

NATIONAL CAPITAL COMMISSION

**QUARTERLY FINANCIAL REPORT FOR THE PERIOD
ENDED SEPTEMBER 30, 2013**

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NATIONAL CAPITAL COMMISSION NARRATIVE DISCUSSION FOR THE PERIOD ENDED SEPTEMBER 30, 2013

Financial Results

The National Capital Commission (NCC) recorded a decrease of \$0.3 million (2 percent) in revenues during the second quarter of 2013–2014, compared with the same period last year. The largest decrease was recorded in other revenues mainly as a result of a reduction in the net gain on disposal of tangible capital assets and donations received (\$0.7 and \$0.4 million respectively). The decrease was partly offset by increases in rental operations and easements and recoveries from partners (\$0.4 and \$0.3 million respectively).

Expenses decreased by \$3.5 million (5 percent), compared with the quarter ended September 30, 2012. Expenses were lower than last year, mainly as a result of a reduced amortization expense further to changes to accounting estimates related to the useful life of tangible capital assets – bridges and buildings (\$1.9 million). Lower operating expenditures and payments in lieu of municipal taxes were also recorded, primarily as a result of the implementation of the Corporate Financial Sustainability Strategy (\$1.6 and \$1.0 million respectively). These reductions were partly compensated by a net loss incurred on the transfer to Canadian Heritage (\$1.0 million).

Results for the second quarter of 2013–2014 are in line with annual revenue and expenditure projections to be shown in the Summary of the Corporate Plan 2013–2014 to 2017–2018.

Risk Analysis

In its 2012–2013 annual report, the NCC identified capacity, influence and reputation as key corporate risks. The NCC must manage capacity risks in order for the corporation to continue to provide its services, meet quality standards, follow through on commitments and embrace opportunities in the delivery of its mandate. Not being sufficiently influential also affects the NCC's capacity to deliver key initiatives of its mandate. Finally, it is necessary for the NCC to have a positive reputation in order for the corporation to be able to effectively deliver its mandate. In an effort to mitigate these risks, the organization has taken a number of measures, notably implement a corporate financial sustainability strategy, evaluate and measure the performance and relevance of programs, better leveraging of partnerships to obtain the desired effect, adopting a comprehensive corporate communications strategy, managing external expectations, reviewing quality control mechanisms for service delivery, and establishing reputational indicators. More information is provided in the NCC's 2012–2013 annual report.

Significant Changes Related to Operations, Personnel and Programs

The government of Canada announced a change in the NCC's mandate on March 21, 2013. In accordance with Bill C-60, which received Royal Assent on June 26, 2013, the organization, sponsorship and promotion of public activities and events in the National Capital Region were transferred to Canadian Heritage as of September 30, 2013. The NCC assumed program delivery in these areas until that date.

The NCC is working in close collaboration with Canadian Heritage (PCH) to complete the necessary steps for the transfer and to ensure a seamless transition. The NCC pursues analyzing the impact on its budgets in order to transfer funding balances to PCH in a timely fashion. Bill C-60 has had no impact on the financial results for the period ending September 30, 2013, with the exception of a net loss of \$1.0 million related to the transfer, representing a loss of \$1.7 million on the disposal of tangible capital assets partly offset by a gain of \$0.7

million resulting from the write-off of wage provisions pertaining to transferred employees. Assets and liabilities presented in the NCC's Statement of Financial Position as of September 30, 2013 have been adjusted to reflect the assignment of relevant assets and liabilities to PCH.

Use of Parliamentary Appropriations

The NCC derives its funding from different sources: parliamentary appropriations, rental operations and easements, investment revenues, sponsorship, user access fees, recoveries and other fees. The NCC draws down its parliamentary appropriations according to cash flow projections established for its disbursements. The expenditures recorded are not tied to a specific source of funding. Accordingly, a reconciliation of the amount of appropriations received and receivable to the amount of appropriations used is not applicable.

