

THE CENTRE FOR INTERNATIONAL GOVERNANCE INNOVATION

FINANCIAL STATEMENTS

JULY 31, 2014

INDEPENDENT AUDITORS' REPORT

To the Directors of
The Centre for International Governance Innovation

We have audited the accompanying financial statements of The Centre for International Governance Innovation (the "Organization"), which comprise the statement of financial position as at July 31, 2014 and the statements of revenues and expenses and changes in fund balances 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.

Auditors' 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 an 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 auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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 the Organization as at July 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

December 17, 2014
Toronto, Ontario

Zeifmans LLP

Chartered Accountants
Licensed Public Accountants

STATEMENT OF FINANCIAL POSITION
AS AT JULY 31, 2014

ASSETS

JULY 31, 2014

JULY 31,
2013Restricted Funds

| | <u>Long Term Endowment</u> | <u>Capital Asset</u> | <u>Campus</u> | <u>Africa</u> | <u>J Holmes</u> | <u>Decade</u> | <u>ILRP</u> | <u>Operating</u> | <u>Total</u> | <u>Total</u> |
|---------------------------------|--------------------------------|--------------------------|---------------|---------------|-----------------|---------------|---------------|------------------|----------------|----------------|
| Current assets | | | | | | | | | | |
| Cash and cash equivalents | \$ 1,901,515 | \$ - | \$ 851,602 | \$ 2,781 | \$ 402,767 | \$ 3,538,224 | \$ 4,909,697 | \$ 273,031 | \$ 11,879,617 | \$ 1,532,794 |
| Accounts receivable | - | - | 297 | - | - | - | 90,676 | 423,878 | 514,851 | 208,784 |
| Prepaid expenses | - | - | 52,967 | 36,673 | - | - | 1,064 | 116,298 | 207,002 | 382,800 |
| | 1,901,515 | - | 904,866 | 39,454 | 402,767 | 3,538,224 | 5,001,437 | 813,207 | 12,601,470 | 2,124,378 |
| Other assets | | | | | | | | | | |
| Property and equipment (note 3) | - | 4,280,099 | 63,056,973 | - | - | - | - | - | 67,337,072 | 70,574,984 |
| Portfolio investments (note 5) | 53,890,111 | - | 28,883,959 | 6,390,421 | - | 7,540,767 | 25,291,839 | 21,961,249 | 143,958,346 | 123,178,864 |
| | 53,890,111 | 4,280,099 | 91,940,932 | 6,390,421 | - | 7,540,767 | 25,291,839 | 21,961,249 | 211,295,418 | 193,753,848 |
| TOTAL ASSETS | \$ 55,791,626 | \$ 4,280,099 | \$ 92,845,798 | \$ 6,429,875 | \$ 402,767 | \$ 11,078,991 | \$ 30,293,276 | \$ 22,774,456 | \$ 223,896,888 | \$ 195,878,226 |

(See notes to financial statements)

STATEMENT OF FINANCIAL POSITION
AS AT JULY 31, 2014

LIABILITIES AND FUND BALANCES

| | JULY 31, 2014 | | | | | | | | | JULY 31, 2013 |
|--|------------------------|------------------|---------------|--------------|------------|---------------|---------------|---------------|----------------|------------------|
| | Restricted Funds | | | | | | | | | |
| | Long Term Endowment | Capital Asset | Campus | Africa | J Holmes | Decade | ILRP | Operating | Total | Total |
| Current liabilities | | | | | | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ 374,683 | \$ 69,748 | \$ 1,311 | \$ 280,878 | \$ 55,836 | \$ 695,634 | \$ 1,478,090 | \$ 1,185,624 |
| Deferred revenue | - | - | 70,184 | - | - | - | - | 320,534 | 390,718 | 171,075 |
| Unrealized loss on forward contracts (note 4) | - | - | - | - | - | - | - | - | - | 216,266 |
| TOTAL LIABILITIES | - | - | 444,867 | 69,748 | 1,311 | 280,878 | 55,836 | 1,016,168 | 1,868,808 | 1,572,965 |
| Fund balances | | | | | | | | | | |
| Invested in capital assets | - | 4,280,099 | 63,056,973 | - | - | - | - | - | 67,337,072 | 70,574,984 |
| Externally restricted | 55,791,626 | - | 28,434,040 | 6,360,127 | 401,456 | 10,798,113 | 30,237,440 | - | 132,022,802 | 103,040,047 |
| Internally restricted | - | - | 909,918 | - | - | - | - | - | 909,918 | 900,089 |
| Unrestricted | - | - | - | - | - | - | - | 21,758,288 | 21,758,288 | 19,790,141 |
| TOTAL FUND BALANCES | 55,791,626 | 4,280,099 | 92,400,931 | 6,360,127 | 401,456 | 10,798,113 | 30,237,440 | 21,758,288 | 222,028,080 | 194,305,261 |
| | \$ 55,791,626 | \$ 4,280,099 | \$ 92,845,798 | \$ 6,429,875 | \$ 402,767 | \$ 11,078,991 | \$ 30,293,276 | \$ 22,774,456 | \$ 223,896,888 | \$ 195,878,226 |

COMMITMENTS (NOTE 8)

APPROVED AND AUTHORIZED FOR ISSUE BY THE COMPANY'S BOARD OF DIRECTORS ON DECEMBER 17, 2014.



