



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended June 30, 2020
Published August 31, 2020



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Management Discussion and Analysis

Quarterly Report

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INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the three-month period ended June 30, 2020 as set out in the accompanying unaudited quarterly financial statements. These 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

The Canada Council for the Arts continued the work it began in March 2020 to respond to the COVID-19 pandemic by adjusting program deadlines, introducing new initiatives and delivering emergency funding on behalf of the federal government; details are provided in the Programs and Operational sections below.

Throughout the quarter, the Council's Director and CEO was interviewed by the media to speak about the impact of COVID-19 on the arts sector and the Council's role during the pandemic. This included CTV's Your Morning, Radio Canada's L'heure de pointe, ICI Ottawa Gatineau's Les matins d'ici, Radio Canada's Pénélope, CBC Montreal's Daybreak and CBC Ottawa's All in a Day, in addition to multiple interviews for print media. He also participated in webinars and roundtables on this topic, both nationally and internationally, with organizations such as Business/Arts, the Banff Forum and the International Federation of Arts Councils and Culture Agencies.

April 6 - the Council launched a [survey](#) to better understand the needs of the professional arts sector to overcome the COVID-19 crisis. The survey, prepared by Forum Research Inc, was sent to approximately 30,000 of the Council's existing clients, and 8,842 (32%) responded. The survey results highlight the importance of the federal emergency aid measures to the arts sector, as well as the need for targeted funding for the arts sector.

April 21 - The Council supported a virtual literary event at Moncton, NB's FRYE festival [Lumière sur les dramaturges](#), featuring Governor General's Literary Awards' 2004 winner Emma Haché and 2019 finalist Lisa L'Heureux.

April 30 - The Council and The Royal Architectural Institute of Canada (RAIC) announced the [recipients](#) of the Governor General's Medals in Architecture. The 12 winning projects come from across the country and beyond: Vancouver, BC; Edmonton, AB; Saskatoon, SK; Brampton, ON; Lake Kawagama, ON; Drummondville, QC, St. Jérôme, QC, and Santiago, Chile. Created by the RAIC and jointly administered with the Council, this award program recognizes and celebrates excellence in recently built and designed projects by Canadian architects.

May 26 - the [2020 Killam Prizes](#) were awarded to Cecilia Benoit (Social Sciences), Sarah Carter (Humanities), Alan Evans (Health Sciences), Edward H. Sargent (Engineering) and Barbara Sherwood Lollar (Natural Sciences). Each winner receives \$100,000 for their significant contributions in their respective fields. This year's [Killam Research Fellowships](#), a fellowship which provides two years of support (\$70,000 per year) to pursue ground-breaking research, were awarded to Eric Brown (Natural Sciences), Jennifer Clapp (Natural Sciences), Myriam Denov (Social Sciences), Joseph Heath (Humanities/Social Sciences), Milica Radisic (Engineering/Health Sciences) and Nathalie Tufenkji (Engineering/Natural Sciences). This year, for the first time, more than half of the recipients are women, putting the extraordinary contributions of these female scholars in centre stage.

Net Results

(in thousands of dollars)	Three months ended June 30			
	2020	2019	Variance	% change
Revenue	(2,764)	8,764	(11,528)	-132%
Expenses	(235,165)	(169,429)	(65,736)	-39%
Government funding	175,000	113,000	62,000	55%
Deficit for the period	(62,929)	(47,665)	(15,264)	

Overview of the First Quarter Net Results

The deficit for the quarter was \$62.9M compared to \$47.7M for the same period last year. This variance is directly related to a decrease in the net realized investment income by \$11.3M in the quarter following realized losses originating from the sales of investments in the global equity asset classes. The increase of \$66.9M in grant expenses matches the increase in parliamentary appropriations received as part of the progressive doubling of the government funding and the \$55 million received from the federal government to deliver the COVID-19 Emergency Support Funds for Cultural Heritage and Sports Organizations.

