



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended September 30, 2017
Published November 30, 2017

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



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Management Discussion and Analysis

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INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the six-month period ended September 30, 2017, 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 on 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 June 30, 2017, film and television actor Michael J. Fox donated the \$25,000 prize money from his Governor General's Performing Arts Award to the Council.

On July 11, 2017, the Council announced that cellist Bryan Cheng was the recipient of the 2017 Michael Measures Prize, a collaboration between the Council and the National Youth Orchestra of Canada. The \$25,000 prize recognizes promising talent in the next generation of Canadian classical musicians.

On August 8, 2017, the Council Art Bank was featured as a location on the Ottawa episode of the nationally broadcast CTV program The Amazing Race Canada.

In August 2017, the Council Art Bank made a donation of 150 artworks to the Art Museum of the Americas (AMA) in Washington, D.C., the museum of the Organization of American States (OAS), of which Canada is a member. These works represent the first Canadian works in the AMA collection – works on paper by 99 artists from across the country. The collection will be shared with visitors of the AMA and potentially other venues throughout the Americas as part of the museum's active touring program. For each work donated to the AMA, another copy remains in the Art Bank collection.

On September 7 and 8, 2017, the Council published an op-ed—in French in *Le Devoir* and in English in *The Globe and Mail*—titled "The Canada Council for the Arts and Indigenous cultural appropriation." The op-ed notes that the Council "recognizes that both the traditional and contemporary cultural and artistic practices of Indigenous peoples are their property, as spelled out in the United Nations Declaration on the Rights of Indigenous Peoples (Articles 11(1) and 31)." The op-ed also explains that "when artists and organizations seek Canada Council grants for projects that address, deal with, incorporate, comment on, interpret or depict distinctive aspects of First Nations, Inuit or Métis culture, they must demonstrate genuine respect and regard for Indigenous art and culture in their artistic process."

On September 14, 2017, the Council opened a new exhibition and artists' residency in its *Àjagemô* Space at 150 Elgin Street in Ottawa titled *Mark the Spot*. For the exhibition and residency, curator Wayne Baerwaldt selected three artists who represent different forms of discourse on art at different stages in their careers: painter Michael Morris, performance artist Thierry Marceau and Métis beadwork artist Katherine Boyer. Each artist will have her or his work exhibited, while also engaging in a one-week residency in the space during which time the public is invited to take part in each artist's process. The exhibition will run until January 2, 2018.

On September 19, 2017, the Council announced that the collective Indigenous design project *Unceded: Landscapes of Resilience* was selected through a national juried competition to represent Canada at the 2018 Venice Architecture Biennale. Douglas Cardinal Architect Inc. has been selected to work with co-curators Gerald McMaster, Professor of Indigenous Visual Culture at OCAD University (Toronto), and David Fortin, Director of the McEwan School of Architecture at Laurentian University (Sudbury) to present the project. The Council will make a contribution of \$500,000 towards the presenter's exhibition.

Net Results

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2017	2016	Increase/ (Decrease)	2017	2016	Increase/ (Decrease)
Revenue	25,202	2,795	22,407	28,432	5,118	23,314
Expenses	(21,386)	(26,877)	(5,491)	(123,698)	(138,423)	(14,725)
Government funding	50,000	39,300	10,700	150,000	123,300	26,700
Surplus for the period	53,816	15,218	38,598	54,734	(10,005)	64,739

Overview of the Second Quarter Net Results

The surplus for the quarter was \$54M, an increase of \$39M over the second quarter surplus of the previous fiscal year. This increase is mainly related to an increase of \$22.8M in net realized investment income resulting from a realized gain following a manager transition in the Global Equity asset class during the second quarter. There was also a higher drawdown of government funding for the period, \$11M, to cover an expected increase in grants expense for which results were only recorded in the third quarter.

The Council will continue to monitor its financial results with the aim of achieving the target projections set out in its original balanced budget. Its net investment income, however, is expected to be much higher than budgeted due to the significant realized gains during the second quarter.

