

Walter and Duncan Gordon Charitable Foundation

Financial Statements

For the Year Ended December 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Members of Walter and Duncan Gordon Charitable Foundation

Opinion

We have audited the financial statements of Walter and Duncan Gordon Charitable Foundation (the Foundation), which comprise the statement of financial position as at December 31, 2018, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Not-for-Profit Organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ◆ Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ◆ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- ◆ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
March 25, 2019
Toronto, Ontario

Walter and Duncan Gordon Charitable Foundation
Statement of Financial Position
As at December 31, 2018

	2018	2017
Assets		
Current		
Cash	\$ 949,221	\$ 844,717
Short-term investment (Note 3)	233,312	230,342
Sales taxes recoverable	83,798	85,136
Other assets	236,761	148,262
	1,503,092	1,308,457
Property and equipment (Note 4)	29,811	14,144
Long-term investments (Note 5)	61,657,057	65,668,384
	\$ 63,189,960	\$ 66,990,985


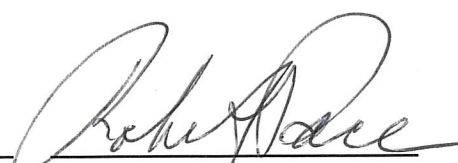
Liabilities

Current		
Accounts payable and accrued liabilities	\$ 124,823	\$ 155,865
Deferred program revenue (Note 7)	110,393	105,975
	235,216	261,840

Net Assets

Unrestricted net assets	62,954,744	66,729,145
	\$ 63,189,960	\$ 66,990,985

Commitments (Note 10)

Approved by the Board  

Walter and Duncan Gordon Charitable Foundation
Statement of Operations and Changes In Net Assets
Year Ended December 31, 2018

	2018	2017
Revenue		
Investment income (Note 8)	\$ (1,202,158)	\$ 5,449,008
Program grants and sponsorships (Note 7)	904,748	744,019
Other income	15,084	6,400
	(282,326)	6,199,427
Expenses		
Program (Note 9)	2,958,067	2,462,572
General and administrative	181,790	211,004
Investment management and custodial fees	352,218	237,503
	3,492,075	2,911,079
Excess (deficiency) of revenue over expenses for the year	(3,774,401)	3,288,348
Unrestricted net assets, beginning of year	66,729,145	63,440,797
Unrestricted net assets, end of year	\$ 62,954,744	\$ 66,729,145

Walter and Duncan Gordon Charitable Foundation
Statement of Cash Flows
Year Ended December 31, 2018

	2018	2017
Cash provided by (used in)		
Operations		
Excess (deficiency) of revenues over expenses for the year	\$ (3,774,401)	\$ 3,288,348
Items not affecting cash		
Change in unrealized gains/losses in the year	6,927,415	(491,522)
Amortization	6,969	7,022
	3,159,983	2,803,848
Changes in non-cash working capital		
Sales taxes recoverable	1,338	(11,335)
Other assets	(88,499)	(89,112)
Accounts payable and accrued liabilities	(31,042)	45,003
Deferred program revenue	4,418	(93,735)
	3,046,198	2,654,669
Investing		
Increase in short-term investment	(2,970)	(1,453)
Increase in long-term investments - net	(2,916,088)	(2,417,296)
Purchase of property and equipment	(22,636)	(6,486)
	(2,941,694)	(2,425,235)
Net change in cash	104,504	229,434
Cash, beginning of year	844,717	615,283
Cash, end of year	\$ 949,221	\$ 844,717

1. NATURE OF OPERATIONS

Walter and Duncan Gordon Charitable Foundation (the "Foundation") was incorporated as a not-for-profit organization without share capital under the laws of the Province of Ontario on November 25, 1965. On March 1, 2017, a Certificate of Continuance was issued continuing the Foundation under the provisions of the Canada Not-For-Profit Corporations Act. The Foundation is registered as a private Foundation under the Income Tax Act (Canada) and while registered is exempt from income taxes.

The Foundation undertakes research, leadership development and public dialogue so that public policies in Canada reflect a commitment to collaborative stewardship of our water resources and to a people-driven, equitable and evolving North.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared 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 are recorded at fair value when acquired or issued. Financial instruments include cash, investments 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. Transaction costs on the acquisition, sale, or issue of financial instruments carried at fair value are expensed as incurred. All other financial instruments are initially recorded at fair value, which approximates cost, and subsequently measured at amortized cost, less any provision for impairment.