The Council will continue to monitor its financial results with the aim of achieving a balanced budget, including a higher granting budget because of funding received from the federal government to deliver the COVID-19 Emergency Support Funds for Cultural Heritage and Sports Organizations.

IMPORTANT CHANGES

Programs

The Council implemented its plans, announced on March 30, 2020, to provide approximately \$60 million in [advance payments](#) to its core funded organizations.

April 1 - The [Digital Strategy Fund](#) was modified to offer grants up to \$50,000 to support short-term activities that implement digital solutions as a strategic response to the COVID-19 crisis.

May 8 - The federal government announced that the Council would deliver [\\$55 million](#) of a new \$500 million COVID-19 Emergency Support Fund for Cultural, Heritage and Sport Organizations. In the first phase of this funding, the Council is distributing this money on a by-invitation basis to core and project-funded arts organizations that experienced a significant financial impact as a result of the pandemic. Eligible organizations must have applied for and received a project or core grant from the Council between April 2017 and April 2020.

May 15 - In partnership with CBC/Radio-Canada, Canada Council launched [Digital Originals](#), a new initiative to help artists, arts groups and organizations pivot their work for online sharing. Recipients received a \$5,000 micro innovation grant and CBC/Radio-Canada will feature selected projects for showcase on at least one of its digital platforms. The RBC Foundation has contributed an additional \$150,000 to Council to support new and early career artists who applied to this initiative.

June 30 - In association with the Aboriginal Curatorial Collective, the Indigenous Performing Arts Alliance, the Indigenous Screen Office, and the Inuit Art Foundation, the Council created [Community Cares: Emergency Response Fund for First Nations, Inuit and Métis Individuals Working in the Arts](#), a new time-limited emergency response fund during the COVID-19 pandemic. The Council has committed \$500,000 to support this initiative.

Operational

In March 2020, due to COVID-19, the Council shifted the majority of its staff to remote work and was able to continue offering its services to the arts community, without interruption. Since April, the Council has been holding virtual peer assessment committee meetings and due to COVID-19 the Council also changed or suspended several deadlines and cut-off dates, as well as some prizes and grant components. The Council also [suspended](#) funding for projects that are dependent on domestic and international travel until September 1, 2020.

The Council advised prize and grant recipients to cancel or postpone all public events in line with the guidance provided by public health authorities; conditional grants will be issued to successful projects for producing or hosting public events.

FINANCIAL RESULTS

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

Revenue

	Three months ended June 30		
	2020	2019	Increase/ (Decrease)
(in thousands of dollars)			
Net realized investment income	(3,427)	7,837	(11,264)
Other revenue	663	927	(264)
Total	(2,764)	8,764	(11,528)

Net Realized Investment Income

Net realized investment income was lower than the same period last year due to realized losses of \$8.0M originating from the sales of assets in the Canadian and Global equity asset classes compared to realized gains of \$6.0M in the same period last year. An increase of \$3.1M in distributed income alleviated the impact of the realized losses. The net realized investment income is still forecasted to be aligned with the budget.

Other Revenue

The other revenues for the quarter are lower compared to the same period last year, explained either by cancellations or postponements of various partnerships compared to previous year. During the quarter, the Council received \$150K from the RBC Foundation to support new and early career artists applying to the Digital Originals initiative. Other revenues are expected to be aligned with the budget for this year.

Expenses

(in thousands of dollars)	Three months ended June 30		
	2020	2019	Increase/ (Decrease)
Grants, author payments and prizes	224,648	157,755	66,893
Transfer program delivery	4,973	4,961	12
Arts community services	137	736	(599)
Net Art Bank results	(18)	81	(99)
Canadian Commission for UNESCO	320	563	(243)
General administration	5,105	5,333	(228)
Total	235,165	169,429	65,736

Grants, author payments and prizes

The increase in the first quarter, compared to last year, represents the additional granting budget due to the progressive doubling of the Council's government funding, as well as the additional government funds received to deliver the COVID-19 Emergency Support Funds for Cultural Heritage and Sports Organizations.

