
**WALTER AND DUNCAN GORDON
CHARITABLE FOUNDATION**

FINANCIAL STATEMENTS

DECEMBER 31, 2012

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, 2012, 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, 2012, and its financial performance 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 2, 2013
Toronto, Ontario

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2012

| | 2012 | 2011 |
|--|----------------------|----------------------|
| REVENUE | | |
| Interest | \$ 773,085 | \$ 797,082 |
| Fees for service | 817,622 | 650,992 |
| Dividends | 767,478 | 624,774 |
| Program grants and sponsorships | 444,316 | 282,525 |
| Net gains (losses) on investments (note 8) | 1,993,849 | (354,517) |
| Other income | <u>25,558</u> | <u>25,558</u> |
| | <u>4,796,350</u> | <u>2,026,414</u> |
| EXPENSES | | |
| Program (note 9) | 2,715,010 | 2,937,619 |
| Operating | 517,603 | 399,003 |
| Investment management and custodial fees | <u>222,122</u> | <u>239,498</u> |
| | <u>3,454,735</u> | <u>3,576,120</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR THE YEAR | 1,341,615 | (1,549,706) |
| Net assets, beginning of year | <u>49,791,043</u> | <u>51,340,749</u> |
| NET ASSETS, END OF YEAR | <u>\$ 51,132,658</u> | <u>\$ 49,791,043</u> |

see accompanying notes

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012

| | 2012 | 2011 |
|---|--------------------|--------------------|
| OPERATING ACTIVITIES | | |
| Excess of revenue over expenses for the year | \$ 1,341,615 | \$(1,549,706) |
| Add non cash items: | | |
| Change in unrealized gain in the year | (2,353,528) | (507,598) |
| Amortization | 5,344 | 1,495 |
| Net change in non-cash working capital items | <u>(14,700)</u> | <u>428,395</u> |
| Cash used in operating activities | <u>(1,021,269)</u> | <u>(1,627,414)</u> |
| INVESTING ACTIVITIES | | |
| Increase in short-term investment | (1,675) | (2,051) |
| Decrease in long-term investments, cost | 822,662 | 2,544,108 |
| Purchase of capital assets | <u>(23,545)</u> | <u>(14,945)</u> |
| Cash generated from investing activities | <u>797,442</u> | <u>2,527,112</u> |
| NET INCREASE (DECREASE) IN CASH FOR THE YEAR | (223,827) | 899,698 |
| Cash, beginning of year | <u>932,818</u> | <u>33,120</u> |
| CASH, END OF YEAR | <u>\$ 708,991</u> | <u>\$ 932,818</u> |
| | | |
| Net change in non-cash working capital items: | | |
| Decrease (increase) in current assets- | | |
| Fees receivable | \$ (36,467) | \$ 136,099 |
| Sales taxes recoverable | (74,437) | (69,264) |
| Other assets | 40,090 | (49,269) |
| Increase (decrease) in current liabilities- | | |
| Accounts payable and accrued liabilities | 40,216 | (18,955) |
| Deferred program revenue | <u>15,898</u> | <u>429,784</u> |
| | <u>\$ (14,700)</u> | <u>\$ 428,395</u> |

see accompanying notes

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

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 2012.

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 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.

Financial instruments

Financial instruments include cash, investment interest bearing deposits, 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.

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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.

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 2.05% and a maturity date of September 10, 2013.

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

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. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| | Cost | Accumulated Amortization | 2012 Net | 2011 Net |
|-------------------------|------------------|-----------------------------|------------------|------------------|
| Computer equipment | \$ 14,946 | \$ (4,484) | \$ 10,462 | \$ 13,451 |
| Furniture and equipment | 16,015 | (1,602) | 14,413 | nil |
| Leasehold improvements | <u>7,530</u> | <u>(753)</u> | <u>6,777</u> | <u>nil</u> |
| | <u>\$ 38,491</u> | <u>\$ (6,839)</u> | <u>\$ 31,652</u> | <u>\$ 13,451</u> |

Office and program expenses include amortization of \$5,344 (\$1,495 in 2011).

