Quarterly Financial Report
(Unaudited)

Period ended June 30, 2012
Published August 29, 2012

Canada Council for the Arts
Conseil des arts du Canada

Management Discussion and Analysis

Change Technology Communities Transparency Adaptability Flexibility Leadership Responsiveness Synergy Artists Partnership Equity Knowledge Experience Connections Engagement Public Trust

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, 2012 as set out in the accompanying unaudited quarterly financial statements. Those statements are disclosed in accordance with the requirements of the Financial Administration Act and are prepared in accordance with Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The Council's audited annual financial statements for the year ended March 31, 2012 were the first to be prepared using the PSAS accounting framework.

Management is responsible for the information presented in the unaudited quarterly financial statements and this narrative discussion, both of which have been reviewed and approved by the Audit and Finance Committee of the Council's Board of Directors. In assessing what information is to be provided in the narrative discussion, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the decisions of the primary user of this information, the Government of Canada.

This discussion contains "forward-looking statements" that reflect management's expectations regarding the Council's results of operations. These statements are not facts but only estimates based upon information and assumptions that are currently available to, or made by, management and which are subject to a number of risks and uncertainties and may prove to be incorrect. Accordingly, readers are cautioned not to place undue reliance on 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 as against the Council's Corporate Plan. As required by PSAS, they do provide comparisons to the Council's approved budget for the year.

FINANCIAL HIGHLIGHTS

Highlights

For the three months ended June 30, 2012, the Council recorded a loss of $32.6M compared to a loss of $28.3M for the same period the prior year, an increase of $4.3M. This loss arises almost completely from the difference in timing regarding the recording of revenue from Parliamentary appropriations and the recording of grant expenses. Multi-year operating grants are expensed at the start of the year, most of which are paid during the first quarter. The impact of this timing difference will decline with each quarter.

The Council anticipates no material change to its $181.8M parliamentary appropriation for the year ended March 31, 2013. The Council remains subject to fiscal restraint but has not been impacted by the Government's Deficit Reduction Action Plan.

During the quarter, the Council received $78M in appropriation funding compared to $87M for the same period the prior year. This $9M reduction is the prime cause of the increased year-over-year loss for the quarter. It is offset by reductions of $4.7M in net expenses and other revenues, primarily a reduction in grant expenses. In the prior year, appropriation funding for the quarter was higher than normal in contingency against the potential impact of later funding delays resulting from the late recall of Parliament. Grant expense payments were also advanced in the prior year.

Grants expenses are forecast to be $800K higher than budgeted for spending out of the appropriation and other income. That over-expense relates to grants payments paid out of the Council's accumulated surplus that were carried over from prior years and approved by the Board to be paid during the current year.

The Council is currently undertaking a revision of its programs as part of its ongoing efforts to ensure that they continue to be relevant, cost-effective and responsive to the changing needs of the community. Savings realized from implemented changes to programs and operations will be reinvested into the sector. During the quarter, the Council announced that the October 2012 competition of the Flying Squad program will be suspended while the program undergoes a comprehensive review. The Council also announced that it is adding $2M to its existing support to individual artists and arts organizations to access international markets, bringing dedicated international market access funding this year to $7M.

Net investment income for the quarter was not materially different from that anticipated. The Council has budgeted for $1.2M less investment income to be made available for use in operations than in the previous year.

FINANCIAL POSITION

SUMMARY FINANCIAL POSITION

(UNAUDITED)

(in thousands of dollars)	June 30 2012	June 30 2011	March 31 2012
Total financial assets	$ 287,375	$ 304,987	$ 272,855
Total liabilities	112,062	116,120	62,771
Net financial assets	175,313	188,867	210,084
Non-financial assets	2,316	2,764	2,430
Accumulated surplus	177,629	191,631	212,514

As at June 30, 2012, total financial assets were $287.4M, a decrease of $17.6M over the previous year. Financial assets include both those assets that in the normal course of operations are expected to be converted into cash or expensed within the next year and portfolio investments in financial instruments. Cash equivalents represent the temporary investment of the Council's excess daily cash requirements in a short-term pooled fund managed by a professional money manager. Notes 3, 4 and 5 to the unaudited financial statements set out important information relating to the Council's financial assets.

The Council's portfolio investments arise from a $50M endowment received from the government in 1957 when the Council was created and from externally restricted contributions received subsequently. At June 30, 2012 the fair value of the Portfolio was $267.7M, of which $71.3M was externally restricted. These restrictions and other elements of the Council's accumulated surplus including the government's original endowment are set out in Notes 5, 7 and 8 to the unaudited financial statements.

As at June 30, 2012, the fair value of the Council's portfolio investments had decreased $12.2 million from the prior year and $2.8M from March 31, 2012. During the period the Council experienced no significant realized gains or losses. Global and Canadian financial markets declined slightly and have picked up subsequent to the end of the quarter.

The Council owns approximately 17,000 works of art. These are held by its Art Bank and rented out. The Art Bank is self-financing and reinvests its profits in new art purchases. The Art Bank recorded a gain of $1K for the quarter. The Council also operates a Musical Instrument Bank and it currently owns a fine cello bow and eight quality musical instruments. In addition, the Council manages 10 instruments on loan, nine of which are lent by anonymous donors. Using a donation of funds from the Council's Edith Webb Endowment, during the quarter the Council purchased two violins at a cost of $363K, a 1871 Jean-Baptiste Vuillaume violin currently valued at $250K and a 1900 Stefano Scarampella violin currently valued at $160K. At June 30, 2012 the appraised value of the Council's works of art was approximately $70M and the insured value of its musical instruments was $29.0M USD. These are included on the Statement of Financial Position with tangible capital assets and are valued nominally at $1.00.

