



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended September 30, 2014
Published November 28, 2014

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, 2014 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 Council participated in the Department of Canadian Heritage's series of initiatives designed to help promote Canadian history from July 1-7, 2014. A theme-based social media and web campaign was used to generate awareness with a "Did you know"-style social media posts about the Council and Canadian artists. Response on social networks was overwhelmingly positive.

Also in July 2014, the Council launched its new Northern Arts web page as part of its ongoing Northern Strategy. The web page brings together research, special initiatives and artist stories to help profile the work of the arts community in the north.

On July 28, 2014, the Council partnered with the Ottawa Chamberfest to host a free noon-hour concert featuring Musical Instrument Bank recipients Arnold Choi and Jonathan Chan, with over 200 spectators. Events like these are part of the Council's ongoing work on public engagement in the arts, using the new location at 150 Elgin in Ottawa, as a platform for visibility of the Council and of the arts.

The Council organized two important international delegations in September 2014. Delegations are designed to develop knowledge, relationships and connections that create opportunities for the Canadian arts sector in new markets. The Asia-Pacific Visual Arts Delegation (part of a four-year initiative) brought curators to visual arts events in Japan, Taiwan and Korea. In partnership with the Canada Council for the Arts, the London Art Book Fair featured Canada as a focus country in 2014, bringing a delegation of eight Canadian presses, distributors, independent publishers and editions-makers to the UK for the first time from September 25-28, 2014. The Canadian High Commission in London was also a partner in this initiative, ensuring that the publishers met key contacts in the UK.

Net Results

(in thousands of dollars)	Three months ended September 30				Six months ended September 30			
	2014	2013	Increase/ (Decrease)	% change	2014	2013	Increase/ (Decrease)	% change
Revenue	1,185	408	777	190%	2,383	1,441	942	65%
Expenses	(41,517)	(61,401)	(19,884)	-32%	(135,372)	(138,973)	(3,601)	-3%
Government funding	46,000	47,000	(1,000)	-2%	124,000	125,000	(1,000)	-1%
Net results for the period	5,668	(13,993)	19,661	-141%	(8,989)	(12,532)	3,543	-28%

Overview of the Second Quarter Net Results

The surplus for the quarter was \$5.7M, an increase of \$19.7M over the second quarter of the previous fiscal year. This increase is mainly related to the decrease of \$19.3M in grants expense for the period compared to the same period last year. This decrease in grants expense is due to timing in the approval of grant expenses. For the cumulative six months period, the grants expenses are comparable.

The Council will continue to monitor its financial results with the aim of reallocating savings in program delivery and general administration to grants expenses.

IMPORTANT CHANGES

Program Activities

In 2012, Council launched a process to renew its operating support to arts organizations. Given the profound changes in the arts ecosystem, the current model of operating funding to arts organizations is being challenged and rethought. The Music discipline section completed its consultations in the spring and is finalizing its report while the Visual Arts discipline section began its consultations in September 2014.

Operational Activities

The Council is undergoing a business transformation initiative involving its core programs and associated processes. The principles behind this work are effectiveness, efficiency, simplicity, and flexibility. Concurrently, a system modernization project has been launched to support the changes that relate to the business transformation initiative.

The work done to date has laid the foundation for a new grants and contact management system that is flexible enough to support all the activities of the Council for years into the future. When the system is fully implemented, it will be the portal through which arts communities interact with Council, it will facilitate the business of providing funding to members of these communities, and it will provide input into Council's financial and corporate reporting – all processes that are critical to Council's mission and operations.

Leadership and Governance

On July 4th, 2014, the Council announced the appointment of [Ms. Christina Cameron](#) as President of the Canadian Commission for UNESCO. Her term began at the Commission's Annual General Meeting held in Victoria from June 5 to 7, 2014. She was appointed for a term of 2 years, renewable once.