More information regarding the use of the parliamentary appropriations can be found in note 9 to the quarterly financial statements of the NCC.

Financial Statements

Second Quarter 2013-2014

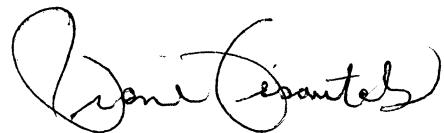
Statement of Management Responsibility

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring that all other information in the quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.



Jean-François Trépanier, CPA, CA
Chief Executive Officer



Pierre Désautels, CMA
Senior Vice-President, Finance and Information
Technology Services and Chief Financial Officer

Ottawa, Canada
November 22, 2013

NATIONAL CAPITAL COMMISSION
STATEMENT OF FINANCIAL POSITION (UNAUDITED)
(in thousands of dollars)

	September 30, 2013	March 31, 2013
FINANCIAL ASSETS		
Cash and cash equivalents (note 3)	92,397	80,890
Cash and cash equivalents restricted to Light Rail Transit (note 4)	74,163	73,663
Accounts receivable		
Federal government departments and agencies	3,707	3,221
Tenants and others	2,675	2,707
Investments (note 3)	27,876	45,095
	200,818	205,576
LIABILITIES		
Accounts payable and accrued liabilities		
Federal government departments and agencies	1,287	1,716
Others	14,446	22,802
Light Rail Transit (note 4)	74,163	73,663
Provision for environmental cleanup	24,854	27,643
Employee future benefits (note 5)	4,356	10,124
Deferred rental revenue	8,409	4,512
Other liabilities (note 6)	4,550	4,652
	132,065	145,112
NET FINANCIAL ASSETS	68,753	60,464
NON-FINANCIAL ASSETS		
Tangible capital assets (note 7)	583,911	583,177
Prepaid expenses	2,340	2,772
Other non-financial assets	1,464	1,553
	587,715	587,502
ACCUMULATED SURPLUS	656,468	647,966

The notes are an integral part of the financial statements.

NATIONAL CAPITAL COMMISSION
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS (UNAUDITED)
(in thousands of dollars)

	Annual Budget 2013-2014	Three months ended September 30 2013	Three months ended September 30 2012	Six months ended September 30 2013	Six months ended September 30 2012
(note 2)					
REVENUES (note 11)					
Rental operations and easements	19,427	5,313	4,895	10,098	9,702
Interest	2,665	584	596	1,159	1,172
Sponsorship					
Monetary	595	433	485	738	816
Goods and services	120	10	34	24	67
Headquarters sublease	2,022	574	607	1,148	1,106
User access fees	1,900	588	549	1,107	1,095
Recoveries	3,130	1,724	1,375	3,682	3,339
Other revenues	1,176	235	140	476	1,421
	31,035	9,461	8,681	18,432	18,718
EXPENSES (note 8)					
Capital Planning	4,799	1,418	1,108	2,754	2,294
Capital Stewardship and Protection	78,655	16,495	18,010	32,725	36,758
Capital Experience (note 11)	20,789	7,932	6,742	15,539	15,150
Internal Services	29,071	7,254	7,215	14,622	14,890
	133,314	33,099	33,075	65,640	69,092
Deficit before funding from the Government of Canada		(102,279)	(23,638)	(24,394)	(47,208)
					(50,374)
Funding from the Government of Canada (note 11)					
Parliamentary appropriations for operating expenditures (note 9)	72,153	19,627	23,768	39,255	46,851
Parliamentary appropriations for tangible capital assets (note 9)	37,565	8,228	8,135	16,455	16,270
	109,718	27,855	31,903	55,710	63,121
Surplus for the period		7,439	4,217	7,509	8,502
					12,747
Accumulated surplus at beginning of the period		647,966	652,251	649,659	647,966
					644,421
Accumulated surplus at end of the period		655,405	656,468	657,168	656,468
					657,168

The notes are an integral part of the financial statements.

