

NATIONAL FILM BOARD

Statement of Operations
for the year ended March 31

	2012	2011
Expenses (Note 7a)		
<i>English Programming</i>		
Production of films and other forms of visual presentations		
Board's program	\$ 23 945 479	\$ 23 535 805
Sponsored production and pre-sale	500 000	547 000
	24 445 479	24 082 805
<i>French Programming</i>		
Production of films and other forms of visual presentations		
Board's program	16 729 787	16 930 007
Sponsored production and pre-sale	484 628	453 000
	17 214 415	17 383 007
<i>Distribution</i>	6 399 060	5 911 583
<i>Marketing, Accessibility and Outreach</i>	15 213 097	14 325 387
<i>Digital development and applications</i>	2 900 323	3 307 937
<i>Internal services</i>	9 320 685	9 965 352
	33 833 165	33 510 258
Total Expenses	75 493 058	74 976 070
Revenues (Note 7b)		
Institutional and educational	2 780 000	2 274 000
Television	600 000	640 000
Sponsored production and pre-sale	984 132	944 078
Home video	750 000	618 000
Stock shots	500 000	500 000
Miscellaneous	450 000	446 000
Theatrical	60 000	60 000
	6 124 132	5 482 078
Net cost of operations	\$ 69 368 926	\$ 69 493 992

The accompanying notes are an integral part of the financial statements.

NATIONAL FILM BOARD

Notes to the Future-Oriented Financial Statements (unaudited) [in thousands of dollars]

1. AUTHORITY AND OBJECTIVES

The National Film Board was established in 1939 under the *National Film Act*, and is the agency responsible for administering the Act.

The National Film Board (the "Board") is a cultural agency named in Schedule 1.1 of the *Financial Administration Act* reporting to the Minister of Canadian Heritage and Official Languages. It is administered by a Board of Trustees appointed by the Governor in Council and chaired by the Government Film Commissioner.

The Board's legislative mandate is to initiate and promote the production and distribution of films in the national interest and, in particular:

- ◆ to produce and distribute and to promote the production and distribution of films designed to interpret Canada to Canadians and to other nations;
- ◆ to represent the Government of Canada in its relations with persons engaged in commercial motion picture film activity in connection with motion picture films for the Government or any department thereof;
- ◆ to engage in research in film activity and to make available the results thereof to persons engaged in the production of films;
- ◆ to advise the Governor in Council in connection with film activities;
- ◆ to discharge such other duties relating to film activity as the Governor in Council may direct it to undertake.

The Board is not subject to income taxes.

2. SIGNIFICANT ASSUMPTIONS

The future-oriented financial statements have been prepared on the basis of the government priorities and the plans of the department as described in the Report on Plans and Priorities.

The main assumptions are as follows:

- (a) The department's activities will remain substantially the same as for the previous year.
- (b) Expenses and revenues, including the determination of amounts internal and external to the government, are based on historical experience as well as future orientations related to NFB's digital shift. The general historical pattern is expected to continue.

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- (c) Allowances for uncollectibility are based on historical experience. The general historical pattern is expected to continue.
- (d) Estimated information for 2011-12 is based on the authority granted to the National Film Board in Budget 2010.

These assumptions are adopted as at December 31, 2010.

3. VARIATIONS AND CHANGES TO THE FORECAST FINANCIAL INFORMATION

While every attempt has been made to accurately forecast final results for the remainder of 2010-11 and for 2011-12, actual results achieved for both years are likely to vary from the forecast information presented, and this variation could be material.

In preparing these financial statements the Board has made estimates and assumptions concerning the future. These estimates and judgments may differ from the subsequent actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events related to NFB's digital shift that are believed to be reasonable under the circumstances.

