



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended September 30, 2019
Published November 29, 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 six-month period ended September 30, 2019 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

Throughout the quarter, the Âjagemô space at the Council's offices at 150 Elgin Street featured an exhibit entitled [Open Channels](#). Curated by Melissa Rombout and in partnership with the Students on Ice Foundation, the exhibit presents the works of visual artists who took part in the [Canada C3](#) sailing expedition organized to mark the 150th anniversary of Confederation. The artists drew inspiration from Canada's ever-evolving environmental, social and cultural landscapes, as well as from dialogue between Indigenous and non-Indigenous peoples.

July 11 — Elaine Stocki, a Canadian artist based in Los Angeles, was announced as the latest winner (for the year 2018) of the [Duke and Duchess of York Prize in Photography](#). The prize is awarded to a professional photographer for personal creative work or professional development.

July 31 to August 25 — Since 2016, the Council has supported CanadaHub, a showcase of the very best of Canada's contemporary performance scene, at the Edinburgh Festival Fringe. This year the Council expanded the Canadian presence in Edinburgh across additional festivals, including the prestigious Edinburgh International Festival, through the "Indigenous Contemporary Scene," a platform for the presentation of contemporary arts by Indigenous artists. The full Canadian 2019 programme combined technology, audience interaction, Indigenous artists, thought-provoking storytelling, and a call to action on climate change from some of Canada's most celebrated artists.

August 6 — The Council launched its official [Instagram](#) account, which will share information on grants, events, and activities, and on all things Canadian art, under #BringingTheArtsToLife.

August 13 — The Council announced Canada's young cultural innovators for the [Salzburg Global Forum](#) to take place from October 22 to 27, 2019, in Salzburg, Austria: Katie Green (Montréal); Frances Koncan (Winnipeg); Michael Prosserman (Toronto); Daniel Rumbolt (St. John's); and Alison Uttley (Toronto). Since 2017, the Council has partnered with the Forum every year to give young cultural innovators from Canada an opportunity to build their leadership skills and engage with others from around the globe.

August 12 to 24 — Simon Brault, Director and Chief Executive Officer, travelled to communities throughout the Yukon, the Northwest Territories and Nunavut to meet with artists, cultural workers, community members, community associations, elected officials, and territory government representatives. [The trip](#) initiated important conversations about how the Council can do things differently to provide even better support for the creation and promotion of the arts in the North, in a way that reflects the specific realities of each context.

September 12 — Linguistic Duality Day was celebrated at the Council by highlighting the web-based spotlight campaign marking the 50th anniversary of the *Official Languages Act*, which features artists who have contributed to Canada's rich and diverse arts scene in both official languages, including official language minorities. Artists featured in this quarter include dancer/choreographer [Rhodnie Désir](#); and [Théâtre l'Escaouette](#), an Acadian theatre group and foundation.

During this quarter, Arts Granting Programs division staff conducted outreach sessions for existing and potential applicants across the country, including sessions in Nunavut, Newfoundland and South-western Ontario. Outreach sessions specific to the [Digital Strategy Fund](#) (DSF) were held in every province.

Net Results

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2019	2018	Increase/ (Decrease)	2019	2018	Increase/ (Decrease)
Revenue	5,084	1,463	3,621	13,847	7,803	6,044
Expenses	(52,911)	(43,183)	(9,728)	(222,339)	(190,131)	32,208
Government funding	90,000	80,000	10,000	203,000	190,200	12,800
Surplus (deficit) for the period	42,173	38,280	3,893	(5,492)	7,872	(13,364)

Overview of the Second Quarter Net Results

The surplus for the quarter was \$42.2M compared to a surplus of \$38.3M for the same period last year. The variance of \$3.9M is directly related to the increase in revenues. The \$9.7M increase in expenses relative to the same period last year was planned for and corresponds to the increase in parliamentary appropriations for that period based on cash flow requirements.

The grant expenses are expected to be approximately \$9.0M greater than budgeted. These expenses will be offset by \$3.5M in savings from operating costs or delayed projects and an additional \$5.5M in contributions from partnerships with the Departments of Global Affairs Canada and Canadian Heritage. These contributions will support various program activities related to the 2020 Frankfurt Book Fair and the Festival Internacional Cervantino. The Council will continue to monitor its financial results with the aim of achieving a balanced budget.

