

Quarterly Financial Statements of:

NATIONAL ARTS CENTRE CORPORATION

For the 3 months ended November 30, 2021

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 our 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.



Christopher Deacon

President and Chief Executive Officer



Ikram Zouari, CPA, CGA

Chief Financial Officer

31 January, 2022

National Arts Centre Corporation

Statement of Financial Position

As at November 30, 2021

(Unaudited)

	November 30 2021	August 31 2021
<i>(in thousands of dollars)</i>		
Assets		
Current		
Cash and cash equivalents (Note 4)	\$ 20,990	\$ 21,801
Restricted cash held for specified capital projects (Note 5)	726	185
Accounts receivable	3,219	5,192
Inventories	155	140
Prepaid expenses	1,679	1,630
	26,769	28,948
Investments	1,668	-
Capital assets	206,447	209,456
	\$ 234,884	\$ 238,404
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 18,601	\$ 21,868
Deferred parliamentary appropriations (Note 7)	1,992	1,685
Deferred revenue	3,411	2,225
Deferred parliamentary appropriations, specified capital projects (Note 5)	639	57
	24,643	25,835
Deferred capital funding	202,184	205,475
Long-term portion of provision for employee future benefits	2,033	2,064
	228,860	233,374
Accumulated Surplus		
Unrestricted	6,024	5,030
	\$ 234,884	\$ 238,404

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, 2021

(Unaudited)

	November 30 2021	November 30 2020 ¹
<i>(in thousands of dollars)</i>		
Revenues		
Commercial operations	\$ 1,812	\$ 946
Programming	546	123
Grant from the NAC Foundation	1,054	2,172
Other Income	69	25
Investment income	-	-
	3,481	3,266
Parliamentary appropriations (Note 8)	18,346	16,594
	21,827	19,860
Expenses (Schedule 1)		
Commercial operations	1,545	1,145
Programming	10,485	6,398
Building operations	6,649	6,823
Administration and technology	2,154	2,228
	20,833	16,594
Net results of operations	\$ 994	\$ 3,266

¹ Certain comparative figures have been reclassified to conform to the presentation adopted in the current year

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

Statement of Changes in Accumulated Surplus

For the 3 months ended November 30, 2021

(Unaudited)

	November 30 2021	November 30 2020
<i>(in thousands of dollars)</i>		
Unrestricted, beginning of the period	\$ 5,030	\$ 771
Net results of operations	994	3,266
Unrestricted, end of the period	\$ 6,024	\$ 4,037

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, 2021

(Unaudited)

<i>(in thousands of dollars)</i>		2021	2020
Operating Activities			
Net results of operations	\$	994	\$ 3,266
Items not affecting cash			
Amortization and write-down of capital assets		4,058	4,178
Amortization of deferred capital funding		(3,970)	(3 927)
Change in non-cash operating assets and liabilities		717	1 514
Change in long-term portion of provision for employee future benefits		(31)	(41)
Cash flow from (used) for operating activities		1,768	4 990
Capital Activities			
Additions to capital assets, net		(1,049)	(5,71)
Cash flow used for capital activities		(1,049)	(5,71)
Investing Activities			
(Purchase) Sale of investments		(1,668)	-
Cash flow from investment activities		(1,668)	-
Financing Activities			
Restricted cash used for specified projects		(541)	254
Parliamentary appropriations (used) received for the acquisition of capital assets		679	-
Cash flow from financing activities		138	254
Increase (decrease) in cash position		(811)	4 673
Cash and cash equivalents at beginning of period		21,801	11 486
Cash and cash equivalents at end of period	\$	20,990	\$ 16 159 \$

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

National Arts Centre Corporation

Notes to the Quarterly Financial Statements

As at November 30, 2021

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 this Act do not apply to the Corporation, except for sections 89.8 to 89.92, 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*, 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.

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. Totals may not add due to rounding.

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. Cash and Cash Equivalents

The balance held relates to:

(in thousands of dollars)

	November 30 2021	August 31 2021
Operating	\$ 4,072	\$ 10,114
Advanced ticket sales (Note 6)	11,343	8,714
Deferred revenue	3,411	777
Employee benefits	2,164	2,196
	\$ 20,990	\$ 21,801

5. Restricted cash held for Specified Capital Projects

In 2015, the Government of Canada approved funding of \$110,500,000 for Architectural Rejuvenation to improve the public spaces of the Centre. In 2016 an additional \$114,900,000 was approved for Production Renewal to modernize performance facilities.

Through its 2020 Fall Economic Statement, entitled "Supporting Canadians and Fighting COVID-19," the Government of Canada allocated \$9.5M over eleven years starting in 2021–2022 for Modernization of Digital Infrastructure.

