



Canada Council  
for the Arts

Conseil des arts  
du Canada

Quarterly

# Financial Report

**Unaudited**

Period ended June 30, 2016  
Published August 31, 2016

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



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# Management Discussion and Analysis

## Quarterly Report

Period ended June 30, 2016  
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## INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the three-month period ended June 30, 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 April 28, 2016, the Council received the official stamp of approval of the new funds, \$550 million over 5 years and \$180 million ongoing, announced in the 2016 Federal Budget by Treasury Board.

On May 24, 2016, the Council launched its Arts in a Digital World Survey. The survey sought input from artists, collectives and arts organizations on how the sector is making use of digital tools. Findings will inform how the Council will invest in its digital strategy, starting in April 2017. The results of the survey will be shared on the Council's website in the autumn of 2016.

The Council and the Royal Architectural Institute of Canada (RAIC) announced the recipients of the Governor General's Medals in Architecture on May 19, 2016. The biennial awards celebrate outstanding design in recently completed projects by Canadian architects. The jury found that the 12 winning projects reflect themes of connection, revitalization and experimentation. The awards will be presented during a ceremony at Rideau Hall on September 20, 2016.

Punctured Landscapes, an exhibition of 17 works from the Art Bank's collection, opened in the Council's Ajagemô gallery space on May 17, 2016. Curated by Kegan McFadden, the exhibition is a meditation on the Canadian social landscape of living memory. The exhibition invites viewers to also share what they remember from history class by posting memories to one of two concrete pillars in the gallery space. The exhibition will be on display until October 2, 2016.

On May 6, 2016, the Art Bank introduced the seven recently acquired works by leading indigenous artists in Canada. The artists and their works were: Barry Ace, For King and Country; Sonny Assu, Selective History; Jordan Bennett, Why are Native Americans; Dana Claxton, Headdress; Amy Malbeuf, The Mealy Mountains and Three Artists Fly North; and Adrian Stimson, Shaman Exterminator, Playing on the Playa. This was the first major acquisition by the Art Bank in two years. The pieces were selected following consultations with members of the artistic community led by the Art Bank staff. The works—and their addition to the Art Bank collection—reflect the Council's commitments to Indigenous arts and the reconciliation between Indigenous and non-Indigenous peoples in Canada.

The Council's Director and CEO, Simon Brault, spoke publicly at several events over this quarter, highlighting the Council's work and its future plans. These speeches—for which the texts can be found on the Council's website—included:

- "Plans and Vision on a Human Scale," at the 10th Rencontres de la diversité culturelle in Montreal on May 18, 2016;
- "Welcoming Remarks," at the Opera America Conference in Montreal on May 19, 2016;
- "Writing the story of a promising future for the arts and literature in Canada," at the Canadian Writers Summit in Toronto on June 17, 2016;
- "Welcoming remarks" at the Canadian Public Arts Funders Meeting on Indigenous Arts and Reconciliation in Ottawa on June 22, 2016.

## Net Results

(in thousands of dollars)	Three months ended June 30			
	2016	2015	Increase/ (Decrease)	% change
Revenue	2,323	1,655	668	40%
Expenses	(111,546)	(101,327)	10,219	10%
Government funding	84,000	82,000	2,000	2%
<b>Deficit for the period</b>	<b>(25,223)</b>	<b>(17,672)</b>	<b>7,551</b>	

## Overview of the First Quarter Net Results

The deficit for the quarter was \$25.2M, an increase of \$7.6M over the first quarter deficit of the previous fiscal year. This increase is related to a higher distribution of grants for the quarter of \$10.2M compared to the comparative period last year which is due to timing in the approval of grant expenses. This increase in expenses was offset by a \$2.0M increase in the drawdown of government funding for the period to cover cash-flow requirements.

The Council will continue to monitor its financial results with the aim of achieving the target projections set out in its original balanced budget.

## IMPORTANT CHANGES

### Program

On May 9, 2016, the Council released information about its New Chapter special funding program for the occasion of the 150th anniversary of the Confederation. Through this fund the Council will support the creation and sharing of exceptional artistic and literary works that will help Canadian artists to envision and create a shared future. These works will encourage public engagement in the arts and will promote outreach locally, nationally and internationally. The Council encourages projects inclusive of youth, First Nations, Inuit, Métis, culturally diverse, regional, and official language minority communities, and people who are deaf or have disabilities. Applicants must apply for at least \$50,000 in eligible expenses. The maximum grant amount is \$150,000 for individuals, collaborations and artists groups/collectives, and \$500,000 for organizations. The program has two deadlines only: July 4, 2016, and October 31, 2016.

