Management Discussion and Analysis

The National Arts Centre Corporation (the "Corporation") regularly presents subscription seasons in music, theatre and dance in both of Canada's official languages. In addition, the Corporation presents a variety of other programming and makes its facilities available to other presenters and artists. The Corporation also offers educational opportunities for students across Canada through its *Music Alive Program*, and over the past decade the NAC Orchestra has become known as one of Canada's leading teaching orchestras, offering masterclasses and school performances across Canada and internationally. The Corporation also engages young people through dance workshops, theatre classes and student matinees in Ottawa.

The Corporation remains committed to the fulfillment of its strategic goals published in its Strategic Plan, *Canada is our Stage*:

Creation: Helping artists and arts organizations across Canada create ambitious new work for national and international audiences;
Performance: Developing a new Department of Indigenous Theatre, and strengthening the NAC's national performance role;
Learning: Extending the *Music Alive Program* to Atlantic Canada, and our education activities across the country;
Architectural Rejuvenation: Shepherding the architectural rejuvenation of the NAC;
Production Renewal: Overseeing the renewal of the NAC's performance halls and production facilities;
A National Francophone Organization: Becoming just as national in French as we are in English by renewing our commitment to Francophone artists, arts organizations and audiences;
Increasing Our Earned Revenue: Increasing our earned revenues to support our national initiatives;
Audiences at the Centre: Building relationships with our audiences.

These strategic goals support the Corporation's legislative mandates, which are to maintain and operate the National Arts Centre (the "Centre"), to develop the performing arts in the National Capital Region, and to assist the Canada Council for the Arts in developing the performing arts elsewhere in Canada.

Physical Resources

The Corporation owns and operates the National Arts Centre, the largest bilingual performing arts centre in Canada. The Centre is situated on 2.6 hectares in downtown Ottawa, bordering on the Rideau Canal, a UNESCO World Heritage Site. The Centre's performance facilities include four halls (Southam Hall, 2,076 seats; Babs Asper Theatre, 897 seats; Azrieli Studio, 305 seats; Fourth Stage, 160 seats), dressing rooms, workshops and rehearsal halls. A box office, restaurant, interior parking and intermission bars provide services to patrons. The NAC's Public Spaces host free events and programming. In addition, several multi-purpose rooms are available for education, performances and receptions.

In 2015, the Government of Canada approved funding of $110.5 million for the Architectural Rejuvenation Project to increase and improve the public spaces of the Centre. Construction is now complete. In 2016, the Government of Canada approved funding of $114.9 million for the Production Renewal Project to modernize the Centre's performance halls and aging production facilities. These projects are substantially complete.

Human Resources

The Corporation is comprised of a 10-member Board of Trustees and led by a Chief Executive Officer, supported by 17 directors and eight artistic and creative leaders. The Corporation has 275 full time-employees and 666 part-time employees, averaging to approximately 416 full-time equivalent employees.

Performances are labour-intensive and rely on a large number of behind-the-scenes personnel. The Corporation employs people with varied specialized skills, including non-union staff and unionized staff who are organized into five collective bargaining units. A large number of employees, whose work is dependent on the demands of programming and sales, have variable schedules and work on an as-needed basis. National Arts Centre Orchestra musicians are self-employed, although a collective agreement sets out their fees and working conditions.

Financial Overview

2018-2019 was the first full year of operations following the substantial completion of the Architectural Rejuvenation and Production Renewal projects. The company generated a surplus of $94,000 for this fiscal year. This reduced the accumulated deficit to $5,766,000. The NAC is planning a surplus budget for 2019-2020 of $500,000. There will be a series of planned surpluses aimed at reducing the accumulated deficit that evolved during the construction process. The new and improved Public Spaces and multi-purpose rooms have resulted in renewed excitement at the Centre, and significant increases in food and beverage revenues.

The NAC staged 1,451 shows and events last season. Total box office revenue for all performances was $24,018,000. The total 2018–2019 box office for NAC programming was $13,679,000. The Centre attracted 996,328 patrons to performances, events and commercial activities.

Commercial Operations

Commercial Operations consists of Food and Beverage sales, Parking fees, and Hall Rentals (performance spaces). Revenues from Parking and Food and Beverage vary according to the level of programming and attendance. Hall Rental revenues vary based on both the availability of touring productions and the availability of the Centre's halls on dates suitable to touring companies. Offering food, beverages and parking to customers enhances the experience of an evening's performance, and provides additional financial support for the Corporation's activities.

Now that construction is substantially complete, the Corporation has seen enhanced opportunities to generate Food and Beverage revenues. Parking revenues were lower than expected due mainly to the City of Ottawa's renewal of Elgin Street.

Programming

Programming activities consist mainly of the six disciplines — Music, English Theatre, French Theatre, Dance and NAC Presents as well as the newly introduced Indigenous Theatre — plus a variety of other programs such as galas and festivals. Box Office, Marketing, Production, Digital Engagement and Public Spaces departments support these activities. In April 2019, the Corporation announced the programming details for Indigenous Theatre, which begins in 2019–2020. The new department increases the number of NAC disciplines to six. The type of programming varies each season. There were also a number of major national initiatives this year.

