

Financial Report

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FINANCIAL OVERVIEW

HIGHLIGHTS

The Canada Council's parliamentary appropriation of \$155.6 million increased \$1.9 million over the preceding year. Grants to individuals and arts organizations, including Killam and other prizes, and Public Lending Right payments, decreased \$5.3 million to \$137.0 million for the year ended March 31, 2004. This decrease is attributable to the removal of investment income from the budget of the Council during the past year.

The Council also derives income from the investment of endowments, bequests and donations. It had net investment income of \$10.4 million in 2003-2004. This was an increase of \$4.4 million over the previous year. Stronger global equity markets and a strengthening Canadian dollar contributed to this improvement. Nonetheless the Council's investment portfolio is still valued at \$20.4 million below cost at year end.

The Canada Council Art Bank generated net revenue of \$274,000, once again surpassing the break-even objective established for this operation. These funds will allow the Art Bank to continue to purchase new artwork for its rental operations.

Investments ¹

The Council's increase in net investment income over the amount reported last year is the result of an improving global equity market and an appreciating Canadian dollar that provided favourable results on the portion of the portfolio that the Council is hedging through the use of foreign exchange contracts.

The market value of the portfolio was \$261.5 million at March 31, 2004. This was \$19.1 million below the cost value, but \$68.1 million higher than last year's market value as a result of a general strengthening of the global equity markets. The table below shows the performance of the Canada Council and other endowments as well as the Killam endowments for the current year and the past five years on an annualized basis. The returns reflect unrealized net losses in the funds as at March 31, 2004.

The improved markets are reflected in the strong one-year returns which have exceeded the established investment objectives.

	Council and other endowments		Killam endowments	
	1 YR	5 YRS	1 YR	5 YRS
Total fund return	34.6%	1.9%	35.1%	2.6%
Total fund objective	29.4%	-1.5%	29.4%	0.0%

Grant Expenditures

The Council awarded grants (about 6,100), payments and prizes totaling \$137.0 million to about 4,200 artists and arts organizations and 14,435 authors in the Public Lending Right program.

The number of artists and arts organizations funded has remained relatively stable. Some 2,100 artists were supported (down 8.7% over the previous year and up 38% since 1997-1998). Some 2,100 arts organizations were supported (same as the previous year and up 50% since 1997-1998). Since 1997-1998, applications from artists have increased 30%, and in the last decade the number of artists in Canada has increased 30%.

Art Bank and Private Endowments

The Art Bank was able to acquire new artworks for its rental operations totaling \$218,000. Another year of net revenues that surpassed the break-even objective as well as the proceeds of a repurchase program have given the Art Bank a \$597,000 budget to purchase new works as at March 31, 2004.

During the year the Council received a donation of \$85,000 from the estate of Dr. Joan Yvonne Lowndes. The income from this donation is to be used for meritorious achievement in critical or curatorial writing on contemporary Canadian visual or media art.

1 The Investment Committee consists of John Crow (Committee Chair), Nalini Stewart, Acting Chair, Canada Council for the Arts, Craig Dowhaniuk and Richard Laferrière, board members, Canada Council for the Arts, François Colbert, Holder of Chair in Arts Management, École des Hautes Études Commerciales, John Matthews, consultant, Nancy Orr-Gaucher, President, Groupe Dynamix and Tania Willumsen, consultant. The Audit and Finance Committee consists of Nalini Stewart (Committee Chair) and fellow board members Jean-Louis Roux (term as Chair, Canada Council for the Arts, expired Oct. 31, 2003), Richard Laferrière, Craig Dowhaniuk and Jeannita Thériault.

CANADA COUNCIL FOR THE ARTS

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 Council.

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. Financial statements are not precise since they include certain amounts based on estimates and judgements. 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 adequately safeguarded.

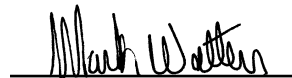
The Council is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Council carries out this responsibility principally through its Audit and Finance Committee.

The Audit and Finance Committee is appointed by the Council and its members are Council members. The Committee meets periodically with Management, as well as the external auditor, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditor's report. The Committee reports its findings to Council 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.