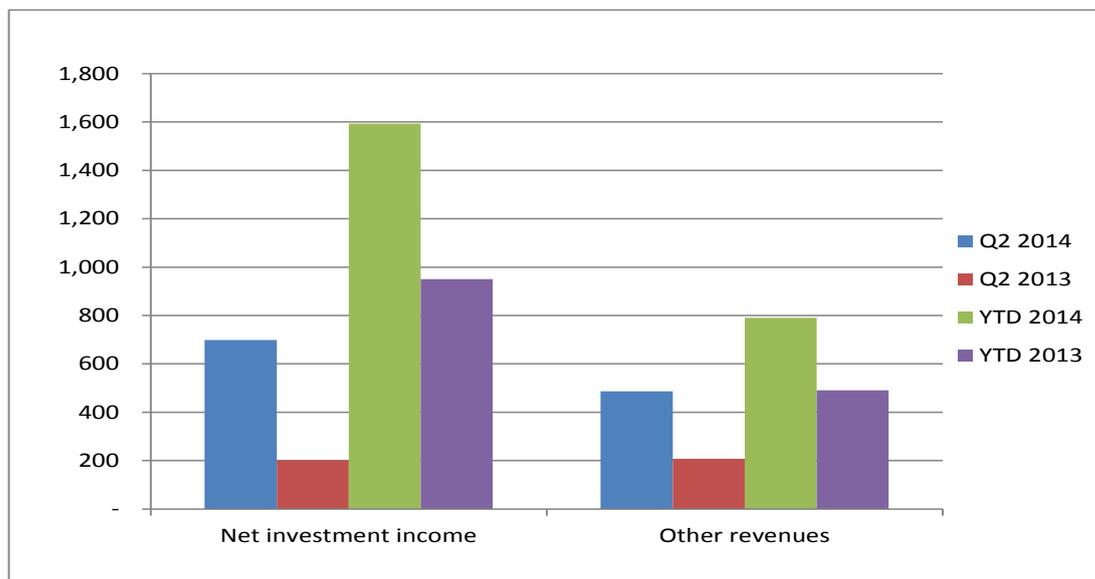
On July 17th, 2014, the Council announced Ms. Louise Filiatrault as Secretary General of the Canadian Commission for UNESCO. Ms. Filiatrault assumed her duties on September 2, 2014.

On August 21st, 2014, the Council announced the appointment of [Ms. Danika Billie Littlechild](#) as Vice-President of the Canadian Commission for UNESCO, effective on that date.

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 higher than last year mainly due to a \$0.6M quarterly distribution of dividend from the new Fixed Income manager, versus a one-time annual distribution last year which occurred in December 2013, and a \$0.4M realized gain due to a sale of infrastructure assets. This net investment income was partially offset by an increase of \$0.3M in investment portfolio management costs due to a movement from a passive to an active management style in the Fixed Income class and also as a direct result of the market value increase compared to last year.

The annual investment income is expected to be aligned with budget.

Other Revenues

The other revenues for the quarter are higher than last year mainly due to the earlier receipt of contributions, of \$186K for services administered by the Council such as the Canadian Public Arts Funders and the Commission Internationale de Théâtre Francophone.

Expenses

(in thousands of dollars)	Three months ended September 30				Six months ended September 30			
	2014	2013	Increase/ (Decrease)	% change	2014	2013	Increase/ (Decrease)	% change
Grants	33,101	52,448	(19,347)	-37%	118,035	120,970	(2,935)	-2%
Program delivery costs	4,093	4,315	(222)	-5%	8,716	8,920	(204)	-2%
Net Art Bank loss	74	39	35	90%	200	110	90	82%
Canadian Commission for UNESCO	380	441	(61)	-14%	932	1,103	(171)	-16%
General administration	3,869	4,158	(289)	-7%	7,489	7,870	(381)	-5%
Total	41,517	61,401	(19,884)	-32%	135,372	138,973	(3,601)	-3%

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 2%.