IMPORTANT CHANGES

Program

On July 10, 2017, the Council launched Assistance, a virtual Twitter technical support channel, to help applicants navigate its online application portal (which opened to the first round of applications for the Council's New Funding Model granting programs earlier in June 2017).

On August 30, 2017, the Council launched its Digital Strategy Fund. The Fund encourages an approach that helps support Canadian artists, groups and arts organizations in understanding the digital world, engaging with it, and responding to the cultural and social changes it produces. Between 2017 and 2021, the Council will invest \$88.5M through this Fund, starting with \$10M in 2017-18.

On September 12 and 15, 2017, the Council hosted Facebook Live events—in both French and English, along with simultaneous sign interpretation—on the Digital Strategy Fund. Through these events, the arts community and the public were invited to pose questions to the Council about the Fund and to learn more about it.

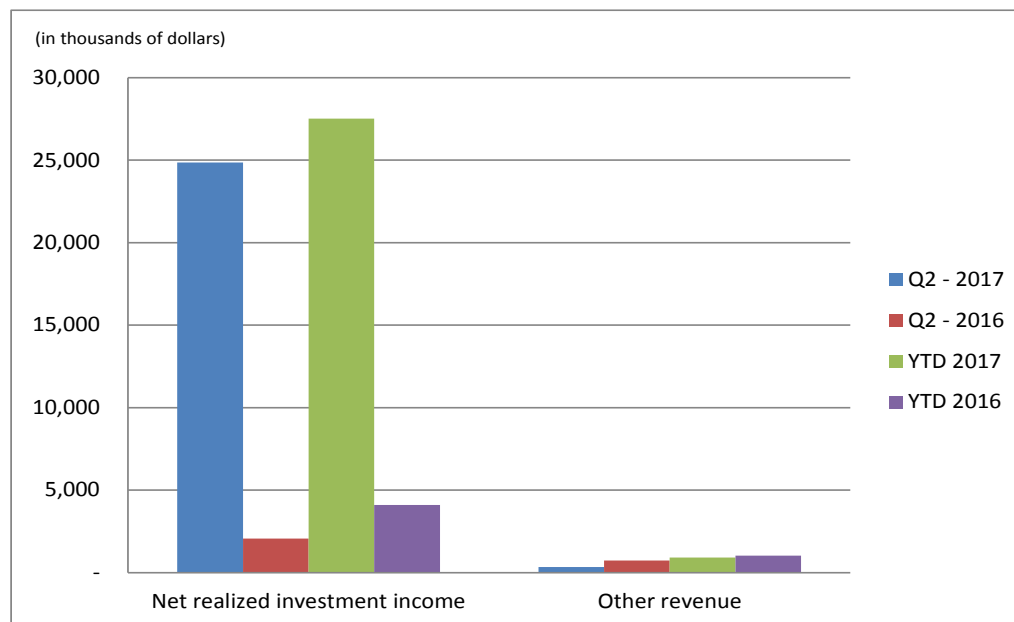
Leadership and Governance

On August 21, 2017, the Council announced the appointment of Carolyn Warren as Director General, Arts Granting Programs Division, effective October 10, 2017.

FINANCIAL RESULTS

The following section provides further details on 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 by \$22.8M due to significant realized gains following a manager transition in the Global Equity asset class.

Other Revenue

The other revenues for the quarter are lower than last year mainly due to memberships being recorded in the first quarter of this year that were recorded in the second quarter last year. No other major variances were noted.

Expenses

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2017	2016	Increase/ (Decrease)	2017	2016	Increase/ (Decrease)
Grants, author payments and prizes	11,163	18,423	(7,260)	104,838	121,504	(16,666)
Transfer program delivery	4,720	3,856	864	8,387	7,969	418
Arts community services	615	151	464	928	318	610
Net Art Bank results	96	1	95	189	99	90
Canadian Commission for UNESCO	449	441	8	939	990	(51)
General administration	4,343	4,005	338	8,417	7,543	874
Total	21,386	26,877	(5,491)	123,698	138,423	(14,725)

Grants, author payments and prizes

Grant expenses are lower compared to the same quarter and year-to-date figures of last year due to different competition timelines implemented this year with the New Funding Model. The Council expects the annual grants expenses to be aligned with the original budget of \$221.9M for the year, which represents an increase of \$30.9M compared to last year's budget.