Director
John Hobday



Secretary-Treasurer
Mark Watters

June 7, 2004



Auditor General of Canada
Vérificatrice générale du Canada

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

I have audited the balance sheet of the Canada Council for the Arts as at March 31, 2004 and the statements of operations, 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink, appearing to read 'R. Flageole'.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 7, 2004

FINANCIAL STATEMENTS

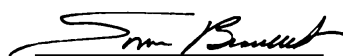
CANADA COUNCIL FOR THE ARTS Balance Sheet as at March 31

	2004	2003
	(in thousands of dollars)	
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	\$ 2,950	\$ 9,212
Accrued investment income	743	5,218
Accounts receivable		
Government of Canada	2,699	2,287
Other	484	270
Prepaid expenses	<u>176</u>	<u>536</u>
	7,052	17,523
Investments (Note 4)	280,579	268,821
Works of art and musical instruments (Note 5)	19,278	19,368
Other Capital assets (Note 6)	4,153	2,683
Total Assets	\$ <u>311,062</u>	\$ <u>308,395</u>
LIABILITIES		
Current Liabilities		
Grants payable	\$ 22,601	\$ 23,845
Accounts payable and accrued liabilities - Other	3,011	1,739
Deferred parliamentary appropriations	<u>441</u>	<u>2,625</u>
	26,053	28,209
Deferred revenues	2,608	1,152
Employee future benefits (Note 7)	1,328	1,247
Deferred contributions (Note 8)	<u>1,594</u>	<u>1,279</u>
Total Liabilities	<u>31,583</u>	<u>31,887</u>
PRIVATE ENDOWMENTS (Note 9)	<u>73,053</u>	<u>73,486</u>
EQUITY		
Endowment		
Original contribution	50,000	50,000
Appropriated surplus	<u>123,600</u>	<u>116,070</u>
	173,600	166,070
Surplus		
Invested in works of art and musical instruments	19,278	19,368
Unrestricted	<u>13,548</u>	<u>17,584</u>
	<u>32,826</u>	<u>36,952</u>
Total Equity	206,426	203,022
Total Liabilities, Private Endowments and Equity	\$ <u>311,062</u>	\$ <u>308,395</u>

On behalf of the Council:



Interim Chair



Vice Chair

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

CANADA COUNCIL FOR THE ARTS

Statement of Operations for the year ended March 31

	2004	2003
	(in thousands of dollars)	
REVENUE		
Net investment income (Note 10)	\$ 10,428	\$ 6,046
Net Art Bank revenue (Note 11)	274	218
Other	<u>1,492</u>	<u>1,598</u>
Total Revenue	<u>12,194</u>	<u>7,862</u>
EXPENSES		
Programs		
Grants (Schedule 1)	137,041	142,261
Administration (Schedule 2)	8,620	8,278
Services	<u>4,552</u>	<u>3,518</u>
	150,213	154,057
Canadian Commission for UNESCO (Note 11)	1,634	1,943
General administration (Schedule 2)	<u>12,239</u>	<u>12,072</u>
Total Expenses	<u>164,086</u>	<u>168,072</u>
Net cost of operations before parliamentary appropriation	151,892	160,210
Parliamentary appropriation	<u>155,604</u>	<u>153,707</u>
Surplus (deficit) for the year	\$ <u>3,712</u>	\$ <u>(6,503)</u>