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 September 30			Six months ended September 30		
	2019	2018	Increase/ (Decrease)	2019	2018	Increase/ (Decrease)
Net realized investment income	2,738	842	1,896	10,575	6,651	3,924
Other revenue	2,346	621	1,725	3,272	1,152	2,120
Total	5,084	1,463	3,621	13,847	7,803	6,044

Net Realized Investment Income

Net investment income for the quarter and year to date was higher than last year for the same periods due to greater realized gains from the sales of assets in the Infrastructure asset class. These gains were offset by a net reduction in other distributed income. The net realized investment income is still forecasted to be aligned with the budget.

Other Revenue

The other revenues for the quarter and year to date are higher compared to the same period last year due to transfers received from the Departments of Global Affairs Canada and Canadian Heritage for activities related to the Cervantino Festival and 2020 Frankfurt Book Fair. Other revenues are expected to be higher than budgeted due to these contributions estimated at approximately \$5.5M for this year.

Expenses

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2019	2018	Increase/ (Decrease)	2019	2018	Increase/ (Decrease)
Grants, author payments and prizes	41,349	33,081	8,268	199,104	169,775	29,329
Transfer program delivery	5,296	4,737	559	10,257	9,342	915
Arts community services	1,203	478	725	1,938	1,081	857
Net Art Bank results	(22)	(72)	50	59	33	26
Canadian Commission for UNESCO	470	392	78	1,033	1,084	(51)
General administration	4,615	4,567	48	9,948	8,816	1,132
Total	52,911	43,183	9,728	222,339	190,131	32,208

Grants, author payments and prizes

The increase in grant expenses for the quarter and year-to-date is higher compared to prior year periods due to the progressive doubling of the Council's government funding. The Council expects the annual grant expenses to reach \$294.5M compared to the original budget of \$285.5M for the year due to the significant partnerships totalling \$5.5M with the Departments of Global Affairs Canada and Canadian Heritage supporting various program activities mostly related to the 2020 Frankfurt Book Fair and \$3.5M from savings or delayed projects.

Transfer program delivery

This expense is slightly higher compared to last year due to an increase in salaries and employee benefits, as a direct result of a decreased number of vacancies and of retroactive payments following the ratification of a new collective agreement in May 2019, and an increase in peer costs due to the timing of the peer assessment committee meetings. The cumulative amount for this expense is greater compared to last year due to the increase in salaries and benefits, the timing of the peer assessment committee meetings and also the allocation of an amortization expense directly related to the portal grant application

Arts community services

This expense is higher for the quarter and year-to-date compared to prior year periods due to the various activities and event costs related to the Festival International Cervantino and the 2020 Frankfurt Book Fair.

General Administration

This expense is greater compared to last year due to an increase in salaries and employee benefits as a direct result of a decreased number of vacancies and of retroactive payments following the ratification of a new collective agreement in May 2019. The Council is also moving more and more of its technology into a cloud environment which means an increase in annual licence subscriptions that will be offset gradually by a decrease in the amortization of capital assets.

Financial Assets

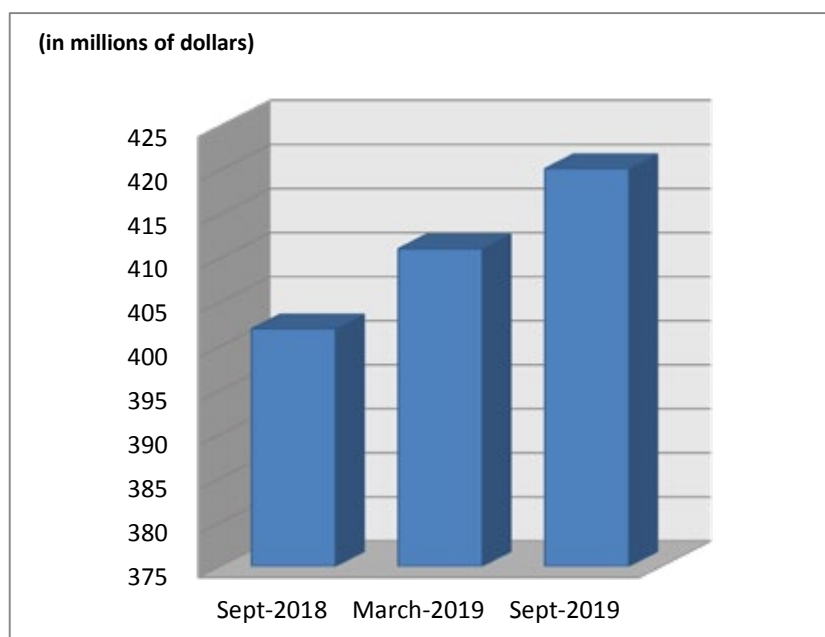
	September 30	March 31	Increase/ (Decrease)
(in thousands of dollars)	2019	2019	
Cash and cash equivalents	55,080	31,235	23,845
Accounts receivable	2,720	3,146	(426)
Portfolio investments	420,153	411,066	9,087
Total	477,953	445,447	32,506