Transfer program delivery

This expense is higher during this quarter compared to the same quarter last year due to an increase in the number of committee meetings that were held over the summer following the launch of the New Funding Model. Transfer program delivery expenses also include salaries and employee benefits for staff assigned to program delivery. Those expenses increased as a direct result of the increased number of positions, and of a 1.5% increase to salary expenses effective July 2017, as per the collective agreement.

Arts community services

This expense is higher compared to last year-to-date mainly due to an increased investment in partnerships of \$520K, including a \$210K contribution to Self-Conscious Theatre to produce the inaugural Canada Hub at the Edinburgh Fringe Festival and a contribution of \$150K to Poetry in Voice in support of the organization's work to forge ties between Canadian poets and youth and to broaden its reach and presence both nationally and internationally.

General administration

This expense is higher compared to last year-to-date mainly due to an increase of \$294K in salaries and benefits in keeping with a 1.5% increase in salary expenses effective July 2017, as per the collective agreement, as well as an increase of \$280K in professional fees, and of \$165K in information management for the implementation of tools related to the New Funding Model.

Financial Assets

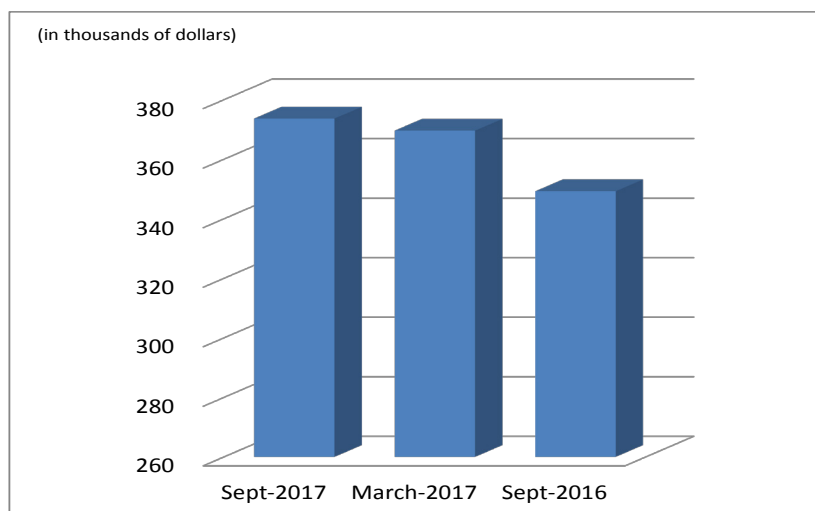
(in thousands of dollars)	September 30	March 31	Increase/ (Decrease)
	2017	2017	
Cash and cash equivalents	49,796	23,490	26,306
Accounts receivable	2,146	3,424	(1,278)
Portfolio investments	373,666	369,623	4,043
Total	425,608	396,537	29,071

Cash and Cash Equivalents

The increase of \$26.3M in cash and cash equivalents is explained by the higher drawdown of government funding by \$11M, plus the underspending in grants expense of \$16.7M due to timelines of competition results.

Portfolio Investments

The total market value of the portfolio as at September 30, 2017, was \$373.7M, of which \$90.0M was externally restricted. This represents an increase of \$4.0M in the market value since March 31, 2017, and an increase of \$24.4M since September 30, 2016.



The total fund generated an absolute positive return of 0.4% for the quarter which was equal to the benchmark return. Managers from all asset classes generated positive returns during the quarter except for the Fixed Income and Real Estate which posted negative returns of 1.6% and 0.7% respectively. The main detractor was one of our Canadian Equity managers that underperformed its benchmark by 2.8% by posting a positive return of 0.9% compared to the benchmark of 3.7%. The Global Equity asset class was also slightly under its benchmark by 0.6% due to the transition in managers over the quarter.