Grants from the National Arts Centre Foundation

The National Arts Centre Foundation (the "Foundation") is a key element of the Corporation's strategy of increasing earned revenues. The Board of Directors of the Foundation authorized a grant of $11,110,000 to the Corporation for designated programs. This includes $3.6 million to the *National Creation Fund*. The fund invests in Canadian-led productions helping artists and arts organizations across Canada create ambitious new work in theatre, music and dance.

Parliamentary Appropriations

Parliamentary appropriations include base funding for operations, special programming, capital repairs and maintenance, and the recognition of deferred capital funding. Investment in capital repairs over the past few years has been significant, including the Architectural Rejuvenation and Production Renewal projects. However, as part of the measures adopted in the 2012 Federal Budget, the Corporation's base funding for operations was reduced by $1,935,000 annually and has been subject to freezes on appropriations for salary and wage increases. There has not been an increase to funding for programming inflation since 2004.

Risks

The Architectural Rejuvenation and Production Renewal projects have resolved the Centre's immediate capital needs. Plans for the long-term maintenance and operations of the building are being developed to define the work required to maintain the Centre's physical infrastructure, which will be addressed in the near future.

The Corporation continues to review its security processes and emergency response preparedness to ensure the safety of its patrons, artists and employees. Architectural Rejuvenation and Production Renewal have provided an opportunity to modernize some safety systems.

Local and global economic conditions may have an impact government funding, ticket sales, commercial revenue, sponsorship and donations. The Corporation regularly monitors economic conditions in order to mitigate current and future funding risks.

Outlook

Architectural Rejuvenation and Production Renewal resulted in many short-term financial and managerial challenges. Now that the construction is substantially complete, the NAC's new public spaces and renewed performance halls will provide additional programming, social and commercial opportunities for the NAC.

The popularity of the Corporation's national, educational, touring, Indigenous and outreach programs continues to grow. The Corporation will pursue its goals of artistic expansion, excellence and relevance on the national stage in the performing arts.

The NAC's historic new Indigenous Theatre department, led by the renowned playwright, actor and director Kevin Loring, has begun to lay the foundation for its first season in 2019–2020.

The NAC is in a unique position to support artistic, educational and community outreach initiatives across Canada. The Corporation will be working with its artistic partners and stakeholders to create and support exciting new opportunities for Canadian artists, arts organizations and Canadians across the country.

Financial Statements

Management Responsibilities

Management is responsible for the preparation of the financial statements and the annual report. Responsibility for their review is that of the Audit Committee of the Board of Trustees. The financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) for Government Not-for-profit Organizations 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 Audit Committee. Other financial and operating information appearing in the annual report is consistent with that contained in the financial statements.

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

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

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

Christopher Deacon
President and Chief Executive Officer

Helle Ottosen, CPA, CA
Chief Financial Officer

November 20, 2019

Independent Auditor's Report

To the Minister of Canadian Heritage and to the Chair of the Board of Trustees of the National Arts Centre Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the National Arts Centre Corporation (the Corporation), which comprise the statement of financial position as at 31 August 2019, and the statement of operations, statement of changes in accumulated deficit and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 August 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the National Arts Centre Corporation coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are the applicable provisions of Part X of the *Financial Administration Act* and regulations, the *National Arts Centre Act*, and the by laws of the National Arts Centre Corporation.

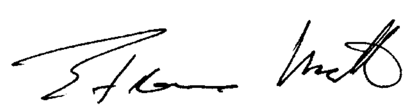
In our opinion, the transactions of the National Arts Centre Corporation that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in Canadian public sector accounting standards have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the National Arts Centre Corporation's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the National Arts Centre Corporation to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.



Etienne Matte, CPA, CA
Principal
for the Interim Auditor General of Canada

Ottawa, Canada
20 November 2019

Statement of Financial Position

As at August 31

(in thousands of dollars)	**2019**	2018
Assets		
Current		
Cash and cash equivalents (Note 3)	**$ 6,426**	$ 5,588
Restricted cash held for specified capital projects (Note 4)	**12,184**	44,713
Investments (Note 5)	**981**	1,108
Accounts receivable (Note 6)	**2,554**	3,732
Inventories	**179**	117
Prepaid expenses	**1,903**	1,770
	24,227	57,028
Investments (Note 5)	**7,287**	8,125
Capital assets (Note 7)	**230,738**	216,473
	$ 262,252	$ 281,626
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 8)	**$ 22,549**	$ 23,639
Deferred parliamentary appropriations (Note 9)	**510**	3,850
Deferred revenue (Note 10)	**6,626**	6,868
Deferred parliamentary appropriations, specified capital projects (Note 4)	**6,943**	34,696
	36,628	69,053
Deferred capital funding (Note 11)	**228,925**	215,844
Long-term portion of provision for employee future benefits (Note 12)	**2,465**	2,589
	268,018	287,486
Accumulated deficit		
Unrestricted	**(5,766)**	(5,860)
	$ 262,252	$ 281,626

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

Approved by the Board of Trustees:

