



Canada Council  
for the Arts

Conseil des arts  
du Canada

Quarterly

# Financial Report

**Unaudited**

Period ended December 31, 2022  
Published February 28, 2023



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# Management Discussion and Analysis

## Quarterly Report

Period ended December 31, 2022  
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## INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the third quarter and the nine-month period ended December 31, 2022 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

### Canada Arts and Culture Recovery Program

- The Council received \$9.2 million in 2022-23 from the [Canada Arts and Culture Recovery Program \(CACRP\)](#) to help eligible organizations mitigate the financial risks of undertaking programming activities in an operating environment that remains unpredictable. Advancing on the equity commitments in its 2021-26 Strategic Plan, *Art, now more than ever*, the Council fully dedicated this funding to core-funded organizations from designated priority groups that had their artistic creations, rehearsals, productions or presentations affected by public health measures or the pandemic. More specifically, the funds were delivered through some 200 organizations from Indigenous, culturally diverse, Deaf and disability, and official language minority communities receiving core funding. These one-time funds flowed into the hands of artists, technicians and cultural workers contracted by/collaborating with these organizations.

### Art Bank collection in COP15

- The Art Bank prepared an exhibition of 40 artworks from its collection for the [15th Conference of the Parties \(COP15\)](#) meeting that took place in Montreal between December 7 and 19, 2022. The artworks highlight some of the key themes addressed at the conference, including the fair and equitable sharing of benefits from the use of nature, and humankind's consumption of natural resources within the bounds of what can be replaced.

### 2022 Governor General's Literary Award winners

- On November 16, 2022, the Council revealed the [2022 winners of the Governor General's Literary Awards \(GGBooks\)](#). The 14 best books published in Canada in 2022 were selected by peer assessment committees that followed a rigorous process to deliberate and choose them from among the 70 finalists in seven categories, in both English and French.

## Net Results

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2022	2021	Variance	2022	2021	Variance
Revenue	11,116	14,882	(3,766)	13,128	27,154	(14,026)
Expenses	(23,297)	(54,288)	30,991	(309,806)	(369,845)	60,039
Government funding	84,200	60,000	24,200	334,200	406,500	(72,300)
<b>Surplus for the period</b>	<b>72,019</b>	<b>20,594</b>	<b>51,425</b>	<b>37,522</b>	<b>63,809</b>	<b>(26,287)</b>

### Overview of the Third Quarter Net Results

The surplus for the quarter was \$72.0M compared to \$20.6M for the same period last year. The reduction in total expenses is mainly due to a decrease in grant expense of \$31.2M during this quarter compared to the same period last year, in line with the decrease in emergency support funding received from the federal government in response to COVID-19. The increase of \$24.2M in government funding is explained by the timing of the government funding received to cover expected cash-flow requirements for grants expense for which the competition results were only recorded in the fourth quarter.

The variance of \$26.3 for the cumulative results is explained by a reduction in both the grant expenses and government funding received for various initiatives in support of COVID-19 and the reduction in net investment income due to realized losses from the portfolio investments incurred in the previous quarter and lower distributed income of \$4.9M this quarter compared to the same period last year.

The Council will continue to monitor its financial results with the aim of achieving a balanced budget.

## IMPORTANT CHANGES

### Operational

#### Accessibility Plan

- On December 14, 2022, the Council launched its [2023-2025 Accessibility Plan](#) in line with the requirements in the [Accessible Canada Act](#) for organizations under federal jurisdiction to remove and prevent barriers to accessibility and have accessibility plans by the end of 2022. The plan has benefited from input from the arts sector and Council employees and was developed in collaboration with an accessibility consulting firm specialized in removing work, school, and transportation barriers. The Council announced the new plan through the CEO's blog post, [Accessibility: Our Plans for the Future](#), on December 3, the International Day of Persons with Disabilities.

### Leadership and governance

#### New Board members

In the second half of 2022, the Minister of Canadian Heritage announced the appointments of two new board members:

- Stephane Moraille (Boucherville, Quebec), an entertainment attorney and an international recording artist, was appointed for a four-year term, effective October 20, 2022, to October 19, 2026.
- Charlie Wall-Andrews (Toronto, Ontario), a creative industries leader, was appointed for a four-year term, effective October 30, 2022, to October 29, 2026.

