



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended September 30, 2021
Published November 30, 2021



Canada Council
for the Arts

Conseil des arts
du Canada

Management Discussion and Analysis

Quarterly Report

Period ended September 30, 2021
Published November 30, 2021

INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the second quarter and the six-month period ended September 30, 2021 as set out in the accompanying unaudited quarterly financial statements. Those statements are disclosed in accordance with the requirements of section 131.1 of the Financial Administration Act and are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

Management is responsible for the information presented in the unaudited quarterly financial statements and in this narrative discussion, both of which have been reviewed and endorsed by the Audit and Finance Committee of the Council's Board. In assessing what information is to be provided in the narrative discussion, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the decisions of the primary user of this information, the Government of Canada.

This discussion contains "forward-looking statements" that reflect management's expectations regarding the Council's results of operations. These statements are not facts but only estimates based upon information and assumptions that are currently available to, or made by, management and which are subject to a number of risks and uncertainties. These and other factors may cause actual results to differ substantially from the expectations stated or implied in the forward-looking statements.

The Financial Administration Act does not require the Council to file a Corporate Plan with the Government of Canada. Therefore, neither this narrative discussion nor the unaudited quarterly financial statements disclose a comparison of results against the Council's Corporate Plan. As required by PSAS, the unaudited quarterly financial statements provide comparisons to the Council's approved annual budget for the year.

HIGHLIGHTS

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

September 15 – As part of its [2021-26 Strategic Plan, Art, now more than ever](#), the Canada Council is encouraging the sector to leverage digital technology to address sectoral and digital challenges and support the ongoing digital transformation of the sector. To advance this commitment, it has launched two new digital initiatives. The [Digital Generator](#) will help Canadian arts groups, collectives, and organizations to build digital capacity, and transform their business models and operations. The [Digital Greenhouse](#) will help artists, arts groups and arts organizations develop projects that make use of digital technology to address sectoral and digital challenges. Both initiatives are open for applications now.

July 3 – The [2021 Molson Prizes](#) were awarded to M. NourbeSe Philip (Arts) and Dr. Gordon J. G. Asmundson (Social Sciences and Humanities). The Molson Prizes are awarded every year to two people—one in the arts and one in the social sciences and humanities—who have distinguished themselves by their outstanding achievements. These prizes are funded by an endowment from the Molson Foundation and are administered in collaboration with the Social Sciences and Humanities Research Council (SSHRC).

July 13 – The Government of Yukon and the Canada Council launched a joint press release to announce the co-hosted [Arctic Arts Summit in Yukon](#) in June 2022. At the Summit, representatives of the Indigenous nations and Arctic countries in the circumpolar region will explore and advance perspectives, stories, and cultures of the North. The summit will be a forum to stimulate an ongoing, sustainable collaboration in the arts and creative industries throughout the region.

July 19 – The Council in collaboration with Mass Culture, the Culture Statistics Working Group (Federal-Provincial-Territorial Culture and Heritage Table), the Ontario Trillium Foundation, and Toronto Arts Foundation have launched the [Researchers in Residence: Arts' Civic Impact initiative](#). This initiative will engage six early-career researchers to implement on-the-ground research to examine the civic impacts of the arts in the lives of Canadians. Mentored by expert faculty from six different post-secondary institutions, researchers will be matched with Canadian arts organizations and festivals where they will test practical tools and approaches that arts organizations, funders, scholars and governments can use to better articulate their impact in communities. When completed, this national research model, including five qualitative impact frameworks, will be shared publicly.

August 4 – The Council signed a Memorandum of Understanding that will transition the administration of the [Killam program](#) from the Council to the National Research Council of Canada (NRC) by March 2022. Through this new collaboration initiated by the Killam Trustees, the Killam program, which includes the Killam Prize and the Killam Research Fellowships, will continue to support innovative research while recognizing and celebrating top thought leaders in Canada. This marks a new era for the Killam program, providing an opportunity to build on the program's legacy, as well as to grow its relevance and impact through the network and expertise of the NRC.

August 18 – The Council announced the winners of the [2021 Michael Measures Prizes](#) that recognize promising young Canadian classical music performers who are enrolled in the summer training program of the National Youth Orchestra of Canada. This year's Michael Measures first prize of \$25,000 went to cellist David Liam Roberts, Red River Métis from Winnipeg, Manitoba. The second prize of \$15,000 was awarded to trombonist Robert Conquer, from Scarborough, Ontario.

September 9 – The Australia Council for the Arts and the Canada Council announced the three recipients of [Digital Diasporas](#), a new online research residency delivered in partnership with China Residencies: Amy Lam (Canada), Casey Tang (USA) and Tian Zhang (Australia). The recipients will be hosted by three leading cultural organizations across China, Australia and Canada and will each be awarded AUD \$10,000 (CAD \$9,300) to support intercultural and cross-border research and development during the residency period in late 2021. Digital Diasporas supports international peer-to-peer co-learning and mentoring for experimental artists and curators working across art forms, who identify with the Chinese diaspora.

