



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended December 31, 2015
Published February 29, 2016

Bringing the arts to life
De l'art plein la vie



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Management Discussion and Analysis

Quarterly Report

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INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the nine-month period ended December 31, 2015 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 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. 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

The Canada Council released the 2015 shortlist for the Governor General's (GG) Literary Awards on October 7th, and announced the winners on October 28th. The Council hosted a public reading and book signing from the English-language winners at its building in Ottawa on December 1st, followed by an event featuring French-language winners on December 2nd. His Excellency the Right Honourable David Johnston, Governor General of Canada, presented the 2015 GG Literary Awards on December 2nd at Rideau Hall in Ottawa.

On November 3rd, the Canada Council for the Arts, the J.W. McConnell Family Foundation and The Circle on Philanthropy and Aboriginal Peoples in Canada (The Circle) announced the six arts projects that will be funded through the organizations' first {Re}conciliation initiative. This initiative aims to promote artistic collaborations between Aboriginal and non-Aboriginal artists, investing in the power of art and imagination to inspire dialogue, understanding and change. The Canada Council administers the {Re}conciliation initiative, which was developed by Canada Council, the J.W. McConnell Family Foundation and The Circle in anticipation of the Truth and Reconciliation Commission's final report and recommendations. The partners also announced their plans to renew joint funding to this initiative for a minimum of two years. A new call for proposals will be issued in 2016.

On November 10th, the Canada Council unveiled Temporal Re-Imaginations, a new exhibition of Indigenous artworks in Âjagemô, the Canada Council's exhibition hall at 150 Elgin. The show, curated by Alexandra Kahsenni:io Nahwegabow, explores the themes of time, memory and movement. The unveiling coincided with the launch of Fluxus∞, a site-specific installation on a 30-foot interactive video wall in the lobby of the Council's offices, by new media artist Marie-Hélène Parant.

The Canada Council hosted a public gathering and moment of silence on November 16th as an expression of peace, community and solidarity following the terrorist attacks in Paris, Beirut and elsewhere in the world. The event was attended by the Minister of Canadian Heritage, Mélanie Joly, who spoke of the power of the arts and culture to unite through difference.

The Canada Council's director and CEO, Simon Brault, spoke publicly at several events over the fall of 2015, highlighting the Council's work and its future plans. These speeches—for which the text can be found on the Canada Council's website—included:

- "Engaging Citizens in the Arts: Think Global, Act Local," at the 2015 Creative City Summit in Kelowna, B.C., on October 28th
- "Transforming the Canada Council for the Arts: Scaling up our impact for all Canadians," at the Rideau Club in Ottawa on November 7th
- "A national mandate at the citizen level," at the Institut du Nouveau Monde in Montreal on December 10th

On December 11th, the Canada Council for the Arts and Sun Life Financial announced a new arts initiative to support efforts to welcome Syrian refugees to Canada. Starting in April 2016, the Canada Council's new initiative will support arts organizations that wish to provide free access to refugees to a performance, exhibition or arts event in their communities. The Canada Council will release further details in March 2016 for arts organizations who are interested in participating.

Net Results

(in thousands of dollars)	Three months ended December 31				Nine months ended December 31			
	2015	2014	Increase/ (Decrease)	% change	2015	2014	Increase/ (Decrease)	% change
Revenue	14,330	7,707	6,623	86%	17,327	10,089	7,238	72%
Expenses	(12,887)	(13,875)	(988)	-7%	(147,026)	(149,246)	(2,220)	-1%
Government funding	34,500	33,631	869	3%	157,500	157,631	(131)	-0%
Surplus for the period	35,943	27,463	8,480	31%	27,801	18,474	9,327	50%

Overview of the Third Quarter Net Results

The surplus for the quarter was \$35.9M, an increase of \$8.5M over the third quarter of the previous fiscal year. This increase is directly related to a higher net realized investment income of \$6.6M, consisting of an increase of all investment income of \$11M which was offset by a \$4.4M impairment on one equity pooled fund.

For the cumulative nine months period, the increase in surplus of \$9.3M compared to the same period last year is mostly due to the higher distribution of investment income during the quarter as explained above.

Even with an additional investment of \$2M in grants due to savings in operations, the Council is still forecasting a surplus from operations of approximately \$7M directly attributable to the positive variance in net realized investment income compared to the approved budgeted amount which is calculated using a prescribed spending rate investment policy (3.5% of the previous three-year average market value). All distributed investment income above the calculated budget amount must be re-invested in the portfolio in order to preserve the capital which means the cash generated from the investment income is no longer available for other expenses such as grants.

