



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended December 31, 2021
Published February 28, 2022



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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 third quarter and the nine-month period ended December 31, 2021 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 through its programs, new initiatives and the delivery of recovery funding on behalf of the federal government. Details are provided below.

November 4 - The Council made available \$25 million in 2021-22 to enable recipients of core funding to invest in activities aimed at re-engaging with existing audiences and building new ones. As of December 31, over 1,000 arts organizations have accepted this funding. This \$25 million was part of an investment of \$75 million from the federal government over the course of the 2021-22 and 2022-23 fiscal years to support sector reopening and recovery ([Recovery and Reopening Funds](#)).

November 17 - The Council has announced the [2021 winners of the Governor General's Literary Awards \(GGBooks\)](#). After an extensive peer-review process, the 14 most outstanding books of the year published in Canada were chosen from among 70 finalists. With a wide range of literary genres honoured (seven categories) and the eligibility of works published in both of Canada's official languages, GGbooks Awards remain the most comprehensive of their kind in the country.

November 26 - The Council released its [Strategic Plan Actions](#) under the Priorities section of its website. The actions are guided by and fall under the three directions of the Council's 2021-26 Strategic Plan, *Art, now more than ever*: Invest in rebuilding and innovation, Amplify the benefits of the arts for society, and Nurture and expand collaboration and partnerships. As the implementation of the Strategic Plan progresses over the next five years, the Council will refine these actions and initiatives and add new ones.

November 30 and December 1 - The Council held two [Community Conversations](#) to engage the arts sector on strategies for fostering a more innovative, equitable and sustainable future through its 2021-26 Strategic Plan and its implementation. More than 260 participants from across Canada exchanged ideas largely around the themes of innovation, equity and partnerships.

December 7 - The results from the [Arts and Heritage Access and Availability Survey 2020-2021](#) were released. This survey is the result of a partnership between Canadian Heritage and the Council and collects information on Canadians' behaviours and attitudes related to arts, culture, and heritage. The report highlights the impact of the pandemic on cultural participation.

December 16 - The [2021 Walter Carson Prize](#) has been awarded to guitarist and composer Don Ross, whose fingerpicking is recognized as one of the most innovative of its time. Granted annually and following the dance-theatre-dance-music alternating discipline scheme, this prize recognizes the highest level of artistic merit and distinguished career achievement by a Canadian professional artist.

Net Results

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2021	2020	Variance	2021	2020	Variance
Revenue	14,882	14,766	116	27,154	14,289	12,865
Expenses	(54,288)	(40,158)	(14,130)	(369,845)	(324,918)	(44,927)
Government funding	60,000	45,127	14,873	406,500	342,927	63,573
Surplus for the period	20,594	19,735	859	63,809	32,298	31,511

Overview of the Third Quarter Net Results

The surplus for the quarter was \$20.6M compared to \$19.7M for the same period last year. The increase in grants expenses was offset by the increase in government funding. During the quarter the Council received an additional \$25M in funding announced over the summer by the federal government to relaunch the arts sector and to resume its public activities which was distributed to core organizations in the same quarter. This increase in grant expenses was offset partly by grants distributed during the same period last year though the Digital Strategy Fund which ended March 2021 and timing of some grants competitions results that will be recorded in the last quarter only.

The Council will continue to monitor its financial results with the aim of achieving a balanced budget, excluding the excess in net investment income over budget which must be reinvested as per the investment policy. The granting budget will be much higher with new funding received throughout the year but will be offset by the increase in government funding.

IMPORTANT CHANGES

Operational

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

November 30 – The Council launched the [Strategic Innovation Fund](#) to support artists and arts organizations to create meaningful change in the arts sector and beyond through innovation. More than \$200 million will be invested over the next five years to build a more resilient, sustainable, connected, inclusive and equitable arts sector. The Fund includes [five types of innovation grants](#) consisting of three new funding components (Seed, Cultivate and Grow), and two digital support components (Digital Generator and Digital Greenhouse). The Strategic Innovation Fund will also support [partnerships](#) across sectors to help arts organizations find solutions to complex social problems and amplify its reach.

