



Canada Council  
for the Arts

Conseil des arts  
du Canada

Quarterly

# Financial Report

**Unaudited**

Period ended September 30, 2022  
Published November 30, 2022



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# Management Discussion and Analysis

## Quarterly Report

Period ended September 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 second quarter and the six-month period ended September 30, 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

### *Survey to identify barriers to accessibility*

- On August 24, the Council launched a voluntary and confidential survey to identify barriers to accessibility that the arts community may have experienced in their interactions with the Council. The survey was conducted by the consulting firm [Left Turn Right Turn](#), hired by the Council to provide subject-matter expertise, strategic advice and guidance in the development of an accessibility plan as required by the [Accessible Canada Act](#).

### *Research on the Value of Public Funding for Indigenous Arts and Cultures*

- On September 29, the Council, in collaboration with Archipel Research and Consulting Inc., published the results of the [Research on the Value of Public Funding for Indigenous Arts and Cultures](#). This research, grounded in Indigenous ways of knowing, aims to understand the role of arts and cultures to Indigenous communities across Canada and the value of public funding for Indigenous arts and cultures. It is published in Anishinaabemowin, Inuktitut, English and French.

### *How the North is Changing the Canada Council for the Arts*

- On September 20, the Director and CEO published a [blog](#) on how the Council's relationships with northern arts communities are transforming its vision and plans for the North.

## Net Results

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2022	2021	Variance	2022	2021	Variance
Revenue	(2,914)	4,961	(7,875)	2,012	12,272	(10,260)
Expenses	(110,786)	(144,169)	33,383	(286,509)	(315,557)	29,048
Government funding	125,000	196,000	(71,000)	250,000	346,500	(96,500)
<b>Surplus (deficit) for the period</b>	<b>11,300</b>	<b>56,792</b>	<b>(45,492)</b>	<b>(34,497)</b>	<b>43,215</b>	<b>(77,712)</b>

### Overview of the Second Quarter Net Results

The surplus for the quarter was \$11.3M compared to \$56.8M for the same period last year. The variance is mainly due to a decrease by \$34.7M in grant expenses recorded 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 decrease in revenues of \$7.9M coming from realized losses of \$9.1M due to a transition in fixed income investment managers also contributed to the variance.

The variance of \$77.7M 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 plus the realized losses related to transactions in the portfolio investments.

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

## IMPORTANT CHANGES

### Operational

#### Recovery Fund for Arts, Culture, Heritage, and Sport Sectors

- As part of the government's [Recovery Fund for Arts, Culture, Heritage, and Sport Sectors](#), the Council received [\\$50 million in 2022-23](#) (included as part of the granting budget) for the research, creation, and production of work; domestic touring activities and market development; and sector innovation. Through these funds, whose distribution is well underway, the Council seeks to maximize the impact of the additional investments across Canada, and with historically marginalized and underserved arts communities.

#### Canada Arts and Culture Recovery Program Funds

- The Council is administering \$9.2 million of the [Canada Arts and Culture Recovery Program \(CACRP\)](#) in 2022-23 (in addition to the granting budget), which will be disbursed as supplements to existing operational grants in the fall of 2022. In line with the commitments in its 2021-26 Strategic Plan, the Council is fully dedicating this funding to organizations funded with operational grants from designated priority groups – Indigenous, culturally diverse, Deaf and disability and official language minority communities which continued to have their artistic creations, rehearsals, productions or presentations affected by the pandemic. With commitments to pay fees and salaries, the funds are meant to reach the hands of artists through 200 organizations.

#### Art Bank's open call

- On August 10, the Council's Art Bank launched an [open call for the purchase of new artworks from artists](#) in Canada. This purchase is part of the Council's strategy to establish a collection that is truly representative of Canada and part of the Art Bank's 50th anniversary celebrations. Individual artists (groups and collaborations) and artists' representatives were able to apply until September 14, for the opportunity to become a part of the Art Bank's collection. In addition to prioritizing the acquisition of works by artists that were not currently included in the Art Bank collection, the open call strived to acquire artworks by artists who self-identify as Indigenous, Black, racialized, Deaf, or having a disability, from official language minority communities, youth, 2SLGBTQ+, gender-diverse and women, including artists at the intersections of these identities. The results will be made public in early 2023.