IMPORTANT CHANGES

Programs

On December 4th, the Canada Council released new information online about its New Funding Model. For each of its 6 new programs—Creating, Knowing and Sharing: The Arts and Cultures of First Nations, Inuit and Métis Peoples; Explore and Create; Engage and Sustain; Supporting Artistic Practice; Arts Across Canada; and Arts Abroad—the Council posted information about program objectives, components, eligible applicants and activities, grant amounts and assessment criteria. The Council also announced plans to hold webinars with more information about the New Funding Model in January 2016. The first program deadlines for the New Funding Model will take place in April 2017.

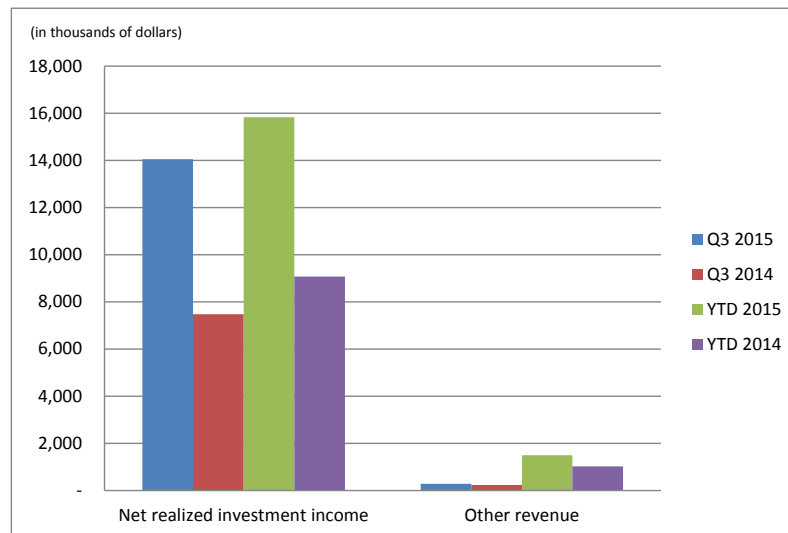
Leadership and Governance

Denise St. Jean was named Director for Information Technology and Information Management Services effective November 16th.

Linda Drainville was named CFO and Director General of the Corporate Services Division effective November 30th.

FINANCIAL RESULTS

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



Revenue

Net Realized Investment Income

Net realized investment income for the quarter is higher by \$6.6M than the same period last year. This increase is due to a higher distribution of investment income for the quarter, \$11.0M, which was slightly offset by an impairment of \$4.4M. In November 2015, the Council decided, after a recommendation from the Investment Committee, to terminate the services of one of its equity managers. The fair value of this equity pooled fund had significantly declined compared to its adjusted cost and therefore the Council considered the loss to be other than temporary and recognized the impairment during the quarter.

For the cumulative nine months period, the increase in surplus of \$9.3M compared to the same period last year is mostly due to the higher distribution of investment income during the quarter as explained above.

The Council is forecasting a net realized investment income of approximately \$16M by year-end, an increase of \$7M compared to budget.

Expenses

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2015	2014	Increase/ (Decrease)	2015	2014	Increase/ (Decrease)
Grants, prizes and author payments	4,622	5,009	(387)	121,675	123,044	(1,369)
Transfer program delivery	3,753	4,128	(375)	11,631	12,044	(413)
Arts community services	459	455	4	1,115	1,254	(139)
Net Art Bank results	64	63	1	242	263	(21)
Canadian Commission for UNESCO	359	482	(123)	1,326	1,413	(87)
General administration	3,630	3,738	(108)	11,037	11,228	(191)
Total	12,887	13,875	(988)	147,026	149,246	(2,220)

All expenses are comparable both for the period and the cumulative nine months period.

The Council expects the annual grants expenses to be higher than original budget of \$154.8M by approximately \$2.1M due to the re-allocation of savings found in program delivery and general administration.

