



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended June 30, 2021
Published August 31, 2021



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Management Discussion and Analysis

Quarterly Report

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INTRODUCTION

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

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

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

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

HIGHLIGHTS

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

April 15 – The Council launched its [2021-26 Strategic Plan, *Art, now more than ever*](#). Developed during the pandemic and in consultation with a wide number of stakeholders, the plan provides the strategic direction and vision of the Council for the next five years. It is a call to rebuild a stronger, more resilient, and more inclusive sector. The plan builds on the strengths of innovation, social impact, and the leadership of artists, cultural workers, groups, and arts organizations. The plan is guided by three strategic directions: 1) Invest in rebuilding and innovation; 2) Amplify the benefits of the arts for society; and 3) Nurture and expand collaboration and partnership. The Council is currently working on the implementation of the plan while paying close attention to the reopening and recovery of the sector.

June 28 – The federal government announced an investment of \$500 million to relaunch the arts, culture, heritage, and sports sectors and assist them to resume their public activities. Of that amount, the Council will receive \$75 million, which it will invest in supporting the arts sector over the course of the 2021-22 and 2022-23 fiscal years. This is in addition to the \$116.5 million the Council is administering to support artists and arts workers in 2021-22, as announced in March. The Council will invest the additional \$75 million in two increments: 1) \$25 million in 2021-22 for core-funded organizations so that activities with in-person audiences can resume; and 2) \$50 million in 2022-23 for research, creation and production of work, for domestic touring activities and market development, and for sector innovation.

June 1 - The Council announced the winners of the prestigious Governor General's Literary Awards (GGBooks). Following a rigorous process—which was delayed due to the pandemic—the peer assessment committees selected the best 14 books published in Canada from among 70 finalists. There are winners across seven categories, both in English and in French.

May 22 - The Council presented Impostor Cities at the 17th International Architecture Exhibition of La Biennale di Venezia, from May 22 to November 21. The exhibition is curated by David Theodore of McGill University and realized by Montréal architecture and design practice T B A / Thomas Balaban Architect. The official Canadian participation is commissioned and supported by the Council.

June 5 and 6 – As part of this year's Doors Open Ottawa, an annual event during which participants can explore Ottawa's culture, history and architecture, the Art Bank created a [video](#) for users to experience its collection virtually. This event normally represents an opportunity to see the Art Bank collection in person, talk to its staff and learn about Canada's celebrated artists. The Art Bank's Doors Open Ottawa event was held virtually due to the COVID-19 pandemic.

Net Results

(in thousands of dollars)	Three months ended June 30			
	2021	2020	Variance	% change
Revenue	7,310	(2,764)	10,074	364%
Expenses	(171,387)	(235,165)	63,778	27%
Government funding	150,500	175,000	(24,500)	-14%
Deficit for the period	(13,577)	(62,929)	49,352	

Overview of the First Quarter Net Results

The deficit for the quarter was \$13.6M compared to \$62.9M for the same period last year. The variance is mainly explained by much higher grant expenses recorded during the same quarter last year with the \$55M receipt from the federal government for the COVID-19 Emergency Support Funds for Cultural, Heritage and Sport Organizations. The decrease in government funding, slightly offset by the increase in revenues, reflects the lower cashflow requirements with less grants being expensed in the quarter.

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 by the federal government to relaunch the arts sector and to resume its public activities.

IMPORTANT CHANGES

Programs

In April 2021, the Council began investing an exceptional \$116.5 million to support projects that create jobs for artists and cultural workers. The Digital Now initiative (\$50.5 million) enables groups, collectives, and arts organizations to adapt existing works or create new ones to be shared online with various audiences. The Council has injected another \$66 million in the April and October 2021 competitions under its Explore and Create program.

