

A & E TELEVISION NETWORKS THE ABRAHAM & MALKA GREEN FOUNDATION ACCENTURE CAVALIERE/CHEVALIER PASQUALINA 'PAT' ADAMO ADGA GROUP JOHN & ELIZABETH ADJELEIAN HICHAM ADRA THE A.E. GROSSMAN FOUNDATION AIR CANADA ALCATEL ALEXANDER KEITH'S NOVA SCOTIA BREWERY SAMUEL & PAM ALLEN AMBICO LTD. AMJ CAMPBELL INC. APOTEX FOUNDATION ARNON CORPORATION ATLANTIC CANADA OPPORTUNITIES AGENCY AUDI JOHN & BARBARA BARCLAY MARVIN & LYNDA BARNETT DR. NORMAN BARWIN & MRS. MYRNA BARWIN BILL BATES & INGRID HANSEN BATES ANDREAS BAUM CYNTHIA BAXTER BCE BELL GLOBEMEDIA DAVID BEATTIE MR. & MRS. JOHN BEATTY MARY B. BELL BELL CANADA DR. RUTH M. BELL. C.M. JENNY BELZBERG, C.M., A.O.E., L.L.D. PAUL & ROSEMARY BENDER MARION & ROBERT BENNETT GUSTAVE BÈRES BEST BUY CANADA NELSON & SANDRA BEVERIDGE BIDDLE MCGILLVRAY ADVERTISING VALERIE BISHOP-DEYOUNG & PHIL WASERMAN HELEN L. BOBYN BOMBARDIER INC. BOB & CHICA BONNEVILLE BORDEN LADNER GERVAIS LLP BOSTONIAN EXECUTIVE SUITES GERALD & DONNA BOULET LÉLIA D. BOUSQUET MR. & MRS. PETER BRANDON GRANT & ALICE BURTON BUSINESS DEVELOPMENT BANK OF CANADA NICK BUSING & CATHY AITKEN CABLE PUBLIC AFFAIRS CHANNEL INC. (CPAC) CALIAN TECHNOLOGIES CAMBRIDGE SUITES HOTEL CRAIG & ELIZABETH CAMPBELL CANADA MORTGAGE AND HOUSING CORPORATION CANADA POST CORPORATION CANADIAN ASSOCIATION OF BROADCASTERS CANADIAN CABLE TELEVISION ASSOCIATION CANADIAN FILM & TELEVISION PRODUCTION ASSOCIATION CANADIAN LIFE & HEALTH INSURANCE ASSOCIATION INC. CANADIAN MOTION PICTURE DISTRIBUTORS ASSOCIATION CANADIAN RUG TRADERS CANADIAN TOURISM COMMISSION CANRIL CORPORATION CANWEST GLOBAL FOUNDATION CAPITAL BOX OF OTTAWA LTD. CASINO DU LAC LEAMY CBC CGI GROUP INC. TOM & ELIZABETH CHARLTON SPENCER & JOCELYN CHENG DR. TREVOR & YVONNE CHIN QUEE CARRIE LEE CHUNG & XAVIER FURTADO CIBC CLARICA CLEARWATER FINE FOODS INC. MR. & MRS. COAKER COGNOS INC. ELLIOTT COHEN RICHARD & CLARA COOPER COOPER CONSULTING INC. MICHAEL & BERYL CORBER PATRICIA CORDINGLEY CORPORATE FURNITURE GROUP CORUS ENTERTAINMENT INC. YVES R. COUSINEAU COUZIN, TAYLOR LLP ROSS & DIANE CRADDOCK IAN & JAN CRAIG CRAIG BROADCASTING THE CRAIG FOUNDATION MR. PURDY CRAWFORD CTD LTD. ROBERT & MARIAN CUMMING CHRIS DALY PETER DANIELS & ELLY BARLIN CARLOS & MARIA DASILVA DAWSCO PROPERTY CORPORATION JOHN DE LA MOTHE CHRISTOPHER DEACON & GWEN GOODIER VIVEK H. DEHEJIA DR. NICOLE DELBROUCK & DR. WALTER DELPERO DELTA HOTELS DIAGEO CANADA INC. DILFO MECHANICAL LTD. THE DONALD R. SOBEY FOUNDATION DONNA CONA IAN & KIKI DELANEY ARTHUR DRACHE & JUDY YOUNG EASTLINK CABLE EDC - EXPORT DEVELOPMENT CANADA EDGESTONE CAPITAL DR. & MRS. PETER M. EDMISON CLAUDE EDWARDS EKOS RESEARCH ASSOCIATES INC. EMI MUSIC CANADA EMOND HARNDEN LLP ENBRIDGE GAS DISTRIBUTION ENBRIDGE INC. ENVIRONICS RESEARCH GROUP ERNST & YOUNG LLP ROBERT ERRINGTON & CHANTAL PÉRIARD ELLEN EWERT & FRANÇOIS GAUTHIER DR. & MRS. DAVID & JOSIE FINESTONE