



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended June 30, 2018
Published August 31, 2018



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Management Discussion and Analysis

Quarterly Report

Period ended June 30, 2018
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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, 2018 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 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

April 25 – Simon Brault, Director and CEO of the Canada Council for the Arts, announced the Council would contribute \$300,000 to the Cultural Human Resources Council (CHRC) to support a series of initiatives to better equip the cultural sector with tools, procedures, practices and training capacities for building and maintaining respectful workplaces under the title "[Respectful Workplaces in the Arts](#)." This support complements an additional \$252,000 to be contributed to this initiative from the Department of Canadian Heritage. The new tools and resources created by CHRC will be made available to over 1,750 arts organizations across Canada.

May 7 – The Council, along with the Royal Architecture Institute of Canada, announced this year's 12 recipients of the [Governor General's Medals in Architecture](#). These biennial awards celebrate outstanding design in recently completed projects by Canadian architects. This year's recipient projects represent many types and sizes of buildings—including an international airport, sports complexes, a park pavilion, and a visitor centre at a national historic site—and span the country—from rural Nova Scotia to Whistler, British Columbia. The awards will be presented in the fall.

May 8 – The Council announced the [2018 recipients of the Killam Prizes and Fellowships](#). The Killam Prize honours Canadian researchers, scientists, doctors and scholars for their contributions and research in industry, government agencies, and universities. Each recipient receives a \$100,000 prize.

May 9-11 – The Council hosted the first ever [Americas Cultural Summit](#), in partnership with the Ministry of Culture in Argentina and the International Federation of Arts Councils and Culture Agencies. This ground-breaking event brought together roughly 170 participants from 31 countries – 25 from the Americas, including Ministers and Vice-Ministers of Culture from eight countries – galvanizing an unprecedented spirit of cooperation across the Americas region and confirming the Council's growing international leadership as both a public arts funder and a cultural convener.

May 24 – The Council participated in the unveiling of Canada's official entry at the world's most prestigious international architecture competition, the [2018 Venice Architecture Biennale](#). Commissioned by the Council, and presented by internationally renowned architect Douglas Cardinal and curators Gerald McMaster and David Fortin, the exhibition titled "UNCEDED: Voices of the Land" was the first ever Indigenous-led entry to be presented by Canada at the Venice Architecture Biennale. The exhibit is open to the public until November 25, 2018.

May 30 – The Council announced that filmmaker [Helen Doyle](#) has been awarded the Barbara Helen Greene Prize in recognition of her documentary film career.

May 31 – The Council awarded the Michael J. Fox Award to dancer [France Geoffroy](#). Ms. Geoffroy practices a form of dance that includes dancers with and without disabilities who perform together in an exploration of the aesthetics and choreographic potential of atypical bodies, inspiring audiences to see beyond differences. In 2000, she cofounded Corpuscule Danse, the very first dance company in Quebec to offer integrated dance, and has remained its general and artistic director ever since.

May-June – Over 80 works from the Canada Council Art Bank were on display during the [G7 Summit](#) meeting in Charlevoix, Quebec. The works were curated to illustrate the themes of the Summit—in particular "Advancing gender equality and women's empowerment," "Working together on climate change, oceans and clean energy," and "Building a more peaceful and secure world."

June 2 – The Canada Council Art Bank participated in [Doors Open Ottawa](#) and welcomed the public to explore its vault collection, take a guided tour, speak with staff about its services, and view a thematic display of works.

June 5 – The Council welcomed a [new instrument](#) into its Musical Instrument Bank competition: The Eckhardt-Gramatté Joachim Chantot I violin, on loan from the Eckhardt-Gramatté Foundation. This beautiful instrument, valued at approximately \$140,000, will be available to a winner of the 2018 Musical Instrument Bank competition.

June 14 – The Council announced the winners of the [2018 Molson Prizes](#): writer Diane Schoemperlen and historian Lynne Viola. The Molson Prizes are awarded to two persons – one in the arts and the other in the social sciences and humanities – who have distinguished themselves by their outstanding achievements.

June 18 – The Auditor General of Canada released its [2018 Special Examination Report](#) on the Canada Council for the Arts. The report affirms the Council is a well-managed organization able to effectively fulfill its mandate. The Report is posted on the Council's website.