September 13 – The Canada Council's [Art Bank](#) has made permanent some of its long-term loans by donating more than a dozen large outdoor sculptures to a national historic site in Grand-Métis, Quebec, and an outdoor park in Gananoque, Ontario. The Art Bank has been making contemporary Canadian art more accessible to the public through its art rental program, exhibitions and outreach activities for almost 50 years

September 17 – The Canadian Embassy in Mexico is showcasing the work of Indigenous artists from Canada as part of "[Casa Canada Oaxaca](#)", with an exhibit of Canadian artists at the Museo Textil de Oaxaca from September 20 to October 8, 2021. Eight pieces from the Canada Council Art Bank created by Inuit women, all born in northern Arctic regions, have been selected for digital presentation at the Museo Textil de Oaxaca. This initiative is fostering cultural exchange, sparking conversations among artistic communities and celebrating the cultures of Indigenous Peoples.

September 30 – The Council's Chair and the Director and CEO released a [joint statement](#) to mark the **first Truth and Reconciliation Day**. They reaffirmed the Council's commitment to continue its work toward a more just, equitable, and decolonized future for society.

September 30 – The Council has invested \$50 million to support over 720 projects by arts groups, collectives, and organizations through [Digital Now](#), a one-time digital innovation initiative launched in March 2021, to adapt existing works or create new ones to be shared virtually with audiences. Digital Now was part of the federal government's [Supporting Arts and Live Events Workers in Response to COVID-19 Initiative](#) to stimulate employment in the arts and culture sector, support ongoing operations during the pandemic, and prepare for the sustainable recovery of the sector. The Council is investing \$116.5 million of this funding in two components of its Explore and Create program and in its Digital Now initiative

Net Results

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2021	2020	Variance	2021	2020	Variance
Revenue	4,961	2,287	2,674	12,272	(477)	12,749
Expenses	(144,169)	(49,595)	(94,574)	(315,557)	(284,760)	(30,797)
Government funding	196,000	122,800	73,200	346,500	297,800	48,700
Surplus for the period	56,792	75,492	(18,700)	43,215	12,563	30,652

Overview of the Second Quarter Net Results

The surplus for the quarter was \$56.8M compared to \$75.5M for the same period last year. The variance is mainly due to much higher grant expenses recorded during this quarter compared to the same period last year by \$93.7M explained by the \$116.5M received in additional funding from the federal government for the "Supporting Arts and Live Events Workers in Response to COVID-19 Initiative". Most of the grants expenses related to this initiative were recorded late in the quarter delaying payment in full of these grants to the next quarter explaining the lower increase in government funding which is drawn down based on cashflow requirements.

The Council will continue to monitor its financial results with the aim of achieving a balanced budget, including a higher granting budget because of the additional \$25M in funding announced over the summer by the federal government to relaunch the arts sector and to resume its public activities which was not part of the original approved budget.

IMPORTANT CHANGES

Operational

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

July 29 – In accordance with the government's guidelines, the Council lifted restrictions on travel and public gathering activities within its programs. Grant recipients are responsible for complying with health and travel measures, as required by the jurisdiction where the funded activities are to be held and to follow all public health and travel measures, laws and regulations issued by relevant government authorities.

Leadership and Governance

August 4 – Board member [Jennifer Dorner](#) (Montreal, Quebec) was reappointed for a two-year term, effective August 4, 2021.

FINANCIAL RESULTS

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

Revenue

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2021	2020	Increase/ (Decrease)	2021	2020	Increase/ (Decrease)
Net realized investment income	3,257	1,647	1,610	6,244	(1,780)	8,024
Other revenue	1,704	640	1,064	6,028	1,303	4,725
Total	4,961	2,287	2,674	12,272	(477)	12,749

Net realized investment income

Net realized investment income was significantly higher due mainly to dividends which have more than doubled compared to the same period last year with the strong performance of the portfolio. The \$8.0M increase for the six-month comparative period is due to realized losses of \$8.0M recorded last year after the sales of assets in the Canadian and Global equity asset classes.

The net realized investment income is still forecasted to be aligned with the budget with the strong performance and growth of the portfolio.

Other revenue

Other revenues include the cancellation of grants awarded in previous years, donations, and other sources of revenues received. The other revenues for the quarter are higher compared to the same period last year due to a notable increase in grants cancellations of \$1.5M compared to the same period last year due to adjustments or cancelled events because of COVID-19. Other revenues are expected to be much higher than budgeted and any excess will be returned to the granting budget.

