

# FINANCIAL STATEMENTS

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Canada Council for the Arts (the "Council") and all the information in this annual report are the responsibility of Management and have been approved by the Board.

The financial statements have been prepared by Management in accordance with Canadian public sector accounting standards. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances. The financial statements include amounts based on Management's best estimates as determined through experience and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

The Council maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that the organization's assets are appropriately accounted for and safeguarded.

The Board is responsible for the management of the business and activities of the Council. In particular, they are responsible for ensuring that Management fulfills its responsibilities for financial

reporting and internal controls. They exercise this responsibility through the Audit and Finance Committee, which is composed of members who are not employees of the Council. The Audit and Finance Committee meets with Management, the internal auditors and the Office of the Auditor General of Canada on a regular basis. The Committee reports its findings to the Board for consideration when approving the financial statements.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements of the Council and for issuing the report thereon.

June 22, 2021



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



**Carole Boileau, CPA, CA**  
Chief Financial Officer



Office of the  
Auditor General  
of Canada

Bureau du  
vérificateur général  
du Canada

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the Canada Council for the Arts (the Council), which comprise the statement of financial position as at 31 March 2021, and the statement of operations, statement of remeasurement gains and losses, statement of changes in net financial assets, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Council as at 31 March 2021, and the results of its operations, its remeasurement gains and losses, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

#### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council's financial reporting process.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such

disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Council to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **Report on Compliance with Specified Authorities**

### *Opinion*

In conjunction with the audit of the financial statements, we have audited transactions of the Canada Council for the Arts coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are the applicable provisions of Part X of the *Financial Administration Act* and regulations, the *Canada Council for the Arts Act* and the by laws of the Canada Council for the Arts.

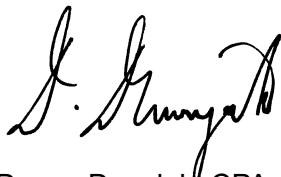
In our opinion, the transactions of the Canada Council for the Arts that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in Canadian public sector accounting standards have been applied on a basis consistent with that of the preceding year.

### *Responsibilities of Management for Compliance with Specified Authorities*

Management is responsible for the Canada Council for the Arts' compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Canada Council for the Arts to comply with the specified authorities.

### *Auditor's Responsibilities for the Audit of Compliance with Specified Authorities*

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.



Dusan Duvnjak, CPA, CMA  
Principal  
for the Auditor General of Canada

Ottawa, Canada  
22 June 2021

## Statement of Financial Position

| As at March 31 (in thousands of dollars)                         | 2021              | 2020              |
|--|-------------------|-------------------|
| <b>FINANCIAL ASSETS</b>  |                   |                   |
| Cash   | \$ 81,065         | \$ 21,624         |
| Accounts receivable  | 2,925             | 3,347             |
| Portfolio investments (Note 4)                                   | 479,820           | 391,200           |
| <b>Total financial assets</b>                                    | <b>563,810</b>    | <b>416,171</b>    |
| <b>LIABILITIES</b>   |                   |                   |
| Grants, author payments and prizes payable                       | 119,590           | 58,070            |
| Accounts payable and accrued liabilities                         | 5,565             | 5,128             |
| Deferred revenues  | 6,506             | 6,604             |
| Employee future benefits (Note 6)                                | 5,155             | 4,340             |
| Deferred revenues - Externally restricted contributions (Note 7) | 71,273            | 50,253            |
| <b>Total liabilities</b>   | <b>208,089</b>    | <b>124,395</b>    |
| <b>NET FINANCIAL ASSETS</b>                                      | <b>\$ 355,721</b> | <b>\$ 291,776</b> |
| <b>NON-FINANCIAL ASSETS</b>                                      |                   |                   |
| Tangible capital assets (Note 8)                                 | 13,078            | 11,446            |
| Art Bank assets (Note 9)   | 19,466            | 19,465            |
| Musical instruments (Note 10)                                    | 1                 | 1                 |
| Prepaid expenses   | 774               | 748               |
| <b>Total non-financial assets</b>                                | <b>33,319</b>     | <b>31,660</b>     |
| <b>ACCUMULATED SURPLUS</b> (Note 11)                             | <b>\$ 389,040</b> | <b>\$ 323,436</b> |
| Accumulated surplus is comprised of:                             |                   |                   |
| Accumulated surplus from operations                              | 343,248           | 323,468           |
| Accumulated remeasurement gains (losses)                         | 45,792            | (32)              |
| <b>ACCUMULATED SURPLUS</b>                                       | <b>\$ 389,040</b> | <b>\$ 323,436</b> |

Contractual obligations and commitments (Note 16)

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

APPROVED BY THE BOARD



**Jesse Wentz**  
Chair



**Kim Spencer-Nairn, CPA**  
Interim Chair, Audit and Finance Committee

## Statement of Operations

|   | Budget<br>2021    | Actual<br>2021    | Actual<br>2020    |
|---|-------------------|-------------------|-------------------|
| For the year ended March 31 (in thousands of dollars)       |                   |                   |                   |
| <b>Revenues</b>   |                   |                   |                   |
| Net realized investment income (Note 12)                    | \$ 13,189         | \$ 30,784         | \$ 23,693         |
| Other revenues  | 2,160             | 3,959             | 7,297             |
| <b>Total revenues</b>                                       | <b>15,349</b>     | <b>34,743</b>     | <b>30,990</b>     |
| <b>Expenses</b>   |                   |                   |                   |
| Transfer Programs   |                   |                   |                   |
| Grants, author payments and prizes (Schedule I)             | 319,711           | 394,587           | 289,928           |
| Transfer program delivery (Schedule II)                     | 26,016            | 21,205            | 23,181            |
| Arts community services (Schedule III)                      | 9,232             | 2,800             | 3,402             |
|   | 354,959           | 418,592           | 316,511           |
| Net Art Bank results (Note 13)                              | 111               | 27                | 1                 |
| Canadian Commission for UNESCO (Note 14)                    | 2,623             | 2,446             | 2,512             |
| General administration (Schedule II)                        | 20,266            | 22,529            | 20,659            |
| <b>Total expenses</b>                                       | <b>377,959</b>    | <b>443,594</b>    | <b>339,683</b>    |
| Deficit from operations before Parliamentary appropriations | (362,610)         | (408,851)         | (308,693)         |
| Parliamentary appropriations                                | 362,644           | 428,631           | 327,771           |
| SURPLUS FROM OPERATIONS                                     | 34                | 19,780            | 19,078            |
| ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF YEAR      | 335,121           | 323,468           | 304,390           |
| <b>ACCUMULATED SURPLUS FROM OPERATIONS, END OF YEAR</b>     | <b>\$ 335,155</b> | <b>\$ 343,248</b> | <b>\$ 323,468</b> |

## Statement of Remeasurement Gains and Losses

|  | 2021             | 2020           |
|--|------------------|----------------|
| For the year ended March 31 (in thousands of dollars)        |                  |                |
| ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF YEAR  | \$ (32)          | \$ 30,731      |
| <b>Unrealized gains (losses) attributable to:</b>            |                  |                |
| Portfolio investments  | 60,724           | (19,733)       |
| <b>Amounts reclassified to the Statement of Operations:</b>  |                  |                |
| Portfolio investments  | (14,900)         | (11,030)       |
| NET REMEASUREMENT GAINS (LOSSES) FOR THE YEAR                | 45,824           | (30,763)       |
| <b>ACCUMULATED REMEASUREMENT GAINS (LOSSES), END OF YEAR</b> | <b>\$ 45,792</b> | <b>\$ (32)</b> |