Leadership and Governance

November 8 – Régine Cadet joined the Council as the new Director of the Explore and Create Program.

December 13 – The Minister of Canadian Heritage has announced the appointment of Ingrid Leong from Vancouver, British Columbia as a member of the Canada Council for the Arts Board for a term of four years, effective December 13, 2021.

December 17 – The Minister of Canadian Heritage has announced the appointment of Marie Pier Germain from Montreal, Quebec as Vice-Chair of the Canada Council for the Arts Board for a term of four years, effective December 17, 2021.

FINANCIAL RESULTS

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

Revenues

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2021	2020	Increase/ (Decrease)	2021	2020	Increase/ (Decrease)
Net realized investment income	14,273	13,117	1,156	20,517	11,337	9,180
Other revenue	609	1,649	(1,040)	6,637	2,952	3,685
Total	14,882	14,766	116	27,154	14,289	12,865

Net realized investment income

Net realized investment income for the quarter was higher by \$1.2M compared to the prior year period. Realized gains were higher than the prior year period by \$1.1M with the sales of assets in the Real Estate and Infrastructure asset classes and the distributed investment income was higher than the prior period by \$3.1M. These increases were offset by a transfer of \$2.7M from externally restricted contributions to deferred revenues due to the timing of the expenses not yet incurred.

The \$9.2M increase for the nine-month comparative period is mainly due to realized losses of \$8.0M recorded last year after the sales of assets in the Canadian and Global equity asset classes. The increase of \$5.7M in distributed income for the cumulative period was offset by a bigger transfer of \$5.4M from externally restricted contributions to deferred revenues compared to the prior year period due to the timing of the expenses of these restricted contributions.

The net realized investment income is now forecasted to be higher than the budget with the distributed income received so far and with the additional expected realized gain of \$19M with the sale of the hedge fund in January 2022. The excess in net investment income is reinvested in the portfolio as per the investment policy and therefore cannot be used to supplement expenses.

Other revenue

Other revenues include the cancellation of grants awarded in previous years, donations, and other sources of revenues received. The other revenues for the quarter are lower compared to the same period last year mainly due to a final transfer of \$1.2M received for that period last year from the Departments of Global Affairs Canada and Canadian Heritage for activities related to the 2020 Frankfurt Book Fair.

The cumulative variance of \$3.7M in other revenues is due to a notable increase in grants cancellations of \$4.0M due to adjustments or cancelled events because of COVID-19. Other revenues are expected to be much higher than budgeted and any excess will be returned to the granting budget.

Expenses

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2021	2020	Increase/ (Decrease)	2021	2020	Increase/ (Decrease)
Grants, author payments and prizes	42,782	28,351	14,431	334,659	291,219	43,440
Transfer program delivery	5,209	5,632	(423)	16,308	15,578	730
Arts community services	912	407	505	1,459	1,590	(131)
Net Art Bank results	9	8	1	14	(62)	76
Canadian Commission for UNESCO	592	660	(68)	1,319	1,590	(271)
General administration	4,784	5,100	(316)	16,086	15,003	1,083
Total	54,288	40,158	14,130	369,845	324,918	44,927

Grants, author payments and prizes

The increase in the third quarter, compared to last year, is mainly due to a combination of elements: the \$25.0M Reopening Fund received in the quarter from the federal government to support events and in-person experiences that was distributed to core organizations, less a \$5.3M recorded as expenses last year for the Digital Strategy Fund and the timing in competitions in various programs. The increase for the cumulative nine-month period is also a combination of elements: the difference in the amounts received over the two fiscal years as emergency support for various initiatives related to COVID-19, less the grants distributed to the Digital Strategy Fund last year and timing of competitions.

The planned annual budget of \$435.3M for grants, author payments and prizes, which included the additional \$116.5M received from the federal government as emergency funding to support arts and live events workers in response to COVID-19, has been revised upwards following the announcement in June 2021 that the Council will be receiving an additional \$25M in 2021-22 and \$50M in 2022-23 to relaunch the arts sector and to resume its public activities and the receipt of an additional \$4.5M to support arts and live events workers in response to COVID-19 in the last quarter. The total granting budget for 2021-22 is now revised to \$467.8M including savings of \$3.0M identified during forecasting exercises.

