



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended December 31, 2019
Published February 28, 2020



Management Discussion and Analysis

Quarterly Report

Period ended December 31, 2019
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INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the nine-month period ended December 31, 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

October 3 — Alexina Louie and John Borrows were announced as the 2019 recipients of the Canada Council for the Arts Molson Prizes. Ms. Louie received her prize for her contribution to the arts as a composer, and Mr. Borrows for his contribution to the social sciences in the area of Indigenous law research.

October 9 to 27 — The Council was the main funder and coordinator of Canada's participation as guest of honour at Festival Internacional Cervantino, one of the largest performing arts festivals in the world, in Guanajuato, Mexico. The festival presented 17 shows from a diverse range of artists from across Canada, including A Tribe Called Red, Lido Pimienta, Shawn Jobin, the Royal Winnipeg Ballet, Elisapie, the ILL-Abilities Crew, and the Orchestre symphonique de Montréal.

October 15 — Canada was announced as the guest of honour at the 2020 Frankfurt Book Fair, the largest global marketplace for book publishing. The Council is responsible for ensuring a year of cultural programming across Germany in the lead-up to the 2020 Fair, bringing Canadian art and artists to key events in Germany including jazzhead! and Tanzmesse. It is also supporting the translation of Canadian works into German through the Incentive for Purchasing Translation Rights and for the Publishing in German funding initiative, a partnership with the Department of Canadian Heritage.

October 23 to 27 — The Council coordinated a Canadian alley with booths at WOMEX 2019, billed as the world's most diverse music exposition, in Tampere, Finland. This helped to ensure a strong Canadian presence and enhanced international exposure for artists from Canada to other arts professionals, organizations, and partners. Featured performers included the Juno Award-winning Dene singer-songwriter Leela Gilday, the Indigenous duo Digging Roots, and the Quebecois power-trio Les Grands Hurlleurs.

October 29 — The Council announced the winners of the 2019 Governor General's Literary Awards, which celebrate 14 of the best Canadian books in seven categories in both official languages. The awards were presented at Rideau Hall on December 12. The winners also participated in public events on December 11 and 12 (one in English and one in French) at the Council's offices, where they read excerpts from their works.

November 26 — The Council announced the winners of four prizes: Danièle Lévesque (the Walter Carsen Prize for Excellence in the Performing Arts); Stéphane Tétrault (the Virginia Parker Prize); Alec Hall (the Jules Léger Prize); and the Robert McLaughlin Gallery (the York Wilson Endowment Award).

November 26 — The Council launched new data on the "[Stats and Stories](#)" webpage, providing the public with detailed information on funding, five-year trends, open data tables and stories about what recipients did with their grants in 2018-19.

December 3 — On the International Day of Persons with Disabilities, the Council launched "[Expanding the Arts II: Deaf and Disability Arts Engagement and Expression Strategy](#)," which was developed to help strengthen and support the artistic excellence and impact of deaf and disability arts at home and abroad.

December 16 — The Council released its [qualitative impact framework report](#), which will enable the Council to better articulate the many ways in which Canadians' lives are enhanced by the arts. The framework and report will also help the broader arts community explore the impacts they have on their communities and society at large.

December 17 — Sébastien Goupil, Secretary-General for the Canadian Commission to UNESCO, released a [blogpost](#) to reflect on Canada's commitments and work over 2019 to focus on and realize UNESCO's goals as part of the International Year of Indigenous Languages.

During this quarter, Arts Granting Programs Division staff continued to conduct information and outreach sessions for existing and potential applicants across the country, particularly in Newfoundland, New Brunswick, Toronto, northern Ontario, and British Columbia.

