

Annual Report

Canada Council for the Arts

2008/09

Financial Statements



Jana Sasaki, "*Tabi*" and "*Socks*" (diptych), 2009, etching, one of 55 purchases by the Canada Council Art Bank from culturally-diverse artists. Photo: courtesy the artist

Management's Responsibility For Financial Reporting

The accompanying financial statements of the Canada Council for the Arts and all the information in this annual report are the responsibility of Management and have been approved by the Board.

The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances. The financial statements include amounts based on Management's best estimates as determined through experience and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

The Canada Council for the Arts maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the organization's assets are appropriately accounted for and safeguarded.

The Board is responsible for the management of the business and activities of the Canada Council for the Arts. In particular, they are responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. They exercise this responsibility through the Audit and Finance Committee, which is composed of members who are not employees of the Canada Council for the Arts. The Audit and Finance Committee meets with Management, the internal auditors and the Auditor General of Canada on a regular basis. The Committee reports its findings to the Board for consideration when approving the financial statements.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements of the Canada Council for the Arts, and for issuing her report thereon.

May 29, 2009



Robert Sirman, Director and CEO



William Stevenson, CA
Director, Finance and Administration



AUDITOR'S REPORT

To the Canada Council for the Arts
and the Minister of Canadian Heritage and Official Languages

I have audited the balance sheet of the Canada Council for the Arts as at March 31, 2009 and the statements of operations, comprehensive income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Council that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the applicable provisions of Part X of the *Financial Administration Act*, the *Canada Council for the Arts Act* and the by-laws of the Council.

Sylvain Ricard, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 29, 2009

Balance Sheet

as at March 31

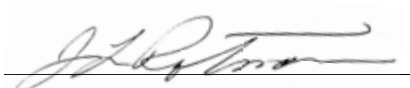
(in thousands of dollars)	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,829	\$ 17,812
Accounts receivable	1,296	1,419
Prepaid expenses	605	530
Derivatives (Note 7)	10	134
	11,740	19,895
Investments (Note 8)	229,073	313,161
Works of art and musical instruments (Note 9)	20,165	20,118
Other capital assets (Note 10)	3,071	3,459
Total assets	\$ 264,049	\$ 356,633
LIABILITIES		
Current liabilities		
Grants payable	\$ 30,387	\$ 34,576
Accounts payable and accrued liabilities	3,227	2,938
Derivatives (Note 7)	96	5,506
Deferred parliamentary appropriations	43	171
	33,753	43,191
Deferred revenues	2,792	2,957
Employee future benefits (Note 11)	2,124	1,945
Total liabilities	38,669	48,093
EQUITY		
Contributed surplus (Note 12)	50,000	50,000
Retained earnings	13,317	13,796
Accumulated other comprehensive income (Note 13)	(24,847)	55,881
	(11,530)	69,677
Reserve from the capitalization of investment income	166,745	168,745
Reserve for investment in works of art and musical instruments	20,165	20,118
	186,910	188,863
Total equity	225,380	308,540
Total liabilities and equity	\$ 264,049	\$ 356,633

Contractual obligations and commitments (Note 17)

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

On behalf of the Board:

Chair



Vice-Chair



Statement of Operations

for the year ended March 31

(in thousands of dollars)	2009	2008
REVENUE		
Net investment income (Note 14)	\$ 5,398	\$ 19,991
Net Art Bank revenue (Note 15)	395	206
Other revenues	2,457	2,484
Total revenue	8,250	22,681
EXPENSES		
Programs		
Grants (Schedule 1)	158,186	164,632
Administration (Schedule 2)	12,398	10,668
Services	5,404	4,600
	175,988	179,900
Canadian Commission for UNESCO (Note 15)	2,521	1,614
General administration (Schedule 2)	14,403	13,997
Total expenses	192,912	195,511
Net cost of operations before parliamentary appropriation	184,662	172,830
Parliamentary appropriation	182,242	182,507
Net results for the year	\$ (2,420)	\$ 9,677

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

Statement of Comprehensive Income

for the year ended March 31

(in thousands of dollars)	2009	2008
Net results for the year	\$ (2,420)	\$ 9,677
Other comprehensive income (loss)		
Available-for-sale financial assets		
Unrealized losses on unrestricted available-for-sale financial assets during the year	(58,167)	(40,065)
Reclassification to the statement of operations of realized losses (gains) in the year	811	(373)
Net change in unrealized losses in available-for-sale financial assets	(57,356)	(40,438)
Restricted contributions from non-owners		
Unrealized losses on contributions from non-owners during the year	(21,242)	(14,536)
Reclassification to the statement of operations of realized losses in the year	401	221
Donations from non-owners received during the year	-	1,137
Net investment income attributed to non-owners	537	4,884
Use of funds attributed to non-owners	(3,068)	(3,207)
Net change in unrealized losses in contributions from non-owners	(23,372)	(11,501)
Comprehensive loss for the year	\$ (83,148)	\$ (42,262)