Operational

Council staff continued working remotely without interruption, delivering grants, prizes and services to the arts community and holding virtual peer assessment committees. Following a positive evaluation of the streamlined virtual assessment process last year, the Council has made the decision to continue with virtual peer assessment committees on a regular basis in future and to redirect the significant reduction in peer travel costs to increased reading fees and honoraria for peer assessors to adequately compensate them for time spent during the assessment process. The significant reduction on the Council's carbon footprint over the last year by not having peer assessors flying to the National Capital region for in-person committee meetings also reinforced the decision to continue with virtual meetings.

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

Leadership and Governance

The implementation of the recruitment campaign designed to advance diversity, equity, and inclusion at the Council, which was launched on February 2, will reach—and even surpass—its goal of filling 70% of available positions with Indigenous, Black, racialized, or Deaf people or people living with disabilities. 70% of the people working at the Council are women, 16.8% are Black people and other racialized people, 4.6% are Indigenous people, and 6.8% are Deaf people or people with disabilities and through this campaign, the Council aimed to further increase the diversity of its staff.

The Council has recently established the Diversity, Equity and Inclusion (DEI) Committee. This new committee is now an integral part of the Council's internal governance. This committee is made up of members of the management group who collectively represent all areas of the Council and reflect the diversity of its staff.

Between May and June 2021 the Council hired four new executive leaders: Qi Wang joined the Council as the new Director of the Strategic Policy and Planning section on April 19; Odile Joannette assumed the role of Director of the Creating Knowing and Sharing: the Arts and Cultures of First Nations, Inuit and Métis Peoples program on April 26; Roda Muse joined the Canadian Commission for UNESCO as the new Secretary-General on May 17; and Martine Flibotte is the Council's new Director of Human Resources and Organizational Development as of June 28.

In May 2021 the Minister announced the renewal of both [Ben Nind](#) and [Cheryl Hickman](#) as Board members of the Council for a four-year term.

FINANCIAL RESULTS

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

	Three months ended June 30		
	2021	2020	Increase/ (Decrease)
(in thousands of dollars)			
Net realized investment income	2,987	(3,427)	6,414
Other revenue	4,323	663	3,660
Total	7,310	(2,764)	10,074

Revenue

Net Realized Investment Income

Net realized investment income was significantly higher due to unusual transactions executed in the same period last year. In Q1 2020, the Council transferred its investment in Canadian Equity from a segregated fund to a pooled fund and moved part of its investment in an International Equity Fund to a Global Equity Pooled Fund. Both transactions triggered significant losses totalling \$7.9M, as the equity markets were down at the time. The net realized investment income is still forecasted to be aligned with the budget.

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 the receipt of \$1.5M from the Department of Canadian Heritage to support various activities related to the 2021 Frankfurt Book Fair Festival. During the quarter, the Council also recorded a notable increase in grants cancellations of \$2.5M 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 amount and any excess will be returned to the granting budget.

Expenses

(in thousands of dollars)	Three months ended June 30		
	2021	2020	Increase/ (Decrease)
Grants, author payments and prizes	159,920	224,648	(64,728)
Transfer program delivery	5,217	4,973	244
Arts community services	154	137	17
Net Art Bank results	42	(18)	60
Canadian Commission for UNESCO	253	320	(67)
General administration	5,801	5,105	696
Total	171,387	235,165	(63,778)

Grants, author payments and prizes

The decrease in the first quarter, compared to last year, is mainly due to the \$55M received from the federal government for the COVID-19 Emergency Support Funds for Cultural, Heritage and Sport Organizations during the first quarter last year. Another factor contributing to the decrease in grants expenses for the quarter is the closing of the Digital Strategy Fund in 2021-22 which distributed \$11.5M at the same period last year.

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 slightly higher compared to last year. The increase is explained by the annual economic adjustment in salaries and employee benefits and an upward adjustment made in April 2021 for per diem honorarium for peer assessors.

Net Art Bank results

This expense is higher compared to last year mainly because of a decrease in rental activities in the first quarter 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 increase was offset in part by a decrease in salaries and employee benefits due to some vacancies.

