



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended June 30, 2019
Published August 30, 2019



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Management Discussion and Analysis

Quarterly Report

Period ended June 30, 2019
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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, 2019 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 4 - The Canada Council for the Arts announced funding for three artists - Cory Haas, Paula Laroche Humby and Gabriel Robichaud - to attend the [international project incubator](#) (Pépinière internationale à projet) at la Commission internationale du théâtre francophone (CITF) from May 15-26 in Monthey, Switzerland. Eighteen artists from countries across La Francophonie will take part in creation laboratories, meet with the public and participate in various activities and performances for the 6th Swiss Theater Encounter.

April 5 - The Council's Director and CEO gave the keynote address at [The Arts Beyond Borders: Perspectives on Cultural Diplomacy](#) at the Embassy of Canada in Berlin. Simon Brault spoke about the Council's role at the [Frankfurt Book Fair in 2020](#), the importance of international artistic exchanges, and the need for a diversity of artistic practices in cultural diplomacy.

May 22 - In partnership with ISPA | International Society for the Performing Arts, the Council [supported](#) eight Indigenous Fellowship Initiative participants in the Guadalajara 2019 ISPA Congress: Margo Kane, Full Circle: First Nations Performance (Vancouver, BC); Santee Smith, Kaha:wi Dance Theatre (Hagersville, ON); Reneltta Arluk, Banff Centre for Arts and Creativity, Indigenous Arts (Banff, AB); ShoShona Kish, Digging Roots (Barrie, ON); Lindsay Lachance, National Arts Centre / Centre national des Arts (Ottawa, ON); Denise Bolduc (Toronto, ON); Christine Sokaymoh Frederick, Dreamspeakers Film Festival (Edmonton, AB); and Citlali Germé, Ondinnok (Montréal, QC).

May 28 - Performer, choreographer and multidisciplinary artist Lara Kramer was awarded the 2019 [Jacqueline Lemieux Prize](#), which recognizes the work of an established dance professional who has made an outstanding contribution to dance in Canada.

June 1 - The Art Bank welcomed the public on June 1st as part of Doors Open Ottawa, where the public took guided tours, explored the collection and met staff such as guest curator Pansee Atta, organizer of this year's thematic display. With the largest collection of contemporary Canadian art anywhere, the Art Bank makes contemporary artwork available to a wide public across the country through its three programs: corporate art rental, loans to museums and outreach.

June 3 - CEO Simon Brault gave a [speech](#) at the 2019 Congress of the Humanities and Social Sciences entitled What is the Price of Reconciling Freedom and Responsibility in a Changing Democracy? As part of the Congress's Big Thinking series, which presents forward-thinking ideas from leading scholars and public figures, Simon Brault spoke about the tension between artistic freedom and the common good and touched on the role of the public funder, artistic creations and cultural rights in contemporary democratic society.

June 3 - A town hall meeting was organized by the Council at the York Theatre in Vancouver, where Simon Brault and Carolyn Warren, Director General of the Arts Granting Programs Division, presented an overview of the Council's funding in British Columbia, discussed current and future funding opportunities and answered questions.

June 4 - Simon Brault was invited to participate at the open mic session of Radio Canada's radio show, Plus on est de fous, plus on lit! where he made the case for a renewed approach to [cultural diplomacy](#) that can create spaces for discussion based on respect, attentiveness and openness around artistic and literary works.

June 5 - In honour of the 50th anniversary of the Official Languages Act, the Council created a series of web-based spotlights on artists who have contributed to Canada's rich and diverse arts scene in both official languages, including official language minorities. Artists featured include jazz pianist [Elizabeth Shepherd](#) and [Rhizome](#), an interdisciplinary arts organization.

June 12 - In 2019, the [Molson Prizes](#) were awarded to composer Alexina Louie and John Borrows, specialist in Indigenous law. Funded from a \$1 million endowment, the Molson Prizes annually offer two awards of \$50,000 each to distinguished Canadians, one in the arts and the other in the social sciences or humanities.

June 24 - The Council delivered [Collab](#), a series of information sessions to help new and early-career artists and groups apply for their first grant or improve their next grant application. A pilot project, sessions were hosted in Toronto over five days in a variety of locations with the City of Toronto and Toronto Arts Council.

June 27 - Simon Brault participated and gave introductory remarks at the 2019 [Americas Cultural Summit](#) in Buenos Aires, Argentina.

