



Canada Council  
for the Arts

Conseil des arts  
du Canada

Quarterly

# Financial Report

**Unaudited**

Period ended September 30, 2018  
Published November 30, 2018



Canada Council  
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du Canada

# Management Discussion and Analysis

## Quarterly Report

Period ended September 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 six-month period ended September 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

August 1 - Martin Mangrum and Jonathan Mak received this year's [Michael Measures Prizes](#), which recognize promising young Canadian classical music performers enrolled in the National Youth Orchestra's summer training program. To maximize reach and impact, in 2018, the Council increased the number of prize winners to two per year and broadened the age range for potential recipients from artists aged 16 to 22 to those aged 16 to 24.

August 10 - the Canadian Commission for UNESCO (CCUNESCO), which operates under the authority of the Council, released a [publication](#) that profiles young leaders who are working towards conflict prevention, social inclusion, and building sustainable peace in their own schools, communities, and abroad. This project was initiated and led by members of CCUNESCO's Youth Advisory Group.

August 13 - The Council supported [CanadaHub!](#), a showcase of the best of Canada's contemporary performance scene at the Edinburgh Fringe Festival. The 2018 presentation achieved great box office success, garnered over 25 4- and 5-star reviews, one Scotsman Fringe First Award and one Herald Angels Award in recognition of its excellent lineup and acclaimed productions, and was featured in major media outlets. Throughout the course of the 2018 edition (August 1st to 26th), Canadian theatre and performance art, puppetry, Indigenous artists and thought-provoking storytelling were celebrated on the international stage.

August 20 - 30: In late August, the Council awarded four prizes in the field of architecture: the [Professional Prix de Rome in Architecture](#), awarded to the firm [Acre Architects](#), an architectural firm that has completed their first built works and has demonstrated exceptional artistic potential; the [Prix de Rome in Architecture for Emerging Practitioners](#), given to [David Verbeek](#), a Canadian designer, researcher and urbanist working with OMA (Office for Metropolitan Architecture) in Rotterdam; the [Ronald J. Thom Award for Early Design Achievement](#) awarded to [La SHED architecture](#), an architectural firm with outstanding creative talent and exceptional potential in architectural design; and the [J.B.C. Watkins Award: Architecture](#), which was given to Tiffany Kaewen Dang, whose research examines the Canadian National Parks System as colonial infrastructure.

September 12 - A Facebook Live Information Session on the [Digital Strategy Fund](#) was offered by Council program officers to guide applicants through the three components of this program and to address frequently asked questions. The Digital Strategy Fund supports Canadian artists, groups and arts organizations to understand the digital world, engage with it, and respond to the cultural and social changes it produces.

September 19 - [Bill Coleman](#) won the 2018 [Walter Carsen Prize for Excellence in the Performing Arts](#), which recognizes the highest level of artistic excellence and distinguished career achievement by a Canadian professional artist in music, theatre or dance. The prize is awarded by the Council on a four-year cycle in dance, theatre, dance and music.

September 26 - The Council announced the 23 winners of the [Musical Instrument Bank](#) (MIB) competition. Occurring every three years, this competition gives talented Canadian professional classical musicians the chance to borrow one of the rare violins, cellos and bows in the MIB collection which includes Stradivarius, Gagliano and Pressenda - some owned by the Council and others on loan from individuals and foundations.

September 27 - The Council organized a [town hall](#) discussion about arts funding in Toronto at the Betty Oliphant Theatre at Canada's National Ballet School. Simon Brault, Director and CEO, and Carolyn Warren, Director General of Arts Granting, presented an overview of Council funding to the greater Toronto area and engaged in dialogue with participants about its commitments and strategic priorities, as well as future funding opportunities.

