



National Film Board of Canada

2016-2017

Quarterly Financial Report for the quarter ended June 30, 2016

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1. Introduction

The National Film Board (NFB) was created by an act of Parliament in 1939. A federal cultural agency within the Canadian Heritage portfolio, the NFB exists to produce and distribute original, innovative audiovisual works that raise awareness of Canadian values and viewpoints and of the issues of interest to Canadians, across the country and around the world. The NFB serves Canadians by producing and making accessible, in all regions of the country and on all available platforms, rich and diverse cultural content that reflects Canada's rapidly shifting demographic profile, and that would not be produced otherwise. A brief description of the agency's activities for the current year can be found in [Part II of the Main Estimates](#).

This quarterly report has been prepared by management as required by Section 65.1 of the [Financial Administration Act](#) and in the form and manner prescribed by the Treasury Board. This quarterly report should be read together with the *Main Estimates*.

This quarterly report has not been subject to an external audit or review.

2. Basis of Presentation

This quarterly report has been prepared by management using expenditure accounting. The accompanying Statement of Authorities includes the agency's spending authorities granted by Parliament and those used by the agency consistent with the Main Estimates and Supplementary Estimates for the 2016–2017 fiscal year. This quarterly report has been prepared using a special-purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government of Canada. Approvals are given in the form of annually approved limits through the Appropriation Act or through legislation in the form of statutory spending authority for specific purposes.

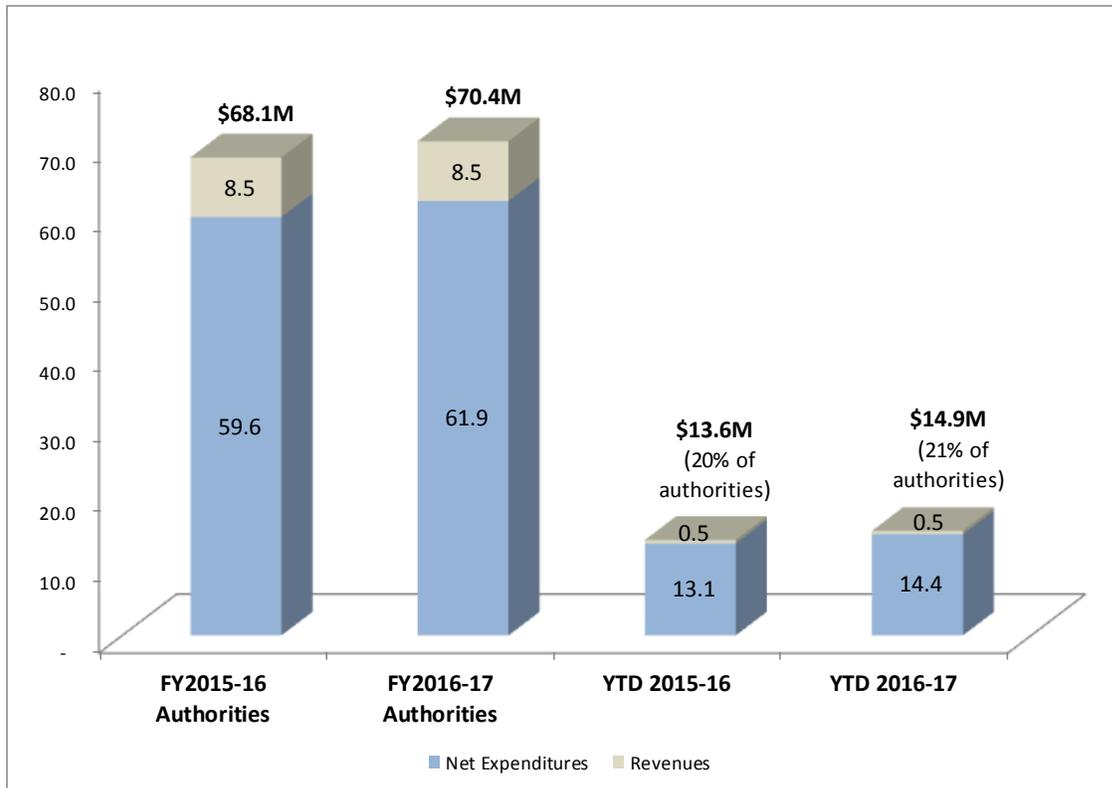
When Parliament is dissolved for the purposes of a general election, section 30 of the Financial Administration Act authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

The NFB uses the full accrual method of accounting to prepare its annual financial statements in accordance with Treasury Board accounting principles, which are consistent with generally accepted Canadian accounting principles for the public sector. However, the spending authorities voted by Parliament remain on an expenditure basis.

3. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

This section highlights the principal factors that contributed to the variances between projected and actual expenditures and expected and earned revenues for the period ended June 30, 2016.

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The preceding graph shows the total budgetary authorities granted to the NFB for fiscal 2016-2017, with projected gross expenditures totalling \$70.4 million, an increase of \$2.3 million over the previous fiscal year. This increase reflects an adjustment of \$0.3 million related to changes in employee benefit rates and an authorization for \$2.0 million for the NFB headquarters relocation planned for 2018. Part of this amount will be spent only in 2017-2018 and the funds will be carried to that fiscal year.

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Table 2 shows expenditures and revenues for the first quarter of 2016-2017. Here is an overview of the main items to be noted:

Variance in Revenues

First quarter actual revenues of \$0.5 million are at a comparable level to the preceding year.

Variance in Expenditures

Gross expenditures for the first quarter of 2015-16 were \$1.4 million higher than in the first quarter of the preceding year, totalling \$14.9 million. This increase is mainly attributed to *personnel expenditures, transportation and communications, professional and special services, repair and maintenance services and other subsidies and payments.*

The 1.2% increase in *personnel* expenditures is explained by normal pay increases connected to merit increases and incremental increases.

During the first quarter of this fiscal year, we saw an punctual increase in volume of production activities compared to the same quarter last year. This explains the increased *transportation and communications* expenditures, which consist mainly of travel expenses, and the increase for *professional and special services* that are mainly paid to artists and filmmakers working on NFB's productions. This variance does not represent an annual trend.

The increase in the volume data storage and the timing of payment of software support result in the rise in *repair and maintenance services* expenditures. The decline of the Canadian dollar against its US counterpart also contributed to the increase in these expenditures in the first quarter of the current year.

The increase in *other subsidies and payments* is explained by a higher volume of rights acquisition for the online Screening Room ONF.ca | NFB.ca, that is the main window to reach and interact with the public. The amounts spent annually on this activity depend on the rights renewal cycle on the films.

The other types of expenditures by standard object followed historical trends.

4. Risks and Uncertainties

The key risks that the NFB faces are: a decline in its revenues, a discrepancy between corporate capacity and workload, and technological obsolescence.

The NFB is working to strengthen its financial capability in response to the risk of decreasing revenue. For several years, it has been managing financial challenges such as a decline in revenue. An example of the television broadcasting market's transformation: television audiences for NFB productions increased in 2015–2016 compared to 2013–2014, while revenue from the same market decreased. This demonstrates that there is still a demand for NFB-produced content but, in all likelihood, the content's sale price will continue to decline.

The entire audiovisual industry is confronted with the same problem: a greater audiovisual content offer does not necessarily translate into increased revenue, especially since the sale price of audiovisual works is decreasing. In fact, an analysis of industry trends shows that consumers are more willing to pay for content providers, than for content. Year after year, the NFB's mitigation strategy continues to focus on actively developing new financing options.

Strong pressure on NFB resources is currently being felt as a result not only of numerous largescale projects undertaken over the past several years and upcoming projects, but also due to downsizing in recent years. Furthermore, the risk could increase in the coming months. In order to better understand the reasons for this pressure, an engagement survey of all NFB employees will be conducted to identify excess workflows and quickly develop solutions.

