

1969 | The opening of the
National Arts Centre
is an exciting event
for Ottawa and for
Canada...

Its possibilities are
unlimited... It will
stand comparison
with the world's best.

Pierre Elliott Trudeau, Prime Minister of Canada

2004 | **RESTORING
THE
VISION**

**AUDITED FINANCIAL STATEMENTS
OF THE NATIONAL ARTS CENTRE CORPORATION**

for the year ended August 31, 2004



CANADA'S NATIONAL ARTS CENTRE
CENTRE NATIONAL DES ARTS DU CANADA

NATIONAL ARTS CENTRE

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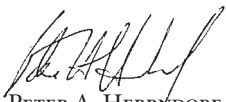
MANAGEMENT RESPONSIBILITIES

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.

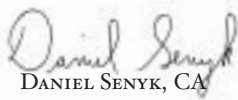
Management maintains books and records, financial and management control and information systems designed in such a manner as to provide a reasonable assurance that reliable and accurate information is produced on a timely basis and that the transactions are in accordance with the *National Arts Centre 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 complete 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.
President and Chief Executive Officer



DANIEL SENYK, CA
Chief Financial Officer

October 22, 2004

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, 2004 and the statements of operations and 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, 2004 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 22, 2004
except as to Note 12
which is as of
November 30, 2004

BALANCE SHEET

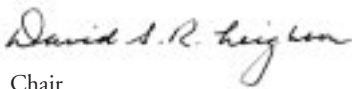
As at August 31


| | 2004 | 2003 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Assets | | |
| Current | | |
| Cash | 9,100,109 | 5,006,906 |
| Short-term investments (Note 3) | 3,071,424 | 6,066,439 |
| Accounts receivable | 1,571,889 | 3,786,568 |
| Restricted cash and investments (Note 4) | 83,372 | 77,050 |
| Inventories | 380,729 | 677,194 |
| Programmes in progress | 2,186,382 | 1,617,366 |
| Prepaid expenses | 894,529 | 817,575 |
| | <u>17,288,434</u> | <u>18,049,098</u> |
| Investments (Note 5) | 5,000,000 | 4,000,000 |
| Property, plant and equipment (Note 6) | <u>21,467,281</u> | <u>18,800,155</u> |
| | <u>43,755,715</u> | <u>40,849,253</u> |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | 5,670,480 | 5,168,181 |
| Deferred revenues and parliamentary appropriations (Note 7) | <u>13,431,581</u> | <u>13,991,362</u> |
| | 19,102,061 | 19,159,543 |
| Deferred contributions (Note 8) | 50,097 | 43,775 |
| Deferred capital funding (Note 9) | 21,467,281 | 18,800,155 |
| Long-term portion of provision for employee severance benefits (Note 10) | <u>1,856,316</u> | <u>1,636,272</u> |
| | 42,475,755 | 39,639,745 |
| Endowment Fund (Note 11) | 33,275 | 33,275 |
| Equity of Canada | | |
| Accumulated surplus | 1,246,685 | 1,176,233 |
| | <u>43,755,715</u> | <u>40,849,253</u> |

Contingencies and commitments (Notes 15 and 16)

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

Approved by the Board of Trustees:


Chair


Chair of the Finance and Audit Committee

STATEMENT OF OPERATIONS AND EQUITY

For the year ended August 31

| | 2004 | 2003 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Revenues | | |
| Commercial operations (Schedule 1) | 12,700,098 | 12,610,465 |
| Programming (Schedule 2) | 11,481,435 | 10,426,134 |
| Distribution from the National Arts Centre Foundation (Note 12) | 4,700,000 | 3,806,116 |
| Facility fees | 756,226 | 560,971 |
| Investments and other | 701,107 | 715,144 |
| | <u>30,338,866</u> | <u>28,118,830</u> |
| Parliamentary appropriations (Note 13) | 30,191,098 | 29,885,515 |
| | <u>60,529,964</u> | <u>58,004,345</u> |
| Expenses (Schedule 3) | | |
| Commercial operations (Schedule 1) | 8,557,839 | 8,731,045 |
| Programming (Schedule 2) | 32,246,285 | 29,977,186 |
| Fundraising and development | 2,513,856 | 2,266,932 |
| Building operations | 10,803,130 | 10,387,759 |
| Administration and other | 5,129,564 | 5,013,839 |
| Information technology | 1,208,838 | 1,562,381 |
| | <u>60,459,512</u> | <u>57,939,142</u> |
| Net results of operations | 70,452 | 65,203 |
| Equity of Canada | | |
| Equity - beginning of year | 1,176,233 | 1,111,030 |
| Equity - end of year | <u>1,246,685</u> | <u>1,176,233</u> |

