One nation 1,000 performances

Audited financial statements of the National Arts Centre Corporation for the year ended August 31, 2005

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

Table of contents

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 applicable provisions of the *Financial Administration Act*, 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 Minister of Canadian Heritage and 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

Daniel Senyk, CA
Chief Financial Officer

October 28, 2005

Auditor's report

To the Minister of Canadian Heritage and
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, 2005 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the applicable provisions of Part X of the *Financial Administration Act*, the *National Arts Centre Act* and the by-laws of the Corporation.

Lyse Ricard, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
October 28, 2005

Balance sheet

As at August 31

	2005	2004
	$	$
Assets		
Current		
Cash	**6,875,169**	9,100,109
Short-term investments (Note 3)	**626,149**	3,071,424
Accounts receivable	**1,811,287**	1,571,889
Restricted cash and investments (Note 4)	**-**	83,372
Inventories	**362,584**	380,729
Programmes in progress	**1,951,133**	2,186,382
Prepaid expenses	**1,033,560**	894,529
	12,659,882	17,288,434
Investments (Note 5)	**8,816,444**	5,000,000
Property, plant and equipment (Note 6)	**22,176,819**	21,467,281
	43,653,145	43,755,715
Liabilities		
Current		
Accounts payable and accrued liabilities	**6,257,656**	5,670,480
Deferred revenues and parliamentary appropriations (Note 7)	**13,039,536**	13,431,581
	19,297,192	19,102,061
Deferred contributions (Note 8)	**-**	50,097
Deferred capital funding (Note 9)	**22,176,819**	21,467,281
Long-term portion of provision for employee severance benefits (Note 10)	**1,824,169**	1,856,316
	43,298,180	42,475,755
Endowment Fund (Note 11)	**-**	33,275
Equity of Canada		
Accumulated surplus	**354,965**	1,246,685
	43,653,145	43,755,715

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:

David S.R. Leighton

Chair

Chair of the Finance and Audit Committee

Statement of Operations and equity

For the year ended August 31

	2005	2004
	$	$
Revenues		
Commercial operations (Schedule 1)	**12,194,543**	12,700,098
Programming (Schedule 2)	**10,465,029**	11,481,435
Distribution from the National Arts Centre Foundation (Note 12)	**6,195,764**	4,700,000
Facility fees	**720,306**	756,226
Investments and other	**746,151**	701,107
	30,321,793	30,338,866
Parliamentary appropriations (Note 13)	**32,921,063**	30,191,098
	63,242,856	60,529,964
Expenses (Schedule 3)		
Commercial operations (Schedule 1)	**8,584,597**	8,557,839
Programming (Schedule 2)	**35,056,396**	32,246,285
Fundraising and development	**2,877,825**	2,513,856
Building operations	**11,438,669**	10,803,130
Administration and other	**5,339,573**	5,129,564
Information technology	**837,516**	1,208,838
	64,134,576	60,459,512
Net results of operations	**(891,720)**	70,452
Equity of Canada		
Equity - beginning of year	**1,246,685**	1,176,233
Equity - end of year	**354,965**	1,246,685

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

Statement of Cash flows

For the year ended August 31

Cash Flows from (used in):	2005	2004
	$	$
Operating activities		
Net results of operations	**(891,720)**	70,452
Items not affecting cash		
Amortization	**2,814,424**	2,561,880
Amortization of deferred capital funding	**(2,814,424)**	(2,561,880)
	(891,720)	70,452
Change in non-cash operating assets and liabilities	**2,515,371**	4,802,707
Change in deferred contributions	**(50,097)**	6,322
Change in long-term portion of provision for employee severance benefits	**(32,147)**	220,044
	1,541,407	5,099,525
Investing activities		
Purchase of investments	**(3,816,444)**	(1,000,000)
Additions to property, plant and equipment	**(3,523,962)**	(5,229,006)
Changes in endowment funds	**(33,275)**	-
Changes in restricted cash and investments	**83,372**	(6,322)
	(7,290,309)	(6,235,328)
Financing activities		
Parliamentary appropriations used for the acquisition of property, plant and equipment	**3,523,962**	5,229,006
Increase (Decrease) in cash position	**(2,224,940)**	4,093,203
Cash at beginning of year	**9,100,109**	5,006,906
Cash at end of year	**6,875,169**	9,100,109
Supplementary disclosure of cash flow information		
Interest received	**483,548**	536,002

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

Notes to the financial statements

August 31, 2005

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 Ac*t, Divisions I to IV of the Act, except sections 131 to 148 of Division III, 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) Investments

i) Short-term investments and Restricted cash and investments consist of investments in money market instruments with terms to maturity of 12 months or less and are valued at the lower of cost and fair market value.

ii) Investments are recorded at cost and are written down to market value when the loss in value is considered to be other than a temporary decline. The investments may be sold in response to a change in the Corporation's liquidity requirements.

