

FINANCIAL STATEMENTS
For
NATIONAL ARTS CENTRE FOUNDATION
For the year ended
AUGUST 31, 2022

NATIONAL ARTS CENTRE FOUNDATION
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AUGUST 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the

NATIONAL ARTS CENTRE FOUNDATION***Opinion***

We have audited the financial statements of the National Arts Centre Foundation (the "Foundation"), which comprise the statement of financial position as at August 31, 2022, and the statements of operations, changes in fund balances and 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 National Arts Centre Foundation as at August 31, 2022 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our 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.

***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 accounting standards for not-for-profit organizations, 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 Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation'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 Foundation'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 Foundation'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 Foundation 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.



Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
November 4, 2022.

NATIONAL ARTS CENTRE FOUNDATION
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2022

	2022			2021	
	General Fund	Special Purpose Funds	Endowment Funds	Total	Total
CURRENT ASSETS					
Cash	\$ 8,646,140	\$ -	\$ -	\$ 8,646,140	\$ 2,053,204
Receivables	74,853	-	-	74,853	17,113
Advances to the National Arts Centre (note 6)	-	-	-	-	143,636
	<u>8,720,993</u>	<u>-</u>	<u>-</u>	<u>8,720,993</u>	<u>2,213,953</u>
Restricted cash and equivalents	-	8,407,009	314,623	8,721,632	5,132,544
Investments (note 4)	-	1,720,395	3,877,178	5,597,573	5,558,939
	<u>-</u>	<u>10,127,404</u>	<u>4,191,801</u>	<u>14,319,205</u>	<u>10,691,483</u>
Collections (note 7)	-	1	-	1	1
	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>	<u>1</u>
TOTAL ASSETS	<u>\$ 8,720,993</u>	<u>\$ 10,127,405</u>	<u>\$ 4,191,801</u>	<u>\$ 23,040,199</u>	<u>\$ 12,905,437</u>
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 21,200	\$ -	\$ -	\$ 21,200	\$ 21,200
Owing to the National Arts Centre (note 6)	7,115,788	-	-	7,115,788	-
Contributions received in advance	-	116,002	-	116,002	376,675
	<u>7,136,988</u>	<u>116,002</u>	<u>-</u>	<u>7,252,990</u>	<u>397,875</u>
FUND BALANCES					
Externally restricted	-	8,695,210	4,191,801	12,887,011	9,308,366
Internally restricted	-	1,316,193	-	1,316,193	1,240,943
Unrestricted	1,584,005	-	-	1,584,005	1,958,253
	<u>1,584,005</u>	<u>10,011,403</u>	<u>4,191,801</u>	<u>15,787,209</u>	<u>12,507,562</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,720,993</u>	<u>\$ 10,127,405</u>	<u>\$ 4,191,801</u>	<u>\$ 23,040,199</u>	<u>\$ 12,905,437</u>

Approved on behalf of the Board:

SUSAN GLASS
.....Director

CAROL DEVENNY
.....Director

(See accompanying notes)

Welch LLP[®]

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NATIONAL ARTS CENTRE FOUNDATION
STATEMENT OF OPERATIONS
YEAR ENDED AUGUST 31, 2022

	2022			2021	
	General Fund	Special Purpose Funds	Endowment Funds	Total	Total
REVENUE					
Fundraising (note 5)	\$ 3,215,287	\$ 7,964,652	\$ 92,903	\$ 11,272,842	\$ 7,186,658
Investment income	161,516	178,410	-	339,926	719,112
Unrealized gains (losses) on restricted investments	-	(617,962)	-	(617,962)	157,001
	<u>3,376,803</u>	<u>7,525,100</u>	<u>92,903</u>	<u>10,994,806</u>	<u>8,062,771</u>
EXPENSES (note 6)					
Fundraising and administration	<u>695,406</u>	<u>1,788,187</u>	<u>-</u>	<u>2,483,593</u>	<u>1,887,015</u>
Excess of revenue over expenses before grants	2,681,397	5,736,913	92,903	8,511,213	6,175,756
Grants to the National Arts Centre (notes 5 and 6)	<u>(3,055,645)</u>	<u>(2,175,921)</u>	<u>-</u>	<u>(5,231,566)</u>	<u>(7,883,123)</u>
EXCESS OF REVENUE OVER EXPENSES AND GRANTS (EXPENSES AND GRANTS OVER REVENUE)	<u>\$ (374,248)</u>	<u>\$ 3,560,992</u>	<u>\$ 92,903</u>	<u>\$ 3,279,647</u>	<u>\$ (1,707,367)</u>