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

CANADA COUNCIL FOR THE ARTS

Statement of Changes in Equity for the year ended March 31

	2004	2003
	(in thousands of dollars)	
ENDOWMENT		
Original contribution	\$ <u>50,000</u>	\$ <u>50,000</u>
Appropriated surplus		
Balance at beginning of the year	116,070	123,070
Appropriated from (to) unrestricted surplus during the year	<u>7,530</u>	<u>(7,000)</u>
Balance at end of the year	<u>123,600</u>	<u>116,070</u>
Balance of Endowment at end of the year	\$ <u>173,600</u>	\$ <u>166,070</u>
SURPLUS		
Invested in works of art and musical instruments		
Balance at beginning of year	\$ 19,368	\$ 19,216
Net disposals during the year	(308)	(306)
Appropriated from unrestricted surplus during the year	<u>218</u>	<u>458</u>
Balance at end of the year	<u>19,278</u>	<u>19,368</u>
Unrestricted		
Balance at beginning of the year	17,584	17,545
Surplus (deficit) for the year	3,712	(6,503)
Appropriated (to) from endowment during the year	(7,530)	7,000
Appropriated to surplus invested in works of art and musical instruments during the year	<u>(218)</u>	<u>(458)</u>
Balance at end of the year	<u>13,548</u>	<u>17,584</u>
Balance of surplus at end of the year	\$ <u>32,826</u>	\$ <u>36,952</u>

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

CANADA COUNCIL FOR THE ARTS

Statement of Cash Flows for the year ended March 31

	2004	2003
	(in thousands of dollars)	
OPERATING ACTIVITIES		
Surplus (deficit) for the year	\$ 3,712	\$ (6,503)
Items not affecting cash and cash equivalents		
Amortization – other capital assets	1,198	1,496
Amortization – other capital assets – Art Bank	106	115
Employee future benefits	81	108
	<u>5,097</u>	<u>(4,784)</u>
Change in non-cash operating assets and liabilities	<u>3,824</u>	<u>(4,924)</u>
Cash provided by (used by) operating activities	<u>8,921</u>	<u>(9,708)</u>
FINANCING ACTIVITIES		
Endowment contributions received	<u>85</u>	<u>-</u>
INVESTING ACTIVITIES		
Deferred contributions transferred from private endowments	(518)	(3,216)
Net (increase) decrease in investments	(11,758)	9,776
Acquisition of other capital assets and works of art and musical instruments	(2,992)	(1,195)
Cash (used by) provided by investing activities	<u>(15,268)</u>	<u>5,365</u>
Decrease in cash and cash equivalents	(6,262)	(4,343)
Cash and cash equivalents at beginning of the year	<u>9,212</u>	<u>13,555</u>
Cash and cash equivalents at end of the year	\$ <u>2,950</u>	\$ <u>9,212</u>

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

CANADA COUNCIL FOR THE ARTS
Notes to Financial Statements
March 31, 2004

1. Authority, Operations and Objectives

The Canada Council for the Arts, 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 of the *Financial Administration Act*, the Canada Council is exempt from Part X of this Act. The Canada Council for the Arts is a national organization whose objectives are to foster and promote the study, enjoyment and production of works in the arts.

The Council achieves its objectives through a grants program 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 Council's grants. General administration costs represent the costs related to corporate management, communications, human resources, informatics, finance, accommodation and amortization. These costs are also detailed in Schedule 2.

The *Canada Council for the Arts Act* assigns the Council with the functions and duties for the Canadian Commission for UNESCO. The Canadian Commission for UNESCO 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. The significant accounting policies of the Council are:

(a) Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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 and the estimated useful lives of capital assets are the most significant items where estimates are used. Actual results could differ from those estimated.

(b) Cash equivalents

Cash equivalents are carried at cost. 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 and cash equivalents on Council's balance sheet comprise cash and units in a short-term pooled fund.

(c) Investments and investment income

The investments are recorded at cost and are written down to market value when the loss in value is considered to be other than a temporary decline. The investments may be sold in response to changes in Council's liquidity requirements and asset mix benchmark rebalancing.

Investment income includes realized gains and losses on disposal of investments and currency hedges, through the use of currency forward contracts, dividends and interest earned and accrued on pooled funds, and the accrued net receipt of payments resulting from currency forward contracts. Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition.

(d) Other Capital assets and works of art and musical instruments

Equipment and leasehold improvements are recorded at cost and amortized over their estimated useful lives using the straight-line method, as follows:

Office equipment	5 years
Leasehold improvements	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 appraised value. No amortization is recorded on these assets.

