



Canada Council  
for the Arts

Conseil des arts  
du Canada

Quarterly

# Financial Report

**Unaudited**

Period ended June 30, 2017  
Published August 31, 2017

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, 2017  
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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, 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 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

Between April 4 and 7, 2017, Simon Brault, the Council's Director and CEO, attended the International Federation of Arts Councils and Culture Agencies (IFACCA) board meeting in Buenos Aires, Argentina.

On April 27, 2017, Punctured Landscape, an exhibition commissioned by the Council featuring works from its Art Bank collection, opened at the Art Museum of the Americas in Washington D.C. The exhibition, presented in collaboration with the Permanent Mission of Canada to the Organization of American States (OAS) and the Department of Canadian Heritage, was curated by Kegan McFadden. Initially on display at the Council's Âjagemô exhibition space at 150 Elgin Street in Ottawa, Punctured Landscape will be on view at the Art Museum of the Americas until July 30, 2017.

On May 2, 2017, the Council announced the recipients of this year's Killam Prizes, which recognize the career achievements of eminent Canadian scholars and scientists actively engaged in research. This year's recipients were: John Borrows of the University of Victoria in Social Sciences; W. Ford Doolittle of Dalhousie University in Natural Sciences; Thomas Hurka of the University of Toronto in Humanities; Julio Montaner of the University of British Columbia in Health Sciences; and Molly Shoichet of the University of Toronto in Engineering.

On May 16, 2017, the Council announced the two recipients for this year's Molson Prizes: Lawrence Hill, professor of creative writing at the University of Guelph and the author of ten books, including *The Illegal*, *The Book of Negroes*, and *Any Known Blood*, and Kent Roach, a Professor of Law and Prichard-Wilson Chair of Law and Public Policy at the University of Toronto. The Council administers the awards in conjunction with the Social Sciences and Humanities Research Council (SSHRC).

On May 25, 2017, the Council announced the first two recipients of the Carrefour residency for emerging, culturally diverse or Indigenous composers: Ian Cusson of Toronto, and Remy Siu of Vancouver. This new residency is part of a 5-year partnership between the Council and the National Arts Centre, which will support professional development in composition for Canadian orchestras. During their residency, the composers will work with and be mentored by Music Director Alexander Shelley, the NAC Orchestra musicians and administration, and will have access to its creative production and performance environment.

On May 29, 2017, the Council announced the recipients of the Victor Martyn Lynch-Staunton Awards, which are given for outstanding artistic achievement by Canadian mid-career artists in seven disciplines: Inter-Arts, Writing and Publishing, Music, Dance, Visual Arts, Media Arts and Theatre. This year's recipients were Bruno Bouchard, Yara El-Ghadban, Kevin Lau, Vladimir "7Starr" Laurore, Kevin Schmidt, Amanda Strong and Marcus Youssef. The Victor Martyn Lynch-Staunton Fund was established thanks to a generous bequest from Mr. Lynch-Staunton to the Council in 1967 and each winner receives \$15,000.

On June 27, 2017, the Council announced the recipients for three architecture prizes:

- The Professional Prix de Rome in Architecture was awarded to KANVA, a multidisciplinary architectural firm based in Montréal;
- The Prix de Rome in Architecture for Emerging Practitioners was awarded to Piper Bernbaum, who is an adjunct professor at the University of Waterloo School of Architecture; and
- The J.B.C. Watkins Award: Architecture was awarded to Montréal-born Annie Breton who will put the prize money toward pursuing a Master's degree in Landscape Architecture at the Oslo School of Architecture and Design in Tromsø, Norway.

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 text can be found on the Council's website—included:

- "The place of Canadian artists at the 2017 Venice Biennale International Art Exhibition" in Venice, Italy on May 9, 2017;
- "Pushing boundaries, building community" at the REVEAL Indigenous Art Award, in Winnipeg on May 23, 2017;
- "Identities / Funding Models," at the International Society for the Performing Arts (ISPA) Congress in Montreal on May 26, 2017; and
- "Art, Canada and the World," at the National Gallery of Canada in Ottawa on June 13, 2017.

Simon Brault also gave the keynote address at the Canadian Commission for UNESCO's Annual General Meeting in Montreal on May 26, 2017.