## Net Results

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2018	2017	Increase/ (Decrease)	2018	2017	Increase/ (Decrease)
Revenue	1,463	25,202	(23,739)	7,803	28,432	(20,629)
Expenses	(43,183)	(21,386)	21,797	(190,131)	(123,698)	66,433
Government funding	80,000	50,000	30,000	190,200	150,000	40,200
<b>Surplus for the period</b>	<b>38,280</b>	<b>53,816</b>	<b>(15,536)</b>	<b>7,872</b>	<b>54,734</b>	<b>(46,862)</b>

### Overview of the Second Quarter Net Results

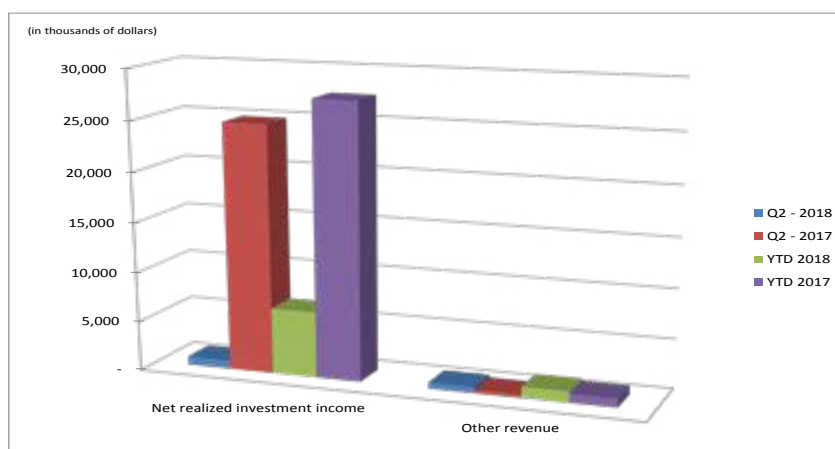
The surplus for the quarter was \$38.3M compared to a surplus of \$53.8M for the same period last year. The variance of \$15.5M is mainly related to a decrease in revenue due to a realized gain of \$22.8M in the previous fiscal year from a manager transition in the Global Equity asset class. An additional drawdown of government funding, \$30.0M, was requested for the period to cover expected cash-flow requirements for the increase in grant expenses of \$21.9M.

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.

## 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 lower than the same period last year by \$24.0M, mainly due to a significant realized gain in the previous year following a manager transition in the Global Equity asset class. The current quarter also registered a loss of \$0.9M during a sale of assets in the Canadian Equity segregated fund, adding to the variance in income. 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 higher than last year at the same periods resulting mainly from higher grant cancellations and refunds of unused grants in the current fiscal year to date. 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		
	2018	2017	Increase/ (Decrease)	2018	2017	Increase/ (Decrease)
Grants, author payments and prizes	33,081	11,163	21,918	169,775	104,838	64,937
Transfer program delivery	4,737	4,720	17	9,342	8,387	955
Arts community services	478	615	(137)	1,081	928	153
Net Art Bank results	(72)	96	(168)	33	189	(156)
Canadian Commission for UNESCO	392	449	(57)	1,084	939	145
General administration	4,567	4,343	224	8,816	8,417	399
<b>Total</b>	<b>43,183</b>	<b>21,386</b>	<b>21,797</b>	<b>190,131</b>	<b>123,698</b>	<b>66,433</b>

### Grants, author payments and prizes

The increase in grant expenses for the quarter and year-to-date is difficult to compare against prior year periods due to the progressive doubling of the Council's government funding and changes in competitions deadlines. 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

The slight increase in the current quarter compared to same quarter last year is explained by an increase in salaries and benefits of \$159K and in staff travel by \$56K which was offset by a reduction in peer costs by \$192K due to the timing of the peer assessment committee meetings. The cumulative amount for this expense is greater compared to last year due to salaries and benefits for staff assigned to program delivery. Those expenses increased by \$652K as a direct result of the decreased number of vacancies and standard step increases as per the collective agreement.

### Net Art Bank results

The Net Art Bank results have shown a decrease for the quarter and year-to-date compared to the prior year due to the higher rental revenues offsetting the comparable expenses.

### General Administration

This expense is slightly higher in the current quarter and year-to-date compared to the prior year due to an increase in salaries and benefits following standard step increases as per the collective agreement.