NATIONAL CAPITAL COMMISSION
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS (UNAUDITED)
(in thousands of dollars)

	2013-2014 Annual budget	Three months ended September 30 2013	Three months ended September 30 2012	Six months ended September 30 2013	Six months ended September 30 2012
	(note 2)				
Surplus for the period	7,439	4,217	7,509	8,502	12,747
Acquisition and improvements of tangible capital assets (note 7)	(29,744)	(6,235)	(6,983)	(11,014)	(15,031)
Amortization of tangible capital assets (note 7)	17,891	4,287	5,273	8,584	10,529
(Net gain)/ loss on disposal of tangible capital assets	(700)	(5)	3	(16)	(716)
Proceeds from disposal of tangible capital assets	1,000	-	-	41	919
Loss on transfer of tangible capital assets to Canadian Heritage	-	1,671	-	1,671	-
	(11,553)	(282)	(1,707)	(734)	(4,299)
Change in prepaid expenses	-	1,118	2,259	432	338
Change in other non-financial assets	177	44	45	89	89
	177	1,162	2,304	521	427
Increase (decrease) in net financial assets	(3,937)	5,097	8,106	8,289	8,875
Net financial assets at beginning of the period	60,464	63,656	56,352	60,464	55,583
Net financial assets at end of the period	56,527	68,753	64,458	68,753	64,458

The notes are an integral part of the financial statements.

NATIONAL CAPITAL COMMISSION
STATEMENT OF CASH FLOWS (UNAUDITED)
(in thousands of dollars)

	Three months ended September 30 2013	Six months ended September 30 2013	Six months ended September 30 2012
OPERATING ACTIVITIES			
Cash receipts from parliamentary appropriations			
for operating expenditures	19,627	23,768	39,965
Cash receipts from rental operations and easements	4,967	5,113	13,712
Cash receipts from other operations	1,552	3,044	5,129
Cash paid to suppliers	(15,404)	(15,177)	(34,426)
Cash paid to employees	(16,626)	(12,859)	(31,095)
Interest received	843	772	1,465
Disbursements for contaminated sites	(113)	(112)	(194)
Cash flows provided (used) by operating activities	(5,154)	4,549	(5,444)
	4,914		
CAPITAL ACTIVITIES			
Cash receipts from parliamentary appropriations			
for tangible capital assets	8,227	8,135	16,455
Acquisition and improvements of tangible capital assets	(4,548)	(6,371)	(13,911)
Proceeds from disposal of tangible capital assets	-	-	41
Disbursements for environmental cleanup	(1,338)	(184)	(2,670)
Cash flows provided (used) by capital activities	2,341	1,580	(85)
	3,814		
INVESTING ACTIVITIES			
Cash receipts for Light Rail Transit project	252	-	500
Disbursements for investments purchased	(127)	(18,114)	(627)
Cash receipts from investments sold	17,263	8,612	17,663
Cash flows provided (used) by investing activities	17,388	(9,502)	17,536
	3,986		
Increase (decrease) in cash and cash equivalents	14,575	(3,373)	12,007
Cash and cash equivalents at beginning of the period	151,985	92,845	154,553
Cash and cash equivalents at end of the period	166,560	89,472	166,560
	89,472		
Represented by:			
Cash and cash equivalents	92,397	89,472	92,397
Cash and cash equivalents restricted to Light Rail Transit	74,163	-	74,163
	166,560	89,472	166,560
	89,472		

The notes are an integral part of the financial statements.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2013 (in thousands of dollars)

1. Authority and Objectives

The National Capital Commission (NCC) was established in 1959 by the *National Capital Act* (1958). The NCC is an agent Crown corporation without share capital, named in Part I of Schedule III to the *Financial Administration Act*, and is not subject to the requirements of the *Income Tax Act*. The objects and purposes of the NCC, as stated in the *National Capital Act* as amended in 1988, are the following:

- a. to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance; and
- b. to organize, sponsor or promote such public activities and events in the National Capital Region as will enrich the cultural and social fabric of Canada, taking into account the federal character of Canada, the equality of status of the official languages of Canada and the heritage of the people of Canada.