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

## Statement of Changes in Net Financial Assets

|   | Budget<br>2021    | Actual<br>2021    | Actual<br>2020    |
|---|-------------------|-------------------|-------------------|
| For the year ended March 31 (in thousands of dollars) |                   |                   |                   |
| ANNUAL SURPLUS FROM OPERATIONS                        | \$ 34             | \$ 19,780         | \$ 19,078         |
| Acquisition of tangible capital assets (Note 8)       | (7,017)           | (3,630)           | (3,347)           |
| Write-down of tangible capital assets                 | -                 | 23                | -                 |
| Amortization of tangible capital assets (Note 8)      | 3,190             | 1,975             | 1,694             |
| Acquisition of Art Bank assets (Note 9)               | -                 | (1)               | (10)              |
|   | (3,827)           | (1,633)           | (1,663)           |
| Acquisition of prepaid expenses                       | -                 | (798)             | (871)             |
| Use of prepaid expenses                               | -                 | 772               | 347               |
|   | -                 | (26)              | (524)             |
| Net remeasurement gains (losses)                      | -                 | 45,824            | (30,763)          |
| INCREASE (DECREASE) IN NET FINANCIAL ASSETS           | (3,793)           | 63,945            | (13,872)          |
| NET FINANCIAL ASSETS, BEGINNING OF YEAR               | 291,776           | 291,776           | 305,648           |
| <b>NET FINANCIAL ASSETS, END OF YEAR</b>              | <b>\$ 287,983</b> | <b>\$ 355,721</b> | <b>\$ 291,776</b> |

## Statement of Cash Flows

|   | 2021             | Restated<br>(Note 3)<br>2020 |
|---|------------------|------------------------------|
| For the year ended March 31 (in thousands of dollars)   |                  |                              |
| <b>Operating Transactions</b>   |                  |                              |
| Surplus from operations   | \$ 19,780        | \$ 19,078                    |
| Gains from disposal of portfolio investments (Note 12)  | (18,332)         | (11,526)                     |
| Dividend and other distributed income - reinvested (Note 12)  | (11,559)         | (11,084)                     |
| Amortization of tangible capital assets (Note 8)  | 1,975            | 1,694                        |
| Write-down of tangible capital assets   | 23               | -                            |
| Increase in prepaid expenses  | (26)             | (524)                        |
| Increase in employee future benefits  | 815              | 473                          |
| Income transferred to Deferred revenues - Externally restricted contributions from investment income (Note 7) | 7,705            | 4,702                        |
| Net change in other non-cash items (Note 15)  | 62,288           | (10,576)                     |
| Cash provided (used) by operating activities  | 62,669           | (7,763)                      |
| <b>Capital Transactions</b>   |                  |                              |
| Acquisition of tangible capital assets (Note 8)   | (3,675)          | (3,389)                      |
| Acquisition of Art Bank assets (Note 9)   | (1)              | (10)                         |
| Cash used by capital activities   | (3,676)          | (3,399)                      |
| <b>Investing Transactions</b>   |                  |                              |
| Acquisition of portfolio investments  | (152,859)        | (32,678)                     |
| Disposal of portfolio investments   | 152,016          | 31,284                       |
| Cash used by investing activities   | (843)            | (1,394)                      |
| NET INCREASE (DECREASE) IN CASH   | 58,150           | (12,556)                     |
| CASH, BEGINNING OF YEAR   | 23,852           | 36,408                       |
| <b>CASH, END OF YEAR</b>  | <b>82,002</b>    | <b>23,852</b>                |
| <b>Represented by:</b>  |                  |                              |
| Cash  | 81,065           | 21,624                       |
| Cash held for investment purposes included in the portfolio investments                                       | 937              | 2,228                        |
|   | <b>\$ 82,002</b> | <b>\$ 23,852</b>             |

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



# Notes to the Financial Statements

## March 31, 2021

### 1. AUTHORITY, MANDATE AND ACTIVITIES

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 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 Council and led by a Secretary General who reports directly to the Director and Chief Executive Officer.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of accounting

The Council is an "other government organization." These financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

The Council's significant accounting policies are as follows:

#### Financial instruments

All financial instruments are initially measured at fair value. The following table identifies the Council's financial assets and liabilities and identifies how they are subsequently measured on the Statement of Financial Position:

| Financial asset or liability               | Subsequent measurement |
|--|------------------------|
| Accounts receivable                        | Amortized cost         |
| Portfolio investments                      | Fair value             |
| Grants, author payments and prizes payable | Amortized cost         |
| Accounts payable and accrued liabilities   | Amortized cost         |

#### Portfolio investments

Unrealized changes in the fair value of portfolio investments are recognized in the Statement of Remeasurement Gains and Losses, except for the restricted portion which is recognized as a liability under Deferred revenues - Externally restricted contributions. Once realized, the cumulative gain or loss previously recognized in the Statement of Remeasurement Gains and Losses is recorded in net realized investment income on an average cost basis for the year. The realized gains and losses on externally restricted contributions are recognized in accordance with the externally restricted contributions accounting policy. Purchases and dispositions of portfolio investments are recorded on the trade date. Management fees charged are expensed in the year they are incurred.

The cash held for investment purposes is included in portfolio investments in the Statement of Financial Position and also shown as a separate item in the Statement of Cash Flows.

A decline in the fair value considered to be other than temporary is recognized as an impairment loss and is removed from the Statement of Remeasurement Gains and Losses and reported in net realized investment income in the Statement of Operations.

#### Tangible capital assets

Office and computer equipment, computer software and leasehold improvements are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method, over the estimated useful lives of the assets as follows:

|                        |                             |
|------------------------|-----------------------------|
| Office equipment       | 10 years                    |
| Computer equipment     | 4 years                     |
| Computer software      | 7 years                     |
| Leasehold improvements | remaining term of the lease |

The estimated useful lives, residual values and depreciation method are determined in the capital asset policy, which is reviewed on a regular basis with the effect of any changes in estimate accounted for on a prospective basis.

Work in progress represents the costs incurred to date on a capital project that is incomplete and not in use, or for system implementations, when the system is not in production at the end of an accounting period. Work in progress projects are not amortized until in use or in production.

#### Art Bank assets

The Art Bank assets are carried at the cost of purchase or independently appraised value of donation plus cost of framing, mounting and shipping when acquired. If the cost of assets, less any estimated residual value, is greater than the appraised value, it will be amortized over the estimated useful lives of these assets which is 50 years.

#### Musical instruments

Musical instruments, which have cultural and historical value, are recorded at nominal value in the Statement of Financial Position as a reasonable estimate of the future benefits associated with such assets cannot be made.

#### Employee future benefits

##### i) PENSION BENEFITS

Substantially all of the employees of the Council are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Council to cover current service cost. Pursuant to legislation currently in place, the Council has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Council.

## Notes to the Financial Statements (continued)

### March 31, 2021

#### ii) SEVERANCE BENEFITS

In 2012, under labour contracts and conditions of employment, the decision was made to terminate the severance benefits. The severance benefit obligation for eligible employees who will retire or resign, that accrued up to June 30, 2012 and remains unpaid, is adjusted at year end to reflect actuarial gains and losses and salary adjustments.

#### iii) RETIREES' BENEFITS

The Council provides extended health care and dental benefits to its current and retired employees. Retirees pay 50% of the extended health care premium and 100% of the dental premium. The Council accrues its obligations as the employees render the services necessary to earn these benefits. The cost of these benefits earned by employees has been estimated using the accrued benefit method (Projected unit credit).

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains (losses) are amortized over the average remaining service period of active employees.

### Deferred revenues - Externally restricted contributions

Externally restricted income is recognized as revenue in the Statement of Operations in the year in which the resources are used for the purpose or purposes specified. An externally restricted inflow, excluding original principal, received before this criterion has been met is reported as a liability until the resources are used for the purpose or purposes specified.