## Financial Assets

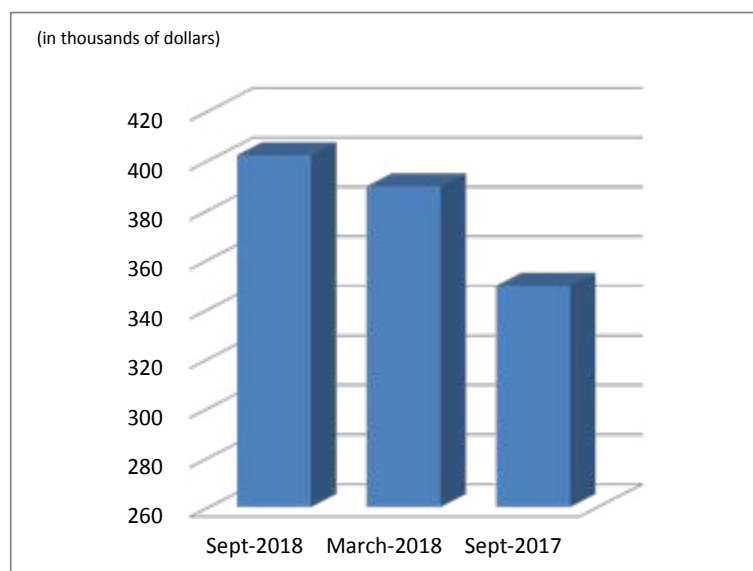
(in thousands of dollars)	September 30 2018	March 31 2018	Increase/ (Decrease)
Cash and cash equivalents	62,933	39,245	23,688
Accounts receivable	2,514	3,080	(566)
Portfolio investments	401,973	389,420	12,553
<b>Total</b>	<b>467,420</b>	<b>431,745</b>	<b>35,675</b>

### Cash and Cash Equivalents

The increase of \$23.7M in cash and cash equivalents is mainly explained by an increase of \$19.8M in grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as of September 30, 2018 plus the \$7.9M cumulative surplus. These increases were slightly offset by a net outflow of \$3.8M in investment activities.

### Portfolio Investments

The total market value of the portfolio as at September 30, 2018, was \$402.0M, of which \$96.8M was externally restricted. This represents an increase of \$12.6M in the market value since March 31, 2018, and an increase of \$28.3M since September 30, 2017.



The total fund generated an absolute positive return of 1.7% for the quarter, exceeding the benchmark return by 0.6%. All asset classes generated positive returns during the second quarter, except for Fixed Income. The main contributors to this positive return were the Infrastructure funds, the Global Equity funds and the Canadian Equity funds which posted positive results for the quarter of 5.0%, 2.7% and 2.4% respectively.

The total fund one-year return was 10.6% for September 2018 which exceeded the benchmark by 2.0%. Our Global and Canadian Equity managers posted strong returns in the double digits, 14.3% and 12.7% respectively, but we also need to mention the very strong returns of 27.3% from our Infrastructure managers compared to a benchmark of 6.8% which definitely helped the overall performance of the portfolio even if it represents only 6.4% of the total portfolio. All other asset classes also posted positive returns.

## Liabilities

(in thousands of dollars)	September 30 2018	March 31 2018	Increase/ (Decrease)
Grants, author payments and prizes payable	89,297	69,547	19,750
Accounts payable and accrued liabilities	2,562	3,782	(1,220)
Deferred revenues	7,433	7,728	(295)
Employee future benefits	3,731	3,482	249
Externally restricted contributions	54,495	51,665	2,830
<b>Total</b>	<b>157,518</b>	<b>136,204</b>	<b>21,314</b>

### Grants, author payments and prizes payable

The increase of \$19.8M in comparison to the value as at March 31, 2018 arises from an increase in overall funding as well as the timing of payments schedules.

### Accounts payable and accrued liabilities

The decrease of \$1.2M in comparison to the value as at March 31, 2018 is mainly due to a reduction of \$1.3M in commercial invoices due to the timing of the payment schedule.

