*All performing arts,*
*by their very nature, are*

# Partnerships

AUDITED FINANCIAL STATEMENTS OF THE NATIONAL ARTS CENTRE CORPORATION

*for the year ended August 31, 2006*

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

• **TABLE** OF CONTENTS •




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

T: (613) 947-7000 F: (613) 996-9578

www.nac-cna.ca
*ArtsAlive.ca*


Canada

# 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 Status of Women, 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, CA**
*Chief Financial Officer*

November 2, 2006

# AUDITOR'S *report*

To the Minister of Canadian Heritage and Status of Women, 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, 2006 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, 2006 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.

**John Wiersema, FCA**
*Deputy Auditor General*
*for the Auditor General of Canada*

Ottawa, Canada
November 2, 2006

# BALANCE *sheet*

*As at August 31*

| | 2006<br>$ | 2005<br>$ |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash | 6,217,908 | 6,875,169 |
| Short-term investments (Note 3) | 1,581,025 | 500,001 |
| Accounts receivable | 1,955,586 | 1,811,287 |
| Inventories | 266,749 | 362,584 |
| Programmes in progress | 2,912,916 | 1,951,133 |
| Prepaid expenses | 1,059,180 | 1,033,560 |
| | 13,993,364 | 12,533,734 |
| Investments (Note 4) | 7,425,096 | 8,942,592 |
| Property, plant and equipment (Note 5) | 22,448,750 | 22,176,819 |
| | 43,867,210 | 43,653,145 |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accrued liabilities | 6,147,483 | 6,257,656 |
| Deferred revenues and parliamentary appropriations (Note 6) | 13,109,450 | 13,039,536 |
| | 19,256,933 | 19,297,192 |
| Deferred capital funding (Note 7) | 22,448,750 | 22,176,819 |
| Long-term portion of provision for employee severance benefits (Note 8) | 1,757,243 | 1,824,169 |
| | 43,462,926 | 43,298,180 |
| **Equity of Canada** | | |
| Accumulated surplus | 404,284 | 354,965 |
| | 43,867,210 | 43,653,145 |

Contingencies and commitments (Notes 12 and 13)

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

Approved by the Board of Trustees:

**Julia E. Foster**
*Chair*

**Larry Fichtner**
*Chair of the Finance and Audit Committee*

# STATEMENT OF
# *operations and equity*

*For the year ended August 31*

| | 2006<br>$ | 2005<br>$ |
|---|---|---|
| **Revenues** | | |
| Commercial operations (Schedule 1) | 11,228,894 | 12,194,543 |
| Programming (Schedule 2) | 9,523,989 | 10,465,029 |
| Distribution from the National Arts Centre Foundation (Note 9) | 5,998,275 | 6,195,764 |
| Facility fees | 664,617 | 720,306 |
| Investments and other | 630,539 | 746,151 |
| | 28,046,314 | 30,321,793 |
| Parliamentary appropriations (Note 10) | 34,079,902 | 32,921,063 |
| | 62,126,216 | 63,242,856 |
| **Expenses (Schedule 3)** | | |
| Commercial operations (Schedule 1) | 7,949,753 | 8,584,597 |
| Programming (Schedule 2) | 32,610,690 | 35,056,396 |
| Fundraising and development | 2,944,311 | 2,877,825 |
| Building operations | 12,571,078 | 11,438,669 |
| Administration and other | 5,108,440 | 5,339,573 |
| Information technology | 892,625 | 837,516 |
| | 62,076,897 | 64,134,576 |
| **Net results of operations** | 49,319 | (891,720) |
| **Equity of Canada** | | |
| Equity - beginning of year | 354,965 | 1,246,685 |
| Equity - end of year | 404,284 | 354,965 |