### Endowment principal - Externally restricted contributions

Externally restricted contributions consist of endowments and restricted donations received by the Council that are required to be maintained intact. They are reported under Accumulated Surplus from Operations.

### Reserve for excess investment income

This reserve represents the sum of excess investment income since the establishment of the Council in 1957 and is presented as a separate internal reserve within the accumulated surplus from operations. In years when net investment income exceeds the amount of net budgeted investment income, an amount may be transferred from the accumulated surplus from operations to the reserve for excess investment income. In years when net investment income is less than the amount of net budgeted investment income, an amount may be transferred to the accumulated surplus from operations from the reserve for excess investment income. These transfers are approved by the Board.

### Revenue recognition

#### i) PARLIAMENTARY APPROPRIATIONS

Parliamentary appropriations are considered government transfers and are recognized as revenue in the year for which they are approved by Parliament. Parliamentary appropriations received for specific projects are deferred when the stipulations and circumstances create an obligation that meets the definition of a liability. They are subsequently recognized on the Statement of Operations when the obligation no longer exists.

#### ii) RESTRICTED AND UNRESTRICTED CONTRIBUTIONS

The Council receives contributions that are externally restricted for specific purposes by the donors.

Externally restricted contributions that are to be held in perpetuity are recognized as revenue in the year in which they are received. The externally restricted contributions that are not held in perpetuity, externally restricted investment income, and realized and unrealized gains and losses on externally restricted investments are recorded as a liability until the resources are used for their specified purpose, at which time the contributions are recognized as revenue.

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

In-kind contributions consist mostly of donations to the Art Bank assets and are recorded at their appraised value as a non-financial asset and as revenue under Net Art Bank results when they are received.

#### iii) ART BANK RENTAL REVENUES

Rental revenues generated from Art Bank assets are recognized in the year in which services are provided. They are included in Net Art Bank results on the Statement of Operations.

#### iv) OTHER REVENUES

Other revenues consist mainly of the cancellation in the current year of grants approved in previous years and contributions for partnership agreements.

#### v) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the date of the Statement of Financial Position. Revenue and expense items are translated at exchange rates prevailing throughout the year. Unrealized foreign exchange gains and losses are recognized in the Statement of Remeasurement Gains and Losses, except for the restricted portion which is recognized as a liability under Deferred revenues - Externally restricted contributions. Once realized, the cumulative gain or loss is recognized in net realized investment income on the Statement of Operations.

### Grants, author payments and prizes

Grants, author payments and prizes are considered to be a government transfer. They are recorded as an expense in the year for which they are budgeted and approved by the Board, authority to pay has been obtained through the *Appropriation Act*, and results communicated to the applicants.

### Operating leases

The Council enters into operating leases for its office accommodation which are recorded on a straight-line basis over the term of the lease. Lease inducements are recorded as a reduction to the office accommodation expense on a straight-line basis over the term of the lease.

## Notes to the Financial Statements (continued)

March 31, 2021

### Measurement uncertainty

The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting year. Employee future benefits liabilities, 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.

With respect to the portfolio investments, the level of measurement uncertainty varies based on the classification of the financial instruments in the fair value hierarchy as described in Note 5. Due to the inherent nature of Level 3 financial instruments measured using unobservable inputs there is a significant level of measurement uncertainty.

Actual results could differ from those estimated.

### Inter-entity transactions

Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions, other than restructuring transactions, are recorded on a gross basis and are measured at the carrying amount, except for the following:

- i) Inter-entity transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, when undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length, or where costs provided are recovered.
- ii) Goods or services received without charge between commonly controlled entities are not recorded.

### Other related party transactions

Related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

### Budget

Budgeted figures, as approved by the Board, have been provided for comparison purposes.

### 3. RESTATEMENT OF THE STATEMENT OF CASH FLOWS

The Council receives dividends and other distributed income from its portfolio investments. Some of these are received as cash, while others are automatically reinvested without any cash consideration received. The Council has restated comparative figures in its Statement of Cash Flows to exclude those non-cash transactions, which had previously been presented as operating cash inflows and investing cash outflows. There was no impact on the Surplus from operations or Net Decrease in Cash for the year as a result of the restatement.

The impact of the restatement on the comparative figures for the year ended March 31, 2020 is as follows:

| <b>Operating Transactions:</b>                       |           | (in thousands of dollars) |
|--|-----------|---------------------------|
| Cash provided by operating activities                |           |                           |
| - As previously reported                             | \$        | 3,321                     |
| - Dividend and other distributed income - reinvested |           | (11,084)                  |
| <b>Cash provided (used) by operating activities</b>  | <b>\$</b> | <b>(7,763)</b>            |
| <b>Investing Transactions:</b>                       |           |                           |
| Cash used by investing activities                    |           |                           |
| - As previously reported                             | \$        | (12,478)                  |
| - Adjustment to Acquisition of portfolio investments |           | 11,084                    |
| <b>Cash used by investing activities</b>             | <b>\$</b> | <b>(1,394)</b>            |

### 4. PORTFOLIO INVESTMENTS

|   | 2021           |                   |                  |                |            | 2020           |                |            |
|---|----------------|-------------------|------------------|----------------|------------|----------------|----------------|------------|
|   | Cost           | Unrealized losses | Unrealized gains | Fair value     |            | Cost           | Fair value     |            |
| (in thousands of dollars)                         | \$             | \$                | \$               | \$             | %          | \$             | \$             | %          |
| <b>Canada Council Endowment and Special Funds</b> |                |                   |                  |                |            |                |                |            |
| Pooled funds                                      |                |                   |                  |                |            |                |                |            |
| Canadian Equity                                   | 43,853         | -                 | 13,051           | 56,904         | 14         | 8,205          | 6,896          | 2          |
| Global Equity                                     | 163,732        | 1,724             | 20,047           | 182,055        | 46         | 139,975        | 131,213        | 41         |
| Fixed income                                      | 87,460         | 126               | 189              | 87,523         | 22         | 87,118         | 87,258         | 27         |
| Alternatives                                      | 20,630         | -                 | 13,356           | 33,986         | 9          | 20,630         | 29,259         | 9          |
| Canadian Equity                                   | -              | -                 | -                | -              | -          | 35,086         | 28,122         | 9          |
| Real estate                                       | 7,557          | -                 | 1,083            | 8,640          | 2          | 7,660          | 9,802          | 3          |
| Infrastructure                                    | 22,708         | 942               | 5,177            | 26,943         | 7          | 23,537         | 29,958         | 9          |
| Cash  | 937            | -                 | -                | 937            | -          | 1,583          | 1,583          | -          |
|   | <b>346,877</b> | <b>2,792</b>      | <b>52,903</b>    | <b>396,988</b> | <b>100</b> | <b>323,794</b> | <b>324,091</b> | <b>100</b> |
| <b>Killam Fund</b>                                |                |                   |                  |                |            |                |                |            |
| Pooled funds                                      |                |                   |                  |                |            |                |                |            |
| Canadian Equity                                   | 9,419          | -                 | 1,786            | 11,205         | 14         | 8,795          | 6,959          | 10         |
| Global Equity                                     | 34,500         | 357               | 4,040            | 38,183         | 46         | 27,741         | 26,001         | 39         |
| Fixed income                                      | 17,790         | 43                | 48               | 17,795         | 21         | 17,704         | 17,715         | 26         |
| Alternatives                                      | 5,298          | -                 | 3,422            | 8,720          | 10         | 5,298          | 7,507          | 11         |
| Real estate                                       | 1,939          | -                 | 274              | 2,213          | 3          | 1,965          | 2,530          | 4          |
| Infrastructure                                    | 3,769          | 236               | 1,183            | 4,716          | 6          | 4,168          | 5,752          | 9          |
| Cash  | -              | -                 | -                | -              | -          | 645            | 645            | 1          |
|   | <b>72,715</b>  | <b>636</b>        | <b>10,753</b>    | <b>82,832</b>  | <b>100</b> | <b>66,316</b>  | <b>67,109</b>  | <b>100</b> |
| <b>Total Portfolio investments</b>                | <b>419,592</b> | <b>3,428</b>      | <b>63,656</b>    | <b>479,820</b> |            | <b>390,110</b> | <b>391,200</b> |            |

## Notes to the Financial Statements (continued)

### March 31, 2021

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 as at March 31, 2021.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds as well as the Killam Fund. The Killam's will requested that their donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8% (2020 - 8%) of that Fund with a total fair value of \$31,799,000 (2020 - \$25,960,000). The total fair value of the externally restricted investment including the Killam Fund is \$114,631,000 (2020 - \$93,069,000).

