



Grant Thornton

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Financial Statements

**The National Ballet of Canada,
Endowment Foundation**

June 30, 2018

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Grant Thornton

Independent Auditor's Report

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To the Directors of
The National Ballet of Canada, Endowment Foundation

We have audited the accompanying financial statements of The National Ballet of Canada, Endowment Foundation, which comprise the statement of financial position as at June 30, 2018 and the statements of operations and changes in fund balances and 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 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.

Auditor's 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 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.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The National Ballet of Canada, Endowment Foundation as at June 30, 2018, 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.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 3 to the financial statements, which explains that certain comparative information presented for the year ended June 30, 2018 has been restated. Our opinion is not modified in respect of this matter.

Toronto, Canada
October 23, 2018

Grant Thornton LLP

Chartered Professional Accountants
Licensed Public Accountant

The National Ballet of Canada, Endowment Foundation

Statement of Financial Position

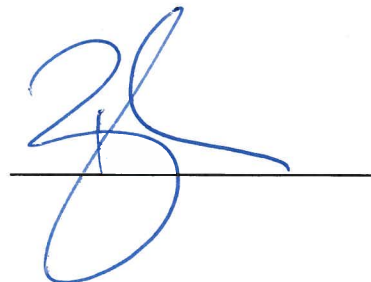
(Dollars in thousands)

June 30

	2018				2017
	General Fund	Restricted Funds		Total	(Restated - Note 3)
		Expendable Fund	Endowment Fund		Total
Assets					
Current					
Cash and cash equivalents	\$ 2,460	\$ 505	\$ -	\$ 2,965	\$ 2,846
Accounts receivable	25	134	-	159	68
	<u>2,485</u>	<u>639</u>		<u>3,124</u>	<u>2,914</u>
Investments, at fair value (note 4)	-	25,121	46,729	71,850	65,931
	<u>\$ 2,485</u>	<u>\$ 25,760</u>	<u>\$ 46,729</u>	<u>\$ 74,974</u>	<u>\$ 68,845</u>
Liabilities					
Current					
Accounts payables and accrued liabilities	\$ -	\$ 123	\$ -	\$ 123	\$ 60
Due to the National Ballet of Canada	-	273	-	273	7
	<u>-</u>	<u>396</u>	<u>-</u>	<u>396</u>	<u>67</u>
Fund balances					
Unrestricted	2,485	-	-	2,485	2,475
Restricted (note 5)					
Internally	-	20,374	-	20,374	17,816
Externally	-	4,990	-	4,990	5,158
Endowment (note 6)	-	-	46,729	46,729	43,329
	<u>2,485</u>	<u>25,364</u>	<u>46,729</u>	<u>74,578</u>	<u>68,778</u>
	<u>\$ 2,485</u>	<u>\$ 25,760</u>	<u>\$ 46,729</u>	<u>\$ 74,974</u>	<u>\$ 68,845</u>

On behalf of the Board:

 Director

 Director

See accompanying notes to financial statements.

The National Ballet of Canada, Endowment Foundation

Statement of Operations and Changes in Fund Balances

(Dollars in thousands)
Year ended June 30

	2018			2017	
	General Fund	Restricted Funds		Total	Total
		Expendable Fund	Endowment Fund		
Revenue					
Contributions	\$ 3	\$ 300	\$ 3,361	\$ 3,664	\$ 3,658
Investment income - realized	10	354	8	372	4,041
	<u>13</u>	<u>654</u>	<u>3,369</u>	<u>4,036</u>	<u>7,699</u>
Expenditures					
Administrative fees	3	11	-	14	21
Investment management fees	-	215	-	215	230
Donation to the National Ballet of Canada	-	3,180	-	3,180	3,386
	<u>3</u>	<u>3,406</u>	<u>-</u>	<u>3,409</u>	<u>3,637</u>
Excess (deficiency) of revenue over expenditures before undernoted	10	(2,752)	3,369	627	4,062
Unrealized gain on investments	-	5,142	31	5,173	767
	<u>10</u>	<u>2,390</u>	<u>3,400</u>	<u>5,800</u>	<u>4,829</u>
Excess of revenue over expenditures	10	2,390	3,400	5,800	4,829
Fund balances, beginning of year (note 3)	<u>2,475</u>	<u>22,974</u>	<u>43,329</u>	<u>68,778</u>	<u>63,949</u>
Fund balances, end of year	<u>\$ 2,485</u>	<u>\$ 25,364</u>	<u>\$ 46,729</u>	<u>\$ 74,578</u>	<u>\$ 68,778</u>

See accompanying notes to financial statements.

