

NATIONAL CAPITAL COMMISSION

QUARTERLY FINANCIAL REPORT FOR THE PERIOD

ENDED 30 SEPTEMBER 2015

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NATIONAL CAPITAL COMMISSION

Second Quarter Narrative Discussion

For the Period Ended 30 September 2015

Financial Results

By the end of the second quarter of the 2015–2016 financial year, NCC revenues had increased by \$0.3 million or 2% over the same period ended 30 September 2014. The increase was due primarily to increases from rental operations and easements. The recovery budget includes two commemoration projects that are deferred to next fiscal year (total of \$7.0 million) as well a net gain on disposal of capital assets that has not materialized as of the close of the second quarter (\$3.6 million). Overall, the balance of other revenues is trending on budget (Page 33, Summary of the NCC Corporate Plan 2015–2016 to 2019–2020).

Operating expenses are lower by 15% (\$9.9 million), compared with the prior year, due principally to higher expenses in 2014 as a result of the contribution to the City of Gatineau for the Jacques-Cartier Street Initiative (\$10.0 million). Current year expenses are lower than budget due primarily to two commemoration projects that are deferred to next fiscal year (total budget of \$10.3 million). Other expenses are trending on budget (Page 33, Summary of the NCC Corporate Plan 2015–2016 to 2019–2020).

Expenditures for the acquisition and improvements of tangible capital assets at the end of the second quarter are \$1.7 million higher compared with the same period last year due to the NCC Business Optimization project. Expenditures for the acquisition and improvements of tangible capital assets are trending on budget (Page 39, Summary of the NCC Corporate Plan 2015–2016 to 2019–2020).

Risk Analysis

The change in government will impact on short term operations and operating budgets due to relocations and the consequential work which will be undertaken within the Official Residences Portfolio. Funding priorities are subject to change which could impact on projects currently in progress, and the possibility of new initiatives being added (or existing priorities deleted), reflective of the new Government's priorities.

Significant Changes Related to Operations, Personnel and Programs

On 30 September, the Executive Director of Corporate Services and Chief Financial Officer announced his resignation effective 31 October 2015. The process to recruit a replacement is already underway.

No significant changes with regard to NCC operations or programs occurred during the quarter ended 30 September 2015.

Use of Parliamentary Appropriations

The NCC receives its funding and revenues from a number of sources: parliamentary appropriations, rental operations and easements, investment revenues, user access fees, cost recoveries and other revenues. The NCC draws down its parliamentary appropriations according to cash flow projections provided to the Minister of Employment and Social Development. As the nature of expenditures are not constrained by source of funding, the direct matching of appropriations received and receivable to specific use is not applicable.

Additional details as to the use of the parliamentary appropriations can be found in the NCC's Quarterly Financial Statements at 30 September 2015 (Note 10).

Unaudited Financial Statements

For the six months ended 30 September 2015

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 contained 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.



Dr. Mark Kristmanson
Chief Executive Officer



Diane McCullagh
Acting, Executive Director, Corporate Services and
Chief Financial Officer

Ottawa, Canada
26 November 2015

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

	30 September 2015	31 March 2015
FINANCIAL ASSETS		
Cash and cash equivalents (Note 3)	95,483	97,556
Restricted cash and cash equivalents - Light Rail Transit (Note 4)	62,167	68,108
Accounts receivable		
Federal government departments and agencies	3,923	3,605
Others	2,820	3,685
Investments (Note 3)	18,966	18,831
	183,359	191,785
LIABILITIES		
Accounts payable and accrued liabilities		
Federal government departments and agencies	616	671
Others	17,410	16,260
Light Rail Transit (Note 4)	59,924	66,669
Provision for environmental cleanup	43,699	43,850
Deferred revenue (Note 5)	11,127	12,061
Employee future benefits (Note 6)	3,303	3,674
Other liabilities (Note 7)	1,948	2,036
	138,027	145,221
NET FINANCIAL ASSETS	45,332	46,564
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 8)	599,884	594,908
Prepaid expenses	2,515	2,558
Other non-financial assets	1,660	1,749
	604,059	599,215
ACCUMULATED SURPLUS	649,391	645,779

The notes are an integral part of the financial statements.

