



Canada Council  
for the Arts

Conseil des arts  
du Canada

Quarterly

# Financial Report

**Unaudited**

Period ended June 30, 2022  
Published August 29, 2022



Canada Council  
for the Arts

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du Canada

# Management Discussion and Analysis

## Quarterly Report

Period ended June 30, 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 three-month period ended June 30, 2022 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

### *Arctic Arts Summit*

- The Canada Council for the Arts and the Government of Yukon co-hosted the [2022 Arctic Arts Summit](#) in Whitehorse, Yukon, from June 27 to 29. The Summit brought together representatives of the eight Arctic countries and the Indigenous Nations of the Circumpolar region to strengthen arts and culture in the North and to develop circumpolar cooperation to stimulate ongoing, sustainable collaboration in arts and culture throughout the region.

### *New partnerships*

- On June 15, the Inuit Art Foundation (IAF) and the Council [announced](#) the development of a **national, Inuit-specific funding pilot program** in the spirit of self-determination. The Council will support the IAF as it works with Inuit communities throughout Inuit Nunangat and the south to co-develop a multidisciplinary granting program that will launch this coming winter and distribute over \$100,000 in its first year. This partnership builds on both organizations' mutual commitments to supporting Inuit artists in all aspects of their careers.
- On June 29, the Government of Yukon and the Council announced the creation and implementation of a [partnership initiative to support Yukon's emerging Indigenous artists](#) and cultural carriers. The Council is partnering with the Government of Yukon to distribute \$50,000 in funding to artists in the first year and \$150,000 in the second year. The project launch has been set for early 2023. This two-year pilot project will expand Yukon's funding administration capabilities, co-develop, and deliver additional funding, support a focused period of outreach and engagement for equity deserving artists and groups, and distribute increased arts and cultural funds across the region.

### *Art Bank*

- The Canada Council Art Bank kicked off its celebrations for its [50th anniversary](#) with the June 16 opening of *Looking the World in the Face*, a public exhibition featuring an unprecedented number of artworks by Indigenous and racialized artists from the Art Bank collection. This exhibition is located in the Canada Council's [Ajagemô exhibition space](#) located at 150 Elgin Street in Ottawa and is open daily.

### *Strategic Innovation Fund (SIF)*

- The [Strategic Innovation Fund \(SIF\)](#) added [Grow](#) as a new component to the Council's listing of funding opportunities. This is the final component for the SIF and engages the arts community in projects that will have a significant impact on the arts sector and beyond. Grow provides significant multi-year funding to projects that are created and supported through cross-sectoral partnerships, where the arts are full partners in larger social conversations. This component is also piloting a two-stage evaluation process, where applicants submit an initial Expression of Interest for evaluation. Once evaluated, the Council offers the successful initiatives the opportunity to work on and complete an application form for later assessment by a peer assessment committee. This innovative process allows for the evaluation committee to see how the project is developing, thus providing a rich and precise evaluation of the applications.

## Other highlights

- April 26 – the Council announced the team and project selected to represent Canada at the **18th Venice Biennale of Architecture**: Architects Against Housing Alienation (AAHA) will present in Venice their project *Not for Sale!*, an architectural activist campaign for non-alienated housing. Collaborating with activist organizations, advocates for non-alienated housing, and architects, AAHA will present bold visions for equitable and deeply affordable housing in Canada.
- May and June – to commemorate Asian Heritage Month (in May) and National Indigenous History Month (in June), the Council launched two month-long [Instagram](#) takeovers featuring the voices of Asian and Indigenous artists and arts organizations who shared their art projects with the Council's broad audience.
- June 1 – the Council announced the winners of the [2022 Canada Council for the Arts Molson Prizes](#): Dr. Cecilia Benoit in Social Sciences and Humanities and H. Nigel Thomas in the Arts. These Prizes are awarded to two persons – one in the arts and the other in the social sciences and humanities – who have distinguished themselves by their outstanding achievements in their field. The Molson Prizes are administered by the Council in collaboration with the Social Sciences and Humanities Research Council of Canada (SSHRC).
- June 23 – the Council, the Department of Canadian Heritage and the High Commission of Canada in the United Kingdom announced their support for Canada's artistic presence at the **Edinburgh Fringe 2022**. Further to a call for submissions held in May and a peer-curated selection process, eleven extraordinary productions will be showcased at [Spotlight Canada: The Pitch Session](#). This in-person event will take place on August 22. It will feature five-minute pitches by the selected projects, as well as a Q&A with the artists and a moderator, for an audience of international producers, artistic directors, festival curators, presenters, and programmers from around the globe.