THE HONOURABLE SHEILA FINESTONE, P.C. JAMES & MARGARET FLECK SHEILA FORSYTH FRED & ELIZABETH FOUNTAIN MARGARET & DAVID FOUNTAIN JANICE FRANCISCO & DAVE THOMPSON DAVID FRANKLIN & LISE CHARTRAND FRASER MILNER CASGRAIN FRIENDS OF ENGLISH THEATRE RON & HEDY FRISCH THE HONOURABLE ROYCE FRITH, QC DOUGLAS FROSST & LORI GADZALA GALIN FOUNDATION FRANÇOIS GALLAYS & MARIE BENOIST JEANNE F. FULLER GALAXIE - THE CONTINUOUS MUSIC NETWORK E. & J. GALLO WINERY CANADA LTD. VERA & GEORGE GARA PIERRE GAREAU CAREY & NANCY GARRETT SYLVIA GAZSI-GILL & JOHN GILL GIANT TIGER STORES LTD. FREDERICK & JEAN GILBERT ESTATE OF JAMES WILSON GILL CLAUDE & CLAUDETTE GINGRAS MARJORIE OF THE NATIONAL ARTS CENTRE CORPORATION GOODRICH THE GORDON CREATIVE GROUP ROBERT & LYNN GOULD GOWGLINGS IRA GLUSKIN & FOR THE YEAR ENDED AUGUST 31, 2003 MAXINE GRANOVSKY DAVID & BONNIE GOLDSTEIN RICHARD & MARLENE GOULETTE GWENETH GOWANLOCK RENEE LESLIE GOZLAN DAVID & ROCHELLE GREENBERG ALAN GREENBERG & NAOMI HIMEL DARRELL & D. BRIAN GREGERSEN KATHLEEN GRIMES CHARLES & LINDA GUNNING STEPHEN & RAYMONDE HANSON THE HAROLD CRABTREE FOUNDATION DON & LOIS HARPER JOHN & DOROTHY HARRINGTON ELIZABETH HARRIS HARRY ROSEN INC. WILLIAM & NONA HEASLIP PETER HERRNDORF & EVA CZIGLER BARBARA HICKS MARK HIERLIHY DWIGHT HILL RON & ROSE ANN HOFFENBERG JACQUELIN HOLZMAN & JOHN RUTHERFORD HOMESTEAD LAND HOLDINGS LTD. HSBC BANK OF CANADA ALICE N. HUNT IBM CANADA LTD. IMPERIAL OIL CHARITABLE FOUNDATION IOGEN CORPORATION J. ARMAND BOMBARDIER FOUNDATION SARAH JENNINGS & IAN JOHNS JOHN W. & LAURA S. STEWART FOUNDATION LOIS M. JOHNSTON BEN JONES & MARGARET MCCULLOUGH MICHAEL JONES & KAREN KASCHUBE E. J. JORDAN JOYCE CONGER FUND FOR THE ARTS. COMMUNITY FOUNDATION OF OTTAWA ELIZABETH KANE & GORDON P. JACKSON T. GREGORY KANE & ADRIAN BURNS KATHLEEN MORRISON & ASSOCIATES INC. JEFFREY KAUFMAN & LAURIE GOLDHAR DR. JOHN KERSHMAN & MS. SABINA WASSERLAUF DAVID & DIANA KIRKWOOD THE KLARA K. KARPATI FUND MURRAY & MARVELLE KOFFLER TIANA KOFFLER BOYMAN & MARC BOYMAN DR. ANGELA KORITNIK BRUCE KOWBEL KPMG LLP ROZ & STANLEY LABOW LOUIS & MARIE-JOSÉE LAGASSÉ LAIDLAW FOUNDATION FRANCES LAZAR KEN & GAIL LAROSE GASTON & CAROL LAUZON MARC LEBLANC MICHELINE LEBRUN LE DROIT BERNARD LEDUC & MARIE LOUISE LAPOINTE THE LAWRENCE & JUDITH TANENBAUM FAMILY CHARITABLE FOUNDATION DR. FRANS LEENEN DR. DAVID S. R. LEIGHTON, O.C. & MRS. PEGGY LEIGHTON GILES LEO THE HONOURABLE MADAME JUSTICE CLAIRE L'HEUREUX DUBÉ JEAN B. LIBERTY HELEN & KEN LISTER LNL OPTENIA INC. ARTHUR & LORI LOEB KENNETH & CHRISTINA LOEB THE LOWE-MARTIN GROUP MAJOR WILLIAM LYE & DR. JUDITH DAVEY-LYE PETER LYNCH & LOUISE PATRY LYNWOOD PARK RETIREMENT LODGE HUGH MACDIARMID MICHAEL & FRANCINE MACIBORKA DON & JOY MACLAREN ROLAND & JULIE MADOU GREGORY & STEFANIE MAHON E. MANDL MAPLE FINANCIAL MARTI MARADEN MARK MOTORS OF OTTAWA DENIS MARLEAU CLAIRE MARSON STEFAN & MAGDALENA OPALSKI ROBERTO & LUCIA MARTELLA MARKS PFEIFER ASSOCIATES INC. BRUCE MAU & BISI WILLIAMS GRANT, CAROL & BRADEN MCDONALD IAN & JOAN MCDONALD THE MCKINLAYS: KENNETH, RONALD & JILL THE MCLAUGHLIN FAMILY M'CLOUGHLIN MEDIA DR. RUTH MCPHERSON & MR. YVES MARCEL HERB & ISABEL METCALFE MIJO CORPORATION MINION SOFTWARE MINTO RITA MOREL JOËL MORIN LE MOULIN WAKEFIELD MILL INN DR. HELEN K. MUSSALLEM, C.C. NATIONAL ARTS CENTRE ORCHESTRA ASSOCIATION NATIONAL BANK OF CANADA NATIONAL RESEARCH COUNCIL NEILSON DAIRY NEW SUN AWARD NEWFOUNDOUT LTD. CHARLES & SHEILA NICHOLSON JAMES NININGER & MARSHA SKUCE GAIL & DAVID O'BRIEN O'GILVY RENAULT LORI O'NEILL OSLER, HOSKIN & HARCOURT LLP THE OTTAWA CITIZEN THE OTTAWA JEWISH COMMUNITY FOUNDATION OTTAWA PIANO-ORGANS OTTAWA SENATORS MARY PAPADAKIS & ROBERT MCCULLOCH DAVID ROSS PARK J. A. PATTERSON LAURA PECK & BARRY M'CLOUGHLIN BERT PEREBOOM/PEARTREE SOLUTIONS INC. DON PENNYCOOK SHEILA-MARY PÉPIN DR. & MRS. BHISMA PERSAUD PETRO-CANADA MICHAEL U. POTTER GUY & MARY PRATTE PROSPECTUS ASSOCIATES IN CORPORATE DEVELOPMENT INC. WALTER & VIKI PRYSTAWSKI DR. DEREK PUDDESTER & MR. DAVID ROSE THE RAILWAY ASSOCIATION OF CANADA BERNARD RAYMOND RBC GLOBAL PRIVATE BANKING RENAISSANCE TRUST MRS. AILEEN S. RENNIE & MRS. ELENA DENT RHONDA RICHER & TIM LIPA MR. & MRS. E. C. RIDGEN BRIAN ROACH JAMES ROBBLEE & WENDY NICKLIN MR. R. GORDON ROBERTSON ROGERS MEDIA ROGERS TELEVISION FRANK & GLORIA ROSEMAN ST-LAURENT DENTAL CENTRE ST-LAURENT VOLVO KEVIN SAMPSON IN MEMORY OF DR. KIRITI SARKAR GO SATO URS & MAITÉ SCHENK SCOTIABANK LYNN & ADRIAN SCOTT SHERIDAN SCOTT & DAVID ZUSSMAN THE HONOURABLE MITCHELL SHARP & M^{ME} JEANNE D'ARC SHARP THE SHAW GROUP LTD. PAUL SHNIER & ELIZABETH WOLFE JACQUES & DONNA SHORE DOUG SHORE SHOUL & EILEEN SILVER MR. & MRS. SKARZENSKI HEATHER SKUCE HYMAN & RUTH SOLOWAY SOLOWAY WRIGHT MARIA SOMJEN JEAN-PIERRE SOUBLIÈRE HAMILTON & MARION SOUTHAM STARCAN FUND, TORONTO COMMUNITY FOUNDATION VICTORIA STEELE CAROL STEPHENSON HANS & GERDA STUTZ BRIAN SULLIVAN & ALLISON COOPER SUN LIFE FINANCIAL SUNY POTSDAM LEAH SUPERSTEIN DR. & MRS. JAMES SWAIL ANITA SZLZAK HALA TABL ELIZABETH TAYLOR TD BANK FINANCIAL GROUP TELUS ROBERT TENNANT WILLIAM & JEAN TERON JULIE TESKEY TEXTURE HAIR SALON RAMSEY, MASTER STYLIST HEATHER K. THORNTON CANADA'S NATIONAL ARTS CENTRE RALPH B. TOOMBS KENNETH & MARGARET TORRANCE TRANSALTA CORPORATION VERNON G. & BERYL CENTRE NATIONAL DES ARTS DU CANADA TURNER UNIVERSAL MUSIC UNIVERSITY OF OTTAWA URBANDALE CORPORATION VIA RAIL CANADA JULES VIGNOLA BOTHO & HELGA VON HAMPELN NANCY & WALLACE VROOMAN MARY ELIZABETH ('LIZ') & WALTER WADDELGORDON & HEATHER WALT WILLIAM & PHYLLIS WATERS DON & BILLY WILES DEBBIE WILSON MR. HUGH WINSOR & DR. CHRISTINA CAMERON MARTIN & THERESA WUNDER MAXWELL & JANICE YALDEN JANET YALE & DANIEL LOGUE PAUL ZENDROWSKI & CYNTHIA KING PINCHAS ZUKERMAN