(e) 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. These benefits represent the only employment obligation of the Council that entails settlement by future payment.

ii) Pension benefits

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Council's contribution to the plan reflects the full cost of the employer contributions. 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 represent the total pension obligations of the Council and are charged to operations on a current basis. The Council currently is not required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(f) Endowment – appropriated surplus

In years when net investment income exceeds the operational requirements of the Council, an amount may be appropriated to the appropriated surplus of the endowment account from the balance of the unrestricted surplus. In years when net investment income does not meet the operational requirements of the Council, an amount may be appropriated from the appropriated surplus of the endowment account to the unrestricted surplus.

(g) Parliamentary appropriation

Parliamentary appropriation is recognized as revenue in the year for which it is approved by Parliament. Parliamentary appropriations intended for future years received from Parliament before the end of the year are recorded as deferred parliamentary appropriations. The parliamentary appropriation is mainly used for operations.

(h) Deferred contributions and private endowments

The Canada Council for the Arts follows the deferred contribution method of accounting for contributions.

Annual contributions are recognized as revenue in the year received or in the year the funds are committed to the Canada Council for the Arts if the amount can be reasonably estimated and collection is reasonably assured.

Unrestricted net interest and dividends, unrestricted net realized capital gains or losses, Art Bank rental fees and other revenues are recorded as revenue in the year they are earned. Externally restricted investment income is recorded as deferred contributions and is recognized as revenue in the year in which the related expenses are incurred.

Endowment contributions are recognized as direct increases to private endowments.

Contributions received in a form other than cash are recorded at their fair value at the date they are received by the Canada Council for the Arts.

(i) Grants

Grants are recorded as an expense in the year for which they are approved by the Council. Cancelled grants and refunds of grants approved in previous years are shown in other revenues.

(j) Derivative financial instruments

The Council's uses currency forward contracts to reduce the risk of loss due to movements in foreign exchange rates. The Council's use of currency forward contracts is limited to the non-Canadian dollar denominated equity funds managed by Barclays Global Investors. The Council's investment policies and goals limit the use of derivatives to currency forwards and futures contracts whose use is restricted to managing risk.

The currency forward contracts are recorded as an asset when the settlement value indicates that the counterparty owes the Council, and as a reduction to assets when the settlement value indicates that the Council owes the counterparty. Net receipts of payments are therefore recognized in the asset account, investments and in net investment income on the Statement of Operations. At year end the accrual for these is recognized in the asset account, accrued investment income and in net investment income on the Statement of Operations.

(k) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses items are translated at average exchange rates during the year. All exchange gains and losses are included in determining net income for the year.

(l) Future accounting changes – accounting guideline 13 – hedging relationships

The CICA has issued an accounting guideline for hedging relationships that became effective for the Council on April 1, 2004. The new standard sets out more stringent criteria that hedging relationships must meet in order for the Corporation to continue its current accounting for derivative financial instruments. If these criteria are not met, the derivative financial instruments must be measured at fair value on the balance sheet with all changes in fair value recorded in income.

3. Cash equivalents

The objective of the Canada Council with respect to the management of liquidity is to ensure that the capital value of the funds is preserved, that the investments are liquid and that interest income is maximized given the quality and liquidity constraints of the investment policy. The permitted and prohibited investments are governed by a Board approved short-term funds investment policy.

The Canada Council invests temporary surplus cash in a short-term pooled fund managed by Lancaster Investment Counsel. All instruments held in the pooled fund are rated R1 (low) or A (low) or better by a recognized bond rating agency. This fund is comprised of securities issued by federal, federally guaranteed and corporate issuers. Except for federal and federally guaranteed instruments, no more than 10% of the short-term portfolio is invested with any one issuer. For the year ended March 31, 2004 the overall portfolio return was 2.47% (2003 – 3.11%) and as at March 31, 2004 the average weighted term to maturity is 77 days (2003 – 41 days).

The net book value of cash equivalents as at March 31, 2004 and March 31, 2003 approximated the market value.

