



Canada Council  
for the Arts

Conseil des arts  
du Canada

Quarterly

# Financial Report

Unaudited

Period ended September 30, 2023  
Published November 30, 2023



Canada Council  
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# Management Discussion and Analysis

Quarterly Report

Period ended September 30, 2023  
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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, 2023 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

### *2023 Honorary Recognition of Cultural Carriers*

- On September 28, the Council awarded an Honorary Recognition of Cultural Carriers to four people whose artistic and cultural endeavours further the use and promotion of Indigenous languages. Cultural carriers are people—including Elders, knowledge keepers and traditional educators—whose role in First Nations, Inuit and Métis communities supports the preservation and sharing of Indigenous worldviews, cultural practices and traditions through art and creative practice. The recognition was made possible by an anonymous donation to support Indigenous artists living in Canada and by an additional contribution from the Canadian Commission for UNESCO as part of its support for the United Nations International Decade of Indigenous Languages. The recipients – already selected by external assessors through other funding programs at Canada Council for the Arts and chosen by an internal Indigenous selection committee – are each receiving a \$10,000 award.

### *Canadian participation at the festival Les Zébrures d'automne*

- The Council led an international delegation to the festival Les Zébrures d'automne in Limoges (France) in September. This international festival is a major event in France for the Francophonie, presenting theatre, dance and music artists from across the globe. Canada was among the highlighted regions, with theatre productions and musical performances by official language minority artists living in Manitoba and Ontario. The delegation met with counterparts in Africa, the Caribbean and internationally to promote the regional diversity of the Francophonie in Canada.

### *Zones théâtrales biennial*

- The 2023 edition of Zones Théâtrales was held in Ottawa from September 11 to 16 to promote professional creative theatre from francophone minority communities. Artists from Moncton to Vancouver presented theatre projects on current topics, such as the housing market crisis, fake news, transgender identity, space exploration, life after the pandemic, and the evolution of our collective relationship with land and ecosystems. Zones théâtrales biennial events (2021, 2023 and 2025) are possible through a memorandum of understanding between the Council, the Department of Canadian Heritage and the National Arts Centre.

### *2023 Musical Instrument Bank Cohort Revealed*

- Twenty-three pre-eminent classical musicians from Canada have been selected to borrow and perform with an exceptional instrument from the Canada Council Musical Instrument Bank for the next three years. Violins and cellos were made between the late 17th century and the early 20th century by famous luthiers like Stradivari, Gagliano and Pressenda.

### *Canadian artwork at the G20 leaders' summit in India*

- The Council's Art Bank contributed Jessica Houston's photograph Letters to the Future – Antarctica, 3019 (2020) to the G20 Presidency art project in India, Together We Art. The multidisciplinary art exhibition was displayed in the Bihar Museum in Patna, India, from August 7 to 27 and at the National Museum in New Delhi, India, from September 7 to October 7. The photograph was acquired through the Council's Art Bank's 50th anniversary purchase program.

### *Research in Residence: Arts' Civic Impact*

- The Council has been part of a research partnership led by Mass Culture, with the Ontario Trillium Foundation, and Toronto Arts Foundation, to understand the civic impact of the arts. This research explored the impact of the arts on communities and society in the areas of Indigenous cultural knowledge, climate and sustainability, health and wellbeing, and diversity and inclusion. This project resulted in qualitative impact frameworks to enhance the capacity of the Canadian arts sector to develop evidence-based approaches and build a future in which the arts sector in Canada can thrive.

## Operational changes

- None in current quarter.

## Leadership and Governance changes

### Appointment of Canadian Commission for UNESCO Secretary General

- Yves-Gérard Méhou-Loko assumed the role of Secretary General for the Canadian Commission for UNESCO on July 17, 2023. For more than a decade, Yves-Gérard worked as a journalist. In recent years, he has also held positions such as Manager of the French Language Services Unit at the Ombudsman of Ontario, Equity and Human Rights Commissioner at the Conseil des écoles publiques de l'Est de l'Ontario, and Vice-President of the Fédération des communautés francophones et acadiennes du Canada.

### Board appointment

- Jan-Fryderyk Pleszczynski (Montréal, Quebec), lawyer, entrepreneur and strategic business advisor was appointed to the Board of the Canada Council for the Arts for a four-year term, effective August 4, 2023.