Adrian Burns, LL.D.
Chair

Éric Fournier
Chair of the Audit Committee

Statement of Operations

For the year ended August 31

(in thousands of dollars)	**2019**	2018
Revenues		
Commercial operations (Schedule 1)	**$ 16,361**	$ 13,487
Programming (Schedule 2)	**13,679**	13,385
Grant from the National Arts Centre Foundation (Note 13)	**11,110**	7,938
Other income	**2,234**	2,559
Investment income (Note 5)	**256**	256
	43,640	37,625
Parliamentary appropriations (Note 14)	**50,547**	47,799
	94,187	85,424
Expenses (Schedule 3)		
Commercial operations (Schedule 1)	**10,397**	8,611
Programming (Schedule 2)	**54,217**	47,773
Building operations	**22,859**	23,512
Administration and technology	**6,620**	6,315
	94,093	86,211
Net results of operations	**$ 94**	$ (787)

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

Statement of changes in accumulated deficit

For the year ended August 31

(in thousands of dollars)	**2019**	2018
Unrestricted, beginning of the period	**$ (5,860)**	$ (5,073)
Net results of operations	**94**	(787)
Unrestricted, end of the period	**$ (5,766)**	$ (5,860)

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

Statement of Cash Flows

For the year ended August 31

(in thousands of dollars)	**2019**	2018
Operating activities		
Net results of operations	**$ 94**	$ (787)
Items not affecting cash		
Amortization and write-down of capital assets	**15,261**	10,888
Amortization of deferred capital funding	**(15,261)**	(10,888)
	94	(787)
Change in non-cash operating assets and liabilities	**561**	530
Change in long-term portion of provision for employee future benefits	**(124)**	254
Cash flow used for operating activities	**531**	(3)
Capital activities		
Additions to capital assets	**(33,683)**	(75,557)
Cash flow used for capital activities	**(33,683)**	(75,557)
Investing activities		
Purchase of investments	**(101)**	(759)
Sale of investments	**1,066**	650
Cash flow from investment activities	**965**	(109)
Financing activities		
Transfer – restricted cash used (held) for specified capital projects	**32,529**	31,150
Parliamentary appropriations (used) received for the acquisition of capital assets	**497**	44,152
Cash flow from financing activities	**33,025**	75,302
Increase (decrease) in cash position	**838**	(367)
Cash and cash equivalents at beginning of period	**5,588**	5,955
Cash and cash equivalents at end of period	**$ 6,426**	$ 5,588
Supplementary disclosure of cash flow information		
Interest received	**$ 914**	$ 1,417

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

Notes to the Financial Statements

August 31, 2019

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. In accordance with Section 85 (1.1) of Part X of the *Financial Administration Act*, Divisions I to IV of this *Act* do not apply to the Corporation, except for sections 89.8 to 89.92, subsections 105(2) and sections 113.1, 119, 131 to 148 and section 154.01, which do apply to the Corporation. The Corporation is not an agent of Her Majesty and 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*. As a result, the Corporation is not subject to the provisions of the *Income Tax Act*. Except for the purposes of the *Public Service Superannuation Act* and the *Government Employees Compensation Act*, employees of the Corporation are not part of the federal public administration.

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 have been prepared in accordance with Canadian public sector accounting standards (PSAS) for government not-for-profit organizations (GNFPO). The Corporation has prepared the financial statements applying the Section 4200 series of PSAS, and has elected to use the deferral method of accounting for contributions. A summary of the significant accounting policies follows:

a) Revenue recognition

i) Parliamentary appropriations

The Government of Canada provides funding to the Corporation through parliamentary appropriations.

Parliamentary appropriations for operating expenditures are recognized as revenue in the Statement of Operations in the fiscal period for which they are approved. Parliamentary appropriations received in advance, or for specific projects are recorded as deferred parliamentary appropriations in the Statement of Financial Position and recognized as revenue in the Statement of Operations in the period that the related expenditures are incurred. Similarly, parliamentary appropriations approved but not received at August 31 are recorded as a receivable.

Parliamentary appropriations received and restricted for the purchase of amortizable capital assets are initially recorded as deferred parliamentary appropriations on the Statement of Financial Position. When a purchase is made, the portion of parliamentary appropriations used to make the purchase is recorded as deferred capital funding and is amortized on the same basis and over the same period as the related capital assets acquired.

ii) Contributions

Unrestricted contributions are recognized as revenue on the Statement of Operations when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions externally restricted for specific purposes are deferred on the Statement of Financial Position and recognized as revenue on the Statement of Operations in the period in which the related expenditures are recognized.

