

Quarterly Financial Statements of

NATIONAL ARTS CENTRE CORPORATION

For the nine-months ended May 31, 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

July 7, 2023

National Arts Centre Corporation

Statement of Financial Position

As at May 31, 2023

(Unaudited)

	May 31 2023	August 31 2022
<i>(in thousands of dollars)</i>		
Assets		
Current		
Cash and cash equivalents (Note 4)	\$ 30,844	\$ 21,577
Restricted cash held for specified capital projects (Note 5)	1,435	1,575
Investments	991	214
Accounts receivable	10,143	10,298
Inventories	155	195
Prepaid expenses	2,237	1,778
	45,805	35,637
Investments	704	804
Capital assets	195,988	201,269
	\$ 242,497	\$ 237,710
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 11,731	\$ 17,680
Deferred parliamentary appropriations (Note 7)	2,650	2,575
Deferred revenue	3,930	3,932
Deferred parliamentary appropriations, specified capital projects (Note 5)	1,435	1,387
	19,746	25,574
Deferred capital funding (Note 8)	191,779	196,499
Long-term portion of provision for employee future benefits	1,737	1,945
	213,262	224,018
Accumulated Surplus		
Unrestricted	29,235	13,692
	\$ 242,497	\$ 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 nine-months ended May 31

(Unaudited)

	Three month period ended		Nine month period ended	
	May 31 2023	May 31 2022 ¹	May 31 2023	May 31 2022 ¹
<i>(in thousands of dollars)</i>				
Revenues				
Commercial operations	\$ 5,028	\$ 3,151	\$ 14,372	\$ 6,213
Programming	2,490	1,165	8,264	2,997
Grant from the NAC Foundation	2,449	945	6,503	3,145
Other income	424	83	979	176
Investment income	17	5	39	5
	10,408	5,349	30,157	12,536
Parliamentary appropriations (Note 9)	21,484	17,826	63,328	64,419
	31,892	23,175	93,485	76,955
Expenses (Note 10)				
Commercial operations	3,056	2,171	8,305	5,066
Programming	15,045	14,665	45,457	37,953
Building operations	5,426	5,273	16,634	15,832
Administration and technology	2,772	2,443	7,546	6,460
	26,299	24,552	77,942	65,311
Net results of operations	\$ 5,593	\$ (1,377)	\$ 15,543	\$ 11,644

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 nine-months ended May 31

(Unaudited)

	Three month period ended		Nine month period ended	
	May 31 2023	May 31 2022	May 31 2023	May 31 2022
<i>(in thousands of dollars)</i>				
Unrestricted, beginning of the period	\$ 23,642	\$ 18,051	\$ 13,692	\$ 5,030
Net results of operations	5,593	(1,377)	15,543	11,644
Unrestricted, end of the period	\$ 29,235	\$ 16,674	\$ 29,235	\$ 16,674

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

National Arts Centre Corporation

Statement of Cash Flows

For the nine-months ended May 31

(Unaudited)

	May 31 2023	May 31 2022 ¹
<i>(in thousands of dollars)</i>		
Operating Activities		
Net results of operations	\$ 15,543	\$ 11,644
Items not affecting cash		
Amortization of capital assets	10,763	12,149
Amortization of deferred capital funding	(10,592)	(12,155)
Loss on disposal of capital assets	100	273
Change in non-cash operating assets and liabilities	(6,103)	1,687
Change in long-term portion of provision for employee future benefits	(208)	(65)
Cash flow from for operating activities	9,503	13,533
Capital Activities		
Additions to capital assets, net	(5,582)	(5,282)
Cash flow used for capital activities	(5,582)	(5,282)
Investing Activities		
Purchase of investments	(875)	(1,665)
Sale of investments	209	-
Cash flow used for investment activities	(666)	(1,665)
Financing Activities		
Restricted cash used (received) for specified projects	140	(870)
Parliamentary appropriations used for the acquisition of capital assets	5,872	4,878
Cash flow from financing activities	6,012	4,008
Increase in cash position	9,267	10,594
Cash and cash equivalents at beginning of period	21,577	21,801
Cash and cash equivalents at end of period	\$ 30,844	\$ 32,395

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 May 31, 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:

<i>(in thousands of dollars)</i>	May 31 2023	August 31 2022
Operating	\$ 25,668	\$ 12,811
Advanced ticket sales (Note 6)	3,107	5,385
Deferred revenue	1,504	2,285
Employee benefits	565	1,096
Balance at end of period	\$ 30,844	\$ 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:

<i>(in thousands of dollars)</i>	May 31 2023	August 31 2022 ¹
Restricted cash at beginning of period	\$ 1,575	\$ 185
Appropriations received to fund specified capital projects	2,923	2,382
Appropriations invested in specified capital projects	(3,063)	(992)
Restricted cash held for specified capital project balance at end of period	\$ 1,435	\$ 1,575
Project related accounts payable	-	(188)
Deferred parliamentary appropriations, specified capital projects balance at end of period	\$ 1,435	\$ 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:

<i>(in thousands of dollars)</i>	May 31 2023	August 31 2022 ¹
Advanced ticket sales (Note 4)	\$ 3,107	\$ 5,385
Trade payables	4,610	7,679
Accrued liabilities	3,449	4,051
Employee benefits (short term)	565	565
Balance at end of period	\$ 11,731	\$ 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:

<i>(in thousands of dollars)</i>		Building Refurbishment		Specific Programs		May 31 2023 Total		August 31 2022 Total
Balance at beginning of period	\$	2,575	\$	-	\$	2,575	\$	1,685
Appropriations received		5,250		2,190		7,440		7,583
Appropriations used		(6,214)		(1,151)		(7,365)		(6,693)
Balance at end of period	\$	1,611	\$	1,039	\$	2,650	\$	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:

<i>(in thousands of dollars)</i>		May 31 2023		August 31 2022
Balance at beginning of period	\$	196,499	\$	205,475
Appropriations used to purchase depreciable capital assets		3,665		1,078
Recognition of deferred capital funding		(10,592)		(15,961)
Deferred ESAP funding		2,207		5,907
Balance at end of period	\$	191,779	\$	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.

<i>(in thousands of dollars)</i>		May 31 2023		May 31 2022
Appropriations received and receivable:				
Main estimates amount provided for operating and capital expenditures	\$	33,323	\$	31,881
Supplementary estimates		20,317		4,167
Specified Capital Project(s)		2,923		1,772
Statutory COVID 19		-		17,200
Appropriations approved		56,563		55,020
Portion of parliamentary appropriations received in current year deferred for building refurbishment or specific projects (Note 5 and 7)		(4,312)		(4,530)
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)		(3,665)		236
Deferred capital funding – amortization and write down (Note 8)		10,592		12,008
Parliamentary appropriations	\$	63,328	\$	64,419

10. Summary of expenses by object

For the three- and nine-months ended May 31
(Unaudited)

	Three month period ended		Nine month period ended	
	May 31	May 31	May 31	May 31
(in thousands of dollars)	2023	2022 ¹	2023	2022 ¹
Salaries and benefits	\$ 11,270	\$ 9,359	\$ 32,182	\$ 25,054
Artistic fees	4,320	3,761	13,818	9,631
Amortization of capital assets	3,563	4,048	10,763	12,149
National Arts Centre Orchestra fees	1,805	1,986	5,438	5,636
Maintenance and repairs	814	499	2,339	1,470
Advertising	708	893	2,236	1,940
Utilities	638	529	1,995	1,700
Professional fees	592	668	1,593	1,559
Payments to municipalities	558	543	1,647	1,615
Cost of sales	551	349	1,614	750
Education and training	324	118	394	167
Production	213	153	799	331
Service charges	170	125	569	276
Staff travel	169	127	413	307
Promotion	139	584	452	703
Insurance	113	130	426	409
Equipment rental	107	268	316	483
Supplies	75	89	283	244
Telecommunications	58	107	186	216
Office	54	44	142	107
Miscellaneous	23	8	48	35
Board	19	54	116	103
Rental of facilities	16	109	46	152
Loss on disposal of capital assets	-	-	100	273
In-kind contributions of goods and services	-	1	27	1
	\$ 26,299	\$ 24,552	\$ 77,942	\$ 65,311

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 nine-month period ended May 31, 2023, amounted to \$30.2 million, an increase of \$17.7 million compared to \$12.5 million for the nine-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 May 31, 2023, amounted to \$10.4 million, an increase of \$5.1 million compared to \$5.3 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; in addition to a planned increase in the grant from the National Art Centre Foundation.

On an accrual basis, parliamentary appropriations for the nine-month period ended May 31, 2023, amounted to \$63.3 million compared to \$64.4 million for the nine-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 May 31, 2023, amounted to \$21.5 million compared to \$17.8 million for the three-month period of the previous year. The difference is due to timing of appropriations recognition.

Expenses

Expenses for the nine-month period ended May 31, 2023, amounted to \$77.9 million, an increase of \$12.6 million compared to \$65.3 million for the nine-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 May 31, 2023, amounted to \$26.3 million, an increase of \$1.7 million compared to \$24.6 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 nine-month period ended May 31, 2023, was a surplus of \$15.5 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 \$30.8 million as at May 31, 2023, represents an increase of \$9.2 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.

Capital assets decreased to \$196.0 million as at May 31, 2023, from \$201.3 million as at August 31, 2022, due to amortization and write-down expense of \$10.9 million offset by capital assets acquisitions of \$5.6 million.

Liabilities

Accounts payable and accrued liabilities decreased by \$6.0 million to \$11.7 million as at May 31, 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.

Accumulated surplus

Accumulated surplus as at May 31, 2023, is \$29.2 million. This is an increase due to the net result of operations surplus of \$15.5 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. 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.
2. Building and Infrastructure – The Corporation may not have an appropriate funding model to undertake imperative physical infrastructure repairs required to meet basic code and statutory requirements.
3. Equity, Diversity and Inclusion & Accessibility – The Corporation may not be able to effectively deliver on Equity, Diversity and Inclusion and Accessibility engagements. This risk is mitigated by an audit of Equity, Diversity and Inclusion (EDI) & Accessibility 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 Integrity and Relevance – 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.