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

STATEMENT OF CASH FLOWS

For the year ended August 31

| | 2004 | 2003 |
|---|-------------|-------------|
| | \$ | \$ |
| Operating activities | | |
| Net results of operations | 70,452 | 65,203 |
| Items not affecting cash and investments | | |
| Amortization | 2,561,880 | 2,895,917 |
| Amortization of deferred capital funding | (2,561,880) | (2,895,917) |
| | 70,452 | 65,203 |
| Changes in non-cash operating assets and liabilities | 1,807,692 | (5,491,168) |
| Changes in deferred contributions | 6,322 | 3,872 |
| Changes in long-term portion of provision for employee severance benefits | 220,044 | (82,143) |
| Cash flows provided by (used for) operating activities | 2,104,510 | (5,504,236) |
| Investing activities | | |
| Investments | (1,000,000) | (2,000,000) |
| Additions to property, plant and equipment | (5,229,006) | (4,485,665) |
| Changes in restricted cash and investments | (6,322) | (3,872) |
| Cash flows used for investing activities | (6,235,328) | (6,489,537) |
| Financing activities | | |
| Parliamentary appropriations used for the acquisition of property, plant and equipment | 5,229,006 | 4,485,665 |
| Increase (Decrease) in cash position | 1,098,188 | (7,508,108) |
| Cash position at beginning of year | 11,073,345 | 18,581,453 |
| Cash position at end of year | 12,171,533 | 11,073,345 |
| Composed of: | | |
| Cash | 9,100,109 | 5,006,906 |
| Short-term investments | 3,071,424 | 6,066,439 |
| | 12,171,533 | 11,073,345 |
| Supplementary disclosure of cash flow information | | |
| Interest received | 536,002 | 586,371 |

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

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2004

I. 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*. Pursuant to Section 85. (1) of Part X of the *Financial Administration Act*, Divisions I to IV of the Act 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 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.

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. A summary of the significant accounting policies follows:

(a) Short-term and restricted investments

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

(b) Revenue

(i) Parliamentary appropriations

The Government of Canada provides funding to the Corporation. The portion of the parliamentary appropriations used to purchase depreciable property, plant and equipment is recorded as deferred capital funding and amortized to revenue on the same basis and over the same periods as the related assets. Upon disposition of funded depreciable assets, the Corporation recognizes in income all remaining deferred capital funding related to these assets. Parliamentary appropriations approved and received for specific capital and operating purposes which exceed related expenses for the year are deferred and recognized as revenue when related expenses are incurred. The remaining portion of the appropriation is recognized as revenue 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 recorded as deferred revenue. Similarly, the portion of the 5/12ths of the appropriations not received by August 31 is recorded as a receivable.

(ii) 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 their 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.

(iii) Commercial and programming revenue

Revenue from commercial operations and performances are recognized in the year in which services are provided or the performance takes place. Funds received in return for future services are deferred.

(c) Inventories

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

(d) Programmes in progress

Direct costs, including advances to performing arts companies and artists related to programmes (performances) 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) Property, plant and equipment

Property, plant and equipment 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:

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

(f) Expenses

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

(g) Employee future benefits

(i) 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 Treasury Board of Canada sets the required contributions to the Plan. The Corporation's contribution is based on a multiple of the employees' required contribution, and may change. These contributions represent the total pension obligation of the Corporation and are charged to operations on a current basis. The Corporation is not required to make contributions with respect to employees for actuarial deficiencies of the Public Service Superannuation Account.

(ii) Employee severance benefits

Employees of the Corporation are entitled to severance benefits as provided for under their respective collective agreements or the terms and conditions of employment. The liability for these benefits is recorded as the benefits accrue to the employees. The liability is calculated based on management's best estimates and assumptions, on the employee's year-end salary, and years of service. For employees who have attained the age of 55, it is assumed that the employee will receive the full benefit upon retirement. For employees who have not attained the age of 55, it is assumed that the employee will receive a partial benefit as specified within the terms of the collective agreements or the terms and conditions of employment.

