



Canada Council  
for the Arts

Conseil des arts  
du Canada

Quarterly

# Financial Report

**Unaudited**

Period ended September 30, 2015  
Published November 27, 2015

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 six-month period ended September 30, 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

To celebrate Canada History Week and 2015 as the Year of Sport in Canada, the Canada Council published a web blog highlighting works in the Art Bank's collection that explore the historical intersection of art and sport. These works included Toni Hafkenscheid's *Skaters - Rideau Canal*, Isaaci Etidloie's *Snow Boarder*, and Scott Conarroe's *Shinny Rink*.

As part of Culture Days, on September 26th the Canada Council's Art Bank opened its doors to the Canadian public. In addition to browsing the Art Bank's collection, visitors were encouraged to experience contour drawing, colour collage, interactive paper sculpture-making, and to talk about art with Art Bank art consultants, framers and technicians.

After intense competition on September 22nd and 25th, 21 talented cellists and violinists each took home a rare instrument from the Canada Council Musical Instrument Bank, on loan until 2018. Of legendary quality, the instruments were created by some of the world's greatest craftsmen including Stradivari, Guarneri and Gagliano. The full collection is valued at over \$41 million US.

The Canada Council launched the Governor General's Literary Awards season on September 28th with the announcement of a new social media contest designed to celebrate great books from the Prize program's history. Members of the Canadian book-loving public were invited to post a selfie with their favorite GG-winning book, tagging @CanadaCouncil and using #GGBooks #MyCanLit.

## Net Results

(in thousands of dollars)	Three months ended September 30				Six months ended September 30			
	2015	2014	Increase/ (Decrease)	% change	2015	2014	Increase/ (Decrease)	% change
Revenue	1,342	1,185	157	13%	2,997	2,383	614	26%
Expenses	(32,812)	(41,517)	(8,705)	-21%	(134,139)	(135,372)	(1,233)	-1%
Government funding	41,000	46,000	(5,000)	-11%	123,000	124,000	(1,000)	-1%
<b>Surplus (deficit) for the period</b>	<b>9,530</b>	<b>5,668</b>	<b>3,862</b>	<b>68%</b>	<b>(8,142)</b>	<b>(8,989)</b>	<b>847</b>	<b>-9%</b>

## Overview of the Second Quarter Net Results

The surplus for the quarter was \$9.5M, an increase of \$3.9M over the second quarter of the previous fiscal year. This increase is mainly related to the decrease of \$9.0M in grants expense but with an offset of only \$5.0M less in government funding for the period compared to the same period last year. The decrease in grants expense is due to timing in the approval of grant expenses. For the cumulative six months period, the figures are comparable.

The Council will continue to monitor its financial results in order to be aligned with budget.

## IMPORTANT CHANGES

### Programs

The Canada Council received applications from coast to coast to coast in response to its call for proposals for the {Re}conciliation initiative—a unique partnership with the J.W. McConnell Family Foundation and the Circle on Philanthropy and Aboriginal Peoples in Canada to promote artistic collaborations between Aboriginal and non-Aboriginal artists. The proposals were assessed and the results will be made public in the fall of 2015.

### Leadership and Governance

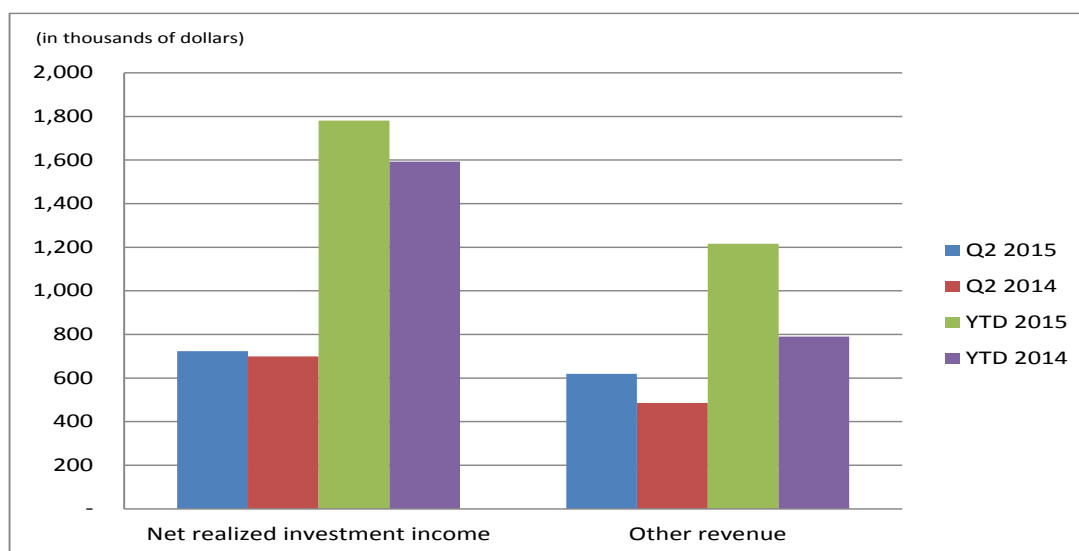
On July 30th, [Pierre Lassonde](#) was appointed the new Chair of the Canada Council's Board of Directors. Mr. Lassonde assumed the role immediately for a 5-year term.

