



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended December 31, 2018
Published February 28, 2019



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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, 2018 as set out in the accompanying unaudited quarterly financial statements. Those statements are disclosed in accordance with the requirements of section 131.1 of the Financial Administration Act and are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

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

This discussion contains "forward-looking statements" that reflect management's expectations regarding the Council's results of operations. These statements are not facts but only estimates based upon information and assumptions that are currently available to, or made by, management and which are subject to a number of risks and uncertainties. These and other factors may cause actual results to differ substantially from the expectations stated or implied in the forward-looking statements.

The Financial Administration Act does not require the Council to file a Corporate Plan with the Government of Canada. Therefore, neither this narrative discussion nor the unaudited quarterly financial statements disclose a comparison of results against the Council's Corporate Plan. As required by PSAS, the unaudited quarterly financial statements provide comparisons to the Council's approved annual budget for the year.

HIGHLIGHTS

The Director and CEO, Simon Brault, participated in a number of international events to build the Council's international presence, establish new partnerships and strengthen existing ones, and raise the international profile of artistic and literary creation in Canada. These included meetings with the International Federation of Arts Councils and Culture Agencies (IFACCA) European Chapter members and with members of the diplomatic and culture sectors in the UK and France. Mr. Brault presented the Council's international initiatives and addressed issues of cultural citizenship and diplomacy during speaking engagements at [CINARS](#) in Montreal, the [ArtsLink Assembly](#) in New York City, and [ENARTES](#) in Mexico City.

Also as part of the Council's international engagements, on October 19th the Chair, Vice-Chair and Director and CEO took part in a discussion on [the arts and their international dimension](#) as part of the Culture Series of events hosted by the Conseil des relations internationales de Montréal (CORIM).

The Council announced the 2018 winners of the [Governor General's Literary Awards](#) on October 30th. The winners include 14 of the best Canadian books in seven categories for both official languages. Founded in 1936, the Governor General's Literary Awards are one of Canada's oldest and most prestigious literary awards programs, with a total annual prize value of \$450,000. The Council is responsible for funding, administering and promoting these awards.

The Council also announced the winners of a number of other important prizes:

- [Bill Coleman](#) was awarded the Walter Carsen Prize for Excellence in the Performing Arts, which recognizes the highest level of artistic excellence and distinguished career achievement by a Canadian professional artist in music, theatre or dance. Mr. Coleman is a dancer and choreographer who has performed internationally with world-renowned companies.
- [Blake Pouliot](#) was announced as the recipient of the Virginia Parker Prize, which is awarded to a musician, instrumentalist or classical music conductor under the age of 32 who demonstrates outstanding talent, musicianship and artistic excellence and makes a valuable contribution to artistic life in Canada and internationally. Pouliot, who has appeared as a soloist with world-class orchestras, performs on the 1729 Guarneri del Gesù violin, a loan from the Canada Council's Musical Instrument Bank.
- [Kerri Sakamoto and Jacynthe Tremblay](#) were awarded the Canada-Japan Literary Awards, which recognize literary excellence by Canadian writers and translators who are writing or translating from Japanese to French or English works dealing with Japan, Japanese themes, or themes that promote mutual understanding between Japan and Canada.
- [Brian Current](#) received the Jules Léger Prize for New Chamber Music, for his composition Shout, Sisyphus, Flock. This competition for Canadian composers is designed to encourage the creation of new chamber music and foster its performance by Canadian chamber groups.

The Council launched its newly redesigned [Stats and Stories](#) web page on November 14th. The redesign improves Council's ability to report on outcomes and is aligned with the Council's new suite of granting programs. Stats and Stories presents detailed statistics, external benchmarks, stories about Council-funded projects, and Open Data tables in a dynamic, shareable format.

On December 6th, the Council signed a [renewed agreement](#) with the Fédération culturelle canadienne française and other federal cultural institutions in support of the development and vitality of francophone artistic expression in Canada, called the Collaboration Agreement for the Development of Arts and Culture in the Francophone Minority Communities of Canada 2018-2023.