## Net Results

(in thousands of dollars)	Three months ended June 30			
	2017	2016	Increase/ (Decrease)	% change
Revenue	3,229	2,323	906	39%
Expenses	(102,311)	(111,546)	(9,235)	-8%
Government funding	100,000	84,000	16,000	19%
<b>Surplus (deficit) for the period</b>	<b>918</b>	<b>(25,223)</b>	<b>26,141</b>	

### Overview of the First Quarter Net Results

The surplus for the quarter was \$0.9M, an increase of \$26.1M over the first quarter deficit of the previous fiscal year. This increase is related to a higher drawdown of government funding for the period, \$16M, to cover expected cash-flow requirements. Also, there was a \$9.4M decrease in grant expenses. Those grants expenses will move to future quarters as a result of the first round of online grant applications being accepted later than originally planned.

The Council will continue to monitor its financial results with the aim of achieving the target projections set out in its original balanced budget except for its net investment income which is expected to be much higher than budgeted due to significant anticipated realized gains following a manager transition in the Global Equity asset class during the second quarter.

## IMPORTANT CHANGES

### Program

Beginning in May 2017, artists, groups and organizations were able to apply to the Canada Council's New Funding Model granting programs.

Shortly after, on June 5, 2017, the Canada Council opened its online portal to accept the first round of online applications for its New Funding Model granting programs.

### Leadership and Governance

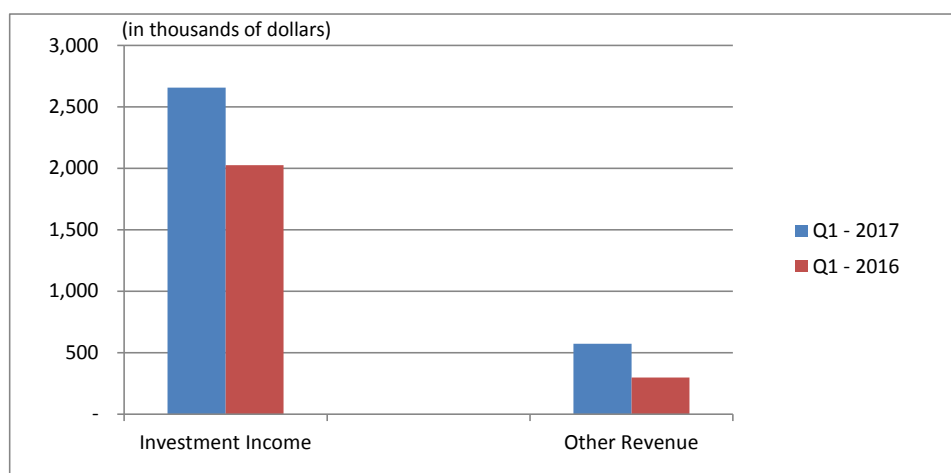
On April 7, 2017, six new members of the Council's Board of Directors were announced: Ben Nind (NT), Cheryl Hickman (NL), David Binet (ON), Jesse Wentz (ON), Yann Martel (SK) and Jennifer Dorner (QC). On that same date, Nathalie Bondil (QC) and Beverley Foy (AB) had their terms on the Council's Board of Directors renewed.

Elizabeth MacKinnon was appointed Director, Policy, Planning and Strategic Foresight, effective April 4, 2017.

## 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 a higher distribution of dividends. The net investment income is forecasted to be much higher than budgeted due to significant anticipated realized gains following a manager transition in the Global Equity asset class during the second quarter.

### Other Revenue

The other revenues for the quarter are higher than last year mainly due to a contribution of \$118K received from Canadian Heritage for the "Jeux de la francophonie" and earlier receipt of membership fees from the Canadian Public Arts Funders.

## Expenses

(in thousands of dollars)	June 30, 2017	June 30, 2016	Increase/ (Decrease)
Grants, author payments and prizes	93,675	103,081	(9,406)
Transfer program delivery	3,667	4,113	(446)
Arts community services	313	167	146
Net Art Bank results	93	98	(5)
Canadian Commission for UNESCO	489	549	(60)
General administration	4,074	3,538	536
<b>Total</b>	<b>102,311</b>	<b>111,546</b>	<b>(9,235)</b>

### Grants, author payments and prizes

Grant expenses for the first quarter represents the base commitments made to core organizations under the New Funding Model. All core organizations will be assessed in the fall. All other competition results under the New Funding Model will be spread over the next three quarters. 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 lower compared to last year due to postponing all peer assessment committee meetings to the summer because of the launch of the New Funding Model.