The National Ballet of Canada, Endowment Foundation

Statement of Cash Flows

(Dollars in thousands)

Year ended June 30	2018	2017
Cash and cash equivalents provided by (used in):		
Operating activities		
Excess of revenue over expenditures	\$ 5,800	\$ 4,829
Realized gains on investments	(354)	(4,029)
Unrealized gain on investments	<u>(5,173)</u>	<u>(767)</u>
	273	33
Change in non-cash operating working capital		
Accounts receivable	(91)	(21)
Accounts payable and accrued liabilities	63	(6)
Due to/from the National Ballet of Canada	<u>266</u>	<u>(46)</u>
	<u>511</u>	<u>(40)</u>
Investing activities		
Proceeds on sale of investments	1,233	15,437
Purchase of investments	<u>(1,625)</u>	<u>(15,000)</u>
	<u>(392)</u>	<u>437</u>
Increase in cash and cash equivalents	119	397
Cash and cash equivalents, beginning of year	<u>2,846</u>	<u>2,449</u>
Cash and cash equivalents, end of year	<u>\$ 2,965</u>	<u>\$ 2,846</u>

See accompanying notes to financial statements.

The National Ballet of Canada, Endowment Foundation

Notes to the Financial Statements

(Dollars in thousands)
June 30, 2018

1. Purpose of the Foundation

The National Ballet of Canada, Endowment Foundation (the "Foundation") was incorporated, without share capital, on September 28, 1999 under the Canada Corporations Act and is a registered charity designated as a Public Foundation under the Income Tax Act (Canada). The Foundation continued under the Canada Not-for-profit Corporations Act in 2014. The purpose of the Foundation is to acquire, hold in trust and donate funds to The National Ballet of Canada, which is a related entity by virtue of common management.

The Foundation is exempt from income taxes under Section 149(1) (l) of the Income Tax Act (Canada).

2. Significant accounting policies

Basis of presentation

The Foundation has prepared these financial statements in accordance with Canadian accounting standards for not-for-profit organizations. The following is a summary of significant accounting policies adopted by the Foundation in the preparation of the financial statements.

Fund accounting

The Foundation follows the restricted fund method of accounting. Accordingly, the following funds have been established to account for the activities described below.

The **General Fund** represents resources that are not required to be maintained by the Foundation in perpetuity and are not purpose restricted.

The **Expendable Fund** is comprised of internally and externally restricted funds:

- (a) Internally restricted expendable funds represent unrestricted revenue earned on endowment or restricted funds that the Board of Directors have internally restricted for a specific purpose. As an internal restriction, these amounts can be unrestricted by the Board of Directors at any time.
- (b) Externally restricted expendable funds represent (i) current and accumulated undistributed investment income from endowment funds that are externally restricted and/or are stipulated in the applicable donor agreement to be granted to the National Ballet of Canada and (ii) principal amounts and related accumulated undistributed investment income that are externally restricted and/or are stipulated in the applicable donor agreement to be granted to the National Ballet of Canada at specified times ("Spend Down Funds").

The National Ballet of Canada, Endowment Foundation

Notes to the Financial Statements

(Dollars in thousands)
June 30, 2018

2. Significant accounting policies (continued)

The **Endowment Fund** is comprised of the historic dollar value of gifts made to the Foundation where the donor has stipulated that the gift amount is required to be maintained by the Foundation in perpetuity (externally endowed) or amounts which have been permanently restricted under the terms of matching government grant agreements, together with current and accumulated undistributed net income earned on funds that are not permitted under applicable donor agreements or law to be allocated to a related Expendable Fund. Where the donor has stipulated that investment income on endowed donations must be used only for specific restricted purposes, the Foundation stipulates in its grants to the National Ballet of Canada that such amounts must be spent in accordance with those restrictions.