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

Statement of Changes in Equity
for the year ended March 31

(in thousands of dollars)	2009	2008
EQUITY		
Contributed surplus (Note 12)	\$ 50,000	\$ 50,000
Retained earnings		
Balance at beginning of the year	13,796	15,517
Net results for the year	(2,420)	9,677
Appropriated from (to) the reserve from the capitalization of investment income during the year	2,000	(11,000)
Appropriated to the reserve for the investment in works of art and musical instruments during the year	(59)	(398)
Balance at end of the year	13,317	13,796
Accumulated other comprehensive income (Note 13)		
Net unrealized gains (losses) from available-for-sale financial assets		
Balance at beginning of the year	(19,734)	20,704
Other comprehensive loss for the year	(57,356)	(40,438)
Balance at end of the year	(77,090)	(19,734)
Restricted contributions from non-owners		
Balance at beginning of the year	75,615	87,116
Other comprehensive loss for the year	(23,372)	(11,501)
Balance at end of the year	52,243	75,615
Total accumulated other comprehensive income	(24,847)	55,881
Total retained earnings and accumulated other comprehensive income	(11,530)	69,677
Reserves		
Reserve from the capitalization of investment income		
Balance at beginning of the year	168,745	157,745
Appropriated (to) from retained earnings during the year	(2,000)	11,000
Balance at end of the year	166,745	168,745
Reserve for the investment in works of art and musical instruments		
Balance at beginning of year	20,118	19,747
Net disposals during the year	(12)	(27)
Appropriated from retained earnings during the year	59	398
Balance at end of the year	20,165	20,118
Total reserves	186,910	188,863
Balance of equity at end of the year	\$ 225,380	\$ 308,540

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

Statement of Cash Flows

for the year ended March 31

(in thousands of dollars)	2009	2008
OPERATING ACTIVITIES		
Net results for the year	\$ (2,420)	\$ 9,677
Items not affecting cash and cash equivalents		
Income on contributions from non-owners capitalized	(2,531)	1,677
Amortization – other capital assets	899	866
Amortization – other capital assets – Art Bank	149	134
Employee future benefits	179	211
	(3,724)	12,565
Change in non-cash operating assets and liabilities (Note 16)	(9,431)	(516)
Cash (used by) provided by operating activities	(13,155)	12,049
FINANCING ACTIVITIES		
Contributions received from non-owners	-	1,137
INVESTING ACTIVITIES		
Purchases of investments	(55,664)	(47,416)
Sales/maturities of investments	61,555	23,623
Acquisition of other capital assets, works of art and musical instruments	(719)	(1,128)
Cash provided by (used for) investing activities	5,172	(24,921)
Decrease in cash and cash equivalents	(7,983)	(11,735)
Cash and cash equivalents at beginning of the year	17,812	29,547
Cash and cash equivalents at the end of the year	\$ 9,829	\$ 17,812
Represented by:		
Cash equivalents (Note 6)	\$ 12,203	\$ 21,245
Bank overdraft	(2,374)	(3,433)
	\$ 9,829	\$ 17,812

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

Notes to Financial Statements

March 31, 2009

1. Authority, Operations and Objectives

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 are detailed in Schedule 2 and represent the direct costs of program delivery. Program services expenses mainly represent the costs associated with the adjudication of the Council's grants. General administration costs represent the costs related to corporate management, communications, human resources, information management, finance, accommodation and amortization.

The *Canada Council for the Arts Act* assigns the Council with the functions and duties for the Canadian Commission for UNESCO (the "Commission"). The Commission advises the Government of Canada on its relations with the United Nations Educational, Scientific and Cultural Organization (UNESCO). The Commission also fosters co-operation between Canadian organizations in civil society and UNESCO.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). On April 1, 2008, the Council adopted the new standards for capital disclosures and financial instruments outlined in Note 3. The significant accounting policies of the Council are:

(a) Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires the Council to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the year.

Employee-related liabilities, accrued investment income, the estimated useful lives of capital assets and the fair value of financial instruments are the most significant items where estimates are used. Actual results could differ from those estimated.

(b) Financial instruments

All financial instruments are initially measured at fair value. The following table identifies the Council's financial assets and liabilities and identifies how they are classified and subsequently measured.