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): | 2006 $ | 2005 $ |
|---|---|---|
| Operating activities | | |
| Net results of operations | 49,319 | (891,720) |
| Items not affecting cash | | |
| Amortization | 3,382,912 | 2,814,424 |
| Amortization of deferred capital funding | (3,382,912) | (2,814,424) |
| | 49,319 | (891,720) |
| Change in non-cash operating assets and liabilities | (2,157,150) | 2,641,519 |
| Change in deferred contributions | - | (50,097) |
| Change in long-term portion of provision for employee severance benefits | (66,926) | (32,147) |
| | (2,174,757) | 1,667,555 |
| Investing activities | | |
| Decrease (increase) of investments | 1,517,496 | (3,942,592) |
| Additions to property, plant and equipment | (3,654,843) | (3,523,962) |
| Changes in endowment funds | - | (33,275) |
| Changes in restricted cash and investments | - | 83,372 |
| | (2,137,347) | (7,416,457) |
| Financing activities | | |
| Parliamentary appropriations used for the acquisition of property, plant and equipment | 3,654,843 | 3,523,962 |
| Decrease in cash position | (657,261) | (2,224,940) |
| Cash at beginning of year | 6,875,169 | 9,100,109 |
| Cash at end of year | 6,217,908 | 6,875,169 |
| Supplementary disclosure of cash flow information | | |
| Interest received | 449,055 | 483,548 |

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

# NOTES TO THE *financial statements*

*August 31, 2006*

## 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 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 consist of fixed income securities with terms to maturity of 12 months or less and are reported 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. Externally restricted contributions 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 each 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 of supplies, food and beverages are valued at cost.

**(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 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 their 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 their 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 4.79% (3.69% in 2005). All short-term investments are rated "BBB/A1/R1" or better by a recognized bond rating agency.

## 4. 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 4.65% (4.74% in 2005). 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, 2006 was $7,479,526 ($9,106,845 in 2005).

## 5. PROPERTY, PLANT AND EQUIPMENT

| | 2006 | | | 2005 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land | $ 78,201 | $ – | $ 78,201 | $ 78,201 |
| Buildings | 47,665,107 | 43,302,568 | 4,362,539 | 5,555,944 |
| Building improvements | 41,856,860 | 30,054,908 | 11,801,952 | 9,224,436 |
| Equipment | 11,526,508 | 6,685,280 | 4,841,228 | 5,402,002 |
| Computer software and hardware | 1,617,446 | 1,360,274 | 257,172 | 218,901 |
| Assets under construction | 1,107,658 | – | 1,107,658 | 1,697,335 |
| | $ 103,851,780 | $ 81,403,030 | $ 22,448,750 | $ 22,176,819 |

## 6. 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:

| | 2006 | 2005 |
|---|---|---|
| Advanced sales – programming | $ 5,712,933 | $ 5,251,441 |
| Revenues from commercial operations and other | 953,715 | 741,642 |
| Appropriations received for the next fiscal year | 5,547,166 | 5,204,000 |
| Unused appropriations received for building refurbishment | 638,029 | 1,140,338 |
| Unused appropriations received for specific purposes | 257,607 | 702,115 |
| Balance at end of year | $ 13,109,450 | $ 13,039,536 |

## 7. 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:

| | 2006 | 2005 |
|---|---|---|
| Balance at beginning of year | $ 22,176,819 | $ 21,467,281 |
| Appropriations used to purchase depreciable property, plant and equipment | 3,654,843 | 3,523,962 |
| Amortization | (3,382,912) | (2,814,424) |
| Balance at end of year | $ 22,448,750 | $ 22,176,819 |

## 8. EMPLOYEE FUTURE BENEFITS

### a) 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:

| | 2006 | 2005 |
|---|---|---|
| Corporation | $ 1,747,033 | $ 1,704,717 |
| Employees | 764,252 | 705,981 |

### b) 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:

| | 2006 | 2005 |
|---|---|---|
| Balance at beginning of year | $ 2,535,902 | $ 2,332,208 |
| Cost for the year | 273,151 | 346,450 |
| Benefits paid during the year | (200,138) | (142,756) |
| Balance at end of year | $ 2,608,915 | $ 2,535,902 |
| Short-term portion (Included in accounts payable and accrued liabilities) | $ 851,672 | $ 711,733 |
| Long-term portion | 1,757,243 | 1,824,169 |
| | $ 2,608,915 | $ 2,535,902 |

