



Canada Council  
for the Arts

Conseil des arts  
du Canada

Quarterly

# Financial Report

**Unaudited**

Period ended December 31, 2016  
Published February 28, 2017

Bringing the arts to life  
De l'art plein la vie



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# Management Discussion and Analysis

## Quarterly Report

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## INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the nine-month period ended December 31, 2016 as set out in the accompanying unaudited quarterly financial statements. Those statements are disclosed in accordance with the requirements of section 131.1 of the Financial Administration Act and are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

Management is responsible for the information presented in the unaudited quarterly financial statements and in this narrative discussion, both of which have been reviewed and endorsed by the Audit and Finance Committee of the Council's Board of Directors. In assessing what information is to be provided in the narrative discussion, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the decisions of the primary user of this information, the Government of Canada.

This discussion contains "forward-looking statements" that reflect management's expectations regarding the Council's results of operations. These statements are not facts but only estimates based upon information and assumptions that are currently available to, or made by, management and which are subject to a number of risks and uncertainties. These and other factors may cause actual results to differ substantially from the expectations stated or implied in the forward-looking statements.

The Financial Administration Act does not require the Council to file a Corporate Plan with the Government of Canada. Therefore, neither this narrative discussion nor the unaudited quarterly financial statements disclose a comparison of results against the Council's Corporate Plan. As required by PSAS, the unaudited quarterly financial statements provide comparisons to the Council's approved annual budget for the year.

## HIGHLIGHTS

On October 1, 2016, the Canada Council invited the public to partake in activities in its *Âjagemô* exhibition space at 150 Elgin Street in Ottawa as part of its celebration of *Culture Days*—an annual three-day national celebration that invites Canadians to participate in free, interactive and "behind the scenes" cultural activities. Throughout the day, staff from the Council engaged members of the public with tours of its exhibition *Punctured Landscape*, an artist-led watercolour activity, and conversations about the Council's New Funding Model.

On October 19, 2016, the Council's Director and CEO, Simon Brault, gave a speech at the International Federation of Arts Councils and Culture Agencies (IFACCA) 7th World Summit in Malta. Mr. Brault's speech responded to a question posed to a panel of experts: "What are the key drivers of change and who are today's leaders?" [A transcript of the speech](#) was posted on the Council's webpage. Mr. Brault was also elected to the IFACCA Board of Directors.

On October 20, 2016, the Council announced its plans to release quarterly listings of grant recipients through its [Disclosure of Grant and Prize Recipients](#) tool. This open data tool provides downloadable information on all grants and prizes awarded by the Council. The database was last updated in November 2016.

On October 25, 2016, the Council announced the winners of the 2016 Governor General's Literary Awards (GGLAs). The Canada Council hosted public readings on November 30, 2016, for the French-language winners and on December 1, 2016, for the English-language winners. Alongside the 2016 awards, the Council also celebrated the 80th anniversary of the GGLAs. A key component of the celebrations was an exhibition titled *People, Places and Things* in the Council's *Âjagemô* exhibition space, a retrospective of the more than 700 books that have been awarded a GGLA; the exhibition opened on October 25, 2016, and it will close on March 3, 2017.

On November 4, 2016, the Council announced the recipients for several of the prizes which it administers:

- Choreographer and dancer Marie Chouinard received the Walter Carsen Prize for Excellence in the Performing Arts;
- Composer Cassandra Miller received the Jules Léger Prize for New Chamber Music for the work *About Bach 2015*;
- Writer Geneviève Blouin received a Canada-Japan Literary Award for the work *Hanaken : le sang des samourais*, and writer Lynne Kutsukake also received a Canada-Japan Literary Award for the work *The Translation of Love*;
- The George R. Gardiner Museum of Ceramic Art received the York Wilson Endowment Award for the acquisition of *Lying Down Cow (La vache couchée)* by Joe Fafard; and,
- Choreographer, dancer and arts educator Yvonne Ng received the Jacqueline Lemieux Prize.

On November 14, 2016, the Council released additional information on how it will optimize the federal government's \$550 million dollar investment in the Council between 2016 and 2021. This information was conveyed through an open letter from the Council's Director and CEO, Simon Brault, an ebulletin distributed to the artistic community, a video posted on the Council's website, and coverage in several media sources. The information emphasized four key points: (1) the Council will increase its support of artists, groups and organizations, including a commitment of 25% of new funds going to new recipients; (2) the Council will amplify the scale and sharing of art by an investment of \$88.5 million in a digital fund; (3) the Council is committed to renewing the relationship between Indigenous and non-Indigenous artists and audiences by investing in Indigenous creation in all its forms—almost tripling the Council's support to Indigenous creation; and (4) the Council intends to expand the impact of Canadian art and artists by enhancing their presence and profile abroad by doubling its investment in this area.

From November 20 to 25, 2016, Mr. Brault attended an International Seminar on Public and Private Investment in Culture organized by The National Arts Fund of Argentina in Buenos Aires. The seminar included a session for Canadian artists to work in Argentina at the Canadian Embassy in Buenos Aires.