All transactions for the externally restricted contributions are initially paid by or received in the Council's general bank account thus creating temporary interfund balances. The interfund balance of externally restricted contributions owed to Council at March 31, 2021 by the Special Funds is \$4,083,000 (2020 - \$4,058,000) and owed by the Killam Fund is \$2,606,000 (2020 - \$3,187,000).

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 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.

## 5. FINANCIAL RISKS AND FAIR VALUE

### a) Establishing fair value

The carrying value of accounts receivable, grants, author payments and prizes payable and accounts payable and accrued liabilities approximates 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 external managers, which represent the Council's proportionate share of the underlying net assets at fair values, determined using closing market prices.
- The segregated Canadian equity fund was valued using closing market prices at March 31, 2020.

At March 31, the measurement categories of the Council's financial instruments, as well as their carrying amounts and fair values are as follows:

(in thousands of dollars)

|  |                        | 2021                                | 2020                                |
|--|------------------------|-------------------------------------|-------------------------------------|
| Financial assets and liabilities           | Measurement categories | Carrying amount and fair value (\$) | Carrying amount and fair value (\$) |
| Cash                                       | Fair value             | 81,065                              | 21,624                              |
| Accounts receivable                        | Amortized cost         | 2,925                               | 3,347                               |
| Portfolio Investments <sup>1</sup>         | Fair value             | 479,820                             | 391,200                             |
| Grants, author payments and prizes payable | Amortized cost         | 119,590                             | 58,070                              |
| Accounts payable and accrued liabilities   | Amortized cost         | 5,565                               | 5,128                               |

<sup>1</sup> The detailed fair value for the portfolio investments is listed in Note 4.

| Asset Classes     | Market Value     | Minimum | Benchmark | Maximum |
|-------------------|------------------|---------|-----------|---------|
| Canadian equities | 14%              | 5%      | 12.5%     | 20%     |
| Global equities   | 46% <sup>1</sup> | 35%     | 40%       | 45%     |
| Fixed income      | 22%              | 15%     | 25%       | 35%     |
| Alternatives      | 9%               | 0%      | 10%       | 15%     |
| Real estate       | 2%               | 0%      | 5%        | 10%     |
| Infrastructure    | 7%               | 0%      | 7.5%      | 10%     |
| Money market/Cash | 0%               | 0%      | 0%        | 10%     |

<sup>1</sup> The *Statement of Investment Policies and Goals* indicates that any allocations outside the ranges shall be rebalanced towards the mid-point of the range within six months of the quarter end.

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.

Investments in the equity pooled funds are comprised of units of six pooled funds, two Canadian funds and four funds that are invested in the global equity markets (March 31, 2020 - the Council also had a Canadian equity segregated fund for the Endowment and Special Funds). The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Index. 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 funds are comprised of a mix of bonds, mortgages, emerging debt and other fixed income instruments. The fixed income funds are measured against the returns of the FTSE Canada Universe Bond Index. Investments in the alternative pooled funds are comprised of units of one hedge fund with diversified positions across global asset classes. This investment is measured against the returns of the 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%.

- The Alternatives is a pooled fund investment which is valued at the unit values supplied by the external 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 external fund managers using internally determined appraisals as at March 31 based on valuation models with unobservable inputs.

**Notes to the Financial Statements (continued)**  
**March 31, 2021**

**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 as at March 31**

| (in thousands of dollars)                         | 2021          |                |               |                | 2020          |                |               |                |
|---|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|
|   | Level 1       | Level 2        | Level 3       | Total          | Level 1       | Level 2        | Level 3       | Total          |
|   | \$            | \$             | \$            | \$             | \$            | \$             | \$            | \$             |
| Cash  | 81,065        | -              | -             | 81,065         | 21,624        | -              | -             | 21,624         |
| <b>Portfolio Investments</b>                      |               |                |               |                |               |                |               |                |
| <b>Canada Council Endowment and Special Funds</b> |               |                |               |                |               |                |               |                |
| Pooled Funds                                      |               |                |               |                |               |                |               |                |
| Canadian Equity                                   | -             | 56,904         | -             | 56,904         | -             | 6,896          | -             | 6,896          |
| Global Equity                                     | -             | 182,055        | -             | 182,055        | -             | 131,213        | -             | 131,213        |
| Fixed Income                                      | -             | 87,523         | -             | 87,523         | -             | 87,258         | -             | 87,258         |
| Alternatives                                      | -             | -              | 33,986        | 33,986         | -             | -              | 29,259        | 29,259         |
| Canadian Equity                                   | -             | -              | -             | -              | 28,122        | -              | -             | 28,122         |
| Real Estate                                       | -             | -              | 8,640         | 8,640          | -             | -              | 9,802         | 9,802          |
| Infrastructure                                    | -             | -              | 26,943        | 26,943         | -             | -              | 29,958        | 29,958         |
| Cash  | 937           | -              | -             | 937            | 1,583         | -              | -             | 1,583          |
| <b>Killam Fund</b>                                |               |                |               |                |               |                |               |                |
| Pooled Funds                                      |               |                |               |                |               |                |               |                |
| Canadian Equity                                   | -             | 11,205         | -             | 11,205         | -             | 6,959          | -             | 6,959          |
| Global Equity                                     | -             | 38,183         | -             | 38,183         | -             | 26,001         | -             | 26,001         |
| Fixed Income                                      | -             | 17,795         | -             | 17,795         | -             | 17,715         | -             | 17,715         |
| Alternatives                                      | -             | -              | 8,720         | 8,720          | -             | -              | 7,507         | 7,507          |
| Real Estate                                       | -             | -              | 2,213         | 2,213          | -             | -              | 2,530         | 2,530          |
| Infrastructure                                    | -             | -              | 4,716         | 4,716          | -             | -              | 5,752         | 5,752          |
| Cash  | -             | -              | -             | -              | 645           | -              | -             | 645            |
|   | 937           | 393,665        | 85,218        | 479,820        | 30,350        | 276,042        | 84,808        | 391,200        |
| <b>Total</b>                                      | <b>82,002</b> | <b>393,665</b> | <b>85,218</b> | <b>560,885</b> | <b>51,974</b> | <b>276,042</b> | <b>84,808</b> | <b>412,824</b> |

During the year, the Canadian Equity segregated fund within the Canada Council Endowment and Special Funds was transferred over to the Canadian Equity Pooled funds already invested in by the Killam Fund. There were no other transfers of amounts between Level 1 and 2.