### Arts community services

This expense is higher compared to last year mainly due to an increased investment in partnerships of \$195K.

### General administration

This expense is higher compared to last year mainly due to an increase in salaries and benefits, \$446K, representing a full staff complement in the first quarter compared to a number of vacancies last year, as well as an increase of \$135K in professional fees.

## Financial Assets

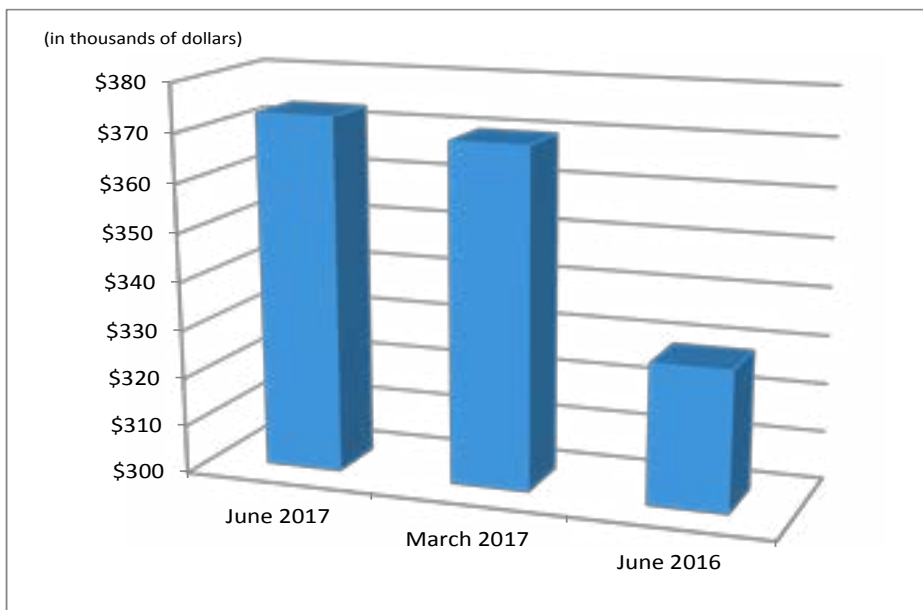
(in thousands of dollars)	June 30, 2017	March 31, 2017	Increase/ (Decrease)
Cash and cash equivalents	52,252	23,490	28,762
Accounts receivable	2,207	3,424	(1,217)
Portfolio investments	373,133	369,623	3,510
<b>Total</b>	<b>427,592</b>	<b>396,537</b>	<b>31,055</b>

### Cash and Cash Equivalents

The increase of \$28.8M in Cash and cash equivalents is explained by an increase of \$30.8M in Grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as of June 30, 2017, less a \$2.6M reduction in accounts payable and accrued liabilities compared to March 31, 2017.

### Portfolio Investments

The total market value of the portfolio as at June 30, 2017, was \$373.1M, of which \$90.2M was externally restricted. This represents an increase of \$3.5M in the market value since March 31, 2017, and an increase of \$38.2M since June 30, 2016.



The total fund generated an absolute positive return of 1.5% for the quarter which was higher than the benchmark return by 0.8%. Managers from all asset classes generated positive returns during the first quarter, but the main contributors to this positive return were the Infrastructure, Real Estate and Global Equity funds which posted positive results for the quarter (3.1%, 3.0% and 1.8% respectively). The performance of our Canadian Equity managers also helped the results as they posted a combined positive return of 1.0% compared to the negative return of 1.6% of the S&P/TSX Composite Index.

The total fund one-year return was 12.4% for June 2017 which exceeded the benchmark by 3.0%. Our Global and Canadian Equity managers posted strong returns, 21.8% and 13.9% respectively, compared to their benchmarks, 18.8% and 11.0% respectively. All managers in other asset classes also posted positive returns.

## Liabilities

(in thousands of dollars)	June 30, 2017	March 31, 2017	Increase/ (Decrease)
Grants, author payments and prizes payable	90,165	59,354	30,811
Accounts payable and accrued liabilities	2,024	4,609	(2,585)
Deferred revenues	7,384	7,435	(51)
Employees future benefits	3,318	3,232	86
Externally restricted contributions	47,249	46,768	481
<b>Total</b>	<b>150,140</b>	<b>121,398</b>	<b>28,742</b>

### Grants, prizes and author payments payable

The increase of \$30.8M in comparison to the value as at March 31, 2017 arises from the base grants commitments made to core organizations, based on the previous funding model, that were recorded in April 2017 and will be paid in three instalments during the year.