June 20 – The Council opened its exhibition [Thunderstruck: Physical Landscapes](#)—an exhibition that explores contemporary dance in Canada—in its Ajagemô space at its offices on 150 Elgin Street in Ottawa. The vernissage for the exhibition featured a performance of "Melting, Mourning and a Series of Impossible Tasks" choreographed by Brandy Leary and presented by artist Ess Hoedlmoser, which was streamed live on Facebook. The exhibition remains open to the public until January 2019.

Net Results

(in thousands of dollars)	Three months ended June 30			
	2018	2017	Increase/ (Decrease)	% change
Revenue	6,339	3,229	3,110	96%
Expenses	(146,947)	(102,311)	44,636	44%
Government funding	110,200	100,000	10,200	10%
Surplus (deficit) for the period	(30,408)	918	(31,326)	

Overview of the First Quarter Net Results

The deficit for the quarter was \$30.4M compared to a surplus of \$0.9M for the same period last year. This variance is directly related to an increase of \$43.0M in grants expenses resulting from two major factors, the first being that the first round of reinvestment from the progressive doubling of the government funding, to core grants for arts organizations, \$25M, was only approved and recorded in the third quarter last year compared to the first quarter this year. The second factor being an increase of approximately \$13.3M in project grants this quarter compared to the same period last year due to a lesser volume of applications received last year as the Portal only opened in June 2017. An additional drawdown of government funding, \$10.2M, was also requested for the period to cover expected cash-flow requirements which slightly offset the increase in grant expenses.

The Council will continue to monitor its financial results with the aim of achieving the target set out in its original balanced budget plus an additional \$3.9M in grants expenses resulting from a carry-over from last year of unspent grants committed to the Digital Strategy Fund.

IMPORTANT CHANGES

Leadership and Governance

On June 6, 2018, Her Excellency the Governor General in Council, on the recommendation of the Minister of Canadian Heritage, [re-appointed Nathalie Bondji](#) as Vice-Chair of the Council for a term of five years. On June 22, 2018, the Minister of Canadian Heritage announced the [appointments of two new board members](#) for the Council, Karl Schwonik (AB) and Kim Spencer-Nairn (BC), both for a four-year term.

On June 6, 2018, the Council announced the [appointments of Dr. Liette Vasseur as President and Mireille Apollon as Vice-President](#) of the Canadian Commission for UNESCO.

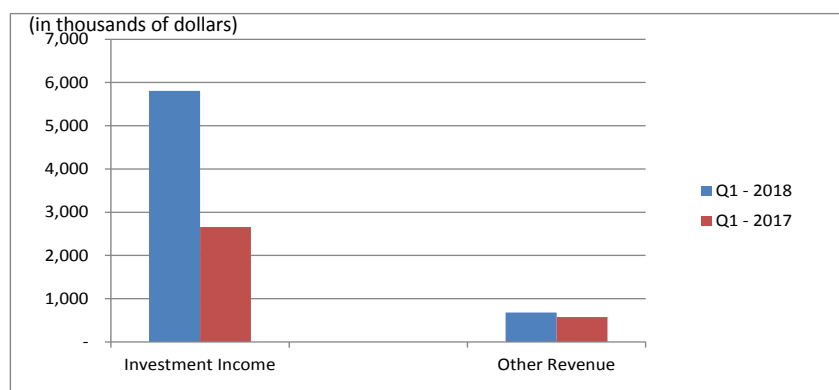
During this quarter, the Council also announced the hiring of two new Directors:

- Brian Redmond, Director, Information Technology and Information Management; and
- Nichole McGill, Director, Marketing Communications.

FINANCIAL RESULTS

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

Revenue



Net Realized Investment Income

Net investment income was higher than the same period last year, due to our Global Equity manager distributing its dividends on a quarterly basis instead of just once at the end of the calendar year. The net realized investment income is still forecasted to be aligned with the budget.