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

	2015-2016 Annual Budget (Note 2)	Three months ended 30 September		Six months ended 30 September	
		2015	2014	2015	2014
REVENUES					
Rental operations and easements	20,840	5,745	5,889	11,718	11,459
Interest	2,144	438	549	899	1,159
Headquarters sublease	2,216	646	566	1,264	1,131
User access fees	2,544	722	484	1,212	981
Recoveries	8,242	274	618	705	931
Other revenues	4,166	198	267	540	423
	40,152	8,023	8,373	16,338	16,084
EXPENSES (Note 9)					
Capital Planning	2,584	923	973	1,851	1,908
Capital Stewardship and Protection	92,124	19,337	19,658	38,383	48,874
Internal Services	33,744	8,195	7,989	15,976	15,284
	128,452	28,455	28,620	56,210	66,066
Deficit before funding from the Government of Canada	(88,300)	(20,432)	(20,247)	(39,872)	(49,982)
Funding from the Government of Canada					
Parliamentary appropriations for operating expenditures (Note 10)	69,056	14,771	16,184	31,503	32,368
Parliamentary appropriations for tangible capital assets (Note 10)	23,665	6,342	5,907	11,981	11,815
	92,721	21,113	22,091	43,484	44,183
Surplus (deficit) for the period	4,421	681	1,844	3,612	(5,799)
Accumulated surplus at beginning of the period	659,632	648,710	655,906	645,779	663,549
Accumulated surplus at end of the period	664,053	649,391	657,750	649,391	657,750

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)

	2015-2016 Annual budget (Note 2)	Three months ended 30 September		Six months ended 30 September	
		2015	2014	2015	2014
Surplus (deficit) for the period	4,421	681	1,844	3,612	(5,799)
Acquisition and improvements of tangible capital assets (Note 8)	(29,997)	(8,872)	(5,763)	(13,534)	(10,630)
Amortization of tangible capital assets (Note 8)	17,619	4,313	4,338	8,556	8,725
Net loss/(gain) on disposal of tangible capital assets	(3,570)	-	-	(117)	617
Proceeds from disposal of tangible capital assets	5,100	-	-	119	-
	(10,848)	(4,559)	(1,425)	(4,976)	(1,288)
Change in prepaid expenses	-	2,098	1,937	43	(168)
Change in other non-financial assets	177	45	45	89	89
	177	2,143	1,982	132	(79)
(Decrease) Increase in net financial assets	(6,250)	(1,735)	2,401	(1,232)	(7,166)
Net financial assets at beginning of the period	57,978	47,067	63,620	46,564	73,187
Net financial assets at end of the period	51,728	45,332	66,021	45,332	66,021

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 30 September		Six months ended 30 September	
	2015	2014	2015	2014
OPERATING ACTIVITIES				
Cash receipts from parliamentary appropriations for operating expenditures	19,994	21,579	32,424	38,158
Cash receipts from rental operations and easements	4,468	5,173	8,988	10,601
Cash receipts from other operations	2,524	1,832	3,928	6,640
Cash paid to suppliers	(13,000)	(10,658)	(30,249)	(38,851)
Cash paid to employees	(10,143)	(10,209)	(19,294)	(19,743)
Interest received	489	621	1,143	1,341
Disbursements for contaminated sites	(251)	(442)	(392)	(718)
Cash flows provided (used) by operating activities	4,081	7,896	(3,452)	(2,572)
CAPITAL ACTIVITIES				
Disbursements for light rail transit project	(6,125)	-	(6,125)	-
Cash receipts from parliamentary appropriations for tangible capital assets	8,037	7,876	11,981	13,784
Acquisition and improvements of tangible capital assets	(5,852)	(4,113)	(10,271)	(9,538)
Proceeds from disposal of tangible capital assets	-	-	119	-
Disbursements for environmental cleanup	(55)	(1,004)	(180)	(1,184)
Cash flows (used) provided by capital activities	(3,995)	2,759	(4,476)	3,062
INVESTING ACTIVITIES				
Cash receipts for light rail transit project	185	255	389	507
Disbursements for light rail transit project	(205)	-	(205)	-
Disbursements for investments purchased	(75)	(109)	(670)	(719)
Cash receipts from investments sold	-	3,500	400	4,000
Cash flows (used) provided by investing activities	(95)	3,646	(86)	3,788
(Decrease) Increase in cash and cash equivalents	(9)	14,301	(8,014)	4,278
Cash and cash equivalents at beginning of the period	157,659	160,088	165,664	170,111
Cash and cash equivalents at end of the period	157,650	174,389	157,650	174,389
Represented by:				
Cash and cash equivalents	95,483	99,203	95,483	99,203
Cash and cash equivalents restricted to Light Rail Transit	62,167	75,186	62,167	75,186
	157,650	174,389	157,650	174,389

The notes are an integral part of the financial statements.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

For the period ended 30 September 2015

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, listed in Part I of Schedule III to the Financial Administration Act, and is not subject to the requirements of the Income Tax Act. The objectives and purpose of the NCC, as stated in the National Capital Act (amended in 2013), are 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.

