Quarterly Financial Statements of

NATIONAL ARTS CENTRE CORPORATION

For the six-months ended February 28, 2023

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

April 6, 2023

National Arts Centre Corporation

Statement of Financial Position

As at February 28, 2023

(Unaudited)

(in thousands of dollars)		February 28 2023		August 31 2022
Assets				
Current				
Cash and cash equivalents (Note 4)	$	30,570	$	21,577
Restricted cash held for specified capital projects (Note 5)		2,593		1,575
Investments		229		214
Accounts receivable		7,269		10,298
Inventories		172		195
Prepaid expenses		1,297		1,778
		42,131		**35,637**
Investments		804		804
Capital assets		197,467		201,269
	$	**240,402**	**$**	**237,710**
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 6)	$	13,759	$	17,680
Deferred parliamentary appropriations (Note 7)		2,139		2,575
Deferred revenue		3,391		3,932
Deferred parliamentary appropriations, specified capital projects (Note 5)		2,528		1,387
		21,816		**25,574**
Deferred capital funding (Note 8)		193,207		196,499
Long-term portion of provision for employee future benefits		1,737		1,945
		216,760		**224,018**
Accumulated Surplus				
Unrestricted		**23,642**		**13,692**
	$	**240,402**	**$**	**237,710**

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)

(in thousands of dollars)	Three month period ended February 28 2023	Three month period ended February 28 2022 [1]	Six month period ended February 28 2023	Six month period ended February 28 2022 [1]
Revenues				
Commercial operations	$ 4,165	$ 1,244	$ 9,344	$ 3,064
Programming	3,705	1,259	5,774	1,832
Grant from the NAC Foundation	798	1,146	4,054	2,200
Other Income	363	59	555	93
Investment income	13	-	22	-
	9,044	**3,708**	**19,749**	**7,189**
Parliamentary appropriations (Note 9)	22,708	28,246	41,844	46,592
	31,752	**31,954**	**61,593**	**53,781**
Expenses (Note 10)				
Commercial operations	2,444	1,245	5,249	2,896
Programming	15,174	11,242	30,412	23,288
Building operations	5,280	5,596	11,208	10,559
Administration and technology	2,091	1,844	4,774	4,017
	24,988	**19,927**	**51,643**	**40,760**
Net results of operations	**$ 6,763**	**$ 12,027**	**$ 9,950**	**$ 13,021**

[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)

(in thousands of dollars)	Three month period ended February 28 2023	Three month period ended February 28 2022	Six month period ended February 28 2023	Six month period ended February 28 2022
Unrestricted, beginning of the period	$ 16,879	$ 6,024	$ 13,692	$ 5,030
Net results of operations	6,763	12,027	9,950	13,021
Unrestricted, end of the period	**$ 23,642**	**$ 18,051**	**$ 23,642**	**$ 18,051**

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

Statement of Cash Flows

For the six-months ended February 28

(Unaudited)

(in thousands of dollars)		February 28 2023		February 28 2022 [1]
Operating Activities				
Net results of operations	$	9,950	$	13,021
Items not affecting cash				
Amortization of capital assets		7,200		8,101
Amortization of deferred capital funding		(7,119)		(8,108)
Loss on disposal of capital assets		100		184
Change in non-cash operating assets and liabilities		(240)		1,209
Change in long-term portion of provision for employee future benefits		(208)		(51)
Cash flow from for operating activities		**9,683**		**14,356**
Capital Activities				
Additions to capital assets, net		(3,498)		(3,715)
Cash flow used for capital activities		**(3,498)**		**(3,715)**
Investing Activities				
Purchase of investments		-		(1,666)
Cash flow used for investment activities		**-**		**(1,666)**
Financing Activities				
Restricted cash used (received) for specified projects		(1,018)		(1,039)
Parliamentary appropriations used for the acquisition of capital assets		3,827		2,918
Cash flow from financing activities		**2,809**		**1,879**
Increase in cash position		8,993		10,854
Cash and cash equivalents at beginning of period		21,577		21,801
Cash and cash equivalents at end of period	**$**	**30,570**	**$**	**32,655**

[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.