Financial Assets

(in thousands of dollars)	December 31	March 31	Increase/ (Decrease)
	2015	2015	
Cash and cash equivalents	23,551	1,226	22,325
Accounts receivable	4,804	2,732	2,072
Portfolio investments	342,761	344,491	(1,730)
Total	371,116	348,449	22,667

Cash and Cash Equivalents

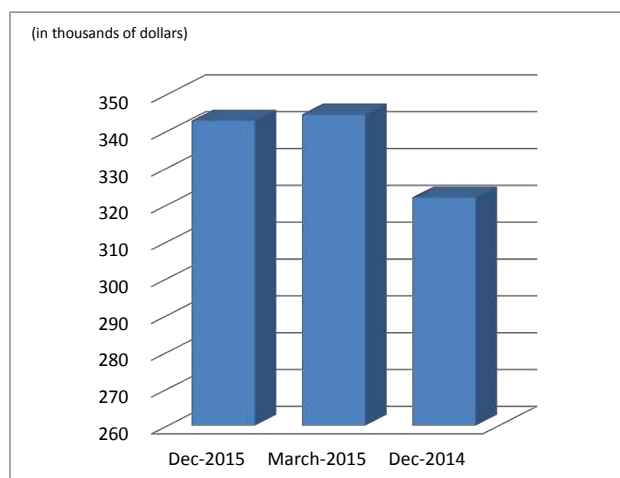
The increase of \$22.3M in Cash and Cash Equivalents comes from the \$44.8M of cash generated by the operating activities offset by the approximately \$22.0M of cash used for re-investing the surplus distributed investment income into the portfolio for the nine months period as explained in the Statement of Cash Flow.

Accounts receivable

The increase of \$2.1M in Accounts receivable is the variance between the \$3.3M accrued investment income recorded at the end of this quarter compared to \$0.9M at March 31, 2015.

Portfolio Investments

The total market value of the portfolio as at December 31, 2015 was \$342.8M of which \$83.8M was externally restricted. This represents a decrease of \$1.7M since March 31, 2015 but an increase of \$20.8M since December 31, 2014.



The global equity market performed well with a positive return of 8.8% over the quarter which helped the Council's portfolio to regain the losses incurred during the second quarter. The Canadian market did not do as well and posted a negative return of 1.4% for the quarter.

The overall portfolio asset mix assisted the portfolio to absorb the volatility and minimized the negative impact to the market value of the portfolio since April 2015. Despite the underperformance of the individual global equity managers, the substantive asset allocation to Global Equities over domestic equities has significantly benefited the total performance of the fund relative to most traditional balanced funds, over the normalized four year investment cycle, largely due to higher exposure to US dollar denominated investments.

Liabilities

(in thousands of dollars)	December 31 2015	March 31 2015	Increase/ (Decrease)
Grants, prizes and author payments payable	29,940	28,751	1,189
Accounts payable and accrued liabilities	2,400	2,499	(99)
Deferred revenues	6,651	7,061	(410)
Employee future benefits	2,895	2,592	303
Deferred Parliamentary appropriations	9,000	-	9,000
Externally restricted contributions	42,338	42,956	(618)
Total	93,224	83,859	9,365

Deferred Parliamentary appropriations

The increase of \$9.0M arises from the receipt of the January 2016 drawdown in Parliamentary appropriations at the end of this period which will be recorded as revenue in the following quarter.

All other liabilities are comparable for the cumulative nine months period.

Non-Financial Assets

(in thousands of dollars)	December 31 2015	March 31 2015	Increase/ (Decrease)
Tangible capital assets	7,259	7,524	(265)
Art Bank assets	19,425	19,425	-
Musical instruments	1	1	-
Prepaid expenses	150	180	(30)
Total	26,835	27,130	(295)

Art Bank Assets

The Council owns approximately 17,500 works of contemporary Canadian art within its Art Bank collection. At December 31, 2015 the appraised value of the Art Bank assets was approximately \$71M. The Council insures its Art Bank assets for its estimated appraised value.

Musical Instruments

The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and nine prestigious musical instruments. In addition, the Council manages 13 instruments on loan. The appraised value of its musical instruments as at December 31, 2015 was \$41.8M US. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value.

RISK MANAGEMENT

Corporate Risk

In line with good governance practices, the Council updates and revises its Corporate Risk Profile on an ongoing basis, identifying and including any changes in the Council's risk environment. In order to address the risks within the Council's corporate risk profile that are outside the Council's appetite for risk, effective risk mitigation strategies and action plans are developed, under the oversight of assigned members of executive management, to reduce the risk exposure to an acceptable and manageable level.