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)	June 30, 2018	June 30, 2017	Increase/ (Decrease)
Grants, author payments and prizes	136,693	93,675	43,018
Transfer program delivery	4,605	3,667	938
Arts community services	603	313	290
Net Art Bank results	105	93	12
Canadian Commission for UNESCO	692	489	203
General administration	4,249	4,074	175
Total	146,947	102,311	44,636

Grants, author payments and prizes

Grant expenses for the first quarter represents the base commitments made to core funded organizations including a first round of reinvestment of \$25M, available under the progressive doubling of the Council's government funding, which was only approved and recorded in December 2017. Also this quarter there was an increase of approximately \$13.3M in project grants compared to last year.

The Council expects the annual grants expenses to reach \$257.0M compared to the original budget of \$253.1M for the year due to a carry-over of \$3.9M from 2017-18 related to unspent grants committed to the Digital Strategy Fund. This would represent an increase of \$35.1M compared to last year's budget.

Transfer program delivery

This expense is greater compared to last year due to peer assessment committee meetings costs of \$390K this quarter compared to only \$28K last year. Transfer program delivery expenses also include salaries and employee benefits for staff assigned to program delivery. Those expenses increased by \$493K as a direct result of the decreased number of vacancies.

Arts community services

This expense is higher compared to last year due to costs related to the Council hosting the first ever Americas Cultural Summit 2018, in partnership with the Ministry of Culture in Argentina and the International Federation of Arts Councils and Culture Agencies.

Canadian Commission for UNESCO

This expense is higher compared to last year mainly due to the timing and approval of expenses related to the Annual General Meeting.

Financial Assets

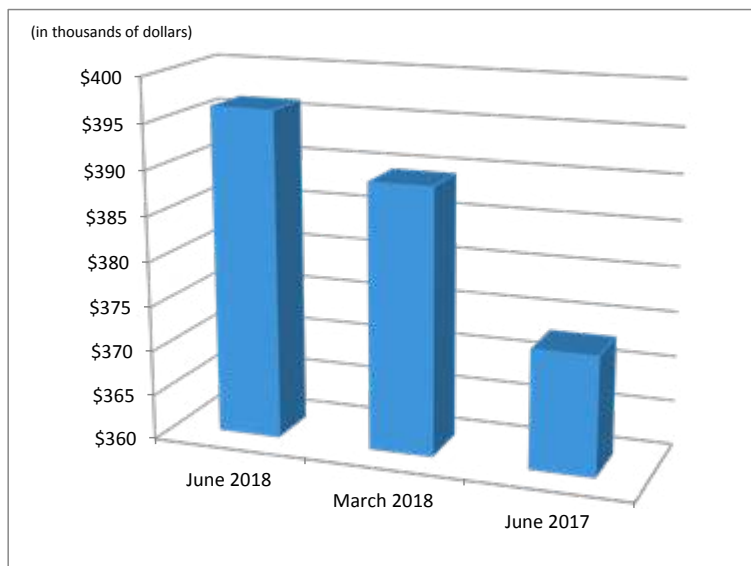
(in thousands of dollars)	June 30, 2018	March 31, 2018	Increase/ (Decrease)
Cash and cash equivalents	69,584	39,245	30,339
Accounts receivable	2,427	3,080	(653)
Portfolio investments	396,325	389,420	6,905
Total	468,336	431,745	36,591

Cash and Cash Equivalents

The increase of \$30.3M in Cash and cash equivalents is mainly explained by an increase of \$64.8M in Grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as of June 30, 2018, less the \$30.4M deficit for the three-month period.

Portfolio Investments

The total market value of the portfolio as at June 30, 2018, was \$396.3M, of which \$95.4M was externally restricted. This represents an increase of \$6.9M in the market value since March 31, 2018, and an increase of \$23.2M since June 30, 2017.



The total fund generated an absolute positive return of 2.5% for the quarter, the same as the benchmark return. Managers from all asset classes generated positive returns during the first quarter, but the main contributors to this positive return were the Canadian and Global Equity funds which posted positive results for the quarter of 4.2% and 3.3% respectively.

The total fund one-year return was 9.1% for June 2018 which exceeded the benchmark by 1.2%. Our Global and Canadian Equity managers posted strong returns in the double digits, 12.1% and 11.7% respectively, but we also need to mention the very strong returns of 22.9% from our Infrastructure managers compared to a benchmark of 7.1% which definitely helped the overall performance of the portfolio even if it represents only 6% of the total portfolio. All managers in other asset classes also posted positive returns.