Expenses

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2021	2020	Increase/ (Decrease)	2021	2020	Increase/ (Decrease)
Grants, author payments and prizes	131,957	38,221	93,736	291,877	262,868	29,009
Transfer program delivery	5,882	4,990	892	11,099	9,946	1,153
Arts community services	393	1,046	(653)	547	1,183	(636)
Net Art Bank results	(37)	(52)	15	5	(70)	75
Canadian Commission for UNESCO	474	610	(136)	727	930	(203)
General administration	5,500	4,780	720	11,302	9,903	1,399
Total	144,169	49,595	94,574	315,557	284,760	30,797

Grants, author payments and prizes

The increase in the second quarter, compared to last year, is mainly due to the spending of the \$116.5M received in additional funding from the federal government for the "Supporting Arts and Live Events Workers in Response to COVID-19 Initiative". The Council allocated \$66M of the funding received in two components of its Explore and Create program, and \$50M in its Digital Now initiative. The increase for the cumulative six-month period is less because the Council had also received \$62.8M during that period last year for the COVID-19 Emergency Support Funds.

The planned annual budget of \$435.3M for grants, author payments and prizes, which included the additional \$116.5M received from the federal government as emergency funding to support arts and live events workers in response to COVID-19, has been revised upwards following the announcement in June 2021 that the Council will be receiving an additional \$25M in 2021-22 and \$50M in 2022-23 to relaunch the arts sector and to resume its public activities. The total granting budget for 2021-22 is now revised to \$460.3M.

Transfer program delivery

This expense is higher compared to last year mainly due to the addition in personnel to deliver the funds received in response to COVID-19 initiatives and to address the higher volume of applications. The annual economic adjustment in salaries and employee benefits and an upward adjustment made in April 2021 for per diem honorarium for peer assessors also contributed to the increase in the program delivery section.

Arts community services

The lower expense for the quarter and year-to-date compared to prior year periods is mainly related to a special partnership - Community Cares: Emergency Response Fund for First Nations, Inuit, and Métis Individuals Working in the Arts - that was created last year in July 2020 in collaboration with the Aboriginal Curatorial Collective, the Indigenous Performing Arts Alliance, the Indigenous Screen Office, and the Inuit Art Foundation. The Council contributed \$500K to this special initiative administered by the Aboriginal Curatorial collective.

Net Art Bank results

This expense is higher compared to last year mainly because of a slight decrease in new or renewal of rental activities in the two first quarters due to the COVID-19 pandemic.

General Administration

This expense is higher for the quarter compared to the same period last year due to a planned increase to the information management expenses, mostly related to the Digital Shift Roadmap in modernizing Council's systems and infrastructure and moving to cloud computing and storage. The annual economic adjustment in salaries and employee benefits and less vacancies in personnel also contributed to the increase in the general administration section.

Financial Assets

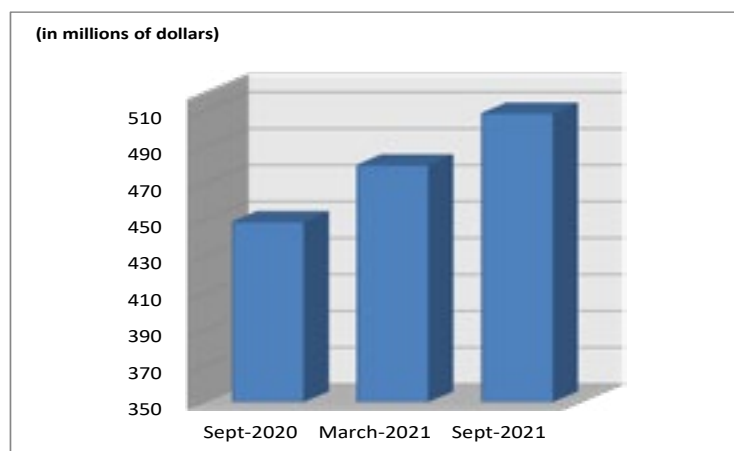
(in thousands of dollars)	September 30 2021	March 31 2021	Increase/ (Decrease)
Cash	212,515	81,065	131,450
Accounts receivable	3,244	2,925	319
Portfolio investments	508,154	479,820	28,334
Total	723,913	563,810	160,103

Cash

The increase of \$131.5M in cash is mainly explained by an increase of \$97.5M in grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as of September 30, 2021, plus the \$43.2M surplus for the six-month period.

Portfolio investments

The total market value of the portfolio as at September 30, 2021, was \$508.2M, of which \$121.3M was externally restricted. This represents an increase of \$28.3M in the market value since March 31, 2021, and an increase of \$59.5M since September 30, 2020.



The total fund generated an absolute positive return of 0.9% for the quarter matching the benchmark. The Canadian Equity and Fixed Income asset classes had negative returns this quarter at -0.6% and -0.1% respectively. The other assets classes were mostly neutral to the benchmark except the Infrastructure that posted a return of 6.9% exceeding the benchmark by 4.7%.