Cash and Cash Equivalents

The increase of \$23.8M in cash and cash equivalents is mainly explained by an increase of \$34.2M in grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as of September 30, 2019 minus the \$5.5M cumulative deficit from operations for the six-month period. This increases were slightly offset by a net outflow of \$1.1M in capital activities.

Portfolio Investments

The total market value of the portfolio as at September 30, 2019, was \$420.2M, of which \$100.5M was externally restricted. This represents an increase of \$9.1M in the market value since March 31, 2019, and an increase of \$18.2M since September 30, 2018.



The total fund generated an absolute positive return of 1.2% for the quarter, underperforming the benchmark return by 0.2%. All asset classes generated positive returns during the second quarter, except for Infrastructure. The Canadian Equity and Infrastructure were the main asset classes below their benchmark for the quarter by 1.4% and 1.1% respectively.

The total fund one-year return was 6.5% for September 2019 which lagged the benchmark by 0.6%. All asset classes generated positive returns for the one-year return. The Infrastructure managers exceeded their benchmark by 12.9% with strong returns of 19.4% but the Canadian Equity and Alternative asset classes trailed their benchmark by 4.2% and 3.8% respectively for the one-year period.

Liabilities

(in thousands of dollars)	September 30 2019	March 31 2019	Increase/ (Decrease)
Grants, author payments and prizes payable	102,259	68,081	34,178
Accounts payable and accrued liabilities	2,385	5,072	(2,687)
Deferred revenues	9,226	7,043	2,183
Employee future benefits	4,157	3,867	290
Externally restricted contributions	58,244	55,736	2,508
Total	176,271	139,799	36,472

Grants, author payments and prizes payable

The increase of \$34.2M in comparison to the value as at March 31, 2019 arises from an increase in overall funding as well as the timing of payments schedules.

Accounts payable and accrued liabilities

The decrease of \$2.7M in comparison to the value as at March 31, 2019 is mainly due to a reduction of \$2.5M in commercial invoices due to the timing of the payment schedule.

Deferred revenues

The increase of \$2.2M in comparison to the value as at March 31, 2019 is attributed to a \$4.0M contribution received from the Department of Global Affairs Canada for international activities related to the 2020 Frankfurt Book Fair for which the expenses will be incurred later in the year.

Externally restricted contributions

The increase of \$2.5M in comparison to the value as at March 31, 2019 arises from the net unused funds of \$2.3M 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

(in thousands of dollars)	September 30 2019	March 31 2019	Increase/ (Decrease)
Tangible capital assets	9,884	9,793	91
Art Bank assets	19,466	19,455	11
Musical instruments	1	1	-
Prepaid expenses	365	224	141
Total	29,716	29,473	243

Art Bank Assets

The Council owns over 17,160 works of contemporary Canadian art within its Art Bank collection. At September 30, 2019 the appraised value of the Art Bank assets was approximately \$72M. The Council insures its Art Bank assets based on its assessment of risk.

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 September 30, 2019 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.

Risk Appetite

The Council 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 2019 Annual Financial Statements.

Risk Profile

Using the Council's risk appetite as key context, a new risk management framework was created in the fall of 2018. All identified risks were ranked based on likelihood and potential impact on the Council's operations with a focus on potential operational, financial, and reputational dimensions. The corporate risk profile highlighting the top six risks areas and their mitigation strategies was presented to the Board in January 2019.