(h) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at year end. Revenues and expenses are translated at exchange rates in effect at the time of the transaction. Translation gains or losses for the year are included in revenues or expenses as appropriate.

(i) Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. The most significant estimates involve the determination of employee severance benefits and the estimate of useful life of property, plant and equipment.

3. 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 for the year was 3.76% (2.71% in 2003). All short-term investments are rated "A" or "A1/R1" or better by a recognized bond rating agency.

4. RESTRICTED CASH AND INVESTMENTS

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

5. INVESTMENTS

The Corporation invests some cash in longer-term deposit certificates, bonds and commercial paper with Canadian financial institutions in order to improve yields for financing performing arts programmes and the operation of the Centre. The average yield of the portfolio for the year was 4.94% (5.07% in 2003). All investments are rated "A" or "A1/R1" or better by a recognized bond rating agency. The fair market value of investments as at August 31, 2004 is \$5,003,010 (\$4,121,016 in 2003).

6. PROPERTY, PLANT AND EQUIPMENT

| | | 2004 | | 2003 |
|--------------------------------|---------------|-----------------------------|-------------------|-------------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land | \$ 78,201 | \$ — | \$ 78,201 | \$ 78,201 |
| Buildings | 47,665,107 | 40,915,757 | 6,749,350 | 7,942,756 |
| Building improvements | 35,811,768 | 27,449,555 | 8,362,213 | 5,982,607 |
| Equipment | 6,705,417 | 5,624,996 | 1,080,421 | 991,575 |
| Computer software and hardware | 1,585,860 | 1,396,351 | 189,509 | 142,559 |
| Assets under construction | 5,007,587 | — | 5,007,587 | 3,662,457 |
| | \$ 96,853,940 | \$ 75,386,659 | \$ 21,467,281 | \$ 18,800,155 |

7. DEFERRED REVENUES AND PARLIAMENTARY APPROPRIATIONS

Deferred revenues represent amounts received from the Corporation's box office for programmes not yet presented and other amounts received in advance of services rendered. Deferred parliamentary appropriations represent approved parliamentary appropriations received for work not yet completed or received in advance. Information on the deferred revenues and parliamentary appropriations is as follows:

| | 2004 | 2003 |
|---|---------------|---------------|
| Advanced sales - programming | \$ 5,321,548 | \$ 5,255,990 |
| Revenues from commercial operations and other | 734,028 | 669,894 |
| Appropriations received for the next fiscal year | 5,457,834 | 4,389,000 |
| Unused appropriations received for building refurbishment | 1,169,420 | 2,843,087 |
| Unused appropriations received for specific purposes | 748,751 | 833,391 |
| Balance at end of year | \$ 13,431,581 | \$ 13,991,362 |

8. DEFERRED CONTRIBUTIONS

Deferred Contributions represent amounts held for the National Arts Centre Orchestra (NACO) Trust Fund.

Changes in the deferred contributions balance are as follows:

| | 2004 | 2003 |
|--|-----------|-----------|
| Balance at beginning of year | \$ 43,775 | \$ 39,903 |
| Interest income | 3,254 | 2,817 |
| Donations received | 17,518 | 14,505 |
| Distributions to NACO Bursary recipients | (14,450) | (13,450) |
| Balance at end of year | \$ 50,097 | \$ 43,775 |

9. DEFERRED CAPITAL FUNDING

Deferred capital funding represents the unamortized portion of parliamentary appropriations used to purchase depreciable property, plant and equipment.

Changes in the deferred capital funding balance are as follows:

| | 2004 | 2003 |
|--|---------------|---------------|
| Balance at beginning of year | \$ 18,800,155 | \$ 17,210,407 |
| Appropriations used to purchase depreciable property, plant and equipment | 5,229,006 | 4,485,665 |
| Amortization | (2,561,880) | (2,895,917) |
| Balance at end of year | \$ 21,467,281 | \$ 18,800,155 |