Victoria Henry, Director of the Canada Council Art Bank, retired on September 11th.

## FINANCIAL RESULTS

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

### Revenue



### Investment Income

Net investment income for the quarter is comparable to same period last year. For the cumulative six months period, the net investment income is 12% higher than same period last year but is still forecasted to be aligned with the budget by year end.

### Other Revenues

The other revenues for the quarter are higher than last year mainly due to a \$275K property tax refund received from our previous landlord, Oxford Properties. With this refund and the \$150K received from the J.W. McConnell Foundation in the first quarter, the other revenues are expected to be higher than budgeted by approximately \$400K.

### Expenses

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2015	2014	Increase/ (Decrease)	2015	2014	Increase/ (Decrease)
Grants, prizes and author payments	24,137	33,101	(8,964)	117,052	118,035	(983)
Transfer program delivery	3,924	3,851	73	7,878	7,916	(38)
Arts community services	353	242	111	656	800	(144)
Net Art Bank results	55	74	(19)	178	200	(22)
Canadian Commission for UNESCO	430	380	50	968	932	36
General administration	3,913	3,869	44	7,407	7,489	(82)
<b>Total</b>	<b>32,812</b>	<b>41,517</b>	<b>(8,705)</b>	<b>134,139</b>	<b>135,372</b>	<b>(1,233)</b>

Grant expenses for the quarter are lower compared to the same period last year due to the timing of competition deadlines and approval of results by the Board which differ from the prior year. The six month period comparative demonstrates a closer alignment with a variance of less than 1%.

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

The Council expects the annual grants expenses to be aligned with the original budget of \$154.8M for the year.

### Financial Assets

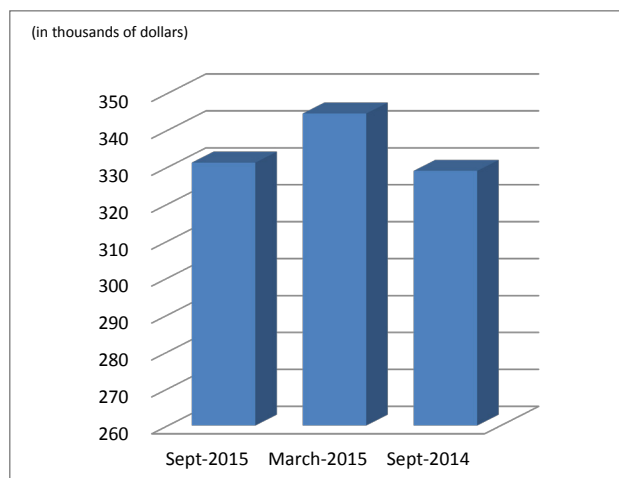
(in thousands of dollars)	September 30	March 31	Increase/ (Decrease)
	2015	2015	
Cash and cash equivalents	33,161	1,226	31,935
Accounts receivable	2,502	2,732	(230)
Portfolio investments	331,198	344,491	(13,293)
<b>Total</b>	<b>366,861</b>	<b>348,449</b>	<b>18,412</b>

## Cash and Cash Equivalents

The increase of \$31.9M in Cash Equivalents is explained by the earlier receipt of the \$17M October Parliamentary appropriations and an increase of \$24.9M of outstanding grants payments to recipients since March 31, 2015 less the \$8.1M deficit for the six-month period.

## Portfolio Investments

The total market value of the portfolio as at September 30, 2015 was \$331.2M of which \$80.8M was externally restricted. This represents a decrease of \$13.3M since March 31, 2015 but an increase of \$2.2M since September 30, 2014.