Financial asset or liability	Basis of classification	Measurement
Cash and cash equivalents	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Investments	Available-for-sale	Fair value
Derivatives	Held-for-trading	Fair value
Grants payable	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

(c) Cash equivalents

Cash equivalents represent short-term, highly liquid investments that are readily convertible into known amounts of cash and that are subject to an insignificant risk of changes in value. Cash equivalents on the Council's balance sheet comprise units in a short-term pooled fund. Distributed income is recorded on an accrual basis and is recognized in the statement of operations under net investment income in the year in which it is earned.

(d) Derivatives

The Council does not apply hedge accounting to its derivatives. Derivatives are recognized at fair value on the balance sheet. Derivatives with a positive (negative) fair value are reported as assets (liabilities). All changes in the fair value of derivatives are recognized on the statement of operations under net investment income in the year in which they occur.

(e) Investments

Changes in the fair value of investments are recognized directly in other comprehensive income until the investment is derecognized, or until a loss is considered to be other than temporary, at which time the cumulative gain or loss previously recognized in accumulated other comprehensive income is recognized in net investment income on an average cost basis for the year. The investments may be sold in response to changes in the Council's liquidity requirements and to rebalance the asset mix to benchmarks stipulated in the Council's investment policy. Purchases of investments are recorded on the

settlement date. All investment revenues are recorded in the statement of operations under net investment income. All management fees paid are expensed in the year.

(f) Other capital assets, works of art and musical instruments

Equipment and leasehold improvements are carried at cost less the accumulated amortization. Amortization is calculated using the straight-line method, over the estimated useful lives of the assets as follows:

Office equipment	5 years
Leasehold improvements	remaining term of the lease

Purchased works of art and musical instruments are capitalized at cost. Donated works of art and musical instruments are recorded at their fair value. No amortization is recorded on these assets.

(g) Employee future benefits

(i) Severance benefits

Employees are entitled to severance benefits, as provided for under conditions of employment and the collective agreement. The cost of these benefits is accrued as the employees render the services necessary to earn them. The liability is calculated based on management's best estimates and assumptions, on the employee's salary and number of years of service as at March 31. For employees who have attained the age of 50, with one year or more of continuous service, one week's salary is calculated for each completed year of continuous service up to a maximum of 28 weeks. For employees who have not attained the age of 50, with one or more years of service, one-half of one week's salary is calculated for each completed year of continuous service up to a maximum of 26 weeks. Term employees who have 12 consecutive months of continuous service are entitled to either two days pay for each completed year of continuous service or five days pay, whichever is greater. These benefits represent the only employment obligation of the Council that entails settlement by future payment.

(ii) Pension benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Council's contribution to the plan reflects the full cost as employer. The amount is currently based on a multiple of the employee's required contributions and may change over time depending on the experience of the Plan. These contributions are expensed during the year in which the services are rendered and represent the total pension

obligations of the Council. The Council is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

(h) Reserves

(i) Reserve from the capitalization of investment income

This reserve represents the sum of excess investment income since the establishment of the Council in 1957. In years when net investment income exceeds the amount of net budgeted investment income, an amount may be transferred from the retained earnings to the reserve from the capitalization of investment income. In years when net investment income is less than the amount of net budgeted investment income, an amount may be transferred to the retained earnings from the reserve from the capitalization of investment income. These transfers are approved by the Board.

(ii) Reserve for investment in works of art and musical instruments

This reserve represents a transfer from retained earnings to the reserve of an amount equal to the cost of works of art or musical instruments purchased or the appraised value of works of art or musical instruments donated during the year.

(i) Revenue recognition

(i) Parliamentary appropriation

Parliamentary appropriation is recognized as revenue in the year for which it is approved by Parliament. Parliamentary appropriations for specific projects are deferred and recognized on the statement of operations in the year in which the related expenses are incurred. The parliamentary appropriation is mainly used for operations.

(ii) Contributions

The Council receives non-owner contributions that are externally restricted for specific purposes by the donors.

Externally restricted non-owner contributions, including realized and unrealized gains and losses for the associated externally restricted investment income, are recognized in other comprehensive income. The accumulated income from restricted non-owner contributions is reduced and recognized in the statement of operations under net investment income once the related expenses are incurred.

Unrestricted non-owner contributions are recognized as other revenue in the year received or in the year the funds are committed to the Council if the amount can be reasonably estimated and collection is reasonably assured.

In-kind contributions are recorded at their fair value when they are received.

(iii) Art Bank rental revenues

Revenues generated from the rental of works of art are recognized in the year in which services are provided. They are included in net Art Bank revenue.

(iv) Other revenues

Other revenues consist mainly of the cancellation in the current year of grants approved in previous years.

(j) Grants

Grants are recorded as an expense in the year for which they are approved by the Board.

