
**WALTER AND DUNCAN GORDON
CHARITABLE FOUNDATION**

FINANCIAL STATEMENTS

DECEMBER 31, 2010

INDEPENDENT AUDITOR'S REPORT

To the Trustees,
Walter and Duncan Gordon Charitable Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Walter and Duncan Gordon Charitable Foundation, which comprise the statement of financial position as at December 31, 2010 and the statements of operations and changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Walter and Duncan Gordon Charitable Foundation as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting standards.

Cowperthwaite Mehta

Chartered Accountants
Licensed Public Accountants

March 21, 2011
Toronto, Ontario

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2010

	2010	2009
ASSETS		
Current assets		
Cash	\$ 33,120	\$ 515,950
Short-term investments (note 5)	216,836	215,451
Fees receivable	283,415	
Other assets	<u>106,874</u>	<u>51,024</u>
	640,245	782,425
Long-term investments (note 8)	<u>50,866,357</u>	<u>51,320,544</u>
	<u>\$ 51,506,602</u>	<u>\$ 52,102,969</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 165,853	\$ 443,201
Deferred program grants (note 7)	<u> </u>	<u>148,723</u>
	<u>165,853</u>	<u>591,924</u>
Net assets		
Unrestricted	<u>51,340,749</u>	<u>51,511,045</u>
	<u>\$ 51,506,602</u>	<u>\$ 52,102,969</u>

Approved on behalf of the Board:

 **FOR PUBLIC RELEASE**, Trustee

 **FOR PUBLIC RELEASE**, Trustee

see accompanying notes

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
REVENUE		
Net gains on investments (note 9)	\$ 1,842,393	\$ 3,437,913
Dividends	807,748	920,471
Interest	797,712	559,282
Fees for service	286,223	
Program grants	171,223	67,297
Other income	5,738	
	<u>3,911,037</u>	<u>4,984,963</u>
EXPENSES		
Program (note 10)	3,461,046	4,414,962
Operating	405,554	184,884
Investment management and custodial fees	214,733	334,584
	<u>4,081,333</u>	<u>4,934,430</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR THE YEAR	(170,296)	50,533
Net assets, beginning of year	<u>51,511,045</u>	<u>51,460,512</u>
NET ASSETS, END OF YEAR	<u>\$ 51,340,749</u>	<u>\$ 51,511,045</u>

see accompanying notes

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
CASH USED IN OPERATING ACTIVITIES		
Program grants and fees	\$ 315,010	\$ 185,301
Cash used in operations		
Program expenses	(2,510,909)	(3,575,591)
Salaries and benefits	(1,294,477)	(697,751)
Operating expenses	(544,773)	(140,465)
Building occupancy	<u>(86,692)</u>	<u>(72,790)</u>
	<u>(4,436,851)</u>	<u>(4,486,597)</u>
Cash used in operating activities	<u>(4,121,841)</u>	<u>(4,301,296)</u>
CASH FLOW FROM INVESTMENT ACTIVITIES		
Investment income	1,455,659	1,479,753
Sale of long term investments	2,444,996	3,321,150
Investment management and custodial fees	<u>(261,644)</u>	<u>(282,480)</u>
Cash generated from investment activities	<u>3,639,011</u>	<u>4,518,423</u>
NET INCREASE (DECREASE) IN CASH FOR THE YEAR	(482,830)	217,127
Cash, beginning of year	<u>515,950</u>	<u>298,823</u>
CASH, END OF YEAR	<u>\$ 33,120</u>	<u>\$ 515,950</u>

see accompanying notes

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. THE ORGANIZATION

Walter and Duncan Gordon Charitable Foundation was incorporated as a not-for-profit organization without share capital under the laws of the Province of Ontario on November 25, 1965. The Foundation is dedicated to the development of sound and innovative public policies, founded on those values fundamental to Canadians, and designed to foster the continuing evolution of a dynamic and independent Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the preparation of these financial statements in accordance with Canadian generally accepted accounting principles applied on a basis consistent with prior years. Outlined below are those policies considered particularly significant:

Basis of accounting

The Foundation follows the deferral method of accounting for contributions. Restricted contributions related to expenses of future periods are deferred and recognized as revenue in the period in which the related expenses are incurred.