## Notes to the Financial Statements (continued)

### March 31, 2021

The following table reconciles the changes in fair value of financial instruments classified as Level 3 during the year:

| (in thousands of dollars)                         | 2021              |                   |                      |         | 2020              |                   |                      |         |
|---|-------------------|-------------------|----------------------|---------|-------------------|-------------------|----------------------|---------|
|   | Alternatives fund | Real estate funds | Infrastructure funds | Total   | Alternatives fund | Real estate funds | Infrastructure funds | Total   |
|   | \$                | \$                | \$                   | \$      | \$                | \$                | \$                   | \$      |
| <b>Canada Council Endowment and Special Funds</b> |                   |                   |                      |         |                   |                   |                      |         |
| Opening balance                                   | 29,259            | 9,802             | 29,958               | 69,019  | 30,936            | 12,648            | 25,276               | 68,860  |
| Total gains (losses)                              |                   |                   |                      |         |                   |                   |                      |         |
| Recognized in remeasurement statement             | 4,348             | (974)             | (2,011)              | 1,363   | (1,543)           | (520)             | (4,020)              | (6,083) |
| Recognized in externally restricted contributions | 379               | (85)              | (175)                | 119     | (134)             | (45)              | (350)                | (529)   |
| Purchases   | -                 | -                 | 1,902                | 1,902   | -                 | -                 | 13,046               | 13,046  |
| Sales   | -                 | (103)             | (2,731)              | (2,834) | -                 | (2,281)           | (3,994)              | (6,275) |
| Closing balance                                   | 33,986            | 8,640             | 26,943               | 69,569  | 29,259            | 9,802             | 29,958               | 69,019  |
| <b>Killam Fund</b>                                |                   |                   |                      |         |                   |                   |                      |         |
| Opening balance                                   | 7,507             | 2,530             | 5,752                | 15,789  | 7,937             | 3,386             | 6,728                | 18,051  |
| Total gains (losses)                              |                   |                   |                      |         |                   |                   |                      |         |
| Recognized in externally restricted contributions | 1,213             | (291)             | (637)                | 285     | (430)             | (173)             | (1,453)              | (2,056) |
| Purchases   | -                 | -                 | 247                  | 247     | -                 | -                 | 1,526                | 1,526   |
| Sales   | -                 | (26)              | (646)                | (672)   | -                 | (683)             | (1,049)              | (1,732) |
| Closing balance                                   | 8,720             | 2,213             | 4,716                | 15,649  | 7,507             | 2,530             | 5,752                | 15,789  |

#### Level 3 Sensitivity Analysis

In the course of measuring the 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 analysis of reasonably possible alternate assumptions for estimation of the fair value measurement of the Level 3 financial instruments is not possible.

#### c) Risk management

The Council is exposed to a variety of financial risks as a result of its activities. These risks include credit risk, liquidity risk and market risk (price risk, interest rate risk and currency risk).

In order to manage risk, the Council invests in a diversified portfolio that is managed by professional investment managers. The Council's investments are guided by a *Statement of Investment Policies and Goals* which is approved by the Board and reviewed on an annual basis. The Council is assisted in the oversight and management of its portfolio by an Investment Committee that includes independent experts with experience in both the investment field and the asset classes being invested in. In addition, the Council uses the services of an independent investment consultant to assist the Investment Committee in its work. As the investment markets continue to evolve, the Investment Committee recommends adjustments to the asset mix to reduce the overall risk of the portfolio to an acceptable level.

##### i. CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Council.

At the Statement of Financial Position date, financial assets exposed to credit risk include portfolio investments and accounts receivable. The carrying amounts of these financial assets represent the maximum credit risk exposure at the Statement of Financial Position date.

Through its investments in units of equity, fixed income, and alternatives pooled funds, and in limited partnership units of three real estate funds and six infrastructure funds (March 31, 2020 - also in a segregated Canadian equity fund), the Council is indirectly exposed to the credit risk of the underlying

investments of those funds. These risks are managed at the investment manager level. Their objectives are to invest in high quality financial instruments with creditworthy counterparties, by limiting the amount that can be invested in any one counterparty and by using other limits set out in the Council's investment policy.

The Council mitigates credit risk of accounts receivable through monitoring of the outstanding balances. As at March 31, 2021, there were no significant amounts past due and no impairment losses have been recognized.

##### ii. LIQUIDITY RISK

Liquidity risk is the risk that the Council will not be able to meet its financial obligations as they fall due.

The Council receives most of its revenue by way of parliamentary appropriation from the Government of Canada. That revenue is temporarily invested in a preferred rate account in a financial institution until it is required.

Liquidity sources in the event of an immediate need to fulfill the timely payment guarantee include overdraft facilities and cash and short-term investments in marketable securities.

The objectives of the Council with respect to the management of liquidity is to ensure that the capital value of its short-term pooled funds is preserved, that the investments are sufficiently liquid and that investment income is distributed in cash when possible.

The liquidity available from either the preferred rate account in a financial institution or from the portfolio investments ensures that the Council is able to meet its obligations and commitments. The portfolio investments classified into Levels 1 and 2 of the fair value hierarchy can be redeemed within a maximum of three days. As well, the permitted and prohibited investments are governed by Board-approved short-term and long-term investment policies which ensure that the liquidity risk is minimized.

The Council has an investment policy that enables it to withdraw annual amounts from its investment portfolio valued up to 3.5% for the Endowment and Special Funds as well as for the Killam Fund (2020 - 3.5% of the previous three-year average market value using balances at September 30.

## Notes to the Financial Statements (continued)

### March 31, 2021

The following table presents a maturity analysis based on historical data for the Council's financial liabilities as at March 31:

| (in thousands of dollars)                  | Less than<br>one year | Between<br>one to<br>two years | Over two<br>years | 2021<br>Total  |
|--|-----------------------|--------------------------------|-------------------|----------------|
|  | \$                    | \$                             | \$                | \$             |
| <b>Financial Liabilities</b>               |                       |                                |                   |                |
| Grants, author payments and prizes payable | 99,998                | 16,573                         | 3,019             | 119,590        |
| Accounts payable and accrued liabilities   | 4,860                 | 705                            | -                 | 5,565          |
|  | <b>104,858</b>        | <b>17,278</b>                  | <b>3,019</b>      | <b>125,155</b> |

#### iii. MARKET RISKS

The Council's activities are primarily exposed to price risk, interest rate risk and currency risk.

The investment managers' directives are to manage the Council's market risks on a daily basis in accordance with the Council's policies. The Council's overall market positions are monitored on a quarterly basis by the Board and the Investment Committee.

#### Measurement of market risk

The following details the Council's portfolio investments sensitivity to a 7.9% increase or decrease in market prices. The sensitivity rate is used when reporting market risk internally to key management personnel and represents management's assessment of a reasonably possible change in value in an investment, or portfolio of investments, as a result of fluctuations in market prices.

The sensitivity rate is determined using the 4-year historical standard deviation for the total fund return as determined by the investment advisor.

At March 31, 2021, a fluctuation of market prices of 7.9% (2020 - 6.6%), with all other variables held constant, would result in a change in remeasurement gains and losses and deferred revenues - externally restricted contributions of \$37,832,000 (2020 - \$25,672,000) due to the increase or decrease in the fair value of the portfolio investments.

#### Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

The Council is exposed to market price risk arising from its investments in units of equity and alternative pooled funds, and in limited partnership units of three real estate funds and six infrastructure funds (March 31, 2020 - also in a segregated Canadian equity fund).

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The interest rate exposure of the Council arises from its interest bearing assets. The Council's cash includes amounts on deposit with a financial institution that earns interest at market and preferred rates. The objective of the Council is to manage its exposure to the interest rate risk of its cash by maximizing the interest income earned on excess funds while maintaining the minimum liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest on cash do not have a significant impact on the Council's results of operations.