## Net Results

(in thousands of dollars)	Three months ended June 30			
	2022	2021	Variance	% change
Revenue	4,926	7,310	(2,384)	-33%
Expenses	(175,723)	(171,387)	(4,336)	3%
Government funding	125,000	150,500	(25,500)	-17%
<b>Deficit for the period</b>	<b>(45,797)</b>	<b>(13,577)</b>	<b>(32,220)</b>	

### Overview of the First Quarter Net Results

The deficit for the quarter was \$45.8M compared to \$13.6M for the same period last year. The variance is explained mostly by an increase in grants due to the uptake in the Strategic Innovation Fund in the current fiscal year and the uptake in the circulation and touring programs following the reopening of travel as well as an increase in transfer program delivery expenses due to the timing in the recording of benefits and other expenses during the year. Those increases are offset by the decrease of \$25M in government funding received during the first quarter due to sunseting of COVID-19 emergency funding. In addition to the net decrease in government funding, a decrease in other revenues, offset in part by the increase in net realized investment income also contributed to the deficit from operations for the period.

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

## IMPORTANT CHANGES

### Leadership and Governance

- June 6 – the Council announced the [appointments](#) of **Richard Kistabish** as President of the Canadian Commission for UNESCO, and of **Sarah Gamble** as Vice-President. They will assume these roles in June and September 2022, respectively. Richard Kistabish is an Anishinaabe (Algonquin) from the First Nation community of Abitibiwinni, Quebec. He is Chief of the Abitibiwinni First Nation community and Grand Chief of the Algonquin Council of Western Quebec for two terms. As well as president of Minwashin, an Anishinaabe cultural and arts development organization. Sarah Gamble developed the consultancy of Moose & Muskwa Consulting Inc. as a founding partner, built on five years of heritage and non-profit management experience, with a background of 17 years of experience working as a consulting archaeologist and traditional use specialist. She is also the president of the Canadian Geoparks Network.
- June 23 and 24 – the Council hosted two [community gatherings in the Northwest Territories](#) (Yellowknife and Inuvik). These events created an opportunity for the Board and the management team to listen to and learn from the community, and to exchange stories with those who live in the region about their experience of arts and culture. The insights gained will guide the work of the Council and enable it to better address the unique realities and priorities of northern artists and audiences.

## FINANCIAL RESULTS

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

(in thousands of dollars)	Three months ended June 30		
	2022	2021	Increase/ (Decrease)
Net realized investment income	3,445	2,987	458
Other revenue	1,481	4,323	(2,842)
<b>Total</b>	<b>4,926</b>	<b>7,310</b>	<b>(2,384)</b>

## Revenue

### Net Realized Investment Income

Net realized investment income was \$458K higher for the quarter than the same period last year mostly as a result of higher interest and dividends by \$1.03M. These year-over-year increases were partially offset by a \$361K higher loss on the sale of investments, primarily as a result of a partial sale of a fixed income investment that had decreased in value due to rising interest rates and by a \$157K higher transfer to deferred revenues for externally restricted contributions, due to the timing of expenses not yet incurred in the current year. The total investments' market value was higher at the beginning of the quarter compared to the same period last year, which led to higher dividends, interest, and management fees.

The net realized investment income is still forecast 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 lower compared to the same period last year due to the following two reasons. Firstly, last year the Council received a transfer of \$1.5M from the Departments of Global Affairs Canada and Canadian Heritage for activities related to the 2021 Frankfurt Book Fair. Secondly, the grant cancellations had seen a jump last year due to adjustments or recipient initiated cancellations due to the inability to execute events as planned because of COVID-19. Grant cancellations had reached \$2.8M in the first quarter last year compared to \$1.1M this year-to-date.

