

< National Arts Centre >

Audited Financial Statements
of the National Arts Centre Corporation
for the year ended August 31, 2001



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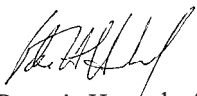
Management Responsibilities

The Board of Trustees, which is responsible for, among other things, the financial statements of the Corporation, delegates to Management the responsibility for the preparation of the financial statements and the annual report. Responsibility for their review is that of the Finance and Audit Committee of the Board of Trustees. The financial statements were prepared by Management in accordance with Canadian generally accepted accounting principles and include estimates based on Management's experience and judgement. The financial statements have been approved by the Board of Trustees on the recommendation of the Finance and Audit Committee. Other financial and operating information appearing in this annual report is consistent with that contained in the financial statements.

Management maintains books and records, financial and management control and information systems designed in such a manner as to provide reasonable assurance that reliable and accurate information is produced on a timely basis and that transactions are in accordance with the *National Arts Centre Act* and the by-laws of the Corporation.

The Board of Trustees of the Corporation is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal control, and exercises this responsibility through the Finance and Audit Committee. The Finance and Audit Committee discharges the responsibilities conferred upon it by the Board of Trustees, and meets on a regular basis with Management, and with the Auditor General of Canada, who has unrestricted access to the Committee.

The Auditor General of Canada conducts an independent audit of the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards and reports on the results of that audit to the Chair of the Board of Trustees of the National Arts Centre Corporation on an annual basis.



Peter A. Herrndorf, O.C.

Director General and Chief Executive Officer



Chief Financial Officer

October 26, 2001

Auditor's Report

To the Chair of the Board of Trustees
of the National Arts Centre Corporation

I have audited the balance sheet of the National Arts Centre Corporation as at August 31, 2001 and the statements of operations, equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at August 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Richard Flageole, FCA
*Assistant Auditor General
for the Auditor General of Canada*

Ottawa, Canada
October 26, 2001

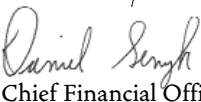
Balance Sheet As at August 31

	2001	2000
	\$	\$
Assets		
Current		
Cash	1,276,100	529,396
Short-term investments including Challenge Fund (Notes 3 and 10)	9,389,151	8,467,015
Accounts receivable	1,863,632	1,732,300
Restricted cash and investments (Note 4)	69,546	205,915
Inventories	332,539	328,479
Programmes in progress	1,551,744	1,654,258
Prepaid expenses	661,245	1,798,561
	<u>15,143,957</u>	<u>14,715,924</u>
Capital assets (Note 5)	16,874,221	16,886,066
	<u>32,018,178</u>	<u>31,601,990</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	5,340,216	6,300,372
Deferred revenue	7,020,522	6,004,146
	<u>12,360,738</u>	<u>12,304,518</u>
Deferred contributions (Note 6)	41,271	177,573
Deferred capital funding (Note 7)	16,874,221	16,886,066
Long-term portion of provision for employee severance benefits	1,685,950	1,339,372
	<u>30,962,180</u>	<u>30,707,529</u>
Endowment Fund (Note 8)	33,275	33,275
Equity of Canada		
Accumulated surplus	1,022,723	861,186
Contingencies and commitments (Notes 12 and 13)	<u>32,018,178</u>	<u>31,601,990</u>

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

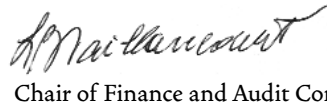
Approved by Management:


 Director General and Chief Executive Officer


 Chief Financial Officer

Approved by the Board of Trustees:


 Chair


 Chair of Finance and Audit Committee

Statement of Operations For the year ended August 31

	2001	2000
	\$	\$
Revenues		
Commercial operations (Schedule 1)	11,646,316	10,428,307
Programming (Schedule 2)	9,913,541	10,911,140
Fundraising	1,831,918	1,872,482
National Arts Centre Foundation (Note 9)	1,125,000	-
Facility fees	561,421	539,919
Investments and other	1,061,821	653,120
	<u>26,140,017</u>	<u>24,404,968</u>
Parliamentary appropriations (Note 11)	<u>25,231,398</u>	<u>26,061,651</u>
	<u>51,371,415</u>	<u>50,466,619</u>
Expenses		
Commercial operations (Schedule 1)	7,868,645	7,803,229
Programming (Schedule 2)	25,543,108	23,471,855
Fundraising and development	1,402,742	1,009,225
National Arts Centre Foundation (Note 9)	-	1,000,000
Building operations	9,970,475	10,601,378
Administration	4,670,060	3,972,616
Information technology	1,754,848	2,129,288
	<u>51,209,878</u>	<u>49,987,591</u>
Net results of operations	<u>161,537</u>	<u>479,028</u>

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

Statement of Equity For the year ended August 31

	2001	2000
	\$	\$
Balance at beginning of year	861,186	382,158
Net results of operations	<u>161,537</u>	<u>479,028</u>
Balance at end of year	<u>1,022,723</u>	<u>861,186</u>

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

Statement of Cash Flows For the year ended August 31

	2001	2000
	\$	\$
Operating activities		
Net results of operations	161,537	479,028
Item not affecting cash and investments		
Amortization	2,951,362	2,263,803
	<u>3,112,899</u>	<u>2,742,831</u>
Changes in non-cash operating assets and liabilities	1,160,658	(963,304)
Changes in deferred contributions	(136,302)	(4,629)
Changes in deferred capital funding	(11,845)	(104,151)
Changes in long-term portion of provision for employee severance benefits	346,578	189,392
Cash flows from operating activities	<u>4,471,988</u>	<u>1,860,139</u>
Investing activities		
Additions to capital assets	(2,939,517)	(2,159,651)
Restricted cash and investments	136,369	(58,983)
Cash flows from investing activities	<u>(2,803,148)</u>	<u>(2,218,634)</u>
Increase (decrease) in cash position	1,668,840	(358,495)
Cash position at beginning of year	<u>8,996,411</u>	<u>9,354,906</u>
Cash position at end of year	<u>10,665,251</u>	<u>8,996,411</u>
Composed of:		
Cash	1,276,100	529,396
Short-term investments including Challenge Fund	9,389,151	8,467,015
	<u>10,665,251</u>	<u>8,996,411</u>
Supplementary disclosure of cash flow information		
Interest received	<u>544,898</u>	<u>690,720</u>

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

Notes to Financial Statements August 31, 2001

1. Authority, Objectives and Operations

The National Arts Centre Corporation (the "Corporation" or the "Centre") was established in 1969 pursuant to the *National Arts Centre Act* and is not subject to the provisions of the *Income Tax Act*. Pursuant to Section 85 (1) of Part X of the *Financial Administration Act*, Divisions I to IV do not 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 objectives of the Corporation are to operate and maintain the National Arts Centre, to develop the performing arts in the National Capital Region, and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

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

2. Significant Accounting Policies

(a) Short-term and restricted investments

Short-term and restricted investments are valued at the lower of cost and market value.

(b) Parliamentary appropriations

The Government of Canada provides funding to the Corporation. The portion of the Parliamentary appropriations used to purchase depreciable capital assets is recorded as deferred capital funding and amortized on the same basis and over the same periods as the related capital assets. The remaining portion of the appropriations is recorded on the statement of operations.

The parliamentary appropriations approved for the period from April 1 to August 31 are in respect of the Government of Canada's fiscal year ending on March 31 of the following year. Accordingly, the portion of the amounts received to August 31, which is in excess of 5/12ths of the appropriations, is deferred to the following year. Similarly, the portion of the amounts received to August 31, which is less than 5/12ths of the appropriations, is recorded as a receivable.