## FINANCIAL RESULTS

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

### Revenues

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2022	2021	Increase/ (Decrease)	2022	2021	Increase/ (Decrease)
Net realized investment income	10,041	14,273	(4,232)	9,071	20,517	(11,446)
Other revenue	1,075	609	466	4,057	6,637	(2,580)
<b>Total</b>	<b>11,116</b>	<b>14,882</b>	<b>(3,766)</b>	<b>13,128</b>	<b>27,154</b>	<b>(14,026)</b>

### Net realized investment income

Over the quarter, net realized investment income was lower than the same period last year by \$4.2M due to a 30 % decrease in Interest, dividends and other distributed income following the drop in value in Canadian Equity investments. The net realized investment income dropped significantly by \$11.4M over the cumulative nine-month period due to the underperformance of two asset categories: Canadian equities and fixed income. In addition to the decrease of dividends received, the rapid rise of interest rates adversely affected the performance of two fixed income investments sold at loss in September 2022.

Despite the significant decline in net realized investment income, it is still forecast to be aligned with the budget due to expected realized gains following an upcoming sale in Global Equity in the next quarter.

### Other revenue

Other revenues include the cancellation of grants awarded in previous years, donations, and other sources of revenues received. The other revenue for the quarter are higher than the same period last year due to higher grant cancellations and returns received during the period of \$1.1M compared to \$0.6M last year for the same period.

For the cumulative nine-month period, other revenue are lower than the other revenue from the same period last year due to lower grant cancellations and lower partnership income. Last year the Council received a transfer of \$1.2M from the Departments of Global Affairs Canada and Canadian Heritage for activities related to the 2021 Frankfurt Book Fair. Also, the grant cancellations had seen a jump last year due to the adjustments or cancelled events because of COVID-19 reaching a high of \$4.9M in the nine-month period last year compared to \$3.2M this year-to-date.

Other revenues are higher than budget due to a greater volume of grant cancellations received then budgeted.

### Expenses

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2022	2021	Increase/ (Decrease)	2022	2021	Increase/ (Decrease)
Grants, author payments and prizes	11,590	42,782	(31,192)	271,222	334,659	(63,437)
Transfer program delivery	5,084	5,209	(125)	17,981	16,308	1,673
Arts community services	502	912	(410)	1,269	1,459	(190)
Net Art Bank results	23	9	14	113	14	99
Canadian Commission for UNESCO	596	592	4	1,839	1,319	520
General administration	5,502	4,784	718	17,382	16,086	1,296
<b>Total</b>	<b>23,297</b>	<b>54,288</b>	<b>(30,991)</b>	<b>309,806</b>	<b>369,845</b>	<b>(60,039)</b>

### Grants, author payments and prizes

The decrease in the third quarter and year-to-date, compared to the same periods last year, is due to the reduction in funding from the federal government related to COVID-19's initiatives.

The approved annual budget of \$371.8M for grants, author payments and prizes includes \$48.6M of the \$50M received in parliamentary appropriations for the Recovery Fund for Arts, Culture, Heritage, and Sport Sectors, the balance being set aside for the administration costs to deliver on the program. The forecasted grant expense is expected to be closer to \$384.5 due to the \$9.2M in additional funding to be received from the federal government related to the Canada Arts and Culture Recovery Program Funds plus an internal transfer of \$3.9M from savings found through the forecasting exercise.

### Transfer program delivery

Although the transfer program delivery expenses for the current quarter are comparable to the same period last year, the cumulative nine-month period show an increase of \$1.7M. The main variance is an increase under salaries and benefits of \$1.5M due to additional staffing required to continue on the delivery of the COVID-19 initiatives, covered by the government funding received, as well as due to the employee vacation benefits now being accrued each pay period, compared to a one-time adjustment at year-end in previous fiscal years.