Other revenues are expected to be higher than budgeted and any excess will be returned to the granting budget.

## Expenses

(in thousands of dollars)	Three months ended June 30		
	2022	2021	Increase/ (Decrease)
Grants, author payments and prizes	162,367	159,920	2,447
Transfer program delivery	6,702	5,217	1,485
Arts community services	286	154	132
Net Art Bank results	82	42	40
Canadian Commission for UNESCO	494	253	241
General administration	5,792	5,801	(9)
<b>Total</b>	<b>175,723</b>	<b>171,387</b>	<b>4,336</b>

### Grants, author payments and prizes

The increase in the first quarter compared to last year is due to an increase of \$4.2M in the Digital Generator and Digital Greenhouse programs that were launched later in the previous fiscal year, an increase of \$2.5M in the Circulation and Touring program following the reopening of travel, offset by decreases in the other programs due to the sunsetting of emergency funding and the overall timing of competitions.

The approved annual budget of \$371.8M for grants, author payments and prizes includes \$48.6M received in supplementary appropriations from the federal government to relaunch the arts sector and to resume its public activities through the Recovery Fund for Arts, Culture, Heritage, and Sport Sectors. The forecasted grant expense is expected to be closer to \$368.6M. The variance is mostly due to the forecasted administrative costs of \$1.4M to deliver the Recovery Fund.

### Transfer program delivery

Transfer program delivery expenses are \$1.5M higher for the quarter compared to the same period last year. This is mostly due to the employee vacation benefits now being accrued each pay, compared to an annual adjustment at year-end in previous fiscal years. The salary expense also saw an increase of \$0.7M from the previous year-to-date figures due to additional staffing required in order to continue on the delivery of the COVID-19 initiatives. Those increases were slightly offset by a decrease of \$0.2M in the peer and advisory committee costs due to the timing of the peer and advisory committee meetings.

### General administration

This expense is slightly lower for the quarter compared to the same period last year. Salaries and benefits are higher due to the increase in staffing and due to the recording of the employee vacation benefits accruals. Professional services are higher 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 more than offset by a decreased amortization expense due to less capitalized assets and by lower information management costs due to the timing of the recording of the current year's expenses.

## Financial Assets

(in thousands of dollars)	June 30, 2022	March 31, 2022	Increase/ (Decrease)
Cash	136,106	124,935	11,171
Accounts receivable	5,934	10,758	(4,824)
Portfolio investments	449,738	495,012	(45,274)
<b>Total</b>	<b>591,778</b>	<b>630,705</b>	<b>(38,927)</b>

### Cash

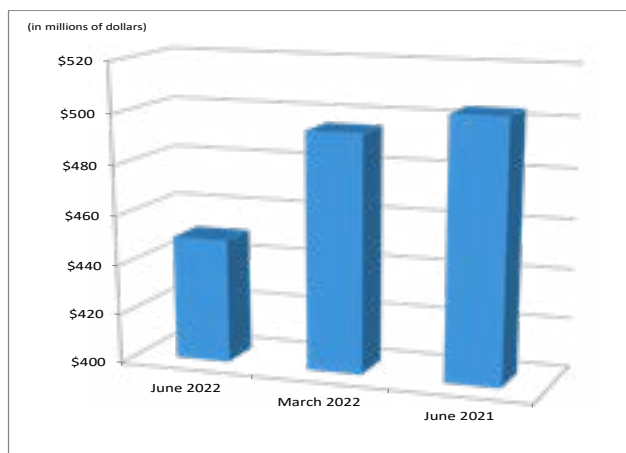
The increase of \$11.2M in cash is mainly explained by the increase of \$58.2M in grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as at June 30, 2022, less the decrease of \$2.1M in accounts payable and accrued liabilities and the \$45.8M deficit for the three-month period.