Net Results

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2019	2018	Increase/ (Decrease)	2019	2018	Increase/ (Decrease)
Revenue	13,282	4,731	8,551	27,129	12,534	14,595
Expenses	(28,896)	(34,849)	5,953	(251,235)	(224,979)	(26,256)
Government funding	71,000	59,959	11,041	274,000	250,158	23,842
Surplus for the period	55,386	29,841	25,545	49,894	37,713	12,181

Overview of the Third Quarter Net Results

The surplus for the quarter was \$55.4M compared to a surplus of \$29.8M for the same period last year. The variance of \$25.5M is directly related to the increase in revenues and government funding. The decrease of \$6.0M in expenses for the quarter is mainly due to the timing of the grant approval process as the grant expenses are expected to be higher as demonstrated in the nine-month increase of \$23.6M. This increase was planned for and corresponds to the increase in Parliamentary appropriations for that period based on cash flow requirements.

There was an additional \$9.0M in grant expenses resulting from \$4.0M in savings from operating costs or delayed projects and an additional \$5.0M in contributions from partnerships with the Departments of Global Affairs Canada and Canadian Heritage to support various program activities related to the 2020 Frankfurt Book Fair and the Festival Internacional Cervantino. The additional \$9.0M will be offset by a carry-forward of approximately \$8.0M from the Digital Strategy Fund for specific new activities in 2020-21. Consequently, the grant expenses are expected to be close to budget.

The Council will continue to monitor its financial results with the aim of achieving a balanced budget except for the recorded net realized investment income compared to budget which as of December 31, 2019 was higher than the annual budget by \$8.4M.

IMPORTANT CHANGES

Leadership and Governance

October 15 — The Council announced the merger of the Communications and Public Engagement Division with the Strategy and Public Affairs Division, which took effect on January 13, 2020. Michelle Chawla is the Director General of the new Strategy, Public Affairs and Arts Engagement Division, which incorporates four sections and one unit: Communications; Research, Measurement and Data Analytics; Partnership and Arts Promotion; Policy, Planning, Content and Foresight; and International Coordination and Cultural Diplomacy. As part of this change, the Public Lending Right Program was transferred to the Arts Granting Programs Division, under the Director of Supporting Artistic Practice.

December 16 – Marilyn Desrosiers joined the Council as the new Director, Supporting Artistic Practice Program, Arts Granting Programs Division.

FINANCIAL RESULTS

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

Revenue

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2019	2018	Increase/ (Decrease)	2019	2018	Increase/ (Decrease)
Net realized investment income	9,961	4,074	5,887	20,536	10,725	9,811
Other revenue	3,321	657	2,664	6,593	1,809	4,784
Total	13,282	4,731	8,551	27,129	12,534	14,595

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 slight net reduction in other distributed income. The net realized investment income is forecasted to be higher than the budgeted amount by \$10M. These realized gains have been reinvested in the portfolio investments.

Other Revenue

The other revenues for the quarter and year to date are higher compared to the same periods last year due to transfers received 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 \$5.0M for this year.

Expenses

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2019	2018	Increase/ (Decrease)	2019	2018	Increase/ (Decrease)
Grants, author payments and prizes	17,532	23,237	(5,705)	216,636	193,012	23,624
Transfer program delivery	5,398	5,023	375	15,656	14,364	1,292
Arts community services	591	553	38	2,529	1,634	895
Net Art Bank results	38	17	21	97	50	47
Canadian Commission for UNESCO	551	441	110	1,584	1,525	59
General administration	4,786	5,578	(792)	14,733	14,394	339
Total	28,896	34,849	(5,953)	251,235	224,979	26,256

Grants, author payments and prizes

The decrease in grant expenses for the quarter is mainly due to the timing in the granting approval process. The year-to-date increase of \$23.6M is higher compared to prior year due to the progressive doubling of the Council's government funding.

The grant expenses are expected to be close to budget even with an additional investment of \$9.0M in grant expenses which will be offset by a carry-forward of approximately \$8.0M from the Digital Strategy Fund for specific new activities in 2020-21. The additional investment of \$9.0M was possible due to \$4.0M in savings from operating costs or delayed projects and an additional \$5.0M in contributions for partnerships related to the 2020 Frankfurt Book Fair and the Festival Internacional Cervantino.

Transfer program delivery

This expense is slightly higher for the quarter 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 grant application portal.

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 Internacional Cervantino and the 2020 Frankfurt Book Fair.

