



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended September 30, 2020
Published November 30, 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 second quarter and the six-month period ended September 30, 2020 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

The Canada Council for the Arts continued responding to the impact of the COVID-19 pandemic in the arts sector by adjusting programs, introducing new initiatives and delivering emergency funding on behalf of the federal government. Details are provided in the sections below.

The Council's Director and CEO, Simon Brault, conducted numerous interviews with national media to speak about the impact of COVID-19 on the arts sector and the importance of arts in society during these times.

July 2 – Simon Brault joined international arts leaders in a virtual conversation on the current state of the world and how the arts and culture sector could emerge as a more inclusive and equitable space. The virtual talk was organized by the Aga Khan Museum.

July 7 - With the global spread of the COVID-19 pandemic, [Canada's role as Guest of Honour at the Frankfurt Book Fair was postponed to 2021](#). The Fair also announced that its 2020 edition will take place solely virtually. Canada has unveiled to the media its virtual programming for the 2020 Frankfurt Book Fair.

July 14 - The Council launched [Reimagine the Arts](#), a survey that invited stakeholders as well as Council staff and Board to provide input to shape the Council's 2021-26 strategic plan.

August 5 - The Council launched the [UK-Canada Immersive Talent Exchange and Co-production Accelerator initiative](#) in partnership with the Canada Media Fund, the Canadian Film Centre, StoryFutures Academy (UK), the National Centre for Immersive Storytelling (run by the National Film and Television School and Royal Holloway, University of London), and the Arts Council England. The initiative offers a year-long international exchange program dedicated to immersive storytelling.

September 30 – Simon Brault participated in a virtual roundtable with other international arts leaders about the role of culture in society and public policies. The conversations took place within the framework of the 19th edition of the Week of Foreign Cultures in Paris organized by the Canadian embassy in France.

During this quarter the Council awarded prizes to outstanding artists in photography, dance, theatre, literature, music, visual arts and curating. The [Duke and Duchess of York Prize in Photography](#) was awarded to Isabelle Hayeur, the [Jacqueline Lemieux Prize](#) in dance to Travis Knights, the [John Hirsch Prize](#) for new and developing theatre directors to Jonathan Seinen (English language) and Alexia Bürger and Milena Buziak (French language), and the [Joseph S. Stauffer Prizes](#) to Stéfanie Clermont (literature), Carmen Papalia (visual arts) and Tara Williamson (music).

The [2020 Molson Prizes](#) were awarded to Mary Kerr (arts) and David Lyon (humanities). These prizes, administered by the Council in collaboration with the Social Sciences and Humanities Research Council of Canada (SSHRC), are awarded every year to two people—one in the arts and one in the social sciences and humanities—who have distinguished themselves by their outstanding achievements.

Net Results

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2020	2019	Variance	2020	2019	Variance
Revenue	2,287	5,084	(2,797)	(477)	13,847	(14,324)
Expenses	(49,595)	(52,911)	3,316	(284,760)	(222,339)	(62,421)
Government funding	122,800	90,000	32,800	297,800	203,000	94,800
Surplus for the period	75,492	42,173	33,319	12,563	(5,492)	18,055

Overview of the Second Quarter Net Results

The surplus for the quarter was \$75.5M compared to \$42.2M for the same period last year. This variance is explained by an increase in drawdowns of Parliamentary appropriations, following the approval of the 2020-21 Main Estimates by Treasury Board, to address the cashflow requirements following the previous quarter (Q1) deficit of \$63M and the 35% advance payments to core organizations in early May that normally is spread more evenly throughout the year. The Council also received an additional \$7.8M in July for Phase 2 of the COVID-19 Emergency Support Funds - Support for Indigenous and equity-seeking groups and organizations - which was fully delivered by end of August.

The Council will continue to monitor its financial results with the aim of achieving a balanced budget but with a higher granting budget because of the \$62.8M funding received from the federal government to deliver the COVID-19 Emergency Support Funds for Cultural, Heritage and Sports Organizations and an additional \$4.0M coming from savings after the Q1 forecasting exercise.

IMPORTANT CHANGES

Programs

July 7 - The federal government announced that the [Council would distribute \\$7.8M](#) in the second phase of the \$500M COVID-19 Emergency Support Fund for Cultural, Heritage, and Sport Organizations, to alleviate the financial pressure on arts collectives, groups and organizations from Indigenous, culturally diverse, Deaf and disability, and official language minority communities affected by the pandemic.