Liabilities

(in thousands of dollars)	June 30, 2018	March 31, 2018	Increase/ (Decrease)
Grants, author payments and prizes payable	134,368	69,547	64,821
Accounts payable and accrued liabilities	1,620	3,782	(2,162)
Deferred revenues	7,706	7,728	(22)
Employee future benefits	3,615	3,482	133
Externally restricted contributions	53,448	51,665	1,783
Total	200,757	136,204	64,553

Grants, author payments and prizes payable

The increase of \$64.8M in comparison to the value as at March 31, 2018 arises from the new base core funding commitments recorded in April 2018, of which two out of three instalments remained to be paid for most organizations at the end of the three-month period.

Accounts payable and accrued liabilities

The decrease of \$2.2M in comparison to the value as at March 31, 2018 is mainly due to a reduction of \$2.0M in commercial invoices due to the timing of the payment schedule.

Externally restricted contributions

The increase of \$1.8M in comparison to the value as at March 31, 2018 arises from the proportionate share of the market value increase of the portfolio investment, \$0.7M, and the net unused funds of \$1.1M from distributed net realized income against which most of the expenses will be incurred only late in the year once the prizes are awarded.

Non-Financial Assets

(in thousands of dollars)	June 30, 2018	March 31, 2018	Increase/ (Decrease)
Tangible capital assets	9,029	9,021	8
Art Bank assets	19,421	19,421	-
Musical instruments	1	1	-
Prepaid expenses	136	270	(134)
Total	28,587	28,713	(126)

Art Bank Assets

The Council owns approximately 17,100 works of contemporary Canadian art within its Art Bank collection. At June 30, 2018 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 ten prestigious musical instruments. In addition, the Council manages thirteen instruments on loan. The appraised value of its musical instruments as at June 30, 2018 was US \$41.9M. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value, in US dollars.

RISK MANAGEMENT

Effective risk management is fundamental to the success of the Council in fulfilling its mandate. The Council continues to develop a strong risk management culture where risk management is a responsibility shared by all of its employees. The primary goals of enterprise risk management are to ensure that the outcomes of risk-taking activities are consistent with the Council's plans, strategies and risk appetite.

The Council's existing risk management framework consists of four key elements:

- risk governance;
- risk appetite;
- risk profile, assessment and mitigation; and,
- financial risk mitigation.

Risk Governance

The Council's risk management governance begins with oversight by its Board, either directly or through its committees, to ensure that decision-making is aligned with strategies and risk appetite. The Board receives regular updates on the Council's key risks regarding its risk profile and related mitigation, financial performance and performance of the investment portfolio. The Council's executive management is responsible for risk management under the direct oversight of the Board.

In February 2017, the Council reviewed its Corporate Risk Profile taking into consideration 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. The Council will be updating its corporate risk profile and conducting a full risk assessment by the end of 2018.

Risk Appetite

The Canada Council for the Arts follows a prudent risk-taking approach in managing its activities. It defines prudent risks as those seen to contribute to the organization's capacity to better deliver its mandate within a range of consequences that are well understood and appropriately mitigated. It manages risk within the constraints of its mandate, values, organizational culture, and both its public and internal commitments. The Council's full Risk Appetite Statement is disclosed in the 2018 Annual Financial Statements.

Risk Profile

Using the Council's risk appetite as key context, the following risks, as identified and assessed during the risk assessment process in February 2017, are considered to be outside of the Council's appetite:

- 1) Workload levels; and
- 2) Inadequate technology tools and systems.

Consequently, for these, focused updated risk mitigation strategies have been developed and action plans implemented and monitored by assigned members of the executive management to reduce the risk exposure. Regular updates on these risks are provided to the Audit & Finance committee to ensure continuous oversight and that effective mitigation strategies have been put in place.