## Overview of the Second Quarter Net Results

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2023	2022	Variance	2023	2022	Variance
Revenue	7,587	(2,914)	10,501	12,688	2,012	10,676
Expenses	(72,584)	(110,786)	38,202	(251,885)	(286,509)	34,624
Government funding	83,000	125,000	(42,000)	216,000	250,000	(34,000)
Surplus (deficit) for the period	18,003	11,300	6,703	(23,197)	(34,497)	11,300

The surplus for the quarter was \$18M compared to \$11.3M for the same period last year. This positive variance of \$6.7M arises principally from increased investment income of \$10.8M compared to the same period last year. The remainder is due to lowered parliamentary appropriations by \$42M as the Council is no longer receiving additional COVID funding, while grants awarded were \$38.3M below last year, leading to a net deficit between appropriations received and grants awarded of \$3.7M.

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

## Revenues

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2023	2022	Increase/ (Decrease)	2023	2022	Increase/ (Decrease)
Net realized investment income	6,400	(4,415)	10,815	10,585	(970)	11,555
Other revenue	1,187	1,501	(314)	2,103	2,982	(879)
Total	7,587	(2,914)	10,501	12,688	2,012	10,676

### Net realized investment income

The Net realized investment income for the quarter and six months ended this year are higher than the same periods last year mainly due to the realized losses on the sale of two of its fixed income investments last year but also due to an increase in distributed income compared to the last year.

## Expenses

(in thousands of dollars)	Three months ended September 30			Six months ended September 30		
	2023	2022	Increase/ (Decrease)	2023	2022	Increase/ (Decrease)
Grants, author payments and prizes	58,942	97,265	(38,323)	224,835	259,632	(34,797)
Transfer program delivery	6,399	6,195	204	12,871	12,897	(26)
Arts community services	385	481	(96)	1,381	767	614
Net Art Bank results	(110)	8	(118)	(9)	90	(99)
Canadian Commission for UNESCO	783	749	34	1,312	1,243	69
General administration	6,185	6,088	97	11,495	11,880	(385)
<b>Total</b>	<b>72,584</b>	<b>110,786</b>	<b>(38,202)</b>	<b>251,885</b>	<b>286,509</b>	<b>(34,624)</b>

### Grants, author payments and prizes

The decrease in the second quarter of \$38.3M compared to the same quarter last year is principally explained by the Council having received extra parliamentary appropriations in 2022-23 of \$50M for the Recovery Fund for Arts, Culture, Heritage, and Sport. These additional funds will not be received this year, decreasing the grants budget by the same amount. The timing of grant competitions this year are more heavily weighted to the final six months of 2023-24, resulting in the majority of the \$50M decrease appearing in the first quarters.

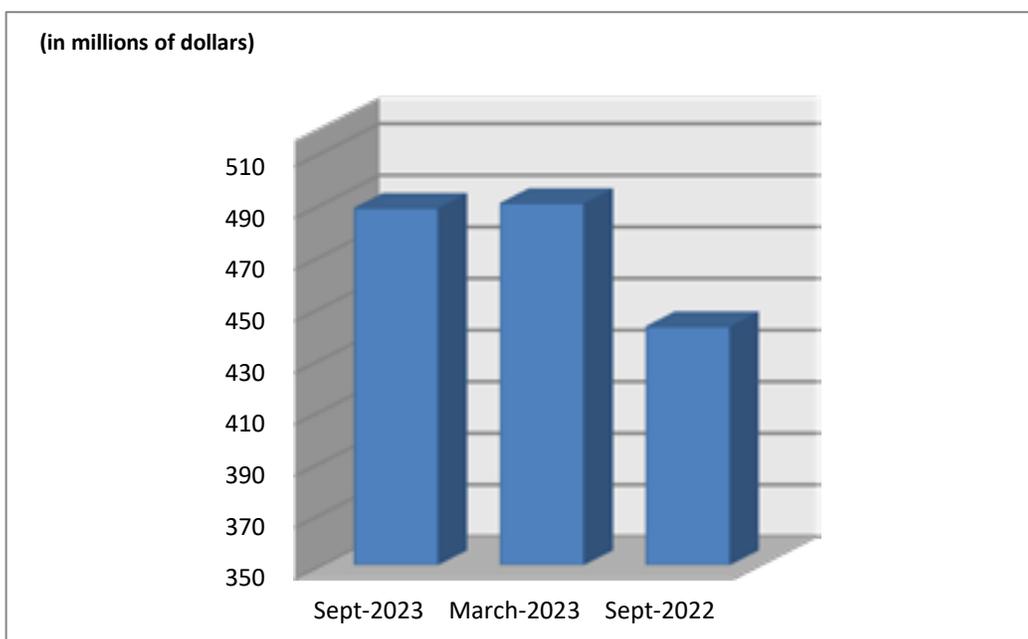
## Assets

### Financial Assets

(in thousands of dollars)	September 30	March 31	Increase/ (Decrease)
	2023	2023	
Cash	96,228	108,169	(11,941)
Accounts receivable	2,700	3,327	(627)
Portfolio investments	488,273	490,131	(1,858)
<b>Total</b>	<b>587,201</b>	<b>601,627</b>	<b>(14,426)</b>