The total fund one-year return was 6.6% for September 2021, underperforming the benchmark slightly by 0.5%. All asset classes generated positive returns for the one-year return. The underperformance by one of our Canadian Equity managers, 4.2% below the benchmark, was mostly offset by the significant rebound of the Infrastructure asset class posting a return of 21.0% exceeding the benchmark by 14.5%.

Liabilities

(in thousands of dollars)	September 30 2021	March 31 2021	Increase/ (Decrease)
Grants, author payments and prizes payable	217,115	119,590	97,525
Accounts payable and accrued liabilities	3,767	5,565	(1,798)
Deferred revenues	4,963	6,506	(1,543)
Employee future benefits	5,470	5,155	315
Externally restricted contributions	77,596	71,273	6,323
Total	308,911	208,089	100,822

Grants, author payments and prizes payable

The increase of \$97.5M in comparison to the value as at March 31, 2021 arises from an increase in overall funding as well as the timing of payments schedules.

Accounts payable and accrued liabilities

The decrease of \$1.8M in comparison to the value as at March 31, 2021 is mainly due to a reduction of \$2.6M in commercial invoices due to the timing of the payment schedule offset by a net increase of \$0.8M in payroll accrual liability.

Externally restricted contributions

The increase of \$6.3M in comparison to the value as at March 31, 2021 arises mainly from the externally restricted net proportionate share of the market value increase of the portfolio investment less the realized losses incurred and funds used during the six month period.

Non-Financial Assets

(in thousands of dollars)	September 30 2021	March 31 2021	Increase/ (Decrease)
Tangible capital assets	13,434	13,078	356
Art Bank assets	19,327	19,466	(139)
Musical instruments	1	1	-
Prepaid expenses	319	774	(455)
Total	33,081	33,319	(238)

Tangible capital assets

The net increase of \$0.4M in comparison to the value as at March 31, 2021 is attributable to continuous investments made as part of the Council's Digital Shift Roadmap to modernize both its technology infrastructure and its systems.

Art Bank assets

The Council owns over 17,155 works of contemporary Canadian art within its Art Bank collection. At September 30, 2021 the appraised value of the Art Bank assets was approximately \$73.2M. The Council insures its Art Bank assets based on its assessment of risk.

Musical instruments

The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and nine prestigious musical instruments. In addition, the Council manages fourteen instruments on loan. The appraised value of its musical instruments as at September 30, 2021 was US \$46.2M. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value, in US dollars.

RISK MANAGEMENT

Effective risk management is fundamental to the success of the Council in fulfilling its mandate. The Council continues to develop a strong risk management culture where risk management is a responsibility shared by all of its employees. The primary goal of enterprise risk management is to ensure that the outcomes of risk-taking activities are consistent with the Council's plans, strategies and risk appetite.

The Council's existing risk management framework consists of four key elements:

- risk governance;
- risk appetite;
- risk profile, assessment and mitigation; and,
- financial risk mitigation.

Risk Governance

The Council's risk management governance begins with oversight by its Board, either directly or through its committees, to ensure that decision-making is aligned with strategies and risk appetite. The Board receives regular updates on the Council's key risks regarding its risk profile and related mitigation, financial performance and performance of the investment portfolio. The Council's executive management is responsible for risk management under the direct oversight of the Board.

Risk Appetite

The Council follows a prudent risk-taking approach in managing its activities. It defines prudent risks as those seen to contribute to the organization's capacity to better deliver its mandate within a range of consequences that are well understood and appropriately mitigated. It manages risk within the constraints of its mandate, values, organizational culture, and both its public and internal commitments. The Council's full Risk Appetite Statement is disclosed in the 2021 Annual Financial Statements.

Risk Profile

Using the Council's risk appetite as key context, the risk profile is reviewed and updated on an annual basis. All identified risks were ranked based on likelihood and potential impact on the Council's operations with a focus on potential operational, financial, and reputational dimensions. The corporate risk profile highlighting the top risk areas and their mitigation strategies was presented to the Board in October 2020.

The risk mitigation strategies and related activities are monitored on an ongoing basis by assigned members of the executive management to reduce the risk exposure. Regular updates on these risks are provided to the Audit and Finance Committee to ensure continuous oversight and the effectiveness of the mitigation strategies that have been put in place.

Financial Risk

The Council is exposed to a variety of financial risks as a result of its activities. These include credit risk, liquidity risk and market risk. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Council. A significant portion of the Council's receivables are normally deposited within 30-60 days after quarter-end and as such the related credit risk is very low. Liquidity risk is the risk that Council will not be able to meet its financial obligations as they fall due. The Council currently receives most of its revenues by way of Parliamentary appropriations drawn down monthly. That revenue is invested in a preferred rate account at a financial institution until it is required. The Council's investment activities are primarily exposed to price risk, interest rate risk and currency risk. The directive to the Council's investment managers is to manage the Council's market risks on a daily basis in accordance with the Council's policies. Overall market positions are monitored quarterly by the Investment Committee and the Board.