DIRECTOR



DIRECTOR

(See notes to financial statements)

STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JULY 31, 2014

| | 2014 | | | | | | | | | 2013 |
|---|------------------------|------------------|---------------|--------------|------------|---------------|---------------|---------------|----------------|----------------|
| | Restricted Funds | | | | | | | | | Total |
| | Long Term Endowment | Capital Asset | Campus | Africa | J Holmes | Decade | ILRP | Operating | Total | |
| REVENUE (LOSS) | | | | | | | | | | |
| Donations | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 30,000,000 | \$ - | \$ 30,000,000 | \$ - |
| Realized investment income | - | - | - | 663,390 | 3,732 | 793,300 | 601,297 | 9,789,453 | 11,851,172 | 7,041,438 |
| Unrealized investment gain (loss) | - | - | - | (113,939) | 576 | 33,996 | (70,995) | 1,263,905 | 1,113,543 | 4,322,320 |
| Other | - | - | 746,062 | - | 13,774 | - | 2 | 112,025 | 871,863 | 665,702 |
| Government grants (repayment) | - | - | (1,608) | - | - | - | 292,865 | 113,563 | 404,820 | 29,700 |
| | - | - | 744,454 | 549,451 | 18,082 | 827,296 | 30,823,169 | 11,278,946 | 44,241,398 | 12,059,160 |
| EXPENSES | | | | | | | | | | |
| Research and conferences | - | - | 2,262,077 | 446,135 | 350 | 2,119,877 | 321,547 | 3,480,751 | 8,630,737 | 7,213,750 |
| Amortization | - | 448,441 | 3,065,168 | - | - | - | - | - | 3,513,609 | 3,478,072 |
| Administration | - | - | 278,136 | 249,756 | 448 | 569,376 | 133,515 | 730,058 | 1,961,289 | 1,886,368 |
| Facilities | - | - | 787,463 | - | - | 110,098 | - | 183,709 | 1,081,270 | 1,043,773 |
| Technical support | - | - | 548,634 | 6,115 | 12,972 | 150,156 | 16,987 | 250,549 | 985,413 | 1,018,462 |
| Loss (gain) on disposal of assets (note 12) | - | - | 346,261 | - | - | - | - | - | 346,261 | (1,470) |
| | - | 448,441 | 7,287,739 | 702,006 | 13,770 | 2,949,507 | 472,049 | 4,645,067 | 16,518,579 | 14,638,955 |
| Excess of revenue over expenses (expenses over revenue) | - | (448,441) | (6,543,285) | (152,555) | 4,312 | (2,122,211) | 30,351,120 | 6,633,879 | 27,722,819 | (2,579,795) |
| Fund balances, beginning of the year | 53,979,352 | 4,306,613 | 95,568,004 | 6,526,486 | 411,376 | 13,723,288 | - | 19,790,142 | 194,305,261 | 196,885,056 |
| Interfund transfers (note 13) | 1,812,274 | 421,927 | 3,376,212 | (13,804) | (14,232) | (802,964) | (113,680) | (4,665,733) | - | - |
| Fund balances, end of the year | \$ 55,791,626 | \$ 4,280,099 | \$ 92,400,931 | \$ 6,360,127 | \$ 401,456 | \$ 10,798,113 | \$ 30,237,440 | \$ 21,758,288 | \$ 222,028,080 | \$ 194,305,261 |

(See notes to financial statements)

