
**WALTER AND DUNCAN GORDON
CHARITABLE FOUNDATION**

FINANCIAL STATEMENTS

DECEMBER 31, 2015

INDEPENDENT AUDITOR'S REPORT

To the Members,
Walter and Duncan Gordon Charitable Foundation

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, 2015, 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 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 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, 2015, and the results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Cowperthwaite Mehta

Chartered Accountants
Licensed Public Accountants

April 4, 2016
Toronto, Ontario

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2015

	2015	2014
ASSETS		
Current assets		
Cash	\$ 688,820	\$ 700,679
Short-term investment (note 2)	227,305	225,203
Sales taxes recoverable	107,240	146,812
Other assets	<u>29,968</u>	<u>11,919</u>
	1,053,333	1,084,613
Property and equipment (note 3)	15,667	25,789
Long-term investments (note 5)	<u>59,658,417</u>	<u>60,027,711</u>
	<u>\$ 60,727,417</u>	<u>\$ 61,138,113</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 197,233	\$ 144,977
Deferred program revenue (note 6)	<u>49,794</u>	<u>52,698</u>
	<u>247,027</u>	<u>197,675</u>
Net assets		
Unrestricted	<u>60,480,390</u>	<u>60,940,438</u>
	<u>\$ 60,727,417</u>	<u>\$ 61,138,113</u>

Approved on behalf of the Board:

 Trustee

 Trustee

see accompanying notes

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014
REVENUE		
Net gains on investments (note 7)	\$ 1,412,445	\$ 4,225,743
Dividends	957,703	728,832
Interest	766,516	932,925
Program grants and sponsorships	52,904	470,784
Fees for service	<u> </u>	<u>97,089</u>
	<u>3,189,568</u>	<u>6,455,373</u>
EXPENSES		
Program (note 8)	2,914,617	2,131,839
Operating	462,763	439,923
Investment management and custodial fees	<u>272,236</u>	<u>248,992</u>
	<u>3,649,616</u>	<u>2,820,754</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR THE YEAR	(460,048)	3,634,619
Net assets, beginning of year	<u>60,940,438</u>	<u>57,305,819</u>
NET ASSETS, END OF YEAR	<u>\$ 60,480,390</u>	<u>\$ 60,940,438</u>

see accompanying notes

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	\$ (460,048)	\$ 3,634,619
Add non cash items:		
Change in unrealized gain in the year	2,672,277	(60,077)
Amortization	10,122	9,598
Net change in non-cash working capital items	<u>70,875</u>	<u>(79,584)</u>
Cash generated from operating activities	<u>2,293,226</u>	<u>3,504,556</u>
INVESTING ACTIVITIES		
Increase in short-term investment	(2,102)	(2,553)
Increase in long-term investments	(2,302,983)	(3,385,367)
Purchase of property and equipment	<u> </u>	<u>(5,237)</u>
Cash used for investing activities	<u>(2,305,085)</u>	<u>(3,393,157)</u>
NET INCREASE (DECREASE) IN CASH FOR THE YEAR	(11,859)	111,399
Cash, beginning of year	<u>700,679</u>	<u>589,280</u>
CASH, END OF YEAR	<u>\$ 688,820</u>	<u>\$ 700,679</u>

Net change in non-cash working capital items:

Decrease (increase) in current assets-

Fees receivable	\$	\$ 241,838
Sales taxes recoverable	39,572	6,519
Other assets	(18,049)	39,377

Increase (decrease) in current liabilities-

Accounts payable and accrued liabilities	52,256	40,516
Deferred program revenue	<u>(2,904)</u>	<u>(407,834)</u>

\$ 70,875 \$ (79,584)

see accompanying notes

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015

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 2015.

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.

1. 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.

Financial instruments

Financial instruments include cash, investments, accounts receivable and accounts payable and accrued liabilities. Cash is measured at fair value. Equity securities, fixed income securities and mutual funds that are quoted in an active market are measured at fair value. All other financial instruments are recorded at cost, which approximates their amortized cost using the effective interest rate method.

Investments

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.