Investments

The Foundation classifies its equities, money market funds and fixed income securities as held-for-trading. Held-for-trading securities, which are purchased for sale in the near term, are reported at estimated fair value. Realized and unrealized gains and losses are recognized as investment income when they arise. Transaction costs related to financial instruments classified as held-for-trading are expensed as incurred.

Cash and cash equivalents denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the statement of financial position date.

Foreign currency investments are translated into Canadian dollars to reflect the exchange rate in effect at the statement of financial position date. Investment income received is translated at the month-end exchange rate in effect in the month the funds are received.

Property and equipment

Purchased property and equipment is recorded at cost in the year of acquisition. Property and equipment is amortized to operations over their expected useful lives. Furniture and equipment is amortized over 5 years on a straight line basis. Leasehold improvements are amortized over the length of the lease.

Use of estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. Estimates and assumptions have been made in the areas of determining the fair value of financial instruments, and accounting for grant and program commitments. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the period in which they become known.

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The Foundation follows the deferral method of revenue recognition. Its principal sources of revenue and recognition of these revenues for financial statement purposes are as follows:

- i) Gains and losses realized on the disposition of investments are recognized in revenue at the settlement date. Unrealized gains and losses from changes in fair value of investments are recognized in income at the reporting date. Dividends and interest earned are recorded when earned.
- ii) Grants and restricted program funding related to current expenditures are reflected in the accounts as a revenue item in the current year. Grants received in the year for expenses to be incurred in the following fiscal year are recorded as accounts payable.
- iii) Donated materials and services which are normally purchased by the Foundation are not recorded in the accounts.

Disbursements

Grants are recorded when funds are disbursed. Fellowships are recorded when approved. Expenses are recorded when incurred.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Foundation's financial instruments consist of cash, investments, accounts receivable, accounts payable and accrued liabilities. The carrying value of accounts receivable and accounts payable and accrued liabilities approximates their fair value because of the short-term nature of these instruments. The fair values of investments are the year end quoted prices.

The cost of short-term securities, treasury bills and term deposits maturing within a year, plus accrued interest income, approximates the fair value of these instruments.

The fair value of bonds and equities denominated in foreign currencies is translated into Canadian dollars at the exchange rate in effect at the statement of financial position date. Pooled fund investments are valued at the unit values supplied by the pooled fund administrators. These values represent the Foundation's proportionate share of the underlying net assets at fair values determined using closing market rates.

The Foundation's investments are exposed to credit risk and market risk. Credit risk represents the financial loss the Foundation would experience if a counterpart to a financial instrument failed to meet its obligations in accordance with the terms and conditions of the contract. The carrying amount of financial assets represents the maximum exposure. Market risk is the risk that changes in market prices would affect the Foundation's income or the value of its financial instruments.

Credit and market risk are managed through a stated investment policy and the Foundation limits the amount which is invested with any one broker. In addition, the Foundation performs quarterly reviews of its investment portfolio and brokers to evaluate their performance.

The Foundation manages its liquidity risk by monitoring actual and projected cash flows to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

4. MANAGEMENT OF CAPITAL

In managing capital, the Foundation focuses on liquid resources available for operations. The Foundation's objective is to have sufficient liquid resources to continue operating despite adverse events with financial consequences and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at December 31, 2010, the Foundation had met its objective of having sufficient liquid resources to meet its current obligations.

5. SHORT-TERM INVESTMENT

The Foundation's short-term investment is a variable rate Guaranteed Investment Certificate from a chartered bank with an annualized rate of return of 2.05% and a maturity date of September 13, 2011.

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Cost	Accumulated Amortization	2010 Net	2009 Net
Furniture and equipment	\$ 28,552	\$ (28,552)	\$ nil	\$ 171
Leasehold improvements	<u>19,583</u>	<u>(19,583)</u>	<u>nil</u>	<u>nil</u>
	<u>\$ 48,135</u>	<u>\$ (48,135)</u>	<u>\$ nil</u>	<u>\$ 171</u>

Office and program expenses include amortization of \$171 (\$1,828 in 2009).