The NCC is also responsible for the management and maintenance of the tangible 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 funds with which to purchase them. Chosen pieces 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 (PSAB), and reflect the policies which follow.

These quarterly financial statements should be read in conjunction with the annual audited financial statements dated 31 March 2015 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.

Measurement Uncertainty

The preparation of financial statements in accordance with 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. Estimated useful lives of tangible capital assets, unsettled land exchanges, provisions for environmental cleanup, employee future benefits, write downs of tangible capital assets and contingent liabilities are the most significant items for which estimates are used. Actual results could materially differ from those estimates.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

For the period ended 30 September 2015

Budget Figures

The 2015-2016 budget is presented in the Statement of Operations and Accumulated surplus, and the Statement of Change in Net Financial Assets. Budget data presented in these financial statements is based upon the 2015-2016 projections and estimates used to establish the financial tables presented in the NCC's 2015–2016 to 2019–2020 Corporate Plan.

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 provincial governments. 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 30 September 2015, the cash and cash equivalents mentioned above, include \$95.5 million (\$97.6 million as at 31 March 2015) in cash, and generated a weighted average interest rate of 1.1 percent (1.4 percent as at 31 March 2015).

B. INVESTMENTS

As at 30 September 2015, long-term portfolio investments include bonds of the Government of Canada and of provincial governments, which amounted to \$19.0 million (\$18.8 million as at 31 March 2015), and generated a weighted average interest rate of 3.8 percent (3.8 percent as at 31 March 2015).

(in thousands of dollars)	30 September 2015		31 March 2015	
	Cost	Quoted Market Value	Cost	Quoted Market Value
Federal government	250	250	254	254
Provincial governments	18,716	20,296	18,577	20,555
	18,966	20,546	18,831	20,809

C. DESIGNATED FUNDS

As at 30 September 2015, \$50.9 million (\$51.6 million as at 31 March 2015) in designated funds are included in the Cash and Cash Equivalents total. The use of these funds is designated or limited to a specific purpose.

4. Light Rail Transit

On 30 June 2015, as per the memorandum of understanding dated 9 October 2012, the NCC and the City of Ottawa signed a transfer agreement outlining each party's property rights necessary to enable the completion of the project on or before 31 December 2019. Included in the transfer agreement are the final resolutions with respect to various historically transferred land conventions dated 1984, 1996, and 2006, known as "the Legacy Agreements".

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

For the period ended 30 September 2015

The following table presents the amounts received as at 30 September 2015, as well as the interest earned in the period. Interest of \$0.4 million (\$0.2 million as at 30 September 2014) has been recorded and is included in the financial assets under “Restricted cash and cash equivalents - Light Rail Transit” and under the “Light Rail Transit” liability.

The “Restricted cash and cash equivalents - Light Rail Transit” under financial assets, is as follows.

(in thousands of dollars)

	31 March 2015	Amount		30 September 2015
	Total	returned	Interest	Total
Security deposit	50,454	-	288	50,742
Performance deposit	17,654	(6,330)	101	11,425
Total	68,108	(6,330)	389	62,167

As at 30 September 2015, the NCC has recognized revenues totalling \$0.8 million (\$0.5 million as at 30 September 2014) for access to the light rail transit properties for a limited time. In addition, on 31 July 2015, the NCC returned \$6.1 million plus accrued interest to the City. The “Light Rail Transit” liability has been reduced accordingly and totals \$59.9 million (\$66.7 million as at 31 March 2015).

5. Deferred revenue

Deferred revenues comprise the following.