USE OF PARLIAMENTARY APPROPRIATION

The following information is intended to supplement that provided elsewhere in this discussion regarding the Council's use of its Parliamentary appropriation.

The Council receives its main funding through an appropriation voted by Parliament. The Council records the Parliamentary appropriation received in the period as revenue in the Statement of Operations or as Deferred Parliamentary appropriations to the extent they relate to the months following the period end. The Council submits a monthly cash flow analysis to the Department of Canadian Heritage to justify its monthly drawdown cash requirements. The cash-flow requirements may not necessarily match the timing of expenses reported in the Statement of Operations. The monthly drawdown is invested in a short-term pooled fund managed by a professional investment manager or in a preferred rate account at a financial institution from which the Council draws its daily cash requirements.

The Parliamentary appropriations approved and received by the Council for the six months ended September 30 were as follows:

(in thousands of dollars)	September 30	
	2021	2020
Approved annual operating funding		
Vote 1 - Operating costs	364,062	362,644
Statutory Vote - COVID-19 Emergency Support Fund	-	62,800
Supplementary Estimates	116,500	-
	480,562	425,444
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the six-month period	(346,500)	(297,800)
Balance of operating funding to be received	134,062	127,644



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended September 30, 2021
have not been audited or reviewed by our Auditor

Management's Responsibility for Financial Reporting

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines are necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

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

November 30, 2021



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



Carole Boileau, CPA, CA
Chief Financial Officer

Statement of Financial Position

(Unaudited)	September 30	March 31
(in thousands of dollars)	2021	2021
FINANCIAL ASSETS		
Cash	\$ 212,515	\$ 81,065
Accounts receivable	3,244	2,925
Portfolio investments (Note 3)	508,154	479,820
Total financial assets	723,913	563,810
LIABILITIES		
Grants, author payments and prizes payable	217,115	119,590
Accounts payable and accrued liabilities	3,767	5,565
Deferred revenues	4,963	6,506
Employee future benefits	5,470	5,155
Deferred revenues - Externally restricted contributions (Note 5)	77,596	71,273
Total liabilities	308,911	208,089
NET FINANCIAL ASSETS	415,002	355,721
NON-FINANCIAL ASSETS		
Tangible capital assets	13,434	13,078
Art Bank assets	19,327	19,466
Musical instruments	1	1
Prepaid expenses	319	774
Total non-financial assets	33,081	33,319
ACCUMULATED SURPLUS (Note 6)	\$ 448,083	\$ 389,040
Accumulated surplus is comprised of:		
Accumulated surplus from operations	386,463	343,248
Accumulated remeasurement gains (losses)	61,620	45,792
ACCUMULATED SURPLUS	\$ 448,083	\$ 389,040

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

Statement of Operations

(Unaudited)	Yearly Budget	Three months ended September 30		Six months ended September 30	
	2021-2022	2021	2020	2021	2020
(in thousands of dollars)					
Revenue					
Net realized investment income (Note 7)	\$ 12,245	\$ 3,257	\$ 1,647	\$ 6,244	\$ (1,780)
Other revenue	1,992	1,704	640	6,028	1,303
Total revenues	14,237	4,961	2,287	12,272	(477)
Expenses					
Transfer Programs					
Grants, author payments and prizes	435,293	131,957	38,221	291,877	262,868
Transfer program delivery	24,788	5,882	4,990	11,099	9,946
Arts community services	10,327	393	1,046	547	1,183
	470,408	138,232	44,257	303,523	273,997
Net Art Bank results (Note 8)	300	(37)	(52)	5	(70)
Canadian Commission for UNESCO (Note 9)	2,581	474	610	727	930
General administration	21,487	5,500	4,780	11,302	9,903
Total expenses	494,776	144,169	49,595	315,557	284,760
Deficit from operations before Parliamentary appropriations for the period	(480,539)	(139,208)	(47,308)	(303,285)	(285,237)
Parliamentary appropriations	480,562	196,000	122,800	346,500	297,800
SURPLUS FROM OPERATIONS FOR THE PERIOD	23	56,792	75,492	43,215	12,563
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	343,248	329,671	260,539	343,248	323,468
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 343,271	\$ 386,463	\$ 336,031	\$ 386,463	\$ 336,031

Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
(in thousands of dollars)				
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF PERIOD	\$ 61,724	\$ 33,491	\$ 45,792	\$ (32)
Unrealized gains attributable to:				
Portfolio investments	220	14,775	16,168	73,844
Amounts reclassified to the Statement of Operations:				
Portfolio investments	(324)	10	(340)	(25,536)
NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD	(104)	14,785	15,828	48,308
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 61,620	\$ 48,276	\$ 61,620	\$ 48,276

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

Statement of Change in Net Financial Assets

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
(in thousands of dollars)				
SURPLUS FROM OPERATIONS FOR THE PERIOD	\$ 56,792	\$ 75,492	\$ 43,215	\$ 12,563
Acquisition of tangible capital assets	(804)	(1,043)	(1,673)	(1,685)
Amortization of tangible capital assets	659	561	1,317	1,122
Disposal/Donation of Art Bank assets	139	-	139	-
	(6)	(482)	(217)	(563)
Acquisition of prepaid expenses	(334)	(227)	(442)	(297)
Use of prepaid expenses	193	112	897	693
	(141)	(115)	455	396
Net remeasurement gains (losses)	(104)	14,785	15,828	48,308
INCREASE IN NET FINANCIAL ASSETS	56,541	89,680	59,281	60,704
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	358,461	262,800	355,721	291,776
NET FINANCIAL ASSETS, END OF PERIOD	\$ 415,002	\$ 352,480	\$ 415,002	\$ 352,480

Statement of Cash Flow

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
(in thousands of dollars)				
Operating Transactions				
Surplus from operations for the period	\$ 56,792	\$ 75,492	\$ 43,215	\$ 12,563
(Gains) losses from disposal of portfolio investments (Note 7)	(357)	(5)	(375)	8,041
Dividend and other distributed income - reinvested (Note 7)	(2,160)	(573)	(5,009)	(2,638)
Amortization of tangible capital assets	659	561	1,317	1,122
Disposal/Donation of Art Bank assets	139	-	139	-
(Increase) decrease in prepaid expenses	(141)	(115)	455	396
Increase in employee future benefits	157	168	315	308
Income transferred (from) to Deferred revenues - Externally restricted contributions from (to) investment income (Note 5)	493	(167)	1,277	(1,436)
Net change in other non-cash items (Note 10)	5,312	(35,746)	93,865	55,723
Cash provided by operating activities	60,894	39,615	135,199	74,079
Capital Transactions				
Acquisition of tangible capital assets	(804)	(1,043)	(1,673)	(1,685)
Cash used by capital activities	(804)	(1,043)	(1,673)	(1,685)
Investing Transactions				
Acquisition of portfolio investments	(2,565)	(1)	(3,167)	(56,745)
Disposal of portfolio investments	1,024	162	1,091	56,264
Cash used by investing activities	(1,541)	161	(2,076)	(481)
NET INCREASE IN CASH	58,549	38,733	131,450	71,913
CASH, BEGINNING OF PERIOD	153,966	54,804	81,065	21,624
CASH, END OF PERIOD	\$ 212,515	\$ 93,537	\$ 212,515	\$ 93,537

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

Notes to the Financial Statements

For the period ended September 30, 2021

(Unaudited)

1. AUTHORITY, MANDATE AND ACTIVITIES

The Canada Council for the Arts (the "Council"), established by the *Canada Council Act* in 1957 and subsequently amended in 2001 by Bill C-40 to the *Canada Council for the Arts Act*, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the *Income Tax Act*. In accordance with section 85(1.1) of the *Financial Administration Act*, the Council is exempt from Divisions I to IV of Part X of this Act, except for subsection 105(2) and sections 113.1 and 119 of Division II, sections 131 to 148 of Division III and section 154.01 of Division IV. The Council is a Crown corporation whose objectives are to foster and promote the study and enjoyment of, and the production of works in, the arts.

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

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

3. PORTFOLIO INVESTMENTS

	Year-to-date September 30, 2021					Year-end March 31, 2021		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Canadian Equity	46,299	-	14,067	60,366	15	43,853	56,904	14
Global Equity	165,213	237	31,701	196,677	47	163,732	182,055	46
Fixed income	88,885	-	232	89,117	21	87,460	87,523	22
Alternatives	20,630	-	14,767	35,397	8	20,630	33,986	9
Real estate	7,406	-	1,389	8,795	2	7,557	8,640	2
Infrastructure	23,866	1,219	6,616	29,263	7	22,708	26,943	7
Cash	940	-	-	940	-	937	937	-
	353,239	1,456	68,772	420,555	100	346,877	396,988	100
Killam Fund								
Pooled funds								
Canadian Equity	9,918	-	1,952	11,870	13	9,419	11,205	14
Global Equity	34,811	49	6,486	41,248	47	34,500	38,183	46
Fixed income	18,000	4	43	18,039	21	17,790	17,795	21
Alternatives	5,298	-	3,784	9,082	10	5,298	8,720	10
Real estate	1,901	-	353	2,254	3	1,939	2,213	3
Infrastructure	3,885	222	1,443	5,106	6	3,769	4,716	6
Cash	-	-	-	-	-	-	-	-
	73,813	275	14,061	87,599	100	72,715	82,832	100
Total investments	427,052	1,731	82,833	508,154		419,592	479,820	

