

Financial Statements of

**CANADA'S NATIONAL
BALLET SCHOOL**

Year ended August 31, 2016



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INDEPENDENT AUDITORS' REPORT

To the Members of Canada's National Ballet School and
the Superintendent of Private Career Colleges

We have audited the accompanying financial statements of Canada's National Ballet School, which comprise the balance sheet as at August 31, 2016, 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 audit opinion.



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canada's National Ballet School as at August 31, 2016, 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

November 8, 2016
Vaughan, Canada

CANADA'S NATIONAL BALLET SCHOOL

Balance Sheet
(In thousands of dollars)

August 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,843	\$ 5,174
Receivables and prepaid expenses (note 4)	731	1,056
Inventory	707	602
	<u>7,281</u>	<u>6,832</u>
Accrued pension asset (note 5)	–	1,950
Capital assets (note 3)	70,565	72,961
	<u>\$ 77,846</u>	<u>\$ 81,743</u>

Liabilities and Fund Balances

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,215	\$ 1,698
Deferred revenue	2,491	1,572
Current portion of long-term debt (note 6)	828	791
	<u>4,534</u>	<u>4,061</u>
Long-term debt (note 6)	7,173	8,001
Accrued pension liability (note 5)	10	–
Fund balances:		
Pension remeasurements and other items	(225)	1,695
Capital Fund	63,264	64,839
Reserve Fund	3,090	3,147
	<u>66,129</u>	<u>69,681</u>
Commitments (note 8)		
	<u>\$ 77,846</u>	<u>\$ 81,743</u>

See accompanying notes to financial statements.

On behalf of the Board:



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, 2016, with comparative information for 2015

	2016			2015		
	Operating Fund	Pension remeasurements and other items	Total	Operating Fund	Pension remeasurements and other items	Total
Revenue:						
Government grants:						
Department of						
Canadian Heritage	\$ 6,000	\$ -	\$ 6,000	\$ 6,000	\$ -	\$ 6,000
Ontario Arts Council	570	-	570	600	-	600
City of Toronto	161	-	161	161	-	161
Other	43	-	43	74	-	74
	6,774	-	6,774	6,835	-	6,835
Self-generated revenue:						
Tuition fees	8,217	-	8,217	7,789	-	7,789
Donations	2,595	-	2,595	2,452	-	2,452
Contribution from related parties (note 4)	2,176	-	2,176	2,246	-	2,246
Retail and ancillary	2,102	-	2,102	2,175	-	2,175
Investment	17	-	17	22	-	22
	15,107	-	15,107	14,684	-	14,684
	21,881	-	21,881	21,519	-	21,519
Expenses:						
Salaries and benefits	10,567	-	10,567	10,098	-	10,098
Student assistance	3,205	-	3,205	2,904	-	2,904
Property and operations	1,985	-	1,985	1,903	-	1,903
Administrative	950	-	950	994	-	994
Pension (note 5)	833	-	833	859	-	859
Marketing and development	819	-	819	975	-	975
Retail and ancillary	794	-	794	845	-	845
Residence and food services	647	-	647	587	-	587
Financing costs	407	-	407	442	-	442
Artistic and performance	339	-	339	339	-	339
Special projects	167	-	167	83	-	83
Academic	64	-	64	62	-	62
	20,777	-	20,777	20,091	-	20,091
Excess of revenue over expenses	1,104	-	1,104	1,428	-	1,428
Fund balances, beginning of year	-	1,695	1,695	-	445	445
Pension remeasurements and other items (note 5)	-	(1,920)	(1,920)	-	1,250	1,250
Transfer to Capital Fund	(1,050)	-	(1,050)	(1,369)	-	(1,369)
Transfer to Reserve Fund	(54)	-	(54)	(59)	-	(59)
Fund balances, end of year	\$ -	\$ (225)	\$ (225)	\$ -	\$ 1,695	\$ 1,695

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, 2016, with comparative information for 2015

	2016			2015		
	Capital Fund	Reserve Fund	Total	Capital Fund	Reserve Fund	Total
Revenue:						
Donations	\$ 17	\$ –	\$ 17	\$ 11	\$ –	\$ 11
Government grants	62	–	62	80	–	80
Investment	–	19	19	–	18	18
	79	19	98	91	18	109
Expenses:						
Amortization of capital assets	2,833	–	2,833	2,761	–	2,761
Other	1	–	1	5	–	5
	2,834	–	2,834	2,766	–	2,766
Excess of revenue over expenses (expenses over revenue)	(2,755)	19	(2,736)	(2,675)	18	(2,657)
Fund balances, beginning of year	64,839	3,147	67,986	66,145	3,070	69,215
Transfer from Operating Funds	1,050	54	1,104	1,369	59	1,428
Transfer from Reserve Fund to Capital Fund	130	(130)	–	–	–	–
Fund balances, end of year	\$ 63,264	\$ 3,090	\$ 66,354	\$ 64,839	\$ 3,147	\$ 67,986

See accompanying notes to financial statements.