The Audit and Finance Committee endorsed the Risk Mitigation Strategies Plan presented by executive management in November 2014 and received an update status on the action plan at its October 2015 meeting. Executive management monitors progress on the implementation of these mitigation strategies and reports results to the Audit and Finance Committee on a regular basis.

Financial Risk

The Council is exposed to a variety of financial risks mainly through its investment portfolio. The Council's investment portfolio is primarily exposed to price risk, interest rate risk and currency risk. The Investment Committee reviews the Council's investment policy annually and recommends changes in the asset mix allocation, if necessary, to the Board. This policy sets out the long term investment objectives and guidelines under which the portfolio is to be invested.

USE OF PARLIAMENTARY APPROPRIATIONS

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

The Council receives its main funding through an appropriation voted by Parliament. The Council records the Parliamentary appropriations 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 are estimated and may not exactly 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 from which the Council draws its daily cash requirements.

The Parliamentary appropriations approved and received by the Council during the nine-month period were as follows:

	December 31	
	2015	2014
(in thousands of dollars)		
Approved annual operating funding		
Vote 1 - Operating costs	182,097	182,093
Supplementary Estimates	-	127
Compensation adjustment	-	4
	182,097	182,224
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the nine-month period	(157,500)	(157,631)
Deferred - Parliamentary appropriations	(9,000)	-
Balance of operating funding to be received	15,597	24,593



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended December 31, 2015
have not been audited or reviewed by our Auditor

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Management's Responsibility for Financial Reporting

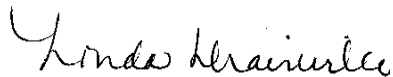
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the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

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

February 29, 2016



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



Linda Drainville, CPA auditor, CGA
CFO and Director General, Corporate Services

Statement of Financial Position

(Unaudited)

(in thousands of dollars)

	December 31		March 31
	2015		2015
FINANCIAL ASSETS			
Cash and cash equivalents	\$ 23,551	\$	1,226
Accounts receivable	4,804		2,732
Portfolio investments (Note 3)	342,761		344,491
Total financial assets	371,116		348,449
LIABILITIES			
Grants, prizes and author payments payable	29,940		28,751
Accounts payable and accrued liabilities	2,400		2,499
Deferred revenues	6,651		7,061
Employee future benefits	2,895		2,592
Deferred Parliamentary appropriations	9,000		-
Deferred revenues - Externally restricted contributions (Note 5)	42,338		42,956
Total liabilities	93,224		83,859
NET FINANCIAL ASSETS	277,892		264,590
NON-FINANCIAL ASSETS			
Tangible capital assets	7,259		7,524
Art Bank assets	19,425		19,425
Musical instruments	1		1
Prepaid expenses	150		180
Total non-financial assets	26,835		27,130
ACCUMULATED SURPLUS (Note 6)	\$ 304,727	\$	291,720
Accumulated surplus is comprised of:			
Accumulated surplus from operations	265,558		237,757
Accumulated remeasurement gains	39,169		53,963
ACCUMULATED SURPLUS	\$ 304,727	\$	291,720

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

Statement of Operations

(Unaudited)	Yearly Budget	Three months ended December 31		Nine months ended December 31	
	2015	2015	2014	2015	2014
(in thousands of dollars)					
Revenue					
Net realized investment income (Note 7)	\$ 8,946	\$ 14,048	\$ 7,475	\$ 15,829	\$ 9,068
Other revenue	1,107	282	232	1,498	1,021
Total revenue	10,053	14,330	7,707	17,327	10,089
Expenses					
Transfer Programs					
Grants, Prizes and author payments	154,787	4,622	5,009	121,675	123,044
Transfer program delivery	17,848	3,753	4,128	11,631	12,044
Arts community services	2,007	459	455	1,115	1,254
	174,642	8,834	9,592	134,421	136,342
Net Art Bank results (Note 8)	222	64	63	242	263
Canadian Commission for UNESCO (Note 9)	2,122	359	482	1,326	1,413
General administration	15,162	3,630	3,738	11,037	11,228
Total expenses	192,148	12,887	13,875	147,026	149,246
Surplus (deficit) from operations for the period before Parliamentary appropriations	(182,095)	1,443	(6,168)	(129,699)	(139,157)
Parliamentary appropriations	182,097	34,500	33,631	157,500	157,631
SURPLUS FROM OPERATIONS FOR THE PERIOD	2	35,943	27,463	27,801	18,474
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	237,757	229,615	225,951	237,757	234,940
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 237,759	\$ 265,558	\$ 253,414	\$ 265,558	\$ 253,414

Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2015	2014	2015	2014
(in thousands of dollars)				
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 42,570	\$ 44,712	\$ 53,963	\$ 39,037
Unrealized gains (losses) attributable to:				
Portfolio investments	(6,748)	(5,801)	(18,096)	180
Amounts reclassified to the Statement of Operations:				
Portfolio investments	3,347	23	3,302	(283)
NET REMEASUREMENT LOSSES FOR THE PERIOD	(3,401)	(5,778)	(14,794)	(103)
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 39,169	\$ 38,934	\$ 39,169	\$ 38,934

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

Statement of Change in Net Financial Assets

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2015	2014	2015	2014
(in thousands of dollars)				
SURPLUS FROM OPERATIONS FOR THE PERIOD	\$ 35,943	\$ 27,463	\$ 27,801	\$ 18,474
(Acquisition) Disposition of tangible capital assets	(314)	196	(494)	(222)
Amortization of tangible capital assets	253	263	759	788
Acquisition of Art Bank assets	-	(29)	-	(29)
	(61)	430	265	537
Acquisition of prepaid expenses	(98)	(540)	(166)	(1,613)
Use of prepaid expenses	48	558	196	1,388
	(50)	18	30	(225)
Net remeasurement losses	(3,401)	(5,778)	(14,794)	(103)
INCREASE IN NET FINANCIAL ASSETS	32,431	22,133	13,302	18,683
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	245,461	241,907	264,590	245,357
NET FINANCIAL ASSETS, END OF PERIOD	\$ 277,892	\$ 264,040	\$ 277,892	\$ 264,040

Statement of Cash Flow

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2015	2014	2015	2014
(in thousands of dollars)				
Operating Transactions				
Surplus from operations for the period	\$ 35,943	\$ 27,463	\$ 27,801	\$ 18,474
(Gains) losses from disposal of portfolio investments (Note 7)	60	(1,035)	40	(1,443)
Impairment of portfolio investments (Note 7)	4,408	-	4,408	-
Amortization of tangible capital assets	253	263	759	788
(Increase) decrease in prepaid expenses	(50)	18	30	(225)
Increase in employee future benefits	113	96	303	159
Income transferred from Deferred revenues - Externally restricted contributions to investment income (Note 5)	4,291	3,371	3,854	2,925
Net change in other non-cash items (Note 10)	(33,968)	(41,298)	7,608	(1,357)
Cash provided (used) by operating activities	11,050	(11,122)	44,803	19,321
Capital Transactions				
Cash used to acquire tangible capital and Art Bank assets	(314)	167	(494)	(251)
Investing Transactions				
Acquisition of portfolio investments	(20,414)	(18,725)	(23,625)	(24,385)
Disposal of portfolio investments	68	18,135	1,641	26,103
Cash provided (used) by investing activities	(20,346)	(590)	(21,984)	1,718
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,610)	(11,545)	22,325	20,788
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	33,161	32,042	1,226	(291)
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 23,551	\$ 20,497	\$ 23,551	\$ 20,497

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

Notes to the Financial Statements For the period ended December 31, 2015

(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 of works in the arts.

The Council achieves its objectives primarily through grant programs to professional Canadian artists and arts organizations. The Council incurs administration and services expenses in the delivery of programs. Transfer program delivery expenses represent the direct costs of program delivery. Arts community services expenses represent costs incurred for non-grant activities in fulfillment of the Council's mandate. General administration costs represent the costs related to corporate management, communications, human resources, information management, finance, accommodation and amortization.

The Canadian Commission for UNESCO (CCUNESCO) was established by the Canada Council pursuant to a 1957 Order in Council. The CCUNESCO acts as a forum for governments and civil society to mobilize the participation of Canadians in UNESCO's mandated areas of education, natural and social sciences, and culture, communication and information. The Secretariat for the CCUNESCO is provided by the Canada Council and led by a Secretary General who reports directly to the Director and Chief Executive Officer.

