.

3. Basis of presentation

These unaudited financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) including series 4200 accounting standards for government not-for-profit organizations (GNFPO).

The standard on quarterly financial reports for crown corporations requires that the statement of financial position include the ending balances of the most current quarter, and the balances at the end of the immediately preceding fiscal year as the comparative. The statement of operations must include the current quarterly results as well as the year to date results, along with comparable quarterly and year to date results from the previous fiscal year.

4. Change in accounting policies

Effective September 1, 2012, the National Arts Centre Corporation adopted Public Sector Accounting Standards including the 4200 series of accounting standards applicable for Government Not-For-Profit Organizations. This change has been applied retrospectively and prior periods have been restated. This change in accounting policy has changed amounts reported in the previous fiscal year ended August 31, 2012 as follows:

- a) Expenditures incurred to advertise and promote future performances are now expensed as incurred, rather than recognized as an asset in programs in progress. Additionally, certain intangible assets are expensed as incurred and are no longer deferred to the future performances to which they relate. The total reduction in programs in progress amounted to \$1,425,000. The remaining balance of programs in progress (\$428,000) has been reclassified to prepaid expenses to more accurately reflect the nature of the asset. The net impact on the statement of operations was an increase in programming expenses of \$267,000. As a result of this adjustment, the previously stated net results of operations of (\$139,000) is restated to (\$406,000)
- b) Accounts payable and accrued liabilities previously included \$871,000 relating to the current portion of employee future benefit obligation. Under PSAS section 1201, there is no requirement to present or disclose separately the current and long-term portion of the employee future benefits liability. This amount has been reclassified to employee future benefits to more clearly state the total obligation.
- c) Under PSAS the Corporation must recognize a liability for employee compensated absences. A retrospective adjustment in the amount of \$225,000 has been made to recognize this obligation.

- d) Other comprehensive income is not recognized under public sector accounting standards applicable for government not-for-profit organizations. Consequently, restricted contributions from non-owners in the amount of \$4,571,000 has been eliminated, restricted contributions from non-owners recognized reduced by \$4,511,000, and \$60,000 has been reclassified to deferred revenue. Additionally, the balance of accumulated other comprehensive income (\$404,000) has been renamed accumulated re-measurement gains to more accurately reflect the nature of the net asset.
- e) As a result of the changes listed above, the previously reported accumulated surplus of \$31,000 has been reduced by \$1,650,000, resulting in a restated accumulated deficit of \$1,619,000.

The impact of these restatements is as follows:

For the year ended August 31, 2012
(in thousands of dollars)

		Previously reported	Transition Adjustments	Reclassification	PSAS Balance
Statement of Financial Position					
ASSETS					
Programs in progress	a)	1,853	(1,425)	(428)	-
Prepaid expenses	a)	1,274		428	1,702
LIABILITIES					
Accounts payable and Accrued liabilities	b)	8,412		(871)	7,541
Provision for employee future benefits	c)	2,534	225	871	3,630
Deferred revenue	d)	5,730	60		5,790
NET ASSETS					
Accumulated surplus (deficit)	e)	31	(1,650)		(1,619)
Accumulated other comprehensive income	d)	464	(60)	(404)	-
Accumulated re-measurement gains	d)			404	404
Statement of Operations					
Programming Expenses	a)	39,581	267		39,848
Net results of Operations	a)	(139)	(267)		(406)
Statement of Comprehensive Income					
Restricted contributions from non-owners received	d)	4,571	(60)	(4,511)	-
Restricted contributions from non-owner recognized	d)	4,511		4,511	-

The opening balance of the previous fiscal year have also been restated as follows:

September 1, 2011
(in thousands of dollars)

	Previously reported	Transition Adjustments	Reclassification	PSAS Balance
Statement of Financial Position				
ASSETS				
Programs in progress	1,813	(1,158)	(655)	-
Prepaid expenses	1,189		655	1,844
LIABILITIES				
Accounts payable and Accrued liabilities	7,040		(932)	6,108
Employee future benefits	2,299	225	932	3,456
NET ASSETS				
Accumulated surplus (deficit)	170	(1,383)		(1,213)

5. Restricted cash held for Specified Capital Projects

On November 2, 2006, the Treasury Board of Canada approved funding for health and safety upgrades and repairs to the existing facilities of the National Arts Centre. Restricted cash held for specified capital projects represents the unused portion of parliamentary appropriations received and designated for the refurbishment of certain building structures and mechanical systems within the National Arts Centre. The funds earn a combination of variable and fixed rate interest, which is recorded in investment and other revenue. Interest income is subject to fluctuation based on the bank's prime rate and term deposit rates. The funds are expected to be disbursed within the next two fiscal years. This financial instrument is classified as *held-for-trading*, and is recorded at fair value.