The decrease in both program delivery and general administration costs is mostly related to savings in salaries due to a number of vacancies and also as a result of reduction in printing and meeting costs.

The Council expects the annual grants expenses to be higher than the original budget of \$153.6M by approximately \$1M due to the re-allocation of savings found in program delivery and general administration.

Financial Assets

(in thousands of dollars)	September 30 2014	March 31 2014	Increase/ (Decrease)
Cash and Cash equivalents	32,042	251	31,791
Accounts receivable	2,135	4,116	(1,981)
Portfolio investments	328,959	323,081	5,878
Total	363,136	327,448	35,688

Cash and Cash Equivalents

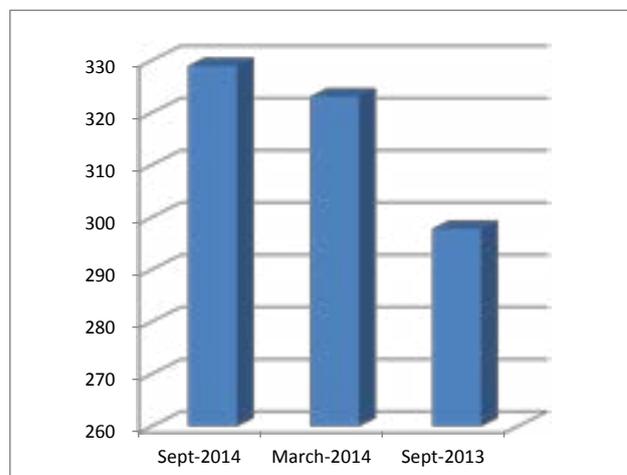
The increase of \$31.8M in Cash Equivalents is mainly due to the fact that 7 months of Parliamentary appropriations have been received while a portion of the related grants payments to recipients will occur in the subsequent quarter. This timing difference is consistent with the increase in Grants payable under the Liabilities section as of September 30, 2014.

Accounts Receivable

The decrease of \$2.0M arises primarily from the receipt of \$1.1M in Parliamentary appropriations for the 2013-14 Supplementary Estimates and the municipal tax rebates from the City of Ottawa for \$0.5M recorded at year-end.

Portfolio Investments

The total market value of the portfolio as at September 30, 2014 was \$329.0M of which \$88.2M was externally restricted. This represents an increase of \$5.9M since March 31, 2014 and \$31.2M since September 30, 2013.



The total fund generated an absolute return of 1.2% for the quarter which was lower than the benchmark return by 0.8%. The main contributor to the returns for this period was the performance of the Infrastructure manager. During the quarter, the Infrastructure asset class had strong returns (14.6%) compared to the benchmark (1.0%). Those results were partially offset by the performance of one of our Real Estate manager (-5.5%) compared to the benchmark (1.4%) and our Canadian equity manager (-3.0%) compared to the benchmark (-0.6%) for the same quarter.

Since January 1st, 2014, the total fund generated an absolute return of 7.9% which was equal to the benchmark. All managers have year-to-date positive returns but the main contributors for this year-to-date return are the performance of the Global Equity managers (9.4%) and Canadian Equity manager (8.8%).

Liabilities

(in thousands of dollars)	September 30 2014	March 31 2014	Increase/ (Decrease)
Bank indebtedness	-	542	(542)
Grants payable	55,086	30,901	24,185
Accounts payable and accrued liabilities	1,641	3,544	(1,903)
Deferred revenues	7,155	7,477	(322)
Employee future benefits	2,593	2,530	63
Deferred Parliamentary appropriations	16,000	-	16,000
Externally restricted contributions	38,754	37,097	1,657
Total	121,229	82,091	39,138

Grants payable

The increase of \$24.2M in comparison to the value as at March 31, 2014 arises from grants accrued which had not been paid by the end of the six-month period.

Accounts payable and accrued liabilities

The decrease of \$1.9M in comparison to the value as at March 31, 2014 is mainly due to a reduction of \$2.0M in commercial invoices due to the timing of the payment schedule.