Net Results

(in thousands of dollars)	Three months ended June 30			
	2019	2018	Variance	% change
Revenue	8,764	6,339	2,425	38%
Expenses	(169,429)	(146,947)	(22,482)	-15%
Government funding	113,000	110,200	2,800	3%
Deficit for the period	(47,665)	(30,408)	(17,257)	

Overview of the First Quarter Net Results

The deficit for the quarter was \$47.7M compared to the \$30.4M for the same period last year. This variance is directly related to an increase of \$21.1M in grant expenses resulting from the progressive doubling of the government funding. The increase in grant expenses was only offset by a small increase in government funding. Parliamentary appropriations are drawn down based on cash-flow requirements and not necessarily on the timing of core grant expenses which are recorded in full at the beginning of the year but paid in three installments during the year.

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 \$4.0M in grant expenses resulting from partnerships with the Departments of Global Affairs Canada and Canadian Heritage to support various program activities related to the 2020 Frankfurt Book Fair where Canada will be the guest of honour.

IMPORTANT CHANGES

Program

May 28 - In partnership with CBC/Radio-Canada, the Council announced a new funding initiative, the [Creation Accelerator](#), which is designed to support the development, creation and sharing of original digital content for potential distribution on CBC/Radio-Canada's platforms. The first of its kind for the Council, this \$1.0M initiative will provide successful applicants with a grant to work with a producer, along with the mentorship of CBC/Radio-Canada, on the development of an original idea. Following this incubation stage, the Council and CBC/Radio-Canada will select concepts for production and potential distribution on CBC/Radio-Canada's platforms.

May 30 - In the year leading up to the 2020 Frankfurt Book Fair, where Canada will be the guest of honour, the Council created three one-time initiatives in collaboration with federal partners at Global Affairs Canada and Canadian Heritage. The initiatives support three areas of activity related to Frankfurt: Canadian artists, groups and organizations with artistic engagements in Germany, German cultural organizations wishing to present Canadian arts and culture in Germany, and the translation of Canadian literary and non-literary works into German.

Leadership and Governance

On June 12, 2019, the Board approved the nomination of Michael J. White as the new Chair of the Council's Investment Committee for a term of three years.

During this quarter, the Council also made the following internal announcements:

- Marlene Newton was hired for the position of Director, Information Technology and Information Management;
- Lise-Ann Johnson was appointed as Director, Strategic Granting Initiatives in a newly created executive role which includes oversight of the Digital Strategy Fund; and
- Alexis Andrew was appointed as Director, Granting Program Operations.

FINANCIAL RESULTS

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

Revenue

(in thousands of dollars)	Three months ended June 30		
	2019	2018	Increase/ (Decrease)
Net realized investment income	7,837	5,809	2,028
Other revenue	927	530	397
Total	8,764	6,339	2,425

Net Realized Investment Income

Net investment income was higher than the same period last year due to realized gains of \$4.1M originating from the sales of assets in the Infrastructure asset class which was offset by a \$2.2M reduction in distributed income compared to last year. The net realized investment income is still forecasted to be aligned with the budget.

Other Revenue

The other revenues for the quarter are higher compared to the same period last year due to transfers received from the Departments of Global Affairs Canada and Canadian Heritage for activities related to the Cervantino Festival and 2020 Frankfurt Book Fair. Other revenues are expected to be much higher than budgeted due to these contributions estimated at approximately \$4.5M for this year.

Expenses

(in thousands of dollars)	Three months ended June 30		
	2019	2018	Increase/ (Decrease)
Grants, author payments and prizes	157,755	136,693	21,062
Transfer program delivery	4,961	4,605	356
Arts community services	736	603	133
Net Art Bank results	81	105	(24)
Canadian Commission for UNESCO	563	692	(129)
General administration	5,333	4,249	1,084
Total	169,429	146,947	22,482

Grants, author payments and prizes

An annual budget increase of \$32.5M is planned for grants, author payments and prizes in 2019-20 because of the progressive doubling of the Council's government funding which will bring an increase of \$35.0M this year. The increase in the first quarter, compared to last year, represents the additional support provided with those new funds to core funded organisations and to project grants mainly through the Digital Strategy Fund.

