

Financial Statements of

**CANADA'S NATIONAL  
BALLET SCHOOL**

Year ended August 31, 2014



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## INDEPENDENT AUDITORS' REPORT

To the Members of Canada's National Ballet School

We have audited the accompanying financial statements of Canada's National Ballet School, which comprise the balance sheet as at August 31, 2014, the statements of operations and changes in fund balances - Operating Funds and Restricted Funds and cash flows for the year then ended, and notes, comprising 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 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our 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, we consider 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

*Basis for Qualified Opinion*

In common with many charitable organizations, Canada's National Ballet School derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of Canada's National Ballet School. Therefore, we were not able to determine whether, as at and for the years ended August 31, 2014 and August 31, 2013, any adjustments might be necessary to donations and excess of revenue over expenses (expenses over revenue) reported in the statement of operations and changes in fund balances - Operating Funds and Restricted Funds, excess of expenses over revenue reported in the statement of cash flows and current assets and fund balances reported in the balance sheet. This caused us to qualify our opinion on the financial statements as at and for the year ended August 31, 2013.

*Qualified Opinion*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Canada's National Ballet School as at August 31, 2014, and its results of operations and its changes in fund balances and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

*Comparative Information*

Without modifying our opinion, we draw attention to note 3 to the financial statements which indicates that the comparative information presented as at and for the year ended August 31, 2013 has been restated.



Chartered Professional Accountants, Licensed Public Accountants

October 29, 2014  
Toronto, Canada

# CANADA'S NATIONAL BALLET SCHOOL

Balance Sheet  
(In thousands of dollars)

August 31, 2014, with comparative information for 2013

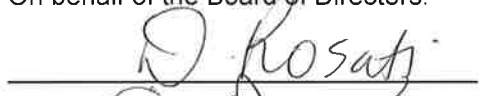
	2014	2013 (Restated - note 3)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,779	\$ 5,099
Receivables and prepaid expenses (note 5)	506	483
Inventory	564	465
	<u>6,849</u>	<u>6,047</u>
Accrued pension asset (note 6)	700	720
Capital assets (note 4)	75,068	77,661
	<u>\$ 82,617</u>	<u>\$ 84,428</u>


## Liabilities and Fund Balances

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,076	\$ 1,737
Deferred revenue	2,333	1,555
Current portion of long-term debt (note 7)	756	723
	<u>4,165</u>	<u>4,015</u>
Long-term debt (note 7)	8,792	9,548
Fund balances:		
Operating Fund	—	(110)
Pension remeasurements and other items	445	580
Capital Fund	66,145	67,930
Reserve Fund	3,070	2,465
	<u>69,660</u>	<u>70,865</u>
Commitments (note 9)		
	<u>\$ 82,617</u>	<u>\$ 84,428</u>

See accompanying notes to financial statements.

On behalf of the Board of Directors:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

# CANADA'S NATIONAL BALLET SCHOOL

Statement of Operations and Changes in Fund Balances - Operating Funds  
(In thousands of dollars)

Year ended August 31, 2014, with comparative information for 2013

	2014			2013		
	Operating Fund	Pension remeasurements and other items	Total	Operating Fund (Restated - note 3)	Pension remeasurements and other items (Restated - note 3)	Total (Restated - note 3)
<b>Revenue:</b>						
Government grants:						
Department of						
Canadian Heritage	\$ 6,000	\$ -	\$ 6,000	\$ 6,000	\$ -	\$ 6,000
Ontario Arts Council	600	-	600	1,100	-	1,100
City of Toronto	149	-	149	137	-	137
Other	30	-	30	243	-	243
	6,779	-	6,779	7,480	-	7,480
Self-generated revenue:						
Tuition fees	7,382	-	7,382	7,146	-	7,146
Donations	2,209	-	2,209	2,694	-	2,694
Contribution from related parties (note 5)	2,155	-	2,155	1,954	-	1,954
Retail and ancillary	2,084	-	2,084	1,951	-	1,951
Investment	27	-	27	31	-	31
	13,857	-	13,857	13,776	-	13,776
	20,636	-	20,636	21,256	-	21,256
<b>Expenses:</b>						
Salaries and benefits	9,974	-	9,974	10,990	-	10,990
Student assistance	2,794	-	2,794	2,520	-	2,520
Property and operations	1,784	-	1,784	1,791	-	1,791
Administrative	892	-	892	795	-	795
Retail and ancillary	793	-	793	838	-	838
Pension (note 6)	680	-	680	955	-	955
Marketing and development	634	-	634	1,100	-	1,100
Residence and food services	553	-	553	510	-	510
Financing costs	476	-	476	508	-	508
Artistic and performance	375	-	375	622	-	622
Academic	56	-	56	55	-	55
	19,011	-	19,011	20,684	-	20,684
Excess of revenue over expenses	1,625	-	1,625	572	-	572
Fund balances, beginning of year	(110)	580	470	-	-	-
Pension remeasurements and other items (note 6)	-	(135)	(135)	-	580	580
Transfer to Reserve Fund - Pension	-	-	-	(250)	-	(250)
Transfer to Capital Fund	(935)	-	(935)	(703)	-	(703)
Transfer from (to) Reserve Fund	(580)	-	(580)	271	-	271
Fund balances, end of year	\$ -	\$ 445	\$ 445	\$ (110)	\$ 580	\$ 470