Deferred Parliamentary appropriations

The increase of \$16.0M arises from the receipt of the October 2014 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 2014	March 31 2014	Increase/ (Decrease)
Tangible capital assets	8,797	8,904	(107)
Art Bank assets	19,400	19,400	-
Musical instruments	1	1	-
Prepaid expenses	558	315	243
Total	28,756	28,620	136

Art Bank Assets

The Council owns approximately 17,500 works of contemporary Canadian art within its Art Bank collection. At September 30, 2014 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 eight prestigious musical instruments. In addition, the Council manages 13 instruments on loan. The appraised value of its musical instruments as at September 30, 2014 was \$37.4M. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value.

Cash Flow

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2014	2013	Increase/ (Decrease)	2014	2013	Increase/ (Decrease)
Beginning of period	34,016	24,350	9,666	(291)	(1,150)	859
Cash (for) from operating activities	(5,075)	5,460	(10,535)	30,443	30,833	(390)
Cash for capital transactions	(216)	(277)	61	(418)	(454)	36
Cash (for) from investing activities	3,317	(93)	3,410	2,308	211	2,097
Net Change	(1,974)	5,090	(7,064)	32,333	30,590	1,743
Ending balance for the period	32,042	29,440	2,602	32,042	29,440	2,602

Operating Transactions

The change in cash from operations of \$10.5M for the quarter is mostly accounted for by an increase of \$19.7M in the results of operations compared to the same period last year. This cash inflow was offset by a decrease of \$30.4M in net change in other non-cash items explained in Note 10 of the Financial Statements.

Investing Transactions

The transactions that took place in the portfolio during the quarter are the acquisitions and disposals of assets in the real estate and infrastructure asset classes and other re-balancing activities.

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 March 2014 meeting. Executive management monitors progress of 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	
	2014	2013
Approved annual operating funding		
Vote 1 - Operating costs	182,030	180,261
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the six-month period	(124,000)	(125,000)
Deferred - October 2014 Parliamentary appropriations	(16,000)	(14,000)
Balance of operating funding to be received	42,030	41,261



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended September 30, 2014
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 28, 2014



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



Pascale Legault, CPA, CA
Chief Financial Officer

Statement of Financial Position

(Unaudited)	September 30	March 31
(in thousands of dollars)	2014	2014
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 32,042	\$ 251
Accounts receivable	2,135	4,116
Portfolio investments (Note 3)	328,959	323,081
Total financial assets	363,136	327,448
LIABILITIES		
Bank indebtedness	-	542
Grants payable	55,086	30,901
Accounts payable and accrued liabilities	1,641	3,544
Deferred revenues	7,155	7,477
Employee future benefits	2,593	2,530
Deferred Parliamentary appropriations	16,000	-
Deferred revenues - Externally restricted contributions (Note 5)	38,754	37,097
Total liabilities	121,229	82,091
NET FINANCIAL ASSETS	241,907	245,357
NON-FINANCIAL ASSETS		
Tangible capital assets	8,797	8,904
Art Bank assets	19,400	19,400
Musical instruments	1	1
Prepaid expenses	558	315
Total non-financial assets	28,756	28,620
ACCUMULATED SURPLUS (Note 6)	\$ 270,663	\$ 273,977
Accumulated surplus is comprised of:		
Accumulated surplus from operations	225,951	234,940
Accumulated remeasurement gains	44,712	39,037
ACCUMULATED SURPLUS	\$ 270,663	\$ 273,977