In early June, the Council released information on its website about the transition from its current granting programs to the New Funding Model that will launch in April 2017. The 2016 competitions for operating grants will be cancelled, and organizations will be invited to apply under the new model between May 1 and July 1, 2017. Until November 2016, most deadlines for project grants will remain the same; some will be moved or cancelled. More information about the 2017-18 grant deadlines will be shared online during the summer of 2016, with program guidelines and the applicant portal available in December of this year.

### Leadership and Governance

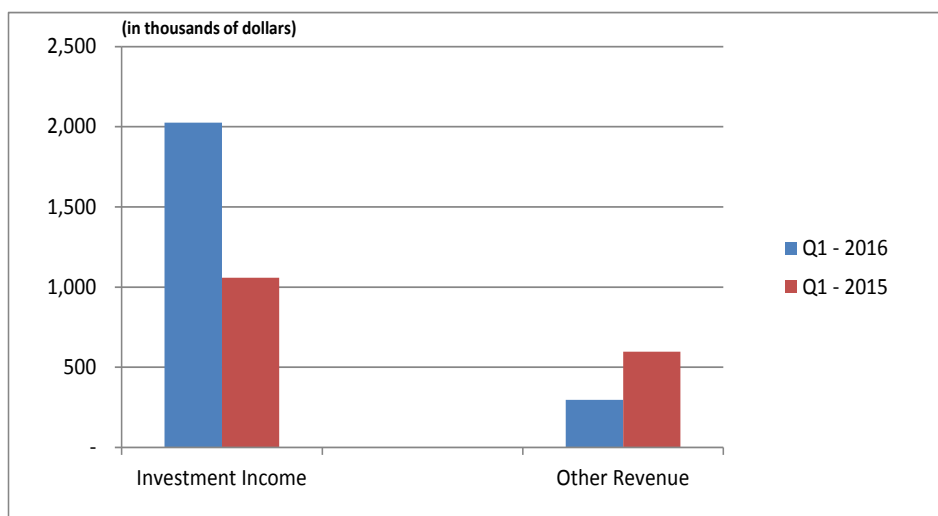
On June 1, 2016, the Council announced that Jacques Vézina would continue in his role as Director General, Arts Granting Programs, until December 31, 2017;

- On June 4, 2016, the Public Lending Right Commission appointed Daniel Poliquin, former Vice-Chair, as its Chair;
- Elizabeth MacKinnon was appointed Acting Director, Policy, Planning and Strategic Foresight, effective June 6, 2016; and
- On June 27, 2016, the Council announced the appointment of Sébastien Goupil as Secretary General of the Canadian Commission for UNESCO (CCUNESCO). Mr. Goupil will take up his functions on August 8, 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 was higher than the same period last year, due to our new Global Equity manager which distributes its dividends on a quarterly basis instead of just once at the end of the calendar year. The investment income is still forecasted to be aligned with the budget.

### Other Revenue

The other revenues for the quarter are lower than last year mainly due to \$150K received in the first quarter last year from the J.W. McConnell Family Foundation related to the {Re}conciliation initiative. The 2016-17 renewal of this agreement was only completed in the second quarter of this year.

## Expenses

(in thousands of dollars)	June 30, 2016	June 30, 2015	Increase/ (Decrease)
Grants, prizes and author payments	103,081	92,915	10,166
Transfer program delivery	4,113	3,954	159
Arts community services	167	303	(136)
Net Art Bank results	98	123	(25)
Canadian Commission for UNESCO	549	538	11
General administration	3,538	3,494	44
<b>Total</b>	<b>111,546</b>	<b>101,327</b>	<b>10,219</b>

Grant expenses are higher compared to the same period last year due to the earlier competition deadlines this year to allow for easier transition to the new funding model compared to prior year. The Council expects the annual grants expenses to be aligned with the original budget of \$191.0M for the year.

The arts community services costs have decreased due mainly to the transfer of international residencies costs of \$0.1M now being paid directly as a grant to the artist instead of paying a specific residency.