#### New cello in Council's Musical Instrument Bank

- The Council's Musical Instrument Bank welcomed a new donation of the [1929 Carlo Giuseppe Oddone cello](#) valued at \$250,000 USD. The cello was donated by Dr. Robert S. Williams, a two-time donor to the bank, and was certified through the Canada Council as cultural property by the Canadian Cultural Property Export Review Board. This instrument will now be part of the upcoming competition with a deadline date of 1 December 2022. More information on the Musical Instrument Bank can be found on [the program website](#).

## FINANCIAL RESULTS

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

### Revenue

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2022	2021	Increase/ (Decrease)	2022	2021	Increase/ (Decrease)
Net realized investment income	(4,415)	3,257	(7,672)	(970)	6,244	(7,214)
Other revenue	1,501	1,704	(203)	2,982	6,028	(3,046)
<b>Total</b>	<b>(2,914)</b>	<b>4,961</b>	<b>(7,875)</b>	<b>2,012</b>	<b>12,272</b>	<b>(10,260)</b>

### Net realized investment income

A few different factors contributed to net realized investment income being \$7.7M lower for the quarter than the prior period last year. The Council incurred \$9.5M in losses more than the same quarter last year mainly due to the sale of two of its fixed income investments. Interest, dividends and other distributed investment income were also lower by \$0.8M due to lower investment market values. These losses were partially offset by the transfer from the Deferred revenues - externally restricted contributions to compensate for their proportionate share of the realized investment losses as well as for their use of funds.

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 and six months ended this year are lower than the other revenues from the same periods 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 adjustments or cancelled events because of COVID-19. Grant cancellations had reached \$4.3M in the six month period last year compared to \$2.2M this year-to-date.

Other revenues are expected to be aligned with the budget.

## Expenses

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2022	2021	Increase/ (Decrease)	2022	2021	Increase/ (Decrease)
Grants, author payments and prizes	97,265	131,957	(34,692)	259,632	291,877	(32,245)
Transfer program delivery	6,195	5,882	313	12,897	11,099	1,798
Arts community services	481	393	88	767	547	220
Net Art Bank results	8	(37)	45	90	5	85
Canadian Commission for UNESCO	749	474	275	1,243	727	516
General administration	6,088	5,500	588	11,880	11,302	578
<b>Total</b>	<b>110,786</b>	<b>144,169</b>	<b>(33,383)</b>	<b>286,509</b>	<b>315,557</b>	<b>(29,048)</b>

### Grants, author payments and prizes

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

The approved annual budget of \$371.8M for grants, author payments and prizes includes \$48.6M of the \$50M received in parliamentary appropriations, the balance being set aside for the administration costs to deliver on the program. The forecasted grant expense is expected to be closer to \$380.0M 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.

### Transfer program delivery

Although the transfer program delivery expenses for the current quarter are comparable to the same period last year, the cumulative six-month period show an increase of \$1.8M. The main variance is an increase under salaries and benefits of \$1.9M due to additional staffing required in order 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.

### Canadian Commission for UNESCO

The Canadian Commission for UNESCO has seen a \$395K increase in program expenses, mostly due to increased partnership initiatives in the initial quarters of the current fiscal year. This is due to initiatives related to the newly launched UN International Decade for Indigenous Languages as well as compared to a slower start last year due to staff vacancies. 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 \$196K 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 \$0.6M higher for the quarter and year-to-date compared to the same periods last year. Salaries and benefits are higher by \$0.5M mostly due to the recording of the employee vacation benefits accruals. Professional services are higher by \$0.7M 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 \$0.3M due to less capitalized assets and by lower information management costs of \$0.6M due to the timing of the recording of the current year's expenses. 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

(in thousands of dollars)	September 30 2022	March 31 2022	Increase/ (Decrease)
Cash	169,525	124,935	44,590
Accounts receivable	2,234	10,758	(8,524)
Portfolio investments	442,332	495,012	(52,680)
<b>Total</b>	<b>614,091</b>	<b>630,705</b>	<b>(16,614)</b>

### Cash

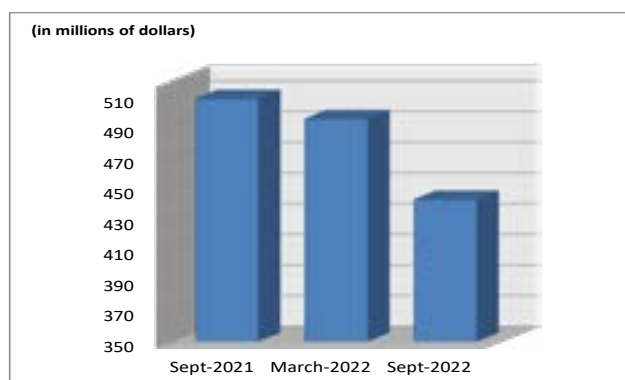
The increase of \$44.6M in cash is mainly explained by the increase of \$69.6M in grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as at September 30, 2022, less the \$34.5M deficit for the six-month period and the reduction in accounts receivable of \$8.5M.