7. DEFERRED PROGRAM GRANTS

Deferred program grants are composed of the following:

	2010	2009
Kaplan Foundation	\$	\$ 115,028
Wilbourforce Foundation		11,232
Oak Foundation		<u>22,463</u>
	<u>\$ nil</u>	<u>\$ 148,723</u>

Continuity of deferred revenue for the year is as follows:

Deferred revenue, beginning of year	\$ 148,723	\$ 30,170
Add grants received in year	22,500	185,850
Less funding recognized in year	<u>(171,223)</u>	<u>(67,297)</u>
Deferred revenue, end of year	<u>\$ nil</u>	<u>\$ 148,723</u>

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

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8. LONG-TERM INVESTMENTS

Long-term investments are composed of all assets held in brokerage accounts.

	2010		2009	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ 7,173	\$ 7,173	\$ 90,693	\$ 90,639
Canadian bonds	17,699,475	18,631,926	17,383,860	17,913,038
Canadian equity investments	5,990,149	6,373,094	4,359,147	5,638,387
Foreign equity investments	<u>29,536,066</u>	<u>25,854,164</u>	<u>38,158,506</u>	<u>27,678,480</u>
Total long-term investments	<u>\$ 53,232,863</u>	<u>\$ 50,866,357</u>	<u>\$ 59,992,206</u>	<u>\$ 51,320,544</u>

9. GAINS ON INVESTMENTS

The net realized gains and losses and the change in net unrealized gains and losses recorded in revenue are as follows:

	2010	2009
Realized losses on sales of investments	\$ (4,462,193)	\$ (2,901,351)
Change in unrealized gains from prior year	<u>6,304,586</u>	<u>6,339,264</u>
	<u>\$ 1,842,393</u>	<u>\$ 3,437,913</u>

10. PROGRAM GRANTS AND EXPENSES

The Foundation funds the following program areas:

	Grants	Direct Expenses	Allocated Expenses	2010 Total	2009 Total
Fresh Water Resources	\$ 866,554	\$ 84,075	\$ 403,216	\$ 1,353,845	\$ 1,890,374
Canadian North	206,700	498,367	543,588	1,248,655	1,409,234
Arctic Security	5,000	82,819	214,295	302,114	
Foreign Aid Review		31,970	234,707	266,677	95,084
Trustee directed and other	122,645	22,998	31,957	177,600	166,362
Global Citizenship	50,900	19,416	41,839	112,155	798,973
Art					<u>54,935</u>
	<u>\$ 1,251,799</u>	<u>\$ 739,645</u>	<u>\$ 1,469,602</u>	<u>\$ 3,461,046</u>	<u>\$ 4,414,962</u>

Expenses allocated among program areas include salaries and benefits of \$927,222 (\$599,578 in 2009) and general and administrative expenses of \$542,380 (\$207,488 in 2009). Expenses are allocated based on the estimated percentage of time spent and use of resources for each program area.

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

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11. COMMITMENTS

The Foundation has committed to disbursing grants to certain organizations in subsequent years. Payment will be made upon compliance by the recipient with certain conditions specified by the Foundation.

The Foundation leases office premises under an operating lease which expires in 2014. The Foundation shares its premises with another organization and is responsible for approximately 75% of the annual lease payments. The future minimum payments as at December 31 are as follows:

	Grants	Rent	Total
2011	\$ 624,663	\$ 63,945	\$ 688,608
2012		63,945	63,945
2013		63,945	63,945
2014		<u>63,945</u>	<u> </u>
	<u>\$ 624,663</u>	<u>\$ 255,780</u>	<u>\$ 816,498</u>

12. INCOME TAX STATUS

The Foundation is registered as a private Foundation under the Income Tax Act (Canada) and while registered is exempt from income taxes. As part of maintaining its registration, the Foundation must meet a disbursement quota set by Canada Revenue Agency regulations. The Foundation has met this requirement in 2010.