### Accounts receivable

The decrease of \$4.8M in accounts receivables compared to the value at March 31, 2022 is explained by the receipt of \$4.8M in parliamentary appropriations that were receivable at March 31, 2022

## Portfolio Investments

The total market value of the portfolio as at June 30, 2022 was \$449.7M, of which \$106.4M was externally restricted. This amount represents a decrease of \$45.3M in market value since March 31, 2022 and a decrease of \$54.3M since June 30, 2021 primarily as a result of continued financial market volatility and the rising interest rate environment.



The total fund generated a negative return of 9.3% for the quarter, underperforming the benchmark return by 0.8%. Fixed income was the main reason for this underperformance. The total fund one-year return was -9.1% for June 2022, underperforming the benchmark by 2.6%. All asset classes generated negative one-year returns, except for real estate (+18.1%) and infrastructure investments (+15.7%).

## Liabilities

(in thousands of dollars)	June 30, 2022	March 31, 2022	Increase/ (Decrease)
Grants, author payments and prizes payable	223,007	164,831	58,176
Accounts payable and accrued liabilities	7,069	9,145	(2,076)
Deferred revenues	6,651	6,168	483
Employees future benefits	5,475	5,351	124
Externally restricted contributions	64,670	75,817	(11,147)
<b>Total</b>	<b>306,872</b>	<b>261,312</b>	<b>45,560</b>

### Grants, author payments and prizes payable

The increase of \$58.2M in comparison to the value as at March 31, 2022 arises from an increase in overall funding as well as the timing of payments schedules.

### Accounts payable and accrued liabilities

The decrease of \$2.1M in comparison to the value as at March 31, 2022 is mainly due to a reduction of \$1.8M in commercial invoices due to the timing of the payment schedule.

### Externally restricted contributions

The decrease of \$11.1M 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)	June 30, 2022	March 31, 2022	Increase/ (Decrease)
Tangible capital assets	7,613	7,738	(125)
Art Bank assets	19,366	19,363	3
Musical instruments	1	1	-
Prepaid expenses	587	476	111
<b>Total</b>	<b>27,567</b>	<b>27,578</b>	<b>(11)</b>

### Tangible capital assets

The net decrease of \$0.1M in comparison to the \$7.7M as at March 31, 2022 is explained by the acquisitions of \$288,000 related mostly to new system implementation, offset by \$413,000 in amortization expense.

### Art Bank Assets

The Council owns approximately 17,160 works of contemporary Canadian art within its Art Bank collection. At June 30, 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 nine prestigious musical instruments. In addition, the Council manages fifteen instruments on loan. The appraised value of its musical instruments as at June 30, 2022 was US \$46.2M. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value, in US dollars.

## RISK MANAGEMENT

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

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

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

### Risk Governance

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

### Risk Appetite

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

	June 30	
	2022	2021
(in thousands of dollars)		
Approved annual operating funding		
Vote 1 - Operating costs	414,189	364,062
Supplementary Estimates	-	116,500
	414,189	480,562
Parliamentary appropriations recorded in the Statement of Operations for the three-month period	(125,000)	(150,500)
<b>Balance of operating funding to be received</b>	<b>289,189</b>	<b>330,062</b>



Canada Council  
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du Canada

Quarterly

# Financial Statements

**Unaudited**

These financial statements for the quarter ended June 30, 2022  
have not been audited or reviewed by our Auditor



## Management's Responsibility for Financial Reporting

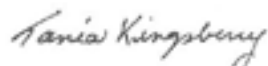
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the 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 29, 2022