(k) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expense items are translated at average exchange rates prevailing throughout the year. All exchange gains and losses are included in determining the net results for the year except for available-for-sale investments where unrealized translation gains and losses are recorded in other comprehensive income until the asset is sold or becomes impaired.

(l) Operating leases

The Council enters into operating leases for its office accommodation. The lease inducements are recorded as a reduction to the office accommodation expense on a straight-line basis over the term of the lease.

(m) Future accounting changes

On February 13, 2008, the Canadian Accounting Standards Board confirmed that the transition to International Financial Reporting Standards (IFRS) from Canadian GAAP will occur on January 1, 2011 for publicly accountable entities. Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change over date. The Council has completed an initial analysis identifying differences between IFRS and Canadian GAAP. The Council is continuing to assess the impact of IFRS on its financial reporting. The impact cannot be reasonably estimated at this time.

3. Adoption of New Accounting Policies

On April 1, 2008, the Council adopted new disclosure and presentation standards in accordance with CICA Handbook; Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the Council's objectives, policies and processes for managing capital. Refer to note 4 for the Council's Capital Disclosures.

Sections 3862 and 3863 replace Section 3861, *Financial Instruments – Disclosure and Presentation* by revising and enhancing disclosure requirements for financial instruments while leaving presentation requirements unchanged. They also place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Council manages those risks. Refer to note 5 for the Council's financial instruments disclosures.

4. Capital Management

The Council's capital consists of Restricted contributions from non-owners, Contributed Surplus (see Note 12), a Reserve from the capitalization of investment income (see Note 2(h)i), a Reserve for investment in works of art and musical instruments (see Note 2(h)ii) and Retained Earnings.

The Council's objective when managing capital is to safeguard the Council's ability to continue its mandate (as described in Note 1). In order to meet its capital management objectives, the Council invests in a diversified portfolio.

Restricted contributions from non-owners

The contributions from non-owners consist of contributions received by way of bequest and donation that have been restricted for specific purposes by the donors, the proportionate share of unrealized and/or recognized gains or losses on the associated investments and unspent restricted income earned on the associated investments.

The original contribution principal from non-owners received up to March 31, 2009 is \$37,471,000 (2008 - \$37,471,000). Each contribution received is included with the Council's investment portfolio and a proportionate share of that contribution is calculated based upon the fair value of the investment portfolio at the time it was received. The Council manages the contributions as stipulated in the trust documents. The Council has complied with the requirements of these external contributions.

5. Financial Instruments

(a) Summary of financial instruments

At March 31, 2009, the classification of the Council's financial instruments, as well as their carrying amounts and fair values are as follows:

Financial assets and liabilities	Classification	2009	2008
		Carrying Amount and Fair Value (\$)	Carrying Amount and Fair Value (\$)
Cash and cash equivalents ¹	Held for trading	9,829	17,812
Accounts receivable ¹	Loans and receivables	1,296	1,419
Derivatives ²	Held for trading	(86)	(5,372)
Investments ³	Available for sale	229,073	313,161
Grants payable ¹	Other liabilities	30,387	34,576
Accounts payable and accrued liabilities ¹	Other liabilities	3,227	2,938

¹ The carrying amounts of these financial instruments approximate their fair value because of their short-term maturity.

² Fair value for the derivatives is calculated using supportable observable market rates including the current market spot and the forward exchange rates at year end (see Note 7).

³ 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.

Real estate investment values are supplied by the managers using independently audited appraisals obtained annually.

Infrastructure investment values are supplied by the managers using internally audited appraisals which are reviewed annually by the Fund's auditors as part of the annual fiscal year end audit of the fund.

The detailed fair value for investments is listed in Note 8.

(b) Risk management

The Council is exposed to a variety of financial risks as a result of its activities. These risks include credit risk, liquidity risk and market risk (price risk, interest rate risk and currency risk). The long term goal of the Council's investment policy is to produce long term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital. This policy allows the use of certain derivative financial instruments.

In order to manage risk, the Council invests in a diversified portfolio that is managed by professional investment managers. The Council's investments are guided by a *Statement of Investment Policies and Goals* which is approved by the Board and reviewed on an annual basis. The Council is assisted in the oversight and management of its portfolio by an Investment

Committee composed of independent experts with experience in both the investment field and the asset classes being invested in. In addition, the Council uses the services of an independent investment consultant to assist the investment Committee in its work. As the investment markets continue to evolve, the Investment Committee recommends adjustments to the asset mix to minimize the overall risk of the portfolio.

(i) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Council.

At balance sheet date financial assets exposed to credit risk include investments, accounts receivable and derivatives. The carrying amounts of these financial assets represent the maximum credit risk exposure at the balance sheet date.