The total fund one-year return was 7.4% for September 2017 which exceeded the benchmark by 1.5%. Our Global and Canadian Equity managers posted strong returns, 13.3% and 9.9% respectively, compared to their benchmarks, 12.9% and 9.2% respectively. All managers in other asset classes also posted positive returns except for Fixed income at -2.1%, which but still added value compared to its benchmark, FTSE TMX Universe Bond index, by 0.9%.

Liabilities

(in thousands of dollars)	September 30 2017	March 31 2017	Increase/ (Decrease)
Grants, author payments and prizes payable	56,375	59,354	(2,979)
Accounts payable and accrued liabilities	3,949	4,609	(660)
Deferred revenues	7,181	7,435	(254)
Employee future benefits	3,429	3,232	197
Externally restricted contributions	47,446	46,768	678
Total	118,380	121,398	(3,018)

Grants, prizes and author payments payable

The decrease of \$3.0M in comparison to the value as at March 31, 2017 arises from the timing of payments schedule.

Accounts payable and accrued liabilities

The decrease of \$0.7M in comparison to the value as at March 31, 2017 is mainly due to a reduction of \$0.6M in accrued liabilities, the majority being related to investment accruals (\$446K).

Non-Financial Assets

(in thousands of dollars)	September 30 2017	March 31 2017	Increase/ (Decrease)
Tangible capital assets	8,543	8,132	411
Art Bank assets	19,384	19,415	(31)
Musical instruments	1	1	-
Prepaid expenses	105	162	(57)
Total	28,033	27,710	323

Art Bank Assets

The Council owns approximately 17,150 works of contemporary Canadian art in its Art Bank collection. At September 30, 2017, 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 September 30, 2017 was US \$41.8M. 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 with the oversight of assigned executive management members, to reduce the risk exposure to an acceptable and manageable level.

In 2016-17, the Council updated its Corporate Risk Profile as part of its five year Risk-Based Internal Audit Plan to reflect changes in the Council's risk environment. This included a re-assessment of the risks and updates to the Council's significant potential risks, as well as mitigation strategies. This revised corporate risk profile is used as a key input for strategic and operational planning and resource allocation decisions, and in organizing and prioritizing management action plans. The Audit and Finance Committee endorsed the revised Risk-Based Internal Audit Plan at its March 2017 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, where necessary, recommends changes in the asset mix allocation 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 is intended to supplement information 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 that 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 as well as in a high interest savings account from which the Council draws its daily cash requirements.

The Parliamentary appropriations approved and received by the Council during the second quarter were as follows:

(in thousands of dollars)	September 30	
	2017	2016
Approved annual operating funding		
Vote 1 - Operating costs	257,347	182,097
Supplementary Estimates	-	40,000
	257,347	222,097
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the six-month period	(150,000)	(123,300)
Balance of operating funding to be received	107,347	98,797



Canada Council
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Conseil des arts
du Canada

Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended September 30, 2017 have not been audited or reviewed by our Auditor

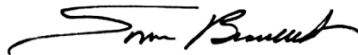
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Management's Responsibility for Financial Reporting

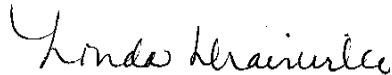
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the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

