
**WALTER AND DUNCAN GORDON
CHARITABLE FOUNDATION**

FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND DECEMBER 31, 2010

INDEPENDENT AUDITOR'S REPORT

To the Members,
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, 2011 and December 31, 2010 and the statements of operations and changes in net assets and cash flows for the years 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 accounting standards for not-for-profit organizations 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 audits. We conducted our audits 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 in our audits 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, 2011 and December 31, 2010, and its financial performance and its cash flows for the years then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Cowperthwaite Mehta

Chartered Accountants
Licensed Public Accountants

April 2, 2012
Toronto, Ontario

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2011 AND DECEMBER 31, 2010

	2011	2010
REVENUE		
Interest	\$ 797,082	\$ 797,712
Fees for service	650,992	286,223
Dividends	624,774	807,748
Program grants and sponsorships	282,525	171,223
Net gains (losses) on investments (note 8)	(354,517)	1,842,393
Other income	<u>25,558</u>	<u>5,738</u>
	<u>2,026,414</u>	<u>3,911,037</u>
EXPENSES		
Program (note 9)	2,937,619	3,461,046
Operating	399,003	405,554
Investment management and custodial fees	<u>239,498</u>	<u>214,733</u>
	<u>3,576,120</u>	<u>4,081,333</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR THE YEAR	(1,549,706)	(170,296)
Net assets, beginning of year	<u>51,340,749</u>	<u>51,511,045</u>
NET ASSETS, END OF YEAR	<u>\$ 49,791,043</u>	<u>\$ 51,340,749</u>

see accompanying notes

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011 AND DECEMBER 31, 2010

	2011	2010
OPERATING ACTIVITIES		
Excess of expenses over revenue for the year	\$(1,549,706)	\$ (170,296)
Add non cash items:		
Change in unrealized loss in the year	(507,598)	(6,304,586)
Amortization	1,495	171
Net change in non-cash working capital items	<u>428,395</u>	<u>(765,507)</u>
Cash used in operating activities	<u>(1,627,414)</u>	<u>(7,240,218)</u>
INVESTING ACTIVITIES		
Increase in short-term investments	(2,051)	(1,385)
Decrease in long-term investments, cost	2,544,108	6,758,773
Purchase of capital assets	<u>(14,945)</u>	<u> </u>
Cash generated from financing activities	<u>2,527,112</u>	<u>6,757,388</u>
NET INCREASE (DECREASE) IN CASH FOR THE YEAR	899,698	(482,830)
Cash, beginning of year	<u>33,120</u>	<u>515,950</u>
CASH, END OF YEAR	<u>\$ 932,818</u>	<u>\$ 33,120</u>
Net change in non-cash working capital items:		
Decrease (increase) in current assets-		
Fees receivable	\$ 136,099	\$ (283,415)
Other assets	(118,532)	(56,021)
Increase (decrease) in current liabilities-		
Accounts payable and accrued liabilities	(18,956)	(277,348)
Deferred program grants	<u>429,784</u>	<u>(148,723)</u>
	<u>\$ 428,395</u>	<u>\$ (765,507)</u>

see accompanying notes

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 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 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 2011.

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 accounting standards for not-for-profit organizations. 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 organization carries equities, money market funds and fixed income securities at quoted market value. Realized and unrealized gains and losses are recognized as investment income when they arise. Transaction costs related to financial instruments 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 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

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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) Fees for service are recognized when services are performed.
- iii) Donations are recognized when received. 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 and recipients have met their obligations required under the terms of the agreements. Expenses are recorded when incurred.

3. INVESTMENTS AND RISK MANAGEMENT

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.

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4. 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 prime less 2.05% and a maturity date of September 13, 2012.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Cost	Accumulated Amortization	2011 Net	2010 Net
Computer equipment	<u>\$ 14,946</u>	<u>\$ (1,495)</u>	<u>\$ 13,451</u>	<u>\$ nil</u>

Office and program expenses include amortization of \$1,495 (\$171 in 2010).

6. DEFERRED PROGRAM GRANTS

Deferred program grants are composed of the following:

	2011	2010
Alchemy Foundation	\$ 337,407	\$ nil
Royal Bank of Canada	<u>92,377</u>	<u> </u>
	<u>\$ 429,784</u>	<u>\$ nil</u>

Continuity of deferred revenue for the year is as follows:

Deferred revenue, beginning of year	\$ nil	\$ 148,723
Add grants received in year	712,309	22,500
Less funding recognized in year	<u>(282,525)</u>	<u>(171,223)</u>
Deferred revenue, end of year	<u>\$ 429,784</u>	<u>\$ nil</u>

7. LONG-TERM INVESTMENTS

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

	2011		2010	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ 7,173	\$ 7,173	\$ 7,173	\$ 7,173
Canadian bonds	18,938,570	20,936,342	17,699,475	18,631,926
Canadian equity investments	6,385,728	5,909,848	5,990,149	6,373,094
Foreign equity investments	<u>25,354,608</u>	<u>21,976,483</u>	<u>29,536,066</u>	<u>25,854,164</u>
Total long-term investments	<u>\$ 50,686,079</u>	<u>\$ 48,829,846</u>	<u>\$ 53,232,863</u>	<u>\$ 50,866,357</u>

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8. NET GAINS (LOSSES) ON INVESTMENTS

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

	2011	2010
Realized losses on sales of investments	\$ (862,115)	\$(4,462,193)
Change in unrealized gains from prior year	<u>507,598</u>	<u>6,304,586</u>
	<u>\$ (354,517)</u>	<u>\$ 1,842,393</u>

9. PROGRAM GRANTS AND EXPENSES

The Foundation funds the following program areas:

	Grants	Direct Expenses	Allocated Expenses	2011 Total	2010 Total
Fresh Water Resources	\$ 671,941	\$ 219,622	\$ 445,462	\$ 1,337,025	\$ 1,353,845
Canadian North	84,200	363,990	384,557	832,747	1,248,655
Arctic Security	6,500	236,285	406,367	649,152	302,114
Trustee directed and other	61,875	30,704	17,947	110,526	177,600
Global Citizenship		(6,961)	15,130	8,169	112,155
Foreign Aid Review					266,677
	<u>\$ 824,516</u>	<u>\$ 843,640</u>	<u>\$ 1,269,463</u>	<u>\$ 2,937,619</u>	<u>\$ 3,461,046</u>

Expenses allocated among program areas include salaries and benefits of \$933,754 (\$927,222 in 2010) and general and administrative expenses of \$335,709 (\$542,380 in 2010). Expenses are allocated based on the estimated percentage of time spent and use of resources for each program area.

10. 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 2012. 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
2012	\$ 431,080	\$ 63,945	\$ 495,025
2013	<u>25,000</u>	<u> </u>	<u>25,000</u>
	<u>\$ 456,080</u>	<u>\$ 63,945</u>	<u>\$ 520,025</u>

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11. ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

Effective January 1, 2011, the organization elected to adopt the Canadian accounting standards for not-for-profit organizations. These are the first financial statements prepared in accordance with this new framework which have been applied retrospectively.

Management reviewed the exemptions provided on transition to the Canadian accounting standards for not-for-profit organizations and has elected to designate all investments to be subsequently measured at fair value, which is consistent with the accounting policy in place at the time of the transition. The adoption of Canadian accounting standards for not-for-profit organizations had no impact on the previously reported assets, liabilities and net assets of the organization, and accordingly, there has been no restatement of previously reported amounts as at the date of the transition, being January 1, 2010. The presentation and disclosures in the financial statements reflect the requirements under the new accounting framework.