The planned annual budget of \$319.7M for grants, author payments and prizes, which included an increase of \$34.3M in 2020-21 due to the progressive doubling of the Council's government funding, has been revised upwards following the \$55M received from the federal government for the COVID-19 Emergency Support Funds for Cultural Heritage and Sports Organizations and by a carry-forward of \$5.5M for the Digital Strategy Fund from the prior year. The total granting budget for 2020-21 is now revised to \$380.2M.

Transfer program delivery

This expense is slightly higher compared to last year. The increase in salaries and employee benefits was offset by a reduction in peer and advisory committees' costs as those meetings are now being held virtually, and by a reduction in staff travel expenses, due to the travel restrictions imposed by the COVID-19 pandemic.

Arts community services

This expense is lower compared to last year due to a decrease in projected partnership initiatives in the first quarter resulting from the delays of some activities because of the COVID-19 pandemic.

Net Art Bank results

This expense is lower compared to last year, showing a net income of \$18 thousand. This is explained by the recognition of rental income for new contracts signed over the last year, coupled with the decrease of administrative expenses due to the COVID-19 pandemic where no new installations took place in the current year's first quarter.

Canadian Commission for UNESCO

This expense is lower compared to last year mainly explained by the ban on travel due to COVID-19 which resulted in postponing the Annual General Meeting that was to be held in Ottawa.

General administration

This expense is lower compared to last year due to a slight decrease in salaries and employee benefits due to some vacancies which were mostly offset by an increase to professional and special services as well as to information management expenses, mostly related to the Digital Shift Roadmap to modernize Council's systems and infrastructure.

Financial Assets

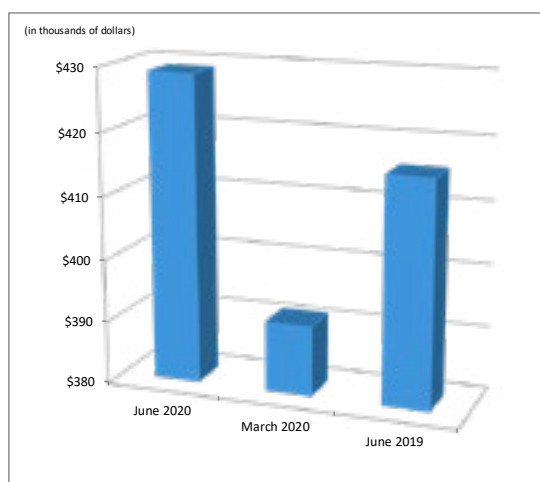
(in thousands of dollars)	June 30, 2020	March 31, 2020	Increase/ (Decrease)
Cash	54,804	21,624	33,180
Accounts receivable	3,349	3,347	2
Portfolio investments	428,917	391,200	37,717
Total	487,070	416,171	70,899

Cash

The increase of \$33.2M in cash is mainly explained by an increase of \$94.5M in grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as of June 30, 2020, less the \$62.9M deficit for the three-month period.

Portfolio Investments

The total market value of the portfolio as at June 30, 2020, was \$428.9M, of which \$101.8M was externally restricted. This represents an increase of \$37.7M in the market value since March 31, 2020, and an increase of \$13.1M since June 30, 2019.



The total fund generated an absolute positive return of 10.0% for the quarter, outperforming the benchmark return by 0.7%. The main contributors to this positive return were the Canadian and Global Equity funds which posted positive results for the quarter of 19.4% and 14.7% respectively.

The total fund one-year return was 3.8% for June 2020 which was below the benchmark by 1.8%. All asset classes generated positive returns except for the Canadian Equity and Hedge funds which posted negative returns. The main detractor was one Canadian Equity fund that posted a -8.5% return which was below benchmark by 6.3%.