See accompanying notes to financial statements.

# CANADA'S NATIONAL BALLET SCHOOL

Statement of Operations and Changes in Fund Balances - Restricted Funds  
(In thousands of dollars)

Year ended August 31, 2014, with comparative information for 2013

	2014			2013		
	Capital Fund	Reserve Fund	Total	Capital Fund	Reserve Fund	Total
<b>Revenue:</b>						
Donations	\$ 39	\$ -	\$ 39	\$ 505	\$ -	\$ 505
Government grants	-	-	-	22	-	22
Investment	-	25	25	-	20	20
	39	25	64	527	20	547
<b>Expenses:</b>						
Amortization of capital assets	2,729	-	2,729	2,735	-	2,735
Project Grand Jeté	2	-	2	2	-	2
Other	28	-	28	43	-	43
	2,759	-	2,759	2,780	-	2,780
Excess of revenue over expenses (expenses over revenue)	(2,720)	25	(2,695)	(2,253)	20	(2,233)
Fund balances, beginning of year	67,930	2,465	70,395	69,480	2,466	71,946
Transfer from Operating Fund - Pension	-	-	-	-	250	250
Transfer from Operating Fund	935	-	935	703	-	703
Transfer (to) from Operating Fund	-	580	580	-	(271)	(271)
<b>Fund balances, end of year</b>	<b>\$ 66,145</b>	<b>\$ 3,070</b>	<b>\$ 69,215</b>	<b>\$ 67,930</b>	<b>\$ 2,465</b>	<b>\$ 70,395</b>

See accompanying notes to financial statements.

# CANADA'S NATIONAL BALLET SCHOOL

Statement of Cash Flows  
(In thousands of dollars)

Year ended August 31, 2014, with comparative information for 2013

	2014	2013 (Restated - note 3)
Cash flows from (used in) operating activities:		
Excess of expenses over revenue	\$ (1,070)	\$ (1,661)
Items not involving cash:		
Amortization	2,729	2,735
Employer defined benefit pension plan contributions	(795)	(570)
Defined benefit pension plan expense	680	430
Change in non-cash operating working capital:		
Receivables and prepaid expenses	(23)	338
Inventory	(99)	(32)
Deferred revenue	778	(926)
Accounts payable and accrued liabilities	(661)	750
	<u>1,539</u>	<u>1,064</u>
Cash flows used in financing activities:		
Repayment of long-term debt	(723)	(691)
Cash flows used in investing activities:		
Purchases of capital assets	(136)	(263)
Increase in cash and cash equivalents	680	110
Cash and cash equivalents, beginning of year	5,099	4,989
Cash and cash equivalents, end of year	<u>\$ 5,779</u>	<u>\$ 5,099</u>

See accompanying notes to financial statements.

# CANADA'S NATIONAL BALLET SCHOOL

Notes to Financial Statements  
(In thousands of dollars)

Year ended August 31, 2014

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The mission of Canada's National Ballet School ("NBS") is Moving the World through innovating new approaches and movement techniques, educating students through the distinctive NBS philosophy, showing leadership in the international dance community, inspiring broad participation and engaging local, national and international communities to rediscover the joy of dance and movement in daily life. Funding for these initiatives is provided by grants from the public sector, donations from the private sector and tuition fees. NBS is incorporated without share capital under the laws of the Province of Ontario. NBS is a registered charitable organization under the Income Tax Act (Canada) and, as such, is exempt from income taxes.