Net Results

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2018	2017	Increase/ (Decrease)	2018	2017	Increase/ (Decrease)
Revenue	4,731	20,991	(16,260)	12,534	49,422	(36,888)
Expenses	(34,849)	(60,200)	(25,351)	(224,979)	(183,897)	41,082
Government funding	59,959	46,167	13,792	250,158	196,167	53,991
Surplus for the period	29,841	6,958	22,883	37,713	61,692	(23,979)

Overview of the Third Quarter Net Results

The surplus for the quarter was \$29.8M, an increase of \$22.9M over the third quarter surplus of the previous year. This increase is mainly attributed to a significant decrease of \$25.4M in grant expenses in the quarter compared to the same period last year. This difference is largely due to the timing in the approval of the core grants to arts organizations, which were recorded in the first quarter this year compared to the third quarter last year. The three-month decrease in grant expenses was slightly offset by a net decrease in revenues, combining a decrease in net realized income and other revenues of \$16.3M, mainly due to a lower distribution of dividend income, and an increase in government funding of \$13.8M to cover expected cash-flow requirements. The cumulative nine-month increase in grant expenses is directly related to the increase in government funding as part of the progressive doubling of the Council's budget.

The Council will continue to monitor its financial results with the aim of achieving its original balanced budget except for grant expenses which are estimated to be underspent by net \$3.5M resulting from a \$7.0M carry-forward to next fiscal year from the budget allocated to the Digital Strategy Fund; and the reinvestment of \$3.5M in arts programs from savings in operating expenses.

IMPORTANT CHANGES

Programs

On December 17, the Council launched the Digital Strategy Fund's [Special Initiative for Core Grant Recipients](#). This one-time initiative will support current core grant recipients in evaluating their digital readiness and developing a digital strategy plan.

FINANCIAL RESULTS

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

Revenue

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2018	2017	Increase/ (Decrease)	2018	2017	Increase/ (Decrease)
Net realized investment income	4,074	20,931	(16,857)	10,725	48,450	(37,725)
Other revenue	657	60	597	1,809	972	837
Total	4,731	20,991	(16,260)	12,534	49,422	(36,888)

Net Realized Investment Income

Net investment income was lower than the same period last year by \$16.9M mainly due to a decrease in the distribution of dividends compared to the same quarter last year (\$6.5M in 2018 versus \$26.3M in 2017) and realized losses of \$1.5M in 2018 compared to realized gains of \$1.0M in the same quarter last year. The previous year to date also includes a realized gain of \$22.8M following a manager transition in the Global Equity asset class, adding to the cumulative variance of \$37.7M between the two fiscal years to date. The net realized investment income for the year is still forecasted to be aligned with the budget.

Other Revenue

The other revenues for the quarter and year to date are higher than last year for the same periods resulting mainly from higher recoveries of unused grants from previous years. The second factor explaining the increased revenues is the timing of the recording of memberships. Those other revenues are expected to be aligned with the budget by year end.

Expenses

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2018	2017	Increase/ (Decrease)	2018	2017	Increase/ (Decrease)
Grants, author payments and prizes	23,237	48,395	(25,158)	193,012	153,232	39,780
Transfer program delivery	5,023	5,686	(663)	14,364	14,073	291
Arts community services	553	461	92	1,634	1,389	245
Net Art Bank results	17	5	12	50	194	(144)
Canadian Commission for UNESCO	441	498	(57)	1,525	1,437	88
General administration	5,578	5,155	423	14,394	13,572	822
Total	34,849	60,200	(25,351)	224,979	183,897	41,082

Grants, author payments and prizes

Grant expenses for the third quarter are mainly investments in project grants. The significant decrease of \$25.2M is largely due to the timing in the approval of the core grants to arts organizations, which were recorded in the first quarter this year compared to the third quarter last year. The year-to-date increase of \$39.8M is explained by the timing of some competitions but is aligned with the \$35M increase to the grant budget.

The Council expects the annual grants expenses to be underspent by net \$3.5M resulting from an estimated \$7.0M carry-forward to next fiscal year from the budget allocated to the Digital Strategy Fund; and the reinvestment of \$3.5M in arts programs from savings in operating expenses.

Transfer program delivery

This expense is lower mainly due to a decrease in peer committee costs compared to the same quarter last year when all core organizations were assessed.

Net Art Bank results

The Net Art Bank results have shown a steady increase in rental revenues this year compared to last year with no corresponding increase in expenses. The Art Bank is close to achieving its goal of being self-sufficient.

General Administration

This expense is higher in the current quarter and year-to-date compared to the prior year mainly due to an increase in salaries and benefits as the result of filling several vacant positions.

