



Canada Council  
for the Arts

Conseil des arts  
du Canada

Quarterly

# Financial Report

**Unaudited**

Period ended December 31, 2017  
Published February 28, 2018



Canada Council  
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du Canada

# Management Discussion and Analysis

## Quarterly Report

Period ended December 31, 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 nine-month period ended December 31, 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. 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 narrative 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

### for the quarter October to December 2017

On October 13, the Council announced the five individuals selected to represent Canada at the Salzburg Global Forum for Young Cultural Innovators (YCI) between October 14 and 19:

- Marc Pronovost, General Manager & Artistic Director at B21 and Curator at Maison de la Photo de Montréal, from Laval, Québec;
- Jung-Suk Ryu, Executive Director of Indefinite Arts Centre, from Canmore, Alberta;
- Patrick Shannon, Owner of InnoNative, from Skidegate, British Columbia;
- Nikki Shaffeeullah, Artistic Director of The AMY Project, from Toronto, Ontario; and
- Helen Yung, Artist-Researcher, Culture of Cities Centre, from Toronto, Ontario.

Each year, the YCI Forum brings together over 50 individuals from varying geographic and cultural backgrounds with the goal of developing their practical skills, reflecting on their leadership, building their networks on a global scale, and developing strategies for innovation and social transformation in their own cities and communities. This will be the first year that Canada has been represented at the YCI.

On November 1, the Council announced the winners of the [2017 Governor General's Literary Awards](#). From 70 finalists, peer assessors chose a total of 14 winning titles in English and French for the categories of Fiction, Poetry, Drama, Non-fiction, Young People's Literature - Text, Young People's Literature - Illustrated Books and Translation. The Council held two public readings for the awards: one that featured the French-language winners on November 29, and one that featured the English-language winners on November 30.

In this quarter, the Council held three artists' residencies in its Âjagemô exhibition space at 150 Elgin Street in Ottawa as part of its exhibition 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's work was exhibited until October 22, followed by the work of performance artist Thierry Marceau between October 30 and November 26, and the work of Métis beadwork artist Katherine Boyer between December 7 and January 2, 2018. During these exhibition periods, each artist also held a week-long residency in the space during which time the public was invited to take part in her or his artistic process.

In this quarter, the Council announced the recipients for several of the awards and prizes that it administers:

- Composer Rodney Sharman received the Walter Carsen Prize for Excellence in the Performing Arts;
- Composer/performer Gabriel Dharmoo received the Jules Léger Prize for New Chamber Music; and,
- Cellist Vanessa Hunt Russell received the Virginia Parker Prize.

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

- A panel discussion at the Creative Cities Summit 2017 in Halifax, Nova Scotia on October 18; and
- "Funding the Arts in a Digital Age: A Canadian Approach" at the Hong Kong International Arts Leadership Round Table on November 29.

## Net Results

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2017	2016	Increase/ (Decrease)	2017	2016	Increase/ (Decrease)
Revenue	20,991	6,164	14,827	49,422	11,282	38,140
Expenses	(60,200)	(15,777)	44,423	(183,897)	(154,200)	29,697
Government funding	46,167	52,927	(6,760)	196,167	176,227	19,940
<b>Surplus for the period</b>	<b>6,958</b>	<b>43,314</b>	<b>(36,356)</b>	<b>61,692</b>	<b>33,309</b>	<b>28,383</b>

### Overview of the Third Quarter Net Results

The surplus for the quarter was \$7.0M, a decrease of \$36.4M over the third quarter surplus of the previous fiscal year. This decrease is mainly related to a significant increase of \$41.4M in grant expenses related to the first-time assessment of all organizations applying for core funding through the New Funding Model which were approved in December 2017. The increase in grant expenses was slightly offset by a net increase in revenues of \$8.1M, combining an increase in net realized income and other revenues of \$15.1M and a decrease in government funding of \$6.7M.

The Council will continue to monitor its financial results with the aim of achieving the target projections set out in its original balanced budget related to its expenses. Its net investment income, however, is expected to be much higher than budgeted due to the significant realized gains and distributed income which will generate a surplus at year-end of approximately \$40.0M.