### Arts community services

The decrease of \$410K for the quarter compared to the same period last year are mostly related to partnerships and other expenses of \$504K incurred during the quarter last year in preparation for the 2022 Arctic Arts Summit and a payment of \$226K for the two-year agreement with the Ontario College of Art & Design University for a series of initiatives to address systemic barriers faced by artists and cultural workers identified as BIPOC. The nine-month figures are comparable because of final expenses related to the 2022 Arctic Arts Summit which took place in Whitehorse in June 2022 and also the increase in professional fees for the launch of the new CADAC portal which is used to gather financial information from core organizations and more than 35 major arts funders.

### Canadian Commission for UNESCO

The Canadian Commission for UNESCO has seen a \$267K increase in year-to-date program expenses, mostly due to a more regular pace of entering into partnership initiatives compared to a slower start last year due to staff vacancies. This year most partnerships are related to the newly launched UN International Decade for Indigenous Languages. Other program expenses are also seeing an increase due to the request for in-person meetings of various UNESCO networks that have not met since the start of the pandemic. Administration expenses are \$257K higher in the current fiscal, mostly due to the adjustment in vacation accruals but also due to the increased staff travel required to attend key meetings and conferences related to UNESCO. Yearly net expenses are forecasted to be aligned with the approved budget of \$2.7M.

### General Administration

This expense is \$0.7M higher for the quarter and \$1.3M for the year-to-date compared to the same periods last year. We are seeing the same trend as in previous quarters this year as explanation to the variances with the previous year. For the cumulative period, salaries and benefits are higher by \$0.4M mostly due to the recording of the employee vacation benefits accruals and additional staffing requirements. Professional services are higher by \$1.3M due to the change in accounting policy adopted during the last fiscal year related to the treatment of configuration and customization costs incurred in the implementation of cloud computing arrangements. Those higher expenses are offset by a decreased amortization expense of \$0.5M due to less capitalized assets costs. Yearly net expenses are forecasted to be higher than budgeted due to higher professional services fees following the change in accounting policy last fiscal year with the intent to find savings in other operational costs to offset the increase.

## Financial Assets

	December 31	March 31	Increase/ (Decrease)
(in thousands of dollars)	2022	2022	
Cash	124,673	124,935	(262)
Accounts receivable	12,017	10,758	1,259
Portfolio investments	477,458	495,012	(17,554)
<b>Total</b>	<b>614,148</b>	<b>630,705</b>	<b>(16,557)</b>

### Cash

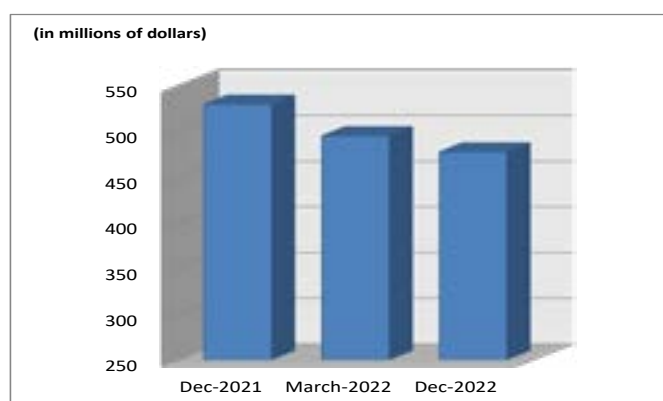
The decrease of \$0.3M in cash is mainly explained by the excess of \$24.2M of government funding received in the quarter offset by the decrease of \$20.1M in grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as at December 31, 2022, and in accounts payable of \$3.9M.

### Accounts receivable

The increase by \$1.3M in accounts receivable compared to the value at March 31, 2022 is mostly explained by a net increase of \$4.4M in parliamentary appropriations receivable (2021-22 Supplementary Estimates of \$4.8M recorded at March 2022 received in April 2022 versus the 2022-23 Supplementary Estimates of \$9.2M received in January 2023) less the receipt of the \$2.2M hold-back in July 2022 following the sale of the alternative investment in January 2022.