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

Amounts included in assets under construction are transferred to the appropriate capital classification upon completion and are amortized according to the Corporation's policy.

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 Pension 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 over time depending on the experience of 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 Pension Plan.

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 estimated useful life of property, plant and equipment.

j) Future accounting changes

In January 2005, the Canadian Institute of Chartered Accountants issued the following accounting standards that will affect the Corporation:

Section 3855: Financial Instruments – Recognition and Measurement
This standard sets out criteria for the recognition, derecognition, measurement and classification of financial instruments. The Corporation will be required to categorise its financial assets as held for trading, held to maturity, available for sale, or as loans and receivables. The related accounting treatment will be dependent on the classification. Financial assets categorised as held for trading or available for sale are to be measured at fair value while financial assets held to maturity, loans and receivables are measured at amortized cost.

Section 1530: Comprehensive Income
This standard requires certain gains and losses, that would otherwise be recorded as part of net results, to be presented in other comprehensive income until it is considered appropriate to be recognized in net results. The Corporation may be required to present a new financial statement titled *Comprehensive Income* to record such amounts until they are realized.

These new standards will come into effect for the Corporation's 2007-2008 fiscal year; however, early adoption provisions exist. The Corporation is in the process of determining the impact these standards will have on its financial reporting.

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 3.69% (3.76% in 2004). All short-term investments are rated "BBB/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 4.74% (4.94% in 2004). All investments are rated "BBB" (investment grade) or better by a recognized bond rating agency. The fair market value of investments as at August 31, 2005 was $9,106,845 ($5,003,010 in 2004).

6. Property, Plant and Equipment

	2005 Cost	2005 Accumulated amortization	2005 Net book value	2004 Net book value
Land	$ 78,201	$ –	$ 78,201	$ 78,201
Buildings	47,665,106	42,109,162	5,555,944	6,749,350
Building improvements	37,972,830	28,659,813	9,313,017	8,362,213
Equipment	11,267,708	5,954,512	5,313,196	1,080,421
Computer software and hardware	1,515,755	1,296,629	219,126	189,509
Assets under construction	1,697,335	–	1,697,335	5,007,587
	$ 100,196,935	$ 78,020,116	$ 22,176,819	$ 21,467,281

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 to be 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:

	2005	2004
Advanced sales - programming	**$ 5,251,441**	$ 5,321,548
Revenues from commercial operations and other	**741,642**	734,028
Appropriations received for the next fiscal year	**5,204,000**	5,457,834
Unused appropriations received for building refurbishment	**1,140,338**	1,169,420
Unused appropriations received for specific purposes	**702,115**	748,751
Balance at end of year	**$ 13,039,536**	$ 13,431,581

8. Deferred Contributions

Deferred Contributions represent amounts held for the National Arts Centre Orchestra (NACO) Trust Fund. In August 2005 the custody of this fund was transferred to the National Arts Centre Foundation.

Changes in the deferred contributions balance are as follows:

	2005	2004
Balance at beginning of year	**$ 50,097**	$ 43,775
Interest income	**3,629**	3,254
Donations received	**19,609**	17,518
Distributions to NACO Bursary recipients	**(15,950)**	(14,450)
Transfer of funds to the National Arts Centre Foundation	**(57,385)**	–
Balance at end of year	**$ –**	$ 50,097

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:

	2005	2004
Balance at beginning of year	$ 21,467,281	$ 18,800,155
Appropriations used to purchase depreciable property, plant and equipment	3,523,962	5,229,006
Amortization	(2,814,424)	(2,561,880)
Balance at end of year	$ 22,176,819	$ 21,467,281

10. Employee Future Benefits

i) Pension plan

The Corporation and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Corporation's and employees' contributions to the Public Service Pension Plan during the year were as follows:

	2005	2004
Corporation	$ 1,704,717	$ 1,545,428
Employees	705,981	631,680

ii) Employee severance benefits

The Corporation provides severance benefits to its employees based on years of service and final salary. 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, measured as at the balance sheet date, is as follows:

	2005	2004
Balance at beginning of year	$ 2,332,208	$ 2,207,836
Cost for the year	346,450	332,096
Benefits paid during the year	(142,756)	(207,724)
Balance at end of year	$ 2,535,902	$ 2,332,208
Short-term portion (Included in accounts payable and accrued liabilities)	$ 711,733	$ 475,892
Long-term portion	1,824,169	1,856,316
	$ 2,535,902	$ 2,332,208

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 ($1,747 in 2004) is included in deferred contributions. In August 2005 the custody of this fund was transferred to the National Arts Centre Foundation.