AUDITED FINANCIAL STATEMENTS



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

National Arts Centre

53 Elgin Street
P.O. Box 1534, Station B
Ottawa, Ontario
Canada K1P 5W1

T: (613) 947-7000

F: (613) 996-9578

www.nac-cna.ca

ArtsAlive.ca

Canada

Table of contents

Management Responsibilities	2
Auditor's Report	3
Balance Sheet	4
Statement of Operations and Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	7
Schedule 1	14
<i>Schedule of revenues and expenses Commercial Operations</i>	
Schedule 2	15
<i>Schedule of revenues and expenses Programming</i>	
Schedule 3	16
<i>Schedule of expenses by type</i>	
Management Discussion and Analysis	17

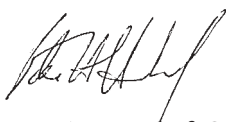
Management responsibilities

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 24, 2003


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, 2003 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, 2003 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 24, 2003
except as to Note 13
which is as of
March 31, 2004

Balance Sheet

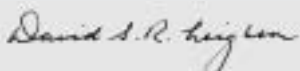
As at August 31

	2003	2002
	\$	\$
Assets		
Current		
Cash	5,006,906	6,893,605
Short-term investments (Note 3)	6,066,439	11,687,848
Accounts receivable	3,786,568	2,053,133
Restricted cash and investments (Note 4)	77,050	73,178
Inventories	677,194	388,748
Programmes in progress	1,617,366	1,765,812
Prepaid expenses	817,575	581,721
	<u>18,049,098</u>	<u>23,444,045</u>
Investments (Note 5)	4,000,000	2,000,000
Property, plant and equipment (Note 6)	<u>18,800,155</u>	<u>17,210,407</u>
	<u>40,849,253</u>	<u>42,654,452</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	5,168,181	6,214,651
Deferred revenues and parliamentary appropriations (Note 7)	<u>13,991,362</u>	<u>16,326,771</u>
	19,159,543	22,541,422
Deferred contributions (Note 8)	43,775	39,903
Deferred capital funding (Note 9)	18,800,155	17,210,407
Long-term portion of provision for employee severance benefits (Note 10)	<u>1,636,272</u>	<u>1,718,415</u>
	39,639,745	41,510,147
Endowment Fund (Note 11)	33,275	33,275
Equity of Canada		
Accumulated surplus	<u>1,176,233</u>	<u>1,111,030</u>
	<u>40,849,253</u>	<u>42,654,452</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

	2003	2002
	\$	\$
Revenues		
Commercial operations (Schedule 1)	12,610,465	11,236,268
Programming (Schedule 2)	10,426,134	9,974,073
National Arts Centre Foundation (Note 12)	3,806,116	2,850,000
Facility fees	560,971	563,492
Investments and other	715,144	581,788
	<u>28,118,830</u>	<u>25,205,621</u>
Parliamentary appropriations (Note 13)	29,885,515	25,665,004
	<u>58,004,345</u>	<u>50,870,625</u>
Expenses (Schedule 3)		
Commercial operations (Schedule 1)	8,731,045	7,676,897
Programming (Schedule 2)	29,977,186	26,332,947
Fundraising and development	2,266,932	1,650,226
Building operations	10,387,759	9,206,589
Administration and other	5,013,839	4,328,647
Information technology	1,562,381	1,587,012
	<u>57,939,142</u>	<u>50,782,318</u>
Net results of operations	65,203	88,307
Equity of Canada		
Equity - beginning of year	1,111,030	1,022,723
Equity - end of year	<u>1,176,233</u>	<u>1,111,030</u>