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



Tania Kingsberry, CPA, CA  
Chief Financial Officer

## Statement of Financial Position

(Unaudited)		
(in thousands of dollars)	June 30	March 31
	2022	2022
<b>FINANCIAL ASSETS</b>		
Cash	\$ 136,106	\$ 124,935
Accounts receivable	5,934	10,758
Portfolio investments (Note 3)	449,738	495,012
<b>Total financial assets</b>	<b>591,778</b>	<b>630,705</b>
<b>LIABILITIES</b>		
Grants, author payments and prizes payable	223,007	164,831
Accounts payable and accrued liabilities	7,069	9,145
Deferred revenues	6,651	6,168
Employee future benefits	5,475	5,351
Deferred revenues - Externally restricted contributions (Note 5)	64,670	75,817
<b>Total liabilities</b>	<b>306,872</b>	<b>261,312</b>
<b>NET FINANCIAL ASSETS</b>	<b>284,906</b>	<b>369,393</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets	7,613	7,738
Art Bank assets	19,366	19,363
Musical instruments	1	1
Prepaid expenses	587	476
<b>Total non-financial assets</b>	<b>27,567</b>	<b>27,578</b>
<b>ACCUMULATED SURPLUS (Note 6)</b>	<b>\$ 312,473</b>	<b>\$ 396,971</b>
Accumulated surplus is comprised of:		
Accumulated surplus from operations	319,580	365,377
Accumulated remeasurement (losses) gains	(7,107)	31,594
<b>ACCUMULATED SURPLUS</b>	<b>\$ 312,473</b>	<b>\$ 396,971</b>

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

## Statement of Operations

(Unaudited) (in thousands of dollars)	Yearly Budget 2022-2023	Three months ended June 30	
		2022	2021
<b>Revenue</b>			
Net realized investment income (Note 7)	\$ 13,909	\$ 3,445	\$ 2,987
Other revenues	3,908	1,481	4,323
<b>Total revenues</b>	<b>17,817</b>	<b>4,926</b>	<b>7,310</b>
<b>Expenses</b>			
Transfer Programs			
Grants, author payments and prizes	371,783	162,367	159,920
Transfer program delivery	27,841	6,702	5,217
Arts community services	6,989	286	154
	406,613	169,355	165,291
Net Art Bank results (Note 8)	232	82	42
Canadian Commission for UNESCO (Note 9)	2,675	494	253
General administration	22,482	5,792	5,801
<b>Total expenses</b>	<b>432,002</b>	<b>175,723</b>	<b>171,387</b>
Deficit from operations before Parliamentary appropriations for the period	(414,185)	(170,797)	(164,077)
Parliamentary appropriations	414,189	125,000	150,500
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	4	(45,797)	(13,577)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	365,377	365,377	343,248
<b>ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD</b>	<b>\$ 365,381</b>	<b>\$ 319,580</b>	<b>\$ 329,671</b>

## Statement of Remeasurement Gains and Losses

(Unaudited) (in thousands of dollars)	Three months ended June 30	
	2022	2021
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	\$ 31,594	\$ 45,792
<b>Unrealized (losses) gains attributable to:</b>		
Portfolio investments	(39,033)	15,948
<b>Amounts reclassified to the Statement of Operations:</b>		
Portfolio investments	332	(16)
NET REMEASUREMENT (LOSSES) GAINS FOR THE PERIOD	(38,701)	15,932
<b>ACCUMULATED REMEASUREMENT (LOSSES) GAINS, END OF PERIOD</b>	<b>\$ (7,107)</b>	<b>\$ 61,724</b>

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	
	2022	2021
(in thousands of dollars)		
DEFICIT FROM OPERATIONS FOR THE PERIOD	\$ (45,797)	\$ (13,577)
Acquisition of tangible capital assets	(288)	(869)
Amortization of tangible capital assets	413	658
Acquisition of Art Bank assets	(3)	-
	122	(211)
Acquisition of prepaid expenses	(409)	(108)
Use of prepaid expenses	298	704
	(111)	596
Net remeasurement (losses) gains	(38,701)	15,932
(DECREASE) INCREASE IN NET FINANCIAL ASSETS	(84,487)	2,740
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	369,393	355,721
<b>NET FINANCIAL ASSETS, END OF PERIOD</b>	<b>\$ 284,906</b>	<b>\$ 358,461</b>

