



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended September 30, 2016
Published November 30, 2016

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



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Management Discussion and Analysis

Quarterly Report

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INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the six-month period ended September 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 July 12, 2016, the Council announced the recipients of this year's Molson Prizes: Marie-Claire Blais, a writer, and John McGarry, Canada Research Chair in the Department of Political Studies at Queen's University. The Council's two Molson Prizes, in the amount of \$50,000 each, are awarded annually to distinguished individuals (one in the arts and one in the social sciences and humanities). The Molson Prize is administered by the Council in partnership with the Social Sciences and Humanities Research Council of Canada (SSHRC).

On August 3, 2016, the Council announced cellist Daniel Hass the recipient of the 2016 Canada Council Michael Measures Prize. This \$25,000 prize is a unique collaboration between the Council and the National Youth Orchestra of Canada, and recognizes exceptional talent in the next generation of Canadian classical musicians.

On September 21, 2016, the Council's Director and CEO, Simon Brault, gave the keynote address at the opening Gala for the Prismatic Festival in Halifax. The keynote was titled, "Equity in the Arts: Opening the Doors for a Better Future," and a transcript was posted on the Canada Council's webpage.

Net Results

(in thousands of dollars)	Three months ended September 30				Six months ended September 30			
	2016	2015	Increase/ (Decrease)	% change	2016	2015	Increase/ (Decrease)	% change
Revenue	2,795	1,342	1,453	108%	5,118	2,997	2,121	71%
Expenses	(26,877)	(32,812)	(5,935)	-18%	(138,423)	(134,139)	4,284	3%
Government funding	39,300	41,000	(1,700)	-4%	123,300	123,000	300	0%
Surplus for the period	15,218	9,530	5,688	60%	(10,005)	(8,142)	(1,863)	23%

Overview of the Second Quarter Net Results

The surplus for the quarter was \$15.2M, an increase of \$5.7M over the second quarter of the previous fiscal year. This increase is mainly related to a \$5.7M reduction in grants expense for the period which is due to timing in the approval of grant expenses,

The government funding is drawn down based on cash-flow requirements. The additional \$1.4M received in net realized investment income explains the reduction of \$1.7M in government funding required for the period.

The deficit for the cumulative six-month period was \$10.0M, an increase of \$1.9M over the deficit for the same period last year. This increase is related to a higher distribution of grants during the cumulative six-month period of \$4.5M compared to the same period last year. This increase was offset by a \$2.3M increase in net investment income.

The Council will continue to monitor its financial results in order to be aligned with budget.

IMPORTANT CHANGES

Program

On August 31, 2016, the Council released program deadlines and other details for its New Funding Model, which will launch in April 2017.

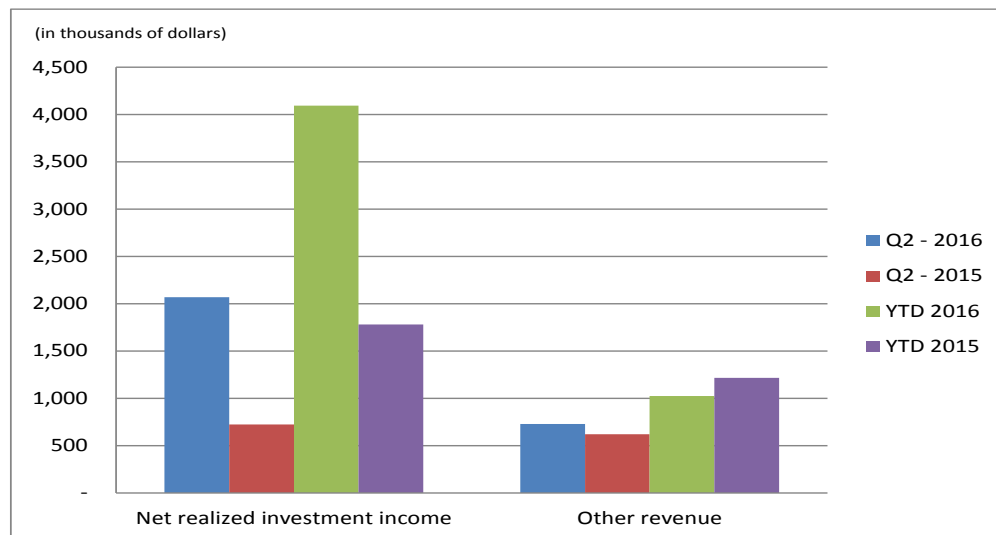
On August 30, 2016, the Council announced the finalists for the Jeux de la Francophonie. The Canada Council for the Arts and Canadian Heritage joined forces to preselect the artists for Team Canada at the 2017 Games. Coordinated by the Council, a peer assessment committee made of professional artists from across Canada reviewed 229 applications and preselected 32 candidates. This preselection will be submitted to a jury of the International Games Committee, which will make the final selection of artists who will be part of Team Canada. All participating countries and governments submit their list of finalists to this international jury.