Liabilities

(in thousands of dollars)	June 30, 2020	March 31, 2020	Increase/ (Decrease)
Grants, author payments and prizes payable	152,599	58,070	94,529
Accounts payable and accrued liabilities	1,856	5,128	(3,272)
Deferred revenues	6,818	6,604	214
Employees future benefits	4,480	4,340	140
Externally restricted contributions	58,517	50,253	8,264
Total	224,270	124,395	99,875

Grants, author payments and prizes payable

The increase of \$94.5M in comparison to the value as at March 31, 2020 arises from the \$55M in additional funding received from the federal government for the COVID-19 Emergency Support Funds for Cultural Heritage and Sports Organizations as well as the base core funding commitments recorded in April 2020, of which one out of two instalments remained to be paid for most organizations at the end of the three-month period.

Accounts payable and accrued liabilities

The decrease of \$3.3M in comparison to the value as at March 31, 2020 is mainly due to a reduction of \$2.5M in commercial invoices due to the timing of the payment schedule and a \$0.7M reduction in payroll accrual liability.

Externally restricted contributions

The increase of \$8.3M in comparison to the value as at March 31, 2020 arises mainly from the externally restricted net proportionate share of the market value increase of the portfolio investment less the realized losses incurred during the quarter.

Non-Financial Assets

(in thousands of dollars)	June 30, 2020	March 31, 2020	Increase/ (Decrease)
Tangible capital assets	11,527	11,446	81
Art Bank assets	19,465	19,465	-
Musical instruments	1	1	-
Prepaid expenses	237	748	(511)
Total	31,230	31,660	(430)

Art Bank Assets

The Council owns approximately 17,170 works of contemporary Canadian art within its Art Bank collection. At June 30, 2020 the appraised value of the Art Bank assets was approximately \$71.7M. 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 June 30, 2020 was US \$46.7M. 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 goal of enterprise risk management is 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 2020 Annual Financial Statements.

Risk Profile

Using the Council's risk appetite as key context, the risk profile is reviewed and updated on an annual basis. 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 risk areas and their mitigation strategies was presented to the Board in January 2020.

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 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 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 first quarter were as follows:

(in thousands of dollars)	June 30	
	2020	2019
Approved annual operating funding		
Vote 1 - Operating costs	362,644	327,644
Statutory Vote - COVID-19 Emergency Support Fund	55,000	-
Supplementary Estimates	-	-
	417,644	327,644
Parliamentary appropriations recorded in the Statement of Operations for the three month period	(175,000)	(113,000)
Balance of operating funding to be received	242,644	214,644



Canada Council
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Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended June 30, 2020
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 is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

August 31, 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)	June 30	March 31
(in thousands of dollars)	2020	2020
FINANCIAL ASSETS		
Cash	\$ 54,804	\$ 21,624
Accounts receivable	3,349	3,347
Portfolio investments (Note 3)	428,917	391,200
Total financial assets	487,070	416,171
LIABILITIES		
Grants, author payments and prizes payable	152,599	58,070
Accounts payable and accrued liabilities	1,856	5,128
Deferred revenues	6,818	6,604
Employee future benefits	4,480	4,340
Deferred revenues - Externally restricted contributions (Note 5)	58,517	50,253
Total liabilities	224,270	124,395
NET FINANCIAL ASSETS	262,800	291,776
NON-FINANCIAL ASSETS		
Tangible capital assets	11,527	11,446
Art Bank assets	19,465	19,465
Musical instruments	1	1
Prepaid expenses	237	748
Total non-financial assets	31,230	31,660
ACCUMULATED SURPLUS (Note 6)	\$ 294,030	\$ 323,436
Accumulated surplus is comprised of:		
Accumulated surplus from operations	260,539	323,468
Accumulated remeasurement gains (losses)	33,491	(32)
ACCUMULATED SURPLUS	\$ 294,030	\$ 323,436

