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

February 28, 2019

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the National Arts Centre Corporation, which comprise the statement of financial position as at 31 August 2018, and the statement of operations, statement of changes in accumulated deficit and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Arts Centre Corporation as at 31 August 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in Canadian public sector accounting standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the National Arts Centre 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* and regulations, the *National Arts Centre Act* and the by-laws of the National Arts Centre Corporation, with the exception of a non-compliance with a Treasury Board decision, recognized as an authority instrument per subsection 7(1)(c) of the *Financial Administration Act*, as described in the following paragraph.

The Treasury Board decision received on the Production Renewal Project precluded the use of funds for other projects. Contrary to conditions specified by the Treasury Board decision, the National Arts Centre Corporation used $15 million of funds from the Production Renewal Project to cover cost overruns of the Architectural Rejuvenation Project.

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

28 February 2019
Ottawa, Canada

STATEMENT OF FINANCIAL POSITION

As at August 31

(in thousands of dollars)	**2018**	2017
ASSETS		
Current		
Cash and cash equivalents (Note 4)	**$ 5,588**	$ 5,955
Restricted cash held for specified capital projects (Note 5)	**44,713**	75,863
Investments (Note 6)	**1,108**	1,466
Accounts receivable (Note 7)	**3,732**	3,842
Inventories	**117**	108
Prepaid expenses	**1,770**	2,731
	57,028	89,965
Investments (Note 6)	**8,125**	7,571
Capital assets (Note 8)	**216,473**	159,717
	$ 281,626	$ 257,253
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 9)	**$ 23,639**	$ 31,494
Deferred parliamentary appropriations (Note 10)	**3,850**	4,495
Deferred revenue (Note 11)	**6,868**	6,726
Deferred parliamentary appropriations, specified capital projects (Note 5)	**34,696**	57,559
	69,053	100,274
Deferred capital funding (Note 12)	**215,844**	159,717
Long-term portion of provision for employee future benefits (Note 13)	**2,589**	2,335
	287,486	262,326
ACCUMULATED DEFICIT		
Unrestricted	**(5,860)**	(5,073)
	$ 281,626	$ 257,253

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

Approved by the Board of Trustees:

Adrian Burns, LL.D.
Chair

Donald Walcot
Chair of the Audit Committee

STATEMENT OF OPERATIONS
For the year ended August 31

(in thousands of dollars)	**2018**	2017
REVENUES		
Commercial operations (Schedule 1)	**$ 13,487**	$ 9,491
Programming (Schedule 2)	**13,385**	11,965
Grant from the National Arts Centre Foundation (Note 14)	**7,938**	7,703
Other income	**2,559**	1,579
Investment income (Note 6)	**256**	263
	37,625	31,001
Parliamentary appropriations (Note 15)	**47,799**	43,707
	85,424	74,708
EXPENSES (Schedule 3)		
Commercial operations (Schedule 1)	**8,611**	6,245
Programming (Schedule 2)	**47,773**	46,811
Building operations	**23,512**	19,313
Administration and technology	**6,315**	6,030
	86,211	78,399
NET RESULTS OF OPERATIONS	**$ (787)**	$ (3,691)

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)	**2018**	2017
Unrestricted, beginning of year	**$ (5,073)**	$ (1,382)
Net results of operations	**(787)**	(3,691)
Unrestricted, end of year	**$ (5,860)**	$ (5,073)

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)		**2018**		2017
Operating activities				
Net results of operations	**$**	**(787)**	$	(3,691)
Items not affecting cash				
Amortization and write-down of capital assets		**10,888**		6,097
Amortization of deferred capital funding		**(10,888)**		(6,097)
		(787)		(3,691)
Change in non-cash operating assets and liabilities		**530**		3,259
Change in long-term portion of provision for employee future benefits		**254**		138
Cash flow used for from operating activities		**(3)**		(294)
Capital activities				
Additions to capital assets		**(75,557)**		(78,198)
Cash flow used for capital activities		**(75,557)**		(78,198)
Investing activities				
Purchase of investments		**(759)**		(329)
Sale of investments		**650**		127
Cash flow used for investment activities		**(109)**		(202)
Financing activities				
Transfer – restricted cash used (held) for specified capital projects		**31,150**		(22,111)
Parliamentary appropriations received for the acquisition of capital assets		**44,152**		100,133
Cash flow from financing activities		**75,302**		78,022
Decrease in cash position		**(367)**		(672)
Cash and cash equivalents at beginning of year		**5,955**		6,627
Cash and cash equivalents at end of year	**$**	**5,588**	$	5,955
Supplementary disclosure of cash flow information				
Interest received	**$**	**1,417**	$	730