The New Chapter program launched on May 9, 2016, to mark the 150th anniversary of Confederation, is drawing a lot of attention. The Council received 550 applications for a total requested amount of \$112M at its first deadline July 4, 2016. The assessment of all applications will be done by early December 2016 and results should be announced in December 2016. The Council is expecting an even greater number of applications for the second deadline October 31, 2016.

FINANCIAL RESULTS

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

Revenue



Net Realized Investment Income

Net investment income for the quarter is higher by \$1.3M compared to the same period last year, due to the realization of gains upon the sale of some investments as well as the timing of distributed income. For the cumulative six-month period, the net investment income has more than doubled due to the realized capital gains during this quarter but mostly due to new managers distributing their income on a quarterly basis instead of just once at the end of calendar year. The investment income is still forecasted to be aligned with the budget by year end.

Other Revenue

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

Expenses

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2016	2015	Increase/ (Decrease)	2016	2015	Increase/ (Decrease)
Grants, prizes and author payments	18,423	24,137	(5,714)	121,504	117,052	4,452
Transfer program delivery	3,856	3,924	(68)	7,969	7,878	91
Arts community services	151	353	(202)	318	656	(338)
Net Art Bank results	1	55	(54)	99	178	(79)
Canadian Commission for UNESCO	441	430	11	990	968	22
General administration	4,005	3,913	92	7,543	7,407	136
Total	26,877	32,812	(5,935)	138,423	134,139	4,284

Grants, Prizes and Author Payments

Grant expenses for the quarter are lower compared to the same period last year due to the timing of competition deadlines and approval of results by the Board which differ from the prior year. The six-month period comparative demonstrates an increase of \$4.5M. The Council expects the annual grants expenses to be aligned with the original budget of \$191.0M which represents an increase of \$36.6M compared to last year's actual grants expenses due to the additional \$40.0M received this year in government funding.

Arts Community Services

This expense is less compared to last year's quarter and six-month period due to the elimination of the international residencies program this year.

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

Financial Assets

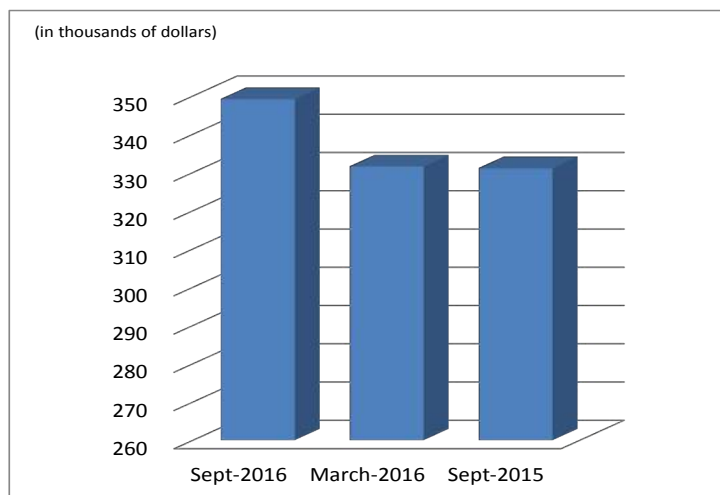
(in thousands of dollars)	September 30	March 31	Increase/ (Decrease)
	2016	2016	
Cash and cash equivalents	13,593	495	13,098
Accounts receivable	3,049	2,775	274
Portfolio investments	349,253	331,651	17,602
Total	365,895	334,921	30,974

Cash and Cash Equivalents

The increase of \$13.1M in Cash and cash equivalents is explained by the increase of \$27.9M of outstanding grants payments to recipients since March 31, 2016 less the \$10.0M deficit for the six-month period and a net purchase of \$2.1M in portfolio investments.

