

Quarterly Financial Statements of

NATIONAL ARTS CENTRE CORPORATION

For the six-months ended February 28, 2022

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

March 31, 2022

National Arts Centre Corporation

Statement of Financial Position

As at February 28, 2022
(Unaudited)

| | February 28 2022 | August 31 2021 |
|--|---------------------|-------------------|
| <i>(in thousands of dollars)</i> | | |
| Assets | | |
| Current | | |
| Cash and cash equivalents (Note 4) | \$ 32,655 | \$ 21,801 |
| Restricted cash held for specified capital projects (Note 5) | 1,224 | 185 |
| Accounts receivable | 4,737 | 5,192 |
| Inventories | 169 | 140 |
| Prepaid expenses | 1,172 | 1,630 |
| | 39,957 | 28,948 |
| Investments (Note 4) | 1,666 | - |
| Capital assets | 204,886 | 209,456 |
| | \$ 246,509 | \$ 238,404 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities (Note 6) | \$ 19,629 | \$ 21,868 |
| Deferred parliamentary appropriations (Note 7) | 2,530 | 1,685 |
| Deferred revenue | 2,777 | 2,225 |
| Deferred parliamentary appropriations, specified capital projects (Note 5) | 1,224 | 57 |
| | 26,160 | 25,835 |
| Deferred capital funding (Note 8) | 200,285 | 205,475 |
| Long-term portion of provision for employee future benefits | 2,013 | 2,064 |
| | 228,458 | 233,374 |
| Accumulated Surplus | | |
| Unrestricted | 18,051 | 5,030 |
| | \$ 246,509 | \$ 238,404 |

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

National Arts Centre Corporation

Statement of Operations

For the three- and six-months ended February 28

(Unaudited)

| | Three month period ended | | Six month period ended | |
|---------------------------------------|--------------------------|----------------------------------|------------------------|----------------------------------|
| | February 28 2022 | February 28 2021 ¹ | February 28 2022 | February 28 2021 ¹ |
| <i>(in thousands of dollars)</i> | | | | |
| Revenues | | | | |
| Commercial operations | \$ 1,235 | \$ 623 | \$ 3,047 | \$ 1,569 |
| Programming | 1,198 | 202 | 1,744 | 325 |
| Grant from the NAC Foundation | 1,146 | 2,402 | 2,200 | 4,574 |
| Other Income | 129 | 33 | 198 | 58 |
| Investment income | - | - | - | - |
| | 3,708 | 3,260 | 7,189 | 6,526 |
| Parliamentary appropriations (Note 9) | 28,246 | 15,227 | 46,592 | 31,821 |
| | 31,954 | 18,487 | 53,781 | 38,347 |
| Expenses (Note 10) | | | | |
| Commercial operations | 1,138 | 628 | 2,683 | 1,773 |
| Programming | 9,680 | 9,069 | 20,165 | 16,969 |
| Building operations | 7,282 | 5,776 | 13,931 | 11,097 |
| Administration and technology | 1,827 | 2,022 | 3,981 | 4,250 |
| | 19,927 | 17,495 | 40,760 | 34,089 |
| Net results of operations | \$ 12,027 | \$ 992 | \$ 13,021 | \$ 4,258 |

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 three- and six-months ended February 28

(Unaudited)

| | Three month period ended | | Six month period ended | |
|--|--------------------------|---------------------|------------------------|---------------------|
| | February 28 2022 | February 28 2021 | February 28 2022 | February 28 2021 |
| <i>(in thousands of dollars)</i> | | | | |
| Unrestricted, beginning of the period | \$ 6,024 | \$ 4,037 | \$ 5,030 | \$ 771 |
| Net results of operations | 12,027 | 992 | 13,021 | 4,258 |
| Unrestricted, end of the period | \$ 18,051 | \$ 5,029 | \$ 18,051 | \$ 5,029 |

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

National Arts Centre Corporation

Statement of Cash Flows

For the six-months ended February 28

(Unaudited)

| <i>(in thousands of dollars)</i> | | 2022 | 2021 |
|--|----|----------------|------------------|
| Operating Activities | | | |
| Net results of operations | \$ | 13,021 | \$ 4,258 |
| Items not affecting cash | | | |
| Amortization and write-down of capital assets | | 8,285 | 8,641 |
| Amortization of deferred capital funding | | (8,108) | (7,955) |
| Change in non-cash operating assets and liabilities | | 1,209 | 732 |
| Change in long-term portion of provision for employee future benefits | | (51) | 14 |
| Cash flow from for operating activities | | 14,356 | 5,690 |
| Capital Activities | | | |
| Additions to capital assets, net | | (3,715) | (1,058) |
| Cash flow used for capital activities | | (3,715) | (1,058) |
| Investing Activities | | | |
| Purchase of investments | | (1,666) | - |
| Cash flow used for investment activities | | (1,666) | - |
| Financing Activities | | | |
| Restricted cash used for specified projects | | (1,039) | 341 |
| Parliamentary appropriations (used) received for the acquisition of capital assets | | 2,918 | - |
| Cash flow from financing activities | | 1,879 | 341 |
| Increase in cash position | | 10,854 | 4,973 |
| Cash and cash equivalents at beginning of period | | 21,801 | 11,486 |
| Cash and cash equivalents at end of period | \$ | 32,655 | \$ 16,459 |