Transfer program delivery

This expense is slightly lower for the quarter compared to the same period last year due to the timing of the peer and advisory committee's meetings. The year-to-date figures shows an increase of \$0.7M which is explained mainly by the increase in salaries and benefits for program staff as per the collective agreement and higher peer and advisory committees' costs with the increase in per diem honorarium which was possible with the savings in travel expenses with having virtual meetings instead of in-person meetings.

General Administration

This expense is slightly lower for the quarter compared to the same period last year due to savings in salaries and benefits with some vacant positions. The year-to-date figures shows an increase of \$1.1M which is explained mainly by a planned increase to the professional services fees, information management and amortization expenses related to the Digital Shift Roadmap in modernizing Council's systems and infrastructure and moving to cloud computing and storage. This increase was slightly offset by savings in salaries and benefits with some vacant positions.

Financial Assets

(in thousands of dollars)	December 31	March 31	Increase/ (Decrease)
	2021	2021	
Cash	177,270	81,065	96,205
Accounts receivable	3,944	2,925	1,019
Portfolio investments	529,529	479,820	49,709
Total	710,743	563,810	146,933

Cash

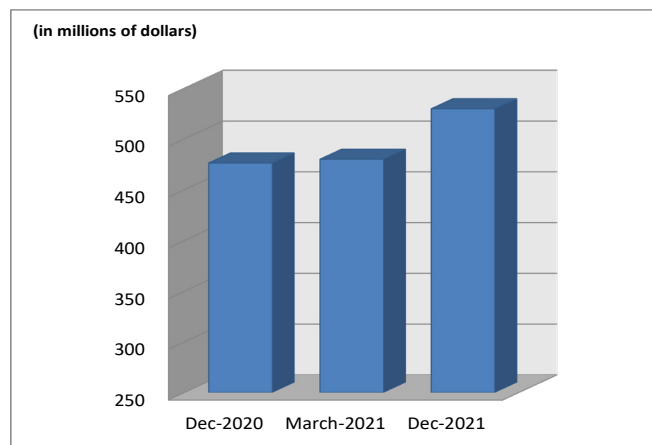
The increase of \$96.2M in cash is mainly explained by the increase of \$53.0M in grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as at December 31, 2021, plus the \$63.8M surplus for the nine-month period less \$2.4M of realized gains from disposal of portfolio investments and \$18.1M of reinvested distributed investment income for which no cash was received.

Accounts receivables

The increase of \$1.0M in accounts receivables is mainly explained by higher accrued investment income compared to the same period last year and also higher receivables from Art Bank clients explained by the increase in rental revenues of artworks.

Portfolio investments

The total market value of the portfolio as at December 31, 2021, was \$529.5M, of which \$126.2M was externally restricted. This represents an increase of \$49.7M in the market value since March 31, 2021, and an increase of \$53.4M since December 31, 2020.



The total fund generated an absolute positive return of 3.95% for the quarter, underperforming the benchmark return by 0.7%. The Canadian and Global Equity categories were the main detractors posting returns of 5.1% and 6.0% compared to their respective benchmark of 6.5% and 6.4%.

The total fund one-year return was 12.4% for December 2021, outperforming the benchmark by 1.0%. All asset classes generated positive results for the one-year return, except for Fixed Income. The Global and Canadian Equity asset classes, representing 60% of the portfolio, posted strong returns of 20.3% and 17.7% respectively.

Liabilities

(in thousands of dollars)	December 31 2021	March 31 2021	Increase/ (Decrease)
Grants, author payments and prizes payable	172,544	119,590	52,954
Accounts payable and accrued liabilities	4,091	5,565	(1,474)
Deferred revenues	5,236	6,506	(1,270)
Employee future benefits	5,627	5,155	472
Externally restricted contributions	82,681	71,273	11,408
Total	270,179	208,089	62,090

Grants, author payments and prizes payable

The increase of \$53.0M in comparison to the value as at March 31, 2021 arises from an increase in overall funding as well as the timing of payments schedules.