## Net Results

(in thousands of dollars)	Three months ended December 31				Nine months ended December 31			
	2016	2015	Increase/ (Decrease)	% change	2016	2015	Increase/ (Decrease)	% change
Revenue	6,164	17,691	(11,527)	-65%	11,282	20,688	(9,406)	-45%
Expenses	(15,777)	(12,887)	2,890	22%	(154,200)	(147,026)	7,174	5%
Government funding	52,927	34,500	18,427	53%	176,227	157,500	18,727	12%
<b>Surplus for the period</b>	<b>43,314</b>	<b>39,304</b>	<b>4,010</b>	<b>10%</b>	<b>33,309</b>	<b>31,162</b>	<b>2,147</b>	<b>7%</b>

### Overview of the Third Quarter Net Results

The surplus for the quarter was \$43.3M, an increase of \$4.0M over the third quarter of the previous fiscal year. This increase is mainly related to receipt of government funding, \$17.0M, related to the grants awarded through the New Chapter program which were approved only in January 2017. This increase was offset by a decrease of \$11.6M in net realized investment income for the current quarter compared to the same quarter last year. The decrease in net realized investment income is explained by two major factors. Firstly, the receipt last year of an unusually high dividend distribution of \$16.5M from one Global Equity manager. Secondly, the Council replaced two Equity managers which distributed income on a yearly basis in December, with new managers which now distribute the income on a quarterly basis therefore still one quarter of income remains to be distributed this fiscal year.

The surplus for the cumulative nine-month period was \$33.3M, an increase of \$2.1M over the surplus for the same period last year. The increase is related to the same variances explained for the quarter above - receipt of \$17.0M in government funding and a decrease of \$9.3M in net investment income for the nine-month period - offset by an increase of \$6.8M in grants expenses. The Council advanced the deadline for some competitions in its current programs to the current quarter, that normally would have taken place in the last quarter, to allow for a smoother transition to the New Funding Model resulting in higher distribution of grants during the nine-month period compared to same period last year.

The Council is forecasting savings in operations and a higher net realized investment income than the original approved budgeted. The forecasted savings will be reinvested in grants expenses.

## IMPORTANT CHANGES

### Program

On December 1, 2016, the Council launched the web portal for its New Funding Model and invited artists and arts organizations to create their profiles on the portal so that they can apply to the new programs once they are launched in April 2017.

The New Chapter program which was launched in May 2016 has experienced extraordinary response from the arts community. The Council received 2,225 applications for a total requested amount of more than \$440M over the two competition deadlines. The 52 successful projects from the first competition, out of a total of 552 applications, will share approximately 25% of the grant budget of \$33.4M, their grants ranging from \$50K to \$375K following the evaluations of peer assessment committees.

### Leadership and Governance

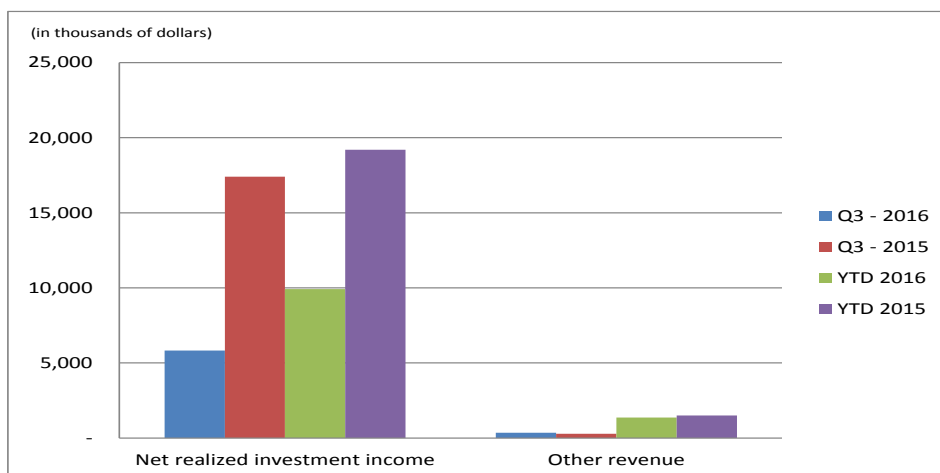
In November 2016, Steven Loft, a Mohawk of the Six Nations of the Grand River, was named the first Director of the *Creating, Knowing and Sharing: The Arts and Cultures of First Nations, Inuit and Métis Peoples* program.

In October 2016, the Council posted a notice of opportunity on the Governor in Council (GIC) Appointments website, as well as on its website and social media pages, for people interested in serving on the Council's Board. An e-bulletin was also sent to the arts community. The deadline to apply was October 31, 2016.

## FINANCIAL RESULTS

The following section provides further detail and explanation of financial results presented in the quarterly financial statements:

### Revenue



## Net Realized Investment Income

Net investment income for the quarter is lower by \$11.6M compared to the same period last year, due to a lower distributed investment income. For the cumulative nine-month period, the net investment income is significantly lower by \$9.3M, compared to the same period last year. The decrease in net realized investment income is explained by two major factors. Firstly, the receipt last year of an unusually high dividend distribution of \$16.5M from one Global Equity manager. Secondly, the Council replaced two Equity managers which distributed income on a yearly basis in December, with new managers which now distribute the income on a quarterly basis so still one quarter of income remains to be distributed this fiscal year compared to the prior year.