(in thousands of dollars)

	30 September 2015	31 March 2015
Deferred rental revenues	8,195	8,408
Deferred easement and license of occupation revenues	1,793	2,863
Other deferred revenues	1,139	790
	11,127	12,061

The Deferred rental revenue represents mainly the present value of the minimum future lease payments that the NCC has collected under land lease agreements. The present value for the current agreements was established using discount rates of 4.27 percent, 6.01 percent and 6.5 percent. This deferred rental revenue will be recognized in income over the term of the lease agreements, which have different termination dates, with the latest ending in 2068.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

For the period ended 30 September 2015

6. Employee Future benefits

As severance benefits ceased to accumulate effective with the signing of the new collective agreement in February 2013, the severance benefit remaining as at 30 September 2015 represents the obligation for employees who decided to delay the payment until the time of termination.

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 \$3.3 million (\$3.7 million as at 31 March 2015) and is detailed 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.

(in thousands of dollars)

	30 September 2015	31 March 2015
Accrued benefit obligation, beginning of the period	3,674	4,243
Cost for the period	-	(21)
Benefits paid during the period	(371)	(548)
Accrued benefit obligation, end of the period	3,303	3,674

7. Other Liabilities

Other liabilities are composed of the following.

(in thousands of dollars)

	30 September 2015	31 March 2015
Deferred rent inducement	761	852
Unsettled land exchange ¹	1,000	1,000
Unsettled expropriation ²	187	184
	1,948	2,036

1. The unsettled land exchange will be completed when the third party involved in the exchange is ready to receive the goods and/or services under the agreement.

2. The unsettled expropriation is payable on demand.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

For the period ended 30 September 2015

8. Tangible Capital Assets

(in thousands of dollars)

	COST				ACCUMULATED AMORTIZATION				Net Book Value 30 September 2015	Net Book Value 31 March 2015
	Opening Balance	Acquisitions	Disposals / Adjustments	Closing Balance	Opening Balance	Amortization expense	Disposals / Adjustments	Closing Balance		
Land ¹	292,614	634	6	293,242	-	-	-	-	293,242	292,614
Buildings and Infrastructure ²	718,687	11,290	14	729,963	421,812	7,768	17	429,563	300,400	296,875
Leasehold improvements	11,937	-	-	11,937	8,744	305	-	9,049	2,888	3,193
Equipment	13,396	1,610	31	14,975	11,170	483	32	11,621	3,354	2,226
	1,036,634	13,534	51	1,050,117	441,726	8,556	49	450,233	599,884	594,908

1. The land cost includes \$0.2 million (\$0.2 million as at 31 March 2015) of unsettled expropriation and land exchange liabilities.

2. The total cost of buildings and infrastructure includes \$29.7 million (\$18.9 million as at 31 March 2015) of construction in progress. When completed, the cost of these projects will be amortized on the basis on their estimated useful life.

9. Expenses by Object

The following provides a summary of expenses by object.

	2015-2016	Three months ended		Six months ended	
	Annual Budget	30 September		30 September	
	(Note 2)	2015	2014	2015	2014
Goods and services	62,551	12,323	12,379	24,703	33,696
Salaries and employee benefits	39,132	9,438	9,597	18,288	18,372
Amortization	17,619	4,313	4,338	8,556	8,725
Payments in lieu of municipal taxes	9,150	2,381	2,306	4,663	4,656
Net loss on disposal of tangible capital assets	-	-	-	-	617
	128,452	28,455	28,620	56,210	66,066

Antiques, works of art and monuments acquired or built by the NCC and those donated to the Canadiana Fund or the NCC are not recorded as tangible capital assets but as expenses, and are included under "Goods and services." For the period ended 30 September 2015, antiques, works of art and monuments totaled \$0.2 million (\$0.6 million as at September 30 2014).

10. Parliamentary Appropriations

	Three months ended		Six months ended	
	30 September		30 September	
	2015	2014	2015	2014
Parliamentary appropriations received during the period for operating expenditures¹	14,771	21,579	31,503	37,763
Less: Parliamentary appropriations received in advance	-	(5,395)	-	(5,395)
	14,771	16,184	31,503	32,368
Parliamentary appropriations received during the period for tangible capital assets²	6,342	7,876	11,981	13,784
Less: Parliamentary appropriations received in advance	-	(1,969)	-	(1,969)
	6,342	5,907	11,981	11,815
Parliamentary appropriations recorded during the period	21,113	22,091	43,484	44,183

1. As at 30 September 2015 and 2014, the amounts approved for the years ending 31 March 2016 and 2015 totaled \$69.1 million and \$64.7 million respectively.

2. As at 30 September 2015 and 2014, the amounts approved for the years ending 31 March 2016 and 2015 totaled \$23.6 million each year.

11. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.