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

Statement of Cash Flows

For the year ended August 31

	2003	2002
	\$	\$
Operating activities		
Net results of operations	65,203	88,307
Item not affecting cash and investments		
Amortization	<u>2,895,917</u>	<u>2,912,111</u>
	2,961,120	3,000,418
Changes in non-cash operating assets and liabilities	(5,491,168)	9,800,430
Changes in deferred contributions	3,872	(1,368)
Changes in deferred capital funding	1,589,748	336,186
Changes in long-term portion of provision for employee severance benefits	<u>(82,143)</u>	<u>32,465</u>
Cash flows provided by (used for) operating activities	<u>(1,018,571)</u>	<u>13,168,131</u>
Investing activities		
Investments	(2,000,000)	(2,000,000)
Additions to property, plant and equipment	(4,485,665)	(3,248,297)
Changes in restricted cash and investments	(3,872)	(3,632)
Cash flows used for investing activities	<u>(6,489,537)</u>	<u>(5,251,929)</u>
Increase (Decrease) in cash position	(7,508,108)	7,916,202
Cash position at beginning of year	<u>18,581,453</u>	<u>10,665,251</u>
Cash position at end of year	<u><u>11,073,345</u></u>	<u><u>18,581,453</u></u>
Composed of:		
Cash	5,006,906	6,893,605
Short-term investments	6,066,439	11,687,848
	<u><u>11,073,345</u></u>	<u><u>18,581,453</u></u>
Supplementary disclosure of cash flow information		
Interest received	<u>586,371</u>	<u>363,448</u>

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

Notes to the financial statements

August 31, 2003

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*. 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 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

(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 to revenue on the same basis and over the same periods as the related capital 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 appropriations 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.

(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) Investments

Investments are intended to be held to maturity and are reported at cost.

(f) Property, plant and equipment

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:

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

(g) Deferred revenue

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

(h) 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.

(i) Operating expenses

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

(j) 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. 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 contracts and conditions of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

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 was 2.71% for the year ended August 31, 2003 (3.77% in 2002). 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. 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 was 5.07% for the year ended August 31, 2003 (4.98% in 2002). All investments are rated "A" or "A1/R1" or better by a recognized bond rating agency. The fair value of investments as at August 31, 2003 is \$4,121,016 (\$2,036,801 in 2002).

6. Property, Plant and Equipment

	Cost	2003 Accumulated amortization	Net book value	2002 Net book value
Land	\$ 78,201	\$ —	\$ 78,201	\$ 1
Buildings	47,665,107	39,722,351	7,942,756	7,846,128
Building improvements	32,436,185	26,453,578	5,982,607	5,948,546
Equipment	6,311,240	5,319,665	991,575	1,133,292
Computer software and hardware	1,845,665	1,703,106	142,559	315,246
Assets under construction	3,662,457	—	3,662,457	1,967,194
	<u>\$ 91,998,855</u>	<u>\$ 73,198,700</u>	<u>\$ 18,800,155</u>	<u>\$ 17,210,407</u>

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:

	2003	2002
Advanced sales - programming	\$ 5,255,990	\$ 5,141,575
Revenues from commercial operations and other	669,894	1,046,956
Appropriations received for the next fiscal year	4,389,000	4,138,000
Unused appropriations received for building refurbishment	2,843,087	2,002,073
Unused appropriations received for specific purposes	833,391	3,998,167
Balance at end of year	<u>\$ 13,991,362</u>	<u>\$ 16,326,771</u>

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:

	2003	2002
Balance at beginning of year	\$ 39,903	\$ 41,271
Interest income	2,817	3,232
Donations	14,505	8,850
Distributions to NACO Bursary recipients	(13,450)	(13,450)
Balance at end of year	<u>\$ 43,775</u>	<u>\$ 39,903</u>

9. 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:

	2003	2002
Balance at beginning of year	\$ 17,210,407	\$ 16,874,221
Appropriations used to purchase depreciable capital assets	4,485,665	3,248,297
Amortization	(2,895,917)	(2,912,111)
Balance at end of year	<u>\$ 18,800,155</u>	<u>\$ 17,210,407</u>

10. Employee Future Benefits

i) Pension plan

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

	2003	2002
Employer	\$ 1,453,895	\$ 1,217,126
Employees	573,994	487,725

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:

	2003	2002
Balance at beginning of year	\$ 2,101,284	\$ 1,868,488
Expense for the year	171,039	314,753
Benefits paid during the year	(64,487)	(81,957)
Balance at end of year	\$ 2,207,836	\$ 2,101,284
Short-term portion	\$ 571,564	\$ 382,869
Long-term portion	1,636,272	1,718,415
	\$ 2,207,836	\$ 2,101,284

11. 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 (2002 — \$1,576) is included in deferred contributions.