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 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 individuals, foundations and corporations to support National Arts Centre programmes. The Board of Directors of the Foundation is elected by its voting members, composed of the current Corporation Board of Trustees. 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, 2005, with the exception of legal, audit, credit card charges, and insurance expenses, have been reported in the statement of operations and equity of the Corporation as Fundraising and development expenses. The amounts distributed to the Corporation by the Foundation are recorded as Distribution from the National Arts Centre Foundation 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, 2005 and the results of operations for the period then ended are as follows:

Financial position		**2005**		2004
Total assets	**$**	**2,442,918**	$	2,209,521
Total liabilities		**779,145**		788,858
Total net assets *	**$**	**1,663,773**	$	1,420,663

* All of the Foundation's net assets must be provided for the priorities of the Corporation. An amount of $1,636,179 ($1,173,963 in 2004) of the Foundation's net assets is subject to donor imposed restrictions, of which $987,006 ($829,462 in 2004) 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		**2005**		2004
Total revenues	**$**	**6,470,033**	$	4,813,173
Total expenses		**31,159**		36,303
Total distributions to the National Arts Centre Corporation **		**6,195,764**		4,700,000
Excess of revenues over distributions and expenses	**$**	**243,110**	$	76,870

** 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, Youth and educational activities, and other initiatives of the Corporation at the Centre and elsewhere in Canada.

13. Parliamentary Appropriations

	2005	2004
Main Estimates amount provided for operating and capital expenditures	**$ 31,383,250**	$ 28,485,250
Supplementary estimates	**2,171,633**	2,614,667
Appropriations approved	**33,554,883**	31,099,917
Portion of parliamentary appropriations used for specific projects	**75,718**	1,758,307
Appropriation used to purchase depreciable property, plant and equipment	**(3,523,962)**	(5,229,006)
Amortization of deferred capital funding	**2,814,424**	2,561,880
Parliamentary appropriations	**$ 32,921,063**	$ 30,191,098

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. During the year, the Corporation incurred expenses totalling $1,719,319 ($1,815,396 in 2004) and recorded commercial and programming revenues of $1,690,659 ($1,597,736 in 2004) with related parties. As at August 31st, the Corporation recorded accounts receivable with related parties of $405,037 ($147,176 in 2004) and accounts payable of $73,407 ($70,831 in 2004).

15. 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.

16. Commitments

As at August 31, 2005, there remains approximately $138,000 ($129,000 in 2004) to be paid pursuant to agreements for office equipment, telephony services and leases. The future minimum payments are as follows:

2005 — 06	$ 56,000
2006 — 07	36,000
2007 — 08	36,000
2008 — 09	10,000

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 2004 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

	2005		
	$	$	$
	Revenues	Expenses	Net
Restaurants	6,327,806	6,470,322	(142,516)
Parking Services	3,687,481	718,155	2,969,326
Rental of Halls	2,179,256	1,396,120	783,136
	12,194,543	8,584,597	3,609,946

	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

Schedule 2

Schedule of revenues and expenses
Programming

For the year ended August 31

	2005	2004
	$	$
Revenues		
Music	**4,061,065**	5,292,302
English Theatre	**2,035,112**	2,887,605
Dance	**1,999,009**	1,760,601
Other Programmes*	**1,311,190**	431,376
French Theatre	**601,424**	784,222
Programming Support	**457,229**	325,329
	10,465,029	11,481,435
Expenses		
Music	**13,818,148**	14,666,816
English Theatre	**3,789,766**	4,480,781
Dance	**2,879,537**	2,563,480
Other Programmes	**4,751,171**	1,724,280
French Theatre	**2,563,976**	2,410,956
Programming Support	**7,253,798**	6,399,972
	35,056,396	32,246,285
Excess of expenses over revenues	**24,591,367**	20,764,850

* **Centennial Legacy Grant – Province of Alberta**
The National Arts Centre acknowledges the very generous contribution of a Centennial Legacy Grant from the Province of Alberta in the amount of $500,000, plus interest of $16,918 for the purpose of developing and implementing the Alberta Scene, a showcase of Alberta artists. These amounts are included in Other Programmes above.