July 9 - The Council provided a one-year extension of funding to organizations currently holding a core grant for the Literary Publishers component to help them to face the financial impact of the COVID-19 pandemic.

August 4 - The Council published the [results of the Digital Originals initiative](#) that received more than 4,200 applications and delivered over a thousand microgrants for a total investment of \$5.2M to projects in every province and territory and all fields of practice. Over 40% of recipients (410 grants) received their first grant from the Council through this initiative. Also of note is that 44% of Digital Originals recipients were Indigenous and/or from one or more of the Council's equity priority groups.

Operational

Council staff continued working remotely without interruption, delivering services to the arts community and holding virtual peer assessment committee meetings.

Project grants that include international travel continued to be conditional upon the lifting of the Government of Canada's recommendation to avoid non-essential travel outside Canada and/or any restrictions prohibiting foreign nationals from entering Canada.

On July 10, the Council reopened the online portal for those components and competitions that had been cancelled or postponed due to the pandemic.

Leadership and Governance

July 28 - The Minister of Canadian Heritage announced the appointment of [Jesse Wentz](#), writer, broadcaster, speaker, and arts leader, as the new Chair of the Council's Board and first Indigenous leader of a Canadian Heritage portfolio. He was appointed for a 5-year term until July 27, 2025.

September 30 - The Minister announced the appointment of [Gaëtane Verna](#), arts administrator in Toronto, as a new member of the Council's Board until September 29, 2024.

FINANCIAL RESULTS

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

Revenue

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2020	2019	Increase/ (Decrease)	2020	2019	Increase/ (Decrease)
Net realized investment income	1,647	2,738	(1,091)	(1,780)	10,575	(12,355)
Other revenue	640	2,346	(1,706)	1,303	3,272	(1,969)
Total	2,287	5,084	(2,797)	(477)	13,847	(14,324)

Net realized investment income

Net realized investment income was lower than the same period last year due to realized gains of \$1.5M last year in the Equity and Real Estate asset classes and lower distributed income for the quarter compared to last year. The year-to-date variance is 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 \$7.5M in the same period last year. The net realized investment income is still forecasted to be aligned with the budget with distributed income to be received by year-end.

Other revenue

The other revenues for the quarter are lower compared to the same period last year mainly due to transfers received last year from the Departments of Global Affairs Canada and Canadian Heritage for activities related to the 2020 Cervantino Festival and 2020 Frankfurt Book Fair. Other revenues are expected to be aligned with the budget for this year.

Expenses

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2020	2019	Increase/ (Decrease)	2020	2019	Increase/ (Decrease)
Grants, author payments and prizes	38,221	41,349	(3,128)	262,868	199,104	63,764
Transfer program delivery	4,990	5,296	(306)	9,946	10,257	(311)
Arts community services	1,046	1,203	(157)	1,183	1,938	(755)
Net Art Bank results	(52)	(22)	(30)	(70)	59	(129)
Canadian Commission for UNESCO	610	470	140	930	1,033	(103)
General administration	4,780	4,615	165	9,903	9,948	(45)
Total	49,595	52,911	(3,316)	284,760	222,339	62,421

Grants, author payments and prizes

The decrease of \$3.1M in the second quarter, compared to the same period last year, relates to the decrease in grants awarded in the Arts Across Canada and Arts Abroad programs due to the current pandemic and travel restrictions. Funds have been reallocated to other programs but the expenses will come later in the fiscal year. The year-to-date figures show an increase of \$63.8M from the same period last year, directly linked to the additional government funds received for 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 to add the \$62.8M received from the federal government for the COVID-19 Emergency Support Funds for Cultural, Heritage and Sports Organizations. The Council will also reinvest in grants an additional \$4.0M coming from savings identified during its regular forecasting exercise. The total granting budget for 2020-21 is now revised to \$386.5M.

Transfer program delivery

This expense is lower compared to last year due to a decrease in peer and advisory committees' costs because meetings are being done virtually, and in staff travel expenses, due to the travel restrictions imposed by the COVID-19 pandemic.

Arts community services

This expense is lower for the quarter and year-to-date compared to prior year periods resulting from the cancellation or postponements of activities because of the COVID-19 pandemic.