10. EMPLOYEE FUTURE BENEFITS

i) Pension plan

The contributions to the Public Service Superannuation Plan during the year were as follows:

| | 2004 | 2003 |
|-----------|--------------|--------------|
| Employer | \$ 1,545,428 | \$ 1,453,895 |
| Employees | 631,680 | 573,994 |

ii) Employee severance benefits

The Corporation provides severance benefits to its employees. This benefit plan is not pre-funded and has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information on the employee severance benefits is as follows:

| | 2004 | 2003 |
|-------------------------------|--------------|--------------|
| Balance at beginning of year | \$ 2,207,836 | \$ 2,101,284 |
| Cost for the year | 332,096 | 171,039 |
| Benefits paid during the year | (207,724) | (64,487) |
| Balance at end of year | \$ 2,332,208 | \$ 2,207,836 |
| Short-term portion | \$ 475,892 | \$ 571,564 |
| Long-term portion | 1,856,316 | 1,636,272 |
| | \$ 2,332,208 | \$ 2,207,836 |

II. 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 \$1,747 (\$1,747 in 2003) is included in deferred contributions.

I 2. THE 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 legal entity from the Corporation and all funds raised are used for the priorities of the Corporation, as determined between the Corporation and the Foundation from time to time.

The Foundation raises funds from patrons and from the community. The voting members of the Foundation are the current Corporation Board of Trustees. The Board of Directors of the Foundation is elected by the voting members of the Foundation. The financial statements of the Foundation have been audited and have not been consolidated in the Corporation's financial statements. All of the direct expenses related to the operation of the Foundation to August 31, 2004, with the exception of legal, audit and insurance expenses, have been reported in the statement of operations and equity of the Corporation as Fundraising and development expenses. The distributed amounts to the Corporation by the Foundation are recorded as National Arts Centre Foundation revenues in the Corporation's statement of operations and equity. The audited financial statements of the Foundation are available upon request.

The financial position of the Foundation as at August 31, 2004, and the results of operations for the period then ended are as follows:

| Financial position | 2004 | 2003 |
|--------------------|--------------|--------------|
| Total assets | \$ 2,209,521 | \$ 2,041,719 |
| Total liabilities | 788,858 | 697,926 |
| Total net assets * | \$ 1,420,663 | \$ 1,343,793 |

* All of the Foundation's net assets must be provided for the sole use of the Corporation. An amount of \$1,173,963 (\$641,759 in 2003) of the Foundation's net assets is subject to donor imposed restrictions, of which \$829,462 (\$410,669 in 2003) represents endowment funds and is to be maintained permanently. Investment revenue generated by endowment funds is to be used for the benefit of the National Arts Centre Corporation.

| Results of operations | 2004 | 2003 |
|---|--------------|--------------|
| Total revenues | \$ 4,813,173 | \$ 4,062,140 |
| Total expenses | 36,303 | 35,513 |
| Total distributions to the National Arts Centre Corporation** | 4,700,000 | 3,806,116 |
| Excess of revenues over distributions and expenses | \$ 76,870 | \$ 220,511 |

** The distribution to the Corporation by the Foundation was made in accordance with the restrictions approved by the Foundation's Board of Directors and supported Music, English Theatre, French Theatre, Dance, community programming, the Fourth Stage, Live Rush, programming aimed at youth, educational activities and other initiatives of the Corporation at the Centre and elsewhere.

I 3. PARLIAMENTARY APPROPRIATIONS

| | 2004 | 2003 |
|--|---------------|---------------|
| Main Estimates amount provided for operating and capital expenditures | \$ 28,485,250 | \$ 25,455,500 |
| Supplementary estimates | 2,614,667 | 3,696,000 |
| Appropriations approved | 31,099,917 | 29,151,500 |
| Portion of parliamentary appropriations used for specific projects | 1,758,307 | 2,323,763 |
| Appropriation used to purchase depreciable property, plant and equipment | (5,229,006) | (4,485,665) |
| Amortization of deferred capital funding | 2,561,880 | 2,895,917 |
| Parliamentary appropriations | \$ 30,191,098 | \$ 29,885,515 |

I 4. 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 into transactions with these entities in the normal course of business.

I 5. CONTINGENCIES

In the normal course of business, various claims and lawsuits have been brought against the Corporation. In management's opinion the outcome of these actions is not likely to result in any material amounts. In the event that management concludes that such losses were likely to be incurred and the costs were estimable, they would be charged to expense. The Corporation intends to vigorously defend these suits and claims, and maintains property and liability insurance to protect its assets.