### Externally restricted contributions

The increase of \$2.8M in comparison to the value as at March 31, 2018 arises from the proportionate share of the market value increase of the portfolio investment, \$2.0M, and the net unused funds of \$0.9M 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)	September 30 2018	March 31 2018	Increase/ (Decrease)
Tangible capital assets	9,116	9,021	95
Art Bank assets	19,422	19,421	1
Musical instruments	1	1	-
Prepaid expenses	160	270	(110)
<b>Total</b>	<b>28,699</b>	<b>28,713</b>	<b>(14)</b>

### Art Bank Assets

The Council owns over 17,100 works of contemporary Canadian art within its Art Bank collection. At September 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 fifteen instruments on loan. The appraised value of its musical instruments as at September 30, 2018 was US \$46.6M. 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 the 2018 calendar year.

## 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 second quarter were as follows:

(in thousands of dollars)	September 30	
	2018	2017
Approved annual operating funding		
Vote 1 - Operating costs	292,632	257,347
Supplementary Estimates	171	-
	292,803	257,347
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the six-month period	(190,200)	(150,000)
<b>Balance of operating funding to be received</b>	<b>102,603</b>	<b>107,347</b>



Canada Council  
for the Arts

Conseil des arts  
du Canada

Quarterly

# Financial Statements

**Unaudited**

These financial statements for the quarter ended September 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.

November 30, 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)	September 30		March 31	
(in thousands of dollars)	2018		2018	
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	\$	62,933	\$	39,245
Accounts receivable		2,514		3,080
Portfolio investments (Note 3)		401,973		389,420
<b>Total financial assets</b>		<b>467,420</b>		<b>431,745</b>
<b>LIABILITIES</b>				
Grants, author payments and prizes payable		89,297		69,547
Accounts payable and accrued liabilities		2,562		3,782
Deferred revenues		7,433		7,728
Employee future benefits		3,731		3,482
Deferred revenues - Externally restricted contributions (Note 5)		54,495		51,665
<b>Total liabilities</b>		<b>157,518</b>		<b>136,204</b>
<b>NET FINANCIAL ASSETS</b>				
		<b>309,902</b>		<b>295,541</b>
<b>NON-FINANCIAL ASSETS</b>				
Tangible capital assets		9,116		9,021
Art Bank assets		19,422		19,421
Musical instruments		1		1
Prepaid expenses		160		270
<b>Total non-financial assets</b>		<b>28,699</b>		<b>28,713</b>
<b>ACCUMULATED SURPLUS (Note 6)</b>				
	\$	<b>338,601</b>	\$	<b>324,254</b>
Accumulated surplus is comprised of:				
Accumulated surplus from operations		311,561		303,689
Accumulated remeasurement gains		27,040		20,565
<b>ACCUMULATED SURPLUS</b>	\$	<b>338,601</b>	\$	<b>324,254</b>

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

## Statement of Operations

(Unaudited)	Yearly Budget	Three months ended September 30		Six months ended September 30	
	2018-2019	2018	2017	2018	2017
(in thousands of dollars)					
<b>Revenue</b>					
Net realized investment income (Note 7)	\$ 11,253	\$ 842	\$ 24,861	\$ 6,651	\$ 27,519
Other revenue	1,478	621	341	1,152	913
<b>Total revenue</b>	<b>12,731</b>	<b>1,463</b>	<b>25,202</b>	<b>7,803</b>	<b>28,432</b>
<b>Expenses</b>					
Transfer Programs					
Grants, author payments and prizes	253,056	33,081	11,163	169,775	104,838
Transfer program delivery	24,327	4,737	4,720	9,342	8,387
Arts community services	5,281	478	615	1,081	928
	282,664	38,296	16,498	180,198	114,153
Net Art Bank results (Note 8)	229	(72)	96	33	189
Canadian Commission for UNESCO (Note 9)	2,406	392	449	1,084	939
General administration	19,786	4,567	4,343	8,816	8,417
<b>Total expenses</b>	<b>305,085</b>	<b>43,183</b>	<b>21,386</b>	<b>190,131</b>	<b>123,698</b>
(Deficit) surplus from operations before Parliamentary appropriations for the period	(292,354)	(41,720)	3,816	(182,328)	(95,266)
Parliamentary appropriations	292,372	80,000	50,000	190,200	150,000
SURPLUS FROM OPERATIONS FOR THE PERIOD	18	38,280	53,816	7,872	54,734
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	303,689	273,281	255,348	303,689	254,430
<b>ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD</b>	<b>\$ 303,707</b>	<b>\$ 311,561</b>	<b>\$ 309,164</b>	<b>\$ 311,561</b>	<b>\$ 309,164</b>

## Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2018	2017	2018	2017
(in thousands of dollars)				
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 22,885	\$ 49,699	\$ 20,565	\$ 48,419
<b>Unrealized gains attributable to:</b>				
Portfolio investments	4,468	413	7,090	1,955
<b>Amounts reclassified to the Statement of Operations:</b>				
Portfolio investments	(313)	(24,015)	(615)	(24,277)
NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD	4,155	(23,602)	6,475	(22,322)
<b>ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD</b>	<b>\$ 27,040</b>	<b>\$ 26,097</b>	<b>\$ 27,040</b>	<b>\$ 26,097</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 September 30		Six months ended September 30	
	2018	2017	2018	2017
(in thousands of dollars)				
SURPLUS FROM OPERATIONS FOR THE PERIOD	\$ 38,280	\$ 53,816	\$ 7,872	\$ 54,734
Acquisition of tangible capital assets	(463)	(819)	(848)	(1,160)
Amortization of tangible capital assets	376	375	753	749
Acquisition of Art Bank assets	(1)	-	(1)	-
Disposal/Donation of Art Bank assets	-	31	-	31
	(88)	(413)	(96)	(380)
Acquisition of prepaid expenses	(30)	(200)	(123)	(427)
Use of prepaid expenses	6	175	233	484
	(24)	(25)	110	57
Net remeasurement gains (losses)	4,155	(23,602)	6,475	(22,322)
INCREASE IN NET FINANCIAL ASSETS	42,323	29,776	14,361	32,089
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	267,579	277,452	295,541	275,139
<b>NET FINANCIAL ASSETS, END OF PERIOD</b>	<b>\$ 309,902</b>	<b>\$ 307,228</b>	<b>\$ 309,902</b>	<b>\$ 307,228</b>

## Statement of Cash Flow

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2018	2017	2018	2017
(in thousands of dollars)				
<b>Operating Transactions</b>				
Surplus from operations for the period	\$ 38,280	\$ 53,816	\$ 7,872	\$ 54,734
Losses (gains) from disposal of portfolio investments (Note 7)	887	(31,082)	(365)	(31,317)
Amortization of tangible capital assets	376	375	753	749
Disposal/Donation of Art Bank assets	-	31	-	31
(Increase) decrease in prepaid expenses	(24)	(25)	110	57
Increase in employee future benefits	116	111	249	197
Income transferred from (to) Deferred revenues - Externally restricted contributions from investment income (Note 5)	(192)	7,337	932	7,478
Net change in other non-cash items (Note 10)	(44,489)	(32,007)	18,801	(2,615)
Cash provided (used) by operating activities	(5,046)	(1,444)	28,352	29,314
<b>Capital Transactions</b>				
Cash used to acquire tangible capital and Art Bank assets	(464)	(819)	(849)	(1,160)
<b>Investing Transactions</b>				
Acquisition of portfolio investments	(4,967)	(76,228)	(31,415)	(80,035)
Disposal of portfolio investments	3,826	76,035	27,600	78,187
Cash used by investing activities	(1,141)	(193)	(3,815)	(1,848)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,651)	(2,456)	23,688	26,306
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	69,584	52,252	39,245	23,490
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 62,933</b>	<b>\$ 49,796</b>	<b>\$ 62,933</b>	<b>\$ 49,796</b>