Changes in the fund balance are as follows:

	November 30 2021	August 31 2021
(in thousands of dollars)		
Restricted cash at beginning of period	\$ 185	\$ 690
Appropriations received to fund specified capital projects (Digital Infrastructure)	585	-
Appropriations invested in specified capital projects	(44)	(505)
Restricted cash at end of period	\$ 726	\$ 185
Project related accounts payable	(87)	(128)
Deferred parliamentary appropriations, specified capital projects	\$ 639	\$ 57

6. Accounts payable and accrued liabilities

The balance consists of:

(in thousands of dollars)

	November 30 2021	August 31 2021
Advanced ticket sales	\$ 11,343	\$ 8,714
Trade payables	3,409	2,835
Accrued liabilities	3,321	9,791
Employee short term benefits	528	528
	\$ 18,601	\$ 21,868

Advanced ticket sales are monies received for future non-NAC programming.

7. 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:

	November 30 2021				August 31 2021	
	Beginning	Received	Used	Ending		
<i>(in thousands of dollars)</i>						
Building refurbishment	\$ 1,495	\$ 1,745	\$ (1,438)	\$ 1,802	\$ 1,495	
Programming and Operations	-	12,934	(12,934)	-	-	
Special Programs	190	-	-	190	190	
Total	\$ 1,685	\$ 14,679	\$ (14,372)	\$ 1,992	\$ 1,685	

8. 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.

	November 30 2021	November 30 2020
<i>(in thousands of dollars)</i>		
Appropriations received and receivable:		
Main estimates amount provided for operating and capital expenditures	\$ 14,744	\$ 12,939
Supplementary estimates	585	-
Appropriations approved	15,329	12,939
Previous year's appropriations used in current year to complete specific projects	-	48
Appropriation used to purchase depreciable capital assets	(957)	(571)
Deferred capital funding – amortization and write down	3,974	4,178
Parliamentary appropriations	\$ 18,346	\$ 16,594

National Arts Centre Corporation

Schedule of expenses

For the 3 months ended November 30, 2021

(Unaudited)

	November 30 2021	November 30 2020
<i>(in thousands of dollars)</i>		
Salaries and benefits	\$ 8,419	\$ 6,617
Amortization and write down of capital assets	4,058	4,178
National Arts Centre Orchestra fees	1,798	1,686
Artistic fees	3,094	1,113
Maintenance and repairs	509	691
Payments to municipalities	533	511
Utilities	380	480
Insurance	141	400
Professional fees	369	273
Advertising	535	178
Cost of sales	268	102
Equipment rental	137	74
Telecommunications	54	68
Supplies	76	46
Promotion	94	38
Production	97	37
Service charges	69	36
Office	43	26
Rental of facilities	24	12
Education and training	12	9
Board	29	9
Staff travel	89	8
Miscellaneous	4	2
In-kind contributions of goods and services	-	-
	\$ 20,833	\$ 16,594

National Arts Centre Corporation

Narrative Discussion

Objects of Corporation

The NAC is governed by the National Arts Centre Act, which defines its mandate as follows: 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. As a Crown Corporation, the NAC reports to Parliament through the Minister of Canadian Heritage.

In furtherance of its objects as defined in the NAC Act, but without limiting the generality of subsection (1), of its objects the Corporation may:

- (a) arrange for and sponsor performing arts activities at the Centre;
- (b) encourage and assist in the development of performing arts companies resident at the Centre;
- (c) arrange for or sponsor radio and television broadcasts from the Centre and the showing of films in the Centre;
- (d) provide accommodation at the Centre, on such terms and conditions as the Corporation may fix, for national and local organizations the objects of which include the development and encouragement of the performing arts in Canada; and
- (e) 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.

Strategic Goals

To fulfil its mandate to operate and maintain the Centre and develop and present the performing arts, the Corporation is guided by strategic priorities.

The Corporation's 2020-2023 priorities and commitments are detailed in the *The Next Act*, its current strategic plan focusing on four pillars:

- Support renewal through dynamic artistic leadership
- Build community through expanded engagement
- Foster long-term resiliency through learning and innovation
- Maximize impact through operational sustainability

Analysis

The Corporation is a bilingual multi-disciplinary Centre for the performing arts. It presents, creates, produces and co-produces performing arts programming in various streams — the NAC Orchestra, Dance, English Theatre, French Theatre, Indigenous Theatre, and Popular Music and Variety. 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. The Corporation relies on comparisons to expected revenues and expenditures to manage its financial performance.

Financial Highlights

Revenue

Revenue for the three-month period ended November 30, 2021, amounted to \$3.5 million, an increase of \$0.2 million compared to \$3.3 million for the three month period of the previous year. The increase is mainly due to a planned reduction in the grant from the National Art Centre Foundation, offset by higher commercial and programming revenue as pandemic restrictions ease.