Through its investments in units of equity, fixed income and alternative pooled funds and in limited partnership units of four real estate funds and an infrastructure fund, the Council is indirectly exposed to the credit risk of the underlying investments of those funds. These risks are managed at the investment manager level. Their objectives are to invest in high quality financial instruments with creditworthy counterparties, by limiting the amount that can be invested in any one counterparty and by using other limits set out in the Council's investment policy.

The majority of the Council's accounts receivables are due from the Government of Canada and, as such, have low credit risk. The Council mitigates credit risk through monitoring of the outstanding balances. As at March 31, 2009, there were no significant amounts past due.

The credit risk on derivatives is managed by contracting only with creditworthy counterparties that must satisfy two out of the three following ratings from external credit rating agencies: A3 for Moody's, A- for Standard & Poor's or A- for Fitch/IBCA.

(ii) Liquidity Risk

Liquidity risk is the risk that the Council will not be able to meet its financial obligations as they fall due.

The Council receives most of its revenue by way of parliamentary appropriation from the Government of Canada. That revenue is temporarily invested in the short-term pooled fund until it is required. Also, if needed, the Council can withdraw from its investment portfolio up to 4.5% of the previous three-year average market value using balances at September 30.

The objectives of the Council with respect to the management of liquidity is to ensure that the capital value of its

short-term pooled funds is preserved, that the investments are sufficiently liquid and that investment income is distributed in cash when possible.

The liquidity available from the short-term funds and investments ensures that the Council is able to meet its obligations and commitments. The majority of the investment portfolio can be redeemed within three days. As well, the permitted and prohibited investments are governed by Board-approved short-term and long-term investment policies which ensure that the liquidity risk is minimized.

See note 17 for the contractual obligations and commitments of the Council as at March 31, 2009.

(iii) Market Risks

The Council's activities are primarily exposed to price risk, interest rate risk and currency risk.

The investment managers' directives are to manage the Council's market risks on a daily basis in accordance with the Council's policies. The Council's overall market positions are monitored on a quarterly basis by the Board of Directors and the Investment Committee.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

The Council is exposed to market price risk arising from its investments in units of equity and alternative pooled funds and in limited partnership units of four real estate funds and an infrastructure fund.

Price sensitivity

The following details the Council's portfolio sensitivity to a 10.1% increase or decrease in the market prices, with 10.1% being the sensitivity rate used when reporting price risk internally to key management personnel and representing management's assessment of a reasonably possible change in market prices. The sensitivity rate is determined using the historical standard deviation for the total fund as determined by the investment advisor.

At 31 March 2009, if market prices had a 10.1% increase or decrease with all other variables held constant, the increase or decrease in accumulated other comprehensive income for the year would have been \$24,046,000 due to the increase or decrease in the fair value of available for sale financial assets.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The interest rate exposure of the Council arises from its interest bearing assets. The Council's cash includes amounts on deposit with a financial institution that earns interest at market rates. The objective of the Council is to manage its exposure to the interest rate risk of its cash by maximizing the interest income earned on excess funds while maintaining the minimum liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest on cash do not have a significant impact on the Council's results of operations.

The Council's investments in short-term pooled funds, fixed income pooled fund and alternative pooled funds are indirectly affected by movements in their fair value as a result of fluctuations in market interest rates. The impact of the fluctuation cannot be assessed since Council holds units of pooled funds and not the underlying assets.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

At the balance sheet date, the Council's only monetary financial instruments exposed to foreign currency were the derivatives at \$10,000 (2008 - \$134,000) and a balance of \$136,000 USD (2008 - \$38,000 USD) in cash in investments. Given the small size of the foreign currency exposure compared with the total assets of the Council, currency risk is not considered material.

6. Cash Equivalents

The Council invests in a short-term pooled fund managed by TD Asset Management Inc. This fund invests primarily in debt instruments issued or guaranteed by the Government of Canada.

The pooled fund is the temporary investment of the Council's excess daily cash requirements which had a balance of \$8,199,000 (2008 - \$17,585,000). For the year ended March 31, 2009, this fund earned a return of 2.4% (2008 - 4.8% with State Street Global Advisors) and the underlying investments had an average weighted term to maturity of 51 days (2008 - 53 days with State Street Global Advisors).

7. Derivatives

Use of derivatives has been limited to foreign currency forward contracts. The Council currently uses foreign currency forward

contracts that represent commitments to purchase or sell foreign currencies for delivery at a specific date in the future at a fixed rate to manage its foreign currency exchange risk. These contracts are typically for a one-month period.