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These unaudited interim financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

Basis of preparation

These interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 2021. Accordingly, they should be read in conjunction with the audited annual financial statements. The interim financial statements are unaudited for all periods presented. The accounting policies used in the preparation of these interim condensed financial statements are consistent with those disclosed in the Council's last audited annual financial statements.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Employee future benefits, the estimated useful lives of tangible capital assets, the residual and appraised value of the Art Bank assets, and the fair value of financial instruments are the most significant items where estimates are used. Actual results could differ from those estimated.

Budgeted figures

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

Unrealized gains/losses on investments are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle for some investments. Annually, the Council assesses each of its investment instruments against specific criteria to determine whether there is objective evidence that the adjusted cost may not be recovered and is therefore impaired. The Council does not consider these investments to be other-than-temporarily impaired.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Fund. The Killam will requested that its donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8% (March 31, 2021 - 8%) of that Fund with a total fair value of \$33,686,000 (March 31, 2021 - \$31,799,000). The total fair value of the externally restricted investment including the Killam Fund is \$121,285,000 (March 31, 2021 - \$114,631,000).

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

The Council invests in units of equity, fixed income and alternative pooled funds, and in limited partnership units of three real estate funds and six infrastructure funds. The permitted and prohibited investments, the asset mix as well as some maximum holding quantity restrictions are governed by a Board approved investment policy to mitigate risk. All of the investments are managed by professional investment managers.

The Council manages its portfolio to the following benchmarks as per the *Statement of Investment Policies and Goals* approved by the Board. The benchmarks allow asset class allocations to vary between a minimum and a maximum.

Asset Classes	Market Value	Minimum	Benchmark	Maximum
Canadian equities	14%	10%	14%	20%
Global equities	47%	40%	46%	55%
Fixed income	21%	15%	20%	30%
Alternatives	9%	0%	0%	10%
Real estate	2%	0%	10%	15%
Infrastructure	7%	0%	10%	15%
Money market/Cash	0%	0%	0%	10%

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

There are a total of six equity pooled funds: two Canadian funds and four funds that are invested in the global equity markets. The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock Exchange Index (S&P/TSX). The global equities are measured against the returns of the Morgan Stanley Capital International (MSCI) All Country World Index. Investments in the fixed income pooled fund are comprised of a mix of bonds, mortgages, emerging debt and other fixed income instruments. The fixed income fund is measured against the returns of the Financial Times Stock Exchange (FTSE) Canada Universe Bond Index. Investments in the alternative pooled funds are comprised of units of one hedge fund with diversified positions across global asset classes. This investment is measured against the returns of the FTSE Canada 91-day T-bill plus 4%. The assets included in the real estate funds are commercial real estate properties in Canada, the United States and globally. These investments are measured against the returns of the Investment Property Databank. The infrastructure funds include six portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index (CPI) plus 4.5%.

4. FINANCIAL RISKS AND FAIR VALUE

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

		Year-to-date	Year-end
		September 30, 2021	March 31, 2021
		Carrying amount	Carrying amount
		and fair value (\$)	and fair value (\$)
<i>(in thousands of dollars)</i>			
Financial assets and liabilities and classifications		Measurement categories	
Cash	Fair value	212,515	81,065
Accounts receivable	Amortized cost	3,244	2,925
Portfolio Investments ¹	Fair value	508,154	479,820
Grants, author payments and prizes payable	Amortized cost	217,115	119,590
Accounts payable and accrued liabilities	Amortized cost	3,767	5,565

¹ The detailed fair value for the investments is listed in Note 3.

a) Establishing fair value

The carrying values of accounts receivable, grants, author payments and prizes payable and accounts payable and accrued liabilities approximate their fair values due to their short-term maturity.

The fair values of the investments are determined as follows:

- Canadian Equity, Global Equity, Fixed Income and Money Market pooled fund investments are valued at the unit values supplied by the pooled fund external managers, which represent the Council's proportionate share of the underlying net assets at fair values, determined using closing market prices.