### Accounts payable and accrued liabilities

The decrease of \$2.6M in comparison to the value as at March 31, 2017 is mainly due to a reduction of \$2.2M in commercial invoices due to the timing of the payment schedule.

## Non-Financial Assets

(in thousands of dollars)	June 30, 2017	March 31, 2017	Increase/ (Decrease)
Tangible capital assets	8,099	8,132	(33)
Art Bank assets	19,415	19,415	-
Musical instruments	1	1	-
Prepaid expenses	80	162	(82)
<b>Total</b>	<b>27,595</b>	<b>27,710</b>	<b>(115)</b>

### Art Bank Assets

The Council owns approximately 17,300 works of contemporary Canadian art within its Art Bank collection. At June 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 June 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, under the oversight of assigned members of executive management, 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 reflecting changes in the Council's risk environment. This included 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 in strategic and operational planning, resource allocation decisions, and 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 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:

	June 30	
	2017	2016
(in thousands of dollars)		
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 three month period	(100,000)	(84,000)
<b>Balance of operating funding to be received</b>	<b>157,347</b>	<b>138,097</b>



Canada Council  
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Quarterly

# Financial Statements

**Unaudited**

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

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## Management's Responsibility for Financial Reporting

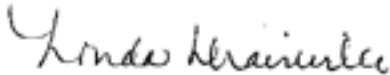
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the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

August 31, 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)	June 30	March 31
(in thousands of dollars)	2017	2017
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	\$ 52,252	\$ 23,490
Accounts receivable	2,207	3,424
Portfolio investments (Note 3)	373,133	369,623
<b>Total financial assets</b>	<b>427,592</b>	<b>396,537</b>
<b>LIABILITIES</b>		
Grants, author payments and prizes payable	90,165	59,354
Accounts payable and accrued liabilities	2,024	4,609
Deferred revenues	7,384	7,435
Employee future benefits	3,318	3,232
Deferred revenues - Externally restricted contributions (Note 5)	47,249	46,768
<b>Total liabilities</b>	<b>150,140</b>	<b>121,398</b>
<b>NET FINANCIAL ASSETS</b>	<b>277,452</b>	<b>275,139</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets	8,099	8,132
Art Bank assets	19,415	19,415
Musical instruments	1	1
Prepaid expenses	80	162
<b>Total non-financial assets</b>	<b>27,595</b>	<b>27,710</b>
<b>ACCUMULATED SURPLUS (Note 6)</b>	<b>\$ 305,047</b>	<b>\$ 302,849</b>
Accumulated surplus is comprised of:		
Accumulated surplus from operations	255,348	254,430
Accumulated remeasurement gains	49,699	48,419
<b>ACCUMULATED SURPLUS</b>	<b>\$ 305,047</b>	<b>\$ 302,849</b>

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

## Statement of Operations

(Unaudited) (in thousands of dollars)	Yearly Budget 2017-2018	Three months ended June 30	
		2017	2016
<b>Revenue</b>			
Net realized investment income (Note 7)	\$ 10,282	\$ 2,657	\$ 2,026
Other revenue	1,271	572	297
<b>Total revenue</b>	<b>11,553</b>	<b>3,229</b>	<b>2,323</b>
<b>Expenses</b>			
Transfer Programs			
Grants, author payments and prizes	221,939	93,675	103,081
Transfer program delivery	23,266	3,667	4,113
Arts community services	2,977	313	167
	248,182	97,655	107,361
Net Art Bank results (Note 8)	275	93	98
Canadian Commission for UNESCO (Note 9)	2,406	489	549
General administration	18,246	4,074	3,538
<b>Total expenses</b>	<b>269,109</b>	<b>102,311</b>	<b>111,546</b>
Deficit from operations before Parliamentary appropriations for the period	(257,556)	(99,082)	(109,223)
Parliamentary appropriations	257,572	100,000	84,000
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	16	918	(25,223)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	254,430	254,430	249,587
<b>ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD</b>	<b>\$ 254,446</b>	<b>\$ 255,348</b>	<b>\$ 224,364</b>