The net realized investment income is still forecasted to be above the original budget by year end by approximately \$2M.

## Other Revenue

The other revenues for the quarter and year to date are comparable to the same periods last year. Those other revenues are expected to be aligned with the budget by year end.

## Expenses

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2016	2015	Increase/ (Decrease)	2016	2015	Increase/ (Decrease)
Grants, prizes and author payments	6,968	4,622	2,346	128,472	121,675	6,797
Transfer program delivery	4,116	3,753	363	12,084	11,631	453
Arts community services	319	459	(140)	638	1,115	(477)
Net Art Bank results	66	64	2	165	242	(77)
Canadian Commission for UNESCO	462	359	103	1,452	1,326	126
General administration	3,846	3,630	216	11,389	11,037	352
<b>Total</b>	<b>15,777</b>	<b>12,887</b>	<b>2,890</b>	<b>154,200</b>	<b>147,026</b>	<b>7,174</b>

## Grants, Prizes and Author Payments

Grant expenses for the quarter are higher compared to the same period last year due to the timing of competition deadlines which differ from the prior year. The nine-month period comparative demonstrates an increase of \$6.8M. The Council expects the annual grants expenses to be higher than the original budget of \$191.0M due to reinvestment of operational savings and higher distributed investment income.

## Arts Community Services

This expense is lower for the quarter and the last year's nine-month period due to the elimination of the international residencies program this year.

All other expenses are comparable both for the period and the cumulative nine-month period.

## Financial Assets

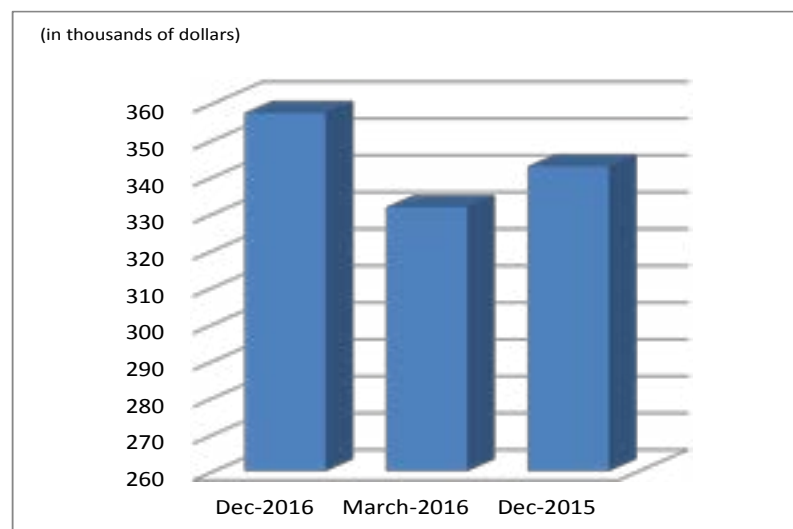
(in thousands of dollars)	December 31	March 31	Increase/ (Decrease)
	2016	2016	
Cash and cash equivalents	27,858	495	27,363
Accounts receivable	3,116	2,775	341
Portfolio investments	357,219	331,651	25,568
<b>Total</b>	<b>388,193</b>	<b>334,921</b>	<b>53,272</b>

## Cash and Cash Equivalents

The increase of \$27.4M in Cash and cash equivalents is explained by the receipt of \$17M in government funding related to the New Chapter program for which the grants were approved only in January 2017, and the increase of \$9.3M in liabilities since March 31, 2016.

## Portfolio Investments

The total market value of the portfolio as at December 31, 2016 was \$357.2M of which \$86.3M was externally restricted. This represents an increase of \$25.6M since March 31, 2016 and an increase of \$14.5M since December 31, 2015.



The total fund generated an absolute positive return of 1.9% for the quarter which was higher than the benchmark return by 0.7%. The main reason for this positive return is directly related to strong returns for the quarter from our Global and Canadian Equity investment managers which posted returns of 4.4% and 4.7%, respectively.

The total fund generated a one-year return of 6.3% which was higher than the benchmark by 0.8%. All asset classes posted positive returns for the one-year return. The Canadian Equity asset class (representing 10% of portfolio allocation) posted very strong return at 21.4% and the Global Equity asset class (representing 45% of portfolio allocation) was able to bounce back from a negative six month return of 6.9% at Q2 June 2016 and still post a positive return of 5.2% by end of December 2016.

## Liabilities

(in thousands of dollars)	December 31 2016	March 31 2016	Increase/ (Decrease)
Bank indebtedness	-	646	(646)
Grants, prizes and author payments payable	33,969	27,674	6,295
Accounts payable and accrued liabilities	1,400	3,486	(2,086)
Deferred revenues	6,755	6,877	(122)
Employee future benefits	3,215	2,909	306
Externally restricted contributions	45,057	39,501	5,556
<b>Total</b>	<b>90,396</b>	<b>81,093</b>	<b>9,303</b>

### Grants, Prizes and Author Payments Payable

The increase of \$6.3M in comparison to the value as at March 31, 2016 arises from the Council advancing the deadline for some competitions in its current programs to the current quarter, that normally would have taken place in the last quarter, to allow for a smoother transition to the New Funding Model resulting in higher distribution of grants still outstanding to be paid during the nine-month period compared to same period last year.