General Administration

This expense is slightly higher for the quarter compared to last year due to a planned increase to the information management expenses, mostly related to the Digital Shift Roadmap in modernizing Council's systems and infrastructure and moving to cloud computing and storage. This increase was offset in part by a decrease in staff travel due to COVID-19 travels bans and by a decrease in printing and office supplies with employees doing telework.

Financial Assets

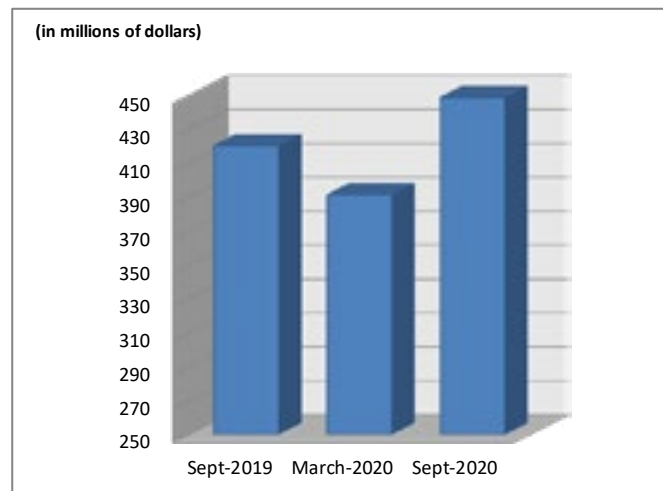
(in thousands of dollars)	September 30	March 31	Increase/ (Decrease)
	2020	2020	
Cash	93,537	21,624	71,913
Accounts receivable	3,366	3,347	19
Portfolio investments	448,671	391,200	57,471
Total	545,574	416,171	129,403

Cash

The increase of \$71.9M in cash is mainly explained by an increase of \$59.0M in grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as of September 30, 2020, plus the \$12.6M surplus for the six-month period.

Portfolio investments

The total market value of the portfolio as at September 30, 2020, was \$448.7M, of which \$106.5M was externally restricted. This represents an increase of \$57.5M in the market value since March 31, 2020, and an increase of \$28.5M since September 30, 2019.



The total fund generated an absolute positive return of 4.6% for the quarter, outperforming the benchmark return by 1.3%. All asset classes generated positive returns during the second quarter, except for Real Estate. The Canadian and Global Equity categories were the main contributors posting returns of 10.3% and 6.6% respectively.

The total fund one-year return was 7.8% for September 2020, outperforming the benchmark by 0.2%. All asset classes generated positive returns for the one-year return, except for Canadian Equity. The Global Equity and Fixed Income Bonds asset classes exceeded their benchmarks by 0.4% and 2.0%, respectively, with strong returns of 11.8% and 9.1% but the Alternative asset class trailed its benchmark by 4.4% with a one-year return of 0.9%.

Liabilities

(in thousands of dollars)	September 30 2020	March 31 2020	Increase/ (Decrease)
Grants, author payments and prizes payable	117,067	58,070	58,997
Accounts payable and accrued liabilities	1,880	5,128	(3,248)
Deferred revenues	6,597	6,604	(7)
Employee future benefits	4,648	4,340	308
Externally restricted contributions	62,902	50,253	12,649
Total	193,094	124,395	68,699

Grants, author payments and prizes payable

The increase of \$59.0M in comparison to the value as at March 31, 2020 arises from an increase in overall funding as well as the timing of payments schedules.

Accounts payable and accrued liabilities

The decrease of \$3.2M 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 \$12.6M 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 and funds used during the quarter.

Non-Financial Assets

(in thousands of dollars)	September 30 2020	March 31 2020	Increase/ (Decrease)
Tangible capital assets	12,009	11,446	563
Art Bank assets	19,465	19,465	-
Musical instruments	1	1	-
Prepaid expenses	352	748	(396)
Total	31,827	31,660	167

Tangible capital assets

The net increase of \$0.6M in comparison to the value as at March 31, 2020 is attributable to continuous investments made as part of the Council's Digital Shift Roadmap to modernize both its technology infrastructure and its systems.