Financial Assets

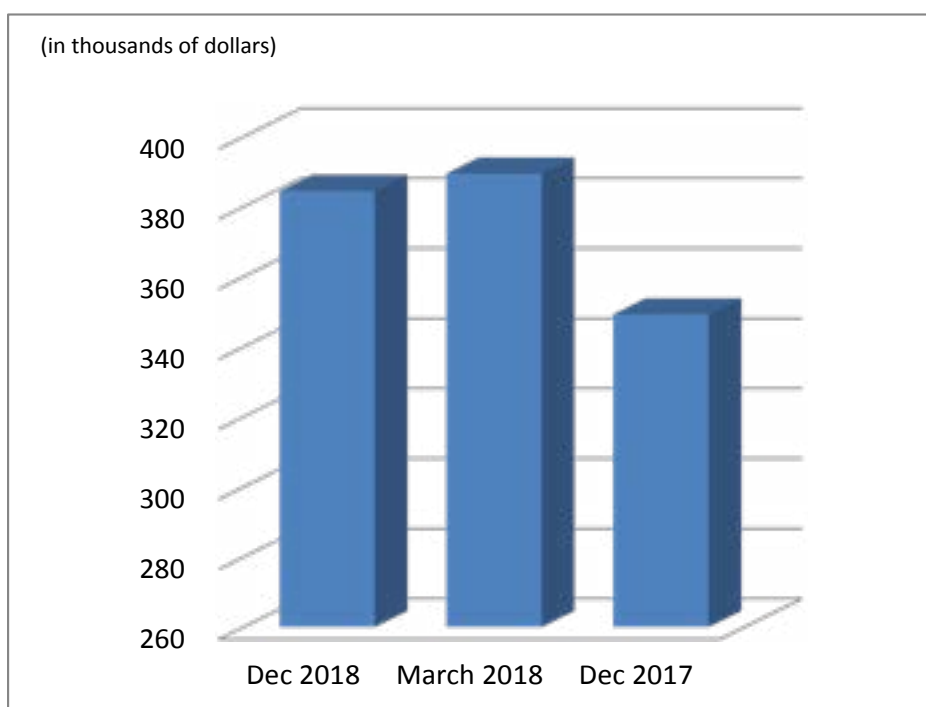
(in thousands of dollars)	December 31 2018	March 31 2018	Increase/ (Decrease)
Cash and cash equivalents	63,507	39,245	24,262
Accounts receivable	2,396	3,080	(684)
Portfolio investments	384,436	389,420	(4,984)
Total	450,339	431,745	18,594

Cash and Cash Equivalents

The increase of \$24.3M in Cash and cash equivalents is mainly explained by a year-to-date surplus of \$37.7M offset by \$9.7M of cash used for investment activities.

Portfolio Investments

The total market value of the portfolio as at December 31, 2018, was \$384.4M, of which \$92.8M was externally restricted. This represents a decrease of \$5.0M in the market value since March 31, 2018, and an increase of \$35.2M since December 31, 2017.



The total fund generated an absolute negative return of 4.9% for the quarter which was lower than the benchmark return by 1.3%. The main contributors to this negative return were the Canadian and Global Equity funds which posted significant negative results in the quarter of 14.7% and 8.1% respectively.

The total fund one-year return was 0.4% for December 2018 slightly falling behind the benchmark by 0.8%. The Canadian and Global Equity asset classes, which represent together 52% of the entire portfolio, posted negative returns of 10.5% and 0.7% respectively. Fortunately the diversification to Real Estate and Infrastructure really helped the overall performance of the portfolio with strong returns of 12.7% and 23.5%, respectively, even if they represent 10.0% of the total portfolio.

Liabilities

<i>(in thousands of dollars)</i>	December 31 2018	March 31 2018	Increase/ (Decrease)
Grants, author payments and prizes payable	63,962	69,547	(5,585)
Accounts payable and accrued liabilities	1,911	3,782	(1,871)
Deferred revenues	7,237	7,728	(491)
Employee future benefits	3,869	3,482	387
Externally restricted contributions	50,380	51,665	(1,285)
Total	127,359	136,204	(8,845)

Grants, author payments and prizes payable

The decrease of \$5.6M in comparison to the value as at March 31, 2018 arises from the timing of payments schedules.

Accounts payable and accrued liabilities

The decrease of \$1.9M in comparison to the value as at March 31, 2018 is mainly due to a reduction of \$2.0M in commercial invoices due to the timing of the payment schedule offset by the December pension that remained unpaid at the end of the quarter.