**CASH FLOW STATEMENT
FOR THE YEAR ENDED JULY 31, 2014**

| | 2014 | 2013 |
|--|----------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Excess of revenue over expenses (expenses over revenue) for the year | \$ 27,722,819 | \$ (2,579,795) |
| Items not requiring an outlay (providing an inflow) of cash: | | |
| Unrealized investment gain | (1,113,543) | (4,322,320) |
| Amortization | 3,513,609 | 3,478,072 |
| Loss (gain) on disposal of assets | 346,261 | (1,470) |
| Gain on redemption and sale of portfolio investments | (8,214,011) | (5,197,453) |
| Net changes in non-cash working capital items related to operations: | | |
| Accounts receivable | (306,067) | 187,904 |
| Accounts payable and accrued liabilities | 292,466 | (218,034) |
| Deferred revenue | 219,643 | 132,965 |
| Prepaid expenses | 175,798 | 198,546 |
| | 22,636,975 | (8,321,585) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property and equipment | (621,959) | (234,871) |
| Repayment of amount payable | - | (31,898) |
| Purchase of portfolio investments | (66,655,565) | (47,717,246) |
| Proceeds on redemption and sale of portfolio investments | 54,987,372 | 53,152,585 |
| Proceeds on sale of assets held for sale | - | 1,222,970 |
| | (12,290,152) | 6,391,540 |
| NET INCREASE (DECREASE) IN CASH FOR THE YEAR | 10,346,823 | (1,930,045) |
| CASH, BEGINNING OF THE YEAR | 1,532,794 | 3,462,839 |
| CASH, END OF THE YEAR | \$ 11,879,617 | \$ 1,532,794 |

(See notes to financial statements)

1. BASIS OF PRESENTATION

The Centre for International Governance Innovation ("CIGI" or the "Organization") is a charitable organization and an independent, nonpartisan think tank on international governance. Led by experienced practitioners and distinguished academics, CIGI supports research, forms networks, advances policy debate and generates ideas for multilateral governance improvements. Conducting an active agenda of research, events and publications, CIGI's interdisciplinary work includes collaboration with policy, business and academic communities around the world. The Organization is incorporated under the *Canada Corporations Act* as a not-for-profit organization and is a registered charity under the Income Tax Act. As a result, the Organization is not subject to income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) General -

The Organization's accounting policies are in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") and are applied consistently.

(b) Fund accounting -

The Organization follows the restricted fund method of accounting for contributions.

The Operating Fund accounts for the Organization's program delivery and administrative activities. This fund reports unrestricted resources and restricted operating grants.

The Capital Asset Fund reports the assets, liabilities, revenue and expenses related to the Organization's capital assets, excluding those of the CIGI Campus (the "Campus").

Resources contributed for endowment are included in the Long Term Endowment Fund. Certain of such resources are to be held for a period of ten years or upon the dissolution, liquidation or winding up of the Organization, whichever occurs later. Certain of such resources contributed by the Federal Government of Canada is restricted in perpetuity. Investment income earned on resources of the Long Term Endowment Fund is reported in the Operating Fund.

The Decade Fund is focused on long-term research and capacity building projects to contribute to the development of innovative ideas that are relevant to the Province of Ontario.

The Africa Fund is focused on the effects of climate change on Africa's security and socioeconomic development.

The Campus Fund is a CIGI initiative in collaboration with provincial and federal governments designed to house several graduate schools and programs. One such initiative is the already established Balsillie School of International Affairs ("BSIA"). Other initiatives on the Campus are currently being developed by CIGI. As a hub of different schools and programs, the Campus cultivates an interdisciplinary learning environment focused on developing knowledge of global issues.

The John Holmes Fund is focused on funding the operations of the library.

Based at the CIGI, the International Law Research Program (the "ILRP") is a \$60 million, ten-year, integrated and multi-disciplinary research and teaching program that will provide leading academics, government and private sector legal experts, as well as students from Canada and abroad with the opportunity to contribute to advancements in international law. The law program was initiated on September 1, 2013 and is funded equally between CIGI and the Province of Ontario. The following are the ILRP's three primary areas of focus: international intellectual property law, international environmental laws and treaties, and international economic, financial and investment law, regulation and governance.

(c) Cash and cash equivalents -

Cash and cash equivalents consist of balances with banks and brokers, bank overdrafts and investments in money market instruments with original maturities of three months or less.

(d) Revenue recognition -

Contributions are recognized as revenue in the year received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Restricted contributions related to general operations are recognized as revenue of the Operating Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund when received or receivable.

Unrestricted contributions are recognized as revenue of the Operating Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions of other materials and services are recognized at fair value on the date of contribution if fair value can be reasonably estimated.

(e) Portfolio investments -

Mutual funds, equities and fixed income fund units are carried at fair value based on the latest closing price. Alternative investments are carried at fair value based on net asset value. The fair value of derivative financial instruments is based on the estimated amounts receivable or payable from the derivative contracts at the reporting date. The portfolio investments have been designated as those to be measured at fair value. Realized and unrealized gains or losses are recognized in the statement of revenue and expenses and change in fund balances for the year.