The Council has an agreement with Morguard Investments Limited to lease space for a period of 20 years in a new building to be constructed at 150 Elgin Street Ottawa. Occupancy is scheduled for January 1, 2014 and the Council will be the building's anchor tenant. Leasehold improvement and fit-up costs will be incurred during the current year and the next. The building will be LEED Gold certified. The net effect of the use of new technology, modern construction techniques, favorable interest rates, joint-fit-up collaboration with the landlord and a reduced environmental footprint is a cost saving to the Council such that it will take five years for ongoing accommodation costs to reach the 2011-12 level. The Council also has underway significant changes to its suite of information systems. When implemented over the next three years, these and other changes relating to its programs will transform the Council's manner of operation while reducing costs.

The Council's liabilities also include employee future benefits of $4.3M which represent the severance entitlements of the Council's employees and post-retirement benefits covering employees and retirees. In the past, the Council provided severance benefits to its employees based upon years of service and final salary. In accordance with the new collective agreement signed in February 2012, in July 2012 these benefits ceased to accrue and employees will decide as between several options regarding the timing and nature of the payout to them of the Council's obligation.

OPERATIONS

SUMMARY STATEMENT OF OPERATIONS

(UNAUDITED)

For the period ended June 30

(in thousands of dollars)	Annual Budget 2012	2012	2011
Total revenue	$ 191,897	$ 79,173	$ 88,402
Total expenses	191,882	111,793	116,730
Period surplus (deficit) from operations	$ 15	$ (32,620)	$(28,328)

For the three months ended June 30, 2012, the Council recorded a loss of $32.6M compared to a loss of $28.3M for the same period the prior year, an increase of $4.3M. This loss arises almost completely from the difference in timing regarding the recording of revenue from Parliamentary appropriations, which is recognized during the year as the appropriation is drawn down, and the recording of grants expenses. The expenses for multi-year operating grants for which the budget for the current year has been approved and which meet certain other criteria, are expensed at the start of the year. Most, but not all of such grants are paid during the first quarter of the year. The impact of this timing difference will decline with each quarter.

The Council anticipates no material change to its parliamentary appropriation for the year ended March 31, 2013. As the Council remains subject to fiscal restraint but has not been impacted by the Government's Deficit Reduction Action Plan, the appropriation before adjustment will remain at $181.8M. During the year, the Council's appropriation will be reduced by $500K relating to non-recurring funding for the National Translation Program that is operated under a Memorandum of Agreement with the Department of Canadian Heritage.

During the quarter, the Council received $78M in appropriation funding compared to $87M for the same period the prior year. This $9M reduction is the prime cause of the increased year-over-year loss for the quarter. It is offset by reductions of $4.7M in net expenses and other revenues, primarily a reduction in grant expenses.

In the prior year, appropriation funding for the quarter was higher than normal in contingency aganst the potential impact of later funding delays resulting from the late recall of Parliament and approval of the budget following the May 2011 election. Grant expense payments were also advanced in the prior year where considered desirable.

Grants expenses are forecast to be $800K higher than budgeted for spending out of the appropriation and other income. The full amount of that over-expense relates to grants payments paid out of the Council's accumulated surplus that were carried over from prior years and approved by the Board to be paid during the current year.

Net investment income for the quarter was not materially different from that anticipated. The Council has budgeted for $1.2M less investment income to be made available for use in operations than in the previous year.

Other revenue includes $50K received from Leonard Cohen who donated his Glenn Gould prize to the Council.

The Council is currently undertaking a revision of its programs as part of its ongoing efforts to ensure that they continue to be relevant, cost-effective and responsive to the changing needs of the community. Savings realized from implemented changes to programs and operations will be reinvested into the sector. As part of this review, during the quarter, the Council announced that the October 2012 competition of the Flying Squad program will be suspended while the program undergoes a comprehensive review. The Council also announced that it is adding $2M to its existing support to individual artists and arts organizations to access international markets, bringing dedicated international market access funding this year to $7M. The increase will expand opportunities for artists to strengthen their artistic practice and engage more members of the public with their work as part of a broader suite of market access initiatives.

NET FINANCIAL ASSETS

The Statement of Changes in Net Financial Assets discloses a $34.8M decrease in net financial assets during the quarter. This decrease relates almost entirely to the $32.6M deficit from operations for the period.

REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement losses of $2.4M represent the net decline in fair value of portfolio investments and derivatives other than those realized through sale or disposal. Recorded net measurement losses for the quarter were $2.3M. The decline during the period reflected the general decline in global and Canadian equity markets. The Council's investment performance was in line with its benchmark. Subsequent to the end of the quarter, this decline has been largely offset. It is not possible to forecast at this time the probable net impact to March 31, 2013.

During the quarter a net realized loss of $43K was reclassified to the Statement of Operations.

CASH FLOWS

Cash provided by operating activities during the quarter was $19.7M in comparison to $24.3M for the same period last year. This change is mostly accounted for by the reduction in the Council's funded appropriation for the quarter in comparison to the previous year. On a full-year basis, this will have no net cash impact. The Council anticipates an "unusual" payment of $3M in October 2012 in payout of severance benefits which have ceased to accrue.

Note 12 to the financial statements discloses a net change in non-cash items of $53.2M. This arises primarily from the $53.0M increase in grants payable in comparison to the value as at March 31, 2012. This increase arises primarily from multi-year grants expensed at the start of the year which had not been paid by the end of the quarter. Taking into account the deficit for the period, and adjusting for changes in non-cash capital items, the cash provided by operating activities during the quarter was $19.7M. In addition to operating activities, capital, investing and financing transactions also affect cash balances. The net result of all of these for the quarter was an increase in cash and cash equivalents of $19.2M. The majority of this increase was subsequently offset by grants payments issued during July.

Cash used to acquire tangible assets was $0.1M in comparison to $0.05M the previous year. This usage is expected to increase significantly during the course of the year as the Council fits up its new premises and invests in new information systems.