Financial Assets

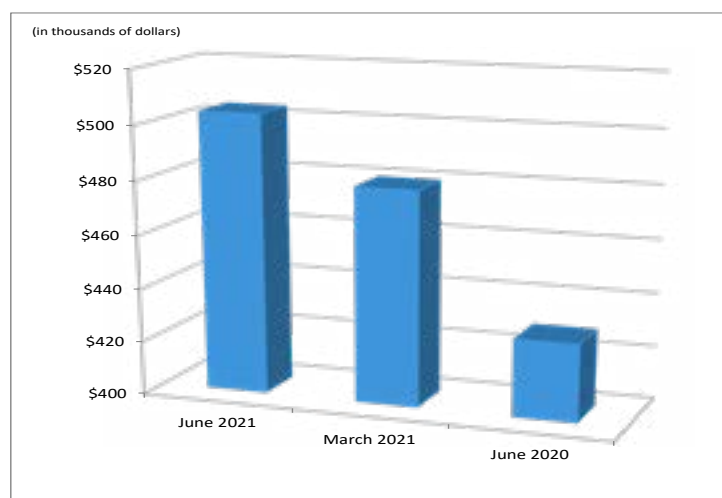
(in thousands of dollars)	June 30, 2021	March 31, 2021	Increase/ (Decrease)
Cash	153,966	81,065	72,901
Accounts receivable	4,400	2,925	1,475
Portfolio investments	504,031	479,820	24,211
Total	662,397	563,810	98,587

Cash

The increase of \$72.9M in cash is mainly explained by an increase of \$91.9M in grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as of June 30, 2021, less the \$13.6M deficit for the three-month period.

Portfolio Investments

The total market value of the portfolio as at June 30, 2021, was \$504.0M, of which \$120.3M was externally restricted. This represents an increase of \$24.2M in the market value since March 31, 2021, and an increase of \$75.1M since June 30, 2020.



The total fund generated an absolute positive return of 5.3% for the quarter, outperforming the benchmark return by 1.1%. All asset classes posted positive returns for the quarter, but the main contributors were the Canadian and Global Equity funds which posted positive results for the quarter of 6.8% and 7.1% respectively.

The total fund one-year return was 18.8% for June 2021 which was above the benchmark by 4.1%. All asset classes generated positive returns except for Fixed Income which posted a negative return. The main contributors were the Canadian and Global Equity funds which posted positive results of 43.3% and 28.7% respectively.

Liabilities

(in thousands of dollars)	June 30, 2021	March 31, 2021	Increase/ (Decrease)
Grants, author payments and prizes payable	211,465	119,590	91,875
Accounts payable and accrued liabilities	3,894	5,565	(1,671)
Deferred revenues	6,330	6,506	(176)
Employees future benefits	5,312	5,155	157
Externally restricted contributions	76,935	71,273	5,662
Total	303,936	208,089	95,847

Grants, author payments and prizes payable

The increase of \$91.9M in comparison to the value as at March 31, 2021 arises from the base core funding commitments recorded in April 2021, of which one out of two instalments remained to be paid for most organizations at the end of the three-month period.

Accounts payable and accrued liabilities

The decrease of \$1.7M in comparison to the value as at March 31, 2021 is mainly due to a reduction of \$2.5M in commercial invoices due to the timing of the payment schedule offset by an increase of \$0.8M in payroll accrual liability at the end of June 30, 2021.

Externally restricted contributions

The increase of \$5.7M 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 during the quarter.

Non-Financial Assets

(in thousands of dollars)	June 30, 2021	March 31, 2021	Increase/ (Decrease)
Tangible capital assets	13,289	13,078	211
Art Bank assets	19,466	19,466	-
Musical instruments	1	1	-
Prepaid expenses	178	774	(596)
Total	32,934	33,319	(385)

Art Bank Assets

The Council owns approximately 17,170 works of contemporary Canadian art within its Art Bank collection. At June 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 fifteen instruments on loan. The appraised value of its musical instruments as at June 30, 2021 was US \$46.7M. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value, in US dollars.