The risk mitigation strategies and related activities are monitored on an ongoing basis by assigned members of the executive management to reduce the risk exposure. Regular updates on these risks are provided to the Audit and Finance Committee to ensure continuous oversight and the effectiveness of the mitigation strategies that 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 the Council's receivables are normally deposited within 30-60 days after quarter-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 second quarter were as follows:

(in thousands of dollars)	September 30	
	2019	2018
Approved annual operating funding		
Vote 1 - Operating costs	327,644	292,632
Supplementary Estimates	-	171
	327,644	292,803
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the six-month period	(203,000)	(190,200)
Balance of operating funding to be received	124,644	102,603



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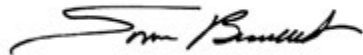
These financial statements for the quarter ended September 30, 2019
have not been audited or reviewed by our Auditor

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 are 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 29, 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)	September 30	March 31
(in thousands of dollars)	2019	2019
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 55,080	\$ 31,235
Accounts receivable	2,720	3,146
Portfolio investments (Note 3)	420,153	411,066
Total financial assets	477,953	445,447
LIABILITIES		
Grants, author payments and prizes payable	102,259	68,081
Accounts payable and accrued liabilities	2,385	5,072
Deferred revenues	9,226	7,043
Employee future benefits	4,157	3,867
Deferred revenues - Externally restricted contributions (Note 5)	58,244	55,736
Total liabilities	176,271	139,799
NET FINANCIAL ASSETS	301,682	305,648
NON-FINANCIAL ASSETS		
Tangible capital assets	9,884	9,793
Art Bank assets	19,466	19,455
Musical instruments	1	1
Prepaid expenses	365	224
Total non-financial assets	29,716	29,473
ACCUMULATED SURPLUS (Note 6)	\$ 331,398	\$ 335,121
Accumulated surplus is comprised of:		
Accumulated surplus from operations	298,898	304,390
Accumulated remeasurement gains	32,500	30,731
ACCUMULATED SURPLUS	\$ 331,398	\$ 335,121

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	
	2019-2020	2019	2018	2019	2018
(in thousands of dollars)					
Revenue					
Net realized investment income (Note 7)	\$ 12,161	\$ 2,738	\$ 842	\$ 10,575	\$ 6,651
Other revenue	1,655	2,346	621	3,272	1,152
Total revenue	13,816	5,084	1,463	13,847	7,803
Expenses					
Transfer Programs					
Grants, author payments and prizes	285,507	41,349	33,081	199,104	169,775
Transfer program delivery	25,600	5,296	4,737	10,257	9,342
Arts community services	7,003	1,203	478	1,938	1,081
	318,110	47,848	38,296	211,299	180,198
Net Art Bank results (Note 8)	247	(22)	(72)	59	33
Canadian Commission for UNESCO (Note 9)	2,648	470	392	1,033	1,084
General administration	20,446	4,615	4,567	9,948	8,816
Total expenses	341,451	52,911	43,183	222,339	190,131
Deficit from operations before Parliamentary appropriations for the period	(327,635)	(47,827)	(41,720)	(208,492)	(182,328)
Parliamentary appropriations	327,644	90,000	80,000	203,000	190,200
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	9	42,173	38,280	(5,492)	7,872
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	304,390	256,725	273,281	304,390	303,689
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 304,399	\$ 298,898	\$ 311,561	\$ 298,898	\$ 311,561

Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
(in thousands of dollars)				
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 30,655	\$ 22,885	\$ 30,731	\$ 20,565
Unrealized gains attributable to:				
Portfolio investments	2,837	4,468	10,333	7,090
Amounts reclassified to the Statement of Operations:				
Portfolio investments	(992)	(313)	(8,564)	(615)
NET REMEASUREMENT GAINS FOR THE PERIOD	1,845	4,155	1,769	6,475
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 32,500	\$ 27,040	\$ 32,500	\$ 27,040

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

Statement of Change in Net Financial Assets

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
(in thousands of dollars)				
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	\$ 42,173	\$ 38,280	\$ (5,492)	\$ 7,872
Acquisition of tangible capital assets	(749)	(463)	(1,072)	(848)
Amortization of tangible capital assets	492	376	981	753
Acquisition of Art Bank assets	-	(1)	(11)	(1)
	(257)	(88)	(102)	(96)
Acquisition of prepaid expenses	(287)	(30)	(358)	(123)
Use of prepaid expenses	63	6	217	233
	(224)	(24)	(141)	110
Net remeasurement gains	1,845	4,155	1,769	6,475
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	43,537	42,323	(3,966)	14,361
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	258,145	267,579	305,648	295,541
NET FINANCIAL ASSETS, END OF PERIOD	\$ 301,682	\$ 309,902	\$ 301,682	\$ 309,902