Externally restricted contributions

The decrease of \$1.3M in comparison to the value as at March 31, 2018 arises from the proportionate share of the market value decrease of the portfolio investment, \$3.4M, offset by the net unused funds of \$1.9M from distributed net realized income against which most of the expenses will be incurred only late in the year once the prizes are awarded.

Non-Financial Assets

<i>(in thousands of dollars)</i>	December 31 2018	March 31 2018	Increase/ (Decrease)
Tangible capital assets	9,005	9,021	(16)
Art Bank assets	19,422	19,421	1
Musical instruments	1	1	-
Prepaid expenses	232	270	(38)
Total	28,660	28,713	(53)

Art Bank Assets

The Council owns over 17,100 works of contemporary Canadian art within its Art Bank collection. At December 31, 2018 the appraised value of the Art Bank assets was approximately \$71M. The Council insures its Art Bank assets for their estimated appraised value.

Musical Instruments

The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and nine prestigious musical instruments. In addition, the Council manages fifteen instruments on loan. The appraised value of its musical instruments as at December 31, 2018 was US \$46.6M. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value, in US dollars.

RISK MANAGEMENT

Effective risk management is fundamental to the success of the Council in fulfilling its mandate. The Council continues to develop a strong risk management culture where risk management is a responsibility shared by all of its employees. The primary goals of enterprise risk management are to ensure that the outcomes of risk-taking activities are consistent with the Council's plans, strategies and risk appetite.

The Council's existing risk management framework consists of four key elements:

- risk governance;
- risk appetite;
- risk profile, assessment and mitigation; and,
- financial risk mitigation.

Risk Governance

The Council's risk management governance begins with oversight by its Board, either directly or through its committees, to ensure that decision-making is aligned with strategies and risk appetite. The Board receives regular updates on the Council's key risks regarding its risk profile and related mitigation, financial performance and performance of the investment portfolio. The Council's executive management is responsible for risk management under the direct oversight of the Board.

In February 2017, the Council reviewed its Corporate Risk Profile taking into consideration changes in the Council's risk environment. This included a reassessment of the risks and updates to the Council's significant potential risks as well as mitigation strategies. The Council updated its corporate risk profile and conducted a full risk assessment which will be presented to the Audit and Finance Committee in January 2019.

Risk Appetite

The Canada Council for the Arts follows a prudent risk-taking approach in managing its activities. It defines prudent risks as those seen to contribute to the organization's capacity to better deliver its mandate within a range of consequences that are well understood and appropriately mitigated. It manages risk within the constraints of its mandate, values, organizational culture, and both its public and internal commitments. The Council's full Risk Appetite Statement is disclosed in the 2018 Annual Financial Statements.

Risk Profile

Using the Council's risk appetite as key context, the following risks, as identified and assessed during the risk assessment process in February 2017, are considered to be outside of the Council's appetite:

- 1) Workload levels; and
- 2) Inadequate technology tools and systems.

Consequently, for these, focused updated risk mitigation strategies have been developed and action plans implemented and monitored by assigned members of the executive management to reduce the risk exposure. Regular updates on these risks are provided to the Audit & Finance committee to ensure continuous oversight and that effective mitigation strategies have been put in place.

Financial Risk

The Council is exposed to a variety of financial risks as a result of its activities. These include credit risk, liquidity risk and market risk. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Council. A significant portion of Council's receivables were deposited within 30-60 days after year-end and as such the related credit risk is very low. Liquidity risk is the risk that Council will not be able to meet its financial obligations as they fall due. The Council currently receives most of its revenues by way of Parliamentary appropriations drawn down monthly. That revenue is invested in a short-term pooled fund or in a preferred rate account at a financial institution until it is required. The Council's investment activities are primarily exposed to price risk, interest rate risk and currency risk. The directive to the Council's investment managers is to manage the Council's market risks on a daily basis in accordance with the Council's policies. Overall market positions are monitored quarterly by the Investment Committee and the Board.

USE OF PARLIAMENTARY APPROPRIATION

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

The Council receives its main funding through an appropriation voted by Parliament. The Council records the Parliamentary appropriation received in the period as revenue in the Statement of Operations or as Deferred Parliamentary appropriations to the extent they relate to the months following the period end. The Council submits a monthly cash flow analysis to the Department of Canadian Heritage to justify its monthly drawdown cash requirements. The cash-flow requirements may not necessarily match the timing of expenses reported in the Statement of Operations. The monthly drawdown is invested in a short-term pooled fund managed by a professional investment manager or in a preferred rate account at a financial institution from which the Council draws its daily cash requirements.