## 9. 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 charity 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, 2006, in the amount of $2,944,311 ($2,877,825 in 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, 2006 and the results of operations for the period then ended are as follows:

| Financial position | 2006 | 2005 |
|---|---|---|
| Total assets | $ 2,202,602 | $ 2,442,918 |
| Total liabilities | 797,654 | 779,145 |
| Total net assets * | $ 1,404,948 | $ 1,663,773 |

* All of the Foundation's net assets must be provided for the priorities of the Corporation. An amount of $1,404,753 ($1,636,179 in 2005) of the Foundation's net assets is subject to donor imposed restrictions, of which $1,046,341 ($987,006 in 2005) 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.

## NOTES TO THE *financial statements*

*August 31, 2006*

| Results of operations | 2006 | 2005 |
|---|---|---|
| Total revenues | $ 5,783,102 | $ 6,470,033 |
| Total expenses | 43,652 | 31,159 |
| Total distributions to the National Arts Centre Corporation ** | 5,998,275 | 6,195,764 |
| Excess (deficiency) of revenues over distributions and expenses | $ (258,825) | $ 243,110 |

** 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: Youth and education, Music, English Theatre, French Theatre, Dance, and other initiatives of the Corporation at the Centre and elsewhere in Canada.

### 10. PARLIAMENTARY APPROPRIATIONS

| | 2006 | 2005 |
|---|---|---|
| Main Estimates amount provided for operating and capital expenditures | $ 32,081,917 | $ 31,383,250 |
| Supplementary estimates | 1,323,100 | 2,171,633 |
| Appropriations approved | 33,405,017 | 33,554,883 |
| Portion of parliamentary appropriations used for specific projects | 946,816 | 75,718 |
| Appropriation used to purchase depreciable property, plant and equipment | (3,654,843) | (3,523,962) |
| Amortization of deferred capital funding | 3,382,912 | 2,814,424 |
| Parliamentary appropriations | $ 34,079,902 | $ 32,921,063 |

# NOTES TO THE *financial statements*

*August 31, 2006*

### 11. 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 $1,822,974 ($1,719,319 in 2005) and recorded commercial and programming revenues of $1,790,912 ($1,690,659 in 2005) with related parties. As at August 31st, the Corporation recorded accounts receivable with related parties of $378,456 ($405,037 in 2005) and accounts payable of $134,692 ($73,407 in 2005).

### 12. 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.

### 13. COMMITMENTS

As at August 31, 2006, there is approximately $926,000 ($138,000 in 2005) to be paid pursuant to agreements for equipment maintenance and leases. The future minimum payments are as follows:

| | | |
|---|---|---|
| 2006 — 07 | $ | 524,000 |
| 2007 — 08 | | 174,000 |
| 2008 — 09 | | 99,000 |
| 2009 — 10 | | 70,000 |
| 2010 — 11 | | 59,000 |

# NOTES TO THE *financial statements*

*August 31, 2006*

### 14. 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.

### 15. COMPARATIVE FIGURES

Certain figures for 2005 have been reclassified to conform to the presentation adopted this year.

### 16. SUBSEQUENT EVENT

On November 2, 2006 the Treasury Board of Canada approved major funding for health and safety upgrades and repairs to the existing facilities of the National Arts Centre. Pending the approval of Parliament, activities to replace certain building structures and systems will begin in 2007.

SCHEDULE 1

# Schedule of revenues and expenses Commercial operations

*For the year ended August 31*

| | 2006 | | |
|---|---|---|---|
| | $ Revenues | $ Expenses | $ Net |
| Restaurants | 5,718,458 | 6,009,725 | (291,267) |
| Parking Services | 3,589,753 | 707,753 | 2,882,000 |
| Rental of Halls | 1,920,683 | 1,232,275 | 688,408 |
| | 11,228,894 | 7,949,753 | 3,279,141 |