During the year, the Council entered into foreign currency forward contracts to manage half of its exposure to foreign currency exchange risk on the non Canadian dollar denominated portion of its investments portfolio, except for the emerging market component which was unhedged and represented approximately 3.2% of the investment portfolio.

Foreign currency forward contracts have notional amounts that serve as points of reference for calculating payments and are not the actual amounts that are exchanged. These amounts are not recorded on the balance sheet, as they do not represent their fair value. At March 31, 2009, the Council held foreign currency forward contracts, for settlement May 5, 2009, with a total notional amount of \$62.6 million (2008 – \$84.4 million).

Currency	Forward rate	Notional Amount ¹
US Dollar	0.795	\$ 35,399,000
Euro	0.599	11,918,000
Japanese Yen	78.493	6,432,000
United Kingdom Pound sterling	0.555	4,981,000
Others	2.355	3,847,000

¹ The notional amount represents 50% of the Council's exposure to those currencies as per its hedging strategy.

The fair value of outstanding foreign exchange forward contracts represents an asset of \$10,000 (2008 – \$134,000) and reflects the potential gain if settlement were to take place on March 31, 2009. The derivatives liability consists of an unrealized loss of \$96,000 (2008 – \$5,506,000) on foreign currency forward contracts that matured on March 31, 2009, but only settled on April 2, 2009. The net investment income includes a net foreign currency loss for the year of \$5,471,000 (2008 – \$498,000).

8. Investments

(in thousands of dollars)

	2009					2008		
	Cost	Unrealized losses	Unrealized gains	Fair Value	%	Cost	Fair Value	%
Canada Council Endowment and Special Funds								
Pooled funds								
Equity	\$ 164,882	\$ 79,483	\$ -	\$ 85,399	46.8	\$ 164,125	\$ 144,427	57.9
Fixed income	52,180	2,371	-	49,809	27.3	57,398	55,745	22.4
Alternatives	26,622	699	89	26,012	14.3	26,622	26,461	10.6
Money market	8,946	-	-	8,946	4.9	16,820	16,820	6.8
Real estate	10,311	2,094	768	8,985	4.9	4,094	4,094	1.6
Infrastructure	3,257	-	72	3,329	1.8	1,793	1,793	0.7
	266,198	84,647	929	182,480	100.0	270,852	249,340	100.0
Killam Funds								
Pooled funds								
Equity	44,228	22,156	-	22,072	47.4	44,075	37,301	58.5
Fixed income	13,182	615	-	12,567	27.0	14,750	14,307	22.4
Alternatives	6,831	178	23	6,676	14.3	6,831	6,787	10.6
Money market	1,942	-	-	1,942	4.2	3,832	3,832	6.0
Real estate	2,647	539	192	2,300	4.9	1,036	1,036	1.6
Infrastructure	1,013	-	23	1,036	2.2	558	558	0.9
	69,843	23,488	238	46,593	100.0	71,082	63,821	100.0
Total investments	\$ 336,041	\$ 108,135	\$ 1,167	\$ 229,073		\$ 341,934	\$ 313,161	

Unrealized losses on investments are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle for some investments. The Council does not consider these investments to be other-than-temporarily impaired as at March 31, 2009.

The long-term objectives of the Canada Council Endowment and Special Funds and the Killam Funds 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 four real estate funds and an infrastructure fund. The permitted and prohibited investments as well as the asset mix are governed by a Board approved investment policy. All of the investments are managed by professional investment managers.

The Council manages its portfolio to the following benchmarks adopted by the Board in March 2008. The benchmarks allow asset class allocations to vary between a minimum and a maximum.

Asset Classes	Actual Market Value	Minimum	Benchmark	Maximum
Equities	46.9%	50%	61%	70%
Fixed income	27.2%	10%	20%	25%
Alternatives	14.3%	5%	10%	15%
Real Estate	4.9%	0%	4%	6%
Infrastructure	1.9%	0%	5%	7%
Money market	4.8%	0%	0%	15%

The non-compliance with the asset class allocation ranges is due to the poor performance of the equity funds. The Council's Statement of Investment Policies and Goals allows for a grace period of six months for the rebalancing of the asset classes to the benchmark. Due to the impact that the economic downturn has had on the fair value of the investments, the Council has decided not to rebalance the asset classes at this time.

Money market includes short-term pooled funds used for capital committed to future investment in limited partnership units of real estate and infrastructure funds. This fund had a balance of \$10,888,000 (2008 - \$20,652,000). For the year ended March 31, 2009, this fund earned a return of 2.4% (2008 - 3.3% with State Street Global Advisors) and the underlying investments had an average weighted term to maturity of 51 days (2008 - 53 days with State Street Global Advisors).