## **1. Basis of presentation:**

NBS follows the restricted fund method of accounting for contributions and related investment income.

The Operating Fund reflects NBS' program delivery and administrative activities. This fund reports unrestricted resources and restricted operating contributions.

The Capital Fund reflects the transactions associated with acquisition, construction, disposal and improvement of capital assets owned by NBS, including repayment of associated long-term debt.

The Reserve Fund is an internally restricted fund, the purpose of which is to provide funds that can be used to stabilize activity in the Operating Fund and to provide a source of funds that the Board of Directors may choose to draw upon for any other reason.

Interfund transfers are subject to Board of Directors' approval. Internally restricted amounts are not available for unrestricted purposes without the approval of the Board of Directors.



# CANADA'S NATIONAL BALLET SCHOOL

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended August 31, 2014

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## 2. Significant accounting policies:

The following financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations.

### (a) Revenue recognition:

Restricted contributions related to general operations are recognized as revenue of the Operating Fund in the year in which the related expenses are incurred. Contributions restricted for capital purposes are recognized as revenue in the Capital Fund. Restricted contributions for which a separate restricted fund has not been established are deferred in the Operating Fund and recognized as revenue in the Operating Fund in the same year as the related expenses are recognized.

Unrestricted contributions are recognized as revenue of the Operating Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Tuition fee revenue is recognized in the Operating Fund on an accrual basis in the year relating to the educational year of NBS.

For the Restricted Funds, where the investment income has been externally restricted for a specific purpose, the income is recognized as revenue of either the Operating Fund or appropriate Restricted Fund, depending on the purpose. Unrestricted investment income is recognized as revenue of the Operating Fund when earned.

Revenue from retail and ancillary operations is recognized as revenue of the Operating Fund at point of sale.

### (b) Cash and cash equivalents:

Cash and cash equivalents are defined as cash and short-term investments with maturity dates of less than 90 days.

### (c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. NBS has not elected to carry any such financial instruments at fair value.

# CANADA'S NATIONAL BALLET SCHOOL

Notes to Financial Statements (continued)

(In thousands of dollars)

Year ended August 31, 2014

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## 2. Significant accounting policies (continued):

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, NBS determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount NBS expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

Unless otherwise noted, it is management's opinion that the NBS is not exposed to significant interest, currency, market or credit risks arising from financial instruments.

### (d) Inventory:

The Shoe Room® inventory of pointe shoes, dancewear and dance-related items is recorded at the lower of actual cost and replacement cost.

### (e) Capital assets:

Purchased and constructed capital assets are recorded in the Capital Fund at cost. Donated capital assets are recorded in the Capital Fund at the fair value at the date of contribution. Any capitalized purchases which are financed by operating cash are funded by a transfer from the Operating Fund to the Capital Fund. Amortization is recorded as an expense in the Capital Fund and is recorded on a straight-line basis over the assets' estimated useful lives as follows:

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Buildings	25 - 40 years
Building improvements	20 - 25 years
Furniture and equipment	2 - 10 years

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# CANADA'S NATIONAL BALLET SCHOOL

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended August 31, 2014

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## 2. Significant accounting policies (continued):

### (f) Deferred revenue:

Tuition fees received prior to August 31 and grants received in respect of the following school year are deferred for inclusion in revenue in the subsequent year.

### (g) Donated materials and services:

Certain donated goods and services of \$132 (2013 - \$433) are recorded in these financial statements as both a revenue and an expense item at the fair value of the item at the time of receipt. A number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

Included in donations in the statement of operations and changes in fund balances - Operating Funds is \$119 (2013 - \$136) of donated shares.

### (h) Employee future benefits:

NBS has a defined benefit pension plan covering its employees. The benefits are based on years of service and final average salary. The NBS Plan became effective January 1, 2011. Prior to January 1, 2011, NBS was a participating employer of the Co-ordinated Arts Services Pension Plan ("CAS Plan"), a multi-employer defined benefit pension plan. NBS elected to withdraw from the CAS Plan and establish the NBS Plan effective January 1, 2011. Effective September 1, 2013, the defined benefit plan is closed to new employees and a defined contribution plan was established effective September 1, 2014. New employees are eligible to join the defined contribution plan after one year of service.