Accounts payable and accrued liabilities

The decrease of \$1.5M in comparison to the value as at March 31, 2021 is due to a reduction in commercial invoices due to the timing of the payment schedule.

Externally restricted contributions

The increase of \$11.4M in comparison to the value as at March 31, 2021 arises mainly from the externally restricted net proportionate share of the market value increase of the portfolio investments since the beginning of the fiscal year.

Non-Financial Assets

(in thousands of dollars)	December 31 2021	March 31 2021	Increase/ (Decrease)
Tangible capital assets	13,609	13,078	531
Art Bank assets	19,327	19,466	(139)
Musical instruments	1	1	-
Prepaid expenses	403	774	(371)
Total	33,340	33,319	21

Tangible capital assets

The net increase of \$0.5M in comparison to the value as at March 31, 2021 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 17,155 works of contemporary Canadian art within its Art Bank collection. At December 31, 2021 the appraised value of the Art Bank assets was approximately \$73.2M. 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 fourteen instruments on loan. The appraised value of its musical instruments as at December 31, 2021 was US \$46.2M. 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.

Prepaid expenses

The net decrease of \$0.4M in comparison to the value as at March 31, 2021 is attributable to prepaid contracts with Microsoft Azure for cloud storage and with Unit4 for licences for 2021-22 which were paid in March 2021.

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 2021 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 October 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 nine months ended December 31 were as follows:

	December 31	
	2021	2020
(in thousands of dollars)		
Approved annual operating funding		
Vote 1 - Operating costs	364,062	362,644
Statutory Vote - COVID-19 Emergency	-	62,800
Supplementary Estimates (A)	116,500	127
Supplementary Estimates (B)	25,000	-
	505,562	425,571
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the nine-month period	(406,500)	(342,927)
Balance of operating funding to be received	99,062	82,644



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Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended December 31, 2021
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's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports, and for such internal controls as management determines are necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

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

February 28, 2022



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



Tania Kingsberry, CPA, CA
Chief Financial Officer

Statement of Financial Position

(Unaudited)		
(in thousands of dollars)	December 31	March 31
	2021	2021
FINANCIAL ASSETS		
Cash	\$ 177,270	\$ 81,065
Accounts receivable	3,944	2,925
Portfolio investments (Note 3)	529,529	479,820
Total financial assets	710,743	563,810
LIABILITIES		
Grants, author payments and prizes payable	172,544	119,590
Accounts payable and accrued liabilities	4,091	5,565
Deferred revenues	5,236	6,506
Employee future benefits	5,627	5,155
Deferred revenues - Externally restricted contributions (Note 5)	82,681	71,273
Total liabilities	270,179	208,089
NET FINANCIAL ASSETS	440,564	355,721
NON-FINANCIAL ASSETS		
Tangible capital assets	13,609	13,078
Art Bank assets	19,327	19,466
Musical instruments	1	1
Prepaid expenses	403	774
Total non-financial assets	33,340	33,319
ACCUMULATED SURPLUS (Note 6)	\$ 473,904	\$ 389,040
Accumulated surplus is comprised of:		
Accumulated surplus from operations	407,057	343,248
Accumulated remeasurement gains (losses)	66,847	45,792
ACCUMULATED SURPLUS	\$ 473,904	\$ 389,040

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

Statement of Operations

(Unaudited) (in thousands of dollars)	Yearly Budget	Three months ended December 31		Nine months ended December 31	
	2021-2022	2021	2020	2021	2020
Revenue					
Net realized investment income (Note 7)	\$ 12,245	\$ 14,273	\$ 13,117	\$ 20,517	\$ 11,337
Other revenue	1,992	609	1,649	6,637	2,952
Total revenue	14,237	14,882	14,766	27,154	14,289
Expenses					
Transfer Programs					
Grants, author payments and prizes	435,293	42,782	28,351	334,659	291,219
Transfer program delivery	24,788	5,209	5,632	16,308	15,578
Arts community services	10,327	912	407	1,459	1,590
	470,408	48,903	34,390	352,426	308,387
Net Art Bank results (Note 8)	300	9	8	14	(62)
Canadian Commission for UNESCO (Note 9)	2,581	592	660	1,319	1,590
General administration	21,487	4,784	5,100	16,086	15,003
Total expenses	494,776	54,288	40,158	369,845	324,918
Deficit from operations before Parliamentary appropriations for the period	(480,539)	(39,406)	(25,392)	(342,691)	(310,629)
Parliamentary appropriations	480,562	60,000	45,127	406,500	342,927
SURPLUS FROM OPERATIONS FOR THE PERIOD	23	20,594	19,735	63,809	32,298
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	343,248	386,463	336,031	343,248	323,468
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 343,271	\$ 407,057	\$ 355,766	\$ 407,057	\$ 355,766