Revenue recognition

Contributions for all funds are recognized as revenue in the appropriate fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Investment income earned for all funds is recognized as revenue in the year received or receivable.

Investment income (loss) consists of interest, dividends, income distributions from pooled funds and realized capital gains and losses.

Grants to the National Ballet of Canada

Grants to the National Ballet of Canada comprise: (i) an amount approved by the Board, for disbursement in accordance with the Foundation's disbursement policy and (ii) Spend Down Fund amounts stipulated to be granted in the year under the applicable donor agreement.

Contributed services

Volunteers contribute numerous hours to assist the Foundation in achieving its mandate. Because of the difficulty of determining fair value, contributed services are not recognized in the financial statements.

Financial instruments

The Foundation's financial instruments are measured at fair value when issued or acquired. For financial instruments subsequently measured at cost or amortized cost, fair value is adjusted by the amount of the related financing fees and transaction costs. Transaction costs and financing fees relating to financial instruments that are measured subsequently at fair value are recognized in operations in the year in which they are incurred.

At each reporting date, the Foundation measures its financial assets and liabilities at cost or amortized cost (less impairment in the case of financial assets). The Foundation has elected to measure its investments in pooled funds at fair value. All changes in fair value of the Foundation's investments in pooled funds are recorded in the statement of operations. All other financial instruments are measured at amortized cost.

The National Ballet of Canada, Endowment Foundation

Notes to the Financial Statements

(Dollars in thousands)
June 30, 2018

2. Significant accounting policies (continued)

For financial assets measured at cost or amortized cost, the Foundation regularly assesses whether there are any indications of impairment. If there is an indication of impairment, and the Foundation determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it recognizes an impairment loss in the statement of operations. Any reversals of previously recognized impairment losses are recognized in operations in the year the reversal occurs.

Cash and cash equivalents

Cash and cash equivalents include short term deposits with a maturity period of three months or less from the date of acquisition, or readily convertible into cash without significant penalty.

Use of estimates

In preparing the Foundation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenditures. Actual results could differ from these estimates.

3. Correction of a prior period error

The comparative period, as previously stated, included historical contributions that were improperly classified between restricted and endowment funds. The adjustment was accounted for retrospectively in the financial statements. Consequently, the Foundation adjusted the prior year comparative amounts presented in the current period's financial statements, which include the endowment and restricted fund balances. See notes 5 and 6 for further detail. The impact of these changes is as follows:

	<u>2017</u> <u>As previously stated</u>	<u>Adjustment</u>	<u>2017</u> <u>As Restated</u>
Expendable Fund			
Externally restricted	\$ 2,759	\$ 2,399	\$ 5,158
Internally restricted	\$ 18,234	\$ (418)	\$ 17,816
Endowment Fund	\$ 45,310	\$ (1,981)	\$ 43,329

The National Ballet of Canada, Endowment Foundation Notes to the Financial Statements

(Dollars in thousands)
June 30, 2018

4. Investments, at fair value

	<u>2018</u>	<u>2017</u>
Burgundy Balanced Foundation Fund	\$ 24,325	\$ 23,770
Burgundy Foundation Trust Fund	<u>29,520</u>	<u>27,979</u>
	53,845	51,749
Turtle Creek Equity Fund	16,380	14,182
Investments in guaranteed investment certificates, ranging in term from 1-2 years and interest rates ranging from 1.95 – 2.33%	<u>1,625</u>	-
	\$ 71,850	\$ 65,931

The Foundation's investments in pooled funds with Burgundy Asset Management Limited allocated as follows:

	<u>2018</u>	<u>2017</u>
Cash and short-term investments	4%	2%
Bonds	30%	31%
Canadian equities	25%	26%
US equities	22%	20%
International equities	19%	21%

The Foundation's investments in pooled funds with Turtle Creek Asset Management Incorporated are not publicly disclosed. The pooled funds are invested in Canadian and US equities, and money market funds.