National Arts Centre Corporation

Notes to the Quarterly Financial Statements
(Unaudited)

As at February 28, 2023

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 His 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)		February 28 2023		August 31 2022
Operating	$	23,167	$	12,811
Advanced ticket sales (Note 6)		4,411		5,385
Deferred revenue		1,775		2,285
Employee benefits		1,217		1,096
Balance at end of period	**$**	**30,570**	**$**	**21,577**

5. Restricted cash held for specified capital projects and deferred parliamentary appropriations, specified capital projects

In 2020, 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:

(in thousands of dollars)		February 28 2023		August 31 2022 [1]
Restricted cash at beginning of period	$	1,575	$	185
Appropriations received to fund specified capital projects		2,720		2,382
Appropriations invested in specified capital projects		(1,702)		(992)
Restricted cash held for specified capital project balance at end of period	**$**	**2,593**	**$**	**1,575**
Project related accounts payable		(65)		(188)
Deferred parliamentary appropriations, specified capital projects balance at end of period	**$**	**2,528**	**$**	**1,387**

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

6. Accounts payable and accrued liabilities

The balance consists of:

(in thousands of dollars)		February 28 2023		August 31 2022 [1]
Advanced ticket sales (Note 4)	$	4,411	$	5,385
Trade payables		3,610		7,510
Accrued liabilities		5,173		4,220
Employee benefits (short term)		565		565
Balance at end of period	**$**	**13,759**	**$**	**17,680**

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

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

7. Deferred parliamentary appropriations

Deferred parliamentary appropriations represent approved parliamentary appropriations received in advance of the period they were intended to cover, or for building refurbishment or specific programs, as follows:

(in thousands of dollars)	Building Refurbishment	Specific Programs	February 28 2023 Total	August 31 2022 Total
Balance at beginning of period	$ 2,575	$ -	**$ 2,575**	$ 1,685
Appropriations received	3,501	190	**3,691**	7,583
Appropriations used	(4,127)	-	**(4,127)**	(6,693)
Balance at end of period	**$ 1,949**	**$ 190**	**$ 2,139**	**$ 2,575**

8. Deferred capital funding

Deferred capital funding represents the unamortized portion of parliamentary appropriations used to purchase depreciable capital assets. Changes in the deferred capital funding balance are as follows:

(in thousands of dollars)	February 28 2023	August 31 2022
Balance at beginning of period	$ 196,499	$ 205,475
Appropriations used to purchase depreciable capital assets	2,286	1,078
Recognition of deferred capital funding	(7,119)	(15,961)
Deferred ESAP funding	1,541	5,907
Balance at end of period	**$ 193,207**	**$ 196,499**

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.

(in thousands of dollars)	February 28 2023	February 28 2022
Appropriations received and receivable:		
Main estimates amount provided for operating and capital expenditures	$ 27,004	$ 25,240
Supplementary estimates	7,990	2,583
Specified Capital Project (s)	2,720	1,171
Statutory COVID 19	-	11,467
Appropriations approved	**37,714**	**40,461**
Portion of parliamentary appropriations received in current year deferred for building refurbishment or specific projects (Note 5 and 7)	(4,853)	(3,701)
Previous year's appropriations used in current year to complete specific projects (Note 5 and 7)	4,150	1,685
Appropriation used to purchase depreciable capital assets (Note 8)	(2,286)	98
Deferred capital funding – amortization and write down (Note 8)	7,119	8,049
Parliamentary appropriations	**$ 41,844**	**$ 46,592**

10. Summary of expenses by object

For the six-months ended February 28, 2023

(Unaudited)

(in thousands of dollars)	February 28 2023	February 28 2022[1]
Salaries and benefits	$ 20,912	$ 15,695
Artistic fees	9,498	5,870
Amortization of capital assets	7,200	8,101
National Arts Centre Orchestra fees	3,633	3,650
Advertising	1,528	1,047
Maintenance and repairs	1,525	971
Utilities	1,357	1,171
Payments to municipalities	1,089	1,073
Cost of sales	1,063	401
Professional fees	1,001	891
Production	586	178
Service charges	399	151
Insurance	313	279
Promotion	313	119
Staff travel	244	180
Equipment rental	209	215
Supplies	208	155
Telecommunications	128	109
Loss on disposal of capital assets	100	273
Board	97	49
Office	88	63
Education and training	70	48
Rental of facilities	30	42
In-kind contributions of goods and services	27	-
Miscellaneous	25	29
	$ 51,643	**$ 40,760**

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

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 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; and
4. Maximize impact through operational sustainability.