General Administration

This expense is lower for the quarter compared to last year due to a reduction in professional fees and information management costs mostly related to timing of projects underway as per the Digital Shift Roadmap. The higher expense for the nine-month period is 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

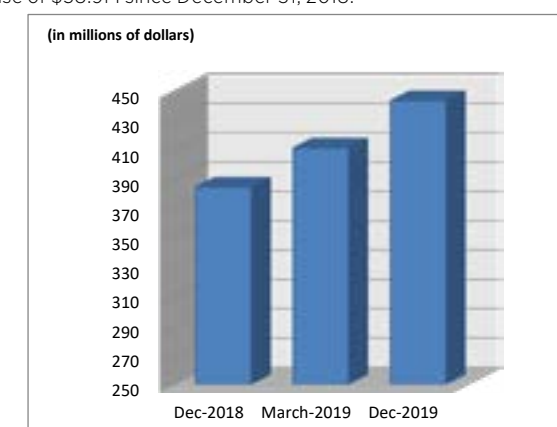
(in thousands of dollars)	December 31	March 31	Increase/ (Decrease)
	2019	2019	
Cash and cash equivalents	52,812	31,235	21,577
Accounts receivable	2,490	3,146	(656)
Portfolio investments	443,336	411,066	32,270
Total	498,638	445,447	53,191

Cash and Cash Equivalents

The increase of \$21.6M in cash and cash equivalents is explained primarily by the excess of government funding received as of December 31, 2019, \$274M, over the total cumulative expenses of \$251.2M.

Portfolio Investments

The total market value of the portfolio as at December 31, 2019, was \$443.3M, of which \$105.6M was externally restricted. This represents an increase of \$32.3M in the market value since March 31, 2019, and an increase of \$58.9M since December 31, 2018.



The total fund generated an absolute positive return of 3.8% for the quarter, outperforming the benchmark return by 0.6%. All asset classes generated positive returns during the third quarter. The Canadian Equity and Fixed Income asset classes were the main contributors with returns above their benchmark for the quarter by 2.7% and 1.3% respectively.

The total fund one-year return was 15.6% for December 2019 which exceeded the benchmark by 1.6%. All asset classes generated positive returns and exceeded their benchmark for the one-year return. The Canadian Equity, Global Equity and Fixed Income asset classes, representing close to 80% of the portfolio, were the main contributors generating returns above their benchmark by 4.8%, 2.1% and 1.2% respectively for the one-year period.

Liabilities

(in thousands of dollars)	December 31 2019	March 31 2019	Increase/ (Decrease)
Grants, author payments and prizes payable	62,825	68,081	(5,256)
Accounts payable and accrued liabilities	1,874	5,072	(3,198)
Deferred revenues	6,776	7,043	(267)
Employee future benefits	4,295	3,867	428
Externally restricted contributions	62,363	55,736	6,627
Total	138,133	139,799	(1,666)

Grants, author payments and prizes payable

The decrease of \$5.3M in comparison to the value as at March 31, 2019 arises from the timing of payments schedules.

Accounts payable and accrued liabilities

The decrease of \$3.2M 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 and the reversal of a \$0.6M salary accrual recorded as at March 31, 2019 related to the new collective agreement which was paid in July 2019.

Externally restricted contributions

The increase of \$6.6M in comparison to the value as at March 31, 2019 arises from the net unused funds of \$5.2M from distributed net realized income against which most of the expenses will be incurred only late in the year once the prizes are awarded. The additional \$1.4M comes from the externally restricted net proportionate share of the market value increase of the portfolio investment.

Non-Financial Assets

(in thousands of dollars)	December 31 2019	March 31 2019	Increase/ (Decrease)
Tangible capital assets	10,316	9,793	523
Art Bank assets	19,466	19,455	11
Musical instruments	1	1	-
Prepaid expenses	629	224	405
Total	30,412	29,473	939

Art Bank Assets

The Council owns over 17,160 works of contemporary Canadian art within its Art Bank collection. At December 31, 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 December 31, 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 third quarter were as follows:

(in thousands of dollars)	December 31	
	2019	2018
Approved annual operating funding		
Vote 1 - Operating costs	327,644	292,632
Supplementary Estimates	-	127
Compensation adjustment	-	32
	327,644	292,791
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the nine-month period	(274,000)	(250,158)
Balance of operating funding to be received	53,644	42,633



Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended December 31, 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.