Statement of Cash Flow

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
(in thousands of dollars)				
Operating Transactions				
Surplus (deficit) from operations for the period	\$ 42,173	\$ 38,280	\$ (5,492)	\$ 7,872
(Gains) losses from disposal of portfolio investments (Note 7)	(1,480)	887	(7,514)	(365)
Amortization of tangible capital assets	492	376	981	753
(Increase) decrease in prepaid expenses	(224)	(24)	(141)	110
Increase in employee future benefits	145	116	290	249
Income transferred to (from) Deferred revenues - Externally restricted contributions from investment income (Note 5)	441	(192)	2,301	932
Net change in other non-cash items (Note 10)	(47,991)	(44,489)	34,100	18,801
Cash provided (used) by operating activities	(6,444)	(5,046)	24,525	28,352
Capital Transactions				
Cash used to acquire tangible capital and Art Bank assets	(749)	(464)	(1,083)	(849)
Investing Transactions				
Acquisition of portfolio investments	(4,573)	(4,967)	(14,632)	(31,415)
Disposal of portfolio investments	4,114	3,826	15,035	27,600
Cash provided (used) by investing activities	(459)	(1,141)	403	(3,815)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,652)	(6,651)	23,845	23,688
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	62,732	69,584	31,235	39,245
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 55,080	\$ 62,933	\$ 55,080	\$ 62,933

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

Notes to the Financial Statements

For the period ended September 30, 2019

(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 September 30, 2019					Year-end March 31, 2019		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Canadian Equity	8,032	-	411	8,443	2	7,881	8,027	2
Global Equity	133,739	-	9,691	143,430	41	132,268	138,221	41
Fixed income	86,005	-	2,214	88,219	26	84,105	84,802	25
Alternatives	20,630	-	10,778	31,408	9	20,630	30,936	9
Canadian Equity	34,433	-	3,373	37,806	11	32,181	35,319	11
Real estate	9,641	-	2,974	12,615	4	9,941	12,648	4
Infrastructure	15,414	186	6,406	21,634	6	14,485	25,276	7
Cash	3,912	-	-	3,912	1	3,870	3,870	1
	311,806	186	35,847	347,467	100	305,361	339,099	100
Killam Fund								
Pooled funds								
Canadian Equity	8,393	-	794	9,187	13	8,037	8,613	12
Global Equity	26,506	-	1,915	28,421	39	26,214	27,389	38
Fixed income	17,426	-	433	17,859	25	17,149	17,282	24
Alternatives	5,298	-	2,760	8,058	11	5,298	7,937	11
Real estate	2,564	-	816	3,380	4	2,648	3,386	5
Infrastructure	3,507	43	1,678	5,142	7	3,691	6,728	9
Cash	639	-	-	639	1	632	632	1
	64,333	43	8,396	72,686	100	63,669	71,967	100
Total investments	376,139	229	44,243	420,153		369,030	411,066	

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, 2019. 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 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 its 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, 2019 - 8%) of that Fund with a total fair value of \$27,832,000 (March 31, 2019 - \$27,162,000). The total fair value of the externally restricted investment including the Killam Fund is \$100,518,000 (March 31, 2019 - \$99,129,000).

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, in a segregated Canadian equity fund and in limited partnership units of four real estate funds and five 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.

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 categories	Year-to-date	Year-end
		September 30, 2019	March 31, 2019
		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	55,080	31,235
Accounts receivable	Amortized cost	2,720	3,146
Portfolio Investments ¹	Fair value	420,153	411,066
Grants, author payments and prizes payable	Amortized cost	102,259	68,081
Accounts payable and accrued liabilities	Amortized cost	2,385	5,072

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 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.

Asset Classes	Market Value	Minimum	Benchmark	Maximum
Canadian equities	13%	5%	12.5%	20%
Global equities	41%	35%	40%	45%
Fixed income	25%	15%	25%	35%
Alternatives	9%	0%	10%	15%
Real estate	4%	0%	5%	10%
Infrastructure	7%	0%	7.5%	10%
Money market/Cash	1%	0%	0%	10%

The amounts in the money market or cash asset class are for future investments or to fund capital calls on commitments already approved and signed.

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 (ACWI). 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 funds are measured against the returns of the FTSE Canada 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 Canada 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. The infrastructure funds include five portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index (CPI) plus 4.5%.

- 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. The Council uses the unaudited appraisals received from the fund managers for the quarter.
- 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. The Council uses the unaudited appraisals received from the fund managers for the quarter.