4. Investments

	2004		2003	
	Cost	Market Value	Cost	Market Value
Canada Council and Other Endowments				
				(in thousands of dollars)
Pooled funds				
Equity	\$ 187,275	\$ 172,985	\$ 177,219	\$ 120,702
Fixed income	<u>30,689</u>	<u>32,730</u>	<u>28,902</u>	<u>29,559</u>
	217,964	205,715	206,121	150,261
Mortgages	<u>3</u>	<u>3</u>	<u>5</u>	<u>5</u>
	<u>217,967</u>	<u>205,718</u>	<u>206,126</u>	<u>150,266</u>
Killam Endowments				
Pooled Funds				
Equity	55,277	47,980	54,366	34,633
Fixed income	<u>7,335</u>	<u>7,823</u>	<u>8,329</u>	<u>8,519</u>
	<u>62,612</u>	<u>55,803</u>	<u>62,695</u>	<u>43,152</u>
Total investments	\$ <u>280,579</u>	<u>261,521</u>	\$ <u>268,821</u>	\$ <u>193,418</u>

The long term objectives of the Canada Council and Other Endowments and the Killam Endowments 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 Canada Council invests in units of equity and fixed income pooled funds. The permitted and prohibited investments as well as the asset mix are governed by a Board approved investment policy. The pooled funds are managed by professional investment managers.

Investments in the fixed income pooled fund are comprised of Canadian Government and corporate bonds with a minimum credit quality of BBB rated by a recognized bond rating agency. Investments in the equity pooled funds are comprised of units of four pooled funds. These funds are invested in the world equity markets.

The Equity pooled funds are managed by two managers. Franklin Templeton Investments manage the global Templeton Master Trust – Series 2, an actively managed portfolio of world equities. Barclays Global Investors manages three index funds intended to replicate the returns of world equity markets. This is achieved through investments in the Barclays US Equity Index Fund B, the Barclays EAFE Equity Index Fund B and the Barclays S&P/TSX Composite Index Fund. The fixed income pooled fund is comprised of the Barclays Universe Bond Index Fund. This fund is intended to replicate the returns of the Scotia Capital Universe Bond Index.

As at March 31, 2004 the annualized return of the Templeton Master Trust – Series 2 for the Canada Council and Other Endowments and for the Killam Endowments was 42.7% (2003 – (34.6%)). The annualized return of the Barclays Indexed Equity Funds for the Canada Council and Other Endowments and for the Killam Endowments was 37.8% (2003 – (29.0%)). The annualized return of the Barclays Universe Bond Index Fund for the Canada Council and Other Endowments and for the Killam Endowments was 10.7% (2003 – 9.1%).

The market value is based on the quoted market price as at March 31.

5. Works of Art and Musical Instruments

The Canada Council for the Arts Art Bank has the largest number of contemporary Canadian works of art in Canada. It includes about 17,700 paintings, sculptures, drawings, photographs and prints by over 2,900 artists. The Art Bank rents art works to interested parties and presently has about 6,000 (6,500 in 2003) works on rental to federal government departments and agencies, associations, hospitals, schools, municipalities and private corporations.

The Canada Council for the Arts 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 seven instruments on loan from an anonymous donor until August 2006.

6. Other Capital Assets

	2004			2003
	Cost	Accumulated amortization	Net Book Value	Net Book Value
	(in thousands of dollars)			
Office equipment	\$ 6,107	\$ 5,027	\$ 1,080	\$ 1,514
Leasehold improvements	<u>3,708</u>	<u>635</u>	<u>3,073</u>	<u>1,169</u>
	\$ <u>9,815</u>	\$ <u>5,662</u>	\$ <u>4,153</u>	\$ <u>2,683</u>

7. Employee Future Benefits

i) Severance benefits

The Council provides severance benefits to its employees. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information about the plan is as follows:

	<u>2004</u>	<u>2003</u>
	(in thousands of dollars)	
Accrued benefit obligation, beginning of year	\$ 1,247	\$ 1,139
Expense for the year	143	127
Benefits paid during the year	<u>(62)</u>	<u>(19)</u>
Accrued benefit obligation, end of year	<u>\$ 1,328</u>	<u>\$ 1,247</u>

ii) Pension benefits

During the year, the Public Service Superannuation Plan required the Council to contribute to the Plan at a rate of 2.14 times the employees' contribution (2003 – 2.14 times). Contributions to the Public Service Superannuation Plan during the year were \$1,408,451 (2003 - \$1,267,795).