### Portfolio Investments

The total market value of the portfolio as at September 30, 2023 was \$488.3M, of which \$115.5M was externally restricted. This amount represents a decrease of \$1.9M in market value since March 31, 2023, and an increase of \$45.9M since September 30, 2022.



The total fund generated a negative return of 2.1% for the quarter, underperforming the benchmark return by 0.9%. All asset classes underperformed the benchmark except for Canadian Equities that matched the benchmark. The total fund one-year return was 12.0% for September 2023, surpassing the benchmark by 1.4%. All asset classes generated positive one-year returns, except for real estate generating a negative return of 5.4% and underperforming the benchmark by 5.0%.

## Liabilities

(in thousands of dollars)	September 30 2023	March 31 2023	Increase/ (Decrease)
Grants, author payments and prizes payable	161,376	137,292	24,084
Accounts payable and accrued liabilities	5,270	7,674	(2,404)
Deferred revenues	5,050	5,461	(411)
Employee future benefits	5,857	5,721	136
Externally restricted contributions	73,633	74,667	(1,034)
<b>Total</b>	<b>251,186</b>	<b>230,815</b>	<b>20,371</b>

### Grants, author payments, and prizes payable

The increase of \$24.1M in comparison to the value as at March 31, 2023 arises from annualized core funding grants becoming payable in the new fiscal year.

## Non-Financial Assets

(in thousands of dollars)	September 30 2023	March 31 2023	Increase/ (Decrease)
Tangible capital assets	7,252	8,016	(764)
Art Bank assets	19,872	19,849	23
Musical instruments	1	1	-
Prepaid expenses	3,109	362	2,747
<b>Total</b>	<b>30,234</b>	<b>28,228</b>	<b>2,006</b>

### Art Bank assets

The Council owns over 17,200 works of contemporary Canadian art within its Art Bank collection. The Art Bank assets are carried at a cost of \$19.9M. The appraised value of the Art Bank assets at September 30, 2023 was approximately \$73.2M.

### Musical instruments

The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and twelve prestigious musical instruments. In addition, the Council manages twelve instruments on loan. The appraised value of its musical instruments as at September 30, 2023 was US \$70.9M. These are included on the Statement of Financial Position at a nominal value.

### Prepaid expenses

The increase of \$2.7M in comparison to the value as at March 31, 2023 is explained by a transfer of \$2.6M to the National Research Council for the delivery of the 2023-24 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 2023 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 2023.

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	
	2023	2022
Approved annual operating funding		
Vote 1 - Operating costs	364,239	414,189
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the six-month period	(216,000)	(250,000)
<b>Balance of operating funding to be received</b>	<b>148,239</b>	<b>164,189</b>



Canada Council  
for the Arts

Conseil des arts  
du Canada

Quarterly

# Financial Statements

Unaudited

These financial statements for the quarter ended September 30, 2023  
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.

November 30, 2023



Michelle Chawla  
Director and Chief Executive Officer



Eva Jacobs, CPA, CGA  
Chief Financial, Administration and Security Officer

## Statement of Financial Position

(Unaudited)	September 30	March 31
(in thousands of dollars)	2023	2023
<b>FINANCIAL ASSETS</b>		
Cash	\$ 96,228	\$ 108,169
Accounts receivable	2,700	3,327
Portfolio investments (Note 3)	488,273	490,131
<b>Total financial assets</b>	<b>587,201</b>	<b>601,627</b>
<b>LIABILITIES</b>		
Grants, author payments and prizes payable	161,376	137,292
Accounts payable and accrued liabilities	5,270	7,674
Deferred revenues	5,050	5,461
Employee future benefits	5,857	5,721
Deferred revenues - Externally restricted contributions (Note 5)	73,633	74,667
<b>Total liabilities</b>	<b>251,186</b>	<b>230,815</b>
<b>NET FINANCIAL ASSETS</b>	<b>336,015</b>	<b>370,812</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets	7,252	8,016
Art Bank assets	19,872	19,849
Musical instruments	1	1
Prepaid expenses	3,109	362
<b>Total non-financial assets</b>	<b>30,234</b>	<b>28,228</b>
<b>ACCUMULATED SURPLUS (Note 6)</b>	<b>\$ 366,249</b>	<b>\$ 399,040</b>
Accumulated surplus is comprised of:		
Accumulated surplus from operations	352,333	375,530
Accumulated remeasurement gains	13,916	23,510
<b>ACCUMULATED SURPLUS</b>	<b>\$ 366,249</b>	<b>\$ 399,040</b>