RISK MANAGEMENT

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

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

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

Risk Governance

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

Risk Appetite

The Council follows a prudent risk-taking approach in managing its activities. It defines prudent risks as those seen to contribute to the organization's capacity to better deliver its mandate within a range of consequences that are well understood and appropriately mitigated. It manages risk within the constraints of its mandate, values, organizational culture, and both its public and internal commitments. The Council's full Risk Appetite Statement is disclosed in the 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 preferred rate account at a financial institution from which the Council draws its daily cash requirements.

The Parliamentary appropriations approved and received by the Council during the first quarter were as follows:

(in thousands of dollars)	June 30	
	2021	2020
Approved annual operating funding		
Vote 1 - Operating costs	364,062	362,644
Statutory Vote - COVID-19 Emergency Support Fund	-	55,000
Supplementary Estimates	116,500	-
	480,562	417,644
Parliamentary appropriations recorded in the Statement of Operations for the three month period	(150,500)	(175,000)
Balance of operating funding to be received	330,062	242,644



Canada Council
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Quarterly

Financial Statements

Unaudited

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

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

August 31, 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)		
(in thousands of dollars)	June 30	March 31
	2021	2021
FINANCIAL ASSETS		
Cash	\$ 153,966	\$ 81,065
Accounts receivable	4,400	2,925
Portfolio investments (Note 3)	504,031	479,820
Total financial assets	662,397	563,810
LIABILITIES		
Grants, author payments and prizes payable	211,465	119,590
Accounts payable and accrued liabilities	3,894	5,565
Deferred revenues	6,330	6,506
Employee future benefits	5,312	5,155
Deferred revenues - Externally restricted contributions (Note 5)	76,935	71,273
Total liabilities	303,936	208,089
NET FINANCIAL ASSETS	358,461	355,721
NON-FINANCIAL ASSETS		
Tangible capital assets	13,289	13,078
Art Bank assets	19,466	19,466
Musical instruments	1	1
Prepaid expenses	178	774
Total non-financial assets	32,934	33,319
ACCUMULATED SURPLUS (Note 6)	\$ 391,395	\$ 389,040
Accumulated surplus is comprised of:		
Accumulated surplus from operations	329,671	343,248
Accumulated remeasurement gains (losses)	61,724	45,792
ACCUMULATED SURPLUS	\$ 391,395	\$ 389,040

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

Statement of Operations

(Unaudited) (in thousands of dollars)	Yearly Budget 2021-2022	Three months ended June 30	
		2021	2020
Revenue			
Net realized investment income (Note 7)	\$ 12,245	\$ 2,987	\$ (3,427)
Other revenues	1,992	4,323	663
Total revenues	14,237	7,310	(2,764)
Expenses			
Transfer Programs			
Grants, author payments and prizes	435,293	159,920	224,648
Transfer program delivery	24,788	5,217	4,973
Arts community services	10,327	154	137
	470,408	165,291	229,758
Net Art Bank results (Note 8)	300	42	(18)
Canadian Commission for UNESCO (Note 9)	2,581	253	320
General administration	21,487	5,801	5,105
Total expenses	494,776	171,387	235,165
Deficit from operations before Parliamentary appropriations for the period	(480,539)	(164,077)	(237,929)
Parliamentary appropriations	480,562	150,500	175,000
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	23	(13,577)	(62,929)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	343,248	343,248	323,468
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 343,271	\$ 329,671	\$ 260,539

Statement of Remeasurement Gains and Losses

(Unaudited) (in thousands of dollars)	Three months ended June 30	
	2021	2020
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF PERIOD	\$ 45,792	\$ (32)
Unrealized gains attributable to:		
Portfolio investments	15,948	59,069
Amounts reclassified to the Statement of Operations:		
Portfolio investments	(16)	(25,546)
NET REMEASUREMENT GAINS FOR THE PERIOD	15,932	33,523
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 61,724	\$ 33,491