Financial Risk

The Council is exposed to a variety of financial risks as a result of its activities. These include credit risk, liquidity risk and market risk. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Council. A significant portion of Council's receivables were deposited within 30-60 days after year-end and as such the related credit risk is very low. Liquidity risk is the risk that Council will not be able to meet its financial obligations as they fall due. The Council currently receives most of its revenues by way of Parliamentary appropriations drawn down monthly. That revenue is invested in a short-term pooled fund or in a preferred rate account at a financial institution until it is required. The Council's investment activities are primarily exposed to price risk, interest rate risk and currency risk. The directive to the Council's investment managers is to manage the Council's market risks on a daily basis in accordance with the Council's policies. Overall market positions are monitored quarterly by the Investment Committee and the Board.

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 or in a preferred rate account at a financial institution from which the Council draws its daily cash requirements.

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

(in thousands of dollars)	June 30	
	2018	2017
Approved annual operating funding		
Vote 1 - Operating costs	292,632	257,347
Supplementary Estimates	-	-
	292,632	257,347
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the three month period	(110,200)	(100,000)
Balance of operating funding to be received	182,432	157,347



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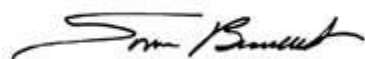
These financial statements for the quarter ended June 30, 2018
have not been audited or reviewed by our Auditor

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.

August 31, 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)	June 30	March 31
(in thousands of dollars)	2018	2018
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 69,584	\$ 39,245
Accounts receivable	2,427	3,080
Portfolio investments (Note 3)	396,325	389,420
Total financial assets	468,336	431,745
LIABILITIES		
Grants, author payments and prizes payable	134,368	69,547
Accounts payable and accrued liabilities	1,620	3,782
Deferred revenues	7,706	7,728
Employee future benefits	3,615	3,482
Deferred revenues - Externally restricted contributions (Note 5)	53,448	51,665
Total liabilities	200,757	136,204
NET FINANCIAL ASSETS	267,579	295,541
NON-FINANCIAL ASSETS		
Tangible capital assets	9,029	9,021
Art Bank assets	19,421	19,421
Musical instruments	1	1
Prepaid expenses	136	270
Total non-financial assets	28,587	28,713
ACCUMULATED SURPLUS (Note 6)	\$ 296,166	\$ 324,254
Accumulated surplus is comprised of:		
Accumulated surplus from operations	273,281	303,689
Accumulated remeasurement gains	22,885	20,565
ACCUMULATED SURPLUS	\$ 296,166	\$ 324,254

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

Statement of Operations

(Unaudited) (in thousands of dollars)	Yearly Budget 2018-2019	Three months ended June 30	
		2018	2017
Revenue			
Net realized investment income (Note 7)	\$ 11,253	\$ 5,809	\$ 2,657
Other revenue	1,478	530	572
Total revenue	12,731	6,339	3,229
Expenses			
Transfer Programs			
Grants, author payments and prizes	253,056	136,693	93,675
Transfer program delivery	24,327	4,605	3,667
Arts community services	5,281	603	313
	282,664	141,901	97,655
Net Art Bank results (Note 8)	229	105	93
Canadian Commission for UNESCO (Note 9)	2,406	692	489
General administration	19,786	4,249	4,074
Total expenses	305,085	146,947	102,311
Deficit from operations before Parliamentary appropriations for the period	(292,354)	(140,608)	(99,082)
Parliamentary appropriations	292,372	110,200	100,000
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	18	(30,408)	918
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	303,689	303,689	254,430
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 303,707	\$ 273,281	\$ 255,348

Statement of Remeasurement Gains and Losses

(Unaudited) (in thousands of dollars)	Three months ended June 30	
	2018	2017
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 20,565	\$ 48,419
Unrealized gains attributable to:		
Portfolio investments	2,622	1,542
Amounts reclassified to the Statement of Operations:		
Portfolio investments	(302)	(262)
NET REMEASUREMENT GAINS FOR THE PERIOD	2,320	1,280
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 22,885	\$ 49,699

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	
	2018	2017
(in thousands of dollars)		
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	\$ (30,408)	\$ 918
Acquisition of tangible capital assets	(385)	(341)
Amortization of tangible capital assets	377	374
	(8)	33
Acquisition of prepaid expenses	(93)	(227)
Use of prepaid expenses	227	309
	134	82
Net remeasurement gains	2,320	1,280
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	(27,962)	2,313
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	295,541	275,139
NET FINANCIAL ASSETS, END OF PERIOD	\$ 267,579	\$ 277,452