The NBS plan is responsible for all of the past service pension liabilities of the CAS Plan related to active and inactive NBS members. Assets related to the past service liabilities from the CAS Plan are included as assets in the NBS plan at August 31, 2013. These assets from the CAS Plan received official regulatory approval for transfer on January 30, 2013 and were transferred in fiscal 2013.

# CANADA'S NATIONAL BALLET SCHOOL

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended August 31, 2014

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## 2. Significant accounting policies (continued):

The actuarial determination of the accrued benefit obligation for the defined benefit plan is based on the August 31, 2014 accounting valuation. The measurement date of the plan assets and accrued benefit obligation coincides with NBS's fiscal year.

NBS accrues its obligations under the defined benefit plan as the employees render the services necessary to earn the pension. The actuarial determination of the accrued benefit obligations for the pension uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors).

Actuarial gains (losses) on plan assets, which arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period, are immediately recognized in the statement of operations and changes in fund balances. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation, which arise from differences between actual and expected experience and from the changes in the actuarial assumptions used to determine the accrued benefit obligation, are immediately recognized in the statement of operations and changes in fund balances. Past service costs arising from plan amendments are recognized immediately in the statement of changes in fund balances.

### (i) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, accrued liabilities and assets related to employee future benefits. Actual results could differ from those estimates.

# CANADA'S NATIONAL BALLET SCHOOL

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended August 31, 2014

### 3. Change in accounting policy:

Effective September 1, 2013, NBS early adopted the new Chartered Professional Accountants of Canada ("CPA Canada") Handbook - Accounting Part III Section 3463, Reporting Employee Future Benefits by Not-for-Profit Organizations, which incorporates Section 3462, Employee Future Benefits in Part II.

Under the new standard, the actuarial gains and losses and past service costs are no longer deferred and amortized over future periods. The assets, net of full actuarial liability, are recorded in the balance sheet, the annual benefit cost is recorded in the statement of operations and changes in fund balances - Operating Funds and the change in unamortized gains and losses is recognized as pension remeasurements and other items in the statement of operations and changes in fund balances - Operating Funds. In addition, interest cost and expected rate of return on plan assets are replaced with a net interest amount that is calculated by applying the discount rate used to calculate the net defined benefit obligation.

For defined benefit plans for which an actuarial valuation for funding purposes exists, an accounting policy choice between using the funding valuation or an accounting valuation is available. NBS has elected to use the valuation prepared for accounting purposes.

NBS implemented the new standard retrospectively. The impact is as follows:

Balance sheet:

August 31, 2013	As previously presented	Restatements	As restated
Accrued pension asset	\$ 250	\$ 470	\$ 720
Fund balances - Operating Fund	-	(110)	(110)
Fund balances - pension remeasurements and other items	-	580	580

Statement of operations:

August 31, 2013	As previously presented	Restatements	As restated
Pension	\$ 845	\$ 110	\$ 955

There is no impact on the Operating Fund balance as at September 1, 2012.

# CANADA'S NATIONAL BALLET SCHOOL

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended August 31, 2014

### 3. Change in accounting policy (continued):

Statement of cash flows:

August 31, 2013	As previously presented	Restatements	As restated
Excess of expenses over revenue	\$ (1,551)	\$ (110)	\$ (1,661)
Defined benefit pension plan expense	320	110	430

### 4. Capital assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 1,425	\$ —	\$ 1,425	\$ 1,425
Buildings	94,153	21,545	72,608	75,167
Building improvements	11,372	10,480	892	838
Furniture and equipment	4,440	4,297	143	231
	\$ 111,390	\$ 36,322	\$ 75,068	\$ 77,661

### 5. Related party transactions:

(a) Canada's National Ballet School Foundation:

Canada's National Ballet School Foundation (the "Foundation") was incorporated in 1999 under the Canada Corporations Act and in 2012 received its certificate of continuance under the Canada Not-For-Profit Corporations Act. The Foundation is a registered charity under the Income Tax Act (Canada). These financial statements do not include the fund balances and income for the year of the Foundation, as the Foundation is a separate legal entity with its own Board of Directors. Its purpose is to receive, maintain, manage, invest and apply funds and the income earned on those funds for the benefit of NBS.