Donations in kind are recorded at their estimated fair value when they are received, if they would otherwise have been purchased. Volunteers contribute a significant number of hours each year. Because of the difficulty of determining fair value, contributed services from volunteers are not recognized in these financial statements.

iii) Commercial and programming revenue

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

iv) Other income

Other income consists primarily of bank interest and facility fees. Facility fees are recognized in the period that the performance takes place.

v) Investment income

Investment income is recognized in the period in which it is earned using the effective interest rate method.

b) Cash and cash equivalents

Cash and cash equivalents are measured at cost. Cash and cash equivalents consist of deposits with financial institutions that can be withdrawn without notice, and investments in money market instruments as well as guaranteed investment certificates with terms of maturity of 90 days or less.

c) Investments

Investments are measured at amortized cost. A gain or loss is charged to investment income when realized, or when a decline in value is considered to be a permanent impairment of value. The assets of this portfolio may be sold in response to a change in the Corporation's liquidity requirements or at the discretion of the Corporation's external investment counsel, within the limits of the Investment Policy established by the Board of Trustees.

d) Accounts receivable

Accounts receivable are initially recognized at fair value and are subsequently measured at amortized cost. The Corporation establishes an allowance for doubtful accounts that reflects the estimated impairment of accounts receivable. The allowance is based on specific accounts and is determined by considering the Corporation's knowledge of the financial condition of its customers, the aging of accounts receivable, and current business climate. All write-downs against accounts receivable are recorded within operating expenditures on the Statement of Operations.

e) Inventories

Inventories which consist of food and beverages are valued at the lower of cost and net realizable value. Cost is determined using the first in, first out method.

f) Prepaid expenses

Prepaid expenses include expenditures made for services to be received in the future, such as property taxes paid in advance, insurance premiums, artistic rights, and fees paid to artists in advance of the performance.

g) Capital assets

Acquired capital assets are recorded at cost, net of accumulated amortization. Cost includes direct costs as well as certain overhead costs directly attributable to the asset.

Building improvements that extend the useful life or service potential of buildings are capitalized and recorded at cost. Building improvements are amortized over the lesser of the remaining useful life of the building or the estimated useful life of the improvement.

The Centre was completed in 1969 and held by the Government of Canada until ownership was transferred to the Corporation in 2000. The building, improvements and equipment are recorded at their estimated historical cost, less accumulated amortization. Land transferred to the Corporation is recorded at nominal value as the historical cost could not be reasonably determined at the date of the transfer.

Amortization is calculated using the straight-line method, over the estimated useful life of the assets as follows:

Buildings	20 to 40 years
Building improvements and infrastructure	3 to 40 years
Equipment	3 to 20 years
Computer equipment	3 to 5 years

Amounts included in assets under construction are transferred to the appropriate capital classification upon completion and are amortized once available for use.

When conditions indicate that an asset no longer contributes to the Corporation's ability to provide its services, the net carrying amount of the asset is written down to its residual value, if any.

h) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are measured at amortized cost.

i) Cost allocation

The Corporation has presented expenses by function. The commercial operations and programming expenses are further described in schedules 1 and 2. The costs associated with building operations, administration and information technology are not allocated to commercial operations or programming expenses. These functions are important for the achievement of the Corporation's objectives and management believes that allocating such costs to other functions would not add additional information value. Amortization of capital assets is attributed to the function in which the assets are primarily utilized. Direct costs incurred in fundraising activities are charged to the National Arts Centre Foundation.

j) Employee future benefits

i) Pension plans

Eligible employees of the Corporation participate in the Public Service Pension Plan, the Musicians' Pension Fund of Canada, or the International Alliance of Theatrical Stage Employees pension plan.

The Public Service Pension Plan is a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service costs. According to current legislation, the Corporation has no legal or constructive obligation to make further contributions with respect to any deficiencies of the plan, however there may be obligations created when eligible employees make current contributions for past service.

The Musician's Pension Fund of Canada is a multi-employer defined benefit plan established through collective bargaining between the Corporation and the American Federation of Musicians. The plan is funded by contributions from employers. Employee contributions are neither required nor permitted. The Corporation has no legal or constructive obligation to make further contributions with respect to any deficiencies of the plan.

The International Alliance of Theatre Stage Employees pension plan is a multi-employer defined contribution plan. The plan is funded by contributions from members and the Corporation, as established by the collective bargaining process between the Corporation and the International Alliance of Theatre Stage Employees.

Pension plan contributions are recognized as an expense in the year in which employees render service, and represent the total pension obligation of the Corporation.

ii) Employee severance and sick leave benefits

Prior to September 1, 2013, certain employees were entitled to severance benefits as provided for under their respective collective agreements, or the terms and conditions of their employment. The cost of severance benefits was recognized in the periods in which employees rendered services to the Corporation. The Corporation has withdrawn this benefit at different times for all groups of employees. The liability for this benefit ceased to accumulate as of the negotiated date for each type of employee. When the severance benefit ceased to accumulate, employees had the choice to receive a payment for vested benefits or defer the payment until a future date. The residual liability is calculated based on management's best estimates and assumptions taking into consideration historical employment data.

Most employees of the Corporation are entitled to accumulating but non-vesting sick leave benefits as provided for under their respective collective agreements or the terms and conditions of their employment. The Corporation recognizes the cost of future sick leave benefits over the periods in which the employees render services to the Corporation and the liability for the benefits is recognized based on the probability of usage by employees, using historical data.

k) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the exchange rate at year end. Non-monetary items are translated at historical exchange rates. Revenues, expenses, and capital acquisitions are translated at exchange rates in effect at the time of the transaction. Realized foreign currency exchange gains or losses for the year are included in financial charges and bad debts.

l) Measurement uncertainty

The preparation of financial statements in accordance with PSAS 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 for the year. The most significant estimates involve the determination of the provision for employee future benefits, the estimated useful life of capital assets, deferred parliamentary appropriations, and the allocation of overhead costs to assets under construction. Actual results could differ significantly from those estimates.

m) Contingent liabilities

Contingent liabilities are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. If the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is recognized and an expense is recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

n) Inter-entity transactions

Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions are measured at the carrying amount as determined at the transaction date except for:

a) Transactions undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length which are measured at the exchange amount;
b) Transactions relating to allocated costs and recoveries which are measured at the exchange amount; and
c) Services provided free of charge that are not recorded.