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

National Arts Centre Corporation

Notes to the Quarterly Financial Statements (Unaudited)

As at February 28, 2022

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 & Investment

| The balance held relates to: <i>(in thousands of dollars)</i> | February 28 2022 | August 31 2021 |
|--|---------------------|-------------------|
| Operating | \$ 18,812 | \$ 10,114 |
| Advanced ticket sales (Note 6) | 12,286 | 8,714 |
| Deferred revenue | 1,029 | 777 |
| Employee benefits | 528 | 2,196 |
| Cash and Cash Equivalent at end of period | \$ 32,655 | \$ 21,801 |
| Investments | \$ 1,666 | \$ - |
| Cash and Cash Equivalents and Investment | \$ 34,321 | \$ 21,801 |

Investments are monies held for the long-term provision of employee severance; previously reported as employee benefits.

5. Restricted cash held for Specified Capital Projects

In 2020, through the Government of Canada 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:

| <i>(in thousands of dollars)</i> | February 28 2022 | August 31 2021 |
|---|---------------------|-------------------|
| Restricted cash at beginning of period | \$ 185 | \$ 690 |
| Appropriations received to fund specified capital projects (Digital Infrastructure) | 1,171 | - |
| Appropriations invested in specified capital projects | (132) | (505) |
| Restricted cash at end of period | \$ 1,224 | \$ 185 |
| Project related accounts payable | - | (128) |
| Deferred parliamentary appropriations, specified capital projects | \$ 1,224 | \$ 57 |

6. Accounts payable and accrued liabilities

| The balance consists of: <i>(in thousands of dollars)</i> | February 28 2022 | August 31 2021 |
|--|---------------------|-------------------|
| Advanced ticket sales | \$ 12,286 | \$ 8,714 |
| Trade payables | 581 | 2,835 |
| Accrued liabilities | 6,234 | 9,791 |
| Employee short term benefits | 528 | 528 |
| | \$ 19,629 | \$ 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:

| | February 28 2022 | | | | August 31 2021 |
|----------------------------------|---------------------|------------------|--------------------|-----------------|-------------------|
| <i>(in thousands of dollars)</i> | Beginning | Received | Used | Ending | |
| Building refurbishment | \$ 1,495 | \$ 4,000 | \$ (2,965) | \$ 2,530 | \$ 1,495 |
| Programming and Operations | - | 35,290 | (35,290) | - | - |
| Special Programs | 190 | - | (190) | - | 190 |
| Total | \$ 1,685 | \$ 39,290 | \$ (38,445) | \$ 2,530 | \$ 1,685 |

8. Deferred capital funding

Deferred capital funding represents the unamortized portion of parliamentary appropriations used to purchase depreciable capital assets. Information on deferred capital funding is as follows:

| | February 28 2022 | | | | August 31 2021 |
|--|---------------------|-----------------|-------------------|-------------------|-------------------|
| <i>(in thousands of dollars)</i> | Beginning | Received | Used | Ending | |
| Balance at beginning of year | \$ 197,930 | \$ - | \$ - | \$ 197,930 | \$ 218,824 |
| Appropriations used to purchase depreciable capital assets | - | - | 84 | 84 | 1,218 |
| Recognition of deferred capital funding | - | - | (8,049) | (8,049) | (22,112) |
| Deferred ESAP funding | 7,545 | 2,953 | (178) | 10,320 | 7,545 |
| Total | \$ 205,475 | \$ 2,953 | \$ (8,143) | \$ 200,285 | \$ 205,475 |

9. 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> | February 28 2022 | February 28 2021 |
|---|-----------------------------|-----------------------------|
| Appropriations received and receivable: | | |
| Main estimates amount provided for operating and capital expenditures | \$ 25,240 | \$ 19,348 |
| Digital Infrastructure | 1,171 | - |
| Supplementary estimates | 2,583 | 190 |
| Statutory COVID 19 | 11,467 | 5,200 |
| Appropriations approved | 40,461 | 24,738 |
| Portion of parliamentary appropriations received in current year deferred for building refurbishment or specific projects | (3,701) | (4,662) |
| Previous year's appropriations used in current year to complete specific projects | 1,685 | 3,441 |
| Appropriation used to purchase depreciable capital assets | 98 | (236) |
| Deferred capital funding – amortization and write down | 8,049 | 8,540 |
| Parliamentary appropriations | \$ 46,592 | \$ 31,821 |