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

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2018

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. ADOPTION OF NEW ACCOUNTING STANDARDS

The Public Sector Accounting Board issued new accounting standards effective for fiscal years beginning on or after April 1, 2017.

As a result, the Corporation adopted an accounting policy for Inter-entity transactions (PS 3420). This new Section establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity for both a provider and recipient perspective. The adoption of this new standard did not result in any financial impact on the Corporation's financial statements. See Note 2(n) for the inter-entity transaction accounting policy.

The Corporation also adopted the following new accounting standards: Related party disclosures (PS 2200); Assets (PS 3210); Contingent assets (PS 3320); Contractual rights (PS 3380). The adoption of PS 3210 did not result in any changes to the financial statements but might in future years. The remaining new accounting standards only impact note disclosure. The adoption of PS 2200 and PS 3320 did not result in a significant impact on the disclosures included in the Corporation's financial statements. The adoption of PS 3380 required additional information to be disclosed. See Note 18 for contractual obligations and contractual rights disclosure.

4. 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)	**2018**	2017
Cash	**$ 5,550**	$ 5,446
Money market and short-term investments	**38**	509
Balance at end of year	**$ 5,588**	$ 5,955

5. 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 as of August 31, 2018 and the project is substantially completed.

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 as of August 31, 2018, and the project is expected to be concluded in the next fiscal year.

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.

Changes in the fund balance are as follows:

Architectural Rejuvenation

(in thousands of dollars)	**2018**	2017
Balance at beginning of year	**$ 4,891**	$ 41,239
Appropriations received during the year	**10,300**	34,700
Appropriations invested in specified capital projects	**(15,191)**	(71,048)
Balance at end of year	**$ –**	$ 4,891

Production Renewal

(in thousands of dollars)	**2018**	2017
Balance at beginning of year	**$ 70,972**	$ 12,513
Appropriations received during the year	**34,000**	66,270
Appropriations invested in specified capital projects	**(60,259)**	(7,811)
Balance at end of year	**$ 44,713**	$ 70,972
Total restricted cash held for specified capital projects	**$ 44,713**	$ 75,863

Total restricted cash held for specified capital projects	**$ 44,713**	$ 75,863
Liabilities related to specified capital projects, net of sales tax	**(10,017)**	(18,304)
Deferred parliamentary appropriations, specified capital projects	**$ 34,696**	$ 57,559

6. 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 (December 2108 in 2017) 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 ($263,000 in 2017) and is disclosed as Investment income in the Statement of Operations.

(in thousands of dollars)	**2018 Carrying Value**	**2018 Fair Value**	2017 Carrying Value	2017 Fair Value
Government secured bonds	**$ 4,487**	**$ 4,485**	$ 4,240	$ 4,332
Corporate bonds	**4,746**	**4,819**	4,797	4,910
Total investments	**$ 9,233**	**$ 9,304**	$ 9,037	$ 9,242
Portion maturing in the next fiscal year	**$ 1,108**	**$ 1,154**	$ 1,466	$ 1,535
Long-term portion	**8,125**	**8,150**	7,571	7,707
Total investments	**$ 9,233**	**$ 9,304**	$ 9,037	$ 9,242

7. 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 $11,000 ($116,000 in 2017) has been made based on an account by account analysis that considers the aging of the account and the probability of collection.