8. Deferred Contributions

Deferred contributions represent unspent externally restricted net income on endowments and contributions received by way of bequest and donations that have been restricted for specific purposes established by the donors. In addition, deferred contributions include other sources of revenue that have been restricted for specific purposes. The funds of the endowments are included with the Canada Council for the Arts' investment portfolio and a proportionate share for each endowment is calculated based upon the market value of the investment portfolio at the time the endowment was received. The additions include net investment income or loss (interest, dividends and net capital gains or losses) calculated annually as the proportionate share of each endowment plus any other sources of revenue. Use of funds is equal to the grants and administration expenses incurred in order to meet the specific purpose for each endowment.

Deferred Contributions

(in thousands of dollars)

Balance at beginning of year	Additions	Use of funds	Transferred from private endowments (Note 9)	Balance at end of year
\$ <u>1,279</u>	\$ <u>2,604</u>	\$ <u>2,807</u>	\$ <u>518</u>	\$ <u>1,594</u>

9. Private Endowments

Private endowments consist of restricted donations received by the Council. The endowment principal of \$33,835,685 is required to be maintained intact. Also, the Council may transfer a portion of the income earned on these donations to the endowment principal once the operational needs of the Council have been met. If the operational needs of the Council exceed the income earned, then a transfer from endowment principal to operations of all or a portion of the excess, will be made.

Changes in private endowments are as follows:

	<u>2004</u>	<u>2003</u>
	(in thousands of dollars)	
Balance, beginning of year	\$ <u>73,486</u>	\$ <u>76,702</u>
Add donations received during the year		
Joan Lowndes Fund	<u>85</u>	<u>-</u>
Deduct		
Private endowments transferred to deferred contributions (Note 8)	<u>(518)</u>	<u>(3,216)</u>
Balance at end of year	\$ <u>73,053</u>	\$ <u>73,486</u>

10. Net Investment Income

	<u>2004</u>	<u>2003</u>
	(in thousands of dollars)	
Net losses on disposal of investments	\$ (194)	\$ (4,067)
Net gains (losses) on foreign currency	4,148	(817)
Dividends	4,175	4,432
Interest	3,172	4,045
Transferred from deferred contributions and private endowments	203	3,505
Investment portfolio management costs	<u>(1,076)</u>	<u>(1,052)</u>
	\$ <u>10,428</u>	\$ <u>6,046</u>

11. Net Art Bank Revenue and Canadian Commission for UNESCO

	<u>2004</u>	<u>2003</u>
	(in thousands of dollars)	
Net Art Bank Revenue		
Rental revenue	\$ 1,756	\$ 1,741
Other income	158	122
Administration	(1,534)	(1,530)
Amortization	<u>(106)</u>	<u>(115)</u>
Net Art Bank revenue	\$ <u>274</u>	\$ <u>218</u>

	<u>2004</u>	<u>2003</u>
	(in thousands of dollars)	

Canadian Commission for UNESCO

Program	\$ 698	\$ 932
Program – contributions received	(316)	(269)
Administration	<u>1,252</u>	<u>1,280</u>
	\$ <u>1,634</u>	\$ <u>1,943</u>

Program expenses mainly represent 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.

12. Commitments

- (a) Payments of grants extending into future years are subject to the provision of funds by Parliament. Future year grants approved prior to March 31, 2004 are payable as follows:

	(in thousands of dollars)
2005	\$ 40,579
2006	14,226
2007	9,352
2008	-
2009	-

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

	(in thousands of dollars)
2005	\$ 3,103
2006	3,103
2007	3,103
2008	3,103
2009	3,263
2010 – 2014	14,466

For the year ended March 31, 2004, the annual rentals have been reduced by \$1,941,862 (2003 - \$3,429,870) as a result of sub-leases with Public Works and Government Services Canada and The Encon Group which terminated in October 2003. Council has exercised its option to lease space at its current location for a further ten years.

13. Related Party Transactions

The Council is related to all Government of Canada departments, agencies and Crown corporations. The Council incurred expenses for the work and services provided by other government departments and agencies. These transactions were conducted in the normal course of operations, under the same terms and conditions that applied to outside parties.