### Accounts Payable and Accrued Liabilities

The decrease of \$2.1M in comparison to the value as at March 31, 2016 is mainly due to a reduction of \$1.2M in commercial invoices due to the timing of the payment schedule and \$750K of retroactive pay accrued in March 2016 after the signing of a new collective agreement in February 2016.

## Non-Financial Assets

(in thousands of dollars)	December 31 2016	March 31 2016	Increase/ (Decrease)
Tangible capital assets	7,303	7,348	(45)
Art Bank assets	19,384	19,384	-
Musical instruments	1	1	-
Prepaid expenses	154	184	(30)
<b>Total</b>	<b>26,842</b>	<b>26,917</b>	<b>(75)</b>

### Art Bank Assets

The Council owns approximately 17,500 works of contemporary Canadian art within its Art Bank collection. At December 31, 2016 the appraised value of the Art Bank assets was approximately \$71M. The Council insures its Art Bank assets at their estimated appraised value.

### Musical Instruments

The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and nine prestigious musical instruments. In addition, the Council manages 13 instruments on loan. The appraised value of its musical instruments as at December 31, 2016 was \$41.8M US. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value.

## RISK MANAGEMENT

### Corporate Risk

In line with good governance practices, the Council updates and revises its Corporate Risk Profile on an ongoing basis, identifying and including any changes in the Council's risk environment. In order to address the risks within the Council's corporate risk profile that are outside the Council's appetite for risk, effective risk mitigation strategies and action plans are developed, under the oversight of assigned members of executive management, to reduce the risk exposure to an acceptable and manageable level.

In 2015-16, the Council reviewed its Corporate Risk Profile and also developed a new five-year Risk-Based internal Audit Plan that the Audit and Finance Committee endorsed at its June 2016 meeting. Executive management monitors progress on the implementation of the mitigation strategies and reports results to the Audit and Finance Committee on a regular basis.

### Financial Risk

The Council is exposed to a variety of financial risks mainly through its investment portfolio. The Council's investment portfolio is primarily exposed to price risk, interest rate risk and currency risk. The Investment Committee reviews the Council's investment policy annually and recommends changes in the asset mix allocation, if necessary, to the Board. This policy sets out the long term investment objectives and guidelines under which the portfolio is to be invested.

## USE OF PARLIAMENTARY APPROPRIATION

The following information is intended to supplement that provided elsewhere in this discussion regarding the Council's use of its Parliamentary appropriation.

The Council receives its main funding through an appropriation voted by Parliament. The Council records the Parliamentary appropriation received in the period as revenue in the Statement of Operations or as Deferred Parliamentary appropriations if they are for the month following the period end. The Council submits a monthly cash flow analysis to the Department of Canadian Heritage to justify its monthly drawdown cash requirements. The cash-flow requirements may not necessarily match the timing of expenses reported in the Statement of Operations. The monthly drawdown is invested in a short-term pooled fund managed by a professional investment manager from which the Council draws its daily cash requirements.

The Parliamentary appropriations approved and received by the Council during the nine-month period were as follows:

	December 31	
	2016	2015
(in thousands of dollars)		
Approved annual operating funding		
Vote 1 - Operating costs	182,097	182,097
Supplementary Estimates	40,127	-
	222,224	182,097
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the nine-month period	(176,227)	(157,500)
Deferred - Parliamentary appropriations	-	(9,000)
<b>Balance of operating funding to be received</b>	<b>45,997</b>	<b>15,597</b>



Canada Council  
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Quarterly

# Financial Statements

**Unaudited**

These financial statements for the quarter ended December 31, 2016 have not been audited or reviewed by our Auditor

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## Management's Responsibility for Financial Reporting

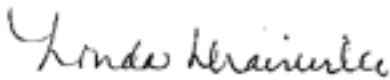
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the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

February 23, 2017



Simon Brault, O.C., O.Q., FCPA, FCGA  
Director and Chief Executive Officer



Linda Drainville, CPA auditor, CGA  
CFO, CSO and Director General, Corporate Services

## Statement of Financial Position

(Unaudited)

(in thousands of dollars)