CANADA'S NATIONAL BALLET SCHOOL

Statement of Cash Flows
(In thousands of dollars)

Year ended August 31, 2016, with comparative information for 2015

	2016	2015
Cash flows from (used in) operating activities:		
Excess of expenses over revenue	\$ (1,632)	\$ (1,229)
Employer defined benefit pension plan contributions	(770)	(850)
Items not involving cash:		
Amortization of capital assets	2,833	2,761
Defined benefit pension plan expense	810	850
Change in non-cash operating working capital:		
Receivables and prepaid expenses	325	(550)
Inventory	(105)	(38)
Deferred revenue	919	(761)
Accounts payable and accrued liabilities	(483)	622
	1,897	805
Cash flows used in financing activities:		
Repayment of long-term debt	(791)	(756)
Cash flows used in investing activities:		
Purchases of capital assets	(437)	(654)
Increase (decrease) in cash and cash equivalents	669	(605)
Cash and cash equivalents, beginning of year	5,174	5,779
Cash and cash equivalents, end of year	\$ 5,843	\$ 5,174

See accompanying notes to financial statements.

CANADA'S NATIONAL BALLET SCHOOL

Notes to Financial Statements
(In thousands of dollars)

Year ended August 31, 2016

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 funds 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 Funds 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, 2016

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 Funds, 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, 2016

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 Funds 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:

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

CANADA'S NATIONAL BALLET SCHOOL

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

Year ended August 31, 2016

2. Significant accounting policies (continued):

(f) Deferred revenue:

Tuition fees and grants received prior to August 31 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 \$268 (2015 - \$246) 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 \$258 (2015 - \$193) 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. Effective September 30, 2013, the defined benefit plan is closed to new employees and a defined contribution plan was established effective October 1, 2014. New employees are eligible to join the defined contribution plan after one year of service.

The actuarial determination of the accrued benefit obligation for the defined benefit plan is based on the January 1, 2015 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).

CANADA'S NATIONAL BALLET SCHOOL

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

Year ended August 31, 2016

2. Significant accounting policies (continued):

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 - operating funds. 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 - operating funds. Past service costs arising from plan amendments are recognized immediately in the statement of operations and changes in fund balances - operating funds.

(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 accrued pension asset. Actual results could differ from those estimates.

3. Capital assets:

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 1,425	\$ -	\$ 1,425	\$ 1,425
Buildings	94,153	26,662	67,491	70,049
Building improvements	12,050	10,693	1,357	1,160
Furniture and equipment	4,879	4,587	292	327
	<u>\$ 112,507</u>	<u>\$ 41,942</u>	<u>\$ 70,565</u>	<u>\$ 72,961</u>

CANADA'S NATIONAL BALLET SCHOOL

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

Year ended August 31, 2016

4. 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.

The fund balances of the Foundation as at August 31, 2016 were \$53,958 (2015 - \$51,720).

During the year, the Foundation made contributions to NBS' Operating Fund in the amount of \$2,164 (2015 - \$2,177) from net investment income earned on endowed funds held by the Foundation. Included in receivables is \$563 (2015 - \$569) 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 2016 (2015 - \$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, 2016, expressed in U.S. dollars, was (\$1) (2015 - (\$2)).

During the year, the Friends made contributions to NBS' Operating Fund in the amount of \$12 (2015 - \$69) from donations received.

CANADA'S NATIONAL BALLET SCHOOL

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

Year ended August 31, 2016

5. Employee future benefits:

The accrued pension asset (liability) is as follows:

	2016	2015
Accrued benefit obligation	\$ 24,880	\$ 21,230
Fair value of plan assets	24,870	23,180
	\$ (10)	\$ 1,950

Continuity of the accrued pension asset (liability) is as follows:

	2016	2015
Balance, beginning of year	\$ 1,950	\$ 700
Benefit expense	(810)	(850)
Employer contributions	770	850
Pension remeasurements and other items	(1,920)	1,250
Balance, end of year	\$ (10)	\$ 1,950

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

	2016	2015
Defined benefit plan	\$ 810	\$ 850
Defined contribution plan	23	9
	\$ 833	\$ 859

CANADA'S NATIONAL BALLET SCHOOL

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

Year ended August 31, 2016

6. Long-term debt:

	2016	2015
Debenture with bi-annual payments, maturing April 15, 2030, bearing interest at 5.18%	\$ 5,686	\$ 5,956
Debenture with bi-annual payments, maturing April 15, 2020, bearing interest at 4.25%	2,315	2,836
	8,001	8,792
Less amount due within one year	828	791
	\$ 7,173	\$ 8,001

Principal repayments are as follows:

2017	\$ 828
2018	866
2019	907
2020	948
2021	350
Thereafter	4,102
	\$ 8,001

7. Credit facilities:

NBS has access to credit facilities for operations for up to \$2,000. 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.

At year end, NBS had not drawn on these lines of credit (2015 - nil), other than to issue standby letters of credit in the amount of \$93 (2015 - \$93).

CANADA'S NATIONAL BALLET SCHOOL

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

Year ended August 31, 2016

8. Commitments:

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

2017	\$	74
2018		62
	\$	136

9. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.