Net cash used by investing activities was $0.4M down from a use of $0.7M the previous year. During the quarter the Council acquired portfolio investments valued at $2.1M primarily in its infrastructure and real estate investments and disposed of investments valued at $1.8M ($2.2M the previous year).

RISK MANAGEMENT

Effective risk management is fundamental to the success of the Council in fulfilling its mandate. The Council has a 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.

Risk Governance, Appetite and Profile

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 appetite. The Board receives regular updates on the Council's key risks including regarding its risk profile and related mitigation, financial performance and performance of the investment portfolio. The Council's executive management are responsible for risk management under the direct oversight of the Board.

In 2011, the Council established a risk appetite statement in order to provide a qualitative description of its approach to accepting risk in the management of its business. The Council's risk appetite statement is:

"The Canada Council for the Arts follows a prudent risk-taking approach in managing the organization. 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.

"The Council has low appetite for risks that could negatively impact the rigour and transparency of our granting processes, given that this is foundational to the legitimacy of the Council's mandate. Similarly, the Council has a low appetite to undertake financial risks that would negatively impact our cost-effectiveness and investment performance, given the critical importance of appropriately managing financial resources to our ability to provide funding and support to the arts community.

"With regards to our suite of funding programs and support to the arts community, we have a low appetite for risks that would hinder our ability to be flexible and responsive to changes in the arts ecology and economic conditions and a low appetite for risks that would adversely affect support of the arts infrastructure in Canada. That notwithstanding, the Council has a high appetite for artistic risk. Notably, we maintain a high appetite for risks related to the Council's support of artistic aspirations, creativity and innovation as this is essential to the development and evolution of a vital and diverse arts sector that enriches the lives of all Canadians. In that context, we have a moderate appetite for risks that could affect our ability to build and sustain reputational strength with key stakeholders.

"To enable the Council to continuously improve its operating performance, we are willing to take on moderate risks for opportunities that could lead to improved internal structure, staffing and services as well as overall strategy execution. However, we will manage any risks taken in this regard within the constraints of our core values, organizational culture, and commitment to staff.

"Ultimately, we will manage the organization in a way that will enable us to deliver on our mandate and strategic directions and to demonstrate results. We will be cautious in our acceptance of any risks that could hinder our abilities to do so.

"The Council ensures that it fulfills its mandate and operates as a high performance organization through effective governance by its Board. The Council has a low appetite for any risks that would affect its capacity to independently govern itself."

The following risks are considered to be outside of the Council's appetite. Consequently, for these, focused, updated risk mitigations are undertaken under the oversight of assigned members of the executive management in order to reduce the risk exposure:

- Revenue uncertainty;
- Change overload;
- Information technology effectiveness;
- Human Resource capacity; and
- Demonstration of results.

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. The majority of the Council's receipts are due from the Government of

Canada and, as such, have low credit risk. Liquidity risk is the risk that the 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 appropriation drawn down monthly. That revenue is invested in a short-term pooled fund until it is required. The Council's parliamentary appropriation for 2012-13 and future years is not affected by the government's Deficit Reduction Action Plan. This significantly reduces revenue uncertainty from this source and liquidity risk. The Council's 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 Board of Director's and the Investment Committee.

ACCOUNTING STANDARDS AND POLICIES

In accordance with the Introduction to Public Sector Accounting Standards (PSAS) of the Public Sector Accounting Board (PSAB), the Council is classified as an Other Government Organization (OGO) and has determined that the most appropriate accounting framework that meets the financial information disclosure needs of its stakeholders are the PSAS related to this classification. The Council adopted the new accounting framework effective April 1, 2011.

These unaudited quarterly financial statements are prepared in accordance with PSAS, submitted to government and publicly disclosed on the Council's website.

In the course of transitioning to PSAS the Council adopted all standards in effect as at April 1, 2011. In addition several new PSAS standards have later mandatory effective dates with optional early adoption. Generally, the Council chose to "early adopt." Early adopted standards relate to:

- Financial Instruments;
- Portfolio Investments;
- Foreign Currency;
- Financial Statement Presentation; and
- Government Transfers.

PSAB is currently considering the issuance of several new standards. The Council will consider the impact of these standards and implement them as and when appropriate.

Note 2 to the unaudited financial statements sets out the Council's significant accounting policies.

Certain comparative figures have been reclassified to conform to the presentation adopted in 2012.

USE OF APPROPRIATION

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

The Council receives its main funding through parliamentary appropriation voted by Parliament. The Council records the parliamentary appropriation received in the period as revenue in the Statement of Operations. The Council submits a monthly cash flow analysis to the Department of Canadian Heritage to justify its monthly drawdown cash requirements. The monthly drawdown is invested in a short-term pooled fund managed by a professional investment manager (from which the Council draws its daily cash requirements).

During the year the Council's appropriation will be reduced by $500K relating to non-recurring funding for the National Translation Program that is operated under a Memorandum of Agreement with the Department of Canadian Heritage.