Foreign Currency Translation

Cash denominated in foreign currencies is 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. Translation gains and losses are recorded in the statement of operations and changes in net assets.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property and Equipment

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

When property and equipment no longer contributes to the Foundation's operations, its carrying amount is written down to its residual value.

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 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 deferred program revenue.
- 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.

Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the period in which they become known.

3. 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 2.60% and a maturity date of September 3, 2019.

Walter and Duncan Gordon Charitable Foundation
Notes to Financial Statements
December 31, 2018

4. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	Net 2018	Net 2017
Computer equipment	\$ 31,565	\$ 17,642	\$ 13,923	\$ 14,144
Furniture and equipment	29,517	13,629	15,888	-
Leasehold improvements	7,530	7,530	-	-
	\$ 68,612	\$ 38,801	\$ 29,811	\$ 14,144

Office and program expenses include amortization of \$6,969 (2017 - \$7,022).

5. LONG-TERM INVESTMENTS

Long-term investments are composed of assets held in pooled funds with investment managers.

	2018	2017
Cash and cash equivalents	\$ 954,065	\$ 5,640,044
Canadian bonds	4,411,708	7,635,347
Canadian income funds	11,736,592	5,665,515
Canadian equities	12,354,167	13,771,085
Global bonds	-	106,325
Global income funds	7,158,768	1,832,369
Global equities	25,041,757	31,017,699
Total long-term investments	\$ 61,657,057	\$ 65,668,384

6. RISK MANAGEMENT

The fair value of investments 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, market risk and foreign exchange 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 or interest rates would affect the Foundation's income or the value of its financial instruments. Foreign currency risk is the risk of changes in market price as a result of exchange rate fluctuations.

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

Walter and Duncan Gordon Charitable Foundation
Notes to Financial Statements
December 31, 2018

6. RISK MANAGEMENT (Cont'd)

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.

The Foundation is exposed to foreign currency risk with respect to its investments in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

7. DEFERRED PROGRAM REVENUE

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

	2018	2017
Deferred program revenue, beginning of year	\$ 105,975	\$ 199,710
Add: program grants and sponsorships received in the year	909,166	650,284
Less: funding recognized in revenue in the year	(904,748)	(744,019)
Deferred program revenue, end of year	\$ 110,393	\$ 105,975

8. INVESTMENT INCOME

Investment income recorded in revenue is comprised of:

	2018	2017
Realized gains on sales of investments	\$ 3,624,323	\$ 3,170,728
Change in unrealized gains (losses) from prior year	(6,927,415)	491,522
Dividend income	990,919	1,274,276
Interest income	1,110,015	512,482
	\$ (1,202,158)	\$ 5,449,008

Walter and Duncan Gordon Charitable Foundation
Notes to Financial Statements
December 31, 2018

9. PROGRAM GRANTS AND EXPENSES

The Foundation funded the following program areas during the year:

	Grants	Direct expenses	Allocated Expenses	Total 2018	Total 2017
Water Programs	\$ 2,000	\$ 943,699	\$ 536,161	\$ 1,481,860	\$ 1,062,982
Northern Programs	93,000	518,236	569,692	1,180,928	1,035,102
Trustee directed and other	145,000	65,639	84,640	295,279	364,488
	\$ 240,000	\$ 1,527,574	\$ 1,190,493	\$ 2,958,067	\$ 2,462,572

Expenses allocated among program areas include salaries and benefits of \$925,356 (2017 - \$651,440) and general and administrative expenses of \$265,136 (2017 - \$236,235). 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 2022. The Foundation shares its premises with another organization and is responsible for approximately 65% (2017 - 65%) of the annual lease payments.

The future minimum payments as at December 31 are as follows:

	Grants	Rent	Total
2019	\$ 73,800	\$ 100,226	\$ 174,026
2020	-	100,226	100,226
2021	-	100,226	100,226
2022	-	100,226	100,226
	\$ 73,800	\$ 400,904	\$ 474,704