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

Statement of Operations

(Unaudited) (in thousands of dollars)	Yearly Budget 2020-2021	Three months ended June 30	
		2020	2019
Revenue			
Net realized investment income (Note 7)	\$ 13,189	\$ (3,427)	\$ 7,837
Other revenues	2,160	663	927
Total revenues	15,349	(2,764)	8,764
Expenses			
Transfer Programs			
Grants, author payments and prizes	319,711	224,648	157,755
Transfer program delivery	26,016	4,973	4,961
Arts community services	9,232	137	736
	354,959	229,758	163,452
Net Art Bank results (Note 8)	111	(18)	81
Canadian Commission for UNESCO (Note 9)	2,623	320	563
General administration	20,266	5,105	5,333
Total expenses	377,959	235,165	169,429
Deficit from operations before Parliamentary appropriations for the period	(362,610)	(237,929)	(160,665)
Parliamentary appropriations	362,644	175,000	113,000
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	34	(62,929)	(47,665)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	323,468	323,468	304,390
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 323,502	\$ 260,539	\$ 256,725

Statement of Remeasurement Gains and Losses

(Unaudited) (in thousands of dollars)	Three months ended June 30	
	2020	2019
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF PERIOD	\$ (32)	\$ 30,731
Unrealized gains attributable to:		
Portfolio investments	59,069	7,496
Amounts reclassified to the Statement of Operations:		
Portfolio investments	(25,546)	(7,572)
NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD	33,523	(76)
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 33,491	\$ 30,655

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

Statement of Changes in Net Financial Assets

(Unaudited)	Three months ended June 30	
	2020	2019
(in thousands of dollars)		
DEFICIT FROM OPERATIONS FOR THE PERIOD	\$ (62,929)	\$ (47,665)
Acquisition of tangible capital assets	(642)	(323)
Amortization of tangible capital assets	561	489
Acquisition of Art Bank assets	-	(11)
	(81)	155
Acquisition of prepaid expenses	(70)	(71)
Use of prepaid expenses	581	154
	511	83
Net remeasurement gains (losses)	33,523	(76)
DECREASE IN NET FINANCIAL ASSETS	(28,976)	(47,503)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	291,776	305,648
NET FINANCIAL ASSETS, END OF PERIOD	\$ 262,800	\$ 258,145

Statement of Cash Flows

(Unaudited)	Three months ended June 30	
	2020	2019
(in thousands of dollars)		
Operating Transactions		
Deficit from operations for the period	\$ (62,929)	\$ (47,665)
(Gains) losses from disposal of portfolio investments (Note 7)	8,046	(6,034)
Amortization of tangible capital assets	561	489
Decrease in prepaid expenses	511	83
Increase in employee future benefits	140	145
Income transferred to Deferred revenues - Externally restricted contributions from (to) investment income (Note 5)	(1,269)	1,860
Net change in other non-cash items (Note 10)	91,469	82,091
Cash provided by operating activities	36,529	30,969
Capital Transactions		
Acquisition of tangible capital assets	(642)	(323)
Acquisition of Art Bank assets	-	(11)
Cash used by capital activities	(642)	(334)
Investing Transactions		
Acquisition of portfolio investments	(58,809)	(10,059)
Disposal of portfolio investments	56,102	10,921
Cash (used) provided by investing activities	(2,707)	862
NET INCREASE IN CASH	33,180	31,497
CASH, BEGINNING OF PERIOD	21,624	31,235
CASH, END OF PERIOD	\$ 54,804	\$ 62,732