February 27, 2020

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

Carole Boileau, CPA, CA
Chief Financial Officer

Statement of Financial Position

(Unaudited)	December 31	March 31
(in thousands of dollars)	2019	2019
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 52,812	\$ 31,235
Accounts receivable	2,490	3,146
Portfolio investments (Note 3)	443,336	411,066
Total financial assets	498,638	445,447
LIABILITIES		
Grants, author payments and prizes payable	62,825	68,081
Accounts payable and accrued liabilities	1,874	5,072
Deferred revenues	6,776	7,043
Employee future benefits	4,295	3,867
Deferred revenues - Externally restricted contributions (Note 5)	62,363	55,736
Total liabilities	138,133	139,799
NET FINANCIAL ASSETS	360,505	305,648
NON-FINANCIAL ASSETS		
Tangible capital assets	10,316	9,793
Art Bank assets	19,466	19,455
Musical instruments	1	1
Prepaid expenses	629	224
Total non-financial assets	30,412	29,473
ACCUMULATED SURPLUS (Note 6)	\$ 390,917	\$ 335,121
Accumulated surplus is comprised of:		
Accumulated surplus from operations	354,284	304,390
Accumulated remeasurement gains	36,633	30,731
ACCUMULATED SURPLUS	\$ 390,917	\$ 335,121

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

Statement of Operations

(Unaudited)	Yearly Budget	Three months ended December 31		Nine months ended December 31	
(in thousands of dollars)	2019-2020	2019	2018	2019	2018
Revenue					
Net realized investment income (Note 7)	\$ 12,161	\$ 9,961	\$ 4,074	\$ 20,536	\$ 10,725
Other revenue	1,655	3,321	657	6,593	1,809
Total revenue	13,816	13,282	4,731	27,129	12,534
Expenses					
Transfer Programs					
Grants, author payments and prizes	285,507	17,532	23,237	216,636	193,012
Transfer program delivery	25,600	5,398	5,023	15,656	14,364
Arts community services	7,003	591	553	2,529	1,634
	318,110	23,521	28,813	234,821	209,010
Net Art Bank results (Note 8)	247	38	17	97	50
Canadian Commission for UNESCO (Note 9)	2,648	551	441	1,584	1,525
General administration	20,446	4,786	5,578	14,733	14,394
Total expenses	341,451	28,896	34,849	251,235	224,979
Deficit from operations before Parliamentary appropriations for the period	(327,635)	(15,614)	(30,118)	(224,106)	(212,445)
Parliamentary appropriations	327,644	71,000	59,959	274,000	250,158
SURPLUS FROM OPERATIONS FOR THE PERIOD	9	55,386	29,841	49,894	37,713
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	304,390	298,898	311,561	304,390	303,689
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 304,399	\$ 354,284	\$ 341,402	\$ 354,284	\$ 341,402

Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended December 31		Nine months ended December 31	
(in thousands of dollars)	2019	2018	2019	2018
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 32,500	\$ 27,040	\$ 30,731	\$ 20,565
Unrealized gains (losses) attributable to:				
Portfolio investments	6,827	(17,614)	17,160	(10,524)
Amounts reclassified to the Statement of Operations:				
Portfolio investments	(2,694)	812	(11,258)	197
NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD	4,133	(16,802)	5,902	(10,327)
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 36,633	\$ 10,238	\$ 36,633	\$ 10,238

