National Film Board of Canada

2013-2014

Quarterly Financial Report for the quarter ended June 30, 2013

National Film Board of Canada
Quarterly Financial Report
for the quarter ended June 30, 2013

1. Introduction

The National Film Board of Canada (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 add to our understanding of the issues facing Canadians and raise awareness of Canadian values and viewpoints 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–content that would otherwise not be produced. 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 Treasury Board. This quarterly report should be read in conjunction with the Main Estimates, as well as with *Canada's Economic Action Plan 2012 (Budget 2012).*

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 2013-2014 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. 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.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1, preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, 2012 after the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in Budget 2012 could not be reflected in the 2012-13 Main Estimates.

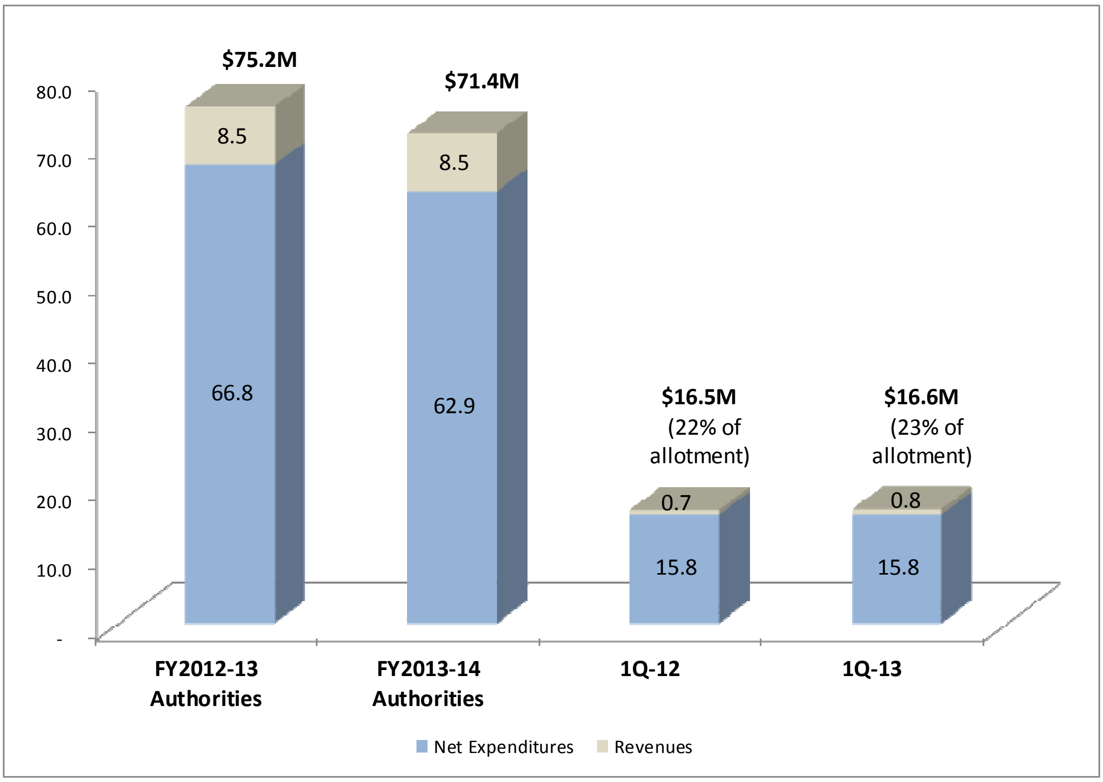
In fiscal year 2012-13, frozen allotments will be established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013-2014, the changes to departmental authorities were implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the 2013-2014 Main Estimates tabled in Parliament.

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.

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

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

This section highlights the principal factors that contributed to the variances in projected and real expenses and expected and earned revenues for the quarter ended June 30.