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

## Statement of Operations

(Unaudited) (in thousands of dollars)	Yearly Budget	Three months ended September 30		Six months ended September 30	
	2023-2024	2023	2022	2023	2022
<b>Revenue</b>					
Net realized investment income (Note 7)	\$ 16,176	\$ 6,400	\$ (4,415)	\$ 10,585	\$ (970)
Other revenue	4,417	1,187	1,501	2,103	2,982
<b>Total revenues</b>	<b>20,593</b>	<b>7,587</b>	<b>(2,914)</b>	<b>12,688</b>	<b>2,012</b>
<b>Expenses</b>					
<b>Transfer Programs</b>					
Grants, author payments and prizes	321,256	58,942	97,265	224,835	259,632
Transfer program delivery	30,501	6,399	6,195	12,871	12,897
Arts community services	4,649	385	481	1,381	767
	356,406	65,726	103,941	239,087	273,296
Net Art Bank results (Note 8)	254	(110)	8	(9)	90
Canadian Commission for UNESCO (Note 9)	2,868	783	749	1,312	1,243
General administration	25,310	6,185	6,088	11,495	11,880
<b>Total expenses</b>	<b>384,838</b>	<b>72,584</b>	<b>110,786</b>	<b>251,885</b>	<b>286,509</b>
Deficit from operations before Parliamentary appropriations for the period	(364,245)	(64,997)	(113,700)	(239,197)	(284,497)
Parliamentary appropriations	364,239	83,000	125,000	216,000	250,000
<b>SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD</b>	<b>(6)</b>	<b>18,003</b>	<b>11,300</b>	<b>(23,197)</b>	<b>(34,497)</b>
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	375,530	334,330	319,580	375,530	365,377
<b>ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD</b>	<b>\$ 375,524</b>	<b>\$ 352,333</b>	<b>\$ 330,880</b>	<b>\$ 352,333</b>	<b>\$ 330,880</b>

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

## Statement of Remeasurement Gains and Losses

(Unaudited) (in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2023	2022	2023	2022
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF PERIOD	\$ 25,455	\$ (7,107)	\$ 23,510	\$ 31,594
<b>Unrealized losses attributable to:</b>				
Portfolio investments	(11,529)	(3,013)	(9,289)	(42,046)
<b>Amounts reclassified to the Statement of Operations:</b>				
Portfolio investments	(10)	7,147	(305)	7,479
NET REMEASUREMENT GAINS (LOSSES) FOR THE PERIOD	(11,539)	4,134	(9,594)	(34,567)
ACCUMULATED REMEASUREMENT GAINS (LOSSES), END OF PERIOD	\$ 13,916	\$ (2,973)	\$ 13,916	\$ (2,973)

## Statement of Change in Net Financial Assets

(Unaudited) (in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2023	2022	2023	2022
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	\$ 18,003	\$ 11,300	\$ (23,197)	\$ (34,497)
Acquisition of tangible capital assets	(49)	(284)	(75)	(572)
Amortization of tangible capital assets	419	413	839	826
Acquisition of Art Bank assets	(2)	-	(23)	(3)
	368	129	741	251
Acquisition of prepaid expenses	(136)	(2,229)	(3,549)	(2,638)
Use of prepaid expenses	394	372	802	670
	258	(1,857)	(2,747)	(1,968)
Net remeasurement gains (losses)	(11,539)	4,134	(9,594)	(34,567)
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	7,090	13,706	(34,797)	(70,781)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	328,925	284,906	370,812	369,393
NET FINANCIAL ASSETS, END OF PERIOD	\$ 336,015	\$ 298,612	\$ 336,015	\$ 298,612