Related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

3. Cash and Cash Equivalents

The Corporation's management or the investment portfolio manager may invest funds in short-term investments for the purpose of managing cash flows. At August 31, the cash and cash equivalents were as follows:

(in thousands of dollars)	**2019**	2018
Cash	**$ 6,426**	$ 5,550
Money market and short-term investments	**–**	38
Balance at end of year	**$ 6,426**	$ 5,588

4. Restricted Cash Held for Specified Capital Projects and Deferred Parliamentary Appropriations, Specified Capital Projects

Restricted cash held for specified capital projects represents the unused portion of parliamentary appropriations received and designated for specified capital projects within the Centre. There are currently two capital projects being funded by parliamentary appropriations.

In 2015, the Government of Canada approved funding of $110.5 million for Architectural Rejuvenation to improve the public spaces of the Centre. All of these funds have been received and the project is substantially complete.

In 2016, the Government of Canada approved funding of $114.9 million for Production Renewal, to modernize the theatrical spaces of the Centre. All of these funds have been received and the project is nearly complete.

In 2017, the Government of Canada approved the reallocation of $3.8 million from the Production Renewal budget to complete some elements of the Architectural Rejuvenation Project. In this fiscal year $2,653,000 was transferred from Production Renewal to Architectural Rejuvenation to complete improvements to public spaces. The remainder will be transferred in the next fiscal year. Some improvements must be scheduled when the Centre is not in use for safety reasons.

Changes in the fund balance are as follows:

Architectural Rejuvenation

(in thousands of dollars)	**2019**	2018
Balance at beginning of year	**$ –**	$ 4,891
Appropriations received during the year	**–**	10,300
Funds transferred from the Production Renewal Project	**2,653**	–
Appropriations invested in specified capital projects	**(2,653)**	(15,191)
Balance at end of year	**$ –**	$ –

Production Renewal

(in thousands of dollars)	**2019**	2018
Balance at beginning of year	**$ 44,713**	$ 70,972
Appropriations received during the year	**–**	34,000
Funds transferred to the Architectural Rejuvenation Project	**(2,653)**	–
Appropriations invested in specified capital projects	**(29,876)**	(60,259)
Balance at end of year	**$ 12,184**	$ 44,713
Total restricted cash held for specified capital projects	**$ 12,184**	$ 44,713

Total restricted cash held for specified capital projects	**$ 12,184**	$ 44,713
Liabilities related to specified capital projects, net of sales tax	**(5,241)**	(10,017)
Deferred parliamentary appropriations, specified capital projects	**$ 6,943**	$ 34,696

5. INVESTMENTS

Under its Investment Policy, the Corporation may invest in fixed income securities. To minimize credit risk, all investments purchased are rated "BBB" (investment grade) or better by a recognized bond-rating agency. Fair value is determined primarily by published price quotations. To mitigate the effect of liquidity risk, maturity dates are varied. One of the bonds matures in December 2108, however that bond is expected to be called by the issuer in December 2019. Investments are managed by professional investment counsel, in accordance with the Investment Policy established by the Board of Trustees. This Investment Policy establishes asset allocation requirements, minimum credit ratings, and diversification criteria. Interest income from these investments, net of management fees, amounted to $256,000 ($256,000 in 2018) and is disclosed as Investment income in the Statement of Operations.

(in thousands of dollars)	**2019 Carrying Value**	**2019 Fair Value**	2018 Carrying Value	2018 Fair Value
Government secured bonds	**$ 4,081**	**$ 4,222**	$ 4,487	$ 4,485
Corporate bonds	**4,187**	**4,406**	4,746	4,819
Total investments	**$ 8,268**	**$ 8,628**	$ 9,233	$ 9,304
Portion maturing in the next fiscal year	**$ 981**	**$ 915**	$ 1,108	$ 1,154
Long-term portion	**7,287**	**7,713**	8,125	8,150
Total investments	**$ 8,268**	**$ 8,628**	$ 9,233	$ 9,304

6. Accounts Receivable

Accounts receivable include amounts collectible from commercial operations, recoverable taxes, and programming partners. The majority of accounts receivable are unsecured, and are subject to credit risk. Management regularly reviews the account balances and uses available information to authorize credit, to establish a provision for uncollectible accounts, and to determine permanent impairment. Any provision for bad debts is recognized in financial charges and bad debts. A provision of $10,000 ($11,000 in 2018) has been made based on an account by account analysis that considers the aging of the account and the probability of collection.