8. CAPITAL ASSETS

(in thousands of dollars)	**Cost**	**Accumulated amortization**	**2018 Net carrying value**	2017 Net carrying value
Land	**$ 78**	**$ –**	**$ 78**	$ 78
Buildings	**114,723**	**48,327**	**66,396**	30,570
Building improvements and infrastructure	**130,593**	**49,070**	**81,523**	81,221
Equipment	**13,305**	**8,871**	**4,434**	3,294
Computer equipment	**8,332**	**2,011**	**6,321**	6,695
Assets under construction	**57,721**	**–**	**57,721**	37,859
	$ 324,752	**$ 108,279**	**$ 216,473**	$ 159,717

During the year, assets subject to amortization with an original carrying value of $2,448,000 ($1,644,000 in 2017) and with an accumulated amortized cost of $2,392,000 ($1,256,000 in 2017) were disposed of, resulting in a write down of $57,000 ($388,000 in 2017).

No assets under construction were written down in 2018 ($399,000 in 2017).

Amortization has been allocated as follows in the statement of operations:

(in thousands of dollars)		**2018**		2017
Commercial operations	**$**	**165**	$	172
Programming		**518**		481
Building operations		**10,063**		4,580
Administration and technology		**85**		77
Total amortization	**$**	**10,831**	$	5,310

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of dollars)		**2018**		2017
Operating accounts payable and accrued liabilities	**$**	**12,612**	$	12,133
Liabilities related to specified capital projects		**11,027**		19,361
Balance at end of year	**$**	**23,639**	$	31,494

10. 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 2018**		Total 2017
Balance at beginning of year	$	2,091	$	2,254	$	150	**$**	**4,495**	$	5,181
Appropriations received		7,000		28,768		350		**36,118**		36,047
Appropriations used		(7,566)		(28,697)		(500)		**(36,763)**		(36,733)
Balance at end of year	$	1,525	$	2,325	$	–	**$**	**3,850**	$	4,495

11. 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)		**2018**		2017
Advanced ticket sales - programming	**$**	**5,889**	$	5,999
Deposits from commercial operations and other		**979**		727
Deferred revenue	**$**	**6,868**	$	6,726

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

12. 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)	**2018**	2017
Balance at beginning of year	**$ 159,717**	$ 81,287
Appropriations used to purchase depreciable capital assets	**67,015**	84,527
Write-down of capital assets	**(57)**	(787)
Amortization	**(10,831)**	(5,310)
Balance at end of year	**$ 215,844**	$ 159,717

13. 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)	**2018**	2017
Corporation	**$ 2,229**	$ 2,238
Employees	**2,064**	1,862

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)	**2018**	2017
Corporation	**$ 797**	$ 784
Employees	**191**	172

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, 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)		**2018**		2017
Accrued benefit liability, beginning of year	**$**	**2,585**	$	2,447
Cost for the year		**557**		325
Benefits paid during the year		**(303)**		(187)
Accrued benefit liability, end of year	**$**	**2,839**	$	2,585
Short-term portion (included in accounts payable and accrued liabilities)	**$**	**250**	$	250
Long-term portion		**2,589**		2,335
Accrued benefit liability, end of year	**$**	**2,839**	$	2,585

14. GRANT FROM THE NATIONAL ARTS CENTRE FOUNDATION

(in thousands of dollars)		**2018**		2017
Grant from the National Arts Centre Foundation	**$**	**7,938**	$	7,703

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 $2,384,000 ($2,383,000 in 2017) 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 $1,258,000 ($1,116,000 in 2017) 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)	**2018**	2017
Total assets	**$ 15,403**	$ 13,107
Total liabilities	**(697)**	(740)
Total net assets	**$ 14,706**	$ 12,367

An amount of $7,830,000 ($5,933,000 in 2017) of the Foundation's net assets is subject to donor-imposed restrictions, and an additional $4,034,000 ($3,912,000 in 2017) represents endowment funds and is to be maintained in perpetuity.

Results of operations

(in thousands of dollars)	**2018**	2017
Total revenues	**$ 12,744**	$ 12,410
Total expenses	**2,467**	2,475
Total Grant to the National Arts Centre Corporation	**7,938**	7,703
Excess of revenues over expenses and grants	**$ 2,339**	$ 2,232

At August 31 the balance owing to the Foundation from the Corporation was $2,088,000 ($1,029,000 in 2017).