## IMPORTANT CHANGES

### Program

The Digital Strategy Fund, launched on August 30, 2017, is drawing a lot of attention. The Council received 277 applications for a total requested amount of \$34M at its deadline of October 25, 2017. The assessment of all applications will be done by February 2018 and results will be announced in Spring 2018.

The core funding results were approved in December 2017. Peer assessment committees have evaluated over 1,200 organizations in the Fall 2017. This was a first-time assessment for all of these organizations applying for core funding within the New Funding Model. Over 1,154 organizations have received core funding of which 110 organizations received core funding for the first time. Approximately \$117M was awarded this year compared to \$92M in 2016-17 and 2 out of 3 organizations are receiving an increase.

### Leadership and Governance

During this quarter there was a transition in leadership in the Arts Granting Program Division. Incoming Director General Carolyn Warren took over responsibility for the division on November 6, working in collaboration with outgoing Director General Jacques Vézina, who retired on December 22.

## FINANCIAL RESULTS

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

### Revenues



## Net Realized Investment Income

During the quarter, the net realized investment income was higher than the same period last year by \$15.1M. This increase is due to a significant distribution of dividends of \$26.5M, mainly by our Global and Canadian Equity managers, of which \$25.6M was reinvested into the portfolio. A portion of this income, \$6.3M, was transferred to externally restricted contributions.

Net realized investment income for the year is expected to be approximately \$40.0M which is much higher than the budgeted amount of \$10.3M.

## Other Revenue

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

## Expenses

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2017	2016	Increase/ (Decrease)	2017	2016	Increase/ (Decrease)
Grants, author payments and prizes	48,395	6,968	41,427	153,232	128,472	24,760
Transfer program delivery	5,686	4,116	1,570	14,073	12,084	1,989
Arts community services	461	319	142	1,389	638	751
Net Art Bank results	5	66	(61)	194	165	29
Canadian Commission for UNESCO	498	462	36	1,437	1,452	(15)
General administration	5,155	3,846	1,309	13,572	11,389	2,183
<b>Total</b>	<b>60,200</b>	<b>15,777</b>	<b>44,423</b>	<b>183,897</b>	<b>154,200</b>	<b>29,697</b>

### Grants, author payments and prizes

Grant expenses are higher compared to the same quarter and year-to-date figures of last year due to the first-time assessment of all organizations applying for core funding through the New Funding Model which were approved in December 2017. Approximately \$117M was awarded this year compared to \$92M in 2016-17.

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 peer jury meetings that were held over the fall due to the first-time assessment of all organizations applying for core funding through 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 \$650K, including a \$210K contribution to SelfConscious Theatre to produce the inaugural Canada Hub at the Edinburgh Fringe Festival, a contribution of \$150K to Poetry in Voice in support of the organization's work to forge ties between Canadian poets and youth and broaden its reach and presence both nationally and internationally and a \$120K partnership between Canadian governments and non-governmental funders to support a fulsome and robust statistical and economic portrait for the Arts in Canada.

### General administration

This expense is higher compared to last year-to-date mainly due to an increase of \$441K 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 \$1.2M in professional fees for the implementation of tools related to the New Funding Model.

## Financial Assets

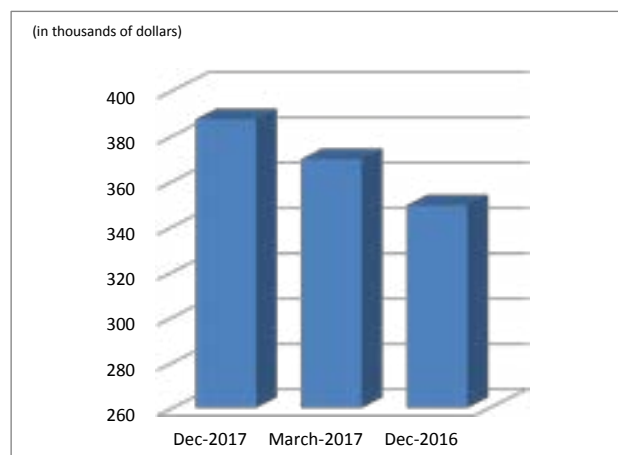
(in thousands of dollars)	December 31	March 31	Increase/ (Decrease)
	2017	2017	
Cash and cash equivalents	45,706	23,490	22,216
Accounts receivable	3,616	3,424	192
Portfolio investments	387,205	369,623	17,582
<b>Total</b>	<b>436,527</b>	<b>396,537</b>	<b>39,990</b>

### Cash and cash equivalents

The increase of \$22.2M in cash and cash equivalents is explained by primarily by the \$19.9M of new government funding received by December 31, 2017, out of a total of \$35M expected for this fiscal year.