The difference between the Parliamentary appropriations received for payments in lieu of taxes to municipalities and other taxing authorities and the related expense for the year is recorded as either a deferred revenue or an account receivable as appropriate.

(c) Inventories

Inventories are valued at cost for restaurant supplies, food and beverages.

(d) Programmes in progress

Direct costs, including advances to performing companies and artists related to programmes (shows) that will be held after the fiscal year-end, are deferred, and are charged to expenses in the year in which the programmes take place.

(e) Capital assets

Capital assets are recorded at cost net of accumulated amortization. Amortization is calculated using the straight-line method, over the estimated useful lives of the assets as follows:

Building	40 years
Building improvements	7 to 10 years
Equipment	2 to 10 years
Computer software and hardware	3 to 5 years

(f) Deferred revenue

Funds received in return for future services are deferred. Revenue is recognized in the year that the services are provided.

(g) Contributions

The Corporation follows the deferral method of accounting for contributions. Contributions externally restricted, and related investment income, are deferred and recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received.

Donations in kind are recorded at estimated fair market value when they are received. Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

(h) Employee severance benefits

Employees of the Corporation are entitled to specified benefits on termination as provided for under their respective contracts and conditions of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(i) Operating expenses

Expenses relating to commercial operations and programming do not include costs relating to building and equipment maintenance, and administrative services.

(j) Pension plan

Employees of the Corporation participate in the Public Service Superannuation Plan, administered by the Government of Canada. Contributions to the Plan are required by both the employees and the Corporation. The Corporation's contribution has increased from being equal to the employees' share to 2.14 times the employees' share. The Treasury Board of Canada approves required contributions to the Plan. These contributions represent the total pension obligation of the Corporation. The Corporation is not required to make contributions with respect to employees for actuarial deficiencies of the Public Service Superannuation Account. The Corporation's current year pension plan expense is \$1,021,102 (2000 - \$567,401).

3. Cash and Short-Term Investments

The Corporation's policy is to invest temporary excess cash in short-term deposit certificates, bonds, and commercial paper with Canadian financial institutions. The average yield of the portfolio was 5.20% for the year ended August 31, 2001 (5.08% in 2000). All short-term investments are rated "A" or "A1/R1" or better by a recognized bond rating agency. The fair value of short-term investments approximates the book value due to their impending maturity.

4. Restricted Cash and Investments

Restricted cash and investments arise from contributions received from individuals and corporate entities for a specified purpose.

5. Capital Assets

	Cost	2001 Accumulated amortization	Net book value	2000 Net book value
Land	\$ 1	\$ —	\$ 1	\$ 1
Building	46,400,000	37,391,450	9,008,550	10,170,944
Building improvements	30,057,920	24,238,720	5,819,200	3,012,110
Equipment	5,874,408	4,661,271	1,213,137	1,048,708
Computer software and hardware	2,061,226	1,502,476	558,750	918,888
Assets under construction	274,583	—	274,583	1,735,415
	<u>\$ 84,668,138</u>	<u>\$ 67,793,917</u>	<u>\$ 16,874,221</u>	<u>\$ 16,886,066</u>

6. Deferred Contributions

	<u>2001</u>	<u>2000</u>
National Arts Centre Orchestra Trust Fund	\$ 41,271	\$ 39,286
G. Hamilton Southam Fund	—	51,271
National Arts Centre Orchestra Tour Fund	—	87,016
	<u>\$ 41,271</u>	<u>\$ 177,573</u>

Changes in the deferred contributions balance are as follows:

	<u>2001</u>	<u>2000</u>
Balance at beginning of year	\$ 177,573	\$ 182,202
Interest income	4,721	8,611
Donations	10,573	62,306
Funds directed by donor to NAC Foundation	(51,271)	—
Amount recognized as revenue on the statement of operations	(100,325)	(75,546)
Balance at end of year	<u>\$ 41,271</u>	<u>\$ 177,573</u>