The National Ballet of Canada, Endowment Foundation Notes to the Financial Statements

(Dollars in thousands)
June 30, 2018

5. Expendable Fund

	Internally restricted	Externally Restricted		2018 Total	2017 Total (Restated – Note 3)
		Purpose restricted	Spend Down		
Dancer	\$ 1,579	\$ 687	\$ -	\$ 2,266	\$ 2,023
Touring	-	16	-	16	13
Education and outreach	-	460	-	460	399
New creations	-	1,608	-	1,608	1,312
General	7,769	-	-	7,769	6,977
National Ballet Arts Endowment Fund	3,647	-	-	3,647	3,308
The Canadian Arts and Heritage Sustainability Program	6,743	-	-	6,743	5,958
The Orchestra Fund	-	31	-	31	10
Walter Carsen Centre Fund	636	-	-	636	575
Walter Carsen New Creations Fund	-	-	2,188	2,188	2,399
	<u>\$ 20,374</u>	<u>\$ 2,802</u>	<u>\$ 2,188</u>	<u>\$ 25,364</u>	<u>\$ 22,974</u>

Future minimum annual grants to the National Ballet of Canada from the Spend Down Fund for subsequent years are as follows:

2019	\$ 500
2020	1,000
2021	<u>688</u>
	<u>\$ 2,188</u>

The National Ballet of Canada, Endowment Foundation

Notes to the Financial Statements

(Dollars in thousands)
June 30, 2018

6. Endowment Fund

The Endowment Fund consists of the following:

	<u>2018</u>	<u>2017</u> (Restated - Note 3)
Dancer	\$ 3,848	\$ 3,814
Touring	1,787	1,750
Education and outreach	1,209	1,016
New creations	6,181	3,839
General	12,846	12,812
National Ballet Arts Endowment Fund	4,850	4,850
The Canadian Arts and Heritage Sustainability Program	14,334	13,674
The Orchestra Fund	674	574
Walter Carsen Centre Fund	<u>1,000</u>	<u>1,000</u>
	<u>\$ 46,729</u>	<u>\$ 43,329</u>

7. Financial instruments risk

Transactions in financial instruments may result in the Foundation assuming or transferring to another party one or more of the financial risks described below. This required disclosure provides information that assists users of the financial statements in assessing the extent of risk related to financial instruments. There have been no changes in these risks over the prior year.

Credit risk

Credit risk arises from cash and cash equivalents, credit exposures on outstanding accounts receivable and bonds. Cash and cash equivalents are held at major financial institutions, minimizing any potential exposure to credit risk. It is management's opinion that the risk related to accounts receivable is minimal since the Foundation only deals with what management believes to be financially sound counterparties, and accordingly does not anticipate significant loss for non-performance. Credit risk is also minimized by investing surplus funds in financial institutions that maintain a high credit rating or in entities that are considered as being financially sound.

The National Ballet of Canada, Endowment Foundation

Notes to the Financial Statements

(Dollars in thousands)
June 30, 2018

7. Financial instruments risk (continued)

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 comprises three types of risk: other price risk, currency risk and interest rate risk.

i. Other price risk

The Foundation is subject to price risk on the investments carried at fair value. These investments are subject to market risk such that the fair value of these investments may change as a result of factors specific to a particular investment or as a result of factors affecting all instruments trading in the market. The Foundation manages this risk by using professional portfolio managers and maintaining a diversified portfolio with a mix of bonds and equity funds.

ii. Currency risk

Foreign currency exposure arises from the Foundation's holdings of foreign currency denominated investments. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value of investments. The Foundation manages this risk by using professional portfolio managers and maintaining a diversified portfolio.

iii. Interest rate risk

The Foundation's earnings are exposed to the interest rate risk that arises from fluctuations in interest rates and the degree of volatility of these rates. The Foundation does not use derivative instruments to reduce its exposure to interest rate risk.

8. Comparative Information

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