12. 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 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, 2003, 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 and the results of operations of the Foundation as at August 31, 2003 for the period then ended are as follows:

Financial position	2003	2002
Total assets	\$ 2,041,719	\$ 1,806,985
Total liabilities	697,926	683,703
Total net assets*	\$ 1,343,793	\$ 1,123,282

* All of the Foundation's net assets must be provided for the sole use of the National Arts Centre Corporation. An amount of \$410,669 (2002 - \$140,963) of the Foundation's net assets is subject to donor imposed restrictions that it be maintained permanently in the Foundation and that the related investment revenue be used for the benefit of the National Arts Centre's music programming and youth and education programmes.

Results of operations	2003	2002
Total revenues	\$ 4,040,730	\$ 3,087,692
Total expenses	14,104	18,746
Total distributions to the National Arts Centre**	3,806,116	2,850,000
Excess of revenues over distributions and expenses	\$ 220,510	\$ 218,946

** 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.

13. Parliamentary Appropriations

	2003	2002
Main Estimates amount provided for operating and capital expenditures	\$ 25,455,500	\$ 24,304,168
Supplementary estimates***	3,696,000	7,064,000
Appropriations approved	29,151,500	31,368,168
Portion of parliamentary appropriations used (deferred) for specific projects	2,323,763	(5,366,978)
Appropriation used to purchase depreciable capital assets	(4,485,665)	(3,248,297)
Amortization of deferred capital funding	2,895,917	2,912,111
Parliamentary appropriations	\$ 29,885,515	\$ 25,665,004

*** On March 31, 2004, Parliament approved a supplementary appropriation of \$4,675,000 for the 12 months ending March 31, 2004. Of this amount, \$1,875,000 were recorded as parliamentary appropriations for the year ended August 31, 2003. An equivalent amount was recorded as accounts receivable as at August 31, 2003.

14. 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.

15. 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 amounts. The Corporation intends to vigorously defend these suits and claims.

16. Commitments

As at August 31, 2003, there remains approximately \$429,000 (\$1,144,000 in 2002) to be paid pursuant to agreements for information technology, telephony services and leased vehicles. The future minimum payments are as follows:

2003-04	412,000
2004-05	17,000
2005-06	—
2006-07	—
2007-08	—

17. Comparative Figures

Certain figures for 2002 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

	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

	2002		
	Revenues	Expenses	Net
Restaurants	\$ 6,099,863	\$ 5,940,223	\$ 159,640
Parking Services	3,367,262	654,415	2,712,847
Rental of Halls	1,769,143	1,082,259	686,884
	\$ 11,236,268	\$ 7,676,897	\$ 3,559,371

Schedule 2

Schedule of revenues and expenses

Programming

For the year ended August 31

	2003	2002
Revenues		
Music	\$ 4,543,158	\$ 4,247,096
English Theatre	2,247,158	2,173,248
Dance	1,755,118	2,218,361
French Theatre	598,359	610,620
Other Programmes	842,848	388,698
Programming Support	439,493	336,050
	<hr/>	<hr/>
	\$ 10,426,134	\$ 9,974,073
Expenses		
Music	\$ 12,897,405	\$ 10,981,450
English Theatre	3,564,110	3,330,972
Dance	2,301,263	2,596,979
French Theatre	2,287,519	2,030,759
Other programmes	2,726,645	1,567,229
Programming Support	6,200,244	5,825,558
	<hr/>	<hr/>
	\$ 29,977,186	\$ 26,332,947
Excess of expenses over revenues	<hr/> \$ 19,551,052	<hr/> \$ 16,358,874

Schedule 3

Schedule of expenses by type

For the year ended August 31

	2003	2002
Salaries and benefits	\$ 22,555,096	\$ 19,203,741
Artistic fees	8,241,921	7,411,433
National Arts Centre Orchestra fees	6,002,078	4,862,336
Advertising	3,878,989	3,294,464
Amortization	2,895,917	2,912,111
Contract fees	2,200,852	2,111,622
Cost of sales	2,089,324	1,968,261
Utilities	1,962,342	1,681,999
Payments to municipalities	1,757,200	1,250,000
Maintenance and repairs	1,511,960	1,612,207
Promotion	615,124	478,492
Financial charges	589,058	452,176
Staff travel	490,323	418,365
Office expenses	473,093	419,549
Professional fees	381,408	388,376
Production	341,438	341,978
Supplies	320,467	292,595
Equipment	277,366	424,912
Rental of facilities	275,599	241,005
Miscellaneous	221,187	180,921
Telecommunications	218,138	223,135
Insurance	204,287	140,944
Education and training	177,728	182,620
Board expenses	164,131	143,069
In-kind contributions of goods and services	94,116	146,007
	\$ 57,939,142	\$ 50,782,318