As at September 30, 2013, the National Capital Act was amended and the objects to organize, sponsor or promote such public activities and events were transferred to Canadian Heritage. See note 11 for more details.

The NCC is also responsible for the management and maintenance of the capital assets of the official residences located in the National Capital Region. It created the Canadiana Fund to encourage Canadians to participate in the enhancement of the state areas of the official residences through public donations of furnishings, paintings and works of art, or the funds to purchase them. Pieces chosen should reflect Canada's heritage, artistic traditions and historical associations, or complement the architectural style of a particular residence.

2. Significant Accounting Policies

BASIS OF ACCOUNTING

These financial statements are prepared in accordance with the Canadian public sector accounting standards (PSAS) established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, and reflect the policies below.

These quarterly financial statements should be read in conjunction with the annual audited financial statements dated March 31, 2013 and with the first quarter financial statements.

Both financial and non-financial assets are reported on the statement of financial position. Non-financial assets are normally employed to provide future services, and are charged to expense through amortization or upon utilization. Non-financial assets are not taken into consideration when determining the net financial assets, but rather are added to the net financial assets to determine the accumulated surplus.

No intangibles are recognized in the financial statements.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2013 (in thousands of dollars)

Measurement Uncertainty

The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of financial assets, liabilities and non-financial assets at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Provision for environmental cleanup, employee future benefits, unsettled land exchanges, estimated useful lives of tangible capital assets, write-down of capital assets and contingent liabilities are the most significant items for which estimates are used. Actual results could materially differ from those estimates.

Budget Figures (unaudited)

The 2013-2014 budget is presented in the statement of operations and accumulated surplus, and the statement of change in net financial assets. Budget figures are based mainly on 2013-2014 projections to be presented in the financial tables of the *2013-2014 to 2017-2018 Corporate Plan*, updated to reflect the change to the mandate of the NCC, as explained in note 11.

3. Cash and Cash Equivalents and Investments

The NCC's policy is to invest excess cash in guaranteed investment certificates, bankers' acceptances, guaranteed notes, term deposits, and securities of the Government of Canada or of a provincial government. These types of investments are purchased from a member of the Canadian Payments Association and are redeemable on short notice.

A. CASH AND CASH EQUIVALENTS

As at September 30, 2013, the cash and cash equivalents include \$92.4 million (\$80.9 million at March 31, 2013) in cash.

B. INVESTMENTS

As at March 31, 2013, short-term portfolio investments included bearer deposit notes, which amounted to \$17.3 million at a weighted average interest rate of 1.4 percent and had an average term-to-maturity of 12 months.

As at September 30, 2013, long-term portfolio investments included bonds of the Government of Canada and of provincial governments, which amounted to \$27.9 million (\$27.8 million at March 31, 2013) at a weighted average interest rate of 3.7 percent (3.7 percent at March 31, 2013).

	September 30 2013		March 31, 2013	
	Cost	Quoted Market Value	Cost	Quoted Market Value
Federal government	698	700	940	946
Provincial governments	27,036	28,076	26,742	28,483
Bearer deposit notes	-	-	17,263	17,272
Other	142	142	150	150
	27,876	28,918	45,095	46,851

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2013 (in thousands of dollars)

C. DESIGNATED FUNDS

As at September 30, 2013, included in the cash and cash equivalents and the long-term portfolio investments mentioned above, \$55.7 million (\$38.8 million at March 31, 2013) and \$8.3 million (\$8.2 million at March 31, 2013), respectively, are designated. At March 31, 2013, \$17.3 million of short-term portfolio investment were as well designated. These investments include funds whose use is designated or limited to the sole purpose for which they have been segregated.