Investments in the equity pooled funds are comprised of units of two pooled funds. These funds are invested in the global equity markets. The global equities are measured against the returns of the Morgan Stanley Capital International World Hedge Index. Investments in the fixed income pooled fund are comprised of Canadian Government and corporate bonds with a minimum credit quality of BBB or equivalent rated by a recognized bond

rating agency. The fixed income fund is intended to replicate the returns of the DEX Universe Bond Index. Investments in the alternative pooled funds are comprised of units of two hedge funds with diversified positions across global asset classes. These investments are measured against the returns of the Scotia Capital 91-day T-bill plus 20%. The assets included in real estate funds are commercial real estate properties in Canada and the United States. 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 fund includes a portfolio of diversified infrastructure investments. These investments are measured against the Consumer Price Index plus 4.5%.

9. Works of Art and Musical Instruments

(in thousands of dollars)	2009	2008
Works of Art	\$ 18,617	\$ 18,570
Musical Instruments	1,548	1,548
	\$ 20,165	\$ 20,118

The Council's Art Bank has the largest number of contemporary Canadian works of art in Canada. It includes about 17,300 paintings, sculptures, drawings, photographs and prints by over 3,025 artists. The Art Bank rents art works to interested parties and presently has about 6,400 (2008 - 6,700) works on rental to federal government departments and agencies, associations, hospitals, schools, municipalities and private corporations.

The Council created the Musical Instrument Bank in 1985, and it presently owns a fine cello bow and five quality musical instruments. In addition, the Council manages eight instruments on loan, seven from an anonymous donor and one from another donor until August 2009.

Agreements are signed with the organizations that rent the works of art and with the individuals to whom the instruments are loaned. Those agreements include clauses that stipulate how the works of art or musical instruments are to be handled in order to safeguard them. The Council insures the works of art and the musical instruments for their fair value.

10. Other Capital Assets

(in thousands of dollars)	2009		2008	
	Cost	Accumulated amortization	Net Book Value	Net Book Value
Office equipment	\$ 6,048	\$ 5,042	\$ 1,006	\$ 925
Leasehold improvements	5,340	3,275	2,065	2,534
	\$ 11,388	\$ 8,317	\$ 3,071	\$ 3,459

11. Employee Future Benefits

i) Severance benefits

The Council provides severance benefits to its employees based on years of service and final salary. These benefits are not pre-funded and thus have no assets, resulting in a deficit equal to the accrued benefit obligation. Benefits will be paid from future appropriations or other sources of revenue. Information about the benefits, measured as at March 31, is as follows:

(in thousands of dollars)	2009	2008
Accrued benefit obligation, beginning of year	\$ 1,945	\$ 1,734
Cost for the year	290	309
Benefits paid during the year	(111)	(98)
Accrued benefit obligation, end of year	\$ 2,124	\$ 1,945

ii) Pension benefits

The Council and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Council's and employees' contributions to the Public Service Pension Plan for the year were as follows:

(in thousands of dollars)	2009	2008
Employer's contributions	\$ 1,882	\$ 1,730
Employees' contributions	924	795

12. Contributed Surplus

Contributed surplus represents the original contribution by the Government of Canada of \$50 million, which constituted an Endowment Fund when the Council was established in 1957.

13. Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of unrealized gains or losses on available-for-sale investments and restricted contributions from non-owners.

The restricted contributions from non-owners are included with the Council's investment portfolio, and a proportionate share for each contribution is calculated based upon the fair value of the investment portfolio at the time the contribution was received. The proportionate share for each restricted contribution of the unrealized gains or losses from the revaluation to fair value of the Council's investment portfolio as at March 31, net of the reclassifications to income of realized gains or losses in the year, is recognized in other comprehensive income as non-owner contributions.

14. Net Investment Income

(in thousands of dollars)	2009	2008
Losses from disposal of financial assets classified as available for sale	\$ (977)	\$ (445)
Gains (losses) on foreign currency from disposal of financial assets classified as available for sale	16	(5)
Net foreign currency loss on financial assets and liabilities classified as held for trading	(5,471)	(498)
Interest and dividend income from financial assets classified as available for sale	10,847	24,393
Interest income from financial assets designated as held for trading	40	67
Loss (Income) attributable to contributions from non-owners	2,531	(1,677)
Investment portfolio management costs	(1,588)	(1,844)
	\$ 5,398	\$ 19,991

The financial markets in which the Council invests are quite diversified, and investment income can fluctuate year over year. In years where investment income exceeds expectations, the Council reinvests excess income in order to maintain the purchasing power of the fund and to ensure its continued growth. This approach brings stability and long-term growth, so that, in years where income is not as favourable, previous years' income represented by reserve from the capitalization of investment income, a component of equity, can be utilized.