7. Capital Assets

(in thousands of dollars)	**Cost**	**Accumulated amortization**	**2019 Net carrying value**	2018 Net carrying value
Land	**$ 78**	**$ –**	**$ 78**	$ 78
Buildings	**116,191**	**50,547**	**65,644**	66,396
Building improvements and infrastructure	**193,258**	**57,718**	**135,540**	81,523
Equipment	**31,713**	**8,344**	**23,369**	4,434
Computer equipment	**8,586**	**3,588**	**4,998**	6,321
Assets under construction	**1,109**	**–**	**1,109**	57,721
	$ 350,935	**$ 120,197**	**$ 230,738**	$ 216,473

During the year, assets subject to amortization with an original carrying value of $3,342,000 ($2,448,000 in 2018) and with an accumulated amortized cost of $3,181,000 ($2,391,000 in 2018) were disposed of, resulting in a write down of $161,000 ($57,000 in 2018).

Amortization and write downs have been allocated as follows in the statement of operations:

(in thousands of dollars)	**2019**	2018
Commercial operations	**$ 143**	$ 165
Programming	**4,894**	575
Building operations	**10,157**	10,063
Administration and technology	**67**	85
Total amortization	**$ 15,261**	$ 10,888

8. Accounts Payable and Accrued Liabilities

(in thousands of dollars)	**2019**	2018
Operating accounts payable and accrued liabilities	**$ 17,309**	$ 12,612
Liabilities related to specified capital projects	**5,240**	11,027
Balance at end of year	**$ 22,549**	$ 23,639

9. Deferred Parliamentary Appropriations

Deferred parliamentary appropriations represent approved parliamentary appropriations received for programs and projects to be completed in the next fiscal year, as follows:

(in thousands of dollars)	Building Refurbishment	Programming & Operations	Specific Programs	**Total 2019**	Total 2018
Balance at beginning of year	$ 1,525	$ 2,325	$ –	**$ 3,850**	$ 4,495
Appropriations received	6,417	25,618	500	**32,535**	36,118
Appropriations used	(7,537)	(27,943)	(395)	**(35,875)**	(36,763)
Balance at end of year	$ 405	$ –	$ 105	**$ 510**	$ 3,850

10. Deferred Revenue

Deferred revenue includes amounts received from the box office for programs not yet presented and other amounts received in advance of services to be rendered.

(in thousands of dollars)	**2019**	2018
Advanced ticket sales - programming	**$ 5,624**	$ 5,889
Deposits from commercial operations and other	**1,002**	979
Deferred revenue	**$ 6,626**	$ 6,868

All prior year deferred revenue was recognized as revenue during the current year.

11. 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:

(in thousands of dollars)	**2019**	2018
Balance at beginning of year	**$ 215,844**	$ 159,717
Appropriations used to purchase depreciable capital assets	**28,249**	67,015
Recognition of deferred capital funding	**(15,168)**	(10,888)
Balance at end of year	**$ 228,925**	$ 215,844

12. Employee Future Benefits

a) Public Service Pension Plan

The majority of employees of the Corporation are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established by legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2% of pensionable service times the average of the best five consecutive years of earnings. Benefits are coordinated with Canada/Quebec Pension Plan benefits and are indexed to inflation.

The Corporation's and employees' contributions to the pension plan during the year are as follows:

Public Service Pension Plan

(in thousands of dollars)	**2019**	2018
Corporation	**$ 2,228**	$ 2,229
Employees	**2,164**	2,064

b) Other pension plans

The Corporation and eligible employees contribute to the Musician's Pension Fund of Canada, or the International Alliance of Theatrical Stage Employees pension plan. The Musician's Pension Fund of Canada provides benefits based on years of service and average earnings upon retirement. The International Alliance of Theatrical Stage Employees pension plan is a defined contribution plan. Contributions to these plans are determined through the collective bargaining process.

The Corporation's and employees' contributions to the pension plans during the year are as follows:

Other Pension Plans

(in thousands of dollars)	**2019**	2018
Corporation	**$ 888**	$ 797
Employees	**201**	191

c) Employee severance and sick leave benefits

In prior years, certain employees earned severance benefits as provided for under their respective collective agreements, or the terms and conditions of their employment. Effective September 1, 2013, years of service have ceased to accumulate, however employees continue to be eligible for the benefits that have been earned to that date. Eligible employees may also elect to receive payment for a portion of the benefit that has vested. The obligation is calculated based on years of service, current salary, and the nature of the departure. Management uses estimates to determine the residual amount of the obligation using the Corporation's historical experience and current trends. The Corporation has not segregated assets for the purpose of meeting this future obligation. The benefits will be funded as they become due from the Corporation's assets and future operations.

The Corporation provides cumulative sick leave benefits to its employees. Employees accumulate unused sick leave days which may be used in future years. An employee's unused sick leave balance is carried forward until the employee departs the Corporation, at which point any unused balance lapses.

Information about these benefits, measured as at August 31 is as follows:

(in thousands of dollars)		**2019**		2018
Accrued benefit liability, beginning of year	**$**	**2,839**	$	2,585
Cost for the year		**100**		557
Benefits paid during the year		**(224)**		(303)
Accrued benefit liability, end of year	**$**	**2,715**	$	2,839
Short-term portion (included in accounts payable and accrued liabilities)	**$**	**250**	$	250
Long-term portion		**2,465**		2,589
Accrued benefit liability, end of year	**$**	**2,715**	$	2,839

13. Grant from the National Arts Centre Foundation

(in thousands of dollars)		**2019**		2018
Grant from the National Arts Centre Foundation	**$**	**11,110**	$	**7,938**

The National Arts Centre Foundation (the "Foundation") was incorporated in July 2000 and is a registered charity. Although the Foundation is a separate legal entity from the Corporation, it is closely related because the Corporation exercises significant influence over the operations, financing and strategic planning of the Foundation.