I 6. COMMITMENTS

As at August 31, 2004, there remains approximately \$129,000 (\$429,000 in 2003) to be paid pursuant to agreements for office equipment, telephony services and leases. The future minimum payments are as follows:

| | |
|-----------|--------|
| 2004 — 05 | 66,000 |
| 2005 — 06 | 19,000 |
| 2006 — 07 | 19,000 |
| 2007 — 08 | 19,000 |
| 2008 — 09 | 6,000 |

17. FINANCIAL INSTRUMENTS

The corporation's financial instruments consist of cash, accounts receivable, investments, accounts payable, and accrued liabilities. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risk arising from these financial instruments. Unless otherwise disclosed, management estimates that the carrying values of the financial instruments approximate their fair market value.

The Corporation has access to a line of credit in the amount of \$3,000,000, with a variable daily interest rate at the bank's prime rate. The Corporation periodically uses the line of credit to manage day to day cash flow requirements as necessary.

18. COMPARATIVE FIGURES

Certain figures for 2003 have been reclassified to conform to the presentation adopted this year.

SCHEDULE I

SCHEDULE OF REVENUES AND EXPENSES COMMERCIAL OPERATIONS

For the year ended August 31

| | 2004 | | |
|------------------|------------|-----------|-----------|
| | \$ | \$ | \$ |
| | Revenues | Expenses | Net |
| Restaurants | 6,619,777 | 6,317,487 | 302,290 |
| Parking Services | 3,658,222 | 666,291 | 2,991,931 |
| Rental of Halls | 2,422,099 | 1,574,061 | 848,038 |
| | 12,700,098 | 8,557,839 | 4,142,259 |

| | 2003 | | |
|------------------|------------|-----------|-----------|
| | \$ | \$ | \$ |
| | Revenues | Expenses | Net |
| Restaurants | 6,481,213 | 6,267,566 | 213,647 |
| Parking Services | 3,470,141 | 622,433 | 2,847,708 |
| Rental of Halls | 2,659,111 | 1,841,046 | 818,065 |
| | 12,610,465 | 8,731,045 | 3,879,420 |

SCHEDULE 2

SCHEDULE OF REVENUES AND EXPENSES PROGRAMMING

For the year ended August 31

| | 2004 | 2003 |
|---|------------|------------|
| | \$ | \$ |
| Revenues | | |
| Music | 5,292,302 | 4,543,158 |
| English Theatre | 2,887,605 | 2,247,158 |
| Dance | 1,760,601 | 1,755,118 |
| French Theatre | 784,222 | 598,359 |
| Other Programmes | 431,376 | 842,848 |
| Programming Support | 325,329 | 439,493 |
| | 11,481,435 | 10,426,134 |
| Expenses | | |
| Music | 14,666,816 | 12,897,405 |
| English Theatre | 4,480,781 | 3,564,110 |
| Dance | 2,563,480 | 2,301,263 |
| French Theatre | 2,410,956 | 2,287,519 |
| Other Programmes | 1,724,280 | 2,726,645 |
| Programming Support | 6,399,972 | 6,200,244 |
| | 32,246,285 | 29,977,186 |
| Excess of expenses over revenues | 20,764,850 | 19,551,052 |

SCHEDULE 3

SCHEDULE OF EXPENSES BY TYPE

For the year ended August 31

| | 2004 | 2003 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Salaries and benefits | 23,790,781 | 22,555,096 |
| Artistic fees | 9,221,491 | 8,241,921 |
| National Arts Centre Orchestra fees | 6,213,337 | 6,002,078 |
| Advertising | 3,844,364 | 3,878,989 |
| Amortization | 2,561,880 | 2,895,917 |
| Cost of sales | 2,130,560 | 2,089,324 |
| Payments to municipalities | 2,015,980 | 1,757,200 |
| Utilities | 1,864,554 | 1,962,342 |
| Contract fees | 1,812,136 | 2,200,852 |
| Maintenance and repairs | 1,542,828 | 1,511,960 |
| Financial charges | 603,616 | 589,058 |
| Production | 569,273 | 341,438 |
| Staff travel | 539,832 | 490,323 |
| In-kind contributions of goods and services | 502,262 | 94,116 |
| Miscellaneous | 465,657 | 221,187 |
| Promotion | 454,496 | 615,124 |
| Office expenses | 415,034 | 473,093 |
| Supplies | 313,543 | 320,467 |
| Professional fees | 298,238 | 381,408 |
| Equipment | 268,271 | 277,366 |
| Education and training | 254,925 | 177,728 |
| Insurance | 226,203 | 204,287 |
| Telecommunications | 222,745 | 218,138 |
| Board expenses | 173,785 | 164,131 |
| Rental of facilities | 153,721 | 275,599 |
| | <u>60,459,512</u> | <u>57,939,142</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