The total fund generated an absolute negative return of 3.1% for the quarter which was lower than the benchmark return by 1.6%. The main reason for this negative return is directly related to the negative returns in the Canadian and Global Equities' markets which posted negative returns for the quarter (-7.9% and -2.8% respectively). Those negative returns were partially offset by the performance of our Infrastructure managers, 12.2%, compared to a benchmark index of 1.0% for the same quarter.

Since January 1st, 2015, the total fund generated a return of 2.3% which was lower than the benchmark by 1.8%. The main contributors to the fund's low year-to-date return are a combination of the Canadian Equity market's negative return of 7% and the underperformance of the Global Equity managers who missed by 5.0% the sector benchmark index of 7.6% during that period.

## Liabilities

(in thousands of dollars)	September 30 2015	March 31 2015	Increase/ (Decrease)
Grants, prizes and author payments payable	53,612	28,751	24,861
Accounts payable and accrued liabilities	2,216	2,499	(283)
Deferred revenues	6,829	7,061	(232)
Employee future benefits	2,782	2,592	190
Deferred Parliamentary appropriations	17,000	-	17,000
Externally restricted contributions	38,961	42,956	(3,995)
<b>Total</b>	<b>121,400</b>	<b>83,859</b>	<b>37,541</b>

### Grants, prizes and author payments payable

The increase of \$24.9M in comparison to the value as at March 31, 2015 arises from grants accrued which had not been paid by the end of the six-month period.

### Deferred Parliamentary appropriations

The increase of \$17.0M arises from the receipt of the October 2015 drawdown in Parliamentary appropriations at the end of this period which will be recorded as revenue in the following quarter.

## Non-Financial Assets

(in thousands of dollars)	September 30	March 31	Increase/ (Decrease)
	2015	2015	
Tangible capital assets	7,197	7,524	(327)
Art Bank assets	19,425	19,425	-
Musical instruments	1	1	-
Prepaid expenses	101	180	(79)
<b>Total</b>	<b>26,724</b>	<b>27,130</b>	<b>(406)</b>

### Art Bank Assets

The Council owns approximately 17,500 works of contemporary Canadian art within its Art Bank collection. At September 30, 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 September 30, 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 at its November 2014 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 six-month period were as follows:

(in thousands of dollars)	September 30	
	2015	2014
Approved annual operating funding		
Vote 1 - Operating costs	182,097	182,083
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the six-month period	(123,000)	(124,000)
Deferred - October 2015 Parliamentary appropriations	(17,000)	(16,000)
<b>Balance of operating funding to be received</b>	<b>42,097</b>	<b>42,083</b>



Canada Council  
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du Canada

Quarterly

# Financial Statements

**Unaudited**

These financial statements for the quarter ended September 30, 2015  
have not been audited or reviewed by our Auditor

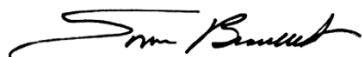
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## Management's Responsibility for Financial Reporting

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.

November 27, 2015



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



Carole Boileau, CPA, CA  
Acting Chief Financial Officer



## Statement of Financial Position

(Unaudited)

(in thousands of dollars)

	September 30	March 31
	2015	2015
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	\$ 33,161	\$ 1,226
Accounts receivable	2,502	2,732
Portfolio investments (Note 3)	331,198	344,491
<b>Total financial assets</b>	<b>366,861</b>	<b>348,449</b>
<b>LIABILITIES</b>		
Grants, prizes and author payments payable	53,612	28,751
Accounts payable and accrued liabilities	2,216	2,499
Deferred revenues	6,829	7,061
Employee future benefits	2,782	2,592
Deferred Parliamentary appropriations	17,000	-
Deferred revenues - Externally restricted contributions (Note 5)	38,961	42,956
<b>Total liabilities</b>	<b>121,400</b>	<b>83,859</b>
<b>NET FINANCIAL ASSETS</b>	<b>245,461</b>	<b>264,590</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets	7,197	7,524
Art Bank assets	19,425	19,425
Musical instruments	1	1
Prepaid expenses	101	180
<b>Total non-financial assets</b>	<b>26,724</b>	<b>27,130</b>
<b>ACCUMULATED SURPLUS</b> (Note 6)	<b>\$ 272,185</b>	<b>\$ 291,720</b>
Accumulated surplus is comprised of:		
Accumulated surplus from operations	229,615	237,757
Accumulated remeasurement gains	42,570	53,963
<b>ACCUMULATED SURPLUS</b>	<b>\$ 272,185</b>	<b>\$ 291,720</b>