The Foundation raises funds from individuals, foundations and corporations to support the National Arts Centre's programs. During this fiscal year, direct expenses related to fundraising costs, in the amount of $2,412,000 ($2,384,000 in 2018) were charged to the Foundation. The financial statements of the Foundation have not been consolidated in the Corporation's financial statements. The Foundation's financial statements are audited by an independent accounting firm and are available upon request.

The grant includes $1,301,000 ($1,258,000 in 2018) of in-kind contributions such as travel, accommodations and promotional services.

The Foundation uses the *restricted fund method* of accounting. The financial position of the Foundation as at August 31 and the results of operations for the year then ended were reported as follows:

Financial position

(in thousands of dollars)		**2019**		2018
Total assets	**$**	**15,859**	$	15,403
Total liabilities		**(858)**		(697)
Total net assets	**$**	**15,001**	$	14,706

An amount of $6,363,000 ($7,830,000 in 2018) of the Foundation's net assets is subject to donor-imposed restrictions, and an additional $4,060,000 ($4,034,000 in 2018) represents endowment funds and is to be maintained in perpetuity.

Results of operations

(in thousands of dollars)	**2019**	2018
Total revenues	**$ 13,914**	$ 12,744
Total expenses	**2,509**	2,467
Total Grant to the National Arts Centre Corporation	**11,110**	7,938
Excess of revenues over expenses and grants	**$ 295**	$ 2,339

At August 31, 2019 the balance receivable from the Foundation was $190,000.

At August 31, 2018 the balance owing to the Foundation was $2,088,000.

14. Parliamentary Appropriations

The Corporation receives parliamentary appropriations from the Government of Canada in support of its operating and capital activities. The table below illustrates the parliamentary appropriations approved for the fiscal year, and the accounting adjustments required to arrive at the calculation of revenue that conforms to PSAS.

(in thousands of dollars)	**2019**	2018
Main estimates amount provided for operating and capital expenditures	**$ 32,355**	$ 79,128
Supplementary estimates	**180**	1,290
Appropriations approved	**32,535**	80,418
Portion of parliamentary appropriations used (deferred) for specific projects	**31,093**	23,508
Appropriation used to purchase depreciable capital assets	**(28,249)**	(67,015)
Deferred capital funding – amortization and write down	**15,168**	10,888
Parliamentary appropriations	**$ 50,547**	$ 47,799

In 2019 supplementary estimates of $180,000 was received to fund special programming and salary increases.

In 2018 supplementary estimates of $1,290,000 was for the annual reference level update for salary increases.

15. 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 that are undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length, and these transactions are measured at exchange amounts which is the consideration established and agreed upon by the related parties. Related parties also include key management personnel having authority and responsibility for planning, directing and controlling the activities of the Corporation. This includes the Senior Management Team and all members of the Board of Trustees and parties related to them.

In addition to those related party transactions disclosed elsewhere in the notes to the financial statements, the Corporation had the following transactions:

(in thousands of dollars)	**2019**	2018
Revenues from related parties		
Commercial operations	**$ 2,874**	$ 1,838
Programming	**701**	570
	$ 3,575	$ 2,408
Expenses with related parties		
Commercial operations	**$ 295**	$ 278
Programming	**1,523**	2,062
Building operations	**1,573**	1,816
Administration and technology	**679**	755
	$ 4,069	$ 4,911

The following balances were outstanding at the end of the year:

	2019	2018
Due from related parties	**$ 292**	$ 185
Due to related parties	**703**	449

Commercial revenues are primarily for parking and catering sales to government organizations and crown corporations. Programming revenues pertain to support for specific performances. Expense transactions primarily relate to employee benefits, utilities and postage. The Corporation also receives services from related parties, such as financial statement audits and pension administration without charge, the value of which have not been reflected in these financial statements.

16. Contingencies

In the normal course of business, various claims and legal actions have been brought against the Corporation. In the view of Management, the outcome of these actions is not likely to result in any material amounts. However, in the event that such losses were likely to be incurred and the costs were reasonably estimable, a liability would be accrued and an expense recorded in the Corporation's financial statements. The amount accrued for contingent liabilities as at August 31, 2019 was nil (nil in 2018).

17. Contractual Obligations and Contractual Rights

As at August 31, 2019 $18,900,000 ($40,515,000 in 2018) is to be paid and $1,257,000 ($1,762,000 in 2018) is to be received pursuant to long-term contracts. The contractual obligations relate primarily to programming, building maintenance and new construction. Contractual rights pertain primarily to the rental of performance spaces and food services contracts. The future minimum payments are as follows:

(in thousands of dollars)	Contractual Obligations	Contractual Rights
2019–20	15,033	1,154
2020–21	1,985	40
2021–22	1,002	40
2022–23	879	23
2023–24	1	–

18. Financial Instruments

Credit risk:

Credit risk is the risk of financial loss to the Corporation associated with a counterparty's failure to fulfill its financial obligations.