The parliamentary appropriation approved and received by the Council during the period is as follows:

(in thousands of dollars)	June 30 2012	June 30 2011	March 31 2012
Operating funding			
Approved annual funding - Vote 10 - Operating costs	181,761	181,761	181,761
Supplementary Estimates	-	-	157
Reduction to non-recurring funding for programming initiatives operated under Memoranda of Agreement	-	-	(960)
Operating funding received and recorded in the Statement of Operations	(78,000)	(87,013)	(180,958)
Balance of operating funding to be received	103,761	94,748	-

CANADA COUNCIL FOR THE ARTS

Quarterly Financial Statements

onnections Engagement Public Arts Change Technology Communities Transparency Adaptability Flexibility Leadership Trust Responsiveness Synergy Artists Partnership Equity Knowledge Experience

STATEMENT OF MANAGEMENT RESPONSIBILITY

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 29 2012

Director and Chief Executive Officer
Robert Sirman

Chief Financial Officer
Robin Ghosh, CA, CPA (Illinois)

STATEMENT OF FINANCIAL POSITION

(Unaudited)

(in thousands of dollars)

	June 30 2012	June 30 2011	March 31 2012
FINANCIAL ASSETS			
Cash equivalents (Note 3)	$ 18,661	$ 22,876	$ 18
Accounts receivable	778	1,944	2,144
Derivatives (Note 4)	266	308	171
Portfolio investments (Note 5)	267,670	279,859	270,522
TOTAL FINANCIAL ASSETS	287,375	304,987	272,855
LIABILITIES			
Bank indebtedness	1,018	1,565	1,581
Grants payable	80,813	81,656	27,760
Accounts payable and accrued liabilities	2,601	2,150	3,710
Deferred revenues	1,746	2,045	1,827
Derivatives (Note 4)	105	21	62
Employee future benefits	4,255	3,652	4,237
Deferred revenues - Externally restricted contributions (Note 7)	21,524	25,031	23,594
TOTAL LIABILITIES	112,062	116,120	62,771
NET FINANCIAL ASSETS	175,313	188,867	210,084
NON-FINANCIAL ASSETS			
Tangible capital assets	2,047	2,562	2,156
Works of art and musical instruments	1	1	1
Prepaid expenses	268	201	273
TOTAL NON-FINANCIAL ASSETS	2,316	2,764	2,430
ACCUMULATED SURPLUS (Note 8)	177,629	191,631	$ 212,514
Accumulated surplus is comprised of:			
Accumulated surplus from operations	180,039	190,791	212,659
Accumulated other comprehensive income	-	533	-
Accumulated remeasurement gains and losses	(2,410)	307	(145)
ACCUMULATED SURPLUS	177,629	191,631	$ 212,514

(The accompanying notes form an integral part of the financial statements)

STATEMENT OF OPERATIONS

(Unaudited)

For the period ended June 30 (in thousands of dollars)	Yearly Budget 2012	June 30 2012	June 30 2011
Revenue			
Net investment income (Note 9)	$ 9,353	$ 609	$ 706
Net Art Bank income (loss) (Note 10)	6	1	(58)
Other revenue	1,277	563	741
Total revenue	10,636	1,173	1,389
Expenses			
Programs			
Grants	153,391	103,257	107,887
Administration	13,687	3,028	3,049
Services	6,683	1,363	1,672
	173,761	107,648	112,608
Canadian Commission for UNESCO (Note 11)	2,329	517	464
General administration	15,792	3,628	3,658
Total expenses	191,882	111,793	116,730
Deficit from operations before parliamentary appropriations for the period	(181,246)	(110,620)	(115,341)
Parliamentary appropriations	181,261	78,000	87,013
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	15	(32,620)	(28,328)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	212,659	212,659	219,119
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	$ 212,674	$ 180,039	$ 190,791

(The accompanying notes form an integral part of the financial statements)

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

(Unaudited)

For the period ended June 30 (in thousands of dollars)

	June 30 2012	June 30 2011
DEFICIT FROM OPERATIONS FOR THE PERIOD	$ (32,620)	$ (28,328)
Acquisition of tangible capital assets	(135)	(44)
Amortization of tangible capital assets	244	249
	109	205
Acquisition of prepaid expenses	(268)	(201)
Use of prepaid expenses	273	272
	5	71
Net remeasurement losses	(2,265)	307
DECREASE IN NET FINANCIAL ASSETS	(34,771)	(27,745)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	210,084	216,612
NET FINANCIAL ASSETS, END OF PERIOD	$ 175,313	$ 188,867

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

(Unaudited)

For the period ended June 30 (in thousands of dollars)

	June 30 2012	June 30 2011
ACCUMULATED REMEASUREMENT LOSSES, BEGINNING OF PERIOD	$ (145)	$ -
Unrealized gains (losses) attributable to:		
Derivatives	144	340
Portfolio investments	(2,366)	(33)
Amounts reclassified to the Statement of Operations:		
Derivatives	(104)	-
Portfolio investments	61	-
NET MEASUREMENT GAINS (LOSSES) FOR THE PERIOD	(2,265)	307
ACCUMULATED REMEASUREMENT GAINS (LOSSES), END OF PERIOD	$ (2,410)	$ 307

(The accompanying notes form an integral part of the financial statements)

STATEMENT OF CASH FLOWS

(Unaudited)

For the period ended June 30 (in thousands of dollars)	June 30 2012	June 30 2011
OPERATING TRANSACTIONS		
Deficit for the period	$ (32,620)	$ (28,328)
Losses from disposal of portfolio investments (Note 9)	85	-
Amortization of tangible capital assets	244	249
Increase in prepaid expenses	5	71
Increase in employee future benefits	18	42
Income transferred from Deferred revenues - Externally restricted contributions (Note 7)	(868)	(1,433)
Transfer to other revenues	(363)	-
Net change in other non-cash items (Note 12)	53,229	53,663
Cash provided by operating activities	19,730	24,264
CAPITAL TRANSACTIONS		
Cash used to acquire tangible capital assets	(135)	(44)
INVESTING TRANSACTIONS		
Acquisition of portfolio investments	(2,140)	(2,896)
Disposal of portfolio investments	1,751	2,221
Cash used by investing activities	(389)	(675)
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,206	23,545
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	(1,563)	(2,234)
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 17,643	$ 21,311
Represented by:		
Cash equivalents	$ 18,661	$ 22,876
Bank indebtedness	(1,018)	(1,565)
	$ 17,643	$ 21,311

(The accompanying notes form an integral part of the financial statements)

Notes to the Financial Statements

For the period ended June 30, 2012
(Unaudited)

1. AUTHORITY 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 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. Program administration expenses represent the direct costs of program delivery. Program services expenses represent costs incurred for non-grant activities in fulfillment of the Council's mandate and costs associated with the adjudication of grants. General administration costs represent the costs related to corporate management, communications, human resources, information management, finance, accommodation and amortization.