3. PORTFOLIO INVESTMENTS

	Year-to-date December 31, 2015					Year-end March 31, 2015		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Equity	125,460	-	25,312	150,772	54	112,970	156,036	55
Fixed income	70,750	-	2,397	73,147	26	70,750	75,463	27
Alternatives	20,630	-	6,867	27,497	10	20,630	27,148	10
Money market	5,981	-	-	5,981	2	6,446	6,446	2
Real estate	7,581	58	2,263	9,786	3	7,735	9,525	3
Infrastructure	8,251	-	6,130	14,381	5	5,689	8,596	3
	238,653	58	42,969	281,564	100	224,220	283,214	100
Killam Fund								
Pooled funds								
Equity	26,606	-	5,668	32,274	53	24,095	33,593	55
Fixed income	14,745	-	493	15,238	25	14,745	15,720	26
Alternatives	5,298	-	1,757	7,055	11	5,298	6,965	11
Real estate	2,017	15	616	2,618	4	2,062	2,560	4
Infrastructure	2,199	-	1,813	4,012	7	1,561	2,439	4
	50,865	15	10,347	61,197	100	47,761	61,277	100
Total investments	289,518	73	53,316	342,761		271,981	344,491	

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, 2015. 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 period. Employee-related liabilities, 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. The Council normally assesses at year-end 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, with the exception of one of its equity pooled funds for which the fair value as at December 31, 2015 was significantly below its adjusted cost. In November 2015, the Council decided to terminate the services with this equity manager. The loss associated to this pooled fund is considered to be other than temporary and an impairment of \$4,408,000 was recognized during the quarter. This amount represents the difference between the adjusted cost and the closing fair value as at December 31, 2015. As a result, this amount has been reclassified to the Statement of Operations under net realized investment income from the Statement of Remeasurement Gains and Losses.

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, 2015 - 8%) of that Fund with a total fair value of \$22,553,000 (March 31, 2015 - \$22,685,000). The total fair value of the externally restricted investment including the Killam Fund is \$83,750,000 (March 31, 2015 - \$83,962,000).

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 and in limited partnership units of five real estate funds and four infrastructure funds. The permitted and prohibited investments, the asset mix as well as some maximum holding quantity restrictions are governed by a Board approved investment policy to mitigate risk. All of the investments are managed by professional investment managers.

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:

		Year-to-date	Year-end
		December 31, 2015	March 31, 2015
		Carrying amount	Carrying amount
		and fair value (\$)	and fair value (\$)
Financial assets and liabilities and classifications			
Cash and cash equivalents	Fair value	23,551	1,226
Accounts receivable	Amortized cost	4,804	2,732
Portfolio Investments ¹	Fair value	342,761	344,491
Grants, prizes and author payments payable	Amortized cost	29,940	28,751
Accounts payable and accrued liabilities	Amortized cost	2,400	2,499

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

a) Establishing fair value

The carrying value of accounts receivable, grants, prizes and author payments payable and accounts payable and accrued liabilities approximates 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 Alternatives is a pooled fund investment which is valued at the unit values supplied by the pooled fund manager. The fund manager manages multiple

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	9%	5%	10%	15%
Global equities	44%	35%	40%	45%
Fixed income	26%	15%	25%	35%
Alternatives	10%	5%	10%	15%
Real estate	4%	0%	7.5%	10%
Infrastructure	5%	0%	7.5%	10%
Money market	2%	0%	0%	10%

The money market asset class includes short-term pooled funds used for future investments in alternatives and capital commitments in limited partnership units of real estate and infrastructure funds. These funds had a balance of \$5,981,000 (March 31, 2015 - \$6,446,000).

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 (MSCI) All Country World Index. Investments in the fixed income pooled fund are comprised of a mix of bonds, mortgages, emerging debt and other fixed income instruments. The fixed income fund is measured against the returns of the FTSE TMX Universe Bond Index. Investments in the alternative pooled funds are comprised of units of one hedge fund with diversified positions across global asset classes. This investment is measured against the returns of the 91-day Canadian T-bill plus 4%. The assets included in the real estate funds are commercial real estate properties in Canada, the United States and globally. These investments are measured against the returns of the Investment Property Databank. The infrastructure funds include four portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index plus 4.5%.