On an accrual basis, parliamentary appropriations for the three-month period ended November 30, 2021, amounted to \$18.3 million compared to \$16.6 million for the three-month period of the previous year. The difference is due to timing of appropriations recognition.

Expenses

Expenses for the three-month period ended November 30, 2021, amounted to \$20.8 million, an increase of \$4.4 million compared to \$16.5 million for the three-month period of the previous year. The increase is mainly due to the gradual return to operations and increased fall programming compared to the corresponding previous period.

Net Results of Operations

The net results of operations for the three-month period ended November 30, 2021 was a surplus of \$1.0 million. The surplus is mainly attributable to the gradual return to operations.

Statement of Financial Position

Assets

The level of cash and cash equivalents of \$21.0 million as at November 30, 2021, represents a decrease from the August 31, 2021, level of \$21.8 million. This decrease is mainly due to timing differences in payment of accounts payable and higher advanced ticket sales and deferred revenue associated with programming.

Accounts receivables of \$3.2 million as at November 30, 2021, represents a decrease from the August 31, 2021, level of \$5.2 million. This decrease is mainly due to timing differences in project progress payments.

Capital assets decreased to \$206.5 million as at November 30, 2021, from \$209.5 million as at August 31, 2021, mainly due to amortization expense of \$4.1 million offset by capital assets acquisitions of \$1.0 million.

Liabilities

Accounts payable and accrued liabilities decreased by \$3.3 million to \$18.6 million as at November 30, 2021, compared to \$21.9 million as at August 31, 2021. This decrease is mainly due to higher advanced ticket sales offset by lower accrued liabilities compared to August 31, 2021 level.

Deferred revenue increased by \$3.4 million to as at November 31, 2021, compared to \$2.2 million as at August 31, 2021. This increase of \$1.2 million is mainly due to increased fall programming.

Accumulated surplus

Accumulated surplus as at November 30, 2021 is \$6.0 million. This is an increase due to the net result of operations surplus of \$1.0 million.

The National Arts Centre operates in a very challenging context and follows COVID-19 measures set by all level of governments. It is currently slowly reopening to live and recorded performances, within the current Government of Ontario guidelines. The extension of limited operations and continued restrictions has resulted in a significant reduction in both revenues and various expenses, as compared to previous years. There may also be a negative impact on the values of assets including investments, accounts receivable, inventory and prepaid expenses as well as some liabilities. As the situation extends and evolves, the full financial impact of the disruption is not yet fully known. According to national surveys, the performing arts and live entertainment sector will be one of the hardest hit and amongst the last ones to recover. Regular operations and return of audience and artists will only gradually come back depending on vaccine roll out, permitted hall capacity and additional provincial regulations.

Risks

The Corporation's Corporate Risk Profile identifies five risks and their related mitigation strategies. The mitigation step involves the identification of strategies designed to manage, eliminate or reduce risk to an acceptable level.

1. COVID-19 as a Transformational Event – The Corporation might not be prepared to address the potentially transformational impacts of COVID-19 over the long run. This risk is mitigated by the implementation of policies and procedures in response to evolving public health advice, continuous review of revenue and expenditure planning, and tracking of responses from audiences and stakeholders.
2. Uncertain Financial Environment – The Corporation may not have an appropriate funding model to navigate through the changing environment. This risk is mitigated by ongoing dialogue around long-term sustainable funding, exploring additional opportunities for revenue generation through unconventional models, transformation of audience development approaches, and the gradual increase of programming traditional revenue-generating performances over time.
3. Equity, Diversity and Inclusion – The Corporation may not be able to effectively deliver on Equity, Diversity and Inclusion engagements. This risk is mitigated by an audit of Equity, Diversity and Inclusion (EDI) practices within the Corporation, developing a strategy and prioritized action plan throughout the Corporation, and monitoring the results on an ongoing basis.
4. Human Capital – The Corporation might not have sufficient human resources with the necessary skills and/or training to effectively support this transformational period. This risk is mitigated by working with collective bargaining units, by adopting new recruitment strategies to diversify the workforce, by ensuring training of staff and providing professional development opportunities, and by engaging with new and diverse companies or communities across the country to obtain support and help with productions.
5. Programming – The Corporation may be unable to regain both its artistic programming integrity and re-engage its audience through relevance within its community. This risk is mitigated by monitoring the results of surveys to track the responses of audiences and stakeholders, working with artists and arts companies from Equity-Seeking Groups to deliver more representative and relevant programming, and by ensuring digital experiences and online content find diverse audiences.