### Accounts receivable

The decrease by \$8.5M in accounts receivable compared to the value at March 31, 2022 is mostly explained by the receipt of \$4.8M in parliamentary appropriations receivable as well as the receipt of \$2.2M in accrued investment income following the sale of the alternative investment.

### Portfolio investments

The total market value of the portfolio as at September 30, 2022 was \$442.3M, of which \$104.8M was externally restricted. This amount represents a decrease of \$52.7M in market value since March 31, 2022 and a decrease of \$65.8M since September 30, 2021.



The total fund generated a negative return of 0.6% for the quarter, underperforming the benchmark return by 0.4%. Canadian and global equities were the main reason, underperforming the benchmark by 1.3% and 0.5% respectively.

The total fund one-year return was -10.3% for September 2022, underperforming the benchmark by 2.8%. This underperformance was due to the global equity, which posted negative one-year return of 16.7% compared to the negative one-year benchmark return of 13.9%. The fixed income and Canadian equity outperformed the benchmark by 3.4% and 0.8% but still generated negative returns of 7.1% and 4.6% respectively.

## Liabilities

(in thousands of dollars)	September 30 2022	March 31 2022	Increase/ (Decrease)
Grants, author payments and prizes payable	234,398	164,831	69,567
Accounts payable and accrued liabilities	5,887	9,145	(3,258)
Deferred revenues	5,695	6,168	(473)
Employee future benefits	5,600	5,351	249
Externally restricted contributions	63,899	75,817	(11,918)
<b>Total</b>	<b>315,479</b>	<b>261,312</b>	<b>54,167</b>

### Grants, author payments and prizes payable

The increase of \$69.6M 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 \$3.3M in comparison to the value as at March 31, 2022 is explained by a reduction of \$2.1M in commercial invoices due to the timing of the payment schedule as well as a decrease of \$1.2M in the accrued liabilities.

### Externally restricted contributions

The decrease of \$11.9M 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)	September 30 2022	March 31 2022	Increase/ (Decrease)
Tangible capital assets	7,484	7,738	(254)
Art Bank assets	19,366	19,363	3
Musical instruments	1	1	-
Prepaid expenses	2,444	476	1,968
<b>Total</b>	<b>29,295</b>	<b>27,578</b>	<b>1,717</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 \$572,000 related mostly to new system implementation, offset by \$826,000 in amortization expense.

### Art Bank assets

The Council owns over 17,160 works of contemporary Canadian art within its Art Bank collection. At September 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 ten prestigious musical instruments. In addition, the Council manages fifteen instruments on loan. The appraised value of its musical instruments as at September 30, 2022 was US \$46.5M. 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 \$2.0M 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 six months ended September 30 were as follows:

(in thousands of dollars)	September 30	
	2022	2021
Approved annual operating funding		
Vote 1 - Operating costs	414,189	364,062
Supplementary Estimates	-	116,500
	414,189	480,562
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the six-month period	(250,000)	(346,500)
<b>Balance of operating funding to be received</b>	<b>164,189</b>	<b>134,062</b>