	December 31	March 31
	2016	2016
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	\$ 27,858	\$ 495
Accounts receivable	3,116	2,775
Portfolio investments (Note 3)	357,219	331,651
<b>Total financial assets</b>	<b>388,193</b>	<b>334,921</b>
<b>LIABILITIES</b>		
Bank indebtedness	-	646
Grants, prizes and author payments payable	33,969	27,674
Accounts payable and accrued liabilities	1,400	3,486
Deferred revenues	6,755	6,877
Employee future benefits	3,215	2,909
Deferred revenues - Externally restricted contributions (Note 5)	45,057	39,501
<b>Total liabilities</b>	<b>90,396</b>	<b>81,093</b>
<b>NET FINANCIAL ASSETS</b>	<b>297,797</b>	<b>253,828</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets	7,303	7,348
Art Bank assets	19,384	19,384
Musical instruments	1	1
Prepaid expenses	154	184
<b>Total non-financial assets</b>	<b>26,842</b>	<b>26,917</b>
<b>ACCUMULATED SURPLUS</b> (Note 6)	<b>\$ 324,639</b>	<b>\$ 280,745</b>
Accumulated surplus is comprised of:		
Accumulated surplus from operations	282,896	249,587
Accumulated remeasurement gains	41,743	31,158
<b>ACCUMULATED SURPLUS</b>	<b>\$ 324,639</b>	<b>\$ 280,745</b>

The accompanying notes and schedules form an integral part of the financial statements

## Statement of Operations

(Unaudited) (in thousands of dollars)	Yearly Budget	Three months ended December 31		Nine months ended December 31	
	2016	2016	2015	2016	2015
<b>Revenue</b>					
Net realized investment income (Note 7)	\$ 9,823	\$ 5,819	\$ 17,409	\$ 9,913	\$ 19,190
Other revenue	1,381	345	282	1,369	1,498
<b>Total revenue</b>	<b>11,204</b>	<b>6,164</b>	<b>17,691</b>	<b>11,282</b>	<b>20,688</b>
<b>Expenses</b>					
Transfer Programs					
Grants, prizes and author payments	191,039	6,968	4,622	128,472	121,675
Transfer program delivery	19,435	4,116	3,753	12,084	11,631
Arts community services	3,761	319	459	638	1,115
	214,235	11,403	8,834	141,194	134,421
Net Art Bank results (Note 8)	255	66	64	165	242
Canadian Commission for UNESCO (Note 9)	2,324	462	359	1,452	1,326
General administration	16,711	3,846	3,630	11,389	11,037
<b>Total expenses</b>	<b>233,525</b>	<b>15,777</b>	<b>12,887</b>	<b>154,200</b>	<b>147,026</b>
Surplus (deficit) from operations before Parliamentary appropriations for the period	(222,321)	(9,613)	4,804	(142,918)	(126,338)
Parliamentary appropriations	222,347	52,927	34,500	176,227	157,500
<b>SURPLUS FROM OPERATIONS FOR THE PERIOD</b>	<b>26</b>	<b>43,314</b>	<b>39,304</b>	<b>33,309</b>	<b>31,162</b>
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	249,587	239,582	229,615	249,587	237,757
<b>ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD</b>	<b>\$ 249,613</b>	<b>\$ 282,896</b>	<b>\$ 268,919</b>	<b>\$ 282,896</b>	<b>\$ 268,919</b>

## Statement of Remeasurement Gains and Losses

(Unaudited) (in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 42,054	\$ 42,570	\$ 31,158	\$ 53,963
<b>Unrealized gains (losses) attributable to:</b>				
Portfolio investments	(255)	(6,748)	11,626	(18,096)
<b>Amounts reclassified to the Statement of Operations:</b>				
Portfolio investments	(56)	(14)	(1,041)	(59)
<b>NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD</b>	<b>(311)</b>	<b>(6,762)</b>	<b>10,585</b>	<b>(18,155)</b>
<b>ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD</b>	<b>\$ 41,743</b>	<b>\$ 35,808</b>	<b>\$ 41,743</b>	<b>\$ 35,808</b>

The accompanying notes and schedules form an integral part of the financial statements

## Statement of Change in Net Financial Assets

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
(in thousands of dollars)				
SURPLUS FROM OPERATIONS FOR THE PERIOD	\$ 43,314	\$ 39,304	\$ 33,309	\$ 31,162
Acquisition of tangible capital assets	(659)	(314)	(953)	(494)
Amortization of tangible capital assets	333	253	998	759
	(326)	(61)	45	265
Acquisition of prepaid expenses	(270)	(98)	(663)	(166)
Use of prepaid expenses	226	48	693	196
	(44)	(50)	30	30
Net remeasurement gains (losses)	(311)	(6,762)	10,585	(18,155)
INCREASE IN NET FINANCIAL ASSETS	42,633	32,431	43,969	13,302
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	255,164	245,461	253,828	264,590
<b>NET FINANCIAL ASSETS, END OF PERIOD</b>	<b>\$ 297,797</b>	<b>\$ 277,892</b>	<b>\$ 297,797</b>	<b>\$ 277,892</b>