## Financial Assets

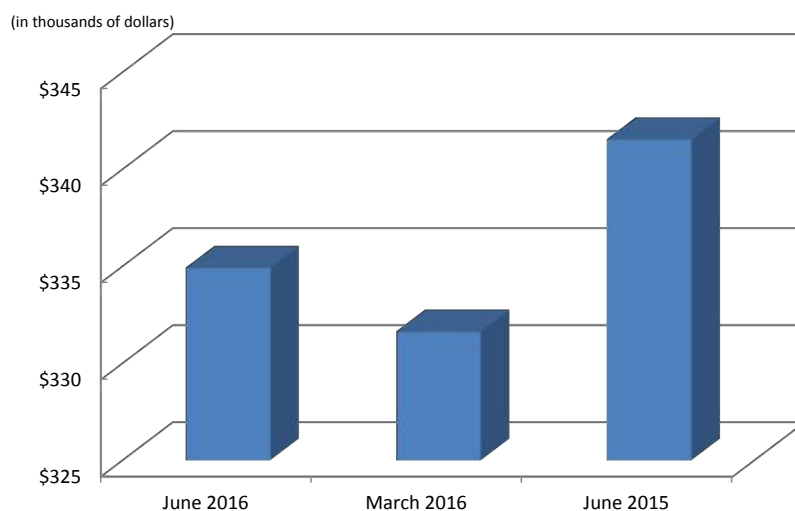
(in thousands of dollars)	June 30, 2016	March 31, 2016	Increase/ (Decrease)
Cash and cash equivalents	25,103	495	24,608
Accounts receivable	2,443	2,775	(332)
Portfolio investments	334,937	331,651	3,286
<b>Total</b>	<b>362,483</b>	<b>334,921</b>	<b>27,562</b>

### Cash and Cash Equivalents

The increase of \$24.6M in Cash and cash equivalents is explained by an increase of \$53.9M in outstanding payments to recipients compared to March 31, 2016, less the \$25.2M deficit for the three-month period.

### Portfolio Investments

The total market value of the portfolio as at June 30, 2016, was \$334.9M of which \$81.0M was externally restricted. This represents an increase of \$3.3M of the market value since March 31, 2016, but a decrease of \$6.6M since June 30, 2015.



The total fund generated an absolute positive return of 1.1% for the quarter which was lower than the benchmark return by 1.0%. The main contributors to this positive return are the Canadian Equity, Fixed Income and Infrastructure markets which posted positive results for the quarter (5.1%, 2.6% and 2.1% respectively). The performance of our Real Estate managers also helped the results as they posted a 4.5% return compared to the benchmark of 1.3%. But those results were partially offset by the poor performance of our Canadian Equity manager, 3.4%, and our Global Equity managers, -0.8%, compared to their respective benchmark indices of 5.1% and 1.4% for the same quarter.

Since January 1, 2016, the total fund generated an absolute negative return of 0.8%. The portfolio's asset mix was able to absorb the volatility in the Global Equity market, which posted a negative return of 5.4% for the six-month period and accounts for 42% of the portfolio's allocation, with the positive returns of the Canadian Equity and Fixed Income markets for the six-month period at 9.8% and 4.0%, respectively, which account for 36% of the portfolio's allocation.

## Liabilities

(in thousands of dollars)	June 30, 2016	March 31, 2016	Increase/ (Decrease)
Bank indebtedness	-	646	(646)
Grants, prizes and author payments payable	81,582	27,674	53,908
Accounts payable and accrued liabilities	1,771	3,486	(1,715)
Deferred revenues	7,151	6,877	274
Employee future benefits	3,018	2,909	109
Externally restricted contributions	39,566	39,501	65
<b>Total</b>	<b>133,088</b>	<b>81,093</b>	<b>51,995</b>

### Grants, prizes and author payments payable

The increase of \$53.9M in comparison to the value as at March 31, 2016 arises from recurring multi-year operating grants to arts organizations recorded on April 1, 2016 to be paid in three instalments during the year.

### Accounts payable and accrued liabilities

The decrease of \$1.7M 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. The payment of accrued salaries recorded at year-end for retroactive payment following the signing of a collective agreement in February 2016 but not paid until June 2016 also contributed to the decrease.