## Statement of Cash Flows

(Unaudited)	Three months ended June 30	
	2022	2021
(in thousands of dollars)		
<b>Operating Transactions</b>		
Deficit from operations for the period	\$ (45,797)	\$ (13,577)
Losses (gains) from disposal of portfolio investments (Note 7)	343	(18)
Dividend and other distributed income - reinvested (Note 7)	(3,883)	(2,849)
Amortization of tangible capital assets	413	658
(Increase) decrease in prepaid expenses	(111)	596
Increase in employee future benefits	124	157
Income transferred to Deferred revenues - Externally restricted contributions from investment income (Note 5)	940	784
Net change in other non-cash items (Note 10)	61,407	88,553
Cash provided by operating activities	13,436	74,304
<b>Capital Transactions</b>		
Acquisition of tangible capital assets	(288)	(869)
Acquisition of Art Bank assets	(3)	-
Cash used by capital activities	(291)	(869)
<b>Investing Transactions</b>		
Acquisition of portfolio investments	(6,002)	(602)
Disposal of portfolio investments	4,028	68
Cash used by investing activities	(1,974)	(534)
NET INCREASE IN CASH	11,171	72,901
CASH, BEGINNING OF PERIOD	124,935	81,065
CASH, END OF PERIOD	<b>\$ 136,106</b>	<b>\$ 153,966</b>

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

# Notes to the Financial Statements

## For the period ended June 30, 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 June 30, 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	57,407	-	9,072	66,479	18	56,039	74,564	18
Global Equity	199,904	14,198	-	185,706	50	198,221	213,571	52
Fixed income	91,671	9,267	-	82,404	22	91,405	85,528	21
Real estate	6,951	-	1,961	8,912	2	7,074	8,709	2
Infrastructure	24,686	106	5,143	29,723	8	23,495	28,539	7
	380,619	23,571	16,176	373,224	100	376,234	410,911	100
<b>Killam Fund</b>								
Pooled funds								
Canadian Equity	12,591	35	955	13,511	18	12,312	15,145	18
Global Equity	42,325	3,271	-	39,054	51	41,970	44,908	53
Fixed income	18,604	1,874	-	16,730	22	18,409	17,253	21
Real estate	1,788	-	501	2,289	3	1,818	2,234	3
Infrastructure	4,102	30	858	4,930	6	3,772	4,561	5
	79,410	5,210	2,314	76,514	100	78,281	84,101	100
<b>Total Portfolio investments</b>	<b>460,029</b>	<b>28,781</b>	<b>18,490</b>	<b>449,738</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 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, 2022 - 8%) of that Fund with a total fair value of \$29,895,000 (March 31, 2022 - \$32,914,000). The total fair value of the externally restricted investment including the Killam Fund is \$106,409,000 (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 alternative pooled funds and in limited partnership units of two 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.

#### 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, 2022	Year-end March 31, 2022
Financial assets and liabilities	Measurement categories	Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
Cash	Fair value	136,106	124,935
Accounts receivable	Amortized cost	5,934	10,758
Portfolio Investments <sup>1</sup>	Fair value	449,738	495,012
Grants, author payments and prizes payable	Amortized cost	223,007	164,831
Accounts payable and accrued liabilities	Amortized cost	7,069	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.

Asset Classes	Market Value	Minimum	Benchmark	Maximum
Canadian equities	18%	10%	14%	20%
Global equities	50%	40%	46%	55%
Fixed income	22%	15%	20%	30%
Real estate	2%	0%	10%	15%
Infrastructure	8%	0%	10%	15%
Money market/Cash	0%	0%	0%	10%

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 seven portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index (CPI) plus 4.5%.