Portfolio Investments

The total market value of the portfolio as at September 30, 2016 was \$349.3M of which \$84.5M was externally restricted. This represents an increase of \$17.6M since March 31, 2016 and an increase of \$18.1M since September 30, 2015.



The total fund generated an absolute positive return of 5.1% for the quarter which was higher than the benchmark return by 1.4%. The main reason for this positive return is directly related to strong returns from our Global Equity investment managers which posted a 8.2% return outperforming the benchmark by 1.6%. The Council transitioned to a new Canadian Equity Manager during the quarter and this resulted in a small underperformance with a positive return of 4.9% compared to the benchmark of 5.5%.

The total fund generated a one-year return of 8.7% which was higher than the benchmark by 0.2%. All asset classes posted positive returns for the one-year return but the Canadian and Global Equity and the Fixed Income assets classes, representing 80% of the portfolio's allocation, posted strong returns at 16.0%, 7.7% and 7.2% respectively.

Liabilities

(in thousands of dollars)	September 30 2016	March 31 2016	Increase/ (Decrease)
Bank indebtedness	-	646	(646)
Grants, prizes and author payments payable	55,578	27,674	27,904
Accounts payable and accrued liabilities	1,972	3,486	(1,514)
Deferred revenues	6,728	6,877	(149)
Employee future benefits	3,101	2,909	192
Externally restricted contributions	43,352	39,501	3,851
Total	110,731	81,093	29,638

Grants, Prizes and Author Payments Payable

The increase of \$27.9M in comparison to the value as at March 31, 2016 arises from grants accrued which had not been paid by the end of the six-month period.

Accounts Payable and Accrued Liabilities

The decrease of \$1.5M 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.

Non-Financial Assets

(in thousands of dollars)	September 30 2016	March 31 2016	Increase/ (Decrease)
Tangible capital assets	6,976	7,348	(372)
Art Bank assets	19,384	19,384	-
Musical instruments	1	1	-
Prepaid expenses	111	184	(73)
Total	26,472	26,917	(445)

Art Bank Assets

The Council owns approximately 17,500 works of contemporary Canadian art within its Art Bank collection. At September 30, 2016 the appraised value of the Art Bank assets was approximately \$71M. The Council insures its Art Bank assets at their estimated appraised value.

Musical Instruments

The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and nine prestigious musical instruments. In addition, the Council manages 13 instruments on loan. The appraised value of its musical instruments as at September 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 reviewed its Corporate Risk Profile and also developed a new five-year Risk-Based internal Audit Plan that the Audit and Finance Committee endorsed at its June 2016 meeting. Executive management monitors progress on the implementation of the mitigation strategies and reports results to the Audit and Finance Committee on a regular basis.

Financial Risk

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

USE OF PARLIAMENTARY APPROPRIATION

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

The Council receives its main funding through an appropriation voted by Parliament. The Council records the Parliamentary appropriation received in the period as revenue in the Statement of Operations or as Deferred Parliamentary appropriations 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 six-month period were as follows:

(in thousands of dollars)	September 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 six-month period	(123,300)	(123,000)
Deferred - Parliamentary appropriations	-	(17,000)
Balance of operating funding to be received	98,797	42,097



Canada Council
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Conseil des arts
du Canada

Quarterly

Financial Statements

Unaudited

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

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Management's Responsibility for Financial Reporting

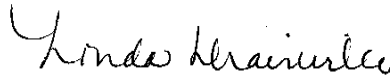
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the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