## Non-Financial Assets

(in thousands of dollars)	June 30, 2016	March 31, 2016	Increase/ (Decrease)
Tangible capital assets	7,059	7,348	(289)
Art Bank assets	19,384	19,384	-
Musical instruments	1	1	-
Prepaid expenses	137	184	(47)
<b>Total</b>	<b>26,581</b>	<b>26,917</b>	<b>(336)</b>

### Art Bank Assets

The Council owns approximately 17,500 works of contemporary Canadian art within its Art Bank collection. At June 30, 2016 the appraised value of the Art Bank assets was approximately \$71M. The Council insures its Art Bank assets for 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 thirteen instruments on loan. The appraised value of its musical instruments as at June 30, 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 updated its Corporate Risk Profile as part of its five year Risk-Based Internal Audit Plan taking into consideration changes in the Council's risk environment. The Audit and Finance Committee endorsed the Risk-Based Internal Audit Plan at its June 2016 meeting. Executive management monitors progress on the implementation of these 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 to the extent they relate to the months 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 first quarter were as follows:

(in thousands of dollars)	June 30	
	2016	2015
Approved annual operating funding		
Vote 1 - Operating costs	182,097	182,097
Supplementary Estimates	40,000	-
	222,097	182,097
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the three-month period	(84,000)	(82,000)
Deferred - Parliamentary appropriations	-	(18,000)
<b>Balance of operating funding to be received</b>	<b>138,097</b>	<b>82,097</b>



Canada Council  
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Quarterly

# Financial Statements

**Unaudited**

These financial statements for the quarter ended June 30, 2016 have not been audited or reviewed by our Auditor

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## Management's Responsibility for Financial Reporting

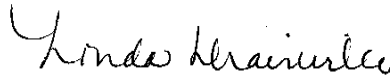
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the 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.

August 31, 2016



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



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

## Statement of Financial Position

(Unaudited)		
(in thousands of dollars)	June 30	March 31
	2016	2016
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	\$ 25,103	\$ 495
Accounts receivable	2,443	2,775
Portfolio investments (Note 3)	334,937	331,651
<b>Total financial assets</b>	<b>362,483</b>	<b>334,921</b>
<b>LIABILITIES</b>		
Bank indebtedness	-	646
Grants, prizes and author payments payable	81,582	27,674
Accounts payable and accrued liabilities	1,771	3,486
Deferred revenues	7,151	6,877
Employee future benefits	3,018	2,909
Deferred revenues - Externally restricted contributions (Note 5)	39,566	39,501
<b>Total liabilities</b>	<b>133,088</b>	<b>81,093</b>
<b>NET FINANCIAL ASSETS</b>	<b>229,395</b>	<b>253,828</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets	7,059	7,348
Art Bank assets	19,384	19,384
Musical instruments	1	1
Prepaid expenses	137	184
<b>Total non-financial assets</b>	<b>26,581</b>	<b>26,917</b>
<b>ACCUMULATED SURPLUS</b> (Note 6)	<b>\$ 255,976</b>	<b>\$ 280,745</b>
Accumulated surplus is comprised of:		
Accumulated surplus from operations	224,364	249,587
Accumulated remeasurement gains	31,612	31,158
<b>ACCUMULATED SURPLUS</b>	<b>\$ 255,976</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 2016-2017	Three months ended June 30	
		2016	2015
<b>Revenue</b>			
Net realized investment income (Note 7)	\$ 9,823	\$ 2,026	\$ 1,058
Other revenue	1,381	297	597
<b>Total revenue</b>	<b>11,204</b>	<b>2,323</b>	<b>1,655</b>
<b>Expenses</b>			
Transfer Programs			
Grants, prizes and author payments	191,039	103,081	92,915
Transfer program delivery	19,435	4,113	3,954
Arts community services	3,761	167	303
	214,235	107,361	97,172
Net Art Bank results (Note 8)	255	98	123
Canadian Commission for UNESCO (Note 9)	2,324	549	538
General administration	16,711	3,538	3,494
<b>Total expenses</b>	<b>233,525</b>	<b>111,546</b>	<b>101,327</b>
Deficit from operations before Parliamentary appropriations for the period	(222,321)	(109,223)	(99,672)
Parliamentary appropriations	222,347	84,000	82,000
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	26	(25,223)	(17,672)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	-	249,587	237,757
<b>ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD</b>	<b>\$ 26</b>	<b>\$ 224,364</b>	<b>\$ 220,085</b>