7. 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:

	<u>2001</u>	<u>2000</u>
Balance at beginning of year	\$ 16,886,066	\$ 6,819,273
Appropriations used to purchase depreciable capital assets	2,939,517	2,159,651
Addition of net book value of the land and building	—	10,170,945
Amortization	(2,951,362)	(2,263,803)
Balance at end of year	<u>\$ 16,874,221</u>	<u>\$ 16,886,066</u>

In May 2000, the Government of Canada transferred the title to the National Arts Centre land and building to the Corporation. The land has been recorded at a nominal value of \$1 as the historical cost could not be determined. The building has been recorded at the historical construction cost (see note 5), and the related net book value added to deferred capital funding.

8. Endowment Fund

The initial capital of \$33,275 for the National Arts Centre Orchestra Trust Fund is subject to an externally imposed restriction stipulating that the original capital be maintained permanently. The interest earned during the year of \$1,802 (2000 — \$1,830) is included in deferred contributions.

9. National Arts Centre Foundation

The National Arts Centre Foundation (the "Foundation") was incorporated under the *Canada Corporations Act* in July 2000 and received its registered charitable status under the *Income Tax Act* in August 2000. This is a separate entity from the Corporation but all funds raised will be used for the priorities of the Corporation, as will be determined between the Corporation and Foundation from time to time. All of the expenses related to the operation of the Foundation to August 31, 2001, with the exception of legal, audit and insurance expenses, have been reported in the financial statements of the Corporation.

The Foundation raises funds from patrons and from the community. Voting membership in the Foundation is limited to current Corporation Board of Trustee members. The Board of Directors of the Foundation is elected by the voting membership of the Foundation. The operations of the Foundation have been audited but have not been consolidated in the Corporation's financial statements. Financial statements of the Foundation are available upon request.

The financial position and the results of operations of the Foundation as at August 31, 2001 for the period then ended are as follows:

Financial position	<u>2001</u>	<u>2000</u>
Total assets	\$ 1,041,651	\$ 1,000,000
Total liabilities	137,315	—
Total net assets *	<u>\$ 904,336</u>	<u>\$ 1,000,000</u>

* All of the Foundation's net assets must be provided for the sole use of the National Arts Centre Corporation. An amount of \$121,989 (2000 - nil) of the Foundation's net assets is subject to donor imposed restrictions that it be maintained permanently with the investment revenue to be used for the benefit of the National Arts Centre music programming and youth and education programmes.

Results of operations	<u>2001</u>	<u>2000</u>
Total revenues	\$ 1,044,550	\$ 1,000,000
Total expenses	15,214	—
Total distributions to the National Arts Centre	1,125,000	—
Excess (Deficiency) of revenues over distributions and expenses	<u>\$ (95,664)</u>	<u>\$ 1,000,000</u>

10. Challenge Fund

In 1999, in addition to regular fundraising activities, a special fundraising campaign entitled the Challenge Fund was undertaken. Programme expenditures relate primarily to the support of youth and educational initiatives at the Centre. As well, new commissions in Music, English Theatre, French Theatre, and Dance, community outreach, touring, and other activities that further the Centre's national and regional mandate to develop the performing arts were supported by this fund. Changes to the balance during the year are as follows:

	<u>2001</u>	<u>2000</u>
Balance of funds raised during campaign	\$ 866,377	\$ 1,928,860
Investment and other earned income	35,989	88,006
Programme expenditures	(902,366)	(150,489)
Transfer to the NAC Foundation	—	(1,000,000)
Closing balance	<u>\$ —</u>	<u>\$ 866,377</u>

11. Parliamentary Appropriations

	<u>2001</u>	<u>2000</u>
Parliamentary appropriations for operating expenditures	\$ 22,280,037	\$ 23,797,848
Amortization of deferred capital funding (Note 7)	2,951,361	2,263,803
Total parliamentary appropriations	\$ <u>25,231,398</u>	\$ <u>26,061,651</u>

12. Related Party Transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters transactions with these entities in the normal course of business.