### Portfolio investments

The total market value of the portfolio as at December 31, 2022 was \$477.5M, of which \$112.9M was externally restricted. This amount represents a decrease of \$17.5M in market value since March 31, 2022 and a decrease of \$52.1M since December 31, 2021.



The total fund performed well over the last quarter posting a performance of 6.2% over the quarter, overperforming the benchmark return by 1.3%. Global and Canadian Equities were the main drivers of the portfolio's performance showing a good recovery for the quarter (+9.3% and +5.4% respectively). Infrastructure sector contributed also to this solid performance (+7.8% over the quarter and +6.4% compared to the benchmark).

Despite the quarterly strong performance, the total fund one-year return was -8.3% for December 2022, underperforming the benchmark by 1.0%. The negative performance of the fund was mainly due to Global Equities, which posted a negative one-year return of 14.1%. Canadian Equities and fixed Income also posted a negative performance respectively (-4.3% and -7.3%). However, Infrastructure and Real Estate were the best performers of the year with respectively 20.3% and 8.6% performance (exceeding the benchmark by +9.2% and 3.1% respectively).

## Liabilities

(in thousands of dollars)	December 31 2022	March 31 2022	Increase/ (Decrease)
Grants, author payments and prizes payable	144,751	164,831	(20,080)
Accounts payable and accrued liabilities	5,242	9,145	(3,903)
Deferred revenues	5,657	6,168	(511)
Employee future benefits	5,724	5,351	373
Externally restricted contributions	70,189	75,817	(5,628)
<b>Total</b>	<b>231,563</b>	<b>261,312</b>	<b>(29,749)</b>

### Grants, author payments and prizes payable

The decrease of \$20.1M in comparison to the value as at March 31, 2022 arises from a decrease in supplementary COVID related funding as well as the timing of payments schedules.

### Accounts payable and accrued liabilities

The decrease of \$3.9M in comparison to the value as at March 31, 2022 is mostly explained by a reduction of \$1.6M in commercial invoices due to the timing of the payment schedule as well as a decrease of \$1.6M in the accrued liabilities.

### Externally restricted contributions

The decrease of \$5.6M compared to the value as at March 31, 2022 arose mainly from the externally restricted net proportionate share of the market value decrease of the portfolio investments since the beginning of the fiscal year.

## Non-Financial Assets

(in thousands of dollars)	December 31 2022	March 31 2022	Increase/ (Decrease)
Tangible capital assets	7,431	7,738	(307)
Art Bank assets	19,366	19,363	3
Musical instruments	1	1	-
Prepaid expenses	2,536	476	2,060
<b>Total</b>	<b>29,334</b>	<b>27,578</b>	<b>1,756</b>

### Tangible capital assets

The net decrease of \$0.3M in comparison to the \$7.7M as at March 31, 2022 is explained by the acquisitions of \$0.9M related mostly to new system implementation, offset by \$1.2M in amortization expense.

### Art Bank assets

The Council owns over 17,160 works of contemporary Canadian art within its Art Bank collection. At December 31, 2022 the appraised value of the Art Bank assets was approximately \$72.8M. 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 eleven prestigious musical instruments. In addition, the Council manages thirteen instruments on loan. The appraised value of its musical instruments as at December 31, 2022 was US \$69.9M. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value, in US dollars.

## Prepaid expenses

The increase of \$2.1M in comparison to the value as at March 31, 2022 is explained by the \$2.1M paid to the National Research Council for the delivery of the 2022-23 Killam program.

## 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 2022 Annual Financial Statements.

### Risk Profile

Using the Council's risk appetite as key context, the risk profile is reviewed and updated on an annual basis. All identified risks were ranked based on likelihood and potential impact on the Council's operations with a focus on potential operational, financial, and reputational dimensions. The corporate risk profile highlighting the top risk areas and their mitigation strategies was presented to the Board in January 2022.