Statement of Remeasurement Gains and Losses

(Unaudited) (in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2021	2020	2021	2020
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF PERIOD	\$ 61,620	\$ 48,276	\$ 45,792	\$ (32)
Unrealized gains attributable to:				
Portfolio investments	5,372	18,830	21,540	61,144
Amounts reclassified to the Statement of Operations:				
Portfolio investments	(145)	(3,603)	(485)	2,391
NET REMEASUREMENT GAINS FOR THE PERIOD	5,227	15,227	21,055	63,535
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 66,847	\$ 63,503	\$ 66,847	\$ 63,503

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

Statement of Change in Net Financial Assets

(Unaudited) (in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2021	2020	2021	2020
SURPLUS FROM OPERATIONS FOR THE PERIOD	\$ 20,594	\$ 19,735	\$ 63,809	\$ 32,298
Acquisition of tangible capital assets	(832)	(771)	(2,505)	(2,456)
Amortization of tangible capital assets	657	561	1,974	1,683
Disposal/Donation of Art Bank assets	-	-	139	-
	(175)	(210)	(392)	(773)
Acquisition of prepaid expenses	(120)	(124)	(562)	(421)
Use of prepaid expenses	36	4	933	697
	(84)	(120)	371	276
Net remeasurement gains	5,227	15,227	21,055	63,535
INCREASE IN NET FINANCIAL ASSETS	25,562	34,632	84,843	95,336
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	415,002	352,480	355,721	291,776
NET FINANCIAL ASSETS, END OF PERIOD	\$ 440,564	\$ 387,112	\$ 440,564	\$ 387,112

Statement of Cash Flow

(Unaudited) (in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2021	2020	2021	2020
Operating Transactions				
Surplus from operations for the period	\$ 20,594	\$ 19,735	\$ 63,809	\$ 32,298
(Gains) losses from disposal of portfolio investments (Note 7)	(2,055)	(913)	(2,430)	7,128
Dividend and other distributed income - reinvested (Note 7)	(13,060)	(7,165)	(18,069)	(9,803)
Amortization of tangible capital assets	657	561	1,974	1,683
Disposal/Donation of Art Bank assets	-	-	139	-
(Increase) decrease in prepaid expenses	(84)	(120)	371	276
Increase in employee future benefits	157	168	472	476
Income transferred to (from) Deferred revenues - Externally restricted contributions from (to) investment income (Note 5)	3,557	859	4,834	(577)
Net change in other non-cash items (Note 10)	(44,674)	(10,456)	49,191	45,267
Cash (used) provided by operating activities	(34,908)	2,669	100,291	76,748
Capital Transactions				
Cash used to acquire tangible capital and Art Bank assets	(832)	(771)	(2,505)	(2,456)
Investing Transactions				
Acquisition of portfolio investments	(38,344)	(3,202)	(41,511)	(59,947)
Disposal of portfolio investments	38,839	3,754	39,930	60,018
Cash used by investing activities	495	552	(1,581)	71
NET INCREASE (DECREASE) IN CASH	(35,245)	2,450	96,205	74,363
CASH, BEGINNING OF PERIOD	212,515	93,537	81,065	21,624
CASH, END OF PERIOD	\$ 177,270	\$ 95,987	\$ 177,270	\$ 95,987

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

Notes to the Financial Statements

For the period ended December 31, 2021

(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 sections 89.8 to 89.92, of Division I, subsection 105(2) and sections 113.1 and 119 of Division II, sections 131 to 148 of Division III and section 154.01 of Division IV. The Council is a Crown corporation whose objectives are to foster and promote the study and enjoyment of, and the production of works in, the arts.