The Parliamentary appropriations approved and received by the Council during the third quarter were as follows:

	December 31	
	2018	2017
(in thousands of dollars)		
Approved annual operating funding		
Vote 1 - Operating costs	292,632	257,347
Supplementary Estimates	127	441
Compensation adjustment	32	726
	292,791	258,514
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the nine-month period	(250,158)	(196,167)
Balance of operating funding to be received	42,633	62,347



Canada Council
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Conseil des arts
du Canada

Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended December 31, 2018
have not been audited or reviewed by our Auditor

Management's Responsibility for Financial Reporting

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

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

February 28, 2019



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



Carole Boileau, CPA, CA
Chief Financial Officer

Statement of Financial Position

(Unaudited)	December 31	March 31
(in thousands of dollars)	2018	2018
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 63,507	\$ 39,245
Accounts receivable	2,396	3,080
Portfolio investments (Note 3)	384,436	389,420
Total financial assets	450,339	431,745
LIABILITIES		
Grants, author payments and prizes payable	63,962	69,547
Accounts payable and accrued liabilities	1,911	3,782
Deferred revenues	7,237	7,728
Employee future benefits	3,869	3,482
Deferred revenues - Externally restricted contributions (Note 5)	50,380	51,665
Total liabilities	127,359	136,204
NET FINANCIAL ASSETS	322,980	295,541
NON-FINANCIAL ASSETS		
Tangible capital assets	9,005	9,021
Art Bank assets	19,422	19,421
Musical instruments	1	1
Prepaid expenses	232	270
Total non-financial assets	28,660	28,713
ACCUMULATED SURPLUS (Note 6)	\$ 351,640	\$ 324,254
Accumulated surplus is comprised of:		
Accumulated surplus from operations	341,402	303,689
Accumulated remeasurement gains	10,238	20,565
ACCUMULATED SURPLUS	\$ 351,640	\$ 324,254

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	
	2018-2019	2018	2017	2018	2017
(in thousands of dollars)					
Revenue					
Net realized investment income (Note 7)	\$ 11,253	\$ 4,074	\$ 20,931	\$ 10,725	\$ 48,450
Other revenue	1,478	657	60	1,809	972
Total revenue	12,731	4,731	20,991	12,534	49,422
Expenses					
Transfer Programs					
Grants, author payments and prizes	253,056	23,237	48,395	193,012	153,232
Transfer program delivery	24,327	5,023	5,686	14,364	14,073
Arts community services	5,281	553	461	1,634	1,389
	282,664	28,813	54,542	209,010	168,694
Net Art Bank results (Note 8)	229	17	5	50	194
Canadian Commission for UNESCO (Note 9)	2,406	441	498	1,525	1,437
General administration	19,786	5,578	5,155	14,394	13,572
Total expenses	305,085	34,849	60,200	224,979	183,897
Deficit from operations before Parliamentary appropriations for the period	(292,354)	(30,118)	(39,209)	(212,445)	(134,475)
Parliamentary appropriations	292,372	59,959	46,167	250,158	196,167
SURPLUS FROM OPERATIONS FOR THE PERIOD	18	29,841	6,958	37,713	61,692
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	303,689	311,561	309,164	303,689	254,430
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 303,707	\$ 341,402	\$ 316,122	\$ 341,402	\$ 316,122

Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2018	2017	2018	2017
(in thousands of dollars)				
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 27,040	\$ 26,097	\$ 20,565	\$ 48,419
Unrealized losses attributable to:				
Portfolio investments	(17,614)	(6,845)	(10,524)	(4,890)
Amounts reclassified to the Statement of Operations:				
Portfolio investments	812	(753)	197	(25,030)
NET REMEASUREMENT LOSSES FOR THE PERIOD	(16,802)	(7,598)	(10,327)	(29,920)
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 10,238	\$ 18,499	\$ 10,238	\$ 18,499