The NAC is also guided by five values — Inclusion, Creativity, Generosity, Sustainability and Engagement.

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

The National Arts Centre operates in a very challenging context. The Centre is gradually returning to full capacity by offering live performances and welcoming back patrons. The NAC continues to offer online streaming in addition to resuming in-person performances. According to national surveys, the performing arts and live entertainment sector is one of the hardest hit and amongst the last ones to recover.

The return to normal operations, post pandemic, has significantly impacted the NAC's expenses by increasing many areas of expenses, including scheduling of part-time and contractual workers, and increasing programming, building maintenance, office overhead and artistic travel.

The NAC has been entrepreneurial reallocating resources internally while developing new programming streams, diversifying artistic programming, engaging new audiences, and investing in the arts across Canada through co-productions. In addition, developing new revenue streams through philanthropy and sponsorships through the fundraising activities of the NAC Foundation.

Revenue

Revenue for the six-month period ended February 28, 2023, amounted to $19.7 million, an increase of $12.5 million compared to $7.2 million for the six-month period of the previous year. The increase is mainly due to a higher commercial and programming revenue as the Centre has gradually returned to normal operations, post pandemic, in addition to a planned increase in the grant from the National Art Centre Foundation.

Revenue for the three-month period ended February 28, 2023, amounted to $9.0 million, an increase of $5.3 million compared to $3.7 million for the three-month period of the previous year. The increase is mainly due to higher commercial and programming revenue as the Centre has gradually returned to normal operations, post pandemic.

On an accrual basis, parliamentary appropriations for the six-month period ended February 28, 2023, amounted to $41.8 million compared to $46.6 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, 2023, amounted to $22.7 million compared to $28.2 million for the three-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, 2023, amounted to $51.6 million, an increase of $10.8 million compared to $40.8 million for the six-month period of the previous year. The increase is mainly due the Centre's gradual return to full capacity and additional spending related to *Un. Deux. Trois, Fall on Your Knees* and *The Breathing Hole* production covered by the National Art Centre Foundation grant.

Expenses for the three-month period ended February 28, 2023, amounted to $25.0 million, an increase of $5.1 million compared to $19.9 million for the three-month period of the previous year. The increase is mainly due the Centre's gradual return to full capacity.

Net Results of Operations

The net results of operations for the six-month period ended February 28, 2023, was a surplus of $10.0 million. The surplus is mainly attributable to a higher than planned commercial revenue and timing of appropriations recognition.

Statement of Financial Position

Assets

The level of cash and cash equivalents of $30.6 million as at February 28, 2023, represents an increase of $9.0 million from the August 31, 2022, level of $21.6 million. This increase is mainly due to timing of operating and capital parliamentary appropriations, higher than planned commercial revenue partially offset by timing of capital asset purchases and payment of accounts payable and accrued liabilities.

Accounts receivables of $7.3 million as at February 28, 2023, represents a decrease of $3.0 million from the August 31, 2022, level of $10.3 million. This decrease is due to settlement of NAC Foundation grant.

Capital assets decreased to $197.5 million as at February 28, 2023, from $201.3 million as at August 31, 2022, due to amortization and write-down expense of $7.3 million offset by capital assets acquisitions of $3.5 million.

Liabilities

Accounts payable and accrued liabilities decreased by $3.9 million to $13.8 million as at February 28, 2023, compared to $17.7 million as at August 31, 2022. This decrease is mainly due to payment of accounts payable and accrued liabilities and lower advanced ticket sales compared to August 31, 2022, level.

Deferred revenue decreased to $3.4 million as at February 28, 2023, compared to $3.9 million as at August 31, 2022. This decrease of $0.5 million is due to lower advanced ticket sales which fluctuate based on planned programming.

Accumulated surplus

Accumulated surplus as at February 28, 2023, is $23.6 million. This is an increase due to the net result of operations surplus of $10.0 million.

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.