November 30, 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)	September 30	March 31
(in thousands of dollars)	2016	2016
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 13,593	\$ 495
Accounts receivable	3,049	2,775
Portfolio investments (Note 3)	349,253	331,651
Total financial assets	365,895	334,921
LIABILITIES		
Bank indebtedness	-	646
Grants, prizes and author payments payable	55,578	27,674
Accounts payable and accrued liabilities	1,972	3,486
Deferred revenues	6,728	6,877
Employee future benefits	3,101	2,909
Deferred revenues - Externally restricted contributions (Note 5)	43,352	39,501
Total liabilities	110,731	81,093
NET FINANCIAL ASSETS	255,164	253,828
NON-FINANCIAL ASSETS		
Tangible capital assets	6,976	7,348
Art Bank assets	19,384	19,384
Musical instruments	1	1
Prepaid expenses	111	184
Total non-financial assets	26,472	26,917
ACCUMULATED SURPLUS (Note 6)	\$ 281,636	\$ 280,745
Accumulated surplus is comprised of:		
Accumulated surplus from operations	239,582	249,587
Accumulated remeasurement gains	42,054	31,158
ACCUMULATED SURPLUS	\$ 281,636	\$ 280,745

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

Statement of Operations

(Unaudited) (in thousands of dollars)	Yearly Budget	Three months ended September 30		Six months ended September 30	
	2016	2016	2015	2016	2015
Revenue					
Net realized investment income (Note 7)	\$ 9,823	\$ 2,068	\$ 723	\$ 4,094	\$ 1,781
Other revenue	1,381	727	619	1,024	1,216
Total revenue	11,204	2,795	1,342	5,118	2,997
Expenses					
Transfer Programs					
Grants, prizes and author payments	191,039	18,423	24,137	121,504	117,052
Transfer program delivery	19,435	3,856	3,924	7,969	7,878
Arts community services	3,761	151	353	318	656
	214,235	22,430	28,414	129,791	125,586
Net Art Bank results (Note 8)	255	1	55	99	178
Canadian Commission for UNESCO (Note 9)	2,324	441	430	990	968
General administration	16,711	4,005	3,913	7,543	7,407
Total expenses	233,525	26,877	32,812	138,423	134,139
Deficit from operations before Parliamentary appropriations for the period	(222,321)	(24,082)	(31,470)	(133,305)	(131,142)
Parliamentary appropriations	222,347	39,300	41,000	123,300	123,000
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	26	15,218	9,530	(10,005)	(8,142)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	249,587	224,364	220,085	249,587	237,757
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 249,613	\$ 239,582	\$ 229,615	\$ 239,582	\$ 229,615

Statement of Remeasurement Gains and Losses

(Unaudited) (in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 31,612	\$ 51,145	\$ 31,158	\$ 53,963
Unrealized gains (losses) attributable to:				
Portfolio investments	11,410	(8,530)	11,881	(11,348)
Amounts reclassified to the Statement of Operations:				
Portfolio investments	(968)	(45)	(985)	(45)
NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD	10,442	(8,575)	10,896	(11,393)
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 42,054	\$ 42,570	\$ 42,054	\$ 42,570

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

Statement of Change in Net Financial Assets

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
(in thousands of dollars)				
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	\$ 15,218	\$ 9,530	\$ (10,005)	\$ (8,142)
Acquisition of tangible capital assets	(250)	(157)	(294)	(179)
Amortization of tangible capital assets	332	284	665	506
	82	127	371	327
Acquisition of prepaid expenses	(256)	(64)	(393)	(102)
Use of prepaid expenses	283	28	467	181
	27	(36)	74	79
Net remeasurement gains (losses)	10,442	(8,575)	10,896	(11,393)
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	25,769	1,046	1,336	(19,129)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	229,395	244,415	253,828	264,590
NET FINANCIAL ASSETS, END OF PERIOD	\$ 255,164	\$ 245,461	\$ 255,164	\$ 245,461