The Canada Council for the Arts Act assigns the Council with the functions and duties for the Canadian Commission for UNESCO (the "Commission"). The Commission advises the Government of Canada on its relations with the United Nations Educational, Scientific and Cultural Organization (UNESCO). The Commission also fosters co-operation between Canadian organizations in civil society and UNESCO.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

These unaudited interim financial statements have been prepared in accordance with Public Sector Accounting Standards (PSAS) pursuant to the Standard on Quarterly Financial Reports for Crown Corporation issued by the Treasury Board. This financial information should be read with the audited financial statements of the Council for the year ended March 31, 2012 prepared in accordance with PSAS.

The Council's significant accounting policies are as follows:

FINANCIAL INSTRUMENTS

All financial instruments are initially measured at fair value. The following table identifies the Council's financial assets and liabilities and identifies how they are subsequently measured:

Financial asset or liability	Subsequent measurement
Cash equivalents	Fair value
Accounts receivable	Amortized cost
Portfolio investments	Fair value
Derivatives	Fair value
Bank indebtedness	Fair value
Grants payable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

CASH EQUIVALENTS

Cash equivalents represent short-term, highly liquid investments that are readily convertible into known amounts of cash and that are subject to an insignificant risk of changes in value. Cash equivalents on the Council's Statement of Financial Position comprise units in a short-term pooled fund. Distributed income is recorded on an accrual basis and is recognized in the Statement of Operations under net investment income in the year in which it is earned.

DERIVATIVES

Derivatives are recognized at fair value on the Statement of Financial Position. Derivatives with a positive (negative) fair value are reported as assets (liabilities). As of April 1, 2011, all unrealized changes in the fair value of derivatives are recognized on the Statement of Remeasurement Gains and Losses under derivatives in the year in which they occur, except for the restricted portion which is recognized as a liability under Deferred revenues - Externally restricted contributions. Once realized, these gains and losses are recognized in the Statement of Operations.

PORTFOLIO INVESTMENTS

Portfolio investments are reported at fair value. Unrealized changes in the fair value of portfolio investments are recognized in the Statement of Remeasurement Gains and Losses, except for the restricted portion which is recognized as a liability under Deferred revenues - Externally restricted contributions. Once realized, the cumulative gain or loss previously recognized in the Statement of Remeasurement Gains and Losses are recorded in net investment income on an average cost basis for the year. The realized gains and losses on externally restricted contributions are recognized in accordance with the externally restricted contributions accounting policy. Purchases and dispositions of portfolio investments are recorded on the trade date. Management fees paid are expensed in the year.

TANGIBLE CAPITAL ASSETS

Office equipment and leasehold improvements are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method, over the estimated useful lives of the assets as follows:

Office equipment	5 years
Leasehold improvements	remaining term of the lease

WORKS OF ART AND MUSICAL INSTRUMENTS

Works of arts and musical instruments, which have cultural and historical value are recorded at nominal value in the Statement of Financial Position as a reasonable estimate of the future benefits associated with such assets cannot be made. Refer to Note 13 for disclosure of the nature of the works of art and musical instruments held by the Council.

EMPLOYEE FUTURE BENEFITS

i) Severance benefits

In previous years, employees were entitled to severance benefits, as provided for under conditions of employment and the collective agreement. The costs of these benefits were accrued as the employees rendered the services necessary to earn them. The liability was calculated based on management's best estimates and assumptions, on the employee's salary and number of years of service as at June 30.

Since the severance benefits were terminated, the Council did not complete an actuarial valuation for this benefit as the obligation has already been determined.

ii) Retiree's benefits

The Council provides extended health care and dental benefits to its current and retired employees. Retirees pay 50% of the extended health care premium and 100% of the dental premium. The Council accrues its obligations as the employees render the services necessary to earn these benefits. The cost of these benefits earned by employees has been estimated using the accrued benefit method (Unit Credit). The first estimated valuation of these benefits was as at March 31, 2012, and the first full valuation will be as at March 31, 2013.

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains (losses) are amortized over the average remaining service period of active employees.

Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized over the expected average remaining service period of the employee groups. The average remaining service period of the active employees covered by the benefit plans is 10 years.

iii) Pension benefits

Substantially all of the employees of the Council are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Council to cover current service cost. Pursuant to legislation currently in place, the Council has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Council.

DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

Externally restricted income is recognized as revenue in the financial statements in the year in which the resources are used for the purpose or purposes specified. An externally restricted inflow, excluding original principal, received before this criterion has been met is reported as a liability until the resources are used for the purpose or purposes specified.

ENDOWMENT PRINCIPAL - EXTERNALLY RESTRICTED CONTRIBUTIONS

Externally restricted contributions consist of private endowments and restricted donations received by the Council that are required to be maintained intact. They are reported under Accumulated Surplus from Operations.

RESERVE FOR EXCESS INVESTMENT INCOME

This reserve represents the sum of excess investment income since the establishment of the Council in 1957 and is presented as a separate internal reserve within the accumulated surplus from operations (see Note 8). In years when net investment income exceeds the amount of net budgeted investment income, an amount may be transferred from the accumulated surplus (deficit) from operations to the reserve for excess investment income. In years when net investment income is less than the amount of net budgeted investment income, an amount may be transferred to the accumulated surplus (deficit) from operations from the reserve for excess investment income. These transfers are approved by the Board.