Canada Council  
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Quarterly

# Financial Statements

**Unaudited**

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

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

November 30, 2022



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



Carole Boileau, CPA  
Chief Financial Officer

## Statement of Financial Position

(Unaudited)	September 30	March 31
(in thousands of dollars)	2022	2022
<b>FINANCIAL ASSETS</b>		
Cash	\$ 169,525	\$ 124,935
Accounts receivable	2,234	10,758
Portfolio investments (Note 3)	442,332	495,012
<b>Total financial assets</b>	<b>614,091</b>	<b>630,705</b>
<b>LIABILITIES</b>		
Grants, author payments and prizes payable	234,398	164,831
Accounts payable and accrued liabilities	5,887	9,145
Deferred revenues	5,695	6,168
Employee future benefits	5,600	5,351
Deferred revenues - Externally restricted contributions (Note 5)	63,899	75,817
<b>Total liabilities</b>	<b>315,479</b>	<b>261,312</b>
<b>NET FINANCIAL ASSETS</b>	<b>298,612</b>	<b>369,393</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets	7,484	7,738
Art Bank assets	19,366	19,363
Musical instruments	1	1
Prepaid expenses	2,444	476
<b>Total non-financial assets</b>	<b>29,295</b>	<b>27,578</b>
<b>ACCUMULATED SURPLUS</b> (Note 6)	<b>\$ 327,907</b>	<b>\$ 396,971</b>
Accumulated surplus is comprised of:		
Accumulated surplus from operations	330,880	365,377
Accumulated remeasurement gains (losses)	(2,973)	31,594
<b>ACCUMULATED SURPLUS</b>	<b>\$ 327,907</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 September 30		Six months ended September 30	
	2022-2023	2022	2021	2022	2021
(in thousands of dollars)					
<b>Revenue</b>					
Net realized investment income (Note 7)	\$ 13,909	\$ (4,415)	\$ 3,257	\$ (970)	\$ 6,244
Other revenue	3,908	1,501	1,704	2,982	6,028
<b>Total revenues</b>	<b>17,817</b>	<b>(2,914)</b>	<b>4,961</b>	<b>2,012</b>	<b>12,272</b>
<b>Expenses</b>					
Transfer Programs					
Grants, author payments and prizes	371,783	97,265	131,957	259,632	291,877
Transfer program delivery	27,841	6,195	5,882	12,897	11,099
Arts community services	6,989	481	393	767	547
	406,613	103,941	138,232	273,296	303,523
Net Art Bank results (Note 8)	232	8	(37)	90	5
Canadian Commission for UNESCO (Note 9)	2,675	749	474	1,243	727
General administration	22,482	6,088	5,500	11,880	11,302
<b>Total expenses</b>	<b>432,002</b>	<b>110,786</b>	<b>144,169</b>	<b>286,509</b>	<b>315,557</b>
Deficit from operations before Parliamentary appropriations for the period	(414,185)	(113,700)	(139,208)	(284,497)	(303,285)
Parliamentary appropriations	414,189	125,000	196,000	250,000	346,500
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	4	11,300	56,792	(34,497)	43,215
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	365,377	319,580	329,671	365,377	343,248
<b>ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD</b>	<b>\$ 365,381</b>	<b>\$ 330,880</b>	<b>\$ 386,463</b>	<b>\$ 330,880</b>	<b>\$ 386,463</b>

## Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2022	2021	2022	2021
(in thousands of dollars)				
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF PERIOD	\$ (7,107)	\$ 61,724	\$ 31,594	\$ 45,792
<b>Unrealized gains (losses) attributable to:</b>				
Portfolio investments	(3,013)	220	(42,046)	16,168
<b>Amounts reclassified to the Statement of Operations:</b>				
Portfolio investments	7,147	(324)	7,479	(340)
NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD	4,134	(104)	(34,567)	15,828
<b>ACCUMULATED REMEASUREMENT GAINS (LOSSES), END OF PERIOD</b>	<b>\$ (2,973)</b>	<b>\$ 61,620</b>	<b>\$ (2,973)</b>	<b>\$ 61,620</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 September 30		Six months ended September 30	
	2022	2021	2022	2021
(in thousands of dollars)				
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	\$ 11,300	\$ 56,792	\$ (34,497)	\$ 43,215
Acquisition of tangible capital assets	(284)	(804)	(572)	(1,673)
Amortization of tangible capital assets	413	659	826	1,317
Acquisition of Art Bank assets	-	-	(3)	-
Disposal/Donation of Art Bank assets	-	139	-	139
	129	(6)	251	(217)
Acquisition of prepaid expenses	(2,229)	(334)	(2,638)	(442)
Use of prepaid expenses	372	193	670	897
	(1,857)	(141)	(1,968)	455
Net remeasurement gains (losses)	4,134	(104)	(34,567)	15,828
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	13,706	56,541	(70,781)	59,281
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	284,906	358,461	369,393	355,721
<b>NET FINANCIAL ASSETS, END OF PERIOD</b>	<b>\$ 298,612</b>	<b>\$ 415,002</b>	<b>\$ 298,612</b>	<b>\$ 415,002</b>