| | 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 |

SCHEDULE 2

# Schedule of revenues and expenses Programming

*For the year ended August 31*

| | 2006 | 2005 |
|---|---|---|
| | $ | $ |
| **Revenues** | | |
| Music | 4,081,528 | 4,061,065 |
| English Theatre | 2,141,053 | 2,035,112 |
| Dance | 1,948,302 | 1,999,009 |
| French Theatre | 764,262 | 601,424 |
| Programming Support | 417,856 | 457,229 |
| Other Programmes | 170,988 | 1,311,190 |
| | 9,523,989 | 10,465,029 |
| **Expenses** | | |
| Music | 14,274,932 | 13,818,148 |
| English Theatre | 3,781,332 | 3,789,766 |
| Dance | 2,834,181 | 2,879,537 |
| French Theatre | 2,723,226 | 2,563,976 |
| Programming Support | 7,437,954 | 7,253,798 |
| Other Programmes | 1,559,065 | 4,751,171 |
| | 32,610,690 | 35,056,396 |
| **Excess of expenses over revenues** | 23,086,701 | 24,591,367 |

SCHEDULE 3

# Schedule of expenses by type

*For the year ended August 31*

| | 2006 | 2005 |
|---|---|---|
| | $ | $ |
| Salaries and benefits | 25,138,797 | 25,125,603 |
| Artistic fees | 8,594,274 | 10,053,854 |
| National Arts Centre Orchestra fees | 6,445,506 | 6,176,341 |
| Advertising | 3,909,542 | 4,349,085 |
| Amortization | 3,382,912 | 2,814,424 |
| Utilities | 2,132,024 | 2,045,685 |
| Payments to municipalities | 2,023,110 | 2,022,908 |
| Cost of sales | 1,813,847 | 2,059,358 |
| Maintenance and repairs | 1,599,557 | 1,483,924 |
| Contract fees | 1,161,935 | 1,843,326 |
| In kind contributions of goods and services | 938,009 | 995,765 |
| Promotion | 855,248 | 882,009 |
| Financial charges | 503,276 | 608,764 |
| Production | 488,260 | 549,515 |
| Professional fees | 485,585 | 324,356 |
| Staff travel | 459,120 | 539,381 |
| Office expenses | 429,898 | 400,243 |
| Supplies | 352,456 | 260,462 |
| Rental of facilities | 310,564 | 271,917 |
| Equipment | 302,959 | 388,007 |
| Telecommunications | 213,296 | 224,207 |
| Insurance | 213,249 | 211,982 |
| Board expenses | 150,939 | 146,198 |
| Education and training | 138,707 | 180,951 |
| Miscellaneous | 33,827 | 176,311 |
| | 62,076,897 | 64,134,576 |

# MANAGEMENT
# *discussion and analysis*

## FINANCIAL OVERVIEW

For 2005-2006, the National Arts Centre Corporation is reporting a surplus from operations of $49,319. The Corporation retains an accumulated surplus of $404,284 at the end of the fiscal period. A break-even budget is also planned for 2006-2007.

The National Arts Centre remains committed to the fulfillment of the Centre's stated strategic goals:

- Artistic expansion and innovation;
- Greater emphasis on the NAC's national role;
- Greater commitment to youth and educational activities; and,
- Increase in the NAC's earned revenues.

Total revenues, including Parliamentary appropriations, have decreased by $1,116,640 from 2004-2005 to $62,126,216. Earned revenues - that is, revenues generated by the NAC itself – decreased by $2,275,479. Total expenditures decreased by $2,057,679 to $62,076,897. In general, programming changes were made to fit the available resources and protect the Corporation's equity for future use, if necessary.

## SELECTED FINANCIAL HIGHLIGHTS

**Programming**
Programming revenues consist largely of ticket sales. Overall, single ticket sales from all sources were lower by $131,165 and subscription ticket sales were lower by $143,152 compared to the 2004-2005 season. Single ticket sales revenues actually rebounded when the $366,588 in ticket sales for the Alberta Scene last year are factored out.

Music expenses have increased by $456,784 from last year, due mainly to Music Education and Pops Concerts. The Music Education increases stem mainly from two new initiatives, Music Fest, which the NAC hosts every second year and the Music Ambassador's programme.