13. Contingencies

The Corporation is the claimant or defendant in certain pending claims and lawsuits. In management's opinion, the outcome of these actions is not likely to result in any material liabilities.

14. Commitments

As at August 31, 2001, there remains approximately \$2,097,000 (\$3,056,000 in 2000) to be paid pursuant to agreements for information technology, telephony services and leased vehicles. The future minimum payments are as follows:

2001 — 02	\$ 1,103,000
2002 — 03	936,000
2003 — 04	53,000
2004 — 05	5,000
2005 — 06	—

15. Comparative Figures

Certain figures for 2000 have been reclassified to conform to the presentation adopted this year.

Schedule 1

Schedule of revenues and expenses

Commercial Operations For the year ended August 31

	2001		
	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
Restaurants	\$ 6,449,686	\$ 5,990,131	\$ 459,555
Parking Services	3,103,814	602,535	2,501,279
Rental of Halls	2,092,816	1,275,979	816,837
	<u>\$ 11,646,316</u>	<u>\$ 7,868,645</u>	<u>\$ 3,777,671</u>

	2000		
	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
Restaurants	\$ 6,112,849	\$ 5,984,485	\$ 128,364
Parking Services	2,473,249	632,531	1,840,718
Rental of Halls	1,842,209	1,186,213	655,996
	<u>\$ 10,428,307</u>	<u>\$ 7,803,229</u>	<u>\$ 2,625,078</u>

Schedule 2

Schedule of revenues and expenses Programming For the year ended August 31

	2001	2000
	\$	\$
Revenues		
Music	4,541,884	3,903,805
English Theatre	1,901,370	2,053,612
French Theatre	507,438	542,476
Dance	1,286,323	1,088,270
Variety, Touring & Other	625,900	959,227
Youth & Education	356,047	357,602
Community Programming	324,076	1,625,951
Programming Support	370,503	380,197
	<hr/> 9,913,541	<hr/> 10,911,140
Expenses		
Music	11,525,047	9,492,192
English Theatre	2,925,019	2,851,175
French Theatre	1,463,600	1,428,662
Dance	1,595,913	1,392,780
Variety, Touring & Other	1,258,490	1,184,446
Youth & Education	716,493	612,413
Community Programming	1,060,094	2,445,880
Programming Support	4,998,452	4,064,307
	<hr/> 25,543,108	<hr/> 23,471,855
Excess of expenses over revenues	<hr/> 15,629,567	<hr/> 12,560,715

Schedule 3

Schedule of expenses by type For the year ended August 31

	2001	2000
	\$	\$
Salaries and benefits	17,616,591	15,637,993
Artistic fees	7,772,558	7,714,873
National Arts Centre Orchestra fees	5,128,959	4,323,904
Advertising	3,309,604	2,788,323
Amortization	2,951,362	2,263,803
Payments in lieu of taxes	2,758,373	4,748,329
Contract fees	2,377,959	1,857,651
Cost of sales	2,136,967	2,096,826
Utilities	1,407,788	1,288,762
Maintenance and repairs	1,140,013	1,201,265
Promotion	703,856	542,766
Financial charges	499,172	523,755
Office expenses	459,668	403,375
Production	421,631	1,224,701
Staff travel	406,828	290,139
Supplies	288,550	369,816
Miscellaneous	282,989	210,464
Professional fees	279,049	347,150
In-kind contributions of goods and services	251,605	159,595
Equipment	211,299	294,058
Telecommunications	210,330	212,112
Rental of facilities	177,491	162,456
Insurance	167,520	73,014
Board expenses	142,029	147,408
Education and training	107,687	105,053
Foundation	-	1,000,000
	<u>51,209,878</u>	<u>49,987,591</u>