REVENUE RECOGNITION

i) Parliamentary appropriations

Parliamentary appropriations are considered government transfers and are recognized as revenue in the year for which they are approved by Parliament. Parliamentary appropriations for specific projects are deferred and recognized on the Statement of Operations in the year in which the related expenses are incurred. Parliamentary appropriations are mainly used for operations.

ii) Contributions

The Council receives contributions that are externally restricted for specific purposes by the donors.

Externally restricted contributions that are to be held to perpetuity are recognized as revenue in the year in which they are received. The externally restricted contributions that are not held to perpetuity and realized and unrealized gains and losses for the associated externally restricted investment income, are recognized as a liability until the resources are used for their specified purpose, at which time the contributions are recognized as revenue.

Unrestricted contributions are recognized as other revenue in the year received or in the year the funds are committed to the Council if the amount can be reasonably estimated and collection is reasonably assured.

In-kind contributions are recorded at their fair value when they are received.

iii) Art Bank rental income

Revenues generated from the rental of works of art are recognized in the year in which services are provided. They are included in net Art Bank income.

iv) Other revenues

Other revenues consist mainly of the cancellation in the current year of grants approved in previous years.

v) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the date of the Statement of Financial Position. Revenue and expense items are translated at exchange rates prevailing throughout the year. As of April 1, 2011, unrealized foreign exchange gains and losses are recognized in the Statement of Remeasurement Gains and Losses, except for the restricted portion which is recognized as a liability under Deferred revenues - Externally restricted contributions. Once realized, the cumulative gain or loss are recognized in net investment income.

GRANTS

Grants are considered to be a government transfer. They are recorded as an expense in the year for which they are budgeted and approved by the Board and authority to pay has been obtained through the Appropriation Act.

OPERATING LEASES

The Council enters into operating leases for its office accommodation which are recorded on a straight-line basis over the term of the lease. Lease inducements are recorded as a reduction to the office accommodation expense on a straight-line basis over the term of the lease.

MEASUREMENT UNCERTAINTY

The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting year. Employee-related liabilities, the estimated useful lives of capital 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 derived from the estimates approved by the Board.

3. CASH EQUIVALENTS

The Council invests its cash in excess of daily requirements in a short-term pooled fund managed by State Street Global Advisors. All instruments held in the pooled funds are rated R1 (low) or A (low) or better as rated by a recognized bond rating agency. These funds are comprised of securities issued by different levels of government, chartered banks and corporate issuers. Except for instruments guaranteed by governments, no more than 10% of the short-term portfolio is invested with any one issuer. The Council's investment in the pooled fund was $18,661,000 at June 30, 2012 (March 31, 2012 - $18,000).

4. DERIVATIVES

The use of derivatives is limited to foreign currency forward contracts. The Council currently uses foreign currency forward contracts that represent commitments to purchase or sell foreign currencies for delivery at a specific date in the future at a fixed rate to manage its foreign currency exchange risk. These contracts are typically for a one-month period.

The Council enters into foreign currency forward contracts to manage its exposure to foreign currency exchange risk on the non-Canadian dollar denominated portion of its investment portfolio, except for the emerging market component which was unhedged and represented approximately 0.9% (March 31, 2012 – 0.9) of the investment portfolio. The hedge strategy allows hedging of the designated assets within a range of 30% to 70% of the foreign exposure.

Foreign currency forward contracts have notional amounts that serve as points of reference for calculating payments and are not the actual amounts that are exchanged. These amounts are not recorded on the Statement of Financial Position, as they do not represent their fair value. As at June 30, 2012, the Council held foreign currency forward contracts, for settlement on August 2, 2012, with a total notional amount of $38,623,000 (March 31, 2012 - $40,721,000) as follows:

(in thousands of dollars)		Year-to-date June 30 2012			Year-end March 31 2012	
Currency	Forward rate	Notional amount[1] $	Fair value $	Forward rate	Notional amount[1] $	Fair value $
US dollar	0.981	18,608	209	1.000	18,841	15
Euro	0.773	5,337	(47)	0.751	6,334	(14)
Switzerland Francs	0.928	4,688	(41)	0.904	4,694	(17)
British Pound	0.625	4,181	3	0.626	4,516	(24)
Japanese Yen	78.268	2,703	45	82.271	3,006	9
Other assets	1.770	1,420	9	4.510	1,489	1
Other liabilities	4.521	1,686	(17)	4.440	1,841	(7)

1 The notional amount represents the Council's exposure to those currencies as per its dynamic hedging strategy.

The fair value of outstanding foreign exchange forward contracts reflect the potential gain/loss if trading were to take place on June 30, 2012. The realized gain of $158,000 on foreign currency forward contracts that matured on June 30, 2012, but were only settled after the date of the statement of financial position are recorded with the accounts receivable.

The net investment income includes a net foreign currency loss for the period of $226,000 (June 30, 2011 - $524,000).

5. PORTFOLIO INVESTMENTS

(in thousands of dollars)				Year-to-date June 30 2012			Year-end March 31 2012	
	Cost $	Unrealized losses $	Unrealized gains $	Fair Value $	%	Cost $	Fair Value $	%
Canada Council Endowment and Special Funds								
Pooled funds								
Equity	100,889	5,437	-	95,452	44.7	100,890	99,787	46.3
Fixed income	73,312	-	699	74,011	34.7	73,311	72,448	33.6
Alternatives	20,017	-	1,876	21,893	10.3	20,017	21,856	10.1
Money market	5,108	-	-	5,108	2.4	5,589	5,589	2.6
Real estate	8,336	-	684	9,020	4.2	8,666	9,267	4.3
Infrastructure	8,253	303	-	7,950	3.7	7,208	6,757	3.1
	215,915	5,740	3,259	213,434	100.0	215,681	215,704	100.0
Killam Funds								
Pooled funds								
Equity	25,785	1,391	-	24,394	45.0	25,785	25,503	46.6
Fixed income	18,606	-	160	18,766	34.6	18,606	18,370	33.5
Alternatives	5,150	-	479	5,629	10.4	5,149	5,618	10.3
Money market	609	-	-	609	1.1	737	737	1.3
Real estate	2,235	-	194	2,429	4.5	2,318	2,487	4.5
Infrastructure	2,523	114	-	2,409	4.4	2,243	2,103	3.8
	54,908	1,505	833	54,236	100.0	54,838	54,818	100.0
Total investments	$ 270,823	$ 7,245	$ 4,092	$ 267,670		$ 270,519	$ 270,522	