Factors that could lead to material differences between the future-oriented financial statements and the historical financial statements include:

- (a) The timing and amounts of acquisitions and disposals of property, plant and equipment may affect gains/losses and amortization expense.
- (b) Economic conditions, market trend and new business models may affect both the amount of revenue earned and the collectability of loan receivables.
- (c) Interest rates in effect at the time of issue will affect the net present value of capital leases.
- (d) Further changes to the operating budget through additional new initiatives or technical adjustments later in the year.

Once the Report on Plans and Priorities is presented, the Board will not be updating the forecasts for any changes to appropriations or forecast financial information made in ensuing supplementary estimates.

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4. SIGNIFICANT ACCOUNTING POLICIES

The future oriented financial statements have been prepared in accordance with accounting standards issued by the Treasury Board of Canada Secretariat which are consistent with Canadian generally accepted accounting principles for the public sector, except employee vacation and severance liabilities are based on management's estimate of the liabilities rather than based on actuarial estimates.

The significant accounting policies are as follows:

Parliamentary appropriation

Operations are funded through a permanent authority from Parliament (Revolving Fund) and Parliamentary appropriations voted annually.

The Revolving Fund allows the Board to make payments out of the Consolidated Revenue Fund for working capital, interim financing of operating costs and capital assets acquisitions. This authority requires that the aggregate of admissible working capital and net book value of capital assets does not exceed \$15 million.

The Board is also financed in part by the Government of Canada through Parliamentary appropriations. The appropriations are voted annually to replenish the Revolving Fund for net acquisitions of capital assets and the admissible cost of operations. The basis of the appropriations provided to the Board does not parallel the accounting principles applied in preparing the financial statements since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations are not necessarily the same as those provided through appropriations from Parliament. Note 5 provides a reconciliation between the two bases of reporting.

Expenses

Expenses are presented on an accrual basis:

- ◆ Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.

Production of films and other forms of visual presentations

All production costs are charged to operations in the year in which they are incurred and shown in the Statement of Operations as follows:

Board's program

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All costs incurred for unsponsored productions and co-productions or other forms of visual presentations.

Sponsored production and pre-sale

Part of costs incurred for film productions and coproductions or other forms of visual presentations corresponding to sponsor's contribution. The excess of costs over the sponsor's contribution is charged to the Board's program.

Revenues

Revenues are presented on an accrual basis:

- ◆ Revenues from the production of films and other forms of visual presentations are accounted for at an amount equal to the sponsored production and pre-sale costs during the year in which these costs are incurred. Any profit is recognized in the year the production is completed.
- ◆ Royalty revenues are recognized once all of the Board's obligations have been fulfilled and its expenses have been accounted for, regardless of when the acquirer actually uses the work.
- ◆ Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.

Employee Future Benefits

Pension benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Board's contributions reflect the full cost as employer. This amount is currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the Plan. The Board's contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Board. The Board is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

Severance benefits

Employees are entitled to severance benefits as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. Management determined the accrued benefit obligation using a method based upon assumptions and its best estimates; such as, years of service and employee's status.

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Notes to the Future-Oriented Financial Statements (unaudited) [in thousands of dollars]

Capital assets

All capital assets and leasehold improvements having an initial cost of five thousands or more are recorded at their acquisition cost.

Capital assets are amortized according to the straight line method over the estimated useful life of the assets, as follows:

◆ Technical equipment	from 4 to 10 years
◆ Software & data processing equipment	from 5 to 10 years
◆ Office furniture, equipment and other	from 5 to 10 years
◆ Leasehold improvements	terms of the leases

The Board has a collection of nearly twenty thousand audiovisual works produced since 1895. This inestimable collection is not intended for sale and does not have a measurable value. It has, however, been assigned a nominal value of \$1 in the financial statements.

The Board enters into operating lease agreements to acquire the exclusive use of certain capital assets over the term of the lease. These rental fees are charged to operations in the year to which they apply. The assets recorded from a capital lease agreement are amortized on the same basis as other assets owned by the Board and the obligations are amortized over the lease term.