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 and are audited annually.

b) Fair value hierarchy

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

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

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

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

Financial assets at fair value

	Year-to-date December 31, 2015				Year-end March 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	11,566	11,985	-	23,551	240	986	-	1,226
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Equity	-	150,772	-	150,772	-	156,036	-	156,036
Fixed Income	-	73,147	-	73,147	-	75,463	-	75,463
Alternatives	-	-	27,497	27,497	-	-	27,148	27,148
Money Market	-	5,981	-	5,981	-	6,446	-	6,446
Real Estate	-	-	9,786	9,786	-	-	9,525	9,525
Infrastructure	-	-	14,381	14,381	-	-	8,596	8,596
Killam Fund								
Pooled Funds								
Equity	-	32,274	-	32,274	-	33,593	-	33,593
Fixed Income	-	15,238	-	15,238	-	15,720	-	15,720
Alternatives	-	-	7,055	7,055	-	-	6,965	6,965
Real Estate	-	-	2,618	2,618	-	-	2,560	2,560
Infrastructure	-	-	4,012	4,012	-	-	2,439	2,439
	-	277,412	65,349	342,761	-	287,258	57,233	344,491
Total	11,566	289,397	65,349	366,312	240	288,244	57,233	345,717

Financial liabilities at fair value

	Year-to-date December 31, 2015				Year-end March 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Bank indebtedness	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

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).

	Year-to-date December 31, 2015	Year-end March 31, 2015
<i>(in thousands of dollars)</i>		
Balance, beginning of period	\$ 42,956	\$ 37,097
Transferred from investment income (Note 7)		
Net Investment income	4,829	4,247
Use of funds	(975)	(2,324)
	3,854	1,923
Unrealized gains (losses) on portfolio investment	(5,423)	5,664
Reclassified to statement of operations - portfolio	951	(1,728)
Balance at end of period	\$ 42,338	\$ 42,956

The unrealized gains (losses) on portfolio investment are related to the change in fair value of those assets from the previous period.

6. ACCUMULATED SURPLUS

	Year-to-date December 31, 2015	Year-end March 31, 2015
<i>(in thousands of dollars)</i>		
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 period	124,445	122,445
Appropriated from the accumulated surplus during the period	-	2,000
Balance at end of period	124,445	124,445
Surplus		
Balance at beginning of period	25,743	24,926
Appropriated to the reserve for excess investment income during the period	-	(2,000)
Surplus (deficit) for the period	27,801	2,817
Balance at end of period	53,544	25,743
Total accumulated surplus from operations	265,558	237,757
Accumulated remeasurement gains		
Balance at beginning of period	53,963	39,037
Change in fair value	(14,794)	14,926
Balance at end of period	39,169	53,963
Balance of accumulated surplus at end of period	\$ 304,727	\$ 291,720

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2015	2014	2015	2014
Gains (losses) from disposal of portfolio investments	\$ (60)	\$ 1,035	\$ (40)	\$ 1,443
Impairment of portfolio investment	(4,408)	-	(4,408)	-
Income transferred to deferred revenues -				
Externally restricted contributions (Note 5)	(4,291)	(3,369)	(3,854)	(2,925)
Net gains on foreign currencies	39	286	37	276
Interest, dividend and other distributed income	23,193	10,062	25,478	11,978
Investment portfolio management costs	(425)	(539)	(1,384)	(1,704)
	\$ 14,048	\$ 7,475	\$ 15,829	\$ 9,068

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2015	2014	2015	2014
Rental revenue	\$ 292	\$ 303	\$ 903	\$ 928
Other income	36	47	106	119
Administration expense	(389)	(408)	(1,243)	(1,297)
Amortization of other capital assets	(3)	(5)	(8)	(13)
	\$ (64)	\$ (63)	\$ (242)	\$ (263)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2015	2014	2015	2014
Program expenses	\$ 69	\$ 150	\$ 422	\$ 504
Program - contributions received	(1)	(1)	(11)	(5)
Administration expense	291	333	915	914
	\$ 359	\$ 482	\$ 1,326	\$ 1,413

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2015	2014	2015	2014
Increase in accounts receivable	\$ (2,302)	\$ (2,870)	\$ (2,072)	\$ (889)
Increase (decrease) in grants, prizes and author payments payable	(23,672)	(22,421)	1,189	1,764
Increase (decrease) in accounts payable and accrued liabilities	184	32	(99)	(1,871)
Decrease in deferred revenues	(178)	(39)	(410)	(361)
Increase (decrease) in deferred Parliamentary appropriations	(8,000)	(16,000)	9,000	-
Net change	\$ (33,968)	\$ (41,298)	\$ 7,608	\$ (1,357)

11. RELATED PARTY TRANSACTIONS

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