AUGUST 31, 2004

FINANCIAL OVERVIEW

For the sixth consecutive year, the National Arts Centre is reporting a surplus from operations. This year's surplus is \$70,452, compared to \$65,203 in 2002-03, resulting in an accumulated surplus of \$1,246,685.

Total revenues, including Parliamentary appropriations, have increased by \$2,525,619 to \$60,529,964. Earned revenues - that is, revenues that the NAC generates itself - have increased by \$2,220,036 due in large part to an increased distribution from the NAC Foundation and to increased sales, demonstrating the NAC's commitment to its stated strategic goal of increasing earned revenue.

Total expenditures increased by \$2,520,370 because of increased programming activities to enable the fulfillment of its stated strategic goals:

- A renewed focus on artistic expansion and innovation;
- A far greater emphasis on the NAC's national role; and
- A greater commitment to youth and educational activities.

SELECTED FINANCIAL HIGHLIGHTS

Programming

Programming revenues consist largely of ticket sales and, increasingly, tour fees. Music revenues increased by \$749 thousand mainly due to tour fees (\$693 thousand) and single ticket sales (\$315 thousand), offset by lower subscription sales (-\$111 thousand). English Theatre's revenues were ahead of last year by \$640 thousand due mainly to the tour of *Copenhagen* to Toronto (\$410 thousand) and single ticket sales (\$315 thousand), offset by lower subscription sales (-\$77 thousand). French Theatre results increased \$185 thousand. Increases were seen in both single ticket sales (\$94 thousand) and subscription sales (\$51 thousand). The Musical *L'Homme de la Mancha* was held over, generating most of the single ticket sales increases. Dance results were up by \$5 thousand.

Music expenses have increased by \$1.7 million from last year, due mainly to the *U.S. - Mexico Tour* (\$850 thousand), a different emphasis in summer programming (\$427 thousand), an increase in youth and education activities (\$51 thousand) and increased costs of the Orchestra's fringe benefits (\$149 thousand). The Pops series costs have increased by \$143 thousand as a result of the recognition of in-kind advertising relating to sponsorship. The costs of the subscription sales programme have increased by \$83 thousand.

English Theatre expenses are greater than last year's by \$917 thousand. Costs increased in the *Main Stage Series* (\$589 thousand) because of the held over *Wit's End II: Heart's Desire* and the production of *Pélagie*. Expenditures also increased as a result of the tour of *Copenhagen* in Toronto (\$211 thousand). Costs have also increased in subscription sales marketing (\$41 thousand) and in youth and education activities (\$46 thousand).

In French Theatre, the total costs increased by \$123 thousand. The current year marked a return to touring, with *Le Moine noir* causing the costs of the main *Theatre Series* to increase by \$460 thousand over the previous year. The production played in Belgium and France before returning to Ottawa and moving on to Quebec City. This increased activity was financed by reductions in the *Studio Series* (-\$176 thousand) and in community programmes (-\$177 thousand). Support to francophone artistic communities was increased late in the previous fiscal year in anticipation of the current year's activities.

Dance costs increased by \$262 thousand mainly as a result of the presentation of the *Canada Dance Festival* (\$130 thousand). Costs also increased in *Series "A"* (\$51 thousand) and *Series "C"* (\$23 thousand). The non-subscription series, consisting of the *Nutcracker* and *L'hommage à Jean-Pierre Perreault*, showed an increase of \$89 thousand over the previous year.

Other programming costs decreased by \$1 million, mostly due to the *Atlantic Scene* in the previous year (-\$1.58 million). There were cost increases resulting from the 35th anniversary activities (\$150 thousand) and the *Governor General's Performing Arts Awards* (\$81 thousand). The latter increase is funded by the Department of Canadian Heritage.