Management discussion and analysis

August 31, 2003

During 2002-2003, the National Arts Centre completed its corporate plan and presented it to Treasury Board for informational purposes in October 2003. This follows the completion of a capital plan in 2001-2002. The purpose of these plans is to help ensure that management has effective strategies for fulfilling the organization's mandate and deliver its programs.

We continue to enhance our reporting with a detailed discussion and analysis of the year over year results for our stakeholders.

Financial Overview

For the fifth consecutive year, the National Arts Centre (NAC) is reporting a surplus from operations. This year's surplus amounts to \$65,203, compared to \$88,307 in 2001-02, resulting in an accumulated surplus of \$1,176,233.

Total revenues, including parliamentary appropriations, increased by \$7,133,720 to \$58,004,345. Earned revenues - that is, revenues that the NAC generates itself - increased by \$2,913,209 due in large part to an increased transfer from the NAC Foundation and to increased sales, demonstrating the commitment to our strategic goal of increasing our earned revenue.

Total expenditures increased by \$7,156,824 as a result of increased programming activities, increased costs in building operations and employee wage and benefits cost increases in all divisions of the Corporation.

Statement of Operations

Programming

Programming expenses increased by \$3.6 million due to touring, the production of the *Atlantic Scene*, more in-house production and youth programming. These expenditures demonstrate the NAC's commitment to artistic expansion and innovation and a greater emphasis on its national role.

Music expenses have increased by \$1.9 million from last year due mainly to a return to touring after a year long hiatus, with a tour of the Atlantic Provinces (\$764 thousand). Increased artists' fees (\$561 thousand), continued growth of the NAC's new music initiative (\$146 thousand) and of our educational programmes (\$34 thousand), and general increases in costs of goods and services in the main subscription programmes round out these increases.

English Theatre expenses are greater than last year's by \$233 thousand. Costs increased in the Main series (\$130 thousand) and Studio series (\$65 thousand) due to increased in-house productions, while costs decreased in Specials (-\$123 thousand) as the large Shakespearean play presented as a special in 2001-2002 was presented in the Main series in 2002-2003.

In French Theatre, the costs increased by \$257 thousand. The 2002-2003 year marked a return to in-house production for French Theatre and the costs of both the Theatre and Studio series increased by \$120 thousand and \$74 thousand respectively.

Dance costs decreased by \$296 thousand mainly as a result of the presentation of a smaller *Nutcracker* than last year's (\$527 thousand), and the Canada Dance Festival's off year (\$100 thousand). Costs increased in the Classical Ballet series (\$146 thousand) and Series B (\$83 thousand) and in Youth and Education programming (\$79 thousand) with \$66 thousand of the latter amount representing a new youth commission programme.

Other programming costs increased by \$1.16 million, mostly due to the production of the *Atlantic Scene*, the showcase for artists from Canada's four Atlantic Provinces.

Programming support expenditures increased by \$374 thousand. The majority of these costs is due to staffing reclassifications and increased benefit costs.

Programming revenues consist largely of ticket sales. Music revenues increased by \$296 thousand mainly due to ticket sales (\$217 thousand) and other revenues such as tour fees (\$71 thousand). English theatre's revenues increased by \$73 thousand. French theatre's revenues decreased by \$12 thousand. Some performances were cancelled in 2002-2003 due to an actor's illness and sales for *Quelqu'un va venir* were disappointing despite critical acclaim for the show. Dance revenues were down by \$463 thousand mainly because a smaller and shorter version of the *Nutcracker* was presented. Other programming revenues increased by \$454 thousand due mainly to the presentation of the *Atlantic Scene*.

National Arts Centre Foundation

Following a presentation and request from the NAC, the Board of the Foundation voted to distribute \$3.8 million for designated NAC programmes. The National Arts Centre Foundation represents a key element of the NAC's goal of increasing earned revenues. All fundraising became the responsibility of the National Arts Centre Foundation in 2001-2002. The NAC Foundation is a separate legal entity with its own Board of Directors. In 2002-2003 the Foundation raised \$4 million. After this disbursement, the Foundation retained an accumulated balance of \$1.3 million.