## Portfolio investments

The total market value of the portfolio as at December 31, 2017, was \$387.2M, of which \$93.3M was externally restricted. This represents an increase of \$17.6M in the market value since March 31, 2017, and an increase of \$30.0M since December 31, 2016.



The total fund generated an absolute positive return of 4.7% for the quarter which was higher than the benchmark return by 0.9%. Managers from all asset classes generated positive returns during the quarter, but the main contributor to this strong performance was one of our Canadian Equity managers which posted a positive return of 8.1% exceeding its benchmark by 3.6%.

The total fund one-year return was 10.3% for December 2017 which exceeded the benchmark by 1.7%. Our Global and Canadian Equity managers posted strong returns, 14.9% and 13.0% respectively. All managers in other asset classes also posted positive returns.

## Liabilities

(in thousands of dollars)	December 31 2017	March 31 2017	Increase/ (Decrease)
Grants, author payments and prizes payable	66,476	59,354	7,122
Accounts payable and accrued liabilities	1,507	4,609	(3,102)
Deferred revenues	7,188	7,435	(247)
Employee future benefits	3,541	3,232	309
Externally restricted contributions	51,581	46,768	4,813
<b>Total</b>	<b>130,293</b>	<b>121,398</b>	<b>8,895</b>

### Grants, author payments and prizes payable

The increase of \$7.1M in comparison to the value as at March 31, 2017 arises from grants accrued, including the increases in core funding which were approved only in December 2017, which had not been paid by the end of the nine-month period.

### Accounts payable and accrued liabilities

The decrease of \$3.1M 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 payment schedule and a decrease of \$0.5M in accrued liabilities related to investment transactions.

### Externally restricted contributions

The increase of \$4.8M in comparison to the value as at March 31, 2017 arises from the proportionate share of the distributed dividend which was transferred to the externally restricted contributions as deferred revenues.

## Non-Financial Assets

(in thousands of dollars)	December 31 2017	March 31 2017	Increase/ (Decrease)
Tangible capital assets	8,765	8,132	633
Art Bank assets	19,421	19,415	6
Musical instruments	1	1	-
Prepaid expenses	200	162	38
<b>Total</b>	<b>28,387</b>	<b>27,710</b>	<b>677</b>

### Tangible capital assets

The Council has invested \$1.8M during the nine-month period in modernizing its operational systems and infrastructure out of a capital budget of \$2.0M for 2017-18. This investment was offset by \$1.1M amortization expenses.

### Art Bank assets

The Council owns approximately 17,150 works of contemporary Canadian art in its Art Bank collection. At December 31, 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 December 31, 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 semi-annually.

### 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 APPROPRIATIONS

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 appropriations 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 third quarter were as follows:

(in thousands of dollars)	December 31	
	2017	2016
Approved annual operating funding		
Vote 1 - Operating costs	257,347	182,097
Supplementary Estimates	441	40,000
Compensation adjustment	726	-
	258,514	222,097
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the nine-month period	(196,167)	(176,227)
<b>Balance of operating funding to be received</b>	<b>62,347</b>	<b>45,870</b>



Canada Council  
for the Arts

Conseil des arts  
du Canada

Quarterly

# Financial Statements

**Unaudited**

These financial statements for the quarter ended December 31, 2017 have not been audited or reviewed by our Auditor