4. Light Rail Transit

The following table presents in detail the amounts received and the related interest that are included in the financial assets under “Cash and cash equivalent restricted to light rail transit” and in the liability under “light rail transit”:

		September 30, 2013	March 31, 2013
	Amount received	Interests	Total
Security deposit	49,000	442	49,442
Performance deposit	24,500	221	24,721
Total	73,500	663	74,163
			73,663

5. Employee Future benefits

The NCC provided severance benefits to its employees, based on years of service and final salary. The severance benefits will no longer accrue as per the new collective agreement signed in February 2013 and the NCC undertook the severance benefits payment to employees who made the request.

The NCC also provides workers' compensation benefits, based on benefits determined by the Workplace Safety and Insurance Board of Ontario. The value of the accrued obligation for workers' compensation is determined using data from the Workplace Safety and Insurance Board of Ontario.

The accrued benefit obligation for these plans amounts to \$4.4 million (\$10.1 million at March 31, 2013) and is disclosed in the table below. These other benefit plans are not pre-funded, and thus have no assets, resulting in a plan deficit equal to the accrued benefit obligation. Benefits will be paid from the NCC's future appropriations and other sources of revenue. Information about the plan, measured as at the statement of financial position date, is as follows:

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2013 (in thousands of dollars)

	September 30, 2013	March 31, 2013
Accrued benefit obligation, beginning of the period	10,124	8,603
Cost for the period	-	1,087
Adjustment due to plan change	-	1,873
Adjustment due to the employees transfer to Canadian Heritage	(434)	-
Benefits paid during the period	(5,334)	(1,439)
Accrued benefit obligation, end of the period	4,356	10,124

6. Other Liabilities

Other liabilities comprise the following:

	September 30, 2013	March 31, 2013
Deferred rent inducement	1,127	1,217
Unsettled land exchanges ¹	2,626	2,626
Unsettled expropriation ²	181	179
Other liabilities	616	630
	4,550	4,652

1. The unsettled land exchanges will be completed when the third parties involved in the exchanges will be ready to receive the goods and/or services under the agreements.

2. The unsettled expropriation is payable on demand.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2013 (in thousands of dollars)

7. Tangible Capital Assets

	COST			ACCUMULATED AMORTIZATION						
	Opening Balance	Acquisitions	Disposals / Adjustments	Closing Balance	Opening Balance	Amortization expense	Disposals / Adjustments	Closing Balance	Net Book Value September 30, 2013	Net Book Value March 31, 2013
Land ¹	282,500	837	-	283,337	-	-	-	-	283,337	282,500
Buildings and Infrastructure ²	685,062	9,880	198	694,744	394,552	7,399	3	401,948	292,796	290,510
Leasehold improvements	11,892	-	-	11,892	7,547	284	-	7,831	4,061	4,345
Equipment	21,109	297	7,022	14,384	15,287	901	5,521	10,667	3,717	5,822
	1,000,563	11,014	7,220	1,004,357	417,386	8,584	5,524	420,446	583,911	583,177

1. The land cost include \$1.8 million (\$1.8 million at March 31, 2013) of unsettled expropriation and land exchanges.

2. The total cost of buildings and infrastructure includes \$33.7 million (\$25.6 million at March 31, 2013) of construction in progress. When completed, the cost of these projects will be amortized on the basis on their estimated useful life.