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 as at June 30, 2012.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Funds. The Killam Trustees 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 7.99% (March 31, 2012 - 8.15%) of that Fund with a total fair value of $17,053,000 (March 31, 2012 - $17,580,000). The total fair value of the externally restricted investment including the Killam Fund is $71,289,000 (March 31, 2012 - $72,398,000).

The long-term objectives of the Canada Council Endowment and Special Funds and the Killam Funds 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 and in limited partnership units of four real estate funds and an infrastructure fund. The permitted and prohibited investments as well as the asset mix are governed by a Board approved investment policy. All of the investments are managed by professional investment managers.

The Council manages its portfolio to the following benchmarks adopted by the Board in January 2012. The benchmarks allow asset class allocations to vary between a minimum and a maximum.

Asset Classes	Actual Market Value	Minimum	Benchmark	Maximum
Canadian equities	10%	5%	10%	15%
Global equities	35%	25%	35%	45%
Fixed income	35%	25%	35%	40%
Alternatives	10%	5%	10%	15%
Real estate	4%	0%	5%	7%
Infrastructure	4%	0%	5%	7%
Money market	2%	0%	0%	15%

The money market asset class includes short-term pooled funds used for capital committed to future investment in limited partnership units of real estate and infrastructure funds. These funds had a balance of $5,717,000 (March 31, 2012 - $6,326,000).

Investments in the equity pooled funds are comprised of units of three pooled funds, one Canadian fund and two funds that are invested in the global equity markets. The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock exchange Index. The global equities are measured against the returns of the Morgan Stanley Capital International World Hedge Index. Investments in the fixed income pooled fund are comprised of Canadian Government and corporate bonds with a minimum credit quality of BBB or equivalent rated by a recognized bond rating agency. The fixed income fund is intended to replicate the returns of the DEX Universe Bond Index. Investments in the alternative pooled funds are comprised of units of two hedge funds with diversified positions across global asset classes. These investments are measured against the returns of the Scotia Capital 91-day T-bill plus 20%. The assets included in the real estate funds are commercial real estate properties in Canada and the United States. These investments are measured against the returns of the Investment Property Databank for the Canadian managers and the National Council of Real Estate Investment Fiduciaries (NCREIF) for the US manager. The infrastructure funds include two portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index plus 4.5%.

6. FINANCIAL RISKS AND FAIR VALUE

At June 30, 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) Financial assets and liabilities classifications	Measurement categories	Year-to-date June 30 2012 Carrying Amount and Fair Value ($)	Year-end March 31 2012 Carrying Amount and Fair Value ($)
Cash equivalents	Fair value	18,661	18
Accounts receivable	Amortized cost	778	2,144
Derivatives net	Fair value	161	109
Portfolio Investments[1]	Fair value	267,670	270,522
Bank indebtedness	Fair value	1,018	1,581
Grants payable	Amortized cost	80,813	27,760
Accounts payable and accrued liabilities	Amortized cost	2,601	3,710

1 The detailed fair value for the investments is listed in Note 5.

a) Establishing fair value

The carrying value of accounts receivable, grants payable and accounts payable and certain accrued liabilities approximates their fair values due to their short-term maturity.

The fair value of derivative instruments is calculated using the current market spot and the forward exchange rates at year end (see Note 4).

The fair values of the investments are determined as follows:

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 Alternatives are pooled fund investments which are valued at the unit values supplied by the pooled fund managers. The fund manager manages multiple funds strategies within the fund and determines the unit's fair value using the closing market prices for some strategies when available or using valuation model with non-observable data for other strategies.

Real estate investment values are supplied by the fund managers using independently audited appraisals which are based on a valuation model with non-observable data. The independently audited appraisals are obtained annually.

Infrastructure investment values are supplied by the fund managers using internally determined appraisals. The appraisals are based on a valuation model with non-observable data.

b) Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, 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

(in thousands of dollars)	Year-to-date June 30 2012				Year-end March 31 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents	-	18,661	-	18,661	-	18	-	18
Derivatives	266	-	-	266	171	-	-	171
	266	18,661	-	18,927	171	18	-	189
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Equity	-	95,452	-	95,452	-	99,787	-	99,787
Fixed Income	-	74,011	-	74,011	-	72,448	-	72,448
Alternatives	-	-	21,893	21,893	-	-	21,856	21,856
Money Market	-	5,108	-	5,108	-	5,589	-	5,589
Real Estate	-	-	9,020	9,020	-	-	9,267	9,267
Infrastructure	-	-	7,950	7,950	-	-	6,757	6,757
Killam Funds								
Pooled Funds								
Equity	-	24,394	-	24,394	-	25,503	-	25,503
Fixed Income	-	18,766	-	18,766	-	18,370	-	18,370
Alternatives	-	-	5,629	5,629	-	-	5,618	5,618
Money Market	-	609	-	609	-	737	-	737
Real Estate	-	-	2,429	2,429	-	-	2,487	2,487
Infrastructure	-	-	2,409	2,409	-	-	2,103	2,103
	-	218,340	49,330	267,670	-	222,434	48,088	270,522
Total	266	237,001	49,330	286,597	171	222,452	48,088	270,711

Financial liabilities at fair value

(in thousands of dollars)	Year-to-date June 30 2012				Year-end March 31 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Bank indebtedness	1,018	-	-	1,018	1,581	-	-	1,581
Derivatives	105	-	-	105	62	-	-	62
Total	1,123	-	-	1,123	1,643	-	-	1,643

During the period, there were no significant transfers of amounts between Level 1 and 2.