## Statement of Remeasurement Gains and Losses

(Unaudited) (in thousands of dollars)	Three months ended June 30	
	2016	2015
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 31,158	\$ 53,963
<b>Unrealized gains (losses) attributable to:</b>		
Portfolio investments	471	(2,818)
<b>Amounts reclassified to the Statement of Operations:</b>		
Portfolio investments	(17)	-
NET MEASUREMENT GAINS (LOSSES) FOR THE PERIOD	454	(2,818)
<b>ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD</b>	<b>\$ 31,612</b>	<b>\$ 51,145</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 June 30	
	2016	2015
(in thousands of dollars)		
DEFICIT FROM OPERATIONS FOR THE PERIOD	\$ (25,223)	\$ (17,672)
Acquisition of tangible capital assets	(44)	(22)
Amortization of tangible capital assets	333	222
	289	200
Acquisition of prepaid expenses	(137)	(47)
Use of prepaid expenses	184	162
	47	115
Net remeasurement gains (losses)	454	(2,818)
DECREASE IN NET FINANCIAL ASSETS	(24,433)	(20,175)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	253,828	264,590
<b>NET FINANCIAL ASSETS, END OF PERIOD</b>	<b>\$ 229,395</b>	<b>\$ 244,415</b>

## Statement of Cash Flow

(Unaudited)	Three months ended June 30	
	2016	2015
(in thousands of dollars)		
<b>Operating Transactions</b>		
Deficit from operations for the period	\$ (25,223)	\$ (17,672)
Gains from disposal of portfolio investments (Note 7)	(319)	(80)
Amortization of tangible capital assets	333	222
Decrease in prepaid expenses	47	115
Increase in employee future benefits	109	83
Income transferred (from) to Deferred revenues - Externally restricted contributions from (to) investment income (Note 5)	192	(263)
Net change in other non-cash items (Note 10)	52,799	62,325
Cash provided by operating activities	27,938	44,730
<b>Capital Transactions</b>		
Cash used to acquire tangible capital assets	(44)	(22)
<b>Investing Transactions</b>		
Acquisition of portfolio investments	(3,490)	(2,289)
Disposal of portfolio investments	850	1,548
Cash used by investing activities	(2,640)	(741)
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,254	43,967
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	(151)	1,226
CASH AND CASH EQUIVALENTS, END OF PERIOD	<b>25,103</b>	<b>45,193</b>
<b>Represented by:</b>		
Cash and cash equivalents	25,103	45,651
Bank indebtedness	-	(458)
	<b>\$ 25,103</b>	<b>\$ 45,193</b>

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

# Notes to the Financial Statements

## For the period ended June 30, 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 Canada 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 Canada Council and led by a Secretary General who reports directly to the Director and Chief Executive Officer.

### 3. PORTFOLIO INVESTMENTS

	Year-to-date June 30, 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								
Equity	127,213	993	18,633	144,853	53	126,336	144,855	53
Fixed income	70,269	-	3,790	74,059	27	70,750	73,426	27
Alternatives	20,630	-	6,521	27,151	10	20,630	26,936	10
Money market	3,500	-	-	3,500	1	5,992	5,992	2
Real estate	9,909	54	2,407	12,262	4	7,717	10,045	4
Infrastructure	9,833	73	4,465	14,225	5	7,827	12,201	4
	241,354	1,120	35,816	276,050	100	239,252	273,455	100
<b>Killam Fund</b>								
Pooled funds								
Equity	26,262	181	3,884	29,965	52	26,832	30,987	53
Fixed income	13,690	-	732	14,422	24	13,787	14,302	25
Alternatives	5,298	-	1,668	6,966	12	5,298	6,911	12
Real estate	3,073	12	653	3,714	6	2,051	2,683	4
Infrastructure	2,537	18	1,301	3,820	6	2,036	3,313	6
	50,860	211	8,238	58,887	100	50,004	58,196	100
<b>Total investments</b>	<b>292,214</b>	<b>1,331</b>	<b>44,054</b>	<b>334,937</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 will 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 \$22,112,000 (March 31, 2016 - \$21,904,000). The total fair value of the externally restricted investment including the Killam Fund is \$81,000,000 (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 and in limited partnership units of five 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	10%	5%	10%	15%
Global equities	42%	35%	40%	45%
Fixed income	26%	15%	25%	35%
Alternatives	10%	5%	10%	15%
Real estate	5%	0%	7.5%	10%
Infrastructure	6%	0%	7.5%	10%
Money market	1%	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 \$3,500,000 (March 31, 2016 - \$5,992,000).