(See accompanying notes)

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NATIONAL ARTS CENTRE FOUNDATION
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED AUGUST 31, 2022

	<u>2022</u>			<u>2021</u>	
	<u>General Fund</u>	<u>Special Purpose Funds</u>	<u>Endowment Funds</u>	<u>Total</u>	<u>Total</u>
BALANCE, BEGINNING OF YEAR	\$ 1,958,253	\$ 6,450,411	\$ 4,098,898	\$ 12,507,562	\$ 14,214,929
Excess of revenue over expenses and grants (expenses and grants over revenue)	<u>(374,248)</u>	<u>3,560,992</u>	<u>92,903</u>	<u>3,279,647</u>	<u>(1,707,367)</u>
BALANCE, END OF YEAR	<u>\$ 1,584,005</u>	<u>\$ 10,011,403</u>	<u>\$ 4,191,801</u>	<u>\$ 15,787,209</u>	<u>\$ 12,507,562</u>

(See accompanying notes)

NATIONAL ARTS CENTRE FOUNDATION
STATEMENT OF CASH FLOWS
YEAR ENDED AUGUST 31, 2022

	<u>2022</u>	<u>2021</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenue over expenses and grants (expenses and grants over revenue)	\$ 3,279,647	\$ (1,707,367)
Item not involving cash:		
Unrealized (gains) losses on investments	617,962	(157,001)
Changes in non-cash operating working capital items:		
Receivables	(57,740)	(5,963)
Owing to (receivable from) National Arts Centre	7,259,424	(4,968,022)
Accounts payable and accrued liabilities	-	2,500
Contributions received in advance	<u>(260,673)</u>	<u>127,138</u>
	<u>10,838,620</u>	<u>(6,708,715)</u>
INVESTING		
Purchase of restricted cash and investments	(7,299,297)	(4,023,479)
Proceeds of restricted cash and investments	<u>3,053,613</u>	<u>6,358,655</u>
	<u>(4,245,684)</u>	<u>2,335,176</u>
INCREASE (DECREASE) IN CASH	6,592,936	(4,373,539)
CASH, BEGINNING OF YEAR	<u>2,053,204</u>	<u>6,426,743</u>
CASH, END OF YEAR	<u>\$ 8,646,140</u>	<u>\$ 2,053,204</u>

(See accompanying notes)

NATIONAL ARTS CENTRE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2022

1. PURPOSE OF THE ORGANIZATION

The National Arts Centre Foundation (the Foundation) was continued under the Canada Not-for-profit Corporations Act on June 18, 2014 as a corporation without share capital. The Foundation is a registered charity under the Income Tax Act and as such is exempt from income taxes and may issue official tax receipts.

The objects of the Foundation are to receive or maintain a fund or funds and transfer from time to time all or part thereof or the income therefrom to the National Arts Centre or qualified donees whose objects are in line with the mandate of the National Arts Centre.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations, and include the following significant accounting policies:

Fund accounting

The Foundation follows the restricted fund method of accounting for contributions. To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are classified for reporting purposes into funds, in accordance with activities or objectives specified by the donors or in accordance with directives issued by the Board of Directors. Transfers between funds are recorded as approved by the Foundation's Chief Executive Officer and the Treasurer. For financial reporting purposes, the fund balances have been classified into three funds consisting of the following:

- i) The General Fund includes the day-to-day transactions of the Foundation. Unless otherwise specified, interest earned is included in the General Fund.
- ii) The Special Purpose Funds include donations and fundraising that are restricted by the donors or the Board of Directors for specific purposes.

Internally restricted funds are restricted by the Board of Directors to ensure discretionary programs that extend beyond the fiscal year are adequately resourced and to provide stability to the annual grants to the National Arts Centre.