The NFB is also facing challenges in regard to the Web traffic generated by the NFB.ca online Screening Room. In contrast to viewing trends on partner sites, the number of views on the online Screening Room has decreased, leading us to conclude that the way our content is marketed in the online Screening Room needs to be examined and possibly revamped. The risk that the viewing platform created during the NFB's digital shift in 2008–2009 may be obsolete calls for substantive reflection on its technological infrastructure, commercial vocation and content. Therefore, the NFB will respond by revitalizing its Web and digital marketing strategy, one of the organization's priorities for 2017–2018. The NFB maintains its technology watch and developed a strategic technology plan to ensure that its infrastructure and services remain technologically leading edge.

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5. Significant Changes Related to Operations, Personnel and Programs

The NFB's Toronto and Edmonton offices will be moving in the next few months. The NFB headquarters will relocate in 2018. These projects represent major changes for the organization and involve significant expenditures. The NFB put in place various initiatives to manage these changes and developed a financing plan to minimize the impact on its operations.

The federal budget presented in March 2016 included the announcement of new investments in arts and culture. The announcement included \$1.5 million for the NFB in 2016-2017. This amount will be reflected in the financial report once the authorizations are confirmed by Treasury Board. Therefore, it is not included in the authorizations and expenditures in this report.

Approved by:

Original signed by :
Claude Joli-Coeur
Government Film Commissioner
and Chairperson of the National Film
Board of Canada

Montreal, Canada

August 29, 2016

Original signed by :
Luisa Frate CPA, CA
Director General, Finance,
Operations and Technology
(Chief Financial Officer)

Montreal, Canada

August 29, 2016

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Table 1 : Statement of Authorities (unaudited)

	Fiscal Year 2016-2017		
	Total available for use for the year ending March 31, 2017 *	Used during the quarter ended June 30, 2016	Year-to-date used at the quarter-end
<i>(dollars)</i>			
Vote 70 - Operating expenditures	61,894,820	14,430,152	14,430,152
Total Budgetary authorities	61,894,820	14,430,152	14,430,152
Total authorities	61,894,820	14,430,152	14,430,152

Fiscal Year 2015-2016		
Total available for use for the year ending March 31, 2016 *	Used during the quarter ended June 30, 2015	Year-to-date used at the quarter-end
59,652,377	13,057,629	13,057,629
59,652,377	13,057,629	13,057,629
59,652,377	13,057,629	13,057,629

* Includes only Authorities available for use and granted by Parliament at quarter-end.

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Table 2 : Departmental budgetary expenditures by Standard Object (unaudited)

	Fiscal Year 2016-2017			Fiscal Year 2015-2016		
	Planned expenditures for the year ending March 31, 2017 *	Expended during the quarter ended June 30, 2016	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2016 *	Used during the quarter ended June 30, 2015	Year-to-date used at quarter-end
<i>(dollars)</i>						
Expenditures:						
Personnel	37,044,583	9,063,352	9,063,352	36,751,740	8,956,361	8,956,361
Transportation and communications	3,120,808	726,940	726,940	3,120,808	532,225	532,225
Information	523,430	121,988	121,988	523,430	75,533	75,533
Professional and special services	13,225,013	1,861,824	1,861,824	13,275,413	1,027,971	1,027,971
Rentals	7,886,419	1,698,538	1,698,538	7,886,419	1,709,438	1,709,438
Repair and maintenance	1,313,057	887,083	887,083	1,313,057	788,807	788,807
Utilities, materials and supplies	1,097,695	83,322	83,322	1,097,695	139,855	139,855
Acquisition of land, buildings and works	2,000,000	-	-	-	-	-
Acquisition of machinery and equipment	3,315,945	281,936	281,936	3,315,945	262,695	262,695
Other subsidies and payments	820,316	220,883	220,883	820,316	85,229	85,229
Total gross budgetary expenditures	70,347,266	14,945,866	14,945,866	68,104,823	13,578,114	13,578,114
Less Revenues netted against expenditures:	-	0	-	-	0	-
Revenues credited to the vote	8,452,446	515,713	515,713	8,452,446	520,485	520,485
Total Revenues netted against expenditures	8,452,446	515,713	515,713	8,452,446	520,485	520,485
Total net budgetary expenditures	61,894,820	14,430,152	14,430,152	59,652,377	13,057,629	13,057,629

* Includes only Authorities available for use and granted by Parliament at quarter-end.