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Notes to the Future-Oriented Financial Statements (unaudited) [in thousands of dollars]

5. PARLIAMENTARY APPROPRIATIONS

The Board receives most of its funding through annual Parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, the Board has different net results of operations for the year on a government funding basis than on accrual accounting basis. The differences are reconciled in the following tables:

- a) Reconciliation of Net cost of operations to current year appropriations used:

	2012	2011
Net cost of operations	\$69,369	\$69,494
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Gain (Loss) on disposal of capital assets	-	9
Change in liability for vacation pay	17	(16)
Net change in employee future benefits	103	105
Amortization of capital assets	(3,353)	(3,298)
	(3,233)	(3,200)
Adjustments for items not affecting net cost of operations but affecting appropriations		
Add (less):		
Acquisition of capital assets	903	1,012
Payments on obligation under capital leases	965	1,192
Proceeds from disposal of capital assets	-	(4)
	1,868	2,200
Current year appropriations used	<u>\$68,004</u>	<u>\$68,494</u>

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Notes to the Future-Oriented Financial Statements (unaudited) [in thousands of dollars]

b) Appropriations provided and used:

	2012	2011
As per Main Estimates – Vote 65	\$66,782	\$67,217
Supplementary Estimates appropriation	1,722	1,777
Authority to carry forward	(500)	(500)
	<u> </u>	<u> </u>
Current year appropriations used	<u>\$68,004</u>	<u>\$68,494</u>

Table reflects revised planned spending for 2010-11 based on full authorities provided.

6. EMPLOYEE SEVERANCE BENEFITS

The Board provides severance benefits to its employees based on eligibility, years of service and final salary. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Benefits will be paid from future appropriations. Information about the plan, measured as at March 31, 2012, is as follows:

	2012	2011
Accrued benefit obligation, beginning of year	\$ 5,138	\$ 5,243
Expense for the year	736	851
Benefits paid during the year	<u>(839)</u>	<u>(956)</u>
Accrued benefit obligation, end of year	<u>\$ 5,035</u>	<u>\$ 5,138</u>

Potential impacts of changes in collective agreements have not been reflected in forecasted amounts.

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7. EXPENSES & REVENUES

7a)

	2012	2011
Salaries and benefits	\$40,170	\$39,033
Professional and special services	10,919	11,151
Rentals	8,628	8,811
Amortization of capital assets	3,353	3,298
Transportation and communication	3,313	3,383
Cash financing in co-productions	2,267	2,315
Materials and supplies	2,246	2,294
Repairs and upkeep	1,369	1,398
Contracted film production and laboratory processing	1,006	1,028
Information	946	966
Royalties	809	826
Miscellaneous	467	477
(Gain) Loss on disposal of capital assets	<u>-</u>	<u>(4)</u>
	<u><u>\$75,493</u></u>	<u><u>\$74,976</u></u>

7b) Revenues

	2012	2011
Film prints	\$ 2,530	\$ 2,046
Sponsored production and pre-sale	1,527	1,000
Royalties	1,211	1,427
Stock shots	595	701
Miscellaneous	<u>261</u>	<u>308</u>
	<u><u>\$ 6,124</u></u>	<u><u>\$ 5,482</u></u>

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[in thousands of dollars]

9. CONTINGENT LIABILITIES

The Board is subject to various legal claims arising in the normal course of its operations. In management's view, the ultimate disposition of these claims is not expected to have a material impact on the financial statements.

10. RELATED PARTY TRANSACTIONS

The Board is related in terms of common ownership to all departments, agencies and Crown corporations created by the Government of Canada. The Board enters into transactions with these entities in the normal course of business in accordance with standard trade terms. During the year ending March 31, 2012, the Board leased accommodations from the Department of Public Works and Government Services (PWGSC) for the amount of \$7,001 (2011 - \$6,862).

The Government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include payroll and cheque issuance services provided by Public Works and Government Services Canada are not included as an expense in the Statement of Operations. The Board also receives audit services provided, free of charge, by the Office of the Auditor General.