## Statement of Remeasurement Gains and Losses

(Unaudited) (in thousands of dollars)	Three months ended June 30	
	2017	2016
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 48,419	\$ 31,158
<b>Unrealized gains attributable to:</b>		
Portfolio investments	1,542	471
<b>Amounts reclassified to the Statement of Operations:</b>		
Portfolio investments	(262)	(17)
NET MEASUREMENT GAINS FOR THE PERIOD	1,280	454
<b>ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD</b>	<b>\$ 49,699</b>	<b>\$ 31,612</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	
	2017	2016
(in thousands of dollars)		
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	\$ 918	\$ (25,223)
Acquisition of tangible capital assets	(341)	(44)
Amortization of tangible capital assets	374	333
	33	289
Acquisition of prepaid expenses	(227)	(137)
Use of prepaid expenses	309	184
	82	47
Net remeasurement gains	1,280	454
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	2,313	(24,433)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	275,139	253,828
<b>NET FINANCIAL ASSETS, END OF PERIOD</b>	<b>\$ 277,452</b>	<b>\$ 229,395</b>

## Statement of Cash Flow

(Unaudited)	Three months ended June 30	
	2017	2016
(in thousands of dollars)		
<b>Operating Transactions</b>		
Surplus (deficit) from operations for the period	\$ 918	\$ (25,223)
Gains from disposal of portfolio investments (Note 7)	(235)	(319)
Amortization of tangible capital assets	374	333
Decrease in prepaid expenses	82	47
Increase in employee future benefits	86	109
Income transferred to Deferred revenues - Externally restricted contributions from investment income (Note 5)	141	192
Net change in other non-cash items (Note 10)	29,392	52,799
Cash provided by operating activities	30,758	27,938
<b>Capital Transactions</b>		
Cash used to acquire tangible capital assets	(341)	(44)
<b>Investing Transactions</b>		
Acquisition of portfolio investments	(3,807)	(3,490)
Disposal of portfolio investments	2,152	850
Cash used by investing activities	(1,655)	(2,640)
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,762	25,254
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	23,490	(151)
CASH AND CASH EQUIVALENTS, END OF PERIOD	<b>\$ 52,252</b>	<b>\$ 25,103</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, 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 June 30, 2017					Year-end March 31, 2017		
	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	105,544	115	34,839	140,268	46	104,464	137,999	45
Fixed income	70,269	-	1,911	72,180	24	70,269	72,256	24
Alternatives	20,630	-	8,384	29,014	9	20,630	28,821	10
Money market	1,314	-	-	1,314	0	1,312	1,312	0
Canadian Equity	30,743	-	1,444	32,187	10	30,572	31,559	10
Real estate	11,357	-	2,597	13,954	5	11,037	13,497	5
Infrastructure	13,352	-	5,297	18,649	6	13,387	19,194	6
	253,209	115	54,472	307,566	100	251,671	304,638	100
<b>Killam Fund</b>								
Pooled funds								
Global and Canadian Equity	28,062	24	7,393	35,431	54	27,778	34,858	54
Fixed income	13,691	-	366	14,057	21	13,690	14,071	22
Alternatives	5,298	-	2,146	7,444	11	5,298	7,394	11
Real estate	3,007	-	699	3,707	6	2,927	3,585	5
Infrastructure	3,407	-	1,522	4,928	8	3,418	5,077	8
	53,465	24	12,126	65,567	100	53,111	64,985	100
<b>Total investments</b>	<b>306,674</b>	<b>139</b>	<b>66,598</b>	<b>373,133</b>		<b>304,782</b>	<b>369,623</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, 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 \$24,636,000 (March 31, 2017 - \$24,402,000). The total fair value of the externally restricted investment including the Killam Fund is \$90,203,000 (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.

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 \$1,314,000 (March 31, 2017 - \$1,312,000).

Investments in the equity pooled funds are comprised of units of four pooled funds, two Canadian funds 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 (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%.