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 for the nine months ended December 31 were as follows:

(in thousands of dollars)	December 31	
	2022	2021
Approved annual operating funding		
Vote 1 - Operating costs	414,189	364,062
Supplementary Estimates (A)	-	116,500
Supplementary Estimates (B)	9,200	25,000
	423,389	505,562
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the nine-month period	(334,200)	(406,500)
<b>Balance of operating funding to be received</b>	<b>89,189</b>	<b>99,062</b>



Canada Council  
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du Canada

Quarterly

# Financial Statements

**Unaudited**

These financial statements for the quarter ended December 31, 2022  
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.

February 28, 2023



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



Carole Boileau, CPA  
Chief Financial Officer

## Statement of Financial Position

(Unaudited)	December 31	March 31
(in thousands of dollars)	2022	2022
<b>FINANCIAL ASSETS</b>		
Cash	\$ 124,673	\$ 124,935
Accounts receivable	12,017	10,758
Portfolio investments (Note 3)	477,458	495,012
<b>Total financial assets</b>	<b>614,148</b>	<b>630,705</b>
<b>LIABILITIES</b>		
Grants, author payments and prizes payable	144,751	164,831
Accounts payable and accrued liabilities	5,242	9,145
Deferred revenues	5,657	6,168
Employee future benefits	5,724	5,351
Deferred revenues - Externally restricted contributions (Note 5)	70,189	75,817
<b>Total liabilities</b>	<b>231,563</b>	<b>261,312</b>
<b>NET FINANCIAL ASSETS</b>		
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets	7,431	7,738
Art Bank assets	19,366	19,363
Musical instruments	1	1
Prepaid expenses	2,536	476
<b>Total non-financial assets</b>	<b>29,334</b>	<b>27,578</b>
<b>ACCUMULATED SURPLUS</b> (Note 6)	<b>\$ 411,919</b>	<b>\$ 396,971</b>
Accumulated surplus is comprised of:		
Accumulated surplus from operations	402,899	365,377
Accumulated remeasurement gains	9,020	31,594
<b>ACCUMULATED SURPLUS</b>	<b>\$ 411,919</b>	<b>\$ 396,971</b>

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

## Statement of Operations

(Unaudited)	Yearly Budget	Three months ended December 31		Nine months ended December 31	
	2022-2023	2022	2021	2022	2021
(in thousands of dollars)					
<b>Revenue</b>					
Net realized investment income (Note 7)	\$ 13,909	\$ 10,041	\$ 14,273	\$ 9,071	\$ 20,517
Other revenue	3,908	1,075	609	4,057	6,637
<b>Total revenue</b>	<b>17,817</b>	<b>11,116</b>	<b>14,882</b>	<b>13,128</b>	<b>27,154</b>
<b>Expenses</b>					
Transfer Programs					
Grants, author payments and prizes	371,783	11,590	42,782	271,222	334,659
Transfer program delivery	27,841	5,084	5,209	17,981	16,308
Arts community services	6,989	502	912	1,269	1,459
	406,613	17,176	48,903	290,472	352,426
Net Art Bank results (Note 8)	232	23	9	113	14
Canadian Commission for UNESCO (Note 9)	2,675	596	592	1,839	1,319
General administration	22,482	5,502	4,784	17,382	16,086
<b>Total expenses</b>	<b>432,002</b>	<b>23,297</b>	<b>54,288</b>	<b>309,806</b>	<b>369,845</b>
Deficit from operations before Parliamentary appropriations for the period	(414,185)	(12,181)	(39,406)	(296,678)	(342,691)
Parliamentary appropriations	414,189	84,200	60,000	334,200	406,500
SURPLUS FROM OPERATIONS FOR THE PERIOD	4	72,019	20,594	37,522	63,809
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	365,377	330,880	386,463	365,377	343,248
<b>ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD</b>	<b>\$ 365,381</b>	<b>\$ 402,899</b>	<b>\$ 407,057</b>	<b>\$ 402,899</b>	<b>\$ 407,057</b>

## Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2022	2021	2022	2021
(in thousands of dollars)				
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF PERIOD	\$ (2,973)	\$ 61,620	\$ 31,594	\$ 45,792
<b>Unrealized gains (losses) attributable to:</b>				
Portfolio investments	12,455	5,372	(29,591)	21,540
<b>Amounts reclassified to the Statement of Operations:</b>				
Portfolio investments	(462)	(145)	7,017	(485)
NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD	11,993	5,227	(22,574)	21,055
<b>ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD</b>	<b>\$ 9,020</b>	<b>\$ 66,847</b>	<b>\$ 9,020</b>	<b>\$ 66,847</b>

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

## Statement of Change in Net Financial Assets

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2022	2021	2022	2021
(in thousands of dollars)				
SURPLUS FROM OPERATIONS FOR THE PERIOD	\$ 72,019	\$ 20,594	\$ 37,522	\$ 63,809
Acquisition of tangible capital assets	(360)	(832)	(932)	(2,505)
Amortization of tangible capital assets	413	657	1,239	1,974
Acquisition of Art Bank assets	-	-	(3)	-
Disposal/Donation of Art Bank assets	-	-	-	139
	53	(175)	304	(392)
Acquisition of prepaid expenses	(321)	(120)	(2,959)	(562)
Use of prepaid expenses	229	36	899	933
	(92)	(84)	(2,060)	371
Net remeasurement gains (losses)	11,993	5,227	(22,574)	21,055
INCREASE IN NET FINANCIAL ASSETS	83,973	25,562	13,192	84,843
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	298,612	415,002	369,393	355,721
<b>NET FINANCIAL ASSETS, END OF PERIOD</b>	<b>\$ 382,585</b>	<b>\$ 440,564</b>	<b>\$ 382,585</b>	<b>\$ 440,564</b>

## Statement of Cash Flow

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2022	2021	2022	2021
(in thousands of dollars)				
<b>Operating Transactions</b>				
Surplus from operations for the period	\$ 72,019	\$ 20,594	\$ 37,522	\$ 63,809
Losses (gains) from disposal of portfolio investments (Note 7)	(1,784)	(2,055)	7,684	(2,430)
Dividend and other distributed income - reinvested (Note 7)	(8,608)	(13,060)	(14,261)	(18,069)
Amortization of tangible capital assets	413	657	1,239	1,974
Disposal/Donation of Art Bank assets	-	-	-	139
Decrease (increase) in prepaid expenses	(92)	(84)	(2,060)	371
Increase in employee future benefits	124	157	373	472
Income transferred to (from) Deferred revenues - Externally restricted contributions from (to) investment income (Note 5)	2,497	3,557	1,486	4,834
Net change in other non-cash items (Note 10)	(100,113)	(44,674)	(25,753)	49,191
Cash (used) provided by operating activities	(35,544)	(34,908)	6,230	100,291
<b>Capital Transactions</b>				
Cash used to acquire tangible capital and Art Bank assets	(360)	(832)	(935)	(2,505)
<b>Investing Transactions</b>				
Acquisition of portfolio investments	(32,530)	(38,344)	(110,052)	(41,511)
Disposal of portfolio investments	23,582	38,839	104,495	39,930
Cash (used) provided by investing activities	(8,948)	495	(5,557)	(1,581)
NET (DECREASE) INCREASE IN CASH	(44,852)	(35,245)	(262)	96,205
CASH, BEGINNING OF PERIOD	169,525	212,515	124,935	81,065
<b>CASH, END OF PERIOD</b>	<b>\$ 124,673</b>	<b>\$ 177,270</b>	<b>\$ 124,673</b>	<b>\$ 177,270</b>

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

# Notes to the Financial Statements

## For the period ended December 31, 2022

(Unaudited)

### 1. AUTHORITY, MANDATE AND ACTIVITIES

The Canada Council for the Arts (the "Council"), established by the *Canada Council Act* in 1957 and subsequently amended in 2001 by Bill C-40 to the *Canada Council for the Arts Act*, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the *Income Tax Act*. In accordance with section 85(1.1) of the *Financial Administration Act*, the Council is exempt from Divisions I to IV of Part X of this Act, except for sections 89.8 to 89.92 of Division I, subsection 105(2) and sections 113.1 and 119 of Division II, sections 131 to 148 of Division III and section 154.01 of Division IV. The Council is a Crown corporation whose objectives are to foster and promote the study and enjoyment of, and the production of works in, the arts.