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)		2014	2013	2014	2013				
Revenue										
Net investment income (Note 7)	\$	9,127	\$	699	\$	201	\$	1,593	\$	950
Other revenue		1,210		486		207		790		491
Total revenue		10,337		1,185		408		2,383		1,441
Expenses										
Programs										
Grants		153,580		33,101		52,448		118,035		120,970
Administration		14,754		3,280		3,463		6,678		6,856
Services		6,181		813		852		2,038		2,064
		174,515		37,194		56,763		126,751		129,890
Net Art Bank loss (Note 8)		259		74		39		200		110
Canadian Commission for UNESCO (Note 9)		2,323		380		441		932		1,103
General administration		15,270		3,869		4,158		7,489		7,870
Total expenses		192,367		41,517		61,401		135,372		138,973
Annual deficit from operations before Parliamentary appropriations		(182,030)		(40,332)		(60,993)		(132,989)		(137,532)
Parliamentary appropriations		182,083		46,000		47,000		124,000		125,000
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD		53		5,668		(13,993)		(8,989)		(12,532)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD		-		220,283		239,458		234,940		237,997
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$	53	\$	225,951	\$	225,465	\$	225,951	\$	225,465

Statement of Change in Net Financial Assets

(Unaudited)	Three months ended September 30		Six months ended September 30					
	(in thousands of dollars)		2014	2013	2014	2013		
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	\$	5,668	\$	(13,993)	\$	(8,989)	\$	(12,532)
Acquisition of tangible capital assets		(216)		(277)		(418)		(454)
Amortization of tangible capital assets		262		228		525		458
		46		(49)		107		4
Acquisition of prepaid expenses		(570)		(759)		(1,073)		(1,050)
Use of prepaid expenses		531		291		830		597
		(39)		(468)		(243)		(453)
Net remeasurement gains		2,209		7,418		5,675		9,354
INCREASE (DECREASE) IN NET FINANCIAL ASSETS		7,884		(7,092)		(3,450)		(3,627)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD		234,023		228,355		245,357		224,890
NET FINANCIAL ASSETS, END OF PERIOD	\$	241,907	\$	221,263	\$	241,907	\$	221,263

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

Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2014	2013	2014	2013
(in thousands of dollars)				
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 42,503	\$ 10,831	\$ 39,037	\$ 8,895
Unrealized gains (losses) attributable to:				
Portfolio investments	2,515	7,418	5,981	9,426
Amounts reclassified to the Statement of Operations:				
Derivatives	-	-	-	40
Portfolio investments	(306)	-	(306)	(112)
NET MEASUREMENT GAINS FOR THE PERIOD	2,209	7,418	5,675	9,354
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 44,712	\$ 18,249	\$ 44,712	\$ 18,249

Statement of Cash Flow

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2014	2013	2014	2013
(in thousands of dollars)				
Operating Transactions				
Surplus (deficit) from operations for the period	\$ 5,668	\$ (13,993)	\$ (8,989)	\$ (12,532)
Gains from disposal of portfolio investments (Note 7)	(408)	-	(408)	(149)
Decrease in net derivatives liability less realized gain transferred from remeasurement gains and deferred revenues - externally restricted contributions	-	-	-	(37)
Amortization of tangible capital assets	262	228	525	458
Increase in prepaid expenses	(39)	(468)	(243)	(453)
Increase in employee future benefits	4	30	63	57
Income transferred from Deferred revenues - Externally restricted contributions to investment income (Note 5)	(69)	(228)	(446)	(792)
Net change in other non-cash items (Note 10)	(10,493)	19,891	39,941	44,281
Cash provided (used) by operating activities	(5,075)	5,460	30,443	30,833
Capital Transactions				
Cash used to acquire tangible capital assets	(216)	(277)	(418)	(454)
Investing Transactions				
Acquisition of portfolio investments	(2,171)	(93)	(5,660)	(27,677)
Disposal of portfolio investments	5,488	-	7,968	27,888
Cash provided (used) by investing activities	3,317	(93)	2,308	211
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,974)	5,090	32,333	30,590
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	34,016	24,350	(291)	(1,150)
CASH AND CASH EQUIVALENTS, END OF PERIOD	32,042	29,440	32,042	29,440
Represented by:				
Cash and cash equivalents	32,042	30,622	32,042	30,622
Bank indebtedness	-	(1,182)	-	(1,182)
	\$ 32,042	\$ 29,440	\$ 32,042	\$ 29,440