## Statement of Cash Flows

(Unaudited)	Three months ended September 30		Six months ended September 30	
	2022	2021	2022	2021
(in thousands of dollars)				
<b>Operating Transactions</b>				
Surplus (deficit) from operations for the period	\$ 11,300	\$ 56,792	\$ (34,497)	\$ 43,215
Losses (gains) from disposal of portfolio investments (Note 7)	9,125	(357)	9,468	(375)
Dividend and other distributed income - reinvested (Note 7)	(1,770)	(2,160)	(5,653)	(5,009)
Amortization of tangible capital assets	413	659	826	1,317
Disposal/Donation of Art Bank assets	-	139	-	139
Decrease (increase) in prepaid expenses	(1,857)	(141)	(1,968)	455
Increase in employee future benefits	125	157	249	315
Income transferred (from) to Deferred revenues - Externally restricted contributions from (to) investment income (Note 5)	(1,951)	493	(1,011)	1,277
Net change in other non-cash items (Note 10)	12,953	5,312	74,360	93,865
Cash provided by operating activities	28,338	60,894	41,774	135,199
<b>Capital Transactions</b>				
Acquisition of tangible capital assets	(284)	(804)	(572)	(1,673)
Acquisition of Arts Bank assets	-	-	(3)	-
Cash used by capital activities	(284)	(804)	(575)	(1,673)
<b>Investing Transactions</b>				
Acquisition of portfolio investments	(71,520)	(2,565)	(77,522)	(3,167)
Disposal of portfolio investments	76,885	1,024	80,913	1,091
Cash provided by (used by) investing activities	5,365	(1,541)	3,391	(2,076)
NET INCREASE IN CASH	33,419	58,549	44,590	131,450
CASH, BEGINNING OF PERIOD	136,106	153,966	124,935	81,065
<b>CASH, END OF PERIOD</b>	<b>\$ 169,525</b>	<b>\$ 212,515</b>	<b>\$ 169,525</b>	<b>\$ 212,515</b>

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

# Notes to the Financial Statements

## For the period ended September 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 September 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	58,055	-	6,642	64,697	18	56,039	74,564	18
Global Equity	200,137	16,657	-	183,480	50	198,221	213,571	52
Fixed income	79,972	1,250	-	78,722	21	91,405	85,528	21
Real estate	6,832	-	1,892	8,724	2	7,074	8,709	2
Infrastructure	24,791	-	6,472	31,263	9	23,495	28,539	7
	369,787	17,907	15,006	366,886	100	376,234	410,911	100
<b>Killam Fund</b>								
Pooled funds								
Canadian Equity	12,726	82	501	13,145	17	12,312	15,145	18
Global Equity	42,374	3,786	-	38,588	51	41,970	44,908	53
Fixed income	16,531	271	-	16,260	22	18,409	17,253	21
Real estate	1,758	-	483	2,241	3	1,818	2,234	3
Infrastructure	4,133	-	1,079	5,212	7	3,772	4,561	5
	77,522	4,139	2,063	75,446	100	78,281	84,101	100
<b>Total investments</b>	<b>447,309</b>	<b>22,046</b>	<b>17,069</b>	<b>442,332</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 \$29,388,000 (March 31, 2022 - \$32,914,000). The total fair value of the externally restricted investment including the Killam Fund is \$104,834,000 (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 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.

Asset Classes	Market Value	Minimum	Benchmark	Maximum
Canadian equities	18%	10%	14%	20%
Global equities	50%	40%	46%	55%
Fixed income	21%	15%	20%	30%
Alternatives	0%	0%	0%	10%
Real estate	2%	0%	10%	15%
Infrastructure	8%	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 seven portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index (CPI) plus 4.5%.