The following table reconciles the changes in fair value of financial instruments classified as Level 3:

(in thousands of dollars)	Year-to-date June 30 2012				Year-end March 31 2012			
	Alternative funds	Real estate funds	Infra-structure funds	Total	Alternative funds	Real estate funds	Infra-structure funds	Total
Canada Council Endowment and Special Funds								
Opening balance	21,856	9,267	6,757	37,880	21,589	8,049	6,694	36,332
Total gains or losses								
• recognized in re-measurement statement	34	75	134	243	245	295	58	598
• recognized in externally restricted contributions	3	7	12	22	22	26	5	53
Purchases/Issues	-	(329)	1,047	718	-	897	-	897
Impairment	-	-	-	-	-	-	-	-
Closing balance	21,893	9,020	7,950	38,863	21,856	9,267	6,757	37,880
Killam Funds								
Opening balance	5,618	2,487	2,103	10,208	5,550	2,154	2,082	9,786
Total gains or losses								
• recognized in re-measurement statement	-	-	-	-	-	-	-	-
• recognized in externally restricted contributions	11	24	27	62	68	95	21	184
Purchases /Issues	-	(82)	279	197	-	238	-	238
Impairment	-	-	-	-	-	-	-	-
Closing balance	5,629	2,429	2,409	10,467	5,618	2,487	2,103	10,208

c) Risk management

The Council is exposed to a variety of financial risks as a result of its activities. These risks include credit risk, liquidity risk and market risk (price risk, interest rate risk and currency risk). The long term goal of the Council's investment policy is to produce long term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital. This policy allows the use of certain derivative financial instruments.

In order to manage risk, the Council invests in a diversified portfolio that is managed by professional investment managers. The Council's investments are guided by a Statement of Investment Policies and Goals which is approved by the Board and reviewed on an annual basis. The Council is assisted in the oversight and management of its portfolio by an Investment Committee that includes independent experts with experience in both the investment field and the asset classes being invested in. In addition, the Council uses the services of an independent investment consultant to assist the Investment Committee in its work. As the investment markets continue to evolve, the Investment Committee recommends adjustments to the asset mix to minimize the overall risk of the portfolio.

7. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

The deferred revenues from externally restricted contributions consist of accumulated income received which has been deferred until the resources for the purpose or purposes specified by the endowment have been used. The restricted endowment principal of $37,569,000 is required to be maintained intact and is reported under accumulated surplus from operations (see Note 8).

(in thousands of dollars)	Year-to-date June 30 2012	Year-end March 31 2012
Balance, beginning of year	$ 23,594	$ 26,349
Transferred to investment income (Note 9)		
Net Investment income	(131)	717
Use of funds	(737)	(2,719)
	(868)	(2,002)
Transfer to other revenues	(363)	(520)
Unrealized gains (losses) on portfolio investment	(875)	(2,700)
Reclassified to statement of operations	21	2,428
Unrealized gains on derivatives	15	39
Balance at end of year	$ 21,524	$ 23,594

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

8. ACCUMULATED SURPLUS

(in thousands of dollars)			Year-to-date June 30 2012			Year-end March 31 2012
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	118,445			121,445		
Appropriated to the accumulated surplus during the period	-			(3,000)		
Balance at end of the period			118,445			118,445
Surplus						
Balance at beginning of the period	6,645			10,105		
Appropriated from the reserve for excess investment income during the period	-			3,000		
Deficit for the period	(32,620)			(6,460)		
Balance at end of the period			(25,975)			6,645
Total accumulated surplus from operations			180,039			212,659
Accumulated remeasurement gains (losses)						
Balance at beginning of the period	(145)			533		
Change in fair value	(2,265)			(678)		
Balance at end of the period			(2,410)			(145)
Balance of accumulated surplus at end of period		$	177,629		$	212,514

Included in accumulated surplus is the original contribution by the Government of Canada of $50 million, which constituted a government transfer ("Endowment Fund") when the Council was established in 1957.

9. NET INVESTMENT INCOME

(in thousands of dollars)		June 30 2012		June 30 2011
Losses from disposal of portfolio investments	$	(85)	$	-
Income transferred from Deferred revenues-Externally restricted contributions (Note 7)		868		1,433
Net losses on derivatives		(226)		(524)
Interest and dividend income		398		218
Investment portfolio management costs		(346)		(421)
	$	609	$	706

10. NET ART BANK INCOME (LOSS)

(inthousands of dollars)		June 30 2012		June 30 2011
Rental revenue	$	415	$	487
Other income		13		13
Artwork purchases		-		(18)
Administration expense		(420)		(534)
Amortization of other capital assets		(7)		(6)
	$	1	$	(58)

11. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)		June 30 2012		June 30 2011
Program expenses	$	206	$	159
Program - contributions received		-		-
Administration expense		311		305
	$	517	$	464

12. NET CHANGE IN OTHER NON-CASH ITEMS

(in thousands of dollars)		June 30 2012		June 30 2011
Decrease in accounts receivable	$	1,366	$	746
Increase in grants payable		53,053		55,730
Decrease in accounts payable and accrued liabilities		(1,109)		(2,750)
Decrease in deferred revenues		(81)		(63)
Net change	$	53,229	$	53,663

13. RELATED PARTY TRANSACTIONS

The Council is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Council enters into transactions with related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises, and these transactions are measured at the exchange amount, which is the amount of cnsideration established and agreed to by the related parties.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassififed to conform to the presentation adopted in 2012.