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

Notes to the Financial Statements

For the period ended June 30, 2020

(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 June 30, 2020					Year-end March 31, 2020		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Canadian Equity	41,095	274	1,577	42,398	12	8,205	6,896	2
Global Equity	137,431	225	13,238	150,444	42	139,975	131,213	41
Fixed income	87,148	-	5,204	92,352	26	87,118	87,258	27
Alternatives	20,630	-	10,279	30,909	9	20,630	29,259	9
Canadian Equity	-	-	-	-	0	35,086	28,122	9
Real estate	7,660	-	1,483	9,143	3	7,660	9,802	3
Infrastructure	23,935	158	5,615	29,392	8	23,537	29,958	9
Cash	932	-	-	932	0	1,583	1,583	0
	318,831	657	37,396	355,570	100	323,794	324,091	100
Killam Fund								
Pooled funds								
Canadian Equity	8,855	547	-	8,308	11	8,795	6,959	10
Global Equity	27,239	44	2,617	29,812	41	27,741	26,001	39
Fixed income	17,712	-	1,000	18,712	25	17,704	17,715	26
Alternatives	5,298	-	2,632	7,930	11	5,298	7,507	11
Real estate	1,965	-	385	2,350	3	1,965	2,530	4
Infrastructure	4,224	20	1,384	5,588	8	4,168	5,752	9
Cash	647	-	-	647	1	645	645	1
	65,940	611	8,018	73,347	100	66,316	67,109	100
Total Portfolio investments	384,771	1,268	45,414	428,917		390,110	391,200	

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, 2020. 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 year. 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 their donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8% (March 31, 2020 - 8%) of that Fund with a total fair value of \$28,481,000 (March 31, 2020 - \$25,960,000). The total fair value of the externally restricted investment including the Killam Fund is \$101,828,000 (March 31, 2020 - \$93,069,000).

The long-term objectives of the Canada Council Endowment and Special Funds and the Killam Fund are to generate long-term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital.

The Council invests in units of equity, fixed income and alternative pooled funds and in limited partnership units of three 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.

Asset Classes	Market Value	Minimum	Benchmark	Maximum
Canadian equities	12%	5%	12.5%	20%
Global equities	42%	35%	40%	45%
Fixed income	26%	15%	25%	45%
Alternatives	9%	0%	10%	15%
Real estate	3%	0%	5%	10%
Infrastructure	8%	0%	7.5%	10%
Money market/Cash	0%	0%	0%	10%

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

There are a total of six equity pooled funds: two Canadian funds and four funds that are invested in the global equity markets. The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock Exchange Index (S&P/TSX). The global equities are measured against the returns of the Morgan Stanley Capital International (MSCI) All Country World Index. Investments in the fixed income pooled fund are comprised of a mix of bonds, mortgages, emerging debt and other fixed income instruments. The fixed income fund is measured against the returns of the Financial Times Stock Exchange (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 FTSE 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%.

4. FINANCIAL RISKS AND FAIR VALUE

The measurement categories of the Council's financial instruments, as well as their carrying amounts and fair values are as follows:

(in thousands of dollars)		Year-to-date June 30, 2020	Year-end March 31, 2020
Financial assets and liabilities	Measurement categories	Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
Cash	Fair value	54,804	21,624
Accounts receivable	Amortized cost	3,349	3,347
Portfolio Investments ¹	Fair value	428,917	391,200
Grants, author payments and prizes payable	Amortized cost	152,599	58,070
Accounts payable and accrued liabilities	Amortized cost	1,856	5,128

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:

- Canadian Equity, Global 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 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 predominantly using valuation models with unobservable inputs and for smaller portions using closing market prices when available.
- Real estate and Infrastructure investment values are supplied by the fund managers using internally determined appraisals based on valuation models with unobservable inputs.

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 June 30, 2020				Year-end March 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Cash	54,804	-	-	54,804	21,624	-	-	21,624
	54,804	-	-	54,804	21,624	-	-	21,624
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Canadian Equity	-	42,398	-	42,398	-	6,896	-	6,896
Global Equity	-	150,444	-	150,444	-	131,213	-	131,213
Fixed Income	-	92,352	-	92,352	-	87,258	-	87,258
Alternatives	-	-	30,909	30,909	-	-	29,259	29,259
Canadian Equity	-	-	-	-	28,122	-	-	28,122
Real Estate	-	-	9,143	9,143	-	-	9,802	9,802
Infrastructure	-	-	29,392	29,392	-	-	29,958	29,958
Cash	932	-	-	932	1,583	-	-	1,583
Killam Fund								
Pooled Funds								
Canadian Equity	-	8,308	-	8,308	-	6,959	-	6,959
Global Equity	-	29,812	-	29,812	-	26,001	-	26,001
Fixed Income	-	18,712	-	18,712	-	17,715	-	17,715
Alternatives	-	-	7,930	7,930	-	-	7,507	7,507
Real Estate	-	-	2,350	2,350	-	-	2,530	2,530
Infrastructure	-	-	5,588	5,588	-	-	5,752	5,752
Cash	647	-	-	647	645	-	-	645
	1,579	342,026	85,312	428,917	30,350	276,042	84,808	391,200
Total	56,383	342,026	85,312	483,721	51,974	276,042	84,808	412,824