November 28, 2017



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



Linda Drainville, CPA auditor, CGA
Chief Financial Officer

Statement of Financial Position

(Unaudited)	September 30		March 31	
(in thousands of dollars)	2017		2017	
FINANCIAL ASSETS				
Cash and cash equivalents	\$	49,796	\$	23,490
Accounts receivable		2,146		3,424
Portfolio investments (Note 3)		373,666		369,623
Total financial assets		425,608		396,537
LIABILITIES				
Grants, author payments and prizes payable		56,375		59,354
Accounts payable and accrued liabilities		3,949		4,609
Deferred revenues		7,181		7,435
Employee future benefits		3,429		3,232
Deferred revenues - Externally restricted contributions (Note 5)		47,446		46,768
Total liabilities		118,380		121,398
NET FINANCIAL ASSETS		307,228		275,139
NON-FINANCIAL ASSETS				
Tangible capital assets		8,543		8,132
Art Bank assets		19,384		19,415
Musical instruments		1		1
Prepaid expenses		105		162
Total non-financial assets		28,033		27,710
ACCUMULATED SURPLUS (Note 6)	\$	335,261	\$	302,849
Accumulated surplus is comprised of:				
Accumulated surplus from operations		309,164		254,430
Accumulated remeasurement gains		26,097		48,419
ACCUMULATED SURPLUS	\$	335,261	\$	302,849

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

Statement of Operations

(Unaudited)	Yearly Budget	Three months ended September 30		Six months ended September 30	
	2017	2017	2016	2017	2016
(in thousands of dollars)					
Revenue					
Net realized investment income (Note 7)	\$ 10,282	\$ 24,861	\$ 2,068	\$ 27,519	\$ 4,094
Other revenue	1,271	341	727	913	1,024
Total revenue	11,553	25,202	2,795	28,432	5,118
Expenses					
Transfer Programs					
Grants, author payments and prizes	221,939	11,163	18,423	104,838	121,504
Transfer program delivery	23,266	4,720	3,856	8,387	7,969
Arts community services	2,977	615	151	928	318
	248,182	16,498	22,430	114,153	129,791
Net Art Bank results (Note 8)	275	96	1	189	99
Canadian Commission for UNESCO (Note 9)	2,406	449	441	939	990
General administration	18,246	4,343	4,005	8,417	7,543
Total expenses	269,109	21,386	26,877	123,698	138,423
Surplus (deficit) from operations before Parliamentary appropriations for the period	(257,556)	3,816	(24,082)	(95,266)	(133,305)
Parliamentary appropriations	257,572	50,000	39,300	150,000	123,300
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	16	53,816	15,218	54,734	(10,005)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	254,430	255,348	224,364	254,430	249,587
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 254,446	\$ 309,164	\$ 239,582	\$ 309,164	\$ 239,582

Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
(in thousands of dollars)				
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 49,699	\$ 31,612	\$ 48,419	\$ 31,158
Unrealized gains attributable to:				
Portfolio investments	413	11,410	1,955	11,881
Amounts reclassified to the Statement of Operations:				
Portfolio investments	(24,015)	(968)	(24,277)	(985)
NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD	(23,602)	10,442	(22,322)	10,896
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 26,097	\$ 42,054	\$ 26,097	\$ 42,054

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

Statement of Change in Net Financial Assets

(Unaudited) (in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	\$ 53,816	\$ 15,218	\$ 54,734	\$ (10,005)
Acquisition of tangible capital assets	(819)	(250)	(1,160)	(294)
Amortization of tangible capital assets	375	332	749	665
Disposal of Art Bank assets	31	-	31	-
	(413)	82	(380)	371
Acquisition of prepaid expenses	(200)	(256)	(427)	(393)
Use of prepaid expenses	175	283	484	467
	(25)	27	57	74
Net remeasurement gains (losses)	(23,602)	10,442	(22,322)	10,896
INCREASE IN NET FINANCIAL ASSETS	29,776	25,769	32,089	1,336
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	277,452	229,395	275,139	253,828
NET FINANCIAL ASSETS, END OF PERIOD	\$ 307,228	\$ 255,164	\$ 307,228	\$ 255,164