## Statement of Cash Flow

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
(in thousands of dollars)				
<b>Operating Transactions</b>				
Surplus from operations for the period	\$ 43,314	\$ 39,304	\$ 33,309	\$ 31,162
(Gains) losses from disposal of portfolio investments (Note 7)	(559)	60	(1,981)	40
Amortization of tangible capital assets	333	253	998	759
(Increase) decrease in prepaid expenses	(44)	(50)	30	30
Increase in employee future benefits	114	113	306	303
Income transferred to Deferred revenues - Externally restricted contributions from investment income (Note 5)	1,889	5,338	2,588	4,901
Net change in other non-cash items (Note 10)	(22,221)	(33,968)	3,746	7,608
Cash provided by operating activities	22,826	11,050	38,996	44,803
<b>Capital Transactions</b>				
Cash used to acquire tangible capital and Art Bank assets	(659)	(314)	(953)	(494)
<b>Investing Transactions</b>				
Acquisition of portfolio investments	(13,401)	(20,414)	(57,116)	(23,625)
Disposal of portfolio investments	5,499	68	47,082	1,641
Cash used by investing activities	(7,902)	(20,346)	(10,034)	(21,984)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,265	(9,610)	28,009	22,325
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	13,593	33,161	(151)	1,226
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 27,858</b>	<b>\$ 23,551</b>	<b>\$ 27,858</b>	<b>\$ 23,551</b>

The accompanying notes and schedules form an integral part of the financial statements

# Notes to the Financial Statements

## For the period ended December 31, 2016

(Unaudited)

### 1. AUTHORITY, MANDATE AND ACTIVITIES

The Canada Council for the Arts (the "Council"), established by the *Canada Council Act* in 1957 and subsequently amended in 2001 by Bill C-40 to the *Canada Council for the Arts Act*, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the *Income Tax Act*. In accordance with section 85(1.1) of the *Financial Administration Act*, the Council is exempt from Divisions I to IV of Part X of this Act, except for subsection 105(2) and sections 113.1 and 119 of Division II, sections 131 to 148 of Division III and section 154.01 of Division IV. The Council is a Crown corporation whose objectives are to foster and promote the study and enjoyment of and the production of works in the arts.

The Council achieves its objectives primarily through grant programs to professional Canadian artists and arts organizations. The Council incurs administration and services expenses in the delivery of programs. Transfer Program delivery expenses represent the direct costs of program delivery. Arts community services expenses represent costs incurred for non-grant activities in fulfillment of the Council's mandate. General administration costs represent the costs related to corporate management, communications, human resources, information management, finance, accommodation and amortization.

The Canadian Commission for UNESCO (CCUNESCO) was established by the Council pursuant to a 1957 Order in Council. The CCUNESCO acts as a forum for governments and civil society to mobilize the participation of Canadians in UNESCO's mandated areas of education, natural and social sciences, and culture, communication and information. The Secretariat for the CCUNESCO is provided by the Council and led by a Secretary General who reports directly to the Director and Chief Executive Officer.

### 3. PORTFOLIO INVESTMENTS

	Year-to-date December 31, 2016					Year-end March 31, 2016		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
<b>Canada Council Endowment and Special Funds</b>								
Pooled funds								
Global and Canadian Equity	101,701	-	28,948	130,649	44	126,336	144,855	53
Fixed income	70,269	-	1,497	71,766	24	70,750	73,426	27
Alternatives	20,630	-	7,582	28,212	10	20,630	26,936	10
Money market	1,310	-	-	1,310	-	5,992	5,992	2
Canadian Equity	30,697	-	667	31,364	11	-	-	-
Real estate	11,050	23	2,461	13,488	5	7,717	10,045	4
Infrastructure	13,181	-	4,577	17,758	6	7,827	12,201	4
	248,838	23	45,732	294,547	100	239,252	273,455	100
<b>Killam Fund</b>								
Pooled funds								
Global and Canadian Equity	27,149	-	6,030	33,179	53	26,832	30,987	53
Fixed income	13,690	-	286	13,976	22	13,787	14,302	25
Alternatives	5,298	-	1,940	7,238	12	5,298	6,911	12
Real estate	2,931	9	662	3,584	6	2,051	2,683	4
Infrastructure	3,366	-	1,329	4,695	7	2,036	3,313	6
	52,434	9	10,247	62,672	100	50,004	58,196	100
<b>Total investments</b>	<b>301,272</b>	<b>32</b>	<b>55,979</b>	<b>357,219</b>		<b>289,256</b>	<b>331,651</b>	

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of accounting

These unaudited interim financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

#### Basis of preparation

These interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 2016. Accordingly, they should be read in conjunction with the audited annual financial statements. The interim financial statements are unaudited for all periods presented. The accounting policies used in the preparation of these interim condensed financial statements are consistent with those disclosed in the Council's last audited annual financial statements.

#### 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 assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting year. Employee-related liabilities, the estimated useful lives of tangible capital assets, the residual and appraised value of the Art Bank assets, and the fair value of financial instruments are the most significant items where estimates are used. Actual results could differ from those estimated.

#### Budgeted figures

Budgeted figures have been provided for comparison purposes and have been approved by the Board.

Unrealized gains/losses on investments are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle for some investments. Annually, the Council assesses each of its investment instruments against specific criteria to determine whether there is objective evidence that the adjusted cost may not be recovered and is therefore impaired. The Council does not consider these investments to be other-than-temporarily impaired.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Fund. The Killam Fund requested that their donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8% (March 31, 2016 - 8%) of that Fund with a total fair value of \$23,593,000 (March 31, 2016 - \$21,904,000). The total fair value of the externally restricted investment including the Killam Fund is \$86,265,000 (March 31, 2016 - \$80,100,000).