The Council's investments in fixed income pooled funds and alternatives pooled fund are indirectly affected by movements in their fair value as a result of fluctuations in market interest rates. The impact of the fluctuation cannot be assessed since Council holds units of pooled funds and not the underlying assets.

#### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Council is exposed to limited foreign exchange risk on revenues and expenses denominated in a foreign currency. The majority of these transactions are denominated in US dollars and Euros.

At the Statement of Financial Position date, the non-Canadian dollar denominated portion of its investment portfolio represents \$25,219,000 (2020 - \$33,189,000). Compared with the total financial assets of the Council of \$563,810,000 (2020 - \$416,171,000), currency risk is not considered significant.

## 6. EMPLOYEE FUTURE BENEFITS

### a) Pension benefits

Substantially all of the employees of the Council are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Council. The President of the Treasury Board of Canada sets the required employer contribution rates based on a multiple of the employees' required contribution. The required employer contribution rate is dependent on the employee's employment start date. For employment start dates before January 1, 2013, the Council's contribution rate effective at year-end was 1.01 times (2020 - 1.01) the employee's contribution; and for employment start dates after December 31, 2012, the Council's contribution rate effective at year-end was 1.00 times (2020 - 1.00) the employee's contribution.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2% of pensionable service times the average of the best five consecutive years of earnings. The benefits are indexed to inflation.

| (in thousands of dollars) | 2021     | 2020     |
|---------------------------|----------|----------|
| Employer's contributions  | \$ 2,436 | \$ 2,390 |
| Employees' contributions  | 2,384    | 2,329    |

**Notes to the Financial Statements (continued)**  
**March 31, 2021**

**b) Severance benefits**

The Council provided severance benefits to its employees based on years of service and final salary. These benefits were not pre-funded and thus had no assets, resulting in a plan deficit equal to the accrued benefit obligation. These benefits no longer accrue since 2011. The employees were given the option to either cash out their severance benefits or to wait until their departure. The obligation was adjusted at year-end to reflect employees' actual salary level.

During 2020-21, the Council offered a Voluntary Retirement package for employees over 60 years of age with a minimum of 2 years of service. The cost of this package was \$1,661,000 and was recorded as an expense during the year under salaries and employee benefits. Some employees elected to defer a portion of their payment to the next fiscal year. That amount of \$292,400 was accrued in the benefit obligation under current service cost.

The total obligation will be paid from future appropriations or other sources of revenue. Information about the plan benefits, measured as at March 31, is as follows:

| (in thousands of dollars)                      | 2021          | 2020          |
|--|---------------|---------------|
| Accrued benefit obligation, beginning of year  | \$ 255        | \$ 256        |
| Current service cost                           | 293           | 7             |
| Benefits paid during the year                  | (88)          | (8)           |
| <b>Accrued benefit obligation, end of year</b> | <b>\$ 460</b> | <b>\$ 255</b> |

**c) Retirees benefits**

The Council has defined post-retirement benefit plans covering certain employee groups. These plans provide extended health and dental benefits to retired employees. Retirees pay 50% of the extended health care premium and 100% of the dental premium. The Council's independent actuary measures the accrued benefit obligation for accounting purposes as at March 31 of each year. The obligation as at March 31, 2021 (and March 31, 2020) was determined using an extrapolation of the valuation results based on membership data as at December 31, 2019.

| (in thousands of dollars)                          | 2021            | 2020            |
|--|-----------------|-----------------|
| Accrued net benefit obligation, beginning of year  | \$ 6,353        | \$ 5,541        |
| Current service cost                               | 382             | 263             |
| Interest cost                                      | 81              | 104             |
| Benefits paid                                      | (108)           | (106)           |
| Actuarial loss (gain)                              | (619)           | 551             |
|  | <b>6,089</b>    | <b>6,353</b>    |
| Unamortized net actuarial losses                   | (1,394)         | (2,268)         |
| <b>Accrued net benefit obligation, end of year</b> | <b>\$ 4,695</b> | <b>\$ 4,085</b> |

The net actuarial loss arising from the experience and the changes in assumptions is amortized over the expected average remaining service period of the employee group which is thirteen years.

The significant actuarial assumptions adopted in estimating the accrued benefit obligations and net benefit costs are as follows:

|   | 2021 | 2020 |
|---|------|------|
| Discount rate for calculation of net benefit costs                | 1.3% | 1.9% |
| Discount rate for calculation of accrued benefit obligation       | 1.9% | 1.3% |
| Initial Health care cost trend rate increase - Prescription drugs | 5.7% | 5.8% |
| Ultimate health care cost trend rate                              | 4.0% | 4.0% |
| Year ultimate rate reached  | 2040 | 2040 |

**7. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS**

The deferred revenues from externally restricted contributions consist of accumulated income, both realized and unrealized, 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 11).

| (in thousands of dollars)                                       | 2021             | 2020             |
|---|------------------|------------------|
| Balance, beginning of year                                      | \$ 50,253        | \$ 55,736        |
| Transferred from investment income (Note 12)                    |                  |                  |
| Net Investment income   | 9,607            | 6,908            |
| Use of funds  | (1,902)          | (2,206)          |
|   | 7,705            | 4,702            |
| Unrealized gains (losses) on portfolio investments              | 23,023           | (5,678)          |
| Reclassified to statement of operations - portfolio investments | (9,708)          | (4,507)          |
| <b>Balance at end of year</b>                                   | <b>\$ 71,273</b> | <b>\$ 50,253</b> |

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



**Notes to the Financial Statements (continued)**  
**March 31, 2021**

**8. TANGIBLE CAPITAL ASSETS**

| <i>(in thousands of dollars)</i>             | <b>Computer Software</b> | <b>Computer Equipment</b> | <b>Office Equipment</b> | <b>Leasehold improvements</b> | <b>Work in Progress</b> | <b>Total</b>     |
|--|--------------------------|---------------------------|-------------------------|-------------------------------|-------------------------|------------------|
| <b>Cost</b>                                  |                          |                           |                         |                               |                         |                  |
| Opening balance at April 1, 2020             | \$ 6,063                 | \$ 5,666                  | \$ 1,478                | \$ 7,752                      | \$ 889                  | \$ 21,848        |
| Acquisitions                                 | 2,076                    | 260                       | 153                     | -                             | 1,141                   | 3,630            |
| Transfer from Work in Progress               | 447                      | -                         | -                       | -                             | (447)                   | -                |
| Disposals                                    | -                        | (1,437)                   | -                       | -                             | -                       | (1,437)          |
| <b>Closing balance at March 31, 2021</b>     | <b>\$ 8,586</b>          | <b>\$ 4,489</b>           | <b>\$ 1,631</b>         | <b>\$ 7,752</b>               | <b>\$ 1,583</b>         | <b>\$ 24,041</b> |
| <b>Accumulated Amortization</b>              |                          |                           |                         |                               |                         |                  |
| Opening balance at April 1, 2020             | \$ 1,766                 | \$ 4,323                  | \$ 1,108                | \$ 3,205                      | \$ -                    | \$ 10,402        |
| Amortization expense                         | 1,016                    | 565                       | 63                      | 331                           | -                       | 1,975            |
| Disposals                                    | -                        | (1,414)                   | -                       | -                             | -                       | (1,414)          |
| <b>Closing balance at March 31, 2021</b>     | <b>\$ 2,782</b>          | <b>\$ 3,474</b>           | <b>\$ 1,171</b>         | <b>\$ 3,536</b>               | <b>\$ -</b>             | <b>\$ 10,963</b> |
| <b>Net carrying amount at March 31, 2020</b> | <b>\$ 4,297</b>          | <b>\$ 1,343</b>           | <b>\$ 370</b>           | <b>\$ 4,547</b>               | <b>\$ 889</b>           | <b>\$ 11,446</b> |
| <b>Net carrying amount at March 31, 2021</b> | <b>\$ 5,804</b>          | <b>\$ 1,015</b>           | <b>\$ 460</b>           | <b>\$ 4,216</b>               | <b>\$ 1,583</b>         | <b>\$ 13,078</b> |