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

Statement of Changes in Net Financial Assets

(Unaudited)	Three months ended June 30	
	2021	2020
(in thousands of dollars)		
DEFICIT FROM OPERATIONS FOR THE PERIOD	\$ (13,577)	\$ (62,929)
Acquisition of tangible capital assets	(869)	(642)
Amortization of tangible capital assets	658	561
	(211)	(81)
Acquisition of prepaid expenses	(108)	(70)
Use of prepaid expenses	704	581
	596	511
Net remeasurement gains	15,932	33,523
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	2,740	(28,976)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	355,721	291,776
NET FINANCIAL ASSETS, END OF PERIOD	\$ 358,461	\$ 262,800

Statement of Cash Flows

(Unaudited)	Three months ended June 30	
	2021	2020
(in thousands of dollars)		
Operating Transactions		
Deficit from operations for the period	\$ (13,577)	\$ (62,929)
(Gains) losses from disposal of portfolio investments (Note 7)	(18)	8,046
Dividend and other distributed income - reinvested (Note 7)	(2,849)	-
Amortization of tangible capital assets	658	561
Decrease in prepaid expenses	596	511
Increase in employee future benefits	157	140
Income transferred (from) to Deferred revenues - Externally restricted contributions from (to) investment income (Note 5)	784	(1,269)
Net change in other non-cash items (Note 10)	88,553	91,469
Cash provided by operating activities	74,304	36,529
Capital Transactions		
Acquisition of tangible capital assets	(869)	(642)
Cash used by capital activities	(869)	(642)
Investing Transactions		
Acquisition of portfolio investments	(602)	(58,809)
Disposal of portfolio investments	68	56,102
Cash used by investing activities	(534)	(2,707)
NET INCREASE IN CASH	72,901	33,180
CASH, BEGINNING OF PERIOD	81,065	21,624
CASH, END OF PERIOD	\$ 153,966	\$ 54,804

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

Notes to the Financial Statements

For the period ended June 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 June 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	44,858	-	15,890	60,748	15	43,853	56,904	14
Global Equity	164,982	-	29,975	194,957	47	163,732	182,055	46
Fixed income	87,564	-	1,061	88,625	21	87,460	87,523	22
Alternatives	20,630	-	14,376	35,006	8	20,630	33,986	9
Real estate	7,529	-	1,135	8,664	2	7,557	8,640	2
Infrastructure	23,221	852	5,845	28,214	7	22,708	26,943	7
Cash	938	-	-	938	-	937	937	-
	349,722	852	68,282	417,152	100	346,877	396,988	100
Killam Fund								
Pooled funds								
Canadian Equity	9,619	-	2,331	11,950	14	9,419	11,205	14
Global Equity	34,763	-	6,122	40,885	47	34,500	38,183	46
Fixed income	17,816	-	201	18,017	21	17,790	17,795	21
Alternatives	5,298	-	3,683	8,981	10	5,298	8,720	10
Real estate	1,932	-	288	2,220	2	1,939	2,213	3
Infrastructure	3,843	259	1,242	4,826	6	3,769	4,716	6
Cash	-	-	-	-	-	-	-	-
	73,271	259	13,867	86,879	100	72,715	82,832	100
Total Portfolio investments	422,993	1,111	82,149	504,031		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 year. Employee future benefits, the estimated useful lives of tangible capital assets, the residual and appraised value of the Art Bank assets, and the fair value of financial instruments are the most significant items where estimates are used. Actual results could differ from those estimated.

Budgeted figures

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

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

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Fund. The Killam will requested that their donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8% (March 31, 2021 - 8%) of that Fund with a total fair value of \$33,414,000 (March 31, 2021 - \$31,799,000). The total fair value of the externally restricted investment including the Killam Fund is \$120,293,000 (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:

(in thousands of dollars)		Year-to-date June 30, 2021	Year-end March 31, 2021
Financial assets and liabilities	Measurement categories	Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
Cash	Fair value	153,966	81,065
Accounts receivable	Amortized cost	4,400	2,925
Portfolio Investments ¹	Fair value	504,031	479,820
Grants, author payments and prizes payable	Amortized cost	211,465	119,590
Accounts payable and accrued liabilities	Amortized cost	3,894	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 June 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	153,966	-	-	153,966	81,065	-	-	81,065
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Canadian Equity	-	60,748	-	60,748	-	56,904	-	56,904
Global Equity	-	194,957	-	194,957	-	182,055	-	182,055
Fixed Income	-	88,625	-	88,625	-	87,523	-	87,523
Alternatives	-	-	35,006	35,006	-	-	33,986	33,986
Real Estate	-	-	8,664	8,664	-	-	8,640	8,640
Infrastructure	-	-	28,214	28,214	-	-	26,943	26,943
Cash	938	-	-	938	937	-	-	937
Killam Fund								
Pooled Funds								
Canadian Equity	-	11,950	-	11,950	-	11,205	-	11,205
Global Equity	-	40,885	-	40,885	-	38,183	-	38,183
Fixed Income	-	18,017	-	18,017	-	17,795	-	17,795
Alternatives	-	-	8,981	8,981	-	-	8,720	8,720
Real Estate	-	-	2,220	2,220	-	-	2,213	2,213
Infrastructure	-	-	4,826	4,826	-	-	4,716	4,716
Cash	-	-	-	-	-	-	-	-
	938	415,182	87,911	504,031	937	393,665	85,218	479,820
Total	154,904	415,182	87,911	657,997	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).

<i>(in thousands of dollars)</i>	Year-to-date June 30, 2021	Year-end March 31, 2021
Balance, beginning of period	\$ 71,273	\$ 50,253
Transferred (to) from investment income (Note 7)		
Net Investment income	880	9,607
Use of funds	(96)	(1,902)
	784	7,705
Unrealized gains on portfolio investment	4,884	23,023
Reclassified to statement of operations - portfolio investments	(6)	(9,708)
Balance at end of period	\$ 76,935	\$ 71,273

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

6. ACCUMULATED SURPLUS

<i>(in thousands of dollars)</i>	Year-to-date June 30, 2021	Year-end 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 the period	229,445	203,445
Appropriated from the accumulated surplus during the period	-	26,000
Balance at end of the period	229,445	229,445
Surplus		
Balance at beginning of the period	26,234	32,454
Appropriated to the reserve for excess investment income during the period	-	(26,000)
Surplus (deficit) for the period	(13,577)	19,780
Balance at end of the period	12,657	26,234
Total accumulated surplus from operations	329,671	343,248
Accumulated remeasurement gains (losses)		
Balance at beginning of the period	45,792	(32)
Change in fair value	15,932	45,824
Balance at end of the period	61,724	45,792
Balance of accumulated surplus at end of period	\$ 391,395	\$ 389,040

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended June 30	
	2021	2020
Gains (losses) from disposal of portfolio Investments	\$ 18	\$ (8,046)
Transfer from (to) deferred revenues -		
Externally restricted contributions (Note 5)	(784)	1,269
Net gains (losses) on foreign exchange	(20)	32
Dividend and other distributed income - reinvested	2,849	
Interest, dividend and other distributed income - cashed	1,363	3,706
Investment portfolio management costs	(439)	(388)
	\$ 2,987	\$ (3,427)

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended June 30	
	2021	2020
Rental revenue	\$ (396)	\$ (428)
Other income	(14)	(21)
Administration expense	452	430
Amortization of other capital assets	-	1
	\$ 42	\$ (18)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended June 30	
	2021	2020
Program expenses	\$ 64	\$ 150
Program - contributions received	(150)	(200)
Administration expense	339	370
	\$ 253	\$ 320

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended June 30	
	2021	2020
Increase in accounts receivable	\$ (1,475)	\$ (2)
Increase in grants, author payments and prizes payable	91,875	94,529
Decrease in accounts payable and accrued liabilities	(1,671)	(3,272)
(Decrease) increase in deferred revenues	(176)	214
Net change	\$ 88,553	\$ 91,469

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.