The Council achieves its objectives primarily through grant programs to professional Canadian artists and arts organizations. The Council incurs administration and services expenses in the delivery of programs. Transfer Program delivery expenses represent the direct costs of program delivery. Arts community services expenses represent costs incurred for non-grant activities in fulfillment of the Council's mandate. General administration costs represent the costs related to corporate management, communications, human resources, information management, finance, accommodation and amortization.

The Canadian Commission for UNESCO (CCUNESCO) was established by the Canada Council pursuant to a 1957 Order in Council. The CCUNESCO acts as a forum for governments and civil society to mobilize the participation of Canadians in UNESCO's mandated areas of education, natural and social sciences, and culture, communication and information. The Secretariat for the CCUNESCO is provided by the Canada Council and led by a Secretary General who reports directly to the Director and Chief Executive Officer.

3. PORTFOLIO INVESTMENTS

	Year-to-date December 31, 2021					Year-end March 31, 2021		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Canadian Equity	47,658	-	15,770	63,428	14	43,853	56,904	14
Global Equity	173,942	2,261	36,857	208,538	48	163,732	182,055	46
Fixed income	60,773	405	153	60,521	14	87,460	87,523	22
Alternatives	20,630	-	14,791	35,421	8	20,630	33,986	9
Money market	30,494	608	-	29,886	7	-	-	-
Real estate	7,293	-	1,718	9,011	2	7,557	8,640	2
Infrastructure	23,743	221	7,205	30,727	7	22,708	26,943	7
Cash	941	-	-	941	-	937	937	-
	365,474	3,495	76,494	438,473	100	346,877	396,988	100
Killam Fund								
Pooled funds								
Canadian Equity	10,188	-	2,275	12,463	14	9,419	11,205	14
Global Equity	36,640	467	7,568	43,741	48	34,500	38,183	46
Fixed income	12,097	87	40	12,050	13	17,790	17,795	21
Alternatives	5,298	-	3,790	9,088	10	5,298	8,720	10
Money market	6,280	125	-	6,155	7	-	-	-
Real estate	1,873	-	435	2,308	2	1,939	2,213	3
Infrastructure	3,823	56	1,484	5,251	6	3,769	4,716	6
	76,199	735	15,592	91,056	100	72,715	82,832	100
Total portfolio investments	441,673	4,230	92,086	529,529		419,592	479,820	

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, 2021. 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 manages two separate portfolios, the Canada Council Endowment 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, 2021 - 8%) of that Fund with a total fair value of \$35,122,000 (March 31, 2021 - \$31,799,000). The total fair value of the externally restricted investment including the Killam Fund is \$126,178,000 (March 31, 2021 - \$114,631,000).

The long-term objectives of the Canada Council Endowment and Special Funds as well as 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, money market and alternative pooled funds, and in limited partnership units of two 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	14%	10%	14%	20%
Global equities	48%	40%	46%	55%
Fixed income	14%	15%	20%	30%
Alternatives	8%	0%	0%	10%
Real estate	2%	0%	10%	15%
Infrastructure	7%	0%	10%	15%
Money market/Cash	7%	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
		December 31, 2021	March 31, 2021
		Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
<i>(in thousands of dollars)</i>			
Financial assets and liabilities and classifications		Measurement categories	
Cash	Fair value	177,270	81,065
Accounts receivable	Amortized cost	3,944	2,925
Portfolio Investments ¹	Fair value	529,529	479,820
Grants, author payments and prizes payable	Amortized cost	172,544	119,590
Accounts payable and accrued liabilities	Amortized cost	4,091	5,565