The Council expects the annual grant expenses to reach \$289.5M compared to the original budget of \$285.5M for the year due to the significant partnerships with the Departments of Global Affairs Canada and Canadian Heritage supporting various program activities related to the 2020 Frankfurt Book Fair.

Transfer program delivery

This expense is slightly higher compared to last year due to an increase in salaries and employee benefits as a direct result of a decreased number of vacancies and of retroactive payments following the ratification of a new collective agreement in May 2019.

Canadian Commission for UNESCO

This expense is lower compared to last year mainly due to a transfer of \$150K from Canadian Heritage to support the International Fund for Cultural Diversity for which the first payment of \$75K was recorded in the previous fiscal year.

General administration

This expense is greater compared to last year due to an increase of \$0.6M for salaries and employee benefits as a direct result of a decreased number of vacancies and of retroactive payments following the ratification of a new collective agreement in May 2019. The Council is also moving more and more of its technology into a cloud environment which means an increase of \$0.4M in annual licence subscriptions that will be offset gradually by a decrease in the amortization of capital assets.

Financial Assets

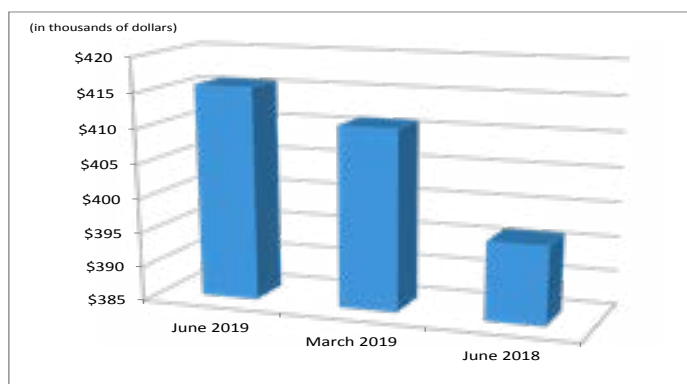
(in thousands of dollars)	June 30, 2019	March 31, 2019	Increase/ (Decrease)
Cash and cash equivalents	62,732	31,235	31,497
Accounts receivable	2,610	3,146	(536)
Portfolio investments	415,777	411,066	4,711
Total	481,119	445,447	35,672

Cash and Cash Equivalents

The increase of \$31.5M in cash and cash equivalents is mainly explained by an increase of \$80.0M in grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as of June 30, 2019, less the \$47.7M deficit for the three-month period.

Portfolio Investments

The total market value of the portfolio as at June 30, 2019, was \$415.8M, of which \$99.5M was externally restricted. This represents an increase of \$4.7M in the market value since March 31, 2019, and an increase of \$19.5M since June 30, 2018.



The total fund generated an absolute positive return of 2.7% for the quarter, outperforming the benchmark return by 0.8%. All asset classes generated positive returns during the first quarter, but the main contributors to this positive return were the Canadian Equity and Infrastructure funds which posted positive results for the quarter of 5.6% and 4.4% respectively.

The total fund one-year return was 6.9% for June 2019 which exceeded the benchmark by 0.5%. All asset classes posted good returns closely matching their benchmarks, with the exception of the very strong returns of 23.3% from our Infrastructure managers, compared to a benchmark of 6.6%. This helped the overall performance of the portfolio even if it represents only 7% of the total portfolio.

Liabilities

(in thousands of dollars)	June 30, 2019	March 31, 2019	Increase/ (Decrease)
Grants, author payments and prizes payable	148,105	68,081	80,024
Accounts payable and accrued liabilities	2,478	5,072	(2,594)
Deferred revenues	11,168	7,043	4,125
Employees future benefits	4,012	3,867	145
Externally restricted contributions	57,211	55,736	1,475
Total	222,974	139,799	83,175

Grants, author payments and prizes payable

The increase of \$80.0M in comparison to the value as at March 31, 2019 arises from the base core funding commitments recorded in April 2019, 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 \$2.6M in comparison to the value as at March 31, 2019 is mainly due to a reduction of \$2.5M in commercial invoices due to the timing of the payment schedule.

Deferred revenues

The increase of \$4.1M in comparison to the value as at March 31, 2019 is attributed to a \$4.0M contribution received from the Department of Global Affairs Canada for international activities related to the 2020 Frankfurt Book Fair for which the expenses will be incurred later in the year.