Statement of Cash Flow

(Unaudited) (in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
Operating Transactions				
Surplus (deficit) from operations for the period	\$ 53,816	\$ 15,218	\$ 54,734	\$ (10,005)
Gains from disposal of portfolio investments (Note 7)	(31,082)	(1,103)	(31,317)	(1,422)
Amortization of tangible capital assets	375	332	749	665
Donation of Art Bank assets	31	-	31	-
(Increase) decrease in prepaid expenses	(25)	27	57	74
Increase in employee future benefits	111	83	197	192
Income transferred to Deferred revenues - Externally restricted contributions from investment income (Note 5)	7,337	507	7,478	699
Net change in other non-cash items (Note 10)	(32,007)	(26,832)	(2,615)	25,967
Cash provided (used) by operating activities	(1,444)	(11,768)	29,314	16,170
Capital Transactions				
Cash used to acquire tangible capital and Art Bank assets	(819)	(250)	(1,160)	(294)
Investing Transactions				
Acquisition of portfolio investments	(76,228)	(40,225)	(80,035)	(43,715)
Disposal of portfolio investments	76,035	40,733	78,187	41,583
Cash provided (used) by investing activities	(193)	508	(1,848)	(2,132)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,456)	(11,510)	26,306	13,744
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	52,252	25,103	23,490	(151)
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 49,796	\$ 13,593	\$ 49,796	\$ 13,593

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

Notes to the Financial Statements

For the period ended September 30, 2017

(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 September 30, 2017					Year-end March 31, 2017		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Global and Canadian Equity	131,439	-	10,242	141,681	46	104,464	137,999	45
Fixed income	70,269	-	233	70,502	23	70,269	72,256	24
Alternatives	20,630	-	8,916	29,546	10	20,630	28,821	10
Money market	1,317	-	-	1,317	-	1,312	1,312	-
Canadian Equity	31,119	-	1,375	32,494	10	30,572	31,559	10
Real estate	11,526	-	2,542	14,068	5	11,037	13,497	5
Infrastructure	13,378	-	5,394	18,772	6	13,387	19,194	6
	279,678	-	28,702	308,380	100	251,671	304,638	100
Killam Fund								
Pooled funds								
Global and Canadian Equity	32,819	-	2,457	35,276	54	27,778	34,858	54
Fixed income	13,690	-	39	13,729	21	13,690	14,071	22
Alternatives	5,298	-	2,283	7,581	11	5,298	7,394	11
Real estate	3,049	-	686	3,735	6	2,927	3,585	5
Infrastructure	3,413	-	1,552	4,965	8	3,418	5,077	8
	58,269	-	7,017	65,286	100	53,111	64,985	100
Total investments	337,947	-	35,719	373,666		304,782	369,623	

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, 2017. 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 future benefits, 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 request 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, 2017 - 8%) of that Fund with a total fair value of \$24,701,000 (March 31, 2017 - \$24,402,000). The total fair value of the externally restricted investment including the Killam Fund is \$89,988,000 (March 31, 2017 - \$89,387,000).

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.

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)

	Measurement categories	Year-to-date	Year-end
		September 30, 2017	March 31, 2017
Financial assets and liabilities and classifications		Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
Cash and cash equivalents	Fair value	49,796	23,490
Accounts receivable	Amortized cost	2,146	3,424
Portfolio Investments ¹	Fair value	373,666	369,623
Grants, author payments and prizes payable	Amortized cost	56,375	59,354
Accounts payable and accrued liabilities	Amortized cost	3,949	4,609

¹ The detailed fair value for the investments is listed in Note 3.

a) Establishing fair value

The carrying values of accounts receivable, grants, author payments and prizes 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.

Asset Classes	Market Value	Minimum	Benchmark	Maximum
Canadian equities	13%	5%	12.5%	20%
Global equities	43%	35%	40%	45%
Fixed income	23%	15%	25%	35%
Alternatives	10%	0%	10%	15%
Real estate	5%	0%	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 \$1,317,000 (March 31, 2017 - \$1,312,000).

Investments in the equity pooled funds are comprised of units of five pooled funds, two Canadian funds and three 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 (S&P/TSX). 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 FTSE TMX 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 91-day US 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%.

- 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 with different 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 as at December 31 and extrapolated for other quarters.
- 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 as at December 31 and extrapolated for other quarters.