The preceding graph shows the total budgetary authorities granted to the NFB for fiscal 2013-2014, with projected expenses totalling $62.9 million. This is $3.9 million lower than last year's figure because of the savings measures announced in Budget 2012 (see the Budget 2012 Implementation section).

Net expenses for the first quarter of 2013-2014 totalled $15.8 million and were generally stable compared to the figure for the previous year. Below is an overview of the main elements to be noted.

Variance in Revenues

As indicated in Table 2, actual revenues for the first quarter increased by $49,000 because of an agreement signed with the Université du Québec à Montréal for the sale of equipment from the Montreal CineRobotheque.

Variance in Expenditures

Total gross expenditures in the first quarter of 2013-2014 amounted to $16.54 million, an increase of $41,000 compared to the first quarter of the previous fiscal year.

Personnel expenses again showed an increase for the first quarter in connection with the payment of severance benefits following the elimination of the program. The decline in transportation and communications expenses is due to the decline in spending for travel within Canada. In 2012-2013, a number of film projects were in the production phase, including *Secretariat's Jockey*, *Ta parole est en jeu, Poppety in the Fall* and *The Banquet of the Concubine*, which explains the decline in professional and special services expenses in 2013-2014. The temporary increase in rental expenses is due to payment of a penalty for termination of a lease following closure of the Montreal cinema installations, a decision that will result in substantial savings over the intended term of the lease. Acquisitions of machinery and equipment are down again from 2012-2013, with the termination of several lease-purchase contracts for equipment acquired as part of the NFB's digital transition. Other subsidies and payments are up following acquisition of rights and video archives for the productions *Secretariat's Jockey* and *Rosies of the North*

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

4. Risks and Uncertainties

Digital technologies continue to revolutionize the audiovisual industry here in Canada and around the world. This revolution naturally provides varied business opportunities of which the NFB has already and intends to take advantage of by developing new digital viewing platforms, by producing interactive works, and by offering products and services for purchase and distribution online. In all markets, converting users to a digital economy will require the use of products and services to ensure revenue growth to the NFB. Digital technologies are already a large presence in users' lives, but not yet large enough to ensure the new wave of growth needed to offset the erosion of traditional markets.

The following is an overview of the main risks that the NFB faces in 2013-2014.

External Risks

Consumer habits to a pay model for digital products and services is currently having a temporary impact on expected revenue growth. The educational market is also being affected by the implementation of Bill C-11, the *Copyright Modernization Act*. To offset the impacts of this legislation, the NFB has already adjusted its approach to developing its CAMPUS educational web site to present it as a rich, full-featured, bilingual, value-added education portal, and not simply a collection of films to be used in class. The NFB has worked closely with teachers to identify the tools and functionalities needed to make CAMPUS an indispensable service in the educational market

5. Significant Changes Related to Operations, Personnel and Programs

Other than the implementation of Budget 2012, no significant changes related to operations, personnel and programs and having an impact on financial reporting occurred during the quarter ended June 30, 2013.

6. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs, make it easier for Canadians and business to deal with their government, and modernize and reduce the back office.

The NFB is continuing with its original plan to achieve Budget 2012 savings of $6.7 million (10% of its budget) by fiscal year 2014-2015 through both reductions and restraint to streamline and focus operations while ensuring continued quality delivery to Canadians on its important mandate.

The main savings measures are as follows.

- On September 1, 2012, closure of individual screening booths and screening rooms at the Toronto Mediatheque and Montreal CineRobotheque. Educational workshops will continue to be offered at headquarters in Montreal and in Toronto on the usual premises, where a public exhibition space will also be available.
- On April 1, 2012, elimination of the “Festivals and Events” component of the Grants and Contributions Program.
- A slight reduction of the NFB’s total budget–in the amounts allocated for the production of audiovisual works.
- Consolidation of administrative services in regional offices.

- Implementation of new work processes in all NFB divisions, particularly in linguistic services management, rights management, and general administration. The NFB will continue to rationalize its space utilization and expects to save additional amounts.