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

## Statement of Operations

(Unaudited)	Yearly Budget		Three months ended September 30		Six months ended September 30	
(in thousands of dollars)	2015	2015	2014	2015	2014	
<b>Revenue</b>						
Net realized investment income (Note 7)	\$ 8,946	\$ 723	\$ 699	\$ 1,781	\$ 1,593	
Other revenue	1,107	619	486	1,216	790	
<b>Total revenue</b>	<b>10,053</b>	<b>1,342</b>	<b>1,185</b>	<b>2,997</b>	<b>2,383</b>	
<b>Expenses</b>						
Transfer Programs						
Grants, Prizes and author payments	154,787	24,137	33,101	117,052	118,035	
Transfer program delivery	17,848	3,924	3,851	7,878	7,916	
Arts community services	2,007	353	242	656	800	
	174,642	28,414	37,194	125,586	126,751	
Net Art Bank results (Note 8)	222	55	74	178	200	
Canadian Commission for UNESCO (Note 9)	2,122	430	380	968	932	
General administration	15,162	3,913	3,869	7,407	7,489	
<b>Total expenses</b>	<b>192,148</b>	<b>32,812</b>	<b>41,517</b>	<b>134,139</b>	<b>135,372</b>	
Deficit from operations for the period before Parliamentary appropriations	(182,095)	(31,470)	(40,332)	(131,142)	(132,989)	
Parliamentary appropriations	182,097	41,000	46,000	123,000	124,000	
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	2	9,530	5,668	(8,142)	(8,989)	
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	237,757	220,085	220,283	237,757	234,940	
<b>ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD</b>	<b>\$ 237,759</b>	<b>\$ 229,615</b>	<b>\$ 225,951</b>	<b>\$ 229,615</b>	<b>\$ 225,951</b>	

## Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended September 30		Six months ended September 30	
(in thousands of dollars)	2015	2014	2015	2014
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 51,145	\$ 42,503	\$ 53,963	\$ 39,037
<b>Unrealized gains (losses) attributable to:</b>				
Portfolio investments	(8,530)	2,515	(11,348)	5,981
<b>Amounts reclassified to the Statement of Operations:</b>				
Portfolio investments	(45)	(306)	(45)	(306)
NET MEASUREMENT GAINS (LOSSES) FOR THE PERIOD	(8,575)	2,209	(11,393)	5,675
<b>ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD</b>	<b>\$ 42,570</b>	<b>\$ 44,712</b>	<b>\$ 42,570</b>	<b>\$ 44,712</b>

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

## Statement of Change in Net Financial Assets

(Unaudited) (in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2015	2014	2015	2014
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	\$ 9,530	\$ 5,668	\$ (8,142)	\$ (8,989)
Acquisition of tangible capital assets	(157)	(216)	(179)	(418)
Amortization of tangible capital assets	284	262	506	525
	127	46	327	107
Acquisition of prepaid expenses	(64)	(570)	(102)	(1,073)
Use of prepaid expenses	28	531	181	830
	(36)	(39)	79	(243)
Net remeasurement gains (losses)	(8,575)	2,209	(11,393)	5,675
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	1,046	7,884	(19,129)	(3,450)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	244,415	234,023	264,590	245,357
<b>NET FINANCIAL ASSETS, END OF PERIOD</b>	<b>\$ 245,461</b>	<b>\$ 241,907</b>	<b>\$ 245,461</b>	<b>\$ 241,907</b>

## Statement of Cash Flow

(Unaudited) (in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2015	2014	2015	2014
<b>Operating Transactions</b>				
Surplus (deficit) from operations for the period	\$ 9,530	\$ 5,668	\$ (8,142)	\$ (8,989)
(Gains) losses from disposal of portfolio investments (Note 7)	60	(408)	(20)	(408)
Amortization of tangible capital assets	284	262	506	525
(Increase) decrease in prepaid expenses	(36)	(39)	79	(243)
Increase in employee future benefits	107	4	190	63
Income transferred from Deferred revenues - Externally restricted contributions to investment income (Note 5)	(174)	(69)	(437)	(446)
Net change in other non-cash items (Note 10)	(20,749)	(10,493)	41,576	39,941
Cash provided (used) by operating activities	(10,978)	(5,075)	33,752	30,443
<b>Capital Transactions</b>				
Cash used to acquire tangible capital and Art Bank assets	(157)	(216)	(179)	(418)
<b>Investing Transactions</b>				
Acquisition of portfolio investments	(923)	(2,171)	(3,211)	(5,660)
Disposal of portfolio investments	26	5,488	1,573	7,968
Cash provided (used) by investing activities	(897)	3,317	(1,638)	2,308
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,032)	(1,974)	31,935	32,333
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	45,193	34,016	1,226	(291)
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 33,161</b>	<b>\$ 32,042</b>	<b>\$ 33,161</b>	<b>\$ 32,042</b>

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

# Notes to the Financial Statements

## For the period ended September 30, 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 is part of the Council's Executive Management team.