15. 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)	**2018**	2017
Main estimates amount provided for operating and capital expenditures	**$ 79,128**	$ 95,735
Supplementary estimates	**1,290**	41,282
Appropriations approved	**80,418**	137,017
Portion of parliamentary appropriations used (deferred) for specific projects	**23,508**	(14,880)
Appropriation used to purchase depreciable capital assets	**(67,015)**	(84,527)
Deferred capital funding – amortization and write down	**10,888**	6,097
Parliamentary appropriations	**$ 47,799**	$ 43,707

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

In 2017 supplementary estimates $23,370,000 for Production Renewal, $17,762,375 for Architectural Rejuvenation and $150,000 for festivals.

16. 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)		**2018**		2017
Revenues from related parties				
Commercial operations	**$**	**1,838**	$	890
Programming		**570**		330
	$	**2,408**	$	1,220
Expenses with related parties				
Commercial operations	**$**	**278**	$	219
Programming		**2,062**		1,891
Building operations		**1,816**		1,727
Administration and technology		**755**		453
	$	**4,911**	$	4,290

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

		2018		2017
Due from related parties	**$**	**185**	$	613
Due to related parties		**449**		487

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.

17. 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, 2018 was nil (nil in 2017).

18. CONTRACTUAL OBLIGATIONS AND CONTRACTUAL RIGHTS

As at August 31, 2018 $40,515,000 ($34,033,000 in 2017) is to be paid and $1,762,000 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
2018–19	35,992	1,762
2019–20	1,384	–
2020–21	1,130	–
2021–22	1,061	–
2022–23	948	–

19. 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 $50,301,000 ($81,818,000 in 2017), 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 $3,732,000 ($3,842,000 in 2017). 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, 2018 unimpaired accounts receivable over 120 days were $3,000 ($5,000 in 2017).

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 $9,233,000 ($9,037,000 in 2017).

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, 2018, the Corporation's accounts payable and accrued liabilities are due within 365 days (365 days in 2017). 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 $2,332,000 ($55,000 in 2017) in currency and $1,411,000 ($31,000 in 2017) in accounts payable denominated in American currency at August 31, 2018.

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

Schedule of revenues and expenses - Commercial operations

For the year ended August 31

	2018		
(in thousands of dollars)	**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**

	2017		
(in thousands of dollars)	Revenues	Expenses	Net
Food and Beverage Services	$ 3,330	$ 3,869	$ (539)
Parking Services	4,175	951	3,224
Rental of Halls	1,986	1,425	561
	$ 9,491	$ 6,245	$ 3,246

SCHEDULE 2

Schedule of revenues and expenses - Programming

For the year ended August 31

(in thousands of dollars)	**2018**	2017
REVENUES		
Music	**$ 4,087**	$ 3,872
English Theatre	**2,171**	1,922
Dance	**2,749**	2,000
Other programming	**2,483**	2,971
Programming support	**974**	894
French Theatre	**921**	306
	13,385	11,965
EXPENSES		
Music	**17,449**	17,280
English Theatre	**4,812**	4,188
Dance	**3,763**	3,341
Other programming	**7,823**	9,659
Programming support	**10,618**	10,402
French Theatre	**3,308**	1,941
	47,773	46,811
EXCESS OF EXPENSES OVER REVENUES	**$ 34,388**	$ 34,846

SCHEDULE 3

Schedule of expenses

For the year ended August 31

(in thousands of dollars)	**2018**	2017
Salaries and benefits	**$ 32,350**	$ 30,499
Artistic fees	**14,955**	14,206
Amortization and write down of capital assets	**10,888**	6,097
National Arts Centre Orchestra fees	**7,195**	6,998
Advertising	**3,680**	4,365
Utilities	**2,787**	2,773
Payments to municipalities	**2,043**	2,042
Maintenance and repairs	**2,012**	2,194
Professional fees	**1,846**	2,021
Cost of sales	**1,609**	1,096
Production	**1,259**	1,174
In-kind contributions of goods and services	**1,258**	1,116
Financial charges and bad debts	**736**	574
Equipment	**701**	286
Promotion	**514**	546
Staff travel	**473**	445
Rental of facilities	**392**	563
Supplies	**325**	227
Insurance	**289**	267
Telecommunications	**271**	295
Education and training	**262**	276
Office	**246**	232
Board	**108**	80
Miscellaneous	**12**	27
	$ 86,211	$ 78,399