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

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

### 3. PORTFOLIO INVESTMENTS

	Year-to-date December 31, 2022					Year-end March 31, 2022		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
<b>Canada Council Endowment and Special Funds</b>								
Pooled funds								
Canadian Equity	56,538	-	8,775	65,313	16	56,039	74,564	18
Global Equity	190,496	9,840	4,244	184,900	47	198,221	213,571	52
Fixed income	81,990	1,646	-	80,344	20	91,405	85,528	21
Real estate	17,410	223	1,622	18,809	5	7,074	8,709	2
Infrastructure	39,679	-	7,206	46,885	12	23,495	28,539	7
	386,113	11,709	21,847	396,251	100	376,234	410,911	100
<b>Killam Fund</b>								
Pooled funds								
Canadian Equity	12,497	-	875	13,372	17	12,312	15,145	18
Global Equity	40,190	2,260	827	38,757	48	41,970	44,908	53
Fixed income	16,845	352	-	16,493	20	18,409	17,253	21
Real estate	3,872	45	415	4,242	5	1,818	2,234	3
Infrastructure	7,131	-	1,212	8,343	10	3,772	4,561	5
	80,535	2,657	3,329	81,207	100	78,281	84,101	100
<b>Total portfolio investments</b>	<b>466,648</b>	<b>14,366</b>	<b>25,176</b>	<b>477,458</b>		<b>454,515</b>	<b>495,012</b>	

### 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, 2022. 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, 2022 - 8%) of that Fund with a total fair value of \$31,740,000 (March 31, 2022 - \$32,914,000). The total fair value of the externally restricted investment including the Killam Fund is \$112,948,000 (March 31, 2022 - \$117,015,000).

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 in limited partnership units of four real estate funds and seven 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	16%	10%	14%	20%
Global equities	47%	40%	46%	55%
Fixed income	20%	15%	20%	30%
Alternatives	0%	0%	0%	10%
Real estate	5%	0%	10%	15%
Infrastructure	12%	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.

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 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:

	Measurement categories	Year-to-date	Year-end
		December 31, 2022	March 31, 2022
		Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
<i>(in thousands of dollars)</i>			
<b>Financial assets and liabilities and classifications</b>			
Cash	Fair value	124,673	124,935
Accounts receivable	Amortized cost	12,017	10,758
Portfolio Investments <sup>1</sup>	Fair value	477,458	495,012
Grants, author payments and prizes payable	Amortized cost	144,751	164,831
Accounts payable and accrued liabilities	Amortized cost	5,242	9,145

<sup>1</sup> 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.

- Real estate and Infrastructure investment values are supplied by the external fund managers using internally determined appraisals based on valuation models with unobservable inputs.

## b) Fair value hierarchy

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

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

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

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

### Financial assets at fair value

	Year-to-date December 31, 2022				Year-end March 31, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Cash	124,673	-	-	124,673	124,935	-	-	124,935
<b>Portfolio Investments</b>								
<b>Canada Council Endowment and Special Funds</b>								
Pooled Funds								
Canadian Equity	-	65,313	-	65,313	-	74,564	-	74,564
Global Equity	-	184,900	-	184,900	-	213,571	-	213,571
Fixed Income	-	59,855	20,489	80,344	-	69,865	15,663	85,528
Real Estate	-	-	18,809	18,809	-	-	8,709	8,709
Infrastructure	-	-	46,885	46,885	-	-	28,539	28,539
<b>Killam Fund</b>								
Pooled Funds								
Canadian Equity	-	13,372	-	13,372	-	15,145	-	15,145
Global Equity	-	38,757	-	38,757	-	44,908	-	44,908
Fixed Income	-	12,295	4,198	16,493	-	13,647	3,606	17,253
Real Estate	-	-	4,242	4,242	-	-	2,234	2,234
Infrastructure	-	-	8,343	8,343	-	-	4,561	4,561
	-	374,492	102,966	477,458	-	431,700	63,312	495,012
<b>Total</b>	<b>124,673</b>	<b>374,492</b>	<b>102,966</b>	<b>602,131</b>	<b>124,935</b>	<b>431,700</b>	<b>63,312</b>	<b>619,947</b>