### 3. PORTFOLIO INVESTMENTS

	Year-to-date September 30, 2015					Year-end March 31, 2015		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
<b>Canada Council Endowment and Special Funds</b>								
Pooled funds								
Equity	112,970	-	31,278	144,248	53	112,970	156,036	55
Fixed income	70,750	-	2,105	72,855	27	70,750	75,463	27
Alternatives	20,630	-	6,579	27,209	10	20,630	27,148	10
Money market	5,968	-	-	5,968	2	6,446	6,446	2
Real estate	7,090	60	2,086	9,116	3	7,735	9,525	3
Infrastructure	8,147	75	4,695	12,767	5	5,689	8,596	3
	225,555	135	46,743	272,163	100	224,220	283,214	100
<b>Killam Fund</b>								
Pooled funds								
Equity	23,975	-	6,905	30,880	52	24,095	33,593	55
Fixed income	14,745	-	432	15,177	26	14,745	15,720	26
Alternatives	5,298	-	1,683	6,981	12	5,298	6,965	11
Real estate	1,894	15	573	2,452	4	2,062	2,560	4
Infrastructure	2,173	19	1,391	3,545	6	1,561	2,439	4
	48,085	34	10,984	59,035	100	47,761	61,277	100
<b>Total investments</b>	<b>273,640</b>	<b>169</b>	<b>57,727</b>	<b>331,198</b>		<b>271,981</b>	<b>344,491</b>	

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of accounting

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

#### Basis of preparation

These interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 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. Annually, the Council assesses each of its investment instruments against specific criteria to determine whether there is objective evidence that the adjusted cost may not be recovered and is therefore impaired. The Council does not consider these investments to be other-than-temporarily impaired.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Fund. The Killam will requested that their donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8% (March 31, 2015 - 8%) of that Fund with a total fair value of \$21,800,000 (March 31, 2015 - \$22,685,000). The total fair value of the externally restricted investment including the Killam Fund is \$80,835,000 (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.

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	27%	15%	25%	35%
Alternatives	10%	5%	10%	15%
Real estate	3%	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 \$5,968,000 (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%.

#### 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
		September 30, 2015	March 31, 2015
		Carrying amount	Carrying amount
		and fair value (\$)	and fair value (\$)
<i>(in thousands of dollars)</i>			
Financial assets and liabilities and classifications		Measurement categories	
Cash and cash equivalents	Fair value	33,161	1,226
Accounts receivable	Amortized cost	2,502	2,732
Portfolio Investments <sup>1</sup>	Fair value	331,198	344,491
Grants, prizes and author payments payable	Amortized cost	53,612	28,751
Accounts payable and accrued liabilities	Amortized cost	2,216	2,499

<sup>1</sup> 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

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 September 30, 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	515	32,646	-	33,161	240	986	-	1,226
<b>Portfolio Investments</b>								
<b>Canada Council Endowment and Special Funds</b>								
Pooled Funds								
Equity	-	144,248	-	144,248	-	156,036	-	156,036
Fixed Income	-	72,855	-	72,855	-	75,463	-	75,463
Alternatives	-	-	27,209	27,209	-	-	27,148	27,148
Money Market	-	5,968	-	5,968	-	6,446	-	6,446
Real Estate	-	-	9,116	9,116	-	-	9,525	9,525
Infrastructure	-	-	12,767	12,767	-	-	8,596	8,596
<b>Killam Fund</b>								
Pooled Funds								
Equity	-	30,880	-	30,880	-	33,593	-	33,593
Fixed Income	-	15,177	-	15,177	-	15,720	-	15,720
Alternatives	-	-	6,981	6,981	-	-	6,965	6,965
Real Estate	-	-	2,452	2,452	-	-	2,560	2,560
Infrastructure	-	-	3,545	3,545	-	-	2,439	2,439
<b>Total</b>	<b>515</b>	<b>301,774</b>	<b>62,070</b>	<b>364,359</b>	<b>240</b>	<b>288,244</b>	<b>57,233</b>	<b>345,717</b>

**Financial liabilities at fair value**

	Year-to-date September 30, 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	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

The deferred revenues from externally restricted contributions consist of accumulated income received which has been deferred until the resources have been used for the purpose or purposes specified by the endowment. The restricted endowment principal of \$37,569,000 is required to be maintained intact and is reported under accumulated surplus from operations (see Note 6).