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

## Statement of Cash Flows

(Unaudited) (in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2023	2022	2023	2022
<b>Operating Transactions</b>				
Surplus (deficit) from operations for the period	\$ 18,003	\$ 11,300	\$ (23,197)	\$ (34,497)
Losses (gains) from disposal of portfolio investments (Note 7)	(53)	9,125	(462)	9,468
Dividend and other distributed income - reinvested (Note 7)	(4,399)	(1,770)	(7,794)	(5,653)
Amortization of tangible capital assets	419	413	839	826
Decrease (increase) in prepaid expenses	258	(1,857)	(2,747)	(1,968)
Increase in employee future benefits	57	125	136	249
Income transferred (from) to Deferred revenues - Externally restricted contributions from (to) investment income (Note 5)	1,381	(1,951)	2,108	(1,011)
Net change in other non-cash items (Note 10)	(26,846)	12,953	21,896	74,360
Cash gains (losses) by operating activities	(11,180)	28,338	(9,221)	41,774
<b>Capital Transactions</b>				
Acquisition of tangible capital assets	(49)	(284)	(75)	(572)
Acquisition of Arts Bank assets	(2)	-	(23)	(3)
Cash used by capital activities	(51)	(284)	(98)	(575)
<b>Investing Transactions</b>				
Acquisition of portfolio investments	(1,329)	(71,520)	(9,599)	(77,522)
Disposal of portfolio investments	705	76,885	6,977	80,913
Cash provided by (used by) investing activities	(624)	5,365	(2,622)	3,391
NET INCREASE IN CASH	(11,855)	33,419	(11,941)	44,590
CASH, BEGINNING OF PERIOD	108,083	136,106	108,169	124,935
CASH, END OF PERIOD	\$ 96,228	\$ 169,525	\$ 96,228	\$ 169,525

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

Notes to the Financial Statements  
For the period ended September 30, 2023  
(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 His 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.

## 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, 2023. 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.

### 3. PORTFOLIO INVESTMENTS

	Year-to-date September 30, 2023					Year-end March 31, 2023		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%

#### Canada Council Endowment and Special Funds

Pooled funds								
Canadian Equity	47,754	-	7,149	54,903	14	46,046	57,107	14
Global Equity	192,668	7,751	11,372	196,289	48	194,850	199,501	49
Fixed income	84,296	3,843	-	80,453	20	82,752	82,899	20
Real estate	22,636	1,327	1,293	22,602	5	17,449	18,399	5
Infrastructure	42,371	-	8,567	50,938	13	39,544	48,623	12
	389,725	12,921	28,381	405,185	100	380,641	406,529	100

#### Killam Fund

Pooled funds								
Canadian Equity	11,483	-	632	12,115	15	11,393	12,874	15
Global Equity	39,648	1,600	2,048	40,096	48	40,118	40,783	49
Fixed income	17,318	803	-	16,515	20	17,001	17,017	20
Real estate	4,917	265	331	4,983	6	3,880	4,157	5
Infrastructure	7,975	-	1,404	9,379	11	7,152	8,771	11
	81,341	2,668	4,415	83,088	100	79,544	83,602	100
Total investments	471,066	15,589	32,796	488,273		460,185	490,131	

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, 2023 - 8%) of that Fund with a total fair value of \$32,455,000 (March 31, 2023 - \$32,563,000). The total fair value of the externally restricted investment including the Killam Fund is \$115,543,000 (March 31, 2023 - \$116,165,000).

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 five 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	14%	10%	14%	20%
Global Equities	48%	40%	46%	55%
Fixed Income	20%	15%	20%	30%
Real Estate	6%	0%	10%	15%
Infrastructure	12%	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 Universe Bonds' portion of the fixed income funds is measured against the returns of the FTSE Canada Universe Bond Index and the Mortgages' portion is measured against the FTSE Canada Short-Term Overall Bond Index.

The assets included in the real estate funds are commercial real estate properties in Canada, the United States and globally. These investments are measured against the returns of the Investment Property Databank. The infrastructure funds include portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index (CPI) plus 4.5%.

#### 4. FINANCIAL RISKS AND FAIR VALUE

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

(in thousands of dollars)		Year-to-date September 30, 2023	Year-end March 31, 2023
Financial assets and liabilities and classifications	Measurement categories	Carrying amount and fair value (\$)	Carrying amount and fair value (\$)
Cash	Fair value	96,228	108,169
Accounts receivable	Amortized cost	2,700	3,327
Portfolio Investments <sup>1</sup>	Fair value	488,273	490,131
Grants, author payments and prizes payable	Amortized cost	161,376	137,292
Accounts payable and accrued liabilities	Amortized cost	5,270	7,674