## Management's Responsibility for Financial Reporting

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

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

February 28, 2018



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



Carole Boileau, CPA, CA  
Chief Financial Officer

## Statement of Financial Position

(Unaudited)	December 31		March 31	
(in thousands of dollars)	2017		2017	
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	\$	45,706	\$	23,490
Accounts receivable		3,616		3,424
Portfolio investments (Note 3)		387,205		369,623
<b>Total financial assets</b>		<b>436,527</b>		<b>396,537</b>
<b>LIABILITIES</b>				
Grants, author payments and prizes payable		66,476		59,354
Accounts payable and accrued liabilities		1,507		4,609
Deferred revenues		7,188		7,435
Employee future benefits		3,541		3,232
Deferred revenues - Externally restricted contributions (Note 5)		51,581		46,768
<b>Total liabilities</b>		<b>130,293</b>		<b>121,398</b>
<b>NET FINANCIAL ASSETS</b>		<b>306,234</b>		<b>275,139</b>
<b>NON-FINANCIAL ASSETS</b>				
Tangible capital assets		8,765		8,132
Art Bank assets		19,421		19,415
Musical instruments		1		1
Prepaid expenses		200		162
<b>Total non-financial assets</b>		<b>28,387</b>		<b>27,710</b>
<b>ACCUMULATED SURPLUS</b> (Note 6)	<b>\$</b>	<b>334,621</b>	<b>\$</b>	<b>302,849</b>
Accumulated surplus is comprised of:				
Accumulated surplus from operations		316,122		254,430
Accumulated remeasurement gains		18,499		48,419
<b>ACCUMULATED SURPLUS</b>	<b>\$</b>	<b>334,621</b>	<b>\$</b>	<b>302,849</b>

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

## Statement of Operations

(Unaudited)	Yearly Budget	Three months ended December 31		Nine months ended December 31	
	2017	2017	2016	2017	2016
(in thousands of dollars)					
<b>Revenue</b>					
Net realized investment income (Note 7)	\$ 10,282	\$ 20,931	\$ 5,819	\$ 48,450	\$ 9,913
Other revenue	1,271	60	345	972	1,369
<b>Total revenue</b>	<b>11,553</b>	<b>20,991</b>	<b>6,164</b>	<b>49,422</b>	<b>11,282</b>
<b>Expenses</b>					
Transfer Programs					
Grants, author payments and prizes	221,939	48,395	6,968	153,232	128,472
Transfer program delivery	23,266	5,686	4,116	14,073	12,084
Arts community services	2,977	461	319	1,389	638
	248,182	54,542	11,403	168,694	141,194
Net Art Bank results (Note 8)	275	5	66	194	165
Canadian Commission for UNESCO (Note 9)	2,406	498	462	1,437	1,452
General administration	18,246	5,155	3,846	13,572	11,389
<b>Total expenses</b>	<b>269,109</b>	<b>60,200</b>	<b>15,777</b>	<b>183,897</b>	<b>154,200</b>
Deficit from operations before Parliamentary appropriations for the period	(257,556)	(39,209)	(9,613)	(134,475)	(142,918)
Parliamentary appropriations	257,572	46,167	52,927	196,167	176,227
SURPLUS FROM OPERATIONS FOR THE PERIOD	16	6,958	43,314	61,692	33,309
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	254,430	309,164	239,582	254,430	249,587
<b>ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD</b>	<b>\$ 254,446</b>	<b>\$ 316,122</b>	<b>\$ 282,896</b>	<b>\$ 316,122</b>	<b>\$ 282,896</b>

## Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
(in thousands of dollars)				
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 26,097	\$ 42,054	\$ 48,419	\$ 31,158
<b>Unrealized gains (losses) attributable to:</b>				
Portfolio investments	(6,845)	(255)	(4,890)	11,626
<b>Amounts reclassified to the Statement of Operations:</b>				
Portfolio investments	(753)	(56)	(25,030)	(1,041)
NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD	(7,598)	(311)	(29,920)	10,585
<b>ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD</b>	<b>\$ 18,499</b>	<b>\$ 41,743</b>	<b>\$ 18,499</b>	<b>\$ 41,743</b>

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

## Statement of Change in Net Financial Assets

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
(in thousands of dollars)				
SURPLUS FROM OPERATIONS FOR THE PERIOD	\$ 6,958	\$ 43,314	\$ 61,692	\$ 33,309
Acquisition of tangible capital assets	(596)	(659)	(1,756)	(953)
Amortization of tangible capital assets	374	333	1,123	998
Acquisition of Art Bank assets	(37)	-	(37)	-
Disposal/Donation of Art Bank assets	-	-	31	-
	(259)	(326)	(639)	45
Acquisition of prepaid expenses	(405)	(270)	(832)	(663)
Use of prepaid expenses	310	226	794	693
	(95)	(44)	(38)	30
Net remeasurement gains (losses)	(7,598)	(311)	(29,920)	10,585
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	(994)	42,633	31,095	43,969
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	307,228	255,164	275,139	253,828
<b>NET FINANCIAL ASSETS, END OF PERIOD</b>	<b>\$ 306,234</b>	<b>\$ 297,797</b>	<b>\$ 306,234</b>	<b>\$ 297,797</b>