Statement of Cash Flow

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
(in thousands of dollars)				
Operating Transactions				
Surplus (deficit) from operations for the period	\$ 15,218	\$ 9,530	\$ (10,005)	\$ (8,142)
(Gains) losses from disposal of portfolio investments (Note 7)	(1,103)	60	(1,422)	(20)
Amortization of tangible capital assets	332	284	665	506
(Increase) decrease in prepaid expenses	27	(36)	74	79
Increase in employee future benefits	83	107	192	190
Income transferred (from) to Deferred revenues - Externally restricted contributions to investment income (Note 5)	507	(174)	699	(437)
Net change in other non-cash items (Note 10)	(26,832)	(20,749)	25,967	41,576
Cash provided (used) by operating activities	(11,768)	(10,978)	16,170	33,752
Capital Transactions				
Cash used to acquire tangible capital and Art Bank assets	(250)	(157)	(294)	(179)
Investing Transactions				
Acquisition of portfolio investments	(40,225)	(923)	(43,715)	(3,211)
Disposal of portfolio investments	40,733	26	41,583	1,573
Cash provided (used) by investing activities	508	(897)	(2,132)	(1,638)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,510)	(12,032)	13,744	31,935
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	25,103	45,193	(151)	1,226
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 13,593	\$ 33,161	\$ 13,593	\$ 33,161

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

Notes to the Financial Statements

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

3. PORTFOLIO INVESTMENTS

	Year-to-date September 30, 2016					Year-end March 31, 2016		
	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	98,123	-	28,248	126,371	44	126,336	144,855	53
Fixed income	70,269	-	4,204	74,473	26	70,750	73,426	27
Alternatives	20,630	-	7,108	27,738	10	20,630	26,936	10
Money market	3,506	-	-	3,506	1	5,992	5,992	2
Canadian Equity	29,081	124	-	28,957	10	-	-	-
Real estate	9,507	88	2,570	11,989	4	7,717	10,045	4
Infrastructure	10,621	13	4,142	14,750	5	7,827	12,201	4
	241,737	225	46,272	287,784	100	239,252	273,455	100
Killam Fund								
Pooled funds								
Global and Canadian Equity	26,404	-	5,904	32,308	53	26,832	30,987	53
Fixed income	13,690	-	813	14,503	24	13,787	14,302	25
Alternatives	5,298	-	1,819	7,117	11	5,298	6,911	12
Real estate	2,970	26	693	3,637	6	2,051	2,683	4
Infrastructure	2,712	3	1,195	3,904	6	2,036	3,313	6
	51,074	29	10,424	61,469	100	50,004	58,196	100
Total investments	292,811	254	56,696	349,253		289,256	331,651	

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 \$23,051,000 (March 31, 2016 - \$21,904,000). The total fair value of the externally restricted investment including the Killam Fund is \$84,521,000 (March 31, 2016 - \$80,100,000).

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

The Council invests in units of equity, fixed income and alternative pooled funds, in a segregated Canadian equity fund and in limited partnership units of 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	44%	35%	40%	45%
Fixed income	26%	15%	25%	35%
Alternatives	10%	5%	10%	15%
Real estate	4%	0%	7.5%	10%
Infrastructure	5%	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 \$3,506,000 (March 31, 2016 - \$5,992,000).

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

4. FINANCIAL RISKS AND FAIR VALUE

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

(in thousands of dollars)

	Measurement categories	Year-to-date	Year-end
		September 30, 2016	March 31, 2016
Financial assets and liabilities and classifications		Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
Cash and cash equivalents	Fair value	13,593	495
Accounts receivable	Amortized cost	3,049	2,775
Portfolio Investments ¹	Fair value	349,253	331,651
Bank indebtedness	Fair value	-	646
Grants, prizes and author payments payable	Amortized cost	55,578	27,674
Accounts payable and accrued liabilities	Amortized cost	1,972	3,486