Externally restricted contributions

The increase of \$1.5M in comparison to the value as at March 31, 2019 arises mainly from the net unused funds of \$1.9M 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)	June 30, 2019	March 31, 2019	Increase/ (Decrease)
Tangible capital assets	9,627	9,793	(166)
Art Bank assets	19,466	19,455	11
Musical instruments	1	1	-
Prepaid expenses	141	224	(83)
Total	29,235	29,473	(238)

Art Bank Assets

The Council owns approximately 17,160 works of contemporary Canadian art within its Art Bank collection. At June 30, 2019 the appraised value of the Art Bank assets was approximately \$72M. The Council insures its Art Bank assets based on its assessment of risk.

Musical Instruments

The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and nine prestigious musical instruments. In addition, the Council manages fifteen instruments on loan. The appraised value of its musical instruments as at June 30, 2019 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 goal of enterprise risk management is 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.

Risk Appetite

The Council 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 2019 Annual Financial Statements.

Risk Profile

Using the Council's risk appetite as key context, a new risk management framework was created in the fall of 2018. All identified risks were ranked based on likelihood and potential impact on the Council's operations with a focus on potential operational, financial, and reputational dimensions. The corporate risk profile highlighting the top six risks areas and their mitigation strategies was presented to the Board in January 2019.

The risk mitigation strategies and related activities are monitored on an ongoing basis by assigned members of the executive management to reduce the risk exposure. Regular updates on these risks are provided to the Audit and Finance Committee to ensure continuous oversight and the effectiveness of the mitigation strategies that 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 the Council's receivables are normally deposited within 30-60 days after quarter-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	
	2019	2018
Approved annual operating funding		
Vote 1 - Operating costs	327,644	292,632
Supplementary Estimates	-	-
	327,644	292,632
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the three month period	(113,000)	(110,200)
Balance of operating funding to be received	214,644	182,432



Canada Council
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Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended June 30, 2019
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 30, 2019



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)	2019	2019
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 62,732	\$ 31,235
Accounts receivable	2,610	3,146
Portfolio investments (Note 3)	415,777	411,066
Total financial assets	481,119	445,447
LIABILITIES		
Grants, author payments and prizes payable	148,105	68,081
Accounts payable and accrued liabilities	2,478	5,072
Deferred revenues	11,168	7,043
Employee future benefits	4,012	3,867
Deferred revenues - Externally restricted contributions (Note 5)	57,211	55,736
Total liabilities	222,974	139,799
NET FINANCIAL ASSETS	258,145	305,648
NON-FINANCIAL ASSETS		
Tangible capital assets	9,627	9,793
Art Bank assets	19,466	19,455
Musical instruments	1	1
Prepaid expenses	141	224
Total non-financial assets	29,235	29,473
ACCUMULATED SURPLUS (Note 6)	\$ 287,380	\$ 335,121
Accumulated surplus is comprised of:		
Accumulated surplus from operations	256,725	304,390
Accumulated remeasurement gains	30,655	30,731
ACCUMULATED SURPLUS	\$ 287,380	\$ 335,121

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

Statement of Operations

(Unaudited) (in thousands of dollars)	Yearly Budget 2019-2020	Three months ended June 30	
		2019	2018
Revenue			
Net realized investment income (Note 7)	\$ 12,161	\$ 7,837	\$ 5,809
Other revenue	1,655	927	530
Total revenue	13,816	8,764	6,339
Expenses			
Transfer Programs			
Grants, author payments and prizes	285,507	157,755	136,693
Transfer program delivery	25,600	4,961	4,605
Arts community services	7,003	736	603
	318,110	163,452	141,901
Net Art Bank results (Note 8)	247	81	105
Canadian Commission for UNESCO (Note 9)	2,648	563	692
General administration	20,446	5,333	4,249
Total expenses	341,451	169,429	146,947
Deficit from operations before Parliamentary appropriations for the period	(327,635)	(160,665)	(140,608)
Parliamentary appropriations	327,644	113,000	110,200
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	9	(47,665)	(30,408)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	304,390	304,390	303,689
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 304,399	\$ 256,725	\$ 273,281

Statement of Remeasurement Gains and Losses

(Unaudited) (in thousands of dollars)	Three months ended June 30	
	2019	2018
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 30,731	\$ 20,565
Unrealized gains attributable to:		
Portfolio investments	7,496	2,622
Amounts reclassified to the Statement of Operations:		
Portfolio investments	(7,572)	(302)
NET REMEASUREMENT (LOSSES) GAINS FOR THE PERIOD	(76)	2,320
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 30,655	\$ 22,885