- iii) The Endowment Funds include gifts to the Foundation, the principal portion of which must be maintained permanently. The revenue is used according to conditions attached to the gifts or directives issued by the Board of Directors.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash on deposit, Canadian money market funds and short-term investments including bonds with maturities of less than 1 year. Cash and cash equivalents are considered restricted when they are subject to restrictions imposed on by donors for specific purposes that the Foundation is unable to revoke unilaterally.

Revenue recognition

Donations are recognized as revenue when received. Fundraising event revenue is recognized in the year in which the fundraising events occur. Bequests are recognized as revenue at fair value when received. Pledges are not recorded until the donations are received.

Unrestricted donations are recognized as fundraising revenue of the General Fund. Donations and sponsorship contributions that are restricted by the donors are recognized as fundraising revenue of the Special Purpose Funds when received, while contributions for endowment purposes are recognized as fundraising revenue of the Endowment Funds.

NATIONAL ARTS CENTRE FOUNDATION
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Financial instruments

i) *Measurement of financial instruments*

All financial assets and liabilities are initially recognized at fair value. Cash and investments are subsequently measured at fair value while all other financial instruments are subsequently measured at cost or amortized cost.

Investment income and realized and unrealized gains or losses are recognized as revenue of the General Fund, unless it is subject to externally imposed restrictions, in which case investment income may be recognized in the Special Purpose Funds or the Endowment Funds. The purchase and sale of investments are accounted for using settlement date accounting. Interest on bonds and other interest-bearing instruments is recorded on the accrual basis using the effective interest method. Investment management fees are expensed as incurred.

ii) *Transaction costs*

Transaction costs associated with the acquisition and disposal of investments are expensed as incurred.

Contributions-in-kind

Donated goods and services which would have been purchased from a third party by the Foundation or the National Arts Centre are recorded at the estimated fair value, and are recognized as revenue of the Foundation and in grants to the National Arts Centre in the year received.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant management estimates include collectibility of accounts receivable and accrued liabilities. Actual results could differ from these estimates and adjustments are made to the statement of operations as appropriate in the year they become known.

The fair value of in-kind contributions and the fair value of restricted investments are the most significant estimates used.

Collections

Musical instruments contributed to the Foundation that have cultural or artistic value are recorded initially and subsequently at nominal value in the statement of financial position. Note 7 discloses the nature of the musical instruments held.

NATIONAL ARTS CENTRE FOUNDATION
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2022

3. FINANCIAL INSTRUMENTS

The Foundation is exposed to and manages various financial risks resulting from both its operations and its investment activities and does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

The Foundation's main financial risk exposure and its financial risk management policies are as follows:

Credit risk

The Foundation is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The Foundation's maximum exposure to credit risk represents the sum of the carrying value of its cash and accounts receivable. The Foundation's cash is deposited with a Canadian Chartered bank and as a result, management believes the risk of loss of this item to be remote. Accounts receivable balances are managed and analyzed on an ongoing basis and accordingly, management believes all amounts receivable will be collected and has determined that a provision for bad debts is not required.

Liquidity risk

Liquidity risk is the risk that the Foundation cannot meet a demand for cash or fund its obligations as they become due. The Foundation meets its liquidity requirements by establishing budgets and cash estimates to ensure it has funds necessary to fulfil its obligations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

i) *Currency risk*

Currency risk refers to the risk that the fair value of instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates.

As at August 31, 2022, the Foundation has cash and restricted investments of \$2,504,542 (2021 - \$2,325,455) denominated in foreign currency (US\$). The Foundation does not use forward exchange contracts to reduce exchange risk exposure.

ii) *Interest rate risk*

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the financial instruments will fluctuate due to changes in market interest rates. As the Foundation has investments in bonds and other fixed income securities, it is exposed to interest rate risk. The Foundation's investment objective and risk tolerance is influenced by the Foundation's time horizon which is over a 3 to 5 year period. It manages this risk by laddering the structure of maturities to help enhance the average portfolio yield while reducing the sensitivity of the portfolio to the impact of interest rate fluctuations.