Schedule 3

Schedule of expenses by type

For the year ended August 31

	2005	2004
	$	$
Salaries and benefits	**25,125,603**	23,790,781
Artistic fees	**10,053,854**	9,221,491
National Arts Centre Orchestra fees	**6,176,341**	6,213,337
Advertising	**4,349,085**	3,844,364
Amortization	**2,814,424**	2,561,880
Cost of sales	**2,059,358**	2,130,560
Utilities	**2,045,685**	1,864,554
Payments to municipalities	**2,022,908**	2,015,980
Contract fees	**1,843,326**	1,812,136
Maintenance and repairs	**1,483,924**	1,542,828
In-kind contributions of goods and services	**995,765**	502,262
Promotion	**882,009**	454,496
Financial charges	**608,764**	603,616
Production	**549,515**	787,993
Staff travel	**539,381**	539,832
Office expenses	**400,243**	415,034
Equipment	**388,007**	323,792
Professional fees	**324,356**	298,238
Rental of facilities	**271,917**	153,721
Supplies	**260,462**	313,543
Telecommunications	**224,207**	222,745
Insurance	**211,982**	226,203
Education and training	**180,951**	254,925
Board expenses	**146,198**	173,785
Miscellaneous	**176,311**	191,416
	64,134,576	60,459,512

Finance and audit committee disclosure

The National Arts Centre Corporation Board of Trustees' Finance and Audit Committee is responsible for the review of all the financial, risk and compliance matters of the Corporation. The Committee reports regularly to the Board of Trustees on such matters in order to facilitate the Board's oversight and governance responsibilities. The Committee's terms of reference and charter requires it to disclose annually, through the annual report, a statement that it has satisfied its responsibilities in compliance with its charter, as found on the following page.

During the last fiscal year, the Committee met four times. The committee reviewed the Corporation's Operating and Capital Budgets, investments for compliance to the investment policy, the long-term capital plan, the severance pay benefits, banking and investment signing authorities, and Management's semi-annual letter of declaration. The financial statements, management's analysis of year over year changes and the management discussion and analysis of the financial results for the annual report were also examined.

The Committee also reviewed management's forecasts to year-end and year-to-date statements measured against budget. These meetings were held in the presence of Management and officials from the Office of the Auditor General.

The Committee, as confirmed by its chair's signature affixed below, hereby declares that it has satisfied its responsibilities and is in compliance with its charter.

Respectfully,

Noel Spinelli, C.M.
Chair, Finance and Audit Committee
National Arts Centre Corporation

Terms of reference and charter

of the National Arts Centre Corporation finance and audit committee

Extract of the National Arts Centre corporate bylaw number 1.

Overall Purpose / Objectives

The Finance and Audit Committee will assist the Board in fulfilling its overseeing responsibilities. The Committee will review the financial plans and reporting process, the systems of internal control and management of financial risks, the information systems, the audit process, and the Corporation's process for monitoring compliance with laws and regulations and its own code of business conduct. To perform his or her role effectively, each Committee Member will obtain an understanding of the detailed responsibilities of Committee membership as well as the Corporation's business, operations, and risks.

Authority

The Committee has the authority to investigate any activity of the Corporation. The Committee has full access to information and the Corporation's personnel. All employees are to cooperate as requested by the Committee. The Committee may retain outside persons having special expertise to assist it in fulfilling its responsibilities. The internal audit function is accountable to the Finance and Audit Committee.

Membership and Competencies

The Committee will be composed of at least three Trustees, and may retain at least one Outside Member, all of whom will be neither officers nor employees of the Corporation. A quorum will be two Trustees. The Chair of the Committee will be appointed by the Board of Trustees. Members of the Committee should be financially literate, and at least one Member should have accounting or related financial management expertise. Financial "literacy" signifies the ability to read and understand fundamental financial statements and the ability to ask probing questions about financial risks and accounting. "Expertise" signifies professional certification or employment experience in finance, accounting, or as a senior officer with financial overseeing responsibilities.