- The Alternatives is a pooled fund investment which is valued at the unit values supplied by the pooled fund external manager. The fund manager manages multiple funds with different strategies within the fund and determines the unit's fair value predominantly using valuation models with unobservable inputs and for smaller portions using closing market prices when available.
- Real estate and Infrastructure investment values are supplied by the external fund managers using internally determined appraisals based on valuation models with unobservable inputs.

b) Fair value hierarchy

The financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the Statement of Financial Position, classified using the fair value hierarchy described above:

Financial assets at fair value

	Year-to-date September 30, 2021				Year-end March 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Cash	212,515	-	-	212,515	81,065	-	-	81,065
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Canadian Equity	-	60,366	-	60,366	-	56,904	-	56,904
Global Equity	-	196,677	-	196,677	-	182,055	-	182,055
Fixed Income	-	89,117	-	89,117	-	87,523	-	87,523
Alternatives	-	-	35,397	35,397	-	-	33,986	33,986
Real Estate	-	-	8,795	8,795	-	-	8,640	8,640
Infrastructure	-	-	29,263	29,263	-	-	26,943	26,943
Cash	940	-	-	940	937	-	-	937
Killam Fund								
Pooled Funds								
Canadian Equity	-	11,870	-	11,870	-	11,205	-	11,205
Global Equity	-	41,248	-	41,248	-	38,183	-	38,183
Fixed Income	-	18,039	-	18,039	-	17,795	-	17,795
Alternatives	-	-	9,082	9,082	-	-	8,720	8,720
Real Estate	-	-	2,254	2,254	-	-	2,213	2,213
Infrastructure	-	-	5,106	5,106	-	-	4,716	4,716
Cash	-	-	-	-	-	-	-	-
	940	417,317	89,897	508,154	937	393,665	85,218	479,820
Total	213,455	417,317	89,897	720,669	82,002	393,665	85,218	560,885

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

5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

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

(in thousands of dollars)	Year-to-date	Year-end
	September 30, 2021	March 31, 2021
Balance, beginning of period	\$ 71,273	\$ 50,253
Transferred (to) from net investment income (Note 7)		
Net Investment income (loss)	1,712	9,607
Use of funds	(435)	(1,902)
	1,277	7,705
Unrealized gains on portfolio investments	5,169	23,023
Reclassified to statement of operations - portfolio investments	(123)	(9,708)
Balance at end of period	\$ 77,596	\$ 71,273

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

6. ACCUMULATED SURPLUS

(in thousands of dollars)	Year-to-date	Year-end
	September 30, 2021	March 31, 2021
Accumulated surplus from operations		
Endowment - Original contribution	\$ 50,000	\$ 50,000
Endowment principal - Externally restricted contributions	37,569	37,569
Reserve for excess investment income		
Balance at beginning of period	229,445	203,445
Appropriated from the accumulated surplus during the period	-	26,000
Balance at end of period	229,445	229,445
Surplus		
Balance at beginning of period	26,234	32,454
Appropriated to the reserve for excess investment income during the period	-	(26,000)
Surplus for the period	43,215	19,780
Balance at end of period	69,449	26,234
Total accumulated surplus from operations	386,463	343,248
Accumulated remeasurement gains (losses)		
Balance at beginning of period	45,792	(32)
Change in fair value	15,828	45,824
Balance at end of period	61,620	45,792
Balance of accumulated surplus at end of period	\$ 448,083	\$ 389,040

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
Gains (losses) from disposal of portfolio investments	\$ 357	\$ 5	\$ 375	\$ (8,041)
Transfer from (to) deferred revenues -				
Externally restricted contributions (Note 5)	(493)	167	(1,277)	1,436
Net gains on foreign exchange	24	-	4	32
Dividend and other distributed income - reinvested	2,160	573	5,009	2,638
Interest, dividend and other distributed income - cashed	1,710	1,171	3,073	2,812
Investment portfolio management costs	(501)	(269)	(940)	(657)
	\$ 3,257	\$ 1,647	\$ 6,244	\$ (1,780)

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
Rental revenue	\$ (391)	\$ (398)	\$ (787)	\$ (826)
Other income	(41)	(21)	(55)	(42)
Administration expense	395	368	847	798
Amortization of other capital assets	-	(1)	-	-
	\$ (37)	\$ (52)	\$ 5	\$ (70)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
Program expenses	\$ 149	\$ 296	\$ 213	\$ 446
Program - contributions received	-	(20)	(150)	(220)
Administration expense	325	334	664	704
	\$ 474	\$ 610	\$ 727	\$ 930

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
Decrease (increase) in accounts receivable	\$ 1,156	\$ (17)	\$ (319)	\$ (19)
Increase (decrease) in grants, author payments and prizes payable	5,650	(35,532)	97,525	58,997
(Decrease) increase in accounts payable and accrued liabilities	(127)	24	(1,798)	(3,248)
Decrease in deferred revenues	(1,367)	(221)	(1,543)	(7)
Net change	\$ 5,312	\$ (35,746)	\$ 93,865	\$ 55,723

11. RELATED PARTY TRANSACTIONS

The Council is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Other related parties of the Council are key management personnel, close family members of key management personnel and entities that are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members. The Council enters into transactions with related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises, and these transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.