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

Statement of Change in Net Financial Assets

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2019	2018	2019	2018
(in thousands of dollars)				
SURPLUS FROM OPERATIONS FOR THE PERIOD	\$ 55,386	\$ 29,841	\$ 49,894	\$ 37,713
Acquisition of tangible capital assets	(923)	(266)	(1,995)	(1,114)
Amortization of tangible capital assets	491	377	1,472	1,130
Acquisition of Art Bank assets	-	-	(11)	(1)
	(432)	111	(534)	15
Acquisition of prepaid expenses	(301)	(112)	(659)	(209)
Use of prepaid expenses	37	40	254	247
	(264)	(72)	(405)	38
Net remeasurement gains (losses)	4,133	(16,802)	5,902	(10,327)
INCREASE IN NET FINANCIAL ASSETS	58,823	13,078	54,857	27,439
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	301,682	309,902	305,648	295,541
NET FINANCIAL ASSETS, END OF PERIOD	\$ 360,505	\$ 322,980	\$ 360,505	\$ 322,980

Statement of Cash Flow

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2019	2018	2019	2018
(in thousands of dollars)				
Operating Transactions				
Surplus from operations for the period	\$ 55,386	\$ 29,841	\$ 49,894	\$ 37,713
(Gains) losses from disposal of portfolio investments (Note 7)	(2,986)	1,547	(10,500)	1,182
Amortization of tangible capital assets	491	377	1,472	1,130
(Increase) decrease in prepaid expenses	(264)	(72)	(405)	38
Increase in employee future benefits	138	138	428	387
Income transferred to Deferred revenues - Externally restricted contributions from investment income (Note 5)	2,945	994	5,246	1,926
Net change in other non-cash items (Note 10)	(42,165)	(26,064)	(8,065)	(7,263)
Cash provided by operating activities	13,545	6,761	38,070	35,113
Capital Transactions				
Cash used to acquire tangible capital and Art Bank assets	(923)	(266)	(2,006)	(1,115)
Investing Transactions				
Acquisition of portfolio investments	(21,832)	(53,089)	(36,464)	(84,504)
Disposal of portfolio investments	6,942	47,168	21,977	74,768
Cash used by investing activities	(14,890)	(5,921)	(14,487)	(9,736)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,268)	574	21,577	24,262
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	55,080	62,933	31,235	39,245
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 52,812	\$ 63,507	\$ 52,812	\$ 63,507