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 September 30, 2017				Year-end March 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	36,066	13,730	-	49,796	292	23,198	-	23,490
	36,066	13,730	-	49,796	292	23,198	-	23,490
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Global and Canadian Equity	-	141,681	-	141,681	-	137,999	-	137,999
Fixed Income	-	70,502	-	70,502	-	72,256	-	72,256
Alternatives	-	-	29,546	29,546	-	-	28,821	28,821
Money Market	-	1,317	-	1,317	-	1,312	-	1,312
Canadian Equity	32,494	-	-	32,494	31,559	-	-	31,559
Real Estate	-	-	14,068	14,068	-	-	13,497	13,497
Infrastructure	-	-	18,772	18,772	-	-	19,194	19,194
Killam Fund								
Pooled Funds								
Global and Canadian Equity	-	35,276	-	35,276	-	34,858	-	34,858
Fixed Income	-	13,729	-	13,729	-	14,071	-	14,071
Alternatives	-	-	7,581	7,581	-	-	7,394	7,394
Real Estate	-	-	3,735	3,735	-	-	3,585	3,585
Infrastructure	-	-	4,965	4,965	-	-	5,077	5,077
	32,494	262,505	78,667	373,666	31,559	260,496	77,568	369,623
Total	68,560	276,235	78,667	423,462	31,851	283,694	77,568	393,113

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	Year-end
	September 30, 2017	March 31, 2017
Balance, beginning of period	\$ 46,768	\$ 39,501
Transferred from investment income (Note 7)		
Net Investment income	8,145	4,567
Use of funds	(667)	(2,484)
	7,478	2,083
Unrealized gains on portfolio investments	597	6,878
Reclassified to statement of operations - portfolio	(7,397)	(1,694)
Balance at end of period	\$ 47,446	\$ 46,768

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	Year-end
	September 30, 2017	March 31, 2017
Accumulated surplus from operations		
Endowment - Original contribution	\$ 50,000	\$ 50,000
Endowment principal - Externally restricted contributions	37,569	37,569
Reserve for excess investment income		
Balance at beginning of period	141,445	136,445
Appropriated from the accumulated surplus during the period	-	5,000
Balance at end of period	141,445	141,445
Surplus		
Balance at beginning of period	25,416	25,573
Appropriated to the reserve for excess investment income during the period	-	(5,000)
Surplus for the period	54,734	4,843
Balance at end of period	80,150	25,416
Total accumulated surplus from operations	309,164	254,430
Accumulated remeasurement gains		
Balance at beginning of period	48,419	31,158
Change in fair value	(22,322)	17,261
Balance at end of period	26,097	48,419
Balance of accumulated surplus at end of period	\$ 335,261	\$ 302,849

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
Gains from disposal of portfolio investments	\$ 31,082	\$ 1,103	\$ 31,317	\$ 1,422
Income transferred to deferred revenues -				
Externally restricted contributions (Note 5)	(7,337)	(507)	(7,478)	(699)
Net gains (losses) on foreign exchange	(6)	184	22	257
Interest, dividend and other distributed income	1,461	1,667	4,312	3,836
Investment portfolio management costs	(339)	(379)	(654)	(722)
	\$ 24,861	\$ 2,068	\$ 27,519	\$ 4,094

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
Rental revenue	\$ 332	\$ 324	\$ 654	\$ 623
Other income	32	52	80	102
Administration expense	(458)	(375)	(918)	(819)
Amortization of other capital assets	(2)	(2)	(5)	(5)
	\$ (96)	\$ (1)	\$ (189)	\$ (99)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
Program expenses	\$ 151	\$ 153	\$ 304	\$ 473
Program - contributions received	(3)	-	(13)	(1)
Administration expense	301	288	648	518
	\$ 449	\$ 441	\$ 939	\$ 990

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
(Increase) decrease in accounts receivable	\$ 61	\$ (606)	\$ 1,278	\$ (274)
Increase (decrease) in grants, author payments and prizes payable	(33,790)	(26,004)	(2,979)	27,904
Increase (decrease) in accounts payable and accrued liabilities	1,925	201	(660)	(1,514)
Decrease in deferred revenues	(203)	(423)	(254)	(149)
Net change	\$ (32,007)	\$ (26,832)	\$ (2,615)	\$ 25,967

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.