# CANADA'S NATIONAL BALLET SCHOOL

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended August 31, 2014

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## 5. Related party transactions (continued):

The fund balances of the Foundation as at August 31, 2014 were \$54,239 (2013 - \$45,418).

During the year, the Foundation made contributions to NBS' Operating Fund in the amount of \$2,125 (2013 - \$1,877) from net investment income earned on endowed funds held by the Foundation. Included in receivables is \$212 (2013 - nil) due from the Foundation.

NBS invoices the Foundation for certain services rendered by NBS personnel. These services are measured at the exchange amount and totalled \$100 for 2014 (2013 - \$100).

### (b) Friends of Canada's National Ballet School:

The Friends of Canada's National Ballet School (the "Friends") was incorporated in 2005 under the Commonwealth of Virginia laws and in 2006 under the Corporations Act (Ontario). These financial statements do not include the fund balances and income for the year of the Friends, as the Friends is a separate legal entity with its own Board of Directors. Its purpose is to receive U.S. dollar donations to support the general charitable purposes carried out by NBS and the Foundation.

The fund balance of the Friends as at August 31, 2014, expressed in U.S. dollars, was \$2 (2013 - \$2).

During the year, the Friends made contributions to NBS' Operating Fund in the amount of \$30 (2013 - \$77) from donations received.

## 6. Employee future benefits:

The accrued pension asset is as follows:

	2014	2013
		(Restated - note 3)
Accrued benefit obligation	\$ 20,570	\$ 17,420
Fair value of plan assets	21,270	18,140
	<u>\$ 700</u>	<u>\$ 720</u>

# CANADA'S NATIONAL BALLET SCHOOL

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended August 31, 2014

## 6. Employee future benefits (continued):

Continuity of the accrued pension asset is as follows:

	2014	2013 (Restated - note 3)
Balance, beginning of year	\$ 720	\$ –
Benefit expense	(680)	(430)
Employer contributions	795	570
Pension remeasurements and other items	(135)	580
<b>Balance, end of year</b>	<b>\$ 700</b>	<b>\$ 720</b>

Employee future benefit costs recognized during the year are as follows:

	2014	2013 (Restated - note 3)
Defined benefit plan	\$ 680	\$ 430
CAS Plan (2012 and up to January 30, 2013 (note 2(h)))	–	525
	<b>\$ 680</b>	<b>\$ 955</b>

The percentage of the fair value of plan assets by major category is as follows:

	2014	2013
Equities	67%	62%
Fixed income	33%	38%



# CANADA'S NATIONAL BALLET SCHOOL

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended August 31, 2014

## 6. Employee future benefits (continued):

The significant assumptions used are as follows (weighted average):

	2014	2013
Accrued benefit obligation:		
Discount rate	3.9%	4.5%
Rate of compensation increase	3.5%	3.5%
Benefit costs:		
Discount rate	3.9%	4.5%
Expected long-term rate of return on plan assets	3.9%	4.5%
Rate of compensation increase	3.5%	3.5%

## 7. Long-term debt:

	2014	2013
Debt with bi-annual payments, maturing April 15, 2030, bearing interest at 5.18%	\$ 6,214	\$ 6,458
Debt with bi-annual payments, maturing April 15, 2020, bearing interest at 4.25%	3,334	3,813
	9,548	10,271
Less amount due within one year	756	723
	\$ 8,792	\$ 9,548

Principal repayments are as follows:

2015	\$ 756
2016	791
2017	828
2018	866
2019	907
Thereafter	5,400
	\$ 9,548

# CANADA'S NATIONAL BALLET SCHOOL

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended August 31, 2014

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## 8. Credit facilities:

NBS has access to credit facilities for operations for up to \$3,250. The credit facilities bear interest at the bank's prime rate plus 0.5% and are repayable upon demand. This line is secured by specific properties owned by NBS. Nil was drawn at year end (2013 - nil).

## 9. Commitments:

NBS is committed to operating leases for office equipment. The future minimum payments are as follows:

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2015	\$	74
2016		74
2017		74
2018		62
		<hr/>
	\$	284

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