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

Notes to the Financial Statements

For the period ended September 30, 2014

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

The Canadian Commission for UNESCO (CCU) was established by the Canada Council pursuant to a 1957 Order in Council. The CCU 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 CCU 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, 2014					Year-end March 31, 2014		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Equity	104,678	-	38,239	142,917	55	104,678	139,301	54
Fixed income	61,750	-	1,317	63,067	24	61,750	62,116	24
Alternatives	20,630	-	5,619	26,249	10	20,630	25,307	10
Money market	11,421	-	-	11,421	4	14,944	15,030	6
Real estate	9,015	13	1,653	10,655	4	7,977	9,452	4
Infrastructure	5,590	-	2,131	7,721	3	4,454	5,994	2
	213,084	13	48,959	262,030	100	214,433	257,200	100
Killam Fund								
Pooled funds								
Equity	26,604	-	9,685	36,289	55	26,604	35,368	54
Fixed income	15,910	-	274	16,184	24	15,910	15,940	24
Alternatives	5,298	-	1,436	6,734	10	5,298	6,493	10
Money market	2,645	-	-	2,645	4	3,713	3,735	6
Real estate	2,397	3	460	2,854	4	2,141	2,555	4
Infrastructure	1,596	-	627	2,223	3	1,335	1,790	2
	54,450	3	12,482	66,929	100	55,001	65,881	100
Total investments	267,534	16	61,441	328,959		269,434	323,081	

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, 2014. 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, 2014 - 8%) of that Fund with a total fair value of \$21,303,000 (March 31, 2014 - \$20,910,000). The total fair value of the externally restricted investment including the Killam Fund is \$88,232,000 (March 31, 2014 - \$86,791,000).

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 six 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	11%	5%	10%	15%
Global equities	44%	35%	40%	45%
Fixed income	24%	15%	25%	35%
Alternatives	10%	5%	10%	15%
Real estate	4%	0%	7.5%	10%
Infrastructure	3%	0%	7.5%	10%
Money market	4%	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 \$14,066,000 (March 31, 2014 - \$18,765,000).

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 US 91-day 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 for the Canadian managers and the National Council of Real Estate Investment Fiduciaries (NCREIF) for the US manager. 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:

(in thousands of dollars)		Year-to-date	
		September 30, 2014	Year-end March 31, 2014
Financial assets and liabilities and classifications	Measurement categories	Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
Cash and cash equivalents	Fair value	32,042	251
Accounts receivable	Amortized cost	2,135	4,116
Portfolio Investments ¹	Fair value	328,959	323,081
Bank indebtedness	Fair value	-	542
Grants payable	Amortized cost	55,086	30,901
Accounts payable and accrued liabilities	Amortized cost	1,641	3,544

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

a) Establishing fair value

The carrying value of accounts receivable, grants 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:

- 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, 2014				Year-end March 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<i>(in thousands of dollars)</i>	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	17,847	14,195	-	32,042	-	251	-	251
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Equity	-	142,917	-	142,917	-	139,301	-	139,301
Fixed Income	-	63,067	-	63,067	-	62,116	-	62,116
Alternatives	-	-	26,249	26,249	-	-	25,307	25,307
Money Market	-	11,421	-	11,421	-	15,030	-	15,030
Real Estate	-	-	10,655	10,655	-	-	9,452	9,452
Infrastructure	-	-	7,721	7,721	-	-	5,994	5,994
Killam Fund								
Pooled Funds								
Equity	-	36,289	-	36,289	-	35,368	-	35,368
Fixed Income	-	16,184	-	16,184	-	15,940	-	15,940
Alternatives	-	-	6,734	6,734	-	-	6,493	6,493
Money Market	-	2,645	-	2,645	-	3,735	-	3,735
Real Estate	-	-	2,854	2,854	-	-	2,555	2,555
Infrastructure	-	-	2,223	2,223	-	-	1,790	1,790
	-	272,523	56,436	328,959	-	271,490	51,591	323,081
Total	17,847	286,718	56,436	361,001	-	271,741	51,591	323,332