English Theatre expenses were lower than last year's by $8,434. This was Marti Maraden's last season as Artistic Director.

# MANAGEMENT *discussion and analysis*

In French Theatre, the costs increased by $159,250. The main reason for the increase was the biennial *Festival Zones Théâtrales* and a shortage of special programming to replace the *Fantasmagorie technologique: Dors Mon Petit Enfant / Les Aveugles* in 2004-2005.

Dance costs decreased by $45,356 mainly as a result of presenting only the *Nutcracker Ballet* compared to the additional presentation of *Pina Bausch Tanztheatre Wuppertal* in the previous year. This year also saw a presentation of the biennial Canada Dance Festival.

Other programming costs decreased by $3,192,106 mostly due to the *Alberta Scene* occurring in the previous year.

**National Arts Centre Foundation**

The Board of the National Arts Centre Foundation distributed $5,998,275 ($6,195,764 in 2004-2005) for designated NAC programmes. The National Arts Centre Foundation is a key element of the NAC's goal of increasing earned revenues. In 2005-2006, the Foundation had net revenues of $5,739,450 ($6,438,874 in 2004-2005). After the disbursement, the Foundation retained net assets of $1,404,948 ($1,663,773 in 2004-2005).

**Commercial Operations**

Commercial revenues are derived from Foodservices, Parking Services, and Hall Rentals. Revenues in Foodservices and Parking vary with the level of programming and attendance. Rental revenues are affected by both availability of touring productions and the availability of Southam Hall at dates convenient to touring companies. Paid attendance was lower in 2005-2006 compared to the previous year and the commercial activities showed weaker results compared to 2004-2005. The net income in restaurants, catering and bars fell by $148,751 because of lower sales. Parking Services' net income was $87,326 lower, primarily because of weaker evening parking revenues. The net income from the rental of halls decreased by $94,728.

**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 amounts such as the retroactive adjustments for salary increases, revenues for special purposes and drawing down deferred amounts for capital repairs and *Hexagon*, while one-time funding for the *Alberta Scene* and *ArtsAlive.ca* was terminated.

# MANAGEMENT *discussion and analysis*

**Building Operations**

Building operations expenses have increased by $1,132,409. Depreciation expenses were higher but these costs are offset by increased amortization of deferred capital funding. Maintenance costs were higher and reflected the age of the equipment and the need to keep on top of the repairs. Finally, utilities increased, mainly for heating and cooling the Centre and largely due to a PWGSC price increase (25% for heating, 23% for cooling) since April 1, 2006.

**Administration & Information Technology**

The administration and information technology departments provide governance, executive, financial, communications, legal, risk management, purchasing, human resource and IT services for the entire Corporation. The combined costs decreased by $176,024.

**Capital projects**

The major projects this year dealt with ventilation repairs, fire pumps replacement, concrete slab and exterior stairway repairs, steam pressure relief valve replacement, and the beginning of the red carpet replacement.  A total of $3.7 million was invested 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 national educational, touring, and outreach programmes such as the *Scenes* continues to grow. The National Arts Centre will continue to pursue its goals of artistic expansion, excellence, and relevance on the national stage in the performing arts within available resources. Next year the National Arts Centre again plans a balanced budget, and artistically, to produce a tour of Québec that will include substantial educational programmes and the *Québec Scene*, a gathering of 700 Quebec artists, from all disciplines, performing in the national capital region. In the area of succession planning and business continuity, the Corporation hired a new English Theatre Artistic Director, Peter Hinton, for 2006, and in French Theatre, Wajdi Mouawad was appointed the new Artistic Director to replace Denis Marleau in September 2007.

# MANAGEMENT *discussion and analysis*

**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 foodservice employees.

The Centre has an infrastructure that has been operating continuously for 37 years in a dense urban environment surrounded by bridges, roadways and a canal. To address a growing infrastructure problem, management from finance, building operations and risk management produced a business case for Treasury Board detailing a plan to address the most urgent health and safety concerns of the Corporation in areas of health and safety. On November 2, 2006 Treasury Board gave its approval and the Corporation is awaiting Parliamentary approvals of the funding to begin these repairs.