The long-term objectives of the Canada Council Endowment and Special Funds and the Killam Fund are to generate long-term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital.

The Council invests in units of equity, fixed income and alternative pooled funds, in a segregated Canadian equity fund and in limited partnership units of four real estate funds and four infrastructure funds. The permitted and prohibited investments, the asset mix as well as some maximum holding quantity restrictions are governed by a Board approved investment policy to mitigate risk. All of the investments are managed by professional investment managers.

The Council manages its portfolio to the following benchmarks as per the Statement of Investment Policies and Goals approved by the Board. The benchmarks allow asset class allocations to vary between a minimum and a maximum.

Asset Classes	Market Value	Minimum	Benchmark	Maximum
Canadian equities	11%	5%	10%	15%
Global equities	44%	35%	40%	45%
Fixed income	24%	15%	25%	35%
Alternatives	10%	5%	10%	15%
Real estate	5%	0%	7.5%	10%
Infrastructure	6%	0%	7.5%	10%
Money market	0%	0%	0%	10%

The money market asset class includes short-term pooled funds used for future investments in alternatives and capital commitments in limited partnership units of real estate and infrastructure funds. These funds had a balance of \$1,310,000 (March 31, 2016 - \$5,992,000).

Investments in the equity pooled funds are comprised of units of three pooled funds, one Canadian fund (only for the Killam Fund) and two funds that are invested in the global equity markets. The Council also has a Canadian equity segregated fund for the Endowment and Special Funds. The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock Exchange Index. The global equities are measured against the returns of the Morgan Stanley Capital International (MSCI) All Country World Index. Investments in the fixed income pooled fund are comprised of a mix of bonds, mortgages, emerging debt and other fixed income instruments. The fixed income fund is measured against the returns of the DEX Universe Bond Index. Investments in the alternative pooled funds are comprised of units of one hedge fund with diversified positions across global asset classes. This investment is measured against the returns of the Scotia Capital 91-day T-bill plus 4%. The assets included in the real estate funds are commercial real estate properties in Canada, the United States and globally. These investments are measured against the returns of the Investment Property Databank. The infrastructure funds include four portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index plus 4.5%.

#### 4. FINANCIAL RISKS AND FAIR VALUE

The measurement categories of the Council's financial instruments, as well as their carrying amounts and fair values are as follows:

	Measurement categories	Year-to-date	Year-end
		December 31, 2016	March 31, 2016
		Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
<i>(in thousands of dollars)</i>			
<b>Financial assets and liabilities and classifications</b>			
Cash and cash equivalents	Fair value	27,858	495
Accounts receivable	Amortized cost	3,116	2,775
Portfolio Investments <sup>1</sup>	Fair value	357,219	331,651
Bank indebtedness	Fair value	-	646
Grants, prizes and author payments payable	Amortized cost	33,969	27,674
Accounts payable and accrued liabilities	Amortized cost	1,400	3,486

<sup>1</sup> The detailed fair value for the investments is listed in Note 3.

##### a) Establishing fair value

The carrying values of accounts receivable, grants, prizes and author payments payable and accounts payable and accrued liabilities approximate their fair values due to their short-term maturity.

The fair values of the investments are determined as follows:

- Equity, Fixed Income and Money Market pooled fund investments are valued at the unit values supplied by the pooled fund managers, which represent the Council's proportionate share of the underlying net assets at fair values, determined using closing market prices.
- The Segregated Canadian equity fund is valued using closing market prices at the financial statement date.
- The Alternatives is a pooled fund investment which is valued at the unit values supplied by the pooled fund manager. The fund manager manages multiple funds strategies within the fund and determines the unit's fair value using the closing market prices for some strategies when available or using a valuation model with non-observable data for other strategies.
- Real estate investment values are supplied by the fund managers using independently audited appraisals which are based on a valuation model with non-observable data. The independently audited appraisals are obtained annually.
- Infrastructure investment values are supplied by the fund managers using internally determined appraisals. The appraisals are based on a valuation model with non-observable data and are audited annually.

**b) Fair value hierarchy**

The financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the Statement of Financial Position, classified using the fair value hierarchy described above:

**Financial assets at fair value**

	Year-to-date December 31, 2016				Year-end March 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	1,912	25,946	-	27,858	-	495	-	495
	1,912	25,946	-	27,858	-	495	-	495
<b>Portfolio Investments</b>								
<b>Canada Council Endowment and Special Funds</b>								
Pooled Funds								
Global and Canadian Equity	-	130,649	-	130,649	-	144,855	-	144,855
Fixed Income	-	71,766	-	71,766	-	73,426	-	73,426
Alternatives	-	-	28,212	28,212	-	-	26,936	26,936
Money Market	-	1,310	-	1,310	-	5,992	-	5,992
Canadian Equity	31,364	-	-	31,364	-	-	-	-
Real Estate	-	-	13,488	13,488	-	-	10,045	10,045
Infrastructure	-	-	17,758	17,758	-	-	12,201	12,201
<b>Killam Fund</b>								
Pooled Funds								
Global and Canadian Equity	-	33,179	-	33,179	-	30,987	-	30,987
Fixed Income	-	13,976	-	13,976	-	14,302	-	14,302
Alternatives	-	-	7,238	7,238	-	-	6,911	6,911
Real Estate	-	-	3,584	3,584	-	-	2,683	2,683
Infrastructure	-	-	4,695	4,695	-	-	3,313	3,313
	31,364	250,880	74,975	357,219	-	269,562	62,089	331,651
<b>Total</b>	<b>33,276</b>	<b>276,826</b>	<b>74,975</b>	<b>385,077</b>	<b>-</b>	<b>270,057</b>	<b>62,089</b>	<b>332,146</b>