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, 2019				Year-end March 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	55,080	-	-	55,080	31,235	-	-	31,235
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Canadian Equity	-	8,443	-	8,443	-	8,027	-	8,027
Global Equity	-	143,430	-	143,430	-	138,221	-	138,221
Fixed Income	-	88,219	-	88,219	-	84,802	-	84,802
Alternatives	-	-	31,408	31,408	-	-	30,936	30,936
Canadian Equity	37,806	-	-	37,806	35,319	-	-	35,319
Real Estate	-	-	12,615	12,615	-	-	12,648	12,648
Infrastructure	-	-	21,634	21,634	-	-	25,276	25,276
Cash	3,912	-	-	3,912	3,870	-	-	3,870
Killam Fund								
Pooled Funds								
Canadian Equity	-	9,187	-	9,187	-	8,613	-	8,613
Global Equity	-	28,421	-	28,421	-	27,389	-	27,389
Fixed Income	-	17,859	-	17,859	-	17,282	-	17,282
Alternatives	-	-	8,058	8,058	-	-	7,937	7,937
Real Estate	-	-	3,380	3,380	-	-	3,386	3,386
Infrastructure	-	-	5,142	5,142	-	-	6,728	6,728
Cash	639	-	-	639	632	-	-	632
	42,357	295,559	82,237	420,153	39,821	284,334	86,911	411,066
Total	97,437	295,559	82,237	475,233	71,056	284,334	86,911	442,301

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).

(in thousands of dollars)	Year-to-date	Year-end
	September 30, 2019	March 31, 2019
Balance, beginning of period	\$ 55,736	\$ 51,665
Transferred from net investment income (Note 7)		
Net Investment income	3,162	3,363
Use of funds	(861)	(2,554)
	2,301	809
Unrealized gains on portfolio investments	3,715	3,076
Reclassified to statement of operations - portfolio investments	(3,508)	186
Balance at end of period	\$ 58,244	\$ 55,736

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

6. ACCUMULATED SURPLUS

(in thousands of dollars)	Year-to-date	Year-end
	September 30, 2019	March 31, 2019
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	190,445	186,445
Appropriated from the accumulated surplus during the period	-	4,000
Balance at end of period	190,445	190,445
Surplus		
Balance at beginning of period	26,376	29,675
Appropriated to the reserve for excess investment income during the period	-	(4,000)
(Deficit) surplus for the period	(5,492)	701
Balance at end of period	20,884	26,376
Total accumulated surplus from operations	298,898	304,390
Accumulated remeasurement gains		
Balance at beginning of period	30,731	20,565
Change in fair value	1,769	10,166
Balance at end of period	32,500	30,731
Balance of accumulated surplus at end of period	\$ 331,398	\$ 335,121

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
Gains (losses) from disposal of portfolio investments	\$ 1,480	\$ (887)	\$ 7,514	\$ 365
Income transferred from (to) deferred revenues -				
Externally restricted contributions (Note 5)	(441)	192	(2,301)	(932)
Net gains (losses) on foreign exchange	14	(11)	291	4
Interest, dividend and other distributed income	2,143	1,768	5,802	7,658
Investment portfolio management costs	(458)	(220)	(731)	(444)
	\$ 2,738	\$ 842	\$ 10,575	\$ 6,651

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
Rental revenue	\$ 419	\$ 376	\$ 773	\$ 751
Other income	32	72	85	106
Administration expense	(427)	(374)	(912)	(885)
Amortization of other capital assets	(2)	(2)	(5)	(5)
	\$ 22	\$ 72	\$ (59)	\$ (33)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
Program - contributions received	\$ 150	\$ 100	\$ 400	\$ 102
Program expenses	(241)	(170)	(662)	(515)
Administration expense	(379)	(322)	(771)	(671)
	\$ (470)	\$ (392)	\$ (1,033)	\$ (1,084)

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
(Increase) decrease in accounts receivable	\$ (110)	\$ (87)	\$ 426	\$ 566
(Decrease) increase in grants, author payments and prizes payable	(45,846)	(45,071)	34,178	19,750
(Decrease) increase in accounts payable and accrued liabilities	(93)	942	(2,687)	(1,220)
(Decrease) increase in deferred revenues	(1,942)	(273)	2,183	(295)
Net change	\$ (47,991)	\$ (44,489)	\$ 34,100	\$ 18,801

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.