Capital assets

Capital assets are recorded at cost in the year of acquisition. Capital assets are 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

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The 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) The Foundation follows the deferral method of revenue recognition. Grants and restricted program funding related to current expenditures are reflected in the accounts as a revenue item in the current year. Grants and fees for services received in the year for expenses to be incurred in the following fiscal year are recorded as deferred program revenue.
- iii) Fees for service are recognized when services are performed.
- iv) 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.

2. 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 2.00% and a maturity date of September 6, 2016.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Cost	Accumulated Amortization	2015 Net	2014 Net
Computer equipment	\$ 27,067	\$ (18,464)	\$ 8,603	\$ 14,016
Furniture and equipment	16,015	(11,210)	4,805	8,008
Leasehold improvements	<u>7,530</u>	<u>(5,271)</u>	<u>2,259</u>	<u>3,765</u>
	<u>\$ 50,612</u>	<u>\$ (34,945)</u>	<u>\$ 15,667</u>	<u>\$ 25,789</u>

Office and program expenses include amortization of \$10,122 (\$9,598 in 2014).

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015

4. 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 counterparty 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.

5. LONG-TERM INVESTMENTS

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

	2015		2014	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ 3,225	\$ 3,111	\$ 120,363	\$ 119,962
Canadian bonds	26,610,553	28,332,916	25,051,968	26,970,437
Canadian equity investments	10,795,355	11,558,114	10,354,276	11,528,536
Foreign bonds	119,358	115,105	561,693	559,820
Foreign equity investments	17,891,124	18,874,546	17,152,350	20,175,098
Real estate fund	<u>803,246</u>	<u>774,625</u>	<u>676,111</u>	<u>673,858</u>
Total long-term investments	<u>\$ 56,222,861</u>	<u>\$ 59,658,417</u>	<u>\$ 53,916,761</u>	<u>\$ 60,027,711</u>

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

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6. DEFERRED PROGRAM REVENUE

Deferred program revenue is composed of the following:

	2015	2014
Program grants and sponsorships	<u>\$ 49,794</u>	<u>\$ 52,698</u>

Continuity of deferred program revenue for the year is as follows:

Deferred program revenue, beginning of year	\$ 52,698	\$ 460,532
Add program grants and fees for services received in the year	50,000	169,854
Less funding recognized in revenue in the year		
- Program grants and sponsorships	(52,904)	(470,784)
- Fees for service		<u>(106,904)</u>
Deferred program revenue, end of year	<u>\$ 49,794</u>	<u>\$ 52,698</u>

7. NET GAINS ON INVESTMENTS

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

	2015	2014
Realized gains on sales of investments	\$ 4,084,722	\$ 4,165,666
Change in unrealized gains from prior year	<u>(2,672,277)</u>	<u>60,077</u>
	<u>\$ 1,412,445</u>	<u>\$ 4,225,743</u>

8. PROGRAM GRANTS AND EXPENSES

The Foundation funds the following program areas:

	Grants	Direct Expenses	Allocated Expenses	2015 Total	2014 Total
Fresh Water Resources	\$ 418,500	\$ 256,686	\$ 290,345	\$ 965,531	\$ 781,382
Canadian North	83,750	273,535	405,805	763,090	583,400
Arctic Security	188,000	262,166	292,486	742,652	522,240
Trustee directed and other	<u>265,175</u>	<u>6,000</u>	<u>172,169</u>	<u>443,344</u>	<u>244,817</u>
	<u>\$ 955,425</u>	<u>\$ 798,387</u>	<u>\$ 1,160,805</u>	<u>\$ 2,914,617</u>	<u>\$ 2,131,839</u>

Expenses allocated among program areas include salaries and benefits of \$711,903 (\$669,788 in 2014) and general and administrative expenses of \$448,902 (\$275,839 in 2014). Expenses are allocated based on the estimated percentage of time spent and use of resources for each program area.

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9. 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 2017. The Foundation shares its premises with another organization and is responsible for approximately 70% of the annual lease payments. The future minimum payments as at December 31 are as follows:

	Grants	Rent	Total
2016	\$ 100,300	\$ 91,617	\$ 191,917
2017	<u> </u>	<u>87,800</u>	<u>87,800</u>
	<u>\$ 100,300</u>	<u>\$ 179,417</u>	<u>\$ 279,717</u>