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

# Notes to the Financial Statements

## For the period ended September 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 September 30, 2018					Year-end March 31, 2018		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
<b>Canada Council Endowment and Special Funds</b>								
Pooled funds								
Canadian Equity	7,653	-	227	7,880	2	7,544	7,420	2
Global Equity	129,405	-	7,493	136,898	41	143,170	144,623	45
Fixed income	72,160	2,019	-	70,141	21	70,269	69,632	22
Alternatives	20,630	-	10,150	30,780	9	20,630	30,271	9
Money market	15,521	-	-	15,521	5	1,325	1,325	-
Canadian Equity	32,672	-	4,466	37,138	11	32,142	34,765	11
Real estate	9,994	-	2,196	12,190	4	10,129	12,343	4
Infrastructure	14,012	698	7,910	21,224	7	13,462	20,980	7
	302,047	2,717	32,442	331,772	100	298,671	321,359	100
<b>Killam Fund</b>								
Pooled funds								
Canadian Equity	8,055	-	922	8,977	13	7,840	8,422	12
Global Equity	25,646	-	1,481	27,127	39	29,179	29,450	44
Fixed income	14,069	399	-	13,670	19	13,690	13,560	20
Alternatives	5,298	-	2,599	7,897	11	5,298	7,767	11
Money market	3,641	-	-	3,641	5	-	-	-
Real estate	2,662	-	600	3,262	5	2,697	3,298	5
Infrastructure	3,572	175	2,230	5,627	8	3,434	5,564	8
	62,943	574	7,832	70,201	100	62,138	68,061	100
<b>Total investments</b>	<b>364,990</b>	<b>3,291</b>	<b>40,274</b>	<b>401,973</b>		<b>360,809</b>	<b>389,420</b>	

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of accounting

These unaudited interim financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

#### Basis of preparation

These interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 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 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, 2018 - 8%) of that Fund with a total fair value of \$26,575,000 (March 31, 2018 - \$25,741,000). The total fair value of the externally restricted investment including the Killam Fund is \$96,776,000 (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	41%	35%	40%	45%
Fixed income	21%	15%	25%	35%
Alternatives	9%	0%	10%	15%
Real estate	4%	0%	5%	10%
Infrastructure	7%	0%	7.5%	10%
Money market	5%	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 \$19,162,000 (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 funds are 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:

	Measurement categories	Year-to-date	Year-end
		September 30, 2018	March 31, 2018
		Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
<i>(in thousands of dollars)</i>			
<b>Financial assets and liabilities and classifications</b>			
Cash and cash equivalents	Fair value	62,933	39,245
Accounts receivable	Amortized cost	2,514	3,080
Portfolio Investments <sup>1</sup>	Fair value	401,973	389,420
Grants, author payments and prizes payable	Amortized cost	89,297	69,547
Accounts payable and accrued liabilities	Amortized cost	2,562	3,782

<sup>1</sup> The detailed fair value for the investments is listed in Note 3.

##### a) Establishing fair value

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

The fair values of the investments are determined as follows:

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

- The Alternatives is a pooled fund investment which is valued at the unit values supplied by the pooled fund manager. The fund manager manages multiple funds with different strategies within the fund and determines the unit's fair value using the closing market prices for some strategies when available or using a valuation model with non-observable data for other strategies.
- Real estate investment values are supplied by the fund managers using independently audited appraisals which are based on a valuation model with non-observable data. The independently audited appraisals are obtained annually as at December 31 and extrapolated for other quarters.
- Infrastructure investment values are supplied by the fund managers using internally determined appraisals. The appraisals are based on a valuation model with non-observable data and are audited annually as at December 31 and extrapolated for other quarters.

**b) Fair value hierarchy**

The financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the Statement of Financial Position, classified using the fair value hierarchy described above:

**Financial assets at fair value**

	Year-to-date				Year-end			
	September 30, 2018				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	49,022	13,911	-	62,933	25,435	13,810	-	39,245
	49,022	13,911	-	62,933	25,435	13,810	-	39,245
<b>Portfolio Investments</b>								
<b>Canada Council Endowment and Special Funds</b>								
Pooled Funds								
Canadian Equity	-	7,880	-	7,880	-	7,420	-	7,420
Global Equity	-	136,898	-	136,898	-	144,623	-	144,623
Fixed Income	-	70,141	-	70,141	-	69,632	-	69,632
Alternatives	-	-	30,780	30,780	-	-	30,271	30,271
Money Market	-	15,521	-	15,521	-	1,325	-	1,325
Canadian Equity	37,138	-	-	37,138	34,765	-	-	34,765
Real Estate	-	-	12,190	12,190	-	-	12,343	12,343
Infrastructure	-	-	21,224	21,224	-	-	20,980	20,980
<b>Killam Fund</b>								
Pooled Funds								
Canadian Equity	-	8,977	-	8,977	-	8,422	-	8,422
Global Equity	-	27,127	-	27,127	-	29,450	-	29,450
Fixed Income	-	13,670	-	13,670	-	13,560	-	13,560
Alternatives	-	-	7,897	7,897	-	-	7,767	7,767
Money Market	-	3,641	-	3,641	-	-	-	-
Real Estate	-	-	3,262	3,262	-	-	3,298	3,298
Infrastructure	-	-	5,627	5,627	-	-	5,564	5,564
	37,138	283,855	80,980	401,973	34,765	274,432	80,223	389,420
<b>Total</b>	<b>86,160</b>	<b>297,766</b>	<b>80,980</b>	<b>464,906</b>	<b>60,200</b>	<b>288,242</b>	<b>80,223</b>	<b>428,665</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 September 30, 2018	Year-end March 31, 2018
Balance, beginning of period	\$ 51,665	\$ 46,768
Transferred from net investment income (Note 7)		
Net Investment income	1,920	15,324
Use of funds	(988)	(2,051)
	932	13,273
Unrealized gains (losses) on portfolio investments	2,005	(493)
Reclassified to statement of operations - portfolio	(107)	(7,883)
<b>Balance at end of period</b>	<b>\$ 54,495</b>	<b>\$ 51,665</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 September 30, 2018	Year-end March 31, 2018
<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	186,445	141,445
Appropriated from the accumulated surplus during the period	-	45,000
Balance at end of period	186,445	186,445
<b>Surplus</b>		
Balance at beginning of period	29,675	25,416
Appropriated to the reserve for excess investment income during the period	-	(45,000)
Surplus for the period	7,872	49,259
Balance at end of period	37,547	29,675
<b>Total accumulated surplus from operations</b>	<b>311,561</b>	<b>303,689</b>
<b>Accumulated remeasurement gains</b>		
Balance at beginning of period	20,565	48,419
Change in fair value	6,475	(27,854)
Balance at end of period	27,040	20,565
<b>Balance of accumulated surplus at end of period</b>	<b>\$ 338,601</b>	<b>\$ 324,254</b>



## 7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2018	2017	2018	2017
Gains (losses) from disposal of portfolio investments	\$ (887)	\$ 31,082	\$ 365	\$ 31,317
Income transferred from (to) deferred revenues -				
Externally restricted contributions (Note 5)	192	(7,337)	(932)	(7,478)
Net gains (losses) on foreign exchange	(11)	(6)	4	22
Interest, dividend and other distributed income	1,768	1,461	7,658	4,312
Investment portfolio management costs	(220)	(339)	(444)	(654)
	<b>\$ 842</b>	<b>\$ 24,861</b>	<b>\$ 6,651</b>	<b>\$ 27,519</b>

## 8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2018	2017	2018	2017
Rental revenue	\$ 376	\$ 332	\$ 751	\$ 654
Other income	72	32	106	80
Administration expense	(374)	(458)	(885)	(918)
Amortization of other capital assets	(2)	(2)	(5)	(5)
	<b>\$ 72</b>	<b>\$ (96)</b>	<b>\$ (33)</b>	<b>\$ (189)</b>

## 9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2018	2017	2018	2017
Program expenses	\$ 170	\$ 151	\$ 515	\$ 304
Program - contributions received	(100)	(3)	(102)	(13)
Administration expense	322	301	671	648
	<b>\$ 392</b>	<b>\$ 449</b>	<b>\$ 1,084</b>	<b>\$ 939</b>

## 10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2018	2017	2018	2017
(Increase) decrease in accounts receivable	\$ (87)	\$ 61	\$ 566	\$ 1,278
Increase (decrease) in grants, author payments and prizes payable	(45,071)	(33,790)	19,750	(2,979)
Increase (decrease) in accounts payable and accrued liabilities	942	1,925	(1,220)	(660)
Decrease in deferred revenues	(273)	(203)	(295)	(254)
<b>Net change</b>	<b>\$ (44,489)</b>	<b>\$ (32,007)</b>	<b>\$ 18,801</b>	<b>\$ (2,615)</b>

## 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.