Changes in the fund balance are as follows:

	3 months November 30 2012
<i>(in thousands of dollars)</i>	
Balance at beginning of period	\$ 11,563
Appropriations received to fund specified capital projects	-
Appropriations invested in specified capital projects	(1,228)
Balance at end of period	\$ 10,335

6. Deferred parliamentary appropriations

Deferred appropriations represent approved parliamentary appropriations received for work to be completed in a future period. Information on deferred appropriations is as follows:

<i>(in thousands of dollars)</i>	Beginning	Received	Used	Ending
Building refurbishment	\$ 3,579	2,333	(1,443)	\$ 4,470
Programming and Operations	44	9,544	(7,132)	2,456
Specific programs	55			55
Total	\$ 3,678	11,877	(8,575)	\$ 6,981

7. Parliamentary appropriations

The Corporation receives parliamentary appropriations from the Government of Canada to support its operating and capital activities. The table below illustrates the parliamentary appropriations received during the fiscal year, and the accounting adjustments required to arrive at the calculation of revenue that conforms to public sector accounting standards.

<i>(in thousands of dollars)</i>	3 months November 30 2012	12 months August 31 2012
Main estimates amount provided for operating and capital expenditures	\$ 8,908	\$ 35,587
Supplementary estimates		150
Appropriations approved	8,908	35,737
Portion of parliamentary appropriations used (deferred) for specific projects	894	5,910
Appropriation used to purchase depreciable property, plant and equipment	(1,550)	(7,296)
Amortization of deferred capital funding	1,253	4,933
Parliamentary appropriations	\$ 9,505	\$ 39,284

8. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted this year.

Narrative Discussion

November 30, 2012

General

These quarterly financial statements have not been audited and must be read in conjunction with the most recent annual audited financial statements.

Strategic Goals

The Corporation remains committed to the fulfillment of its strategic goals published in *Performing for Canadians*:

- Artistic Excellence: Creating, producing and performing great work;
- Going National: Expanding our national role;
- The Art of Learning: Focusing on youth and education;
- Earning Our Way: Increasing our earned revenues; and
- Audiences at the Centre: Building relationships with our customers.

These strategic goals support the Corporation's legislative mandates, which are to maintain and operate the National Arts Centre (the "Centre"), to develop the performing arts in the national capital region, and to assist the Canada Council for the Arts in developing the performing arts elsewhere in Canada.

The Canada Council recognizes the role that the National Arts Centre has played and continues to play in the creation, production and distribution of the performing arts across Canada and abroad, as well as the development of individual artists.

Analysis

The Corporation presents programming in many of the performing art disciplines. The type of program, the availability of performances on specific dates, the number of performers, the scale of the program, and the complexity of the technical elements are different for each performance. In addition, each season is different from the previous one. For instance, one season's first quarter may include a full scale ballet with orchestra, while the same quarter the next season may include a small modern dance duet with recorded music and minimal sets. The Corporation's Food and Beverage Services and Parking Services are also influenced by the level of programming because of the number of patrons that the performances bring to the National Arts Centre.

The Corporation manages this normal business variability through detailed budgeting and scheduling and by the careful analysis of expenditures. For that reason, variances between quarters are to be expected, as are operating deficits early in the season. The Corporation relies on comparisons to expected revenues and expenditures to manage its financial performance.

Financial Highlights

For the three months ending November 30, 2012 the NAC realized revenues of \$16,996,000 and expenses of \$17,417,000, resulting in a deficit from operations of \$420,000. These results are in line with expectations for this period. Deficits early in the season are part of the normal cycle of the Corporation, which are typically offset by surpluses later in the year. Programming expenses were less this period as compared to the previous fiscal period due to reduced orchestra tour costs, and the biennial Festival Zone Théâtrale which took place in the previous fiscal year, and will not be presented this year.

Risks

On March 29, 2012 the Federal Government announced their budget which included \$5.2 billion in annual savings by 2014-15. As part of that budget, the NAC's Parliamentary Appropriations were reduced by \$105,000 in fiscal 2012-13, \$1,835,000 in fiscal 2013-14, and \$1,935,000 in fiscal 2014-15 (5.43%), stated on a Government March 31 fiscal year-end basis. The Corporation has an August 31 fiscal year-end.

The NAC's senior management team and the Board of Trustees have incorporated these changes into the budgetary framework. The NAC has adapted, and will continue to be an innovator and leader in the performing arts.