NATIONAL ARTS CENTRE FOUNDATION
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2022

3. **FINANCIAL INSTRUMENTS - Cont'd.**

Market risk - Cont'd.

iii) *Other price risk*

Other price risk refers to the risk that the fair value of financial instruments or future associated cash flows will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market.

The Foundation is exposed to other price risk due to its investment in a variety of fixed income securities and equities. Risk and volatility of investment returns are mitigated through diversification of investments. To minimize market risks, the investments are managed by professional investment counsels, in accordance with the investment policy established by the Board of Directors. The investment policy establishes asset allocation requirements, minimum credit ratings for bonds, and diversification criteria.

The target allocation guidelines for endowed capital are as follows:

	<u>Minimum</u>	<u>Target Market Value</u>	<u>Maximum</u>
Equities	50%	70%	99%
Fixed income	10%	15%	50%
Alternatives	0%	10%	25%
Cash and equivalents	0%	5%	30%

Changes in risk

With the exception of adjustments to the above target allocation guidelines for endowed capital, there has been no significant changes in the Foundation's risk exposures from the prior year.

4. **RESTRICTED INVESTMENTS**

	<u>2022</u>		<u>2021</u>	
	<u>Cost</u>	<u>Fair value and carrying value</u>	<u>Cost</u>	<u>Fair value and carrying value</u>
Canadian bonds	\$ 715,416	\$ 688,808	\$ 1,176,209	\$ 1,197,473
Canadian equities	2,202,629	2,225,516	1,479,543	1,832,810
Foreign equities	<u>2,812,997</u>	<u>2,683,249</u>	<u>2,929,475</u>	<u>2,528,656</u>
Total	<u>\$ 5,731,042</u>	<u>\$ 5,597,573</u>	<u>\$ 5,585,227</u>	<u>\$ 5,558,939</u>

The Foundation invests endowment funds and some special purpose funds in publicly traded securities. The securities include government and corporate bonds, as well as equities.

The maturity dates of the bonds range from December 2022 to September 2027 (2021 - December 2021 to September 2027).

NATIONAL ARTS CENTRE FOUNDATION
NOTES TO FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2022

5. CONTRIBUTIONS IN-KIND

Fundraising revenue and grants to the National Arts Centre include \$416,414 (2021 - \$260,477) of donated goods and services.

6. RELATED PARTY TRANSACTIONS

The Foundation is a separate legal entity from the National Arts Centre Corporation (NAC), however they are related parties because the NAC has significant influence over the operating, financing and strategic planning of the Foundation. The Foundation raises funds on behalf of the NAC and the NAC is the principal beneficiary of these funds. As at August 31, 2022, the balance owing to the NAC was \$7,115,788 (2021 - \$143,636 receivable from the NAC).

The operating expenses of the Foundation are managed by the NAC and allocated to the Foundation using guidelines which have been approved by both Boards.

The advances and amounts owing to the NAC are non-interest bearing and are due upon demand.

These transactions are measured at their exchange amount which is the amount agreed upon by both parties.

7. COLLECTIONS

In 2013, the assets of the Zukerman Musical Instrument Foundation for the National Arts Centre Orchestra were transferred to the Foundation, where the collection is now known as the National Arts Centre Orchestra Musical Instrument Collection. Seventeen musical instruments and six bows were transferred. An individual donated four additional musical instruments and four bows. The instruments are available for loan to members of the National Arts Centre Orchestra and to the students of the National Arts Centre music education programs. Loan agreements are signed when an instrument is lent and the Music Department of the NAC is responsible for the use, maintenance and repair of the collection. The instruments are insured for their approximate value of \$650,000.

8. COVID-19

In mid-March 2020, the Government of Canada instituted emergency measures in response to public health concerns originating from the spread of COVID-19. Those measures included travel restrictions and social distancing requirements which included a call to avoid crowded places and non-essential gatherings. During the year, the Foundation was able to resume holding in-person events.

A high degree of uncertainty persists surrounding the full economic impact of the situation. The unpredictable nature of the spread of the virus makes it difficult to determine the length of time that the Foundation's operations will be impacted.