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

## 5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

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

(in thousands of dollars)	Year-to-date	Year-end
	December 31, 2022	March 31, 2022
Balance, beginning of period	\$ 75,817	\$ 71,273
Transferred from (to) net investment income (Note 7)		
Net Investment income	1,889	12,127
Use of funds	(403)	(2,050)
	1,486	10,077
Unrealized losses on portfolio investments	(9,235)	(123)
Reclassified to statement of operations - portfolio investments	2,121	(5,410)
<b>Balance at end of period</b>	<b>\$ 70,189</b>	<b>\$ 75,817</b>

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

## 6. ACCUMULATED SURPLUS

(in thousands of dollars)	Year-to-date	Year-end
	December 31, 2022	March 31, 2022
<b>Accumulated surplus from operations</b>		
<b>Endowment - Original contribution</b>	\$ 50,000	\$ 50,000
<b>Endowment principal - Externally restricted contributions</b>	37,569	37,569
<b>Reserve for excess investment income</b>		
Balance at beginning of period	253,445	229,445
Appropriated from the accumulated surplus during the period	-	24,000
Balance at end of period	253,445	253,445
<b>Surplus</b>		
Balance at beginning of period	24,363	21,578
Appropriated to the reserve for excess investment income during the period	-	(24,000)
Surplus for the period	37,522	26,785
Balance at end of period	61,885	24,363
<b>Total accumulated surplus from operations</b>	<b>402,899</b>	<b>365,377</b>
<b>Accumulated remeasurement gains</b>		
Balance at beginning of period	31,594	45,792
Change in fair value	(22,574)	(14,198)
Balance at end of period	9,020	31,594
<b>Balance of accumulated surplus at end of period</b>	<b>\$ 411,919</b>	<b>\$ 396,971</b>



## 7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2022	2021	2022	2021
Gains (losses) from disposal of portfolio investments	\$ 1,784	\$ 2,055	\$ (7,684)	\$ 2,430
Transfer from (to) deferred revenues -				
Externally restricted contributions (Note 5)	(2,497)	(3,557)	(1,486)	(4,834)
Net gains (losses) on foreign exchange	32	(4)	43	-
Dividend and other distributed income - reinvested	8,608	13,060	14,261	18,069
Interest, dividend and other distributed income	2,750	3,214	5,436	6,287
Investment portfolio management costs	(636)	(495)	(1,499)	(1,435)
	<b>\$ 10,041</b>	<b>\$ 14,273</b>	<b>\$ 9,071</b>	<b>\$ 20,517</b>

## 8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2022	2021	2022	2021
Rental revenue	\$ (447)	\$ (400)	\$ (1,235)	\$ (1,187)
Other income	(57)	(45)	(144)	(100)
Administration expense	526	454	1,489	1,301
	<b>\$ 23</b>	<b>\$ 9</b>	<b>\$ 113</b>	<b>\$ 14</b>

## 9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2022	2021	2022	2021
Program expenses	\$ 115	\$ 243	\$ 723	\$ 456
Program - contributions received	71	-	(154)	(150)
Administration expense	410	349	1,270	1,013
	<b>\$ 596</b>	<b>\$ 592</b>	<b>\$ 1,839</b>	<b>\$ 1,319</b>

## 10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2022	2021	2022	2021
Increase in accounts receivable	\$ (9,783)	\$ (700)	\$ (1,259)	\$ (1,019)
(Decrease) increase in grants, author payments and prizes payable	(89,647)	(44,571)	(20,080)	52,954
(Decrease) increase in accounts payable and accrued liabilities	(645)	324	(3,903)	(1,474)
(Decrease) increase in deferred revenues	(38)	273	(511)	(1,270)
<b>Net change</b>	<b>\$ (100,113)</b>	<b>\$ (44,674)</b>	<b>\$ (25,753)</b>	<b>\$ 49,191</b>

## 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.