Programming support expenditures increased by \$200 thousand mainly due to increased spending in marketing of \$296 thousand and reduced spending on *Hexagon*, New Media's internet broadcast studio (-\$111 thousand). The reduction in *Hexagon* spending was expected after the completion of the studio in the previous year. This programme is also funded by the Department of Canadian Heritage.

National Arts Centre Foundation

Following a presentation and request from the NAC, the Board of the Foundation distributed \$4.7 million for designated NAC programmes. The National Arts Centre Foundation represents a key element of the NAC's goal of increasing earned revenues. In 2003-2004, the Foundation had revenues of \$4.8 million. After this disbursement, the Foundation retained net assets of \$1.4 million.

Commercial Operations

Commercial revenues are derived from restaurants, parking services, and rental of halls. These activities showed improved results from 2002-2003. Net income in Restaurants has increased by \$89 thousand. Parking services continued their increase in net income (\$144 thousand) with continued market driven pricing strategies. Net income from the rental of halls has increased by \$30 thousand.

Facility Fees

The increase in revenue is partly due to a new pricing strategy increasing the fees to \$2.00 from \$1.50 on every ticket over \$15.00 (from \$10 in 2002-2003), which was put in place at the beginning of 2003-2004.

Parliamentary Appropriations

Parliamentary appropriations for operations exclude funds invested in property, plant and equipment. The increase in the Parliamentary appropriations for operations includes funding for *Hexagon* (\$220 thousand) and *ArtsAlive.ca* (\$55 thousand). One-time funding from previous years was replaced by a \$4.5 million increase in base funding. The amortization of deferred capital funding represents the draw down from the deferred Parliamentary appropriations, which decreased by \$334 thousand from 2003-2004.

Fundraising and Development

The NAC continues to invest in the Development Department in order to make it a full-service fundraising organization.

Building Operations

In accordance with the NAC's long-term agreement with the City of Ottawa, there was an increase in *ex-gratia* payments to the City of Ottawa of \$250 thousand. Labour costs increased by \$245 thousand due to increased repairs and wage increases as per the new collective agreement. Utility costs decreased \$94 thousand mainly due to a cool summer and milder winter.

Administration

The administration departments provide governance, executive, financial, communications, legal, risk management, purchasing and human resource services for the entire Corporation. Salary and benefit costs have increased by \$60 thousand. Other increases are due to training (\$27 thousand) advertising and promotion (mainly due to a reallocation of expenses for the production of corporate brochures and events, \$82 thousand). These increases were offset by reduced legal fees, especially for human resources (-\$108 thousand).

Capital projects

Notable projects were the refurbishment of the Theatre and Rehearsal Hall A (completed this year), and the second phase of the emergency generator replacement project. A total of \$5.2 million was expended in capital projects this year, funded in most part by a special allocation from Treasury Board.

OUTLOOK

With increasing earned revenues, the National Arts Centre is well-positioned to pursue its goals of artistic expansion and the pursuit of excellence in the performing arts. Management will continue to strive to increase the National Arts Centre's relevance on the national stage. Next year will see increased expenditures attributable to the production of the *Alberta Scene*, and a tour of British Columbia encompassing substantial educational programmes.

RISKS

The next few years will also present challenges as the National Arts Centre struggles with increased costs, especially for employee benefits and insurance, and reaches the end of the collective agreements with musicians, stage and restaurant employees.

The NAC was asked to participate in the government-wide reallocation exercise last year and contributed \$500,000 annually to the \$1 billion reduction exercise. These allocation exercises affect the current year's funding because the NAC's fiscal year ends after the beginning of the government's fiscal year. Further cuts are expected as a result of a new reallocation exercise announced in the last federal budget, beginning April 1, 2005. Corporate planning and achieving positive financial results in this environment is very challenging.

This year, the National Arts Centre celebrated its 35th anniversary. The building's infrastructure has been operating continuously for 35 years. Except for the parking garage refurbishment projects undertaken in the eighties, which now needs to be redone, most systems are original equipment. The building requires repairs and refurbishment far in excess of the funds available. Capital projects are generally undertaken to correct health and safety deficiencies or to avoid facility shutdowns. As time progresses, the gap between the needs and the financing grows, resulting in an increase in deferred maintenance. A Treasury Board report of the National Capital's cultural assets identified funding as a major issue in the management of facilities but funding decisions are in abeyance. This represents a heightened risk to the Corporation's operations.