Art Bank assets

The Council owns over 17,170 works of contemporary Canadian art within its Art Bank collection. At September 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 September 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 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 for the six months ended September 30 were as follows:

(in thousands of dollars)	September 30	
	2020	2019
Approved annual operating funding		
Vote 1 - Operating costs	362,644	327,644
Statutory Vote - COVID-19 Emergency Support Fund	62,800	-
	425,444	327,644
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the six-month period	(297,800)	(203,000)
Balance of operating funding to be received	127,644	124,644



Canada Council
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Quarterly

Financial Statements

Unaudited

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

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

November 30, 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)	September 30	March 31
(in thousands of dollars)	2020	2020
FINANCIAL ASSETS		
Cash	\$ 93,537	\$ 21,624
Accounts receivable	3,366	3,347
Portfolio investments (Note 3)	448,671	391,200
Total financial assets	545,574	416,171
LIABILITIES		
Grants, author payments and prizes payable	117,067	58,070
Accounts payable and accrued liabilities	1,880	5,128
Deferred revenues	6,597	6,604
Employee future benefits	4,648	4,340
Deferred revenues - Externally restricted contributions (Note 5)	62,902	50,253
Total liabilities	193,094	124,395
NET FINANCIAL ASSETS	352,480	291,776
NON-FINANCIAL ASSETS		
Tangible capital assets	12,009	11,446
Art Bank assets	19,465	19,465
Musical instruments	1	1
Prepaid expenses	352	748
Total non-financial assets	31,827	31,660
ACCUMULATED SURPLUS (Note 6)	\$ 384,307	\$ 323,436
Accumulated surplus is comprised of:		
Accumulated surplus from operations	336,031	323,468
Accumulated remeasurement gains (losses)	48,276	(32)
ACCUMULATED SURPLUS	\$ 384,307	\$ 323,436

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

Statement of Operations

(Unaudited)	Yearly Budget	Three months ended September 30		Six months ended September 30	
	2020-2021	2020	2019	2020	2019
(in thousands of dollars)					
Revenue					
Net realized investment income (Note 7)	\$ 13,189	\$ 1,647	\$ 2,738	\$ (1,780)	\$ 10,575
Other revenue	2,160	640	2,346	1,303	3,272
Total revenues	15,349	2,287	5,084	(477)	13,847
Expenses					
Transfer Programs					
Grants, author payments and prizes	319,711	38,221	41,349	262,868	199,104
Transfer program delivery	26,016	4,990	5,296	9,946	10,257
Arts community services	9,232	1,046	1,203	1,183	1,938
	354,959	44,257	47,848	273,997	211,299
Net Art Bank results (Note 8)	111	(52)	(22)	(70)	59
Canadian Commission for UNESCO (Note 9)	2,623	610	470	930	1,033
General administration	20,266	4,780	4,615	9,903	9,948
Total expenses	377,959	49,595	52,911	284,760	222,339
Deficit from operations before Parliamentary appropriations for the period	(362,610)	(47,308)	(47,827)	(285,237)	(208,492)
Parliamentary appropriations	362,644	122,800	90,000	297,800	203,000
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	34	75,492	42,173	12,563	(5,492)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	323,468	260,539	256,725	323,468	304,390
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 323,502	\$ 336,031	\$ 298,898	\$ 336,031	\$ 298,898

Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2020	2019	2020	2019
(in thousands of dollars)				
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF PERIOD	\$ 33,491	\$ 30,655	\$ (32)	\$ 30,731
Unrealized gains attributable to:				
Portfolio investments	14,775	2,837	73,844	10,333
Amounts reclassified to the Statement of Operations:				
Portfolio investments	10	(992)	(25,536)	(8,564)
NET REMEASUREMENT GAINS FOR THE PERIOD	14,785	1,845	48,308	1,769
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 48,276	\$ 32,500	\$ 48,276	\$ 32,500

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

Statement of Change in Net Financial Assets

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2020	2019	2020	2019
(in thousands of dollars)				
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	\$ 75,492	\$ 42,173	\$ 12,563	\$ (5,492)
Acquisition of tangible capital assets	(1,043)	(749)	(1,685)	(1,072)
Amortization of tangible capital assets	561	492	1,122	981
Acquisition of Art Bank assets	-	-	-	(11)
	(482)	(257)	(563)	(102)
Acquisition of prepaid expenses	(227)	(287)	(297)	(358)
Use of prepaid expenses	112	63	693	217
	(115)	(224)	396	(141)
Net remeasurement gains	14,785	1,845	48,308	1,769
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	89,680	43,537	60,704	(3,966)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	262,800	258,145	291,776	305,648
NET FINANCIAL ASSETS, END OF PERIOD	\$ 352,480	\$ 301,682	\$ 352,480	\$ 301,682