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	
	2019	2018
(in thousands of dollars)		
DEFICIT FROM OPERATIONS FOR THE PERIOD	\$ (47,665)	\$ (30,408)
Acquisition of tangible capital assets	(323)	(385)
Amortization of tangible capital assets	489	377
Acquisition of Art Bank assets	(11)	-
	155	(8)
Acquisition of prepaid expenses	(71)	(93)
Use of prepaid expenses	154	227
	83	134
Net remeasurement (losses) gains	(76)	2,320
DECREASE IN NET FINANCIAL ASSETS	(47,503)	(27,962)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	305,648	295,541
NET FINANCIAL ASSETS, END OF PERIOD	\$ 258,145	\$ 267,579

Statement of Cash Flow

(Unaudited)	Three months ended June 30	
	2019	2018
(in thousands of dollars)		
Operating Transactions		
Deficit from operations for the period	\$ (47,665)	\$ (30,408)
Gains from disposal of portfolio investments (Note 7)	(6,034)	(1,252)
Amortization of tangible capital assets	489	377
Decrease in prepaid expenses	83	134
Increase in employee future benefits	145	133
Income transferred to Deferred revenues - Externally restricted contributions from (to) investment income (Note 5)	1,860	1,124
Net change in other non-cash items (Note 10)	82,091	63,290
Cash provided by operating activities	30,969	33,398
Capital Transactions		
Acquisition of tangible capital assets	(323)	(385)
Acquisition of Art Bank assets	(11)	-
Cash used by capital activities	(334)	(385)
Investing Transactions		
Acquisition of portfolio investments	(10,059)	(26,448)
Disposal of portfolio investments	10,921	23,774
Cash used by investing activities	862	(2,674)
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,497	30,339
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	31,235	39,245
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 62,732	\$ 69,584

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

Notes to the Financial Statements

For the period ended June 30, 2019

(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, 2019					Year-end March 31, 2019		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Canadian Equity	8,032	-	204	8,236	3	7,881	8,027	2
Global Equity	133,739	7	7,300	141,032	41	132,268	138,221	41
Fixed income	85,102	-	2,092	87,194	25	84,105	84,802	25
Alternatives	20,630	-	10,771	31,401	9	20,630	30,936	9
Canadian Equity	33,088	-	4,459	37,547	11	32,181	35,319	11
Real estate	9,826	-	2,846	12,672	4	9,941	12,648	4
Infrastructure	15,867	466	6,457	21,858	6	14,485	25,276	7
Cash	3,891	-	-	3,891	1	3,870	3,870	1
	310,175	473	34,129	343,831	100	305,361	339,099	100
Killam Fund								
Pooled funds								
Canadian Equity	8,166	-	945	9,111	13	8,037	8,613	12
Global Equity	26,506	1	1,441	27,946	39	26,214	27,389	38
Fixed income	17,200	-	407	17,607	24	17,149	17,282	24
Alternatives	5,298	-	2,758	8,056	11	5,298	7,937	11
Real estate	2,613	-	783	3,396	5	2,648	3,386	5
Infrastructure	3,607	108	1,696	5,195	7	3,691	6,728	9
Cash	635	-	-	635	1	632	632	1
	64,025	109	8,030	71,946	100	63,669	71,967	100
Total investments	374,200	582	42,159	415,777		369,030	411,066	

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, 2019. 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, 2019 - 8%) of that Fund with a total fair value of \$27,541,000 (March 31, 2019 - \$27,162,000). The total fair value of the externally restricted investment including the Killam Fund is \$99,487,000 (March 31, 2019 - \$99,129,000).

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 five 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	25%	15%	25%	35%
Alternatives	9%	0%	10%	15%
Real estate	4%	0%	5%	10%
Infrastructure	7%	0%	7.5%	10%
Money market/Cash	1%	0%	0%	10%

The amounts in the money market or cash asset classes are for future investments or to fund capital calls on commitments already approved and signed.