15. Net Art Bank Revenue and Canadian Commission for UNESCO

(in thousands of dollars)	2009	2008
Net Art Bank Revenue		
Rental revenue	\$ 2,142	\$ 1,961
Other income	178	222
Administration	(1,776)	(1,843)
Amortization	(149)	(134)
Net Art Bank Revenue	\$ 395	\$ 206
Canadian Commission for UNESCO		
Program expenses	\$ 1,284	\$ 423
Program – contributions received	(238)	(117)
Administration	1,475	1,308
	\$ 2,521	\$ 1,614

Program expenses represent mainly the costs associated with the Commission's activities at international meetings related to education, science and culture. These costs are offset by contributions received from other organizations partnering with the Commission on these activities. Administration expenses represent the direct costs of delivering the Commission's programs.

16. Change in Non-cash Operating Assets and Liabilities

(in thousands of dollars)	2009	2008
Decrease in accrued investment income	\$ -	\$ 1,125
Decrease (increase) in accounts receivable	123	(127)
Decrease (increase) in derivatives - assets	124	(134)
Increase in prepaid expenses	(75)	(304)
Decrease in grants payable	(4,189)	(5,816)
Increase in accounts payable and accrued liabilities	289	48
(Decrease) increase in derivatives - liabilities	(5,410)	5,506
Decrease in deferred revenues	(165)	(89)
Decrease in deferred parliamentary appropriations	(128)	(725)
Net cash used by non-cash operating assets and liabilities	\$ (9,431)	\$ (516)

17. Contractual Obligations and Commitments

- (a) Payments of grants extending into future years are subject to the provision of funds by Parliament. Future year grants commitments approved prior to March 31, 2009 are as follows:

(in thousands of dollars)	
2010	\$ 85,002
2011	24,901

- (b) The Council is party to long-term operating leases with respect to rental accommodation. The net minimum annual rental is as follows:

(in thousands of dollars)	
2010	\$ 4,383
2011	4,403
2012	4,403
2013	4,403
2014	3,440
2015 – 2020	2,211
Total	\$ 23,243

18. 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. During the year, the Council incurred grant expenses totaling \$130,000 (2008 – \$246,500) and recorded rental revenues of works of art, contributions and other revenues totaling \$2,132,000 (2008 - \$1,948,000) with related parties.

As at March 31, the Council recorded the following amounts on the balance sheet for transactions with related parties:

(in thousands of dollars)	2009	2008
Accounts receivable	\$ 684	\$ 791
Grants payable	110	197
Accounts payable and accrued liabilities	41	168
Deferred revenues	850	879

19. Comparative Figures

Certain 2008 figures have been reclassified to conform to the presentation adopted in 2009.

Schedule 1 – Grant Expenses by Section
for the year ended March 31

(in thousands of dollars)	2009	2008
Arts Programs		
Music	\$ 29,633	\$ 27,402
Theatre	26,852	24,041
Writing and Publishing	23,750	21,864
Visual Arts	21,054	18,917
Dance	18,766	16,405
Media Arts	14,244	13,273
Public Lending Right Commission	9,954	9,159
Inter-Arts	3,187	2,247
Audience and Market Development	1,997	2,034
Alberta Creative Development Initiative	1,907	1,867
Equity	1,683	1,875
Aboriginal Arts	894	1,309
Other	1,699	1,511
Supplementary Operating Funds Initiative	-	20,000
Killam Program		
Killam Research Fellowships	1,330	1,433
Killam Prizes	500	500
Other Prizes and Awards		
Commission internationale du théâtre francophone	125	96
Victor Martyn Lynch-Staunton Awards	105	105
Molson Prizes	100	100
John G. Diefenbaker Award	75	75
Vida Peene Award	51	79
Walter Carsen Prize	50	50
Other prizes and awards < \$50,000	230	290
	\$ 158,186	\$ 164,632

Schedule 2 – Administration Expenses
for the year ended March 31

(in thousands of dollars)	2009			2008
	Programs	General Administration	Total	Total
Salaries	\$ 8,665	\$ 5,230	\$ 13,895	\$ 12,552
Employee benefits	2,308	1,486	3,794	3,508
Office accommodation	33	3,386	3,419	3,268
Professional and special services	371	1,376	1,747	1,493
Staff travel	703	304	1,007	948
Amortization	-	899	899	866
Printing, publications and duplicating	80	537	617	713
Communications	155	299	454	495
Information management	-	370	370	262
Office expenses and equipment	2	298	300	229
Meeting expenses including members' honoraria	76	191	267	302
Miscellaneous	5	27	32	29
	\$ 12,398	\$ 14,403	\$ 26,801	\$ 24,665