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	
	2018	2017	2018	2017
(in thousands of dollars)				
SURPLUS FROM OPERATIONS FOR THE PERIOD	\$ 29,841	\$ 6,958	\$ 37,713	\$ 61,692
Acquisition of tangible capital assets	(266)	(596)	(1,114)	(1,756)
Amortization of tangible capital assets	377	374	1,130	1,123
Acquisition of Art Bank assets	-	(37)	(1)	(37)
Disposal/Donation of Art Bank assets	-	-	-	31
	111	(259)	15	(639)
Acquisition of prepaid expenses	(112)	(405)	(209)	(832)
Use of prepaid expenses	40	310	247	794
	(72)	(95)	38	(38)
Net remeasurement losses	(16,802)	(7,598)	(10,327)	(29,920)
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	13,078	(994)	27,439	31,095
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	309,902	307,228	295,541	275,139
NET FINANCIAL ASSETS, END OF PERIOD	\$ 322,980	\$ 306,234	\$ 322,980	\$ 306,234

Statement of Cash Flow

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2018	2017	2018	2017
(in thousands of dollars)				
Operating Transactions				
Surplus from operations for the period	\$ 29,841	\$ 6,958	\$ 37,713	\$ 61,692
Losses (gains) from disposal of portfolio investments (Note 7)	1,547	(1,019)	1,182	(32,336)
Amortization of tangible capital assets	377	374	1,130	1,123
Disposal/Donation of Art Bank assets	-	-	-	31
(Increase) decrease in prepaid expenses	(72)	(95)	38	(38)
Increase in employee future benefits	138	112	387	309
Income transferred to Deferred revenues - Externally restricted contributions from investment income (Note 5)	994	6,341	1,926	13,819
Net change in other non-cash items (Note 10)	(26,064)	6,196	(7,263)	3,581
Cash provided by operating activities	6,761	18,867	35,113	48,181
Capital Transactions				
Cash used to acquire tangible capital and Art Bank assets	(266)	(633)	(1,115)	(1,793)
Investing Transactions				
Acquisition of portfolio investments	(53,089)	(25,577)	(84,504)	(105,612)
Disposal of portfolio investments	47,168	3,253	74,768	81,440
Cash used by investing activities	(5,921)	(22,324)	(9,736)	(24,172)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	574	(4,090)	24,262	22,216
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	62,933	49,796	39,245	23,490
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 63,507	\$ 45,706	\$ 63,507	\$ 45,706

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

Notes to the Financial Statements

For the period ended December 31, 2018

(Unaudited)

1. AUTHORITY, MANDATE AND ACTIVITIES

The Canada Council for the Arts (the "Council"), established by the *Canada Council Act* in 1957 and subsequently amended in 2001 by Bill C-40 to the *Canada Council for the Arts Act*, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the *Income Tax Act*. In accordance with section 85(1.1) of the *Financial Administration Act*, the Council is exempt from Divisions I to IV of Part X of this Act, except for subsection 105(2) and sections 113.1 and 119 of Division II, sections 131 to 148 of Division III and section 154.01 of Division IV. The Council is a Crown corporation whose objectives are to foster and promote the study and enjoyment of, and the production of works in, the arts.

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

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

3. PORTFOLIO INVESTMENTS

	Year-to-date December 31, 2018					Year-end March 31, 2018		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Canadian Equity	7,881	795	-	7,086	2	7,544	7,420	2
Global Equity	132,272	6,766	352	125,858	40	143,170	144,623	45
Fixed income	76,186	1,579	57	74,664	24	70,269	69,632	22
Alternatives	20,630	-	9,494	30,124	9	20,630	30,271	9
Money market	11,653	-	-	11,653	4	1,325	1,325	-
Canadian Equity	32,176	863	-	31,313	10	32,142	34,765	11
Real estate	9,994	-	2,658	12,652	4	10,129	12,343	4
Infrastructure	14,753	366	9,266	23,653	7	13,462	20,980	7
	305,545	10,369	21,827	317,003	100	298,671	321,359	100
Killam Fund								
Pooled funds								
Canadian Equity	8,141	489	-	7,652	11	7,840	8,422	12
Global Equity	26,215	1,343	68	24,940	37	29,179	29,450	44
Fixed income	15,169	316	15	14,868	22	13,690	13,560	20
Alternatives	5,298	-	2,431	7,729	12	5,298	7,767	11
Money market	2,579	-	-	2,579	4	-	-	-
Real estate	2,662	-	725	3,387	5	2,697	3,298	5
Infrastructure	3,758	91	2,611	6,278	9	3,434	5,564	8
	63,822	2,239	5,850	67,433	100	62,138	68,061	100
Total investments	369,367	12,608	27,677	384,436		360,809	389,420	

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

Basis of preparation

These interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 2018. Accordingly, they should be read in conjunction with the audited annual financial statements. The interim financial statements are unaudited for all periods presented. The accounting policies used in the preparation of these interim condensed financial statements are consistent with those disclosed in the Council's last audited annual financial statements.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting year. Employee future benefits, the estimated useful lives of tangible capital assets, the residual and appraised value of the Art Bank assets, and the fair value of financial instruments are the most significant items where estimates are used. Actual results could differ from those estimated.