- 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, 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	136,106	-	-	136,106	124,935	-	-	124,935
<b>Portfolio Investments</b>								
<b>Canada Council Endowment and Special Funds</b>								
Pooled Funds								
Canadian Equity	-	66,479	-	66,479	-	74,564	-	74,564
Global Equity	-	185,706	-	185,706	-	213,571	-	213,571
Fixed Income	-	63,329	19,075	82,404	-	69,865	15,663	85,528
Real Estate	-	-	8,912	8,912	-	-	8,709	8,709
Infrastructure	-	-	29,723	29,723	-	-	28,539	28,539
<b>Killam Fund</b>								
Pooled Funds								
Canadian Equity	-	13,511	-	13,511	-	15,145	-	15,145
Global Equity	-	39,054	-	39,054	-	44,908	-	44,908
Fixed Income	-	12,723	4,007	16,730	-	13,647	3,606	17,253
Real Estate	-	-	2,289	2,289	-	-	2,234	2,234
Infrastructure	-	-	4,930	4,930	-	-	4,561	4,561
	-	380,802	68,936	449,738	-	431,700	63,312	495,012
<b>Total</b>	<b>136,106</b>	<b>380,802</b>	<b>68,936</b>	<b>585,844</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).

<i>(in thousands of dollars)</i>	<b>Year-to-date June 30, 2022</b>	<b>Year-end March 31, 2022</b>
Balance, beginning of period	\$ 75,817	\$ 71,273
Transferred from investment income <i>(Note 7)</i>		
Net Investment income	999	12,127
Use of funds	(59)	(2,050)
	940	10,077
Unrealized losses on portfolio investment	(12,135)	(123)
Reclassified to statement of operations - portfolio investments	48	(5,410)
<b>Balance at end of period</b>	<b>\$ 64,670</b>	<b>\$ 75,817</b>

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>	<b>Year-to-date June 30, 2022</b>	<b>Year-end March 31, 2022</b>
<b>Accumulated surplus from operations</b>		
<b>Endowment - Original contribution</b>	\$ 50,000	\$ 50,000
<b>Endowment principal - Externally restricted contributions</b>	37,569	37,569
<b>Reserve for excess investment income</b>		
Balance at beginning of the period	253,445	229,445
Appropriated from the accumulated surplus during the period	-	24,000
Balance at end of the period	253,445	253,445
<b>Surplus</b>		
Balance at beginning of the period	24,363	21,578
Appropriated to the reserve for excess investment income during the period	-	(24,000)
(Deficit) surplus for the period	(45,797)	26,785
Balance at end of the period	(21,434)	24,363
<b>Total accumulated surplus from operations</b>	<b>319,580</b>	<b>365,377</b>
<b>Accumulated remeasurement gains (losses)</b>		
Balance at beginning of the period	31,594	45,792
Change in fair value	(38,701)	(14,198)
Balance at end of the period	(7,107)	31,594
<b>Balance of accumulated surplus at end of period</b>	<b>\$ 312,473</b>	<b>\$ 396,971</b>



## 7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended June 30	
	2022	2021
(Losses) gains from disposal of portfolio Investments	\$ (343)	\$ 18
Transfer to deferred revenues -		
Externally restricted contributions (Note 5)	(941)	(784)
Net gains (losses) on foreign exchange	8	(20)
Dividend and other distributed income - reinvested	3,883	2,849
Interest, dividend and other distributed income - cashed	1,370	1,363
Investment portfolio management costs	(532)	(439)
	<b>\$ 3,445</b>	<b>\$ 2,987</b>

## 8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended June 30	
	2022	2021
Rental revenue	\$ (402)	\$ (396)
Other income	(40)	(14)
Administration expense	523	452
Amortization of other capital assets	1	-
	<b>\$ 82</b>	<b>\$ 42</b>

## 9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended June 30	
	2022	2021
Program expenses	\$ 218	\$ 64
Program - contributions received	(225)	(150)
Administration expense	501	339
	<b>\$ 494</b>	<b>\$ 253</b>

## 10. NET CHANGE IN OTHER NON-CASH ITEMS

(in thousands of dollars)	Three months ended June 30	
	2022	2021
Decrease (increase) in accounts receivable	\$ 4,824	\$ (1,475)
Increase in grants, author payments and prizes payable	58,176	91,875
Decrease in accounts payable and accrued liabilities	(2,076)	(1,671)
Increase (decrease) in deferred revenues	483	(176)
<b>Net change</b>	<b>\$ 61,407</b>	<b>\$ 88,553</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.