Commercial Operations

Commercial revenues are derived from Foodservices, Parking Services, and Hall Rentals. These activities showed improved results from 2001-2002. Net income in Foodservices increased by \$54 thousand or 33%. Parking continued their increase in net income (\$135 thousand) with continued market driven pricing strategies and benefiting from the tight parking market in downtown Ottawa. Rental net income increased by \$131 thousand due to a greater number of performances.

Facility Fees

Facility fees are collected as a \$1.50 surcharge on every ticket sold where the ticket value exceeds \$10.00. The increased programming revenue did not translate into increased facility fees because a number of *Atlantic Scene* programmes were held offsite and were not subject to the fee.

Investments and other

Investments brought in \$56 thousand more than last year due to the increase amount in long-term investments. Other revenues increased by \$71 thousand due to sales tax refunds.

Parliamentary Appropriations

Parliamentary appropriations consist of two revenue items: parliamentary appropriations for operations and the amortization of deferred capital funding. Parliamentary appropriations for operations exclude funds spent on capital expenditures. The increase in the parliamentary appropriations (\$4.2 million) is due mainly to the recognition of one-time funding for Hexagon (\$330 thousand), the *Atlantic Scene* (\$800 thousand), Arts Alive (\$80 thousand) and 5/12ths of the new funding from the February 2003 federal budget (\$1.875 million).

The amortization of deferred capital funding represents the draw down from the deferred parliamentary appropriations, which represents the parliamentary appropriations used to purchase capital assets. These funds are recognized at the same rate as the depreciation of the underlying asset. The amount drawn down decreased by \$16 thousand from the 2001-2002 fiscal year.

Fundraising and Development

We continue to invest in the Development Department in order to make it a full-service fundraising organization. The increase in expenditures is the result of higher staff costs (\$393 thousand) and tele-marketing and advertising costs (\$145 thousand) mainly for the Theatre seat campaign.

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 \$500 thousand. Labour costs increased \$320 thousand due in part to more repairs but also to higher benefit costs and a scheduled increase as per the collective agreement. Utility costs increased \$258K mainly due to a much colder January. In January 2003 the average minimum temperature for the month was 9.5 degrees lower than the previous January and almost 15 degrees lower than the 30-year average for January.

Administration

The administration departments provide governance, executive, financial, communications, legal, risk management, purchasing and human resource services for the entire corporation. These costs are not charged back to other departments. All cost centres in this category grew in 2002-03, with workers compensation benefits (\$183 thousand), salaries (\$154 thousand) and benefits (\$89 thousand) and the provision for employee severance benefits (\$54 thousand) the leading causes. The changes in the severance benefit provision reflect the seniority, age and salary levels of the employees. The salary increases reflect the new pay for performance plan implemented last year. The benefit cost increases reflect the changes to the plan implemented in April 2003 to bring the NAC's plan in line with the benefits offered by the federal public service plan.

Balance Sheet

Cash and Short-term investments

The decrease in cash and short-term investments (\$7.5 million) stems from the \$2 million transferred longer-term investments, the \$1.875 million receivable in parliamentary appropriations already used in operations and funding drawn down this year for special projects such as the *Atlantic Scene* (\$800 thousand), Hexagon (\$330 thousand) and the acquisition and refurbishment of a warehouse (\$2,381 thousand). These amounts were received in the previous fiscal year.

Investments

During the year, the Corporation determined that more cash could be invested for longer terms to generate higher returns to support mandated activities. An additional \$2 million was invested. The Corporation generates positive cash flow mainly through the sale of subscriptions for the next season.

Deferred Revenue and Parliamentary Appropriations

Deferred revenues represent funds received for work to be done in the future. This includes ticket sales for future programmes and deposits on catering and hall rentals. The major decreases are due to changes to the deferral of parliamentary appropriations (\$2 million) used for special projects, including the purchase of a warehouse and Hexagon. Delays in capital spending result in parliamentary appropriations for capital projects being deferred to the following year.

Capital Expenditures

The National Arts Centre issued its first Capital Plan at August 31, 2002. Notable projects for this year were the refurbishment of the Theatre seating and of Rehearsal Hall A, and the purchase and refurbishment of a warehouse in Gatineau. A total of \$4.5 million was expended in capital projects this year, funded in large part by special appropriations from Treasury Board.

Outlook

With stable government funding and increasing earned revenues, the National Arts Centre is well poised to continue its goal 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 and, increasingly, the international stage as well. The next few years will also present challenges, as the National Arts Centre struggles with increased costs, especially for electricity, employee benefits and insurance, and reaches the end of its current collective agreements with its unionized staff.