Statement of Cash Flow

(Unaudited)	Three months ended June 30	
	2018	2017
(in thousands of dollars)		
Operating Transactions		
Surplus (deficit) from operations for the period	\$ (30,408)	\$ 918
Gains from disposal of portfolio investments (Note 7)	(1,252)	(235)
Amortization of tangible capital assets	377	374
Decrease in prepaid expenses	134	82
Increase in employee future benefits	133	86
Income transferred to Deferred revenues - Externally restricted contributions from (to) investment income (Note 5)	1,124	141
Net change in other non-cash items (Note 10)	63,290	29,392
Cash provided by operating activities	33,398	30,758
Capital Transactions		
Cash used to acquire tangible capital assets	(385)	(341)
Investing Transactions		
Acquisition of portfolio investments	(26,448)	(3,807)
Disposal of portfolio investments	23,774	2,152
Cash used by investing activities	(2,674)	(1,655)
NET INCREASE IN CASH AND CASH EQUIVALENTS	30,339	28,762
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	39,245	23,490
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 69,584	\$ 52,252

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

Notes to the Financial Statements

For the period ended June 30, 2018

(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, 2018					Year-end March 31, 2018		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Canadian Equity	7,653	-	272	7,925	3	7,544	7,420	2
Global Equity	129,405	-	3,905	133,310	41	143,170	144,623	45
Fixed income	70,269	893	-	69,376	21	70,269	69,632	22
Alternatives	20,630	-	9,846	30,476	9	20,630	30,271	9
Money market	17,335	-	-	17,335	5	1,325	1,325	-
Canadian Equity	32,768	-	3,278	36,046	11	32,142	34,765	11
Real estate	10,129	-	2,448	12,577	4	10,129	12,343	4
Infrastructure	13,713	851	7,206	20,068	6	13,462	20,980	7
	301,902	1,744	26,955	327,113	100	298,671	321,359	100
Killam Fund								
Pooled funds								
Canadian Equity	8,003	-	759	8,762	13	7,840	8,422	12
Global Equity	25,646	-	770	26,416	38	29,179	29,450	44
Fixed income	13,690	180	-	13,510	19	13,690	13,560	20
Alternatives	5,298	-	2,521	7,819	11	5,298	7,767	11
Money market	4,001	-	-	4,001	6	-	-	-
Real estate	2,697	-	662	3,359	5	2,697	3,298	5
Infrastructure	3,497	213	2,061	5,345	8	3,434	5,564	8
	62,832	393	6,773	69,212	100	62,138	68,061	100
Total investments	306,674	2,137	33,728	396,325		360,809	389,420	

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, 2018. 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, 2018 - 8%) of that Fund with a total fair value of \$26,203,000 (March 31, 2018 - \$25,741,000). The total fair value of the externally restricted investment including the Killam Fund is \$95,415,000 (March 31, 2018 - \$93,802,000).

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 to be used for future investments in fixed income commercial mortgages, alternatives and capital commitments in limited partnership units of real estate and infrastructure funds. These funds had a balance of \$21,336,000 (March 31, 2018 - \$1,325,000).

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 (CPI) 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, 2018	Year-end March 31, 2018
Financial assets and liabilities	Measurement categories	Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
Cash and cash equivalents	Fair value	69,584	39,245
Accounts receivable	Amortized cost	2,427	3,080
Portfolio Investments ¹	Fair value	396,325	389,420
Grants, author payments and prizes payable	Amortized cost	134,368	69,547
Accounts payable and accrued liabilities	Amortized cost	1,620	3,782

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

a) Establishing fair value

The carrying values of accounts receivable, grants, author payments and prizes payable and accounts payable and accrued liabilities approximate their fair values due to their short-term maturity.

The fair values of the investments are determined as follows:

- Equity, Fixed Income and Money Market pooled fund investments are valued at the unit values supplied by the pooled fund managers, which represent the Council's proportionate share of the underlying net assets at fair values, determined using closing market prices.
- The Segregated Canadian equity fund is valued using closing market prices at the financial statement date.