<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, 2023				Year-end March 31, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Cash								
Cash	96,228	-	-	96,228	108,169	-	-	108,169
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Canadian Equity	-	54,903	-	54,903	-	57,107	-	57,107
Global Equity	-	196,289	-	196,289	-	199,501	-	199,501
Fixed Income	-	59,424	21,029	80,453	-	61,827	21,072	82,899
Real Estate	-	-	22,602	22,602	-	-	18,399	18,399
Infrastructure	-	-	50,938	50,938	-	-	48,623	48,623
Killam Fund								
Pooled Funds								
Canadian Equity	-	12,115	-	12,115	-	12,874	-	12,874
Global Equity	-	40,096	-	40,096	-	40,783	-	40,783
Fixed Income	-	12,207	4,308	16,515	-	12,700	4,317	17,017
Real Estate	-	-	4,983	4,983	-	-	4,157	4,157
Infrastructure	-	-	9,379	9,379	-	-	8,771	8,771
	-	375,034	113,239	488,273	-	384,792	105,339	490,131
Total	96,228	375,034	113,239	584,501	108,169	384,792	105,339	598,300

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

## 5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

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

<i>(in thousands of dollars)</i>	Year-to-date September 30, 2023	Year-end March 31, 2023
Balance, beginning of period	\$ 74,667	\$ 75,817
Transferred from net investment income (Note 7)		
Net Investment income	2,364	4,029
Use of funds	(256)	(2,711)
	2,108	1,318
Unrealized losses on portfolio investments	(3,051)	(2,625)
Reclassified to statement of operations - portfolio investments	(91)	157
Balance at end of period	\$ 73,633	\$ 74,667

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

(in thousands of dollars)	Year-to-date September 30, 2023	Year-end March 31, 2023
<b>Accumulated surplus from operations</b>		
Endowment - Original contribution	\$ 50,000	\$ 50,000
Endowment principal – Externally restricted contributions	37,569	37,569
Reserve for excess investment income		
Balance at beginning of period	261,445	253,445
Appropriated from the accumulated surplus during the period	-	8,000
Balance at end of period	261,445	261,445
<b>Surplus</b>		
Balance at beginning of period	26,516	24,363
Appropriated to the reserve for excess investment income during the period	-	(8,000)
Surplus (deficit) for the period	(23,197)	10,153
Balance at end of period	3,319	26,516
<b>Total accumulated surplus from operations</b>	<b>352,333</b>	<b>375,530</b>
<b>Accumulated rereasurement gains (losses)</b>		
Balance at beginning of period	23,510	31,594
Change in fair value	(9,594)	(8,084)
Balance at end of period	13,916	23,510
<b>Balance of accumulated surplus at end of period</b>	<b>\$ 366,249</b>	<b>\$ 399,040</b>

## 7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2023	2022	2023	2022
Gains (losses) from disposal of portfolio investments	\$ 53	\$ (9,125)	\$ 462	\$ (9,468)
Transfer from (to) deferred revenues -				
Externally restricted contributions (Note 5)	(1,381)	1,952	(2,108)	1,011
Net gains (losses) on foreign exchange	(2)	3	8	11
Dividend and other distributed income - reinvested	4,399	1,770	7,794	5,653
Interest, dividend and other distributed income - cashed	3,854	1,316	5,422	2,686
Investment portfolio management costs	(523)	(331)	(993)	(863)
	\$ 6,400	\$ (4,415)	\$ 10,585	\$ (970)

## 8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2023	2022	2023	2022
Rental revenue	\$ (422)	\$ (386)	\$ (858)	\$ (788)
Other income	(45)	(47)	(81)	(87)
Administration expense	357	440	929	963
Amortization of other capital assets	-	1	1	2
	\$ (110)	\$ 8	\$ (9)	\$ 90

## 9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2023	2022	2023	2022
Program expenses	\$ 413	\$ 390	\$ 523	\$ 608
Program - contributions received	-	-	-	(225)
Administration expense	370	359	789	860
	\$ 783	\$ 749	\$ 1,312	\$ 1,243

## 10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended September 30		Six months ended September 30	
	2023	2022	2023	2022
Decrease in accounts receivable	\$ 320	\$ 3,700	\$ 627	\$ 8,524
(Increase) decrease in grants, author payments and prizes payable	(25,731)	11,391	24,084	69,567
Decrease in accounts payable and accrued liabilities	(960)	(1,182)	(2,404)	(3,258)
Decrease in deferred revenues	(475)	(956)	(411)	(473)
<b>Net change</b>	<b>\$ (26,846)</b>	<b>\$ 12,953</b>	<b>\$ 21,896</b>	<b>\$ 74,360</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.