The NFB has received no additional funding to implement the above measures.

The $110,000 savings forecast for 2012-2013 from reducing office space at headquarters have been realized in full as at September 30, 2012, and this measure will continue as planned in the following years.

In 2013-2014, the NFB forecasts cumulative savings of $3.3 million and has already implemented all the necessary measures to achieve this objective in accordance with the established timetable, with the exception of IT support through shared government services and anticipated savings from switching from selling physical products to selling virtual products. The NFB is awaiting a decision regarding Shared Services Canada (SSC) taking over support for corporate IT services, which is planned for January 2014. We still haven't received confirmation, and any delay in the integration schedule will push back the schedule for forecast savings. The transition to digital products in the educational sector is also slightly behind schedule since a number of institutions do not yet have the technological infrastructure for digital delivery to permit online viewing. This savings could therefore be somewhat delayed.

Approved by:

Tom Perlmutter Government Film Commissioner	Luisa Frate Director General, Finance, Operations and Technology (Chief Financial Officer)
Montreal, Canada	Montreal, Canada
August 31, 2013	August 31, 2013

National Film Board of Canada
Quarterly Financial Report
for the quarter ended June 30, 2013

Table 1 : Statement of Authorities *(unaudited)*

	Fiscal Year 2013-2014			Fiscal Year 2012-2013		
	Total available for use for the year ending March 31, 2014*	Used during the quarter ended June 30, 2013	Year to date used at the quarter-end	Total available for use for the year ending March 31, 2013	Used during the quarter ended June 30, 2012	Year to date used at the quarter-end
Vote 75 - Operating expenditures	62,890,037	15,751,273	15,751,273	66,782,204	15,760,030	15,760,030
Total Budgetary authorities	62,890,037	15,751,273	15,751,273	66,782,204	15,760,030	15,760,030
Total authorities	**62,890,037**	**15,751,273**	**15,751,273**	**66,782,204**	**15,760,030**	**15,760,030**

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

National Film Board of Canada
Quarterly Financial Report
for the quarter ended June 30, 2013

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

	Fiscal Year 2013-2014			Fiscal Year 2012-2013		
	Planned expenditures for the year ending March 31, 2014	Expended during the quarter ended June 30, 2013	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2013	Expended during the quarter ended June 30, 2012	Year to date used at quarter-end
Expenditures:						
Personnel	38,432,138	10,294,441	10,294,441	40,346,526	10,206,954	10,206,954
Transportation and communications	3,267,813	578,088	578,088	3,447,753	637,705	637,705
Information	557,323	91,082	91,082	588,012	120,105	120,105
Professional and special services	13,900,747	1,579,338	1,579,338	14,666,182	1,805,000	1,805,000
Rentals	8,257,906	2,748,398	2,748,398	8,712,622	2,151,996	2,151,996
Repair and maintenance	1,374,908	681,590	681,590	1,450,616	678,228	678,228
Utilities, materials and supplies	1,149,402	196,716	196,716	1,212,693	216,415	216,415
Acquisition of machinery and equipment	3,472,141	170,901	170,901	3,663,332	571,721	571,721
Transfer payments	80,000	0	-	250,000	32,500	32,500
Other subsidies and payments	850,105	200,316	200,316	896,914	79,697	79,697
Total gross budgetary expenditures	**71,342,483**	**16,540,870**	**16,540,870**	**75,234,650**	**16,500,321**	**16,500,321**
Less Revenues netted against expenditures:						
Revenues credited to the vote	8,452,446	789,597	789,597	8,452,446	740,291	740,291
Total Revenues netted against expenditures	**8,452,446**	**789,597**	**789,597**	**8,452,446**	**740,291**	**740,291**
Total net budgetary expenditures	**62,890,037**	**15,751,273**	**15,751,273**	**66,782,204**	**15,760,030**	**15,760,030**