## 4. FINANCIAL RISKS AND FAIR VALUE

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

(in thousands of dollars)		Year-to-date	Year-end
		September 30, 2022	March 31, 2022
Measurement categories	Carrying amount and fair value (\$)	Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
<b>Financial assets and liabilities and classifications</b>			
Cash	Fair value	169,525	124,935
Accounts receivable	Amortized cost	2,234	10,758
Portfolio Investments <sup>1</sup>	Fair value	442,332	495,012
Grants, author payments and prizes payable	Amortized cost	234,398	164,831
Accounts payable and accrued liabilities	Amortized cost	5,887	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 September 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	169,525	-	-	169,525	124,935	-	-	124,935
<b>Portfolio Investments</b>								
<b>Canada Council Endowment and Special Funds</b>								
Pooled Funds								
Canadian Equity	-	64,697	-	64,697	-	74,564	-	74,564
Global Equity	-	183,480	-	183,480	-	213,571	-	213,571
Fixed Income	-	59,589	19,133	78,722	-	69,865	15,663	85,528
Real Estate	-	-	8,724	8,724	-	-	8,709	8,709
Infrastructure	-	-	31,263	31,263	-	-	28,539	28,539
<b>Killam Fund</b>								
Pooled Funds								
Canadian Equity	-	13,145	-	13,145	-	15,145	-	15,145
Global Equity	-	38,588	-	38,588	-	44,908	-	44,908
Fixed Income	-	12,241	4,019	16,260	-	13,647	3,606	17,253
Real Estate	-	-	2,241	2,241	-	-	2,234	2,234
Infrastructure	-	-	5,212	5,212	-	-	4,561	4,561
	-	371,740	70,592	442,332	-	431,700	63,312	495,012
<b>Total</b>	<b>169,525</b>	<b>371,740</b>	<b>70,592</b>	<b>611,857</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).

	Year-to-date	Year-end
	September 30, 2022	March 31, 2022
(in thousands of dollars)		
Balance, beginning of period	\$ 75,817	\$ 71,273
Transferred (to) from net investment income (Note 7)		
Net Investment income (loss)	(685)	12,127
Use of funds	(326)	(2,050)
	(1,011)	10,077
Unrealized losses on portfolio investments	(13,133)	(123)
Reclassified to statement of operations - portfolio investments	2,226	(5,410)
<b>Balance at end of period</b>	<b>\$ 63,899</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

	Year-to-date	Year-end
	September 30, 2022	March 31, 2022
(in thousands of dollars)		
<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 (deficit) for the period	(34,497)	26,785
Balance at end of period	(10,134)	24,363
<b>Total accumulated surplus from operations</b>	<b>330,880</b>	<b>365,377</b>
<b>Accumulated remeasurement gains (losses)</b>		
Balance at beginning of period	31,594	45,792
Change in fair value	(34,567)	(14,198)
Balance at end of period	(2,973)	31,594
<b>Balance of accumulated surplus at end of period</b>	<b>\$ 327,907</b>	<b>\$ 396,971</b>



## 7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2022	2021	2022	2021
Gains (losses) from disposal of portfolio investments	\$ (9,125)	\$ 357	\$ (9,468)	\$ 375
Transfer from (to) deferred revenues -				
Externally restricted contributions (Note 5)	1,952	(493)	1,011	(1,277)
Net gains on foreign exchange	3	24	11	4
Dividend and other distributed income - reinvested	1,770	2,160	5,653	5,009
Interest, dividend and other distributed income - cashed	1,316	1,710	2,686	3,073
Investment portfolio management costs	(331)	(501)	(863)	(940)
	<b>\$ (4,415)</b>	<b>\$ 3,257</b>	<b>\$ (970)</b>	<b>\$ 6,244</b>

## 8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2022	2021	2022	2021
Rental revenue	\$ (386)	\$ (391)	\$ (788)	\$ (787)
Other income	(47)	(41)	(87)	(55)
Administration expense	440	395	963	847
Amortization of other capital assets	1	-	2	-
	<b>\$ 8</b>	<b>\$ (37)</b>	<b>\$ 90</b>	<b>\$ 5</b>

## 9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2022	2021	2022	2021
Program expenses	\$ 390	\$ 149	\$ 608	\$ 213
Program - contributions received	-	-	(225)	(150)
Administration expense	359	325	860	664
	<b>\$ 749</b>	<b>\$ 474</b>	<b>\$ 1,243</b>	<b>\$ 727</b>

## 10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2022	2021	2022	2021
Decrease (increase) in accounts receivable	\$ 3,700	\$ 1,156	\$ 8,524	\$ (319)
Increase in grants, author payments and prizes payable	11,391	5,650	69,567	97,525
Decrease in accounts payable and accrued liabilities	(1,182)	(127)	(3,258)	(1,798)
Decrease in deferred revenues	(956)	(1,367)	(473)	(1,543)
<b>Net change</b>	<b>\$ 12,953</b>	<b>\$ 5,312</b>	<b>\$ 74,360</b>	<b>\$ 93,865</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.