Level 3 Sensitivity Analysis - In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on unobservable inputs. As the underlying assumptions used in these valuations are not available to the Council, a sensitivity of reasonably possible alternate assumptions for estimation of the fair value measurement of the Level 3 financial instruments is not possible.

5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

The deferred revenues from externally restricted contributions consist of accumulated income received which has been deferred until the resources have been used for the purpose or purposes specified by the endowment. The restricted endowment principal of \$37,569,000 is required to be maintained intact and is reported under accumulated surplus from operations (see Note 6).

<i>(in thousands of dollars)</i>	Year-to-date June 30, 2020	Year-end March 31, 2020
Balance, beginning of period	\$ 50,253	\$ 55,736
Transferred (to) from investment income (Note 7)		
Net Investment income (loss)	(720)	6,908
Use of funds	(549)	(2,206)
	(1,269)	4,702
Unrealized gains (losses) on portfolio investment	10,801	(5,678)
Reclassified to statement of operations - portfolio investments	(1,268)	(4,507)
Balance at end of period	\$ 58,517	\$ 50,253

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

6. ACCUMULATED SURPLUS

<i>(in thousands of dollars)</i>	Year-to-date June 30, 2020	Year-end March 31, 2020
Accumulated surplus from operations		
Endowment - Original contribution	\$ 50,000	\$ 50,000
Endowment principal - Externally restricted contributions	37,569	37,569
Reserve for excess investment income		
Balance at beginning of the period	203,445	190,445
Appropriated from the accumulated surplus during the period	-	13,000
Balance at end of the period	203,445	203,445
Surplus		
Balance at beginning of the period	32,454	26,376
Appropriated to the reserve for excess investment income during the period	-	(13,000)
Surplus (deficit) for the period	(62,929)	19,078
Balance at end of the period	(30,475)	32,454
Total accumulated surplus from operations	260,539	323,468
Accumulated remeasurement gains (losses)		
Balance at beginning of the period	(32)	30,731
Change in fair value	33,523	(30,763)
Balance at end of the period	33,491	(32)
Balance of accumulated surplus at end of period	\$ 294,030	\$ 323,436

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended June 30	
	2020	2019
Gains (losses) from disposal of portfolio Investments	\$ (8,046)	\$ 6,034
Transfer from (to) deferred revenues -		
Externally restricted contributions (Note 5)	1,269	(1,860)
Net gains on foreign exchange	32	277
Interest, dividend and other distributed income	3,706	3,659
Investment portfolio management costs	(388)	(273)
	\$ (3,427)	\$ 7,837

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended June 30	
	2020	2019
Rental revenue	\$ (428)	\$ (354)
Other income	(21)	(53)
Administration expense	430	485
Amortization of other capital assets	1	3
	\$ (18)	\$ 81

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended June 30	
	2020	2019
Program expenses	\$ 150	\$ 421
Program - contributions received	(200)	(250)
Administration expense	370	392
	\$ 320	\$ 563

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended June 30	
	2020	2019
(Increase) decrease in accounts receivable	\$ (2)	\$ 536
Increase in grants, author payments and prizes payable	94,529	80,024
Decrease in accounts payable and accrued liabilities	(3,272)	(2,594)
Increase in deferred revenues	214	4,125
Net change	\$ 91,469	\$ 82,091

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.