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

Notes to the Financial Statements For the period ended December 31, 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 December 31, 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	8,205	-	506	8,711	2	7,881	8,027	2
Global Equity	139,988	445	14,373	153,916	42	132,268	138,221	41
Fixed income	86,994	109	1,040	87,925	24	84,105	84,802	25
Alternatives	20,630	-	11,297	31,927	9	20,630	30,936	9
Canadian Equity	36,162	-	4,163	40,325	11	32,181	35,319	11
Real estate	9,043	-	2,665	11,708	3	9,941	12,648	4
Infrastructure	25,031	229	6,892	31,694	9	14,485	25,276	7
Cash	925	-	-	925	-	3,870	3,870	1
	326,978	783	40,936	367,131	100	305,361	339,099	100
Killam Fund								
Pooled funds								
Canadian Equity	8,739	-	1,017	9,756	13	8,037	8,613	12
Global Equity	27,743	88	2,803	30,458	40	26,214	27,389	38
Fixed income	17,673	27	198	17,844	23	17,149	17,282	24
Alternatives	5,298	-	2,894	8,192	11	5,298	7,937	11
Real estate	2,385	-	720	3,105	4	2,648	3,386	5
Infrastructure	4,559	58	1,707	6,208	8	3,691	6,728	9
Cash	642	-	-	642	1	632	632	1
	67,039	173	9,339	76,205	100	63,669	71,967	100
Total investments	394,017	956	50,275	443,336		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 \$29,407,000 (March 31, 2019 - \$27,162,000). The total fair value of the externally restricted investment including the Killam Fund is \$105,612,000 (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 six 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
		December 31, 2019	March 31, 2019
		Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
Financial assets and liabilities and classifications			
Cash and cash equivalents	Fair value	52,812	31,235
Accounts receivable	Amortized cost	2,490	3,146
Portfolio Investments ¹	Fair value	443,336	411,066
Grants, author payments and prizes payable	Amortized cost	62,825	68,081
Accounts payable and accrued liabilities	Amortized cost	1,874	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	24%	15%	25%	35%
Alternatives	9%	0%	10%	15%
Real estate	3%	0%	5%	10%
Infrastructure	9%	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 six 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				Year-end			
	December 31, 2019				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	52,812	-	-	52,812	31,235	-	-	31,235
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Canadian Equity	-	8,711	-	8,711	-	8,027	-	8,027
Global Equity	-	153,916	-	153,916	-	138,221	-	138,221
Fixed Income	-	87,925	-	87,925	-	84,802	-	84,802
Alternatives	-	-	31,927	31,927	-	-	30,936	30,936
Canadian Equity	40,325	-	-	40,325	35,319	-	-	35,319
Real Estate	-	-	11,708	11,708	-	-	12,648	12,648
Infrastructure	-	-	31,694	31,694	-	-	25,276	25,276
Cash	925	-	-	925	3,870	-	-	3,870
Killam Fund								
Pooled Funds								
Canadian Equity	-	9,756	-	9,756	-	8,613	-	8,613
Global Equity	-	30,458	-	30,458	-	27,389	-	27,389
Fixed Income	-	17,844	-	17,844	-	17,282	-	17,282
Alternatives	-	-	8,192	8,192	-	-	7,937	7,937
Real Estate	-	-	3,105	3,105	-	-	3,386	3,386
Infrastructure	-	-	6,208	6,208	-	-	6,728	6,728
Cash	642	-	-	642	632	-	-	632
	41,892	308,610	92,834	443,336	39,821	284,334	86,911	411,066
Total	94,704	308,610	92,834	496,148	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	
	December 31, 2019	March 31, 2019
Balance, beginning of period	\$ 55,736	\$ 51,665
Transferred from net investment income (Note 7)		
Net Investment income	6,188	3,363
Use of funds	(942)	(2,554)
	5,246	809
Unrealized gains on portfolio investments	5,961	3,076
Reclassified to statement of operations - portfolio investments	(4,580)	186
Balance at end of period	\$ 62,363	\$ 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	
	December 31, 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)
Surplus for the period	49,894	701
Balance at end of period	76,270	26,376
Total accumulated surplus from operations	354,284	304,390
Accumulated remeasurement gains		
Balance at beginning of period	30,731	20,565
Change in fair value	5,902	10,166
Balance at end of period	36,633	30,731
Balance of accumulated surplus at end of period	\$ 390,917	\$ 335,121

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2019	2018	2019	2018
Gains (losses) from disposal of portfolio investments	\$ 2,986	\$ (1,547)	\$ 10,500	\$ (1,182)
Income transferred to deferred revenues -				
Externally restricted contributions (Note 5)	(2,945)	(994)	(5,246)	(1,926)
Net gains on foreign exchange	20	28	311	32
Interest, dividend and other distributed income	10,188	6,830	15,990	14,488
Investment portfolio management costs	(288)	(243)	(1,019)	(687)
	\$ 9,961	\$ 4,074	\$ 20,536	\$ 10,725

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2019	2018	2019	2018
Rental revenue	\$ 397	\$ 390	\$ 1,170	\$ 1,141
Other income	104	58	189	164
Administration expense	(538)	(462)	(1,450)	(1,347)
Amortization of other capital assets	(1)	(3)	(6)	(8)
	\$ (38)	\$ (17)	\$ (97)	\$ (50)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2019	2018	2019	2018
Program - contributions received	\$ 75	\$ -	\$ 475	\$ 102
Program expenses	(241)	(109)	(903)	(624)
Administration expense	(385)	(332)	(1,156)	(1,003)
	\$ (551)	\$ (441)	\$ (1,584)	\$ (1,525)

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2019	2018	2019	2018
Decrease in accounts receivable	\$ 230	\$ 118	\$ 656	\$ 684
Decrease in grants, author payments and prizes payable	(39,434)	(25,335)	(5,256)	(5,585)
Decrease in accounts payable and accrued liabilities	(511)	(651)	(3,198)	(1,871)
Decrease in deferred revenues	(2,450)	(196)	(267)	(491)
Net change	\$ (42,165)	\$ (26,064)	\$ (8,065)	\$ (7,263)

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.