Members of the Committee should have current knowledge of:
- the Committee's responsibilities and the methods of discharging them;
- the roles of the internal and external auditors;
- the Corporation's business, including products/services, systems, risks, and opportunities; and
- basic elements of technical areas such as accounting principles and policies, internal control systems and auditing.

Operating Procedures

The Committee meets at least four times a year. The meetings are scheduled to permit timely review of the quarterly and annual financial statements and reports. Additional meetings may be held as deemed necessary by the Chair of the Committee or as requested by any Member or the external auditors. Minutes of each meeting will be prepared by the person designated by the Committee to act as secretary.

The external auditor should be invited to every meeting. The Committee should periodically meet with management, the external auditor, and the internal auditor in separate private sessions. The Committee's terms of reference should be approved and reassessed periodically by the Board of Trustees.

The Committee should annually assess its effectiveness and the adequacy of its mandate, and its Chair should also periodically assess the performance of individual Committee Members and review such performance with them.

Reporting

A summary of all meetings of the Committee should be provided to the Board. Supporting schedules and information reviewed by the Committee should be available for examination by any trustee upon request. The Committee's charter should be disclosed at least triennially in the Corporation's Annual Report and in the next Annual Report after any significant amendment to that charter.

The Committee should provide on an annual basis a general disclosure letter stating whether the Committee has satisfied its responsibilities during the prior year in compliance with its charter. This disclosure should be included in the Corporation's Annual Report.

Responsibilities

1. to determine the extent to which current and future financial plans support current corporate goals and priorities, and in particular:

    a) to examine the annual and long-term operating and capital budgets submitted by the Senior Management Group and to make recommendations to the Board;
    b) to review financial issues and policies generally;
    c) to monitor the financial results of the Corporation; and
    d) to actively solicit information about significant risks and exposures and review the adequacy of internal controls, to manage those risks, including management's processes for identifying, controlling, and reporting the financial risks;

2. to discuss with representatives of the Auditor General of Canada, before an audit begins, the nature, scope, and approach of the planned audit;

3. to critically review the annual financial statements, auditor's report, significant accounting estimates, and the representation letter provided by management to the external auditor before submission to the Board, focusing particularly on:
   a) any changes or proposed changes in accounting policies and practices;
   b) significant adjustments resulting from the audit;
   c) compliance with Canadian generally accepted accounting principles;
   d) compliance with legal requirements; and
   e) the reasonableness of the methodologies used, assumptions made, and the final result of accounting estimates;

4. to critically review interim financial results and the management discussion and analysis section of the Annual Report to ensure the information is accurate, complete, and fairly presents the financial position and risks of the Corporation;

5. to discuss with representatives of the Auditor General of Canada problems and reservations arising from the audit, and any matters representatives of the Auditor General of Canada may wish to discuss. The Committee should actively solicit the external auditor's judgments about not only the acceptability but the quality of the Corporation's accounting principles as applied in its financial reporting (for example, clarity of financial disclosures and the aggressiveness or conservatism of the Corporation's accounting principles and estimates);

6. to review the Office of the Auditor General of Canada's Management Letter, the response to such Management Letter by the Senior Management Group, and follow up on management's subsequent actions;

7. to review any Office of the Auditor General of Canada's special examination plan and report;

8. to ensure integration and reliance of internal audit work and follow-up on implementation of corrective measures recommended by a special examination and report of the Office of the Auditor General of Canada;

9. to approve the internal audit plan, examine the results and recommendations of the internal auditors, and follow up on management's subsequent actions;

10. to direct an internal audit into any area of operation;

11. to review the integrity and effectiveness of the management information systems;

12. to monitor the Corporation's compliance with legal and regulatory requirements by requesting representation letters from senior management and actively soliciting all sensitive information (for example, significant litigation, instances of non-compliance with laws and regulations, misuse of corporate assets, illegal activities);

13. to be provided with all press releases related to the annual financial statements and other material financial information;

14. to assist the Board in monitoring the tone at the top set by the CEO and CFO for the Corporation's financial conduct and reporting;

15. to consider other financial and compliance matters, as requested by the Board;

16. to make reports on a regular basis and, where appropriate, recommendations to the Board;

17. to oversee the investment of funds by the Corporation, and to set policies to guide the staff in investing such funds;

18. to evaluate the performance of the Office of the Auditor General of Canada's audit team and internal auditors and consider their independence; and

19. to periodically review the structure of the internal audit function and where necessary, approve the appointment, dismissal, and replacement of the director of internal audit or the external firm providing these services.