Investments in the equity pooled funds are comprised of units of six pooled funds, two Canadian funds and four 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 Canada 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 CAD 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 five 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, 2019	Year-end March 31, 2019
Financial assets and liabilities	Measurement categories	Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
Cash and cash equivalents	Fair value	62,732	31,235
Accounts receivable	Amortized cost	2,610	3,146
Portfolio Investments ¹	Fair value	415,777	411,066
Grants, author payments and prizes payable	Amortized cost	148,105	68,081
Accounts payable and accrued liabilities	Amortized cost	2,478	5,072

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. The Council uses the unaudited appraisals received from the fund managers for the 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. The Council uses the unaudited appraisals received from the fund managers for the 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, 2019				Year-end March 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	62,732	-	-	62,732	31,235	-	-	31,235
	62,732	-	-	62,732	31,235	-	-	31,235
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Canadian Equity	-	8,236	-	8,236	-	8,027	-	8,027
Global Equity	-	141,032	-	141,032	-	138,221	-	138,221
Fixed Income	-	87,194	-	87,194	-	84,802	-	84,802
Alternatives	-	-	31,401	31,401	-	-	30,936	30,936
Canadian Equity	37,547	-	-	37,547	35,319	-	-	35,319
Real Estate	-	-	12,672	12,672	-	-	12,648	12,648
Infrastructure	-	-	21,858	21,858	-	-	25,276	25,276
Cash	3,891	-	-	3,891	3,870	-	-	3,870
Killam Fund								
Pooled Funds								
Canadian Equity	-	9,111	-	9,111	-	8,613	-	8,613
Global Equity	-	27,946	-	27,946	-	27,389	-	27,389
Fixed Income	-	17,607	-	17,607	-	17,282	-	17,282
Alternatives	-	-	8,056	8,056	-	-	7,937	7,937
Real Estate	-	-	3,396	3,396	-	-	3,386	3,386
Infrastructure	-	-	5,195	5,195	-	-	6,728	6,728
Cash	635	-	-	635	632	-	-	632
	42,073	291,126	82,578	415,777	39,821	284,334	86,911	411,066
Total	104,805	291,126	82,578	478,509	71,056	284,334	86,911	442,301

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, 2019	Year-end March 31, 2019
Balance, beginning of period	\$ 55,736	\$ 51,665
Transferred from investment income (Note 7)		
Net Investment income	2,497	3,363
Use of funds	(637)	(2,554)
	1,860	809
Unrealized gains on portfolio investment	2,752	3,076
Reclassified to statement of operations - portfolio	(3,137)	186
Balance at end of period	\$ 57,211	\$ 55,736

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, 2019	Year-end March 31, 2019
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	190,445	186,445
Appropriated from the accumulated surplus during the period	-	4,000
Balance at end of the period	190,445	190,445
Surplus		
Balance at beginning of the period	26,376	29,675
Appropriated to the reserve for excess investment income during the period	-	(4,000)
Surplus (deficit) for the period	(47,665)	701
Balance at end of the period	(21,289)	26,376
Total accumulated surplus from operations	256,725	304,390
Accumulated remeasurement gains		
Balance at beginning of the period	30,731	20,565
Change in fair value	(76)	10,166
Balance at end of the period	30,655	30,731
Balance of accumulated surplus at end of period	\$ 287,380	\$ 335,121

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended June 30	
	2019	2018
Gains from disposal of portfolio Investments	\$ 6,034	\$ 1,252
Income transferred to deferred revenues -		
Externally restricted contributions (Note 5)	(1,860)	(1,124)
Net gains on foreign exchange	277	15
Interest, dividend and other distributed income	3,659	5,890
Investment portfolio management costs	(273)	(224)
	\$ 7,837	\$ 5,809

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended June 30	
	2019	2018
Rental revenue	\$ 354	\$ 375
Other income	53	34
Administration expense	(485)	(511)
Amortization of other capital assets	(3)	(3)
	\$ (81)	\$ (105)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended June 30	
	2019	2018
Program - contributions received	\$ 250	\$ 2
Program expenses	(421)	(345)
Administration expense	(392)	(349)
	\$ (563)	\$ (692)

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended June 30	
	2019	2018
Decrease in accounts receivable	\$ 536	\$ 653
Increase in grants, author payments and prizes payable	80,024	64,821
Decrease in accounts payable and accrued liabilities	(2,594)	(2,162)
Increase (decrease) in deferred revenues	4,125	(22)
Net change	\$ 82,091	\$ 63,290

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.