Financial liabilities at fair value

	Year-to-date September 30, 2014				Year-end March 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<i>(in thousands of dollars)</i>	\$	\$	\$	\$	\$	\$	\$	\$
Bank indebtedness	-	-	-	-	542	-	-	542
Total	-	-	-	-	542	-	-	542

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 September 30, 2014	Year-end March 31, 2014
Balance, beginning of period	\$ 37,097	\$ 27,721
Transferred from (to) investment income <i>(Note 7)</i>		
Net Investment income	275	1,959
Use of funds	(721)	(2,379)
	(446)	(420)
Unrealized gains on portfolio investment	2,205	10,131
Reclassified to statement of operations - portfolio	(102)	(350)
Reclassified to statement of operations - derivatives	-	15
Balance at end of period	\$ 38,754	\$ 37,097

The unrealized gains 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 September 30, 2014	Year-end March 31, 2014
Accumulated surplus from operations		
Endowment - Original contribution	\$ 50,000	\$ 50,000
Endowment principal – Externally restricted contributions	37,569	37,569
Reserve for excess investment income		
Balance at beginning of the period	122,445	123,445
Appropriated from the accumulated surplus during the period	-	(1,000)
Balance at end of the period	122,445	122,445
Surplus		
Balance at beginning of the period	24,926	23,953
Appropriated to the reserve for excess investment income during the period	-	1,000
Deficit for the period	(8,989)	(27)
Balance at end of the period	15,937	24,926
Total accumulated surplus from operations	225,951	234,940
Accumulated remeasurement gains		
Balance at beginning of the period	39,037	11,925
Change in fair value	5,675	27,112
Balance at end of the period	44,712	39,037
Balance of accumulated surplus at end of period	\$ 270,663	\$ 273,977

7. NET INVESTMENT INCOME

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2014	2013	2014	2013
Gains from disposal of portfolio investments	\$ 408	\$ -	\$ 408	\$ 149
Income transferred from deferred revenues -				
Externally restricted contributions (Note 5)	69	229	446	792
Net losses on foreign currencies	(8)	-	(11)	(300)
Interest, dividend and other distributed income	960	311	1,915	1,012
Investment portfolio management costs	(730)	(339)	(1,165)	(703)
	\$ 699	\$ 201	\$ 1,593	\$ 950

8. NET ART BANK LOSS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2014	2013	2014	2013
Rental revenue	\$ 311	\$ 324	\$ 625	\$ 666
Other income	38	39	73	82
Administration expense	(419)	(398)	(889)	(849)
Amortization of other capital assets	(4)	(4)	(9)	(9)
	\$ (74)	\$ (39)	\$ (200)	\$ (110)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2014	2013	2014	2013
Program expenses	\$ 73	\$ 54	\$ 355	\$ 344
Program - contributions received	(1)	-	(4)	-
Administration expense	308	387	581	759
	\$ 380	\$ 441	\$ 932	\$ 1,103

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2014	2013	2014	2013
(Increase) Decrease in accounts receivable	\$ 167	\$ (49)	\$ 1,981	\$ 1,913
Increase (Decrease) in grants payable	(6,961)	6,771	24,185	30,520
Decrease in accounts payable and accrued liabilities	(444)	(600)	(1,903)	(1,918)
Decrease in deferred revenues	(255)	(231)	(322)	(234)
Increase (Decrease) in deferred Parliamentary appropriations	(3,000)	14,000	16,000	14,000
Net change	\$ (10,493)	\$ 19,891	\$ 39,941	\$ 44,281

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.