Management discussion and analysis

Financial Overview

In planning the 2004-2005 season, it became apparent that the growth of the Centre's national outreach programmes and focus on artistic expansion and innovation would require more funds than the Corporation could generate. Rather than restrain activities such as the highly successful tour of British Columbia with its educational programmes, or scale back the Alberta Scene that showcased 600 Alberta artists, the Board of Trustees approved management's plan to budget for an operating deficit. Two conditions were set: the Corporation would retain an accumulated surplus after the season, and management would plan the 2005-2006 season to break even. Thus, for the first time in seven years, the National Arts Centre is reporting a deficit from operations. The year's planned deficit of $891,720 was funded by surpluses accumulated during the past six consecutive years. The National Arts Centre Corporation retains an accumulated surplus of $354,965 at the end of 2004-2005, and the National Arts Centre has planned a break-even budget for 2005-2006.

Total revenues, including Parliamentary appropriations, have increased by $2,712,892 over 2004-2005 to $63,242,856. Earned revenues - that is, revenues generated by the NAC itself – remained steady. Increases in revenues from the National Arts Centre Foundation were offset by lower Programming and Commercial revenues.

Total expenditures increased by $3,675,064 because of the increased programming activities to enable the fulfillment of the National Arts Centre's 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 Revenues

Programming revenues consist largely of ticket sales. Overall, subscription ticket sales from all sources were lower by $106 thousand and single ticket sales were lower by $325 thousand compared to the 2003-2004 season.

Music revenues decreased by $1.2 million, mainly because of the lower fees generated by this year's British Columbia Tour vs. the U.S.-Mexico Tour last year ($897 thousand less), and also because of lower single ticket sales ($314 thousand less), and lower subscription sales ($30 thousand less). English Theatre revenues were lower than last year's by $852 thousand, mainly because the 2003-2004 season included substantial revenues from the tour of *Copenhagen* in Toronto (a difference of $410 thousand). In addition, single ticket sales were $398 thousand lower and subscription sales were $37 thousand lower. French Theatre brought in $183 thousand less due to lower single ticket sales ($41 thousand less), lower subscription sales ($80 thousand less) and lower touring revenue ($18 thousand less); this contrasts with last year and is partially because of the revenue generated by *Le Moine noir,* which was presented in 2003-2004. Dance revenues were up by $238 thousand largely due to better sales in the Classical Ballet series (an increase of $102 thousand) and the special presentations of the Nutcracker Ballet and *Pina Bausch Tanztheater Wuppertal* (an increase of $104 thousand).

Programming Expenses

Music expenses decreased by $849 thousand from last year, mainly because this season's British Columbia Tour cost less than the U.S.-Mexico Tour last season ($816 thousand less), and because of summer programming changes (costing $417 thousand less). Costs were also lower in Specials ($183 thousand less) mainly because expenses for last season included the Burt Bacharach concert in 2004. The Orchestra's fees have increased by $116 thousand to reflect the increases accorded by the collective agreement.

English Theatre expenses were lower than last year's by $691 thousand. Costs decreased in the Main series ($479 thousand less) as the previous year had two large cast productions (*Pélagie* and *Hamlet*) whereas the current year only had one large cast production (*Love's Labour's Lost*). Special Presentations were $413 thousand lower, as there was no repeat of the *Copenhagen* tour in Toronto. Costs in Community Programming were $134 thousand higher because of the creation of a bilingual adaptation of the musical *Pélagie*, funded by the Interdepartmental Partnership with the Official Language Communities of the Department of Canadian Heritage. In Youth and Education activities, expenses have increased by $106 thousand, mainly because of a new collaboration with the Odyssey Theatre in Ottawa and improved financial support to the *Canadian Improv Games*.

In French Theatre, the costs increased by $153 thousand. The season included a special presentation of Denis Marleau's *Fantasmagorie technologique* that include the much acclaimed *Dors mon petit enfant* and *Les Aveugles* ($137 thousand higher). Community programming payments were increased late in the fiscal year ($226 thousand higher) in anticipation of the current year's activities and the launch of the *Festival Zone Théâtrales* in September 2005. Costs of the main Theatre series decreased by $237 thousand, primarily because the season did not include a tour, in contrast to the previous year, which encompassed a tour of *Le Moine noir*.