**9. ART BANK ASSETS**

| <i>(in thousands of dollars)</i> | <b>2021</b>      | <b>2020</b>      |
|----------------------------------|------------------|------------------|
| Opening balance                  | \$ 19,465        | \$ 19,455        |
| Acquisitions                     | 1                | 10               |
| Disposals/donations              | -                | -                |
| <b>Closing Balance</b>           | <b>\$ 19,466</b> | <b>\$ 19,465</b> |

The Council's Art Bank has the largest collection of contemporary Canadian art in Canada. It includes 17,169 paintings, sculptures, drawings, photographs and prints by 3,168 artists. The Art Bank rents its assets to interested parties and as at March 31, 2021 has 3,686 (2020 - 4,011) works on rental to federal government departments and agencies, associations, hospitals, schools, municipalities and private corporations.

The Council uses an independent appraiser to determine the fair value of the Art Bank assets. A full independent valuation of the Art Bank assets was completed in 2001, with a significant update of the appraisals occurring in 2010. An individual piece of art may be separately independently appraised when management identifies significant events such as special recognition, type of artworks or artist passing which are known to trigger a change in valuation. The total appraised value of the Art Bank assets is estimated at \$73,242,000 as at March 31, 2021 (2020 - \$71,678,000).

The residual values of these assets are estimated to be greater than the cost of purchases or independent appraisals when donated plus associated cost of framing, mounting and shipping; therefore no amortization is recognized.

The Council insures the Art Bank assets based on its assessment of risk.

**10. MUSICAL INSTRUMENTS**

The Council created the Musical Instrument Bank in 1985, and it currently owns a fine cello bow and nine prestigious musical instruments. In addition, the Council manages fifteen instruments on loan, nine from anonymous donors and six from six other donors.

Agreements are signed with the individuals to whom the instruments are loaned. Those agreements include clauses that stipulate how the musical instruments are to be handled in order to safeguard them. The appraised value of the Council's Musical Instruments Bank as at March 31, 2021 is \$58,642,000 converted from a value of US\$46,658,000 using the March 31, 2021 US exchange rate of 1.26 (2020 - \$66,411,000, converted from a value of US\$46,658,000 using the March 31, 2020 US exchange rate of 1.42).

The Council insures the musical instruments at their appraised value, in US dollars.

**Notes to the Financial Statements (continued)**  
**March 31, 2021**

**11. ACCUMULATED SURPLUS**

| (in thousands of dollars)  | 2021              | 2020              |
|--|-------------------|-------------------|
| <b>Accumulated surplus from operations</b>                               |                   |                   |
| <b>Endowment - original contribution</b>                                 | \$ 50,000         | \$ 50,000         |
| <b>Endowment principal - Externally restricted contributions</b>         | 37,569            | 37,569            |
| <b>Reserve for excess investment income</b>                              |                   |                   |
| Balance at beginning of the year   | 203,445           | 190,445           |
| Appropriated from the accumulated surplus during the year                | 26,000            | 13,000            |
| Balance at end of the year   | 229,445           | 203,445           |
| <b>Surplus</b>   |                   |                   |
| Balance at beginning of the year   | 32,454            | 26,376            |
| Appropriated to the reserve for excess investment income during the year | (26,000)          | (13,000)          |
| Surplus for the year   | 19,780            | 19,078            |
| Balance at end of the year   | 26,234            | 32,454            |
| <b>Total accumulated surplus from operations</b>                         | <b>343,248</b>    | <b>323,468</b>    |
| <b>Accumulated remeasurement gains (losses)</b>                          |                   |                   |
| Balance at beginning of the year   | (32)              | 30,731            |
| Change in fair value   | 45,824            | (30,763)          |
| Balance at end of the year   | 45,792            | (32)              |
| <b>Balance of accumulated surplus at end of year</b>                     | <b>\$ 389,040</b> | <b>\$ 323,436</b> |

Included in accumulated surplus is the original contribution by the Government of Canada of \$50 million, which constituted a government transfer ("Endowment Fund") when the Council was established in 1957.

**12. NET REALIZED INVESTMENT INCOME**

| (in thousands of dollars)                                | 2021             | 2020             |
|--|------------------|------------------|
| Gains from disposal of portfolio investments             | \$ 18,332        | \$ 11,526        |
| Income transferred to deferred revenues -                |                  |                  |
| Externally restricted contributions (Note 7)             | (7,705)          | (4,702)          |
| Net gains on foreign exchange                            | 160              | 533              |
| Dividend and other distributed income - reinvested       | 11,559           | 11,084           |
| Interest, dividend and other distributed income - cashed | 9,828            | 6,707            |
| Investment portfolio management costs                    | (1,390)          | (1,455)          |
|  | <b>\$ 30,784</b> | <b>\$ 23,693</b> |

**13. NET ART BANK RESULTS**

| (in thousands of dollars)            | 2021         | 2020        |
|--------------------------------------|--------------|-------------|
| Rental revenue                       | \$ (1,574)   | \$ (1,589)  |
| Other income                         | (107)        | (265)       |
| Administration expense               | 1,708        | 1,851       |
| Amortization of other capital assets | -            | 4           |
|                                      | <b>\$ 27</b> | <b>\$ 1</b> |

**14. CANADIAN COMMISSION FOR UNESCO**

| (in thousands of dollars)        | 2021            | 2020            |
|----------------------------------|-----------------|-----------------|
| Program expenses                 | \$ 1,201        | \$ 1,421        |
| Program - contributions received | (235)           | (530)           |
| Administration expense           | 1,480           | 1,621           |
|                                  | <b>\$ 2,446</b> | <b>\$ 2,512</b> |

Program expenses represent mainly the costs associated with the Commission's activities at national and international meetings related to education, science and culture. When applicable, these costs are offset by contributions received from other organizations partnering with the Commission on these activities. Administration expenses represent the direct costs of delivering the Commission's programs.

**15. NET CHANGE IN OTHER NON CASH ITEMS**

| (in thousands of dollars)   | 2021             | 2020               |
|---|------------------|--------------------|
| Decrease (increase) in accounts receivable                        | \$ 422           | \$ (201)           |
| Increase (decrease) in grants, author payments and prizes payable | 61,520           | (10,011)           |
| Increase in accounts payable and accrued liabilities              | 444              | 75                 |
| Decrease in deferred revenues                                     | (98)             | (439)              |
| <b>Net change</b>   | <b>\$ 62,288</b> | <b>\$ (10,576)</b> |

## Notes to the Financial Statements (continued)

### March 31, 2021

#### 16. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

##### a) Grants, author payments and prizes

Grants, author payments and prizes extending into future years are subject to the provision of funds by Parliament. Future year commitments for those payments approved prior to March 31, 2021 amounted to \$342,038,000 (2020 - \$252,357,000). The future payments of grant commitments as of March 31, 2021 are as follows:

| (in thousands of dollars) |            |
|---------------------------|------------|
| 2022                      | \$ 151,994 |
| 2023                      | 131,932    |
| 2024                      | 58,112     |

The commitments for future years for grants, author payments and prizes include transactions with related parties totaling \$9,629,000 (2020 - \$3,578,000).