## Statement of Cash Flow

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
(in thousands of dollars)				
<b>Operating Transactions</b>				
Surplus from operations for the period	\$ 6,958	\$ 43,314	\$ 61,692	\$ 33,309
Gains from disposal of portfolio investments (Note 7)	(1,019)	(559)	(32,336)	(1,981)
Amortization of tangible capital assets	374	333	1,123	998
Disposal/Donation of Art Bank assets	-	-	31	-
(Increase) decrease in prepaid expenses	(95)	(44)	(38)	30
Increase in employee future benefits	112	114	309	306
Income transferred to Deferred revenues - Externally restricted contributions from investment income (Note 5)	6,341	1,889	13,819	2,588
Net change in other non-cash items (Note 10)	6,196	(22,221)	3,581	3,746
Cash provided by operating activities	18,867	22,826	48,181	38,996
<b>Capital Transactions</b>				
Cash used to acquire tangible capital and Art Bank assets	(633)	(659)	(1,793)	(953)
<b>Investing Transactions</b>				
Acquisition of portfolio investments	(25,577)	(13,401)	(105,612)	(57,116)
Disposal of portfolio investments	3,253	5,499	81,440	47,082
Cash used by investing activities	(22,324)	(7,902)	(24,172)	(10,034)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,090)	14,265	22,216	28,009
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	49,796	13,593	23,490	(151)
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 45,706</b>	<b>\$ 27,858</b>	<b>\$ 45,706</b>	<b>\$ 27,858</b>

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

# Notes to the Financial Statements

## For the period ended December 31, 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 December 31, 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	150,714	2,684	1,814	149,844	47	104,464	137,999	45
Fixed income	70,269	133	-	70,136	22	70,269	72,256	24
Alternatives	20,630	-	9,333	29,963	10	20,630	28,821	10
Money market	1,321	-	-	1,321	-	1,312	1,312	-
Canadian Equity	31,759	-	3,363	35,122	11	30,572	31,559	10
Real estate	10,920	-	2,212	13,132	4	11,037	13,497	5
Infrastructure	13,445	-	6,536	19,981	6	13,387	19,194	6
	299,058	2,817	23,258	319,499	100	251,671	304,638	100
<b>Killam Fund</b>								
Pooled funds								
Global and Canadian Equity	36,920	561	1,103	37,462	55	27,778	34,858	54
Fixed income	13,690	32	-	13,658	20	13,690	14,071	22
Alternatives	5,298	-	2,390	7,688	11	5,298	7,394	11
Real estate	2,895	-	602	3,497	6	2,927	3,585	5
Infrastructure	3,430	-	1,971	5,401	8	3,418	5,077	8
	62,233	593	6,066	67,706	100	53,111	64,985	100
<b>Total investments</b>	<b>361,291</b>	<b>3,410</b>	<b>29,324</b>	<b>387,205</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 unaudited 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 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 as well as 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, 2017 - 8%) of that Fund with a total fair value of \$25,592,000 (March 31, 2017 - \$24,402,000). The total fair value of the externally restricted investment including the Killam Fund is \$93,299,000 (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
		December 31, 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	45,706	23,490
Accounts receivable	Amortized cost	3,616	3,424
Portfolio Investments <sup>1</sup>	Fair value	387,205	369,623
Grants, author payments and prizes payable	Amortized cost	66,476	59,354
Accounts payable and accrued liabilities	Amortized cost	1,507	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.