	Year-to-date	Year-end
	September 30, 2015	March 31, 2015
<i>(in thousands of dollars)</i>		
Balance, beginning of period	\$ 42,956	\$ 37,097
Transferred from (to) investment income (Note 7)		
Net Investment income	370	4,247
Use of funds	(807)	(2,324)
	(437)	1,923
Unrealized gains (losses) on portfolio investment	(3,455)	5,664
Reclassified to statement of operations - portfolio	(103)	(1,728)
<b>Balance at end of period</b>	<b>\$ 38,961</b>	<b>\$ 42,956</b>

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	Year-end
	September 30, 2015	March 31, 2015
<i>(in thousands of dollars)</i>		
<b>Accumulated surplus from operations</b>		
Endowment - Original contribution	\$ 50,000	\$ 50,000
Endowment principal - Externally restricted contributions	37,569	37,569
<b>Reserve for excess investment income</b>		
Balance at beginning of the period	124,445	122,445
Appropriated from the accumulated surplus during the period	-	2,000
Balance at end of the period	124,445	124,445
<b>Surplus</b>		
Balance at beginning of the period	25,743	24,926
Appropriated to the reserve for excess investment income during the period	-	(2,000)
Surplus (deficit) for the period	(8,142)	2,817
Balance at end of the period	17,601	25,743
<b>Total accumulated surplus from operations</b>	<b>229,615</b>	<b>237,757</b>
<b>Accumulated remeasurement gains</b>		
Balance at beginning of the period	53,963	39,037
Change in fair value	(11,393)	14,926
Balance at end of the period	42,570	53,963
<b>Balance of accumulated surplus at end of period</b>	<b>\$ 272,185</b>	<b>\$ 291,720</b>

## 7. NET REALIZED INVESTMENT INCOME

	Three months ended September 30		Six months ended September 30	
	2015	2014	2015	2014
(in thousands of dollars)				
Gains (losses) from disposal of portfolio investments	\$ (60)	\$ 408	\$ 20	\$ 408
Income transferred to deferred revenues -				
Externally restricted contributions (Note 5)	174	69	437	446
Net gains (losses) on foreign currencies	9	(8)	(2)	(11)
Interest, dividend and other distributed income	1,117	960	2,285	1,915
Investment portfolio management costs	(517)	(730)	(959)	(1,165)
	<b>\$ 723</b>	<b>\$ 699</b>	<b>\$ 1,781</b>	<b>\$ 1,593</b>

## 8. NET ART BANK RESULTS

	Three months ended September 30		Six months ended September 30	
	2015	2014	2015	2014
(in thousands of dollars)				
Rental revenue	\$ 304	\$ 311	\$ 611	\$ 625
Other income	35	38	70	73
Administration expense	(391)	(419)	(854)	(889)
Amortization of other capital assets	(3)	(4)	(5)	(9)
	<b>\$ (55)</b>	<b>\$ (74)</b>	<b>\$ (178)</b>	<b>\$ (200)</b>

## 9. CANADIAN COMMISSION FOR UNESCO

	Three months ended September 30		Six months ended September 30	
	2015	2014	2015	2014
(in thousands of dollars)				
Program expenses	\$ 98	\$ 73	\$ 353	\$ 355
Program - contributions received	-	(1)	(9)	(4)
Administration expense	332	308	624	581
	<b>\$ 430</b>	<b>\$ 380</b>	<b>\$ 968</b>	<b>\$ 932</b>

## 10. NET CHANGE IN OTHER NON CASH ITEMS

	Three months ended September 30		Six months ended September 30	
	2015	2014	2015	2014
(in thousands of dollars)				
(Increase) decrease in accounts receivable	\$ (168)	\$ 167	\$ 230	\$ 1,981
Increase (decrease) in grants, prizes and author payments payable	(19,303)	(6,961)	24,861	24,185
Decrease in accounts payable and accrued liabilities	(25)	(444)	(283)	(1,903)
Decrease in deferred revenues	(253)	(255)	(232)	(322)
Increase (decrease) in deferred Parliamentary appropriations	(1,000)	(3,000)	17,000	16,000
<b>Net change</b>	<b>\$ (20,749)</b>	<b>\$ (10,493)</b>	<b>\$ 41,576</b>	<b>\$ 39,941</b>

## 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.