¹ 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.
- Canadian equity fund is valued using closing market prices at the financial statement date.
- The Alternatives is a pooled fund investment which is valued at the unit values supplied by the pooled fund manager. The fund manager manages multiple funds strategies within the fund and determines the unit's fair value using the closing market prices for some strategies when available or using 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 September 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	1,307	12,286	-	13,593	-	495	-	495
	1,307	12,286	-	13,593	-	495	-	495
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Global and Canadian Equity	-	126,371	-	126,371	-	144,855	-	144,855
Fixed Income	-	74,473	-	74,473	-	73,426	-	73,426
Alternatives	-	-	27,738	27,738	-	-	26,936	26,936
Money Market	-	3,506	-	3,506	-	5,992	-	5,992
Canadian Equity	28,957	-	-	28,957	-	-	-	-
Real Estate	-	-	11,989	11,989	-	-	10,045	10,045
Infrastructure	-	-	14,750	14,750	-	-	12,201	12,201
Killam Fund								
Pooled Funds								
Global and Canadian Equity	-	32,308	-	32,308	-	30,987	-	30,987
Fixed Income	-	14,503	-	14,503	-	14,302	-	14,302
Alternatives	-	-	7,117	7,117	-	-	6,911	6,911
Real Estate	-	-	3,637	3,637	-	-	2,683	2,683
Infrastructure	-	-	3,904	3,904	-	-	3,313	3,313
	28,957	251,161	69,135	349,253	-	269,562	62,089	331,651
Total	30,264	263,447	69,135	362,846	-	270,057	62,089	332,146

Financial liabilities at fair value

	Year-to-date September 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
Total	-	-	-	-	646	-	-	646

5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

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

	Year-to-date	
	September 30, 2016	March 31, 2016
<i>(in thousands of dollars)</i>		
Balance, beginning of period	\$ 39,501	\$ 42,956
Transferred from investment income (Note 7)		
Net Investment income	1,460	6,243
Use of funds	(761)	(2,389)
	699	3,854
Unrealized gains (losses) on portfolio investment	3,877	(6,622)
Reclassified to statement of operations - portfolio	(725)	(687)
Balance at end of period	\$ 43,352	\$ 39,501

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

6. ACCUMULATED SURPLUS

	Year-to-date	
	September 30, 2016	March 31, 2016
<i>(in thousands of dollars)</i>		
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	136,445	124,445
Appropriated from the accumulated surplus during the period	-	12,000
Balance at end of period	136,445	136,445
Surplus		
Balance at beginning of period	25,573	25,743
Appropriated to the reserve for excess investment income during the period	-	(12,000)
Surplus (deficit) for the period	(10,005)	11,830
Balance at end of period	15,568	25,573
Total accumulated surplus from operations	239,582	249,587
Accumulated remeasurement gains		
Balance at beginning of period	31,158	53,963
Change in fair value	10,896	(22,805)
Balance at end of period	42,054	31,158
Balance of accumulated surplus at end of period	\$ 281,636	\$ 280,745

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
Gains (losses) from disposal of portfolio investments	\$ 1,103	\$ (60)	\$ 1,422	\$ 20
Income transferred from (to) deferred revenues -				
Externally restricted contributions (Note 5)	(507)	174	(699)	437
Net gains (losses) on foreign exchange	184	9	257	(2)
Interest, dividend and other distributed income	1,667	1,117	3,836	2,285
Investment portfolio management costs	(379)	(517)	(722)	(959)
	\$ 2,068	\$ 723	\$ 4,094	\$ 1,781

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
Rental revenue	\$ 324	\$ 304	\$ 623	\$ 611
Other income	52	35	102	70
Administration expense	(375)	(391)	(819)	(854)
Amortization of other capital assets	(2)	(3)	(5)	(5)
	\$ (1)	\$ (55)	\$ (99)	\$ (178)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
Program expenses	\$ 153	\$ 98	\$ 473	\$ 353
Program - contributions received	-	-	(1)	(9)
Administration expense	288	332	518	624
	\$ 441	\$ 430	\$ 990	\$ 968

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
(Increase) decrease in accounts receivable	\$ (606)	\$ (168)	\$ (274)	\$ 230
Increase (decrease) in grants, prizes and author payments payable	(26,004)	(19,303)	27,904	24,861
Increase (decrease) in accounts payable and accrued liabilities	201	(25)	(1,514)	(283)
Decrease in deferred revenues	(423)	(253)	(149)	(232)
Increase (decrease) in deferred Parliamentary appropriations	-	(1,000)	-	17,000
Net change	\$ (26,832)	\$ (20,749)	\$ 25,967	\$ 41,576

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.