Asset Classes	Market Value	Minimum	Benchmark	Maximum
Canadian equities	13%	5%	12.5%	20%
Global equities	44%	35%	40%	45%
Fixed income	22%	15%	25%	35%
Alternatives	10%	0%	10%	15%
Real estate	4%	0%	5%	10%
Infrastructure	7%	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 \$1,321,000 (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 December 31, 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	31,938	13,768	-	45,706	292	23,198	-	23,490
	31,938	13,768	-	45,706	292	23,198	-	23,490
<b>Portfolio Investments</b>								
<b>Canada Council Endowment and Special Funds</b>								
Pooled Funds								
Global and Canadian Equity	-	149,844	-	149,844	-	137,999	-	137,999
Fixed Income	-	70,136	-	70,136	-	72,256	-	72,256
Alternatives	-	-	29,963	29,963	-	-	28,821	28,821
Money Market	-	1,321	-	1,321	-	1,312	-	1,312
Canadian Equity	35,122	-	-	35,122	31,559	-	-	31,559
Real Estate	-	-	13,132	13,132	-	-	13,497	13,497
Infrastructure	-	-	19,981	19,981	-	-	19,194	19,194
<b>Killam Fund</b>								
Pooled Funds								
Global and Canadian Equity	-	37,462	-	37,462	-	34,858	-	34,858
Fixed Income	-	13,658	-	13,658	-	14,071	-	14,071
Alternatives	-	-	7,688	7,688	-	-	7,394	7,394
Real Estate	-	-	3,497	3,497	-	-	3,585	3,585
Infrastructure	-	-	5,401	5,401	-	-	5,077	5,077
	35,122	272,421	79,662	387,205	31,559	260,496	77,568	369,623
<b>Total</b>	<b>67,060</b>	<b>286,189</b>	<b>79,662</b>	<b>432,911</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	Year-end
	December 31, 2017	March 31, 2017
Balance, beginning of period	\$ 46,768	\$ 39,501
Transferred from net investment income (Note 7)		
Net Investment income	14,632	4,567
Use of funds	(813)	(2,484)
	13,819	2,083
Unrealized gains (losses) on portfolio investments	(1,359)	6,878
Reclassified to statement of operations - portfolio	(7,647)	(1,694)
<b>Balance at end of period</b>	<b>\$ 51,581</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	Year-end
	December 31, 2017	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 period	141,445	136,445
Appropriated from the accumulated surplus during the period	-	5,000
Balance at end of period	141,445	141,445
<b>Surplus</b>		
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	61,692	4,843
Balance at end of period	87,108	25,416
<b>Total accumulated surplus from operations</b>	<b>316,122</b>	<b>254,430</b>
<b>Accumulated remeasurement gains</b>		
Balance at beginning of period	48,419	31,158
Change in fair value	(29,920)	17,261
Balance at end of period	18,499	48,419
<b>Balance of accumulated surplus at end of period</b>	<b>\$ 334,621</b>	<b>\$ 302,849</b>



## 7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
Gains from disposal of portfolio investments	\$ 1,019	\$ 559	\$ 32,336	\$ 1,981
Income transferred to deferred revenues -				
Externally restricted contributions (Note 5)	(6,341)	(1,889)	(13,819)	(2,588)
Net gains on foreign exchange	8	13	30	270
Interest, dividend and other distributed income	26,468	7,439	30,780	11,275
Investment portfolio management costs	(223)	(303)	(877)	(1,025)
	<b>\$ 20,931</b>	<b>\$ 5,819</b>	<b>\$ 48,450</b>	<b>\$ 9,913</b>

## 8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
Rental revenue	\$ 355	\$ 292	\$ 1,009	\$ 915
Other income	74	37	154	139
Administration expense	(431)	(392)	(1,349)	(1,211)
Amortization of other capital assets	(3)	(3)	(8)	(8)
	<b>\$ (5)</b>	<b>\$ (66)</b>	<b>\$ (194)</b>	<b>\$ (165)</b>

## 9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
Program expenses	\$ 179	\$ 94	\$ 483	\$ 567
Program - contributions received	-	(1)	(13)	(2)
Administration expense	319	369	967	887
	<b>\$ 498</b>	<b>\$ 462</b>	<b>\$ 1,437</b>	<b>\$ 1,452</b>

## 10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
Increase in accounts receivable	\$ (1,470)	\$ (67)	\$ (192)	\$ (341)
Increase (decrease) in grants, author payments and prizes payable	10,101	(21,609)	7,122	6,295
Decrease in accounts payable and accrued liabilities	(2,442)	(572)	(3,102)	(2,086)
Increase (decrease) in deferred revenues	7	27	(247)	(122)
<b>Net change</b>	<b>\$ 6,196</b>	<b>\$ (22,221)</b>	<b>\$ 3,581</b>	<b>\$ 3,746</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.