Dance costs increased by $316 thousand mainly because of the presentation of *Pina Bausch Tanztheater Wuppertal* ($391 thousand higher).

Other programming costs increased by $3,027 thousand, mostly due to the *Alberta Scene*. This programme received support from the Department of Canadian Heritage and Western Diversification Canada, The Alberta Government, and sponsors and donors through the National Arts Centre Foundation.

Programming support expenditures increased by $854 thousand. Approximately $723 thousand of the increase results from a new treatment of the costs of in-kind goods and services that is now centralized for better budgeting and administration and to an increased amount of in-kind expenses ($493 thousand higher), these expenses being funded by donors and sponsors through the National Arts Centre Foundation. Also included in this category were search costs ($31 thousand) for the English Theatre Artistic Director.

National Arts Centre Foundation

Following a presentation and request from the NAC, the Board of the National Arts Centre Foundation distributed $6.2 million for designated NAC programmes. The National Arts Centre Foundation is a key element of the NAC's goal of increasing earned revenues. In 2004-2005, the Foundation had revenues of $6.5 million. After the disbursement, the Foundation retained net assets of $1.7 million.

Commercial Operations

Commercial revenues are derived from restaurants, catering and bars, parking, and the rental of halls. These activities showed weaker results compared to 2003-2004. Net income in restaurants, catering and bars decreased by $445 thousand because of higher supply and labour costs coupled with lower sales. Factors include increased competition and reduced paid attendance. Parking Services' net income was $22 thousand lower, primarily because of weaker evening parking revenues, which is also dependant on the box office. Net income from the rental of halls decreased by $65 thousand in part due to fewer available dates.

Parliamentary Appropriations

Parliamentary appropriations for operations exclude funds invested in property, plant and equipment. The increase in the Parliamentary appropriations for operations includes one-time funding for the *Alberta Scene* ($1 million), Hexagon ($192 thousand), *ArtsAlive.ca* ($198 thousand) and a retroactive adjustment to partially fund current and previous year's wage increases ($1.1 million). The amortization of deferred capital funding represents the draw down from the deferred Parliamentary appropriations, which increased by $253 thousand over 2003-2004.

Building Operations

Labour costs increased by $278 thousand mainly due to the new collective agreement. Utility costs increased $187 thousand mainly due to a hot summer (cooling costs were up $59 thousand) and higher electricity costs (up $109 thousand). The increases were mostly price driven as electrical and steam utilization was down. For government departments, these cost increases are covered by Treasury Board. This is not the case for the National Arts Centre and most cultural Crown Corporations, which must find resources from within mandated activities to refund the Department of Public Works and Government Services.

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 $159 thousand. Other increases are due to legal fees, especially for human resources, due to a high number of collective agreements successfully negotiated during the year ($54 thousand).

Information Technology

In March 2004, the IT function changed from an external service provider to an internal information technology services department. This decision allowed the NAC to reallocate these resources from an administrative support function to artistic programming, youth, education and national activities. This resulted in a reduction in contract fees ($489 thousand lower) and equipment costs ($24 thousand lower) and an increase in wages and benefits ($138 thousand higher).

Capital projects

Major projects this year were the replacement of one of the heating systems and its concrete base in the garage ($1.2 million) and further work on the generators and electrical systems ($292 thousand). A total of $3.5 million was expended in capital projects this year, funded for the most part by a special allocation from Treasury Board.

Outlook

The popularity of the National Arts Centre's educational and touring outreach programmes continues to grow. The National Arts Centre will continue to pursue its goals of artistic expansion and excellence in the performing arts. Management will continue to strive to increase the National Arts Centre's relevance on the national stage. This will require greater market research and a focus on our successes. Next year the National Arts Centre plans to return to a balanced budget and artistically, an innovative tour of Alberta and Saskatchewan in their centennial year that will include substantial educational programmes. The Corporation has hired a new English Theatre Artistic Director whose first season will be unveiled in the spring of 2006.

Risks

The next years will also present challenges, as the National Arts Centre struggles with increased costs, especially for employee benefits and utilities, and negotiates new collective agreements with its stage employees.

The building's infrastructure has been operating continuously for 36 years. Many systems are still 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. Over time, the gap between the needs and the financing continues to grow, resulting in an increase in deferred maintenance. New technologies, especially information and processing technologies, exacerbate the problem by requiring much shorter replacement or upgrading cycles, a situation that did not exist when the base funding for the NAC was contemplated in 1969. 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.