14. Derivative financial instruments

The Council currently uses currency forward contracts which represent commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate. These contracts are typically for a three month period. However on a monthly basis the value of currency forward contracts is adjusted to reflect the market value of the portfolio being hedged.

The Council manages its exposure to credit risk by contracting only with creditworthy counterparties, and in certain cases entering into collateral agreements with those counterparties. The Council manages its exposure to foreign exchange risk by hedging the non Canadian dollar denominated equity funds managed by Barclays Global Investors.

As at March 31, 2004, the Council recorded a net payable of \$899,000 (2003 – net receivable of \$3,533,000) for currency forward contracts which matured on that date and settled on April 6, 2004. The carrying value of these currency forward contracts at year end approximates their fair value.

Currency forward contracts with a notional amount of \$106 million for settlement July 6, 2004 were outstanding at the end of the year (2003 - \$78 million). Notional amounts do not represent assets or liabilities and therefore are not recorded on the balance sheet. As at March 31, 2004 there were unrecognized and unrealized gains on these currency forward contracts of \$1,337,000 (2003 - \$39,000). The amount to be recognized and realized will only be known nearer to the settlement date.

15. Fair Value of Financial Instruments

The Council's financial instruments consist of cash, cash equivalents, accounts receivable, accrued investment income, investments, grants payable and accounts payable and accrued liabilities which are incurred in the normal course of business. The carrying amounts of these financial instruments, excluding the investments and derivative financial instruments, approximate their fair value because of their short-term maturity.

The fair values of the investments are estimated using quoted market prices. The market values are listed in Note 4.

Fair value estimates for the currency forward contracts are calculated using the current market spot and the forward exchange rates at year end.

16. Comparative Figures

Certain of the 2003 figures have been reclassified to conform to the presentation adopted in 2004.

CANADA COUNCIL FOR THE ARTS

Schedule of Grant Expenses by Section for the year ended March 31

(in thousands of dollars)

<u>Arts Programs</u>	<u>2004</u>	<u>2003</u>
Music	\$ 27,383	\$ 27,750
Theatre	22,605	24,004
Writing and Publishing	20,336	21,685
Visual Arts	17,601	18,458
Dance	16,392	16,155
Media Arts	12,738	12,474
Public Lending Right Commission	9,010	9,710
Equity	2,037	1,957
Interarts	1,587	1,656
Outreach	1,189	1,330
Other	3,937	3,886
<u>Killam Program</u>		
Killam Research Fellowships	1,203	1,979
Killam Prizes	500	500
<u>Other Prizes and Awards</u>		
Japan-Canada Fund	150	165
Molson Prizes	100	100
Commission Internationale du Théâtre Francophone	97	97
Victor Martyn Lynch-Staunton Awards	86	100
John G. Diefenbaker Award	75	75
Jean A. Chalmers Fund for the Crafts	-	50
Walter Carsen Prize	-	50
Other prizes and awards < \$50,000	15	80
	\$ <u>137,041</u>	\$ <u>142,261</u>

CANADA COUNCIL FOR THE ARTS

Schedule of Administration Expenses for the year ended March 31

(in thousands of dollars)

	2004			2003
	Program	General Administration	Total	Total
Salaries	\$ 5,933	\$ 3,764	\$ 9,697	\$ 9,270
Employee benefits	1,503	1,169	2,672	2,547
Office accommodation	76	3,011	3,087	2,689
Professional and special services	293	1,061	1,354	1,323
Amortization	-	1,198	1,198	1,496
Staff travel	544	301	845	931
Printing, publications and duplicating	27	776	803	914
Communications	186	246	432	469
Meeting expenses including members' honoraria	52	246	298	317
Office expenses and equipment	5	263	268	210
Information management	-	171	171	166
Miscellaneous	<u>1</u>	<u>33</u>	<u>34</u>	<u>18</u>
	\$ <u>8,620</u>	\$ <u>12,239</u>	\$ <u>20,859</u>	\$ <u>20,350</u>