10. Schedule of expenses

For the six- months ended February 28

| <i>(in thousands of dollars)</i> | February 28 2022 | February 28 2021 |
|---|---------------------|---------------------|
| Salaries and benefits | \$ 15,695 | \$ 13,109 |
| Amortization and write down of capital assets | 8,374 | 8,641 |
| Artistic fees | 5,870 | 2,985 |
| National Arts Centre Orchestra fees | 3,650 | 3,521 |
| Utilities | 1,171 | 1,270 |
| Payments to municipalities | 1,073 | 1,032 |
| Advertising | 1,047 | 427 |
| Maintenance and repairs | 971 | 1,238 |
| Professional fees | 891 | 600 |
| Cost of sales | 401 | 108 |
| Insurance | 279 | 440 |
| Equipment rental | 215 | 133 |
| Staff travel | 180 | 5 |
| Production | 178 | 62 |
| Supplies | 155 | 78 |
| Service charges | 151 | 84 |
| Promotion | 119 | 77 |
| Telecommunications | 109 | 123 |
| Office | 63 | 51 |
| Board | 49 | 51 |
| Education and training | 48 | 28 |
| Rental of facilities | 42 | 23 |
| Miscellaneous | 29 | 3 |
| In-kind contributions of goods and services | - | - |
| | \$ 40,760 | \$ 34,089 |

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:

1. Support renewal through dynamic artistic leadership
2. Build community through expanded engagement
3. Foster long-term resiliency through learning and innovation
4. 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 six-month period ended February 28, 2022 amounted to \$7.2 million, an increase of \$0.7 million compared to \$6.5 million for the six-month period of the previous year. The increase is mainly due to a higher commercial and programming revenue as pandemic restrictions ease offset by a planned reduction in the grant from the National Art Centre Foundation.

Revenue for the three-month period ended February 28, 2022 amounted to \$3.7 million, an increase of \$0.5 million compared to \$3.3 million for the three-month period of the previous year. The increase is mainly due to a higher commercial and programming revenue as pandemic restrictions ease offset by a planned reduction in the grant from the National Art Centre Foundation.

On an accrual basis, parliamentary appropriations for the six-month period ended February 28, 2022, amounted to \$46.6 million compared to \$31.8 million for the six-month period of the previous year. The difference is due to timing of appropriations recognition.

On an accrual basis, parliamentary appropriations for the three-month period ended February 28, 2022, amounted to \$28.3 million compared to \$15.2 million for the six-month period of the previous year. The difference is due to timing of appropriations recognition.

Expenses

Expenses for the six-month period ended February 28, 2022, amounted to \$40.8 million, an increase of \$6.7 million compared to \$34.1 million for the six-month period of the previous year. The increase is mainly due to the gradual return to operations and increased programming compared to the corresponding previous period.

Expenses for the three-month period ended February 28, 2022, amounted to \$19.9 million, an increase of \$2.4 million compared to \$17.5 million for the three-month period of the previous year. The increase is mainly due to the gradual return to operations and increased programming compared to the corresponding previous period.

Net Results of Operations

The net results of operations for the six-month period ended February 28, 2022, was a surplus of \$13.0 million. The surplus is mainly attributable to the timing of appropriations recognition and, the postponement of Q2 21-2022 programming to Q3 21-2022 resulted of gathering restrictions and downtown Ottawa closures.

Statement of Financial Position

Assets

The level of cash and cash equivalents of \$32.7 million as at February 28, 2022, represents an increase from the August 31, 2021, level of \$10.9 million. This increase is mainly due to timing of parliamentary appropriations, higher advanced ticket sales and deferred revenue associated with programming offset by the purchase of investment and timing differences in payment of accounts payable.

Accounts receivables of \$4.7 million as at February 28, 2022 represents a decrease from the August 31, 2021, level of \$0.5 million. This decrease is mainly due to timing differences in project progress payments and settlement of NAC Foundation grant.

Capital assets decreased to \$204.9 million as at February 28, 2022 from \$209.5 million as at August 31, 2021, mainly due to amortization and write-down expense of \$8.4 million offset by capital assets acquisitions of \$3.7 million.

Liabilities

Accounts payable and accrued liabilities decreased by \$2.2 million to \$19.6 million as at February 28, 2022, compared to \$21.9 million as at August 31, 2021. This decrease is mainly due to lower accrued liabilities and trade payables. Which was partially offset by higher advanced ticket sales compared to August 31, 2021 level.

Deferred revenue increased to \$2.8 million as at February 28, 2022, compared to \$2.2 million as at August 31, 2021. This increase of \$0.6 million is mainly due to increased programming.

Accumulated surplus

Accumulated surplus as at February 28, 2022 is \$18.1 million. This is an increase due to the net result of operations surplus of \$13.0 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.