##### b) Rent

The Council is party to long-term operating leases with respect to rental accommodation. Future year payments related to operating leases as of March 31, 2021 amounted to \$56,926,000 (2020 - \$61,640,000). The future payments of operating leases as of March 31, 2021 are as follows:

| (in thousands of dollars) |          |
|---------------------------|----------|
| 2022                      | \$ 4,367 |
| 2023                      | 4,448    |
| 2024                      | 4,292    |
| 2025                      | 4,194    |
| 2026                      | 4,263    |
| 2027-2034                 | 35,362   |

##### c) Investment commitments

The Council has committed funds with real estate and infrastructure investment managers through limited partnership funds. As it takes time for those funds to be fully invested, the balance of committed capital not yet drawn at March 31, 2021 is \$7,461,000 (2020 - \$10,791,000). A portion of the outstanding balance of committed capital is currently invested in a preferred rate account in a financial institution.

##### d) Other commitments

The Council entered into various contracts during the year creating commitments of payments in future years. Future year payments related to these commitments as of March 31, 2021 amounted to \$9,564,000 (2020 - \$8,667,000). Future annual payments as of March 31, 2021 are as follows:

| (in thousands of dollars)      | Less than 1 year | Less than 5 years | Total    |
|--------------------------------|------------------|-------------------|----------|
| Tangible capital assets        | \$ 4,290         | \$ -              | \$ 4,290 |
| General administration         | 2,217            | 1,558             | 3,775    |
| Arts community services        | 974              | -                 | 974      |
| Program Delivery               | 166              | 8                 | 174      |
| Canadian Commission for UNESCO | 169              | 155               | 324      |
| Net Art Bank results           | 27               | -                 | 27       |

The other commitments for future years include transactions with related parties totaling \$873,000 (2020 - \$524,000), \$663,000 under General administration and \$210,000 under Arts community services.

#### 17. IMPACT OF THE COVID-19 PANDEMIC

The COVID-19 pandemic has led to the closure of public spaces and the cancellation of events around the world, causing great stress on the arts sector.

The Council has maintained its level of program delivery while adjusting its priorities and operations due to events related to COVID-19. During 2020-21, the Council received \$62,800,000 from the Government of Canada through the COVID-19 Emergency Support Fund in order to distribute emergency assistance to its core and project funded organizations.

The Council continues to work with the Government of Canada, as well as provincial, territorial, and municipal partners, to ensure the strength of the sector.

##### **Funding to Support Arts and Live Events Workers in Response to COVID-19**

In the Fall Economic Statement 2020 delivered on November 30, 2020, the Minister of Finance announced that “to support the planning and presentation of COVID-19-safe events and the arts — including both live and digital — and to provide work opportunities in these sectors, the government will provide \$181,500,000 in 2021-22 to the Department of Canadian Heritage and the Canada Council for the Arts to expand their funding programs.”

The Council's portion representing \$116,500,000, which is expected to be received in June 2021, will help support the recovery and sustainability of the arts sector, by making it possible for eligible recipients to financially bridge this prolonged period of pandemic restrictions. Through a new digital innovation initiative (Digital Now) \$50,500,000 will enable arts groups, collectives and organizations to adapt or create works to be shared with virtual audiences; and \$66,000,000 of new funding will go to stimulate increased research, creation and production of new work through the Explore and Create granting program.

**Notes to the Financial Statements (continued)**  
**March 31, 2021**

**18. 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.

During the year, the Council incurred expenses totaling \$7,601,000 (2020 - \$3,519,000) and recorded rental revenues for the Art Bank assets, contributions and other revenues totaling \$2,764,000 (2020 - \$6,418,000) with related parties.

During the year, the Council received audit services without charge from the Office of the Auditor General. The estimated cost for these services is \$545,000 (2020: \$335,000).

As at March 31, the Council recorded the following amounts on the Statement of Financial Position for transactions with related parties:

| <i>(in thousands of dollars)</i>           | <b>2021</b> | <b>2020</b> |
|--|-------------|-------------|
| Accounts receivable                        | \$ 654      | \$ 902      |
| Grants, author payments and prizes payable | 852         | 663         |
| Accounts payable and accrued liabilities   | 686         | 700         |
| Deferred revenues                          | 437         | 447         |
| Tangible capital assets                    | -           | 122         |
| Prepays                                    | -           | 2           |

**19. COMPARATIVE FIGURES**

Certain 2020 figures have been reclassified to conform to the presentation adopted in 2021.

**Notes to the Financial Statements (continued)**  
**March 31, 2021**

**Schedule I - Grants, Author Payments and Prizes by Section**

(in thousands of dollars)

|  | 2021              | 2020              |
|--|-------------------|-------------------|
| <b>Arts Granting Programs</b>  |                   |                   |
| Explore and Create   | \$ 105,248        | \$ 77,422         |
| Engage and Sustain   | 80,580            | 73,879            |
| Supporting Artistic Practice   | 37,787            | 35,572            |
| Arts Across Canada   | 20,596            | 24,344            |
| Arts Abroad  | 6,184             | 16,309            |
| Creating, Knowing and Sharing: The Arts and Cultures of First Nations, Inuit and Métis Peoples | 15,625            | 14,317            |
| Digital Strategy Fund  | 46,388            | 20,520            |
| Strategic Investments  | 2,884             | 10,026            |
| COVID-19 Emergency Support Fund  | 62,800            | -                 |
| <b>Prizes</b>  | 314               | 1,028             |
| <b>Public Lending Right</b>  | 14,807            | 14,784            |
| <b>Killam Program</b>  |                   |                   |
| Killam Research Fellowships  | 420               | 840               |
| Killam Prizes  | 500               | 500               |
| <b>Other Prizes and Awards</b>   |                   |                   |
| Molson Prizes  | 100               | 100               |
| Other prizes and awards < \$75,000   | 354               | 287               |
|  | <b>\$ 394,587</b> | <b>\$ 289,928</b> |

**Notes to the Financial Statements (continued)**  
**March 31, 2021**

**Schedule II - Other Expenses**

(in thousands of dollars)

|   | 2021                         |                           |                  | 2020             |
|---|------------------------------|---------------------------|------------------|------------------|
|   | Transfer<br>Program Delivery | General<br>Administration | Total            | Total            |
| Salaries and employee benefits                | \$ 18,007                    | \$ 12,411                 | \$ 30,418        | \$ 27,844        |
| Peers and advisory committees                 | 1,523                        | -                         | 1,523            | 4,563            |
| Office accommodation                          | 28                           | 3,807                     | 3,835            | 3,803            |
| Professional and special services             | 651                          | 2,816                     | 3,467            | 3,044            |
| Amortization                                  | 557                          | 1,441                     | 1,998            | 1,689            |
| Information management                        | 73                           | 1,358                     | 1,431            | 972              |
| Staff travel                                  | 8                            | 4                         | 12               | 616              |
| Prizes presentation                           | 332                          | -                         | 332              | 357              |
| Printing, publications and duplicating        | 1                            | 235                       | 236              | 324              |
| Communications                                | 2                            | 266                       | 268              | 240              |
| Office expenses and equipment                 | 5                            | 120                       | 125              | 200              |
| Meeting expenses including members' honoraria | 14                           | 61                        | 75               | 163              |
| Miscellaneous                                 | 4                            | 10                        | 14               | 25               |
|   | <b>\$ 21,205</b>             | <b>\$ 22,529</b>          | <b>\$ 43,734</b> | <b>\$ 43,840</b> |

**Schedule III - Arts Community Services**

(in thousands of dollars)

|                            | 2021            | 2020            |
|----------------------------|-----------------|-----------------|
| Partnership and networking | \$ 1,664        | \$ 2,019        |
| Research and consultation  | 1,096           | 1,125           |
| Event costs                | 40              | 258             |
|                            | <b>\$ 2,800</b> | <b>\$ 3,402</b> |

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