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

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6. LONG-TERM INVESTMENTS

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

| | 2012 | | 2011 | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|
| | Cost | Market Value | Cost | Market Value |
| Cash and cash equivalents | \$ 7,173 | \$ 7,173 | \$ 7,173 | \$ 7,173 |
| Canadian bonds | 19,708,109 | 21,658,719 | 18,938,570 | 20,936,342 |
| Canadian equity investments | 6,541,710 | 6,369,504 | 6,385,728 | 5,909,848 |
| Foreign equity investments | <u>23,606,425</u> | <u>22,325,316</u> | <u>25,354,608</u> | <u>21,976,493</u> |
| Total long-term investments | <u>\$ 49,863,417</u> | <u>\$ 50,360,712</u> | <u>\$ 50,686,079</u> | <u>\$ 48,829,846</u> |

7. DEFERRED PROGRAM REVENUE

Deferred program revenue is composed of the following:

| | 2012 | 2011 |
|---------------------------------|-------------------|-------------------|
| Program grants and sponsorships | \$ 445,682 | \$ 337,407 |
| Fees for service | | <u>92,377</u> |
| | <u>\$ 445,682</u> | <u>\$ 429,784</u> |

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

| | | |
|---|-------------------|-------------------|
| Deferred revenue, beginning of year | \$ 429,784 | \$ nil |
| Add program grants and fees for services received in year | 1,277,836 | 1,363,301 |
| Less funding recognized in revenue in the year | | |
| - Program grants and sponsorships | (444,316) | (282,525) |
| - Fees for service | <u>(817,622)</u> | <u>(650,992)</u> |
| Deferred program revenue, end of year | <u>\$ 445,682</u> | <u>\$ 429,784</u> |

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:

| | 2012 | 2011 |
|--|---------------------|---------------------|
| Realized losses on sales of investments | \$ (359,679) | \$ (862,115) |
| Change in unrealized gains from prior year | <u>2,353,528</u> | <u>507,598</u> |
| | <u>\$ 1,993,849</u> | <u>\$ (354,517)</u> |

WALTER AND DUNCAN GORDON CHARITABLE FOUNDATION

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9. PROGRAM GRANTS AND EXPENSES

The Foundation funds the following program areas:

| | Grants | Direct Expenses | Allocated Expenses | 2012 Total | 2011 Total |
|----------------------------|-------------------|-------------------|---------------------|---------------------|---------------------|
| Fresh Water Resources | \$ 569,680 | \$ 206,448 | \$ 419,928 | \$ 1,196,056 | \$ 1,337,024 |
| Canadian North | 111,000 | 259,975 | 225,509 | 596,484 | 832,747 |
| Arctic Security | 87,400 | 255,906 | 437,671 | 780,977 | 649,153 |
| Trustee directed and other | 99,250 | 15,419 | 21,645 | 136,314 | 110,526 |
| Global Citizenship | | | 5,179 | 5,179 | 8,169 |
| | <u>\$ 867,330</u> | <u>\$ 737,748</u> | <u>\$ 1,109,932</u> | <u>\$ 2,715,010</u> | <u>\$ 2,937,619</u> |

Expenses allocated among program areas include salaries and benefits of \$845,080 (\$933,754 in 2011) and general and administrative expenses of \$264,852 (\$335,709 in 2011). 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 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 |
|------|---------------------|-------------------|---------------------|
| 2013 | \$ 375,250 | \$ 91,617 | \$ 466,867 |
| 2014 | 300,000 | 91,617 | 391,617 |
| 2015 | 300,000 | 91,617 | 391,617 |
| 2016 | 75,000 | 91,617 | 166,617 |
| 2017 | | 87,800 | 87,800 |
| | <u>\$ 1,050,250</u> | <u>\$ 454,268</u> | <u>\$ 1,504,518</u> |