Budgeted figures

Budgeted figures have been provided for comparison purposes and have been approved by the Board.

Unrealized gains/losses on investments are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle for some investments. Annually, the Council assesses each of its investment instruments against specific criteria to determine whether there is objective evidence that the adjusted cost may not be recovered and is therefore impaired. The Council does not consider these investments to be other-than-temporarily impaired.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Fund. The Killam will requested that their donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8% (March 31, 2018 - 8%) of that Fund with a total fair value of \$25,392,000 (March 31, 2018 - \$25,741,000). The total fair value of the externally restricted investment including the Killam Fund is \$92,824,000 (March 31, 2018 - \$93,802,000).

The long-term objectives of the Canada Council Endowment and Special Funds and the Killam Fund are to generate long-term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital.

The Council invests in units of equity, fixed and commercial mortgage income and alternative pooled funds, in a segregated Canadian equity fund and in limited partnership units of four real estate funds and four infrastructure funds. The permitted and prohibited investments, the asset mix as well as some maximum holding quantity restrictions are governed by a Board approved investment policy to mitigate risk. All of the investments are managed by professional investment managers.

The Council manages its portfolio to the following benchmarks as per the *Statement of Investment Policies and Goals* approved by the Board. The benchmarks allow asset class allocations to vary between a minimum and a maximum.

Asset Classes	Market Value	Minimum	Benchmark	Maximum
Canadian equities	12%	5%	12.5%	20%
Global equities	39%	35%	40%	45%
Fixed income	23%	15%	25%	35%
Alternatives	10%	0%	10%	15%
Real estate	4%	0%	5%	10%
Infrastructure	8%	0%	7.5%	10%
Money market	4%	0%	0%	10%

The money market asset class includes short-term pooled funds to be used for future investments in fixed income, commercial mortgages, alternatives and capital commitments in limited partnership units of real estate and infrastructure funds. These funds had a balance of \$14,232,000 (March 31, 2018 - \$1,325,000).

Investments in the equity pooled funds are comprised of units of six pooled funds, two Canadian funds and four funds that are invested in the global equity markets. The Council also has a Canadian equity segregated fund for the Endowment and Special Funds. The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock Exchange Index (S&P/TSX). The global equities are measured against the returns of the Morgan Stanley Capital International (MSCI) All Country World Index. Investments in the fixed income pooled funds are comprised of a mix of bonds, mortgages, emerging debt and other fixed income instruments. The fixed income funds are measured against the returns of the FTSE TMX Universe Bond Index. Investments in the alternative pooled funds are comprised of units of one hedge fund with diversified positions across global asset classes. This investment is measured against the returns of the 91-day US T-bill plus 4%. The assets included in the real estate funds are commercial real estate properties in Canada, the United States and globally. These investments are measured against the returns of the Investment Property Databank. The infrastructure funds include four portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index (CPI) plus 4.5%.

4. FINANCIAL RISKS AND FAIR VALUE

The measurement categories of the Council's financial instruments, as well as their carrying amounts and fair values are as follows:

	Measurement	Year-to-date	Year-end
		December 31, 2018	March 31, 2018
	categories	Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
<i>(in thousands of dollars)</i>			
Financial assets and liabilities and classifications			
Cash and cash equivalents	Fair value	63,507	39,245
Accounts receivable	Amortized cost	2,396	3,080
Portfolio Investments ¹	Fair value	384,436	389,420
Grants, author payments and prizes payable	Amortized cost	63,962	69,547
Accounts payable and accrued liabilities	Amortized cost	1,911	3,782

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

a) Establishing fair value

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

The fair values of the investments are determined as follows:

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

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

b) Fair value hierarchy

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

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

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

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

Financial assets at fair value

	Year-to-date				Year-end			
	December 31, 2018				March 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	49,533	13,974	-	63,507	25,435	13,810	-	39,245
	49,533	13,974	-	63,507	25,435	13,810	-	39,245
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Canadian Equity	-	7,086	-	7,086	-	7,420	-	7,420
Global Equity	-	125,858	-	125,858	-	144,623	-	144,623
Fixed Income	-	74,664	-	74,664	-	69,632	-	69,632
Alternatives	-	-	30,124	30,124	-	-	30,271	30,271
Money Market	-	11,653	-	11,653	-	1,325	-	1,325
Canadian Equity	31,313	-	-	31,313	34,765	-	-	34,765
Real Estate	-	-	12,652	12,652	-	-	12,343	12,343
Infrastructure	-	-	23,653	23,653	-	-	20,980	20,980
Killam Fund								
Pooled Funds								
Canadian Equity	-	7,652	-	7,652	-	8,422	-	8,422
Global Equity	-	24,940	-	24,940	-	29,450	-	29,450
Fixed Income	-	14,868	-	14,868	-	13,560	-	13,560
Alternatives	-	-	7,729	7,729	-	-	7,767	7,767
Money Market	-	2,579	-	2,579	-	-	-	-
Real Estate	-	-	3,387	3,387	-	-	3,298	3,298
Infrastructure	-	-	6,278	6,278	-	-	5,564	5,564
	31,313	269,300	83,823	384,436	34,765	274,432	80,223	389,420
Total	80,846	283,274	83,823	447,943	60,200	288,242	80,223	428,665

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).

<i>(in thousands of dollars)</i>	Year-to-date December 31, 2018	Year-end March 31, 2018
Balance, beginning of period	\$ 51,665	\$ 46,768
Transferred from net investment income (Note 7)		
Net Investment income	3,075	15,324
Use of funds	(1,149)	(2,051)
	1,926	13,273
Unrealized gains (losses) on portfolio investments	(3,419)	(493)
Reclassified to statement of operations - portfolio	208	(7,883)
Balance at end of period	\$ 50,380	\$ 51,665

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

6. ACCUMULATED SURPLUS

<i>(in thousands of dollars)</i>	Year-to-date December 31, 2018	Year-end March 31, 2018
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	186,445	141,445
Appropriated from the accumulated surplus during the period	-	45,000
Balance at end of period	186,445	186,445
Surplus		
Balance at beginning of period	29,675	25,416
Appropriated to the reserve for excess investment income during the period	-	(45,000)
Surplus for the period	37,713	49,259
Balance at end of period	67,388	29,675
Total accumulated surplus from operations	341,402	303,689
Accumulated remeasurement gains		
Balance at beginning of period	20,565	48,419
Change in fair value	(10,327)	(27,854)
Balance at end of period	10,238	20,565
Balance of accumulated surplus at end of period	\$ 351,640	\$ 324,254

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2018	2017	2018	2017
(Losses) gains from disposal of portfolio investments	\$ (1,547)	\$ 1,019	\$ (1,182)	\$ 32,336
Income transferred to deferred revenues -				
Externally restricted contributions (Note 5)	(994)	(6,341)	(1,926)	(13,819)
Net gains on foreign exchange	28	8	32	30
Interest, dividend and other distributed income	6,830	26,468	14,488	30,780
Investment portfolio management costs	(243)	(223)	(687)	(877)
	\$ 4,074	\$ 20,931	\$ 10,725	\$ 48,450

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2018	2017	2018	2017
Rental revenue	\$ 390	\$ 355	\$ 1,141	\$ 1,009
Other income	58	74	164	154
Administration expense	(462)	(431)	(1,347)	(1,349)
Amortization of other capital assets	(3)	(3)	(8)	(8)
	\$ (17)	\$ (5)	\$ (50)	\$ (194)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2018	2017	2018	2017
Program expenses	\$ 109	\$ 179	\$ 624	\$ 483
Program - contributions received	-	-	(102)	(13)
Administration expense	332	319	1,003	967
	\$ 441	\$ 498	\$ 1,525	\$ 1,437

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2018	2017	2018	2017
Decrease (increase) in accounts receivable	\$ 118	\$ (1,470)	\$ 684	\$ (192)
(Decrease) increase in grants, author payments and prizes payable	(25,335)	10,101	(5,585)	7,122
Decrease in accounts payable and accrued liabilities	(651)	(2,442)	(1,871)	(3,102)
(Decrease) increase in deferred revenues	(196)	7	(491)	(247)
Net change	\$ (26,064)	\$ 6,196	\$ (7,263)	\$ 3,581

11. RELATED PARTY TRANSACTIONS

The Council is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Other related parties of the Council are key management personnel, close family members of key management personnel and entities that are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members. The Council enters into transactions with related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises, and these transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.