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 external 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 external 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 December 31, 2021				Year-end March 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Cash	177,270	-	-	177,270	81,065	-	-	81,065
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Canadian Equity	-	63,428	-	63,428	-	56,904	-	56,904
Global Equity	-	208,538	-	208,538	-	182,055	-	182,055
Fixed Income	-	60,521	-	60,521	-	87,523	-	87,523
Alternatives	-	-	35,421	35,421	-	-	33,986	33,986
Money Market	-	29,886	-	29,886	-	-	-	-
Real Estate	-	-	9,011	9,011	-	-	8,640	8,640
Infrastructure	-	-	30,727	30,727	-	-	26,943	26,943
Cash	941	-	-	941	937	-	-	937
Killam Fund								
Pooled Funds								
Canadian Equity	-	12,463	-	12,463	-	11,205	-	11,205
Global Equity	-	43,741	-	43,741	-	38,183	-	38,183
Fixed Income	-	12,050	-	12,050	-	17,795	-	17,795
Alternatives	-	-	9,088	9,088	-	-	8,720	8,720
Money Market	-	6,155	-	6,155	-	-	-	-
Real Estate	-	-	2,308	2,308	-	-	2,213	2,213
Infrastructure	-	-	5,251	5,251	-	-	4,716	4,716
	941	436,782	91,806	529,529	937	393,665	85,218	479,820
Total	178,211	436,782	91,806	706,799	82,002	393,665	85,218	560,885

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).

(in thousands of dollars)	Year-to-date	Year-end
	December 31, 2021	March 31, 2021
Balance, beginning of period	\$ 71,273	\$ 50,253
Transferred (to) from net investment income (Note 7)		
Net Investment income	5,945	9,607
Use of funds	(1,111)	(1,902)
	4,834	7,705
Unrealized gains on portfolio investments	6,748	23,023
Reclassified to statement of operations - portfolio investments	(174)	(9,708)
Balance at end of period	\$ 82,681	\$ 71,273

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

6. ACCUMULATED SURPLUS

(in thousands of dollars)	Year-to-date	Year-end
	December 31, 2021	March 31, 2021
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	229,445	203,445
Appropriated from the accumulated surplus during the period	-	26,000
Balance at end of period	229,445	229,445
Surplus		
Balance at beginning of period	26,234	32,454
Appropriated to the reserve for excess investment income during the period	-	(26,000)
Surplus for the period	63,809	19,780
Balance at end of period	90,043	26,234
Total accumulated surplus from operations	407,057	343,248
Accumulated remeasurement gains (losses)		
Balance at beginning of period	45,792	(32)
Change in fair value	21,055	45,824
Balance at end of period	66,847	45,792
Balance of accumulated surplus at end of period	\$ 473,904	\$ 389,040

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2021	2020	2021	2020
Gains (losses) from disposal of portfolio investments	\$ 2,055	\$ 913	\$ 2,430	\$ (7,128)
Transfer from (to) deferred revenues -				
Externally restricted contributions (Note 5)	(3,557)	(859)	(4,834)	577
Net (losses) gains on foreign exchange	(4)	220	-	252
Dividend and other distributed income - reinvested	13,060	7,165	18,069	9,803
Interest, dividend and other distributed income	3,214	6,034	6,287	8,846
Investment portfolio management costs	(495)	(356)	(1,435)	(1,013)
	\$ 14,273	\$ 13,117	\$ 20,517	\$ 11,337

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2021	2020	2021	2020
Rental revenue	\$ (400)	\$ (389)	\$ (1,187)	\$ (1,215)
Other income	(45)	(36)	(100)	(78)
Administration expense	454	433	1,301	1,231
	\$ 9	\$ 8	\$ 14	\$ (62)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2021	2020	2021	2020
Program expenses	\$ 243	\$ 263	\$ 456	\$ 709
Program - contributions received	-	-	(150)	(220)
Administration expense	349	397	1,013	1,101
	\$ 592	\$ 660	\$ 1,319	\$ 1,590

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2021	2020	2021	2020
Increase in accounts receivable	\$ (700)	\$ (1,705)	\$ (1,019)	\$ (1,724)
(Decrease) increase in grants, author payments and prizes payable	(44,571)	(8,868)	52,954	50,129
Increase (decrease) in accounts payable and accrued liabilities	324	352	(1,474)	(2,896)
Increase (decrease) in deferred revenues	273	(235)	(1,270)	(242)
Net change	\$ (44,674)	\$ (10,456)	\$ 49,191	\$ 45,267

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.