Statement of Cash Flow

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2020	2019	2020	2019
(in thousands of dollars)				
Operating Transactions				
Surplus (deficit) from operations for the period	\$ 75,492	\$ 42,173	\$ 12,563	\$ (5,492)
(Gains) losses from disposal of portfolio investments (Note 7)	(5)	(1,480)	8,041	(7,514)
Amortization of tangible capital assets	561	492	1,122	981
(Increase) decrease in prepaid expenses	(115)	(224)	396	(141)
Increase in employee future benefits	168	145	308	290
Income transferred to Deferred revenues - Externally restricted contributions from (to) investment income (Note 5)	(167)	441	(1,436)	2,301
Net change in other non-cash items (Note 10)	(35,746)	(47,991)	55,723	34,100
Cash provided (used) by operating activities	40,188	(6,444)	76,717	24,525
Capital Transactions				
Acquisition of tangible capital assets	(1,043)	(749)	(1,685)	(1,072)
Acquisition of Arts Bank assets	-	-	-	(11)
Cash used by capital activities	(1,043)	(749)	(1,685)	(1,083)
Investing Transactions				
Acquisition of portfolio investments	(574)	(4,573)	(59,383)	(14,632)
Disposal of portfolio investments	162	4,114	56,264	15,035
Cash (used) provided by investing activities	(412)	(459)	(3,119)	403
NET INCREASE (DECREASE) IN CASH	38,733	(7,652)	71,913	23,845
CASH, BEGINNING OF PERIOD	54,804	62,732	21,624	31,235
CASH, END OF PERIOD	\$ 93,537	\$ 55,080	\$ 93,537	\$ 55,080

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

Notes to the Financial Statements

For the period ended September 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 September 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	41,463	-	5,302	46,765	13	8,205	6,896	2
Global Equity	137,431	-	22,974	160,405	43	139,975	131,213	41
Fixed income	87,252	-	6,034	93,286	25	87,118	87,258	27
Alternatives	20,630	-	11,048	31,678	9	20,630	29,259	9
Canadian Equity	-	-	-	-	-	35,086	28,122	9
Real estate	7,660	-	1,492	9,152	2	7,660	9,802	3
Infrastructure	23,795	243	6,202	29,754	8	23,537	29,958	9
Cash	934	-	-	934	-	1,583	1,583	-
	319,165	243	53,052	371,974	100	323,794	324,091	100
Killam Fund								
Pooled funds								
Canadian Equity	8,931	-	260	9,191	12	8,795	6,959	10
Global Equity	27,239	-	4,546	31,785	41	27,741	26,001	39
Fixed income	17,738	-	1,176	18,914	25	17,704	17,715	26
Alternatives	5,298	-	2,829	8,127	11	5,298	7,507	11
Real estate	1,965	-	387	2,352	3	1,965	2,530	4
Infrastructure	4,206	31	1,505	5,680	7	4,168	5,752	9
Cash	648	-	-	648	1	645	645	1
	66,025	31	10,703	76,697	100	66,316	67,109	100
Total investments	385,190	274	63,755	448,671		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 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, 2020 - 8%) of that Fund with a total fair value of \$29,795,000 (March 31, 2020 - \$25,960,000). The total fair value of the externally restricted investment including the Killam Fund is \$106,492,000 (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 (March 31, 2020 - also into a segregated Canadian equity fund). 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	43%	35%	40%	45%
Fixed income	25%	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:

		Year-to-date	Year-end
		September 30, 2020	March 31, 2020
		Carrying amount	Carrying amount
		and fair value (\$)	and fair value (\$)
<i>(in thousands of dollars)</i>			
Financial assets and liabilities and classifications		Measurement categories	
Cash	Fair value	93,537	21,624
Accounts receivable	Amortized cost	3,366	3,347
Portfolio Investments ¹	Fair value	448,671	391,200
Grants, author payments and prizes payable	Amortized cost	117,067	58,070
Accounts payable and accrued liabilities	Amortized cost	1,880	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 September 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	93,537	-	-	93,537	21,624	-	-	21,624
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Canadian Equity	-	46,765	-	46,765	-	6,896	-	6,896
Global Equity	-	160,405	-	160,405	-	131,213	-	131,213
Fixed Income	-	93,286	-	93,286	-	87,258	-	87,258
Alternatives	-	-	31,678	31,678	-	-	29,259	29,259
Canadian Equity	-	-	-	-	28,122	-	-	28,122
Real Estate	-	-	9,152	9,152	-	-	9,802	9,802
Infrastructure	-	-	29,754	29,754	-	-	29,958	29,958
Cash	934	-	-	934	1,583	-	-	1,583
Killam Fund								
Pooled Funds								
Canadian Equity	-	9,191	-	9,191	-	6,959	-	6,959
Global Equity	-	31,785	-	31,785	-	26,001	-	26,001
Fixed Income	-	18,914	-	18,914	-	17,715	-	17,715
Alternatives	-	-	8,127	8,127	-	-	7,507	7,507
Real Estate	-	-	2,352	2,352	-	-	2,530	2,530
Infrastructure	-	-	5,680	5,680	-	-	5,752	5,752
Cash	648	-	-	648	645	-	-	645
	1,582	360,346	86,743	448,671	30,350	276,042	84,808	391,200
Total	95,119	360,346	86,743	542,208	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).

	Year-to-date	Year-end
	September 30, 2020	March 31, 2020
(in thousands of dollars)		
Balance, beginning of period	\$ 50,253	\$ 55,736
Transferred (to) from net investment income (Note 7)		
Net Investment income (loss)	(522)	6,908
Use of funds	(914)	(2,206)
	(1,436)	4,702
Unrealized gains (losses) on portfolio investments	15,351	(5,678)
Reclassified to statement of operations - portfolio investments	(1,266)	(4,507)
Balance at end of period	\$ 62,902	\$ 50,253

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

	Year-to-date	Year-end
	September 30, 2020	March 31, 2020
(in thousands of dollars)		
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	203,445	190,445
Appropriated from the accumulated surplus during the period	-	13,000
Balance at end of period	203,445	203,445
Surplus		
Balance at beginning of period	32,454	26,376
Appropriated to the reserve for excess investment income during the period	-	(13,000)
Surplus for the period	12,563	19,078
Balance at end of period	45,017	32,454
Total accumulated surplus from operations	336,031	323,468
Accumulated remeasurement gains (losses)		
Balance at beginning of period	(32)	30,731
Change in fair value	48,308	(30,763)
Balance at end of period	48,276	(32)
Balance of accumulated surplus at end of period	\$ 384,307	\$ 323,436

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2020	2019	2020	2019
Gains (losses) from disposal of portfolio investments	\$ 5	\$ 1,480	\$ (8,041)	\$ 7,514
Transfer from (to) deferred revenues -				
Externally restricted contributions (Note 5)	167	(441)	1,436	(2,301)
Net gains on foreign exchange	-	14	32	291
Interest, dividend and other distributed income	1,744	2,143	5,450	5,802
Investment portfolio management costs	(269)	(458)	(657)	(731)
	\$ 1,647	\$ 2,738	\$ (1,780)	\$ 10,575

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2020	2019	2020	2019
Rental revenue	\$ (398)	\$ (419)	\$ (826)	\$ (773)
Other income	(21)	(32)	(42)	(85)
Administration expense	368	427	798	912
Amortization of other capital assets	(1)	2	-	5
	\$ (52)	\$ (22)	\$ (70)	\$ 59

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2020	2019	2020	2019
Program expenses	\$ 296	\$ 241	\$ 446	\$ 662
Program - contributions received	(20)	(150)	(220)	(400)
Administration expense	334	379	704	771
	\$ 610	\$ 470	\$ 930	\$ 1,033

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2020	2019	2020	2019
(Increase) decrease in accounts receivable	\$ (17)	\$ (110)	\$ (19)	\$ 426
(Decrease) increase in grants, author payments and prizes payable	(35,532)	(45,846)	58,997	34,178
Increase (decrease) in accounts payable and accrued liabilities	24	(93)	(3,248)	(2,687)
(Decrease) increase in deferred revenues	(221)	(1,942)	(7)	2,183
Net change	\$ (35,746)	\$ (47,991)	\$ 55,723	\$ 34,100

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.