- 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, 2018				Year-end March 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	55,711	13,873	-	69,584	25,435	13,810	-	39,245
	55,711	13,873	-	69,584	25,435	13,810	-	39,245
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Canadian Equity	-	7,925	-	7,925	-	7,420	-	7,420
Global Equity	-	133,310	-	133,310	-	144,623	-	144,623
Fixed Income	-	69,376	-	69,376	-	69,632	-	69,632
Alternatives	-	-	30,476	30,476	-	-	30,271	30,271
Money Market	-	17,335	-	17,335	-	1,325	-	1,325
Canadian Equity	36,046	-	-	36,046	34,765	-	-	34,765
Real Estate	-	-	12,577	12,577	-	-	12,343	12,343
Infrastructure	-	-	20,068	20,068	-	-	20,980	20,980
Killam Fund								
Pooled Funds								
Canadian Equity	-	8,762	-	8,762	-	8,422	-	8,422
Global Equity	-	26,416	-	26,416	-	29,450	-	29,450
Fixed Income	-	13,510	-	13,510	-	13,560	-	13,560
Alternatives	-	-	7,819	7,819	-	-	7,767	7,767
Money Market	-	4,001	-	4,001	-	-	-	-
Real Estate	-	-	3,359	3,359	-	-	3,298	3,298
Infrastructure	-	-	5,345	5,345	-	-	5,564	5,564
	36,046	280,635	79,644	396,325	34,765	274,432	80,223	389,420
Total	91,757	294,508	79,644	465,909	60,200	288,242	80,223	428,665

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, 2018	Year-end March 31, 2018
Balance, beginning of period	\$ 51,665	\$ 46,768
Transferred from investment income (Note 7)		
Net Investment income	1,662	15,324
Use of funds	(538)	(2,051)
	1,124	13,273
Unrealized gains (losses) on portfolio investment	708	(493)
Reclassified to statement of operations - portfolio	(49)	(7,883)
Balance at end of period	\$ 53,448	\$ 51,665

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, 2018	Year-end March 31, 2018
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 the period	186,445	141,445
Appropriated from the accumulated surplus during the period	-	45,000
Balance at end of the period	186,445	186,445
Surplus		
Balance at beginning of the period	29,675	25,416
Appropriated to the reserve for excess investment income during the period	-	(45,000)
Surplus (deficit) for the period	(30,408)	49,259
Balance at end of the period	(733)	29,675
Total accumulated surplus from operations	273,281	303,689
Accumulated remeasurement gains		
Balance at beginning of the period	20,565	48,419
Change in fair value	2,320	(27,854)
Balance at end of the period	22,885	20,565
Balance of accumulated surplus at end of period	\$ 296,166	\$ 324,254

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended June 30	
	2018	2017
Gains from disposal of portfolio Investments	\$ 1,252	\$ 235
Income transferred to deferred revenues -		
Externally restricted contributions (Note 5)	(1,124)	(141)
Net gains on foreign exchange	15	27
Interest, dividend and other distributed income	5,890	2,851
Investment portfolio management costs	(224)	(315)
	\$ 5,809	\$ 2,657

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended June 30	
	2018	2017
Rental revenue	\$ 375	\$ 322
Other income	34	48
Administration expense	(511)	(460)
Amortization of other capital assets	(3)	(3)
	\$ (105)	\$ (93)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended June 30	
	2018	2017
Program expenses	\$ 345	\$ 152
Program - contributions received	(2)	(10)
Administration expense	349	347
	\$ 692	\$ 489

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended June 30	
	2018	2017
Decrease in accounts receivable	\$ 653	\$ 1,217
Increase in grants, author payments and prizes payable	64,821	30,811
Decrease in accounts payable and accrued liabilities	(2,162)	(2,585)
Decrease in deferred revenues	(22)	(51)
Net change	\$ 63,290	\$ 29,392

11. RELATED PARTY TRANSACTIONS

The Council is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Other related parties of the Council are key management personnel, close family members of key management personnel and entities that are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members. 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.