The Corporation is subject to credit risk as follows:

i) Cash and cash equivalents (including restricted cash)

The Corporation has deposited cash and cash equivalents of $18,610,000 ($50,301,000 in 2018), with reputable financial institutions that are members of the Canadian Payments Association. The Corporation has determined that the risk of loss due to credit risk is not significant.

ii) Accounts receivable

The Corporation has accounts receivable of $2,554,000 ($3,732,000 in 2018). The Corporation manages credit risk associated with its accounts receivable by closely monitoring the issuance and collection of credit to commercial clients and artistic partners. As at August 31, 2019 unimpaired accounts receivable over 120 days were $48,000 ($3,000 in 2018).

For accounts receivable that are neither past due nor impaired, the Corporation has assessed the credit risk as low.

iii) Investments

The Corporation has investments of $8,268,000 ($9,233,000 in 2018).

The Investment Policy limits the Corporation to investment grade fixed income securities and cash equivalents, which significantly lowers credit risk.

The maximum credit risk exposure of the Corporation is represented by the value of cash deposits and cash equivalents, accounts receivable net of tax and investments.

Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by the delivery of cash or another financial asset as they become due. The Corporation is highly dependent on parliamentary appropriations for its ongoing operations.

The Corporation manages this risk by establishing realistic budgets, and adapting to changing environments from year to year. The Corporation also manages its cash flow by maintaining sufficient cash balances to meet current obligations, and investing in high quality government and corporate bonds that can be liquidated should an unexpected obligation materialize.

As at August 31, 2019, the Corporation's accounts payable and accrued liabilities are due within 365 days (365 days in 2018). The Corporation has determined that risk is not significant because it maintains sufficient cash to meet its current obligations and maintains short-term investments that can be redeemed as needed.

Market risk:

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk. While the Corporation is subject to currency risk and interest rate risk, management has determined that these risks are not significant.

The portfolio is invested in bonds with a variety of maturity dates which reduces the effect of interest rate risk.

The Corporation is subject to foreign currency exchange rate risk on its cash, accounts receivable, accounts payable and accrued liabilities denominated in foreign currencies, primarily U.S. dollars. Periodically, the Corporation will mitigate this risk by hedging a portion of its foreign currency obligations. The Corporation had $539,000 ($2,332,000 in 2018) in currency and $412,000 ($1,411,000 in 2018) in accounts payable denominated in American currency at August 31, 2019.

Fair value:

Due to the short-term maturity of these financial instruments, the carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value.

Schedule 1

Revenues and expenses – Commercial operations

For the year ended August 31

(in thousands of dollars)		2019	
	Revenues	**Expenses**	**Net**
Food and Beverage Services	**$ 9,461**	**$ 7,946**	**$ 1,515**
Parking Services	**4,829**	**1,027**	**3,802**
Rental of Halls	**2,070**	**1,424**	**646**
	$ 16,361	**$ 10,397**	**$ 5,963**

(in thousands of dollars)		2018	
	Revenues	Expenses	Net
Food and Beverage Services	$ 6,943	$ 6,124	$ 819
Parking Services	4,482	988	3,494
Rental of Halls	2,062	1,499	563
	$ 13,487	$ 8,611	$ 4,876

Schedule 2

Revenues and expenses – Programming

For the year ended August 31

(in thousands of dollars)	**2019**	2018
Revenues		
Music	**$ 4,984**	$ 4,087
English Theatre	**1,944**	2,171
Dance	**2,582**	2,749
Other programming	**2,604**	2,483
Programming support	**1,204**	974
French Theatre	**361**	921
	13,679	13,385
Expenses		
Music	**18,906**	17,449
English Theatre	**3,722**	4,812
Dance	**3,233**	3,763
Other programming	**10,376**	7,823
Programming support	**15,896**	10,618
French Theatre	**2,084**	3,308
	54,217	47,773
Excess of expenses over revenues	**$ 40,538**	$ 34,388

Schedule 3

Expenses

For the year ended August 31

(in thousands of dollars)	**2019**	2018
Salaries and benefits	**$ $34,276**	$ 32,350
Artistic fees	**15,695**	14,955
Amortization and write down of capital assets	**15,261**	10,888
National Arts Centre Orchestra fees	**7,561**	7,195
Advertising	**3,739**	3,680
Utilities	**2,720**	2,787
Maintenance and repairs	**2,289**	2,012
Cost of sales	**2,141**	1,609
Payments to municipalities	**2,042**	2,043
Professional fees	**1,565**	1,846
In-kind contributions of goods and services	**1,215**	1,258
Equipment	**1,002**	701
Production	**954**	1,259
Financial charges and bad debts	**862**	736
Staff travel	**591**	473
Promotion	**482**	514
Insurance	**329**	289
Telecommunications	**301**	271
Supplies	**282**	325
Education and training	**261**	262
Rental of facilities	**194**	392
Office	**189**	246
Board	**141**	108
Miscellaneous	**1**	12
	$ 94,093	$ 86,211