#### 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 June 30, 2017	Year-end March 31, 2017
Financial assets and liabilities	Measurement categories	Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
Cash and cash equivalents	Fair value	52,252	23,490
Accounts receivable	Amortized cost	2,207	3,424
Portfolio Investments <sup>1</sup>	Fair value	373,133	369,623
Grants, author payments and prizes payable	Amortized cost	90,165	59,354
Accounts payable and accrued liabilities	Amortized cost	2,024	4,609

<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, 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.
- 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 June 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	52,252	-	-	52,252	292	23,198	-	23,490
	52,252	-	-	52,252	292	23,198	-	23,490
<b>Portfolio Investments</b>								
<b>Canada Council Endowment and Special Funds</b>								
<b>Pooled Funds</b>								
Global and Canadian Equity	-	140,268	-	140,268	-	137,999	-	137,999
Fixed Income	-	72,180	-	72,180	-	72,256	-	72,256
Alternatives	-	-	29,014	29,014	-	-	28,821	28,821
Money Market	-	1,314	-	1,314	-	1,312	-	1,312
Canadian Equity	32,187	-	-	32,187	31,559	-	-	31,559
Real Estate	-	-	13,954	13,954	-	-	13,497	13,497
Infrastructure	-	-	18,649	18,649	-	-	19,194	19,194
<b>Killam Fund</b>								
<b>Pooled Funds</b>								
Global and Canadian Equity	-	35,431	-	35,431	-	34,858	-	34,858
Fixed Income	-	14,057	-	14,057	-	14,071	-	14,071
Alternatives	-	-	7,444	7,444	-	-	7,394	7,394
Real Estate	-	-	3,707	3,707	-	-	3,585	3,585
Infrastructure	-	-	4,928	4,928	-	-	5,077	5,077
	32,187	263,250	77,696	373,133	31,559	260,496	77,568	369,623
<b>Total</b>	<b>84,439</b>	<b>263,250</b>	<b>77,696</b>	<b>425,385</b>	<b>31,851</b>	<b>283,694</b>	<b>77,568</b>	<b>393,113</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, 2017	Year-end March 31, 2017
Balance, beginning of period	\$ 46,768	\$ 39,501
Transferred from investment income (Note 7)		
Net Investment income	642	4,567
Use of funds	(501)	(2,484)
	141	2,083
Unrealized gains on portfolio investment	428	6,878
Reclassified to statement of operations - portfolio	(88)	(1,694)
<b>Balance at end of period</b>	<b>\$ 47,249</b>	<b>\$ 46,768</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, 2017	Year-end March 31, 2017
<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	141,445	136,445
Appropriated from the accumulated surplus during the period	-	5,000
Balance at end of the period	141,445	141,445
<b>Surplus</b>		
Balance at beginning of the period	25,416	25,573
Appropriated to the reserve for excess investment income during the period	-	(5,000)
Surplus for the period	918	4,843
Balance at end of the period	26,334	25,416
<b>Total accumulated surplus from operations</b>	<b>255,348</b>	<b>254,430</b>
<b>Accumulated remeasurement gains</b>		
Balance at beginning of the period	48,419	31,158
Change in fair value	1,280	17,261
Balance at end of the period	49,699	48,419
<b>Balance of accumulated surplus at end of period</b>	<b>\$ 305,047</b>	<b>\$ 302,849</b>



## 7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended June 30	
	2017	2016
Gains from disposal of portfolio Investments	\$ 235	\$ 319
Income transferred to deferred revenues -		
Externally restricted contributions (Note 5)	(141)	(192)
Net gains on foreign exchange	27	73
Interest, dividend and other distributed income	2,851	2,169
Investment portfolio management costs	(315)	(343)
	<b>\$ 2,657</b>	<b>\$ 2,026</b>

## 8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended June 30	
	2017	2016
Rental revenue	\$ 322	\$ 299
Other income	48	50
Administration expense	(460)	(444)
Amortization of other capital assets	(3)	(3)
	<b>\$ (93)</b>	<b>\$ (98)</b>

## 9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended June 30	
	2017	2016
Program expenses	\$ 152	\$ 320
Program - contributions received	(10)	(1)
Administration expense	347	230
	<b>\$ 489</b>	<b>\$ 549</b>

## 10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended June 30	
	2017	2016
Decrease in accounts receivable	\$ 1,217	\$ 332
Increase in grants, author payments and prizes payable	30,811	53,908
Decrease in accounts payable and accrued liabilities	(2,585)	(1,715)
(Decrease) increase in deferred revenues	(51)	274
<b>Net change</b>	<b>\$ 29,392</b>	<b>\$ 52,799</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.