Investments in the equity pooled funds are comprised of units of three pooled funds, one Canadian fund and two funds that are invested in the global equity markets. 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 for the Canadian managers and the National Council of Real Estate Investment Fiduciaries (NCREIF) for the US manager. 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:

(in thousands of dollars)		Year-to-date	Year-end
		June 30, 2016	March 31, 2016
Financial assets and liabilities and classifications	Measurement categories	Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
Cash and cash equivalents	Fair value	25,103	495
Accounts receivable	Amortized cost	2,443	2,775
Portfolio Investments <sup>1</sup>	Fair value	334,937	331,651
Bank indebtedness	Fair value	-	646
Grants, prizes and author payments payable	Amortized cost	81,582	27,674
Accounts payable and accrued liabilities	Amortized cost	1,771	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 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 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 June 30, 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	556	24,547	-	25,103	-	495	-	495
	556	24,547	-	25,103	-	495	-	495
<b>Portfolio Investments</b>								
<b>Canada Council Endowment and Special Funds</b>								
Pooled Funds								
Equity	-	144,853	-	144,853	-	144,855	-	144,855
Fixed Income	-	74,059	-	74,059	-	73,426	-	73,426
Alternatives	-	-	27,151	27,151	-	-	26,936	26,936
Money Market	-	3,500	-	3,500	-	5,992	-	5,992
Real Estate	-	-	12,262	12,262	-	-	10,045	10,045
Infrastructure	-	-	14,225	14,225	-	-	12,201	12,201
<b>Killam Fund</b>								
Pooled Funds								
Equity	-	29,965	-	29,965	-	30,987	-	30,987
Fixed Income	-	14,422	-	14,422	-	14,302	-	14,302
Alternatives	-	-	6,966	6,966	-	-	6,911	6,911
Real Estate	-	-	3,714	3,714	-	-	2,683	2,683
Infrastructure	-	-	3,820	3,820	-	-	3,313	3,313
	-	266,799	68,138	334,937	-	269,562	62,089	331,651
<b>Total</b>	<b>556</b>	<b>291,346</b>	<b>68,138</b>	<b>360,040</b>	<b>-</b>	<b>270,057</b>	<b>62,089</b>	<b>332,146</b>

**Financial liabilities at fair value**

	Year-to-date June 30, 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).

(in thousands of dollars)	Year-to-date June 30, 2016	Year-end March 31, 2016
Balance, beginning of period	\$ 39,501	\$ 42,956
Transferred from (to) investment income (Note 7)		
Net Investment income	741	6,243
Use of funds	(549)	(2,389)
	192	3,854
Unrealized gains (losses) on portfolio investment	161	(6,622)
Reclassified to statement of operations - portfolio	(288)	(687)
<b>Balance at end of period</b>	<b>\$ 39,566</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

(in thousands of dollars)	Year-to-date June 30, 2016	Year-end March 31, 2016
<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 the period	136,445	124,445
Appropriated from the accumulated surplus during the period	-	12,000
Balance at end of the period	136,445	136,445
<b>Surplus</b>		
Balance at beginning of the period	25,573	25,743
Appropriated to the reserve for excess investment income during the period	-	(12,000)
(Deficit) surplus for the period	(25,223)	11,830
Balance at end of the period	350	25,573
<b>Total accumulated surplus from operations</b>	<b>224,364</b>	<b>249,587</b>
<b>Accumulated remeasurement gains</b>		
Balance at beginning of the period	31,158	53,963
Change in fair value	454	(22,805)
Balance at end of the period	31,612	31,158
<b>Balance of accumulated surplus at end of period</b>	<b>\$ 255,976</b>	<b>\$ 280,745</b>



## 7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended June 30	
	2016	2015
Gains from disposal of portfolio Investments	\$ 319	\$ 80
Income transferred (to) from deferred revenues - Externally restricted contributions (Note 5)	(192)	263
Net gains (losses) on foreign exchanges	73	(11)
Interest and dividend income	2,169	1,167
Investment portfolio management costs	(343)	(441)
	<b>\$ 2,026</b>	<b>\$ 1,058</b>

## 8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended June 30	
	2016	2015
Rental revenue	\$ 299	\$ 308
Other income	50	35
Administration expense	(444)	(463)
Amortization of other capital assets	(3)	(3)
	<b>\$ (98)</b>	<b>\$ (123)</b>

## 9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended June 30	
	2016	2015
Program expenses	\$ 320	\$ 255
Program - contributions received	(1)	(9)
Administration expense	230	292
	<b>\$ 549</b>	<b>\$ 538</b>

## 10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended June 30	
	2016	2015
Decrease in accounts receivable	\$ 332	\$ 398
Increase in grants, prizes and author payments payable	53,908	44,164
Decrease in accounts payable and accrued liabilities	(1,715)	(258)
Increase in deferred revenues	274	21
Increase in deferred Parliamentary appropriations	-	18,000
<b>Net change</b>	<b>\$ 52,799</b>	<b>\$ 62,325</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.