8. Expenses by Object

Summary of expenses by object:

Annual Budget (note 2)	Three months ended September 30		Six months ended September 30	
	2013-2014	2013	2013	2012
Salaries and employee benefits	41,820	11,776	12,487	23,360
Goods and services	64,223	13,819	12,755	28,296
Goods and services in-kind	120	10	34	24
Payments in lieu of municipal taxes	9,260	2,204	2,523	4,373
Amortization	17,891	4,287	5,273	8,584
Net loss on disposal of tangible capital assets	-	-	3	-
Net loss on transfer to Canadian Heritage	-	1,003	-	1,003
	133,314	33,099	33,075	65,640
				69,092

Antiques, works of art and monuments acquired or built by the NCC and those donated to the Canadiana Fund are not recorded as tangible capital assets. Assets acquired or built by the NCC are recorded as expenses and are included under “Goods and services” in the table above, whereas those donated to the Canadiana Fund or to the NCC are recorded as expenses, and are included under “Goods and services in-kind.” For the period ended September 30, 2013, antiques, works of art and monuments amounted to \$0.3 million (\$0.3 million at September 30, 2012).

9. Parliamentary Appropriations

	Three months ended September 30		Six months ended September 30	
	2013	2012	2013	2012
Parliamentary appropriations received during the period				
for operating expenditures ¹	19,627	23,768	39,255	46,851
Parliamentary appropriations received during the period				
for tangible capital assets ²	8,228	8,135	16,455	16,270
Parliamentary appropriations recorded during the period	27,855	31,903	55,710	63,121

1. As at September 30, 2013 and 2012, the amounts approved for the years ending March 31, 2014 and 2013 totaled \$83.5 million and \$94.0 million respectively.

2. As at September 30, 2013 and 2012, the amounts approved for the years ending March 31, 2014 and 2013 totaled \$37.9 million and \$32.5 million respectively.

10. Contingent Liabilities

CLAIMS

Claims have been made against the NCC, totalling a net amount of approximately \$7.0 million (\$5.3 million in 2013), excluding interest and other costs, for alleged damages and other matters. The final outcome of these claims is not determinable and, accordingly, these items are not recorded in the accounts. In the opinion of management, the position of

the NCC is defensible. Settlements, if any, resulting from the resolution of these claims will be accounted for in the year in which the liability is determinable.

11. Change to the Objects of the NCC

The government of Canada announced on March 21, 2013, that the mandate to promote Canada's Capital Region will be transferred from the NCC to Canadian Heritage. Bill C-60, which received Royal Assent on June 26, 2013, states that the organization, sponsorship and promotion of public activities and events that will enrich the cultural and social fabric of Canada, taking into account the deferral character of Canada, the equality of status of the official languages of Canada and the heritage of the people in Canada (activity and event mandate) was transferred from the NCC to Canadian Heritage. The bill specifies the transitional provisions to follow. These dispositions, which came into force on September 30, 2013, are as follows:

- i. Every employee of the NCC whose functions relate to the activity and event mandate was deemed to be a person appointed to a position in the Department of Canadian Heritage.
- ii. Any money that is appropriated and unexpended for the fiscal year and is related to the activity and event mandate, was deemed to have been appropriated to defray any operating expenditures of the Department of Canadian Heritage.
- iii. On September 30, 2013,
 - a. the NCC's assets were transferred to the Minister of Canadian Heritage;
 - b. the NCC's obligations were assumed by the Minister of Canadian Heritage;
 - c. permits, licences and other authorizations issued to the NCC were transferred to the Minister of Canadian Heritage; and
 - d. permits, licences and other authorizations issued by the NCC were deemed to have been issued by the Minister of Canadian Heritage.
- iv. Any action, suit or other legal proceeding to which the NCC is party that was pending in any court on September 30, 2013 and that relates to the activity and event mandate was continued by or against the Minister of Canadian Heritage in the same manner and to the same extent as it could have been continued by or against the NCC.

Further to analyzing the impact of this bill, the revenues as of September 30, 2013 related to the transferred activities totaled \$3.0 million (\$2.9 million at September 30, 2012) and the funding from the Government of Canada totaled \$7.6 million (\$7.6 million at September 30, 2012), while expenses totaled 10.6 million (\$10.5 million at September 30, 2012). An additional net loss of \$1.0 million was recorded regarding the loss on disposal of tangible capital assets to Canadian Heritage as well as a gain for a write-off on wage liabilities pertaining to transferred employees.