**Financial liabilities at fair value**

	Year-to-date December 31, 2016				Year-end March 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Bank indebtedness	-	-	-	-	646	-	-	646
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>646</b>	<b>-</b>	<b>-</b>	<b>646</b>

## 5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

The deferred revenues from externally restricted contributions consist of accumulated income received which has been deferred until the resources have been used for the purpose or purposes specified by the endowment. The restricted endowment principal of \$37,569,000 is required to be maintained intact and is reported under accumulated surplus from operations (see Note 6).

	Year-to-date	Year-end
	December 31, 2016	March 31, 2016
<i>(in thousands of dollars)</i>		
Balance, beginning of period	\$ 39,501	\$ 42,956
Transferred from investment income (Note 7)		
Net Investment income	3,421	6,243
Use of funds	(833)	(2,389)
	2,588	3,854
Unrealized gains (losses) on portfolio investments	3,829	(6,622)
Reclassified to statement of operations - portfolio	(861)	(687)
<b>Balance at end of period</b>	<b>\$ 45,057</b>	<b>\$ 39,501</b>

The unrealized gains and losses on portfolio investment are related to the change in fair value of those assets from the previous period.

## 6. ACCUMULATED SURPLUS

	Year-to-date	Year-end
	December 31, 2016	March 31, 2016
<i>(in thousands of dollars)</i>		
<b>Accumulated surplus from operations</b>		
<b>Endowment - Original contribution</b>	\$ 50,000	\$ 50,000
<b>Endowment principal - Externally restricted contributions</b>	37,569	37,569
<b>Reserve for excess investment income</b>		
Balance at beginning of period	136,445	124,445
Appropriated from the accumulated surplus during the period	-	12,000
Balance at end of period	136,445	136,445
<b>Surplus</b>		
Balance at beginning of period	25,573	25,743
Appropriated to the reserve for excess investment income during the period	-	(12,000)
Surplus for the period	33,309	11,830
Balance at end of period	58,882	25,573
<b>Total accumulated surplus from operations</b>	<b>282,896</b>	<b>249,587</b>
<b>Accumulated remeasurement gains</b>		
Balance at beginning of period	31,158	53,963
Change in fair value	10,585	(22,805)
Balance at end of period	41,743	31,158
<b>Balance of accumulated surplus at end of period</b>	<b>\$ 324,639</b>	<b>\$ 280,745</b>



## 7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
Gains (losses) from disposal of portfolio investments	\$ 559	\$ (60)	\$ 1,981	\$ (40)
Income transferred to deferred revenues -				
Externally restricted contributions (Note 5)	(1,889)	(5,338)	(2,588)	(4,901)
Net gains on foreign exchange	13	39	270	37
Interest, dividend and other distributed income	7,439	23,193	11,275	25,478
Investment portfolio management costs	(303)	(425)	(1,025)	(1,384)
	<b>\$ 5,819</b>	<b>\$ 17,409</b>	<b>\$ 9,913</b>	<b>\$ 19,190</b>

## 8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
Rental revenue	\$ 292	\$ 292	\$ 915	\$ 903
Other income	37	36	139	106
Administration expense	(392)	(389)	(1,211)	(1,243)
Amortization of other capital assets	(3)	(3)	(8)	(8)
	<b>\$ (66)</b>	<b>\$ (64)</b>	<b>\$ (165)</b>	<b>\$ (242)</b>

## 9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
Program expenses	\$ 94	\$ 69	\$ 567	\$ 422
Program - contributions received	(1)	(1)	(2)	(11)
Administration expense	369	291	887	915
	<b>\$ 462</b>	<b>\$ 359</b>	<b>\$ 1,452</b>	<b>\$ 1,326</b>

## 10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
Increase in accounts receivable	\$ (67)	\$ (2,302)	\$ (341)	\$ (2,072)
Increase (decrease) in grants, prizes and author payments payable	(21,609)	(23,672)	6,295	1,189
Increase (decrease) in accounts payable and accrued liabilities	(572)	184	(2,086)	(99)
Increase (decrease) in deferred revenues	27	(178)	(122)	(410)
Increase (decrease) in deferred Parliamentary appropriations	-	(8,000)	-	9,000
<b>Net change</b>	<b>\$ (22,221)</b>	<b>\$ (33,968)</b>	<b>\$ 3,746</b>	<b>\$ 7,608</b>

## 11. RELATED PARTY TRANSACTIONS

The Council is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Council enters into transactions with related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises, and these transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.