(f) Property and equipment -

Property and equipment are stated at cost and amortization is provided as follows:

| | |
|----------------------------|---|
| Buildings and improvements | - straight-line over ten to forty years |
| Furniture and fixtures | - straight-line over five years |
| Computer software | - straight-line over three years |
| Computer equipment | - straight-line over three years |
| Office equipment | - straight-line over three years |
| Vehicles | - straight-line over five years |

One-half of the above rates is applied in the year of acquisition.

The Organization tests for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds its fair value in the statement of revenue and expenses and fund balances.

(g) Significantly influenced entities -

Significant influence over a for profit entity

Investments in companies subject to significant influence by the Organization are accounted for by the equity method. Under this method, the original cost of the investment is adjusted for the Organization's share of dividends received and undistributed earnings or losses since acquisition.

Significant influence over a not for profit organization

Investments in not for profit organizations subject to significant influence by the Organization are accounted for by the cost method. Under this method, the original cost of the investment is adjusted for by earnings to the extent they are received or receivable. The Organization also discloses a description of the relationship with the significantly influenced organization; a clear description of the organization's purpose, intended community of services, its status under income tax legislation and its legal form; and the nature and extent of any economic interest that the Organization has in the significantly influenced organization.

(h) **Contributed services -**

Volunteers contribute many hours per year to assist the Organization in carrying out its charitable activities. Because of the difficulty in determining their fair value, contributed services are recognized in these financial statements only when a fair value can be reasonably estimated and when the materials and services are used in the normal course of the Organization's operations and would otherwise have been purchased.

(i) **Measurement uncertainty -**

The preparation of financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amount of revenue and expenses during the reported period. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the statement of revenue over expenses and fund balances in the period in which such adjustments become known. Examples of estimates are the determination of the useful life of property and equipment, the determination of the value of assets disposed of and accrued liabilities.

(j) **Comparative figures -**

Certain of the prior year figures have been reclassified for consistency with the presentation adopted for the current year.

3. PROPERTY AND EQUIPMENT

Property and equipment are comprised as follows:

| | 2014 | | | 2013 |
|----------------------------|---------------|-------------------------------------|---------------------------|---------------------------|
| | <u>Cost</u> | <u>Accumulated amortization</u> | <u>Net book value</u> | <u>Net book value</u> |
| Buildings and improvements | \$ 76,976,843 | \$ 10,190,842 | \$ 66,786,001 | \$ 70,124,919 |
| Land | 297,346 | - | 297,346 | 297,346 |
| Furniture and fixtures | 623,939 | 451,047 | 172,892 | 112,491 |
| Computer software | 151,028 | 82,902 | 68,126 | - |
| Computer equipment | 891,765 | 883,887 | 7,878 | 36,078 |
| Office equipment | 341,626 | 336,797 | 4,829 | 4,150 |
| Vehicles | 32,754 | 32,754 | - | - |
| | \$ 79,315,301 | \$ 11,978,229 | \$ 67,337,072 | \$ 70,574,984 |

Included in buildings and improvements are assets with a net book value of \$63,027,445 (2013 - \$66,184,464) and included in furniture and fixture are assets with a net book value of \$29,528 (2013 - \$83,907) relating to the Campus. Also, included in computer software are assets in the amount of \$68,126 that were not amortized as they are currently not in use.

4. SIGNIFICANTLY INFLUENCED NOT FOR PROFIT ORGANIZATION

The Balsillie School of International Affairs (the “BSIA”) was incorporated on August 19, 2013 under the Canada Not for Profit Corporations Act. The Organization, through its representation on the board of directors, has significant influence over the BSIA. The purpose of BSIA is to support interdisciplinary research in the fields of multilateral and global governance with a view to raising the quality of people’s lives worldwide by identifying and offering options for solutions to critical issues facing humanity; to facilitate and promote research relationships and collaborations among academic researchers, students and other qualified experts affiliated with the members in multiple disciplines; and to provide networking, professional development and research opportunities for students, post-doctoral fellows and research associates affiliated with the members. The Organization does not intend to benefit economically from the operations of the BSIA.

5. PORTFOLIO INVESTMENTS

Portfolio investments are recorded at fair value and are comprised as follows:

| | <u>2014</u> | <u>2013</u> |
|---|-----------------------|-----------------------|
| Equities and equity mutual fund units | \$ 62,733,496 | \$ 70,243,273 |
| Fixed income fund units | 75,948,659 | 49,647,880 |
| Alternative investments | 4,285,695 | 1,974,897 |
| Term deposits | 909,918 | 900,089 |
| Money market fund units | - | 410,801 |
| Unrealized gain on forward currency contracts (a) | 80,578 | 1,924 |
| | 143,958,346 | 123,178,864 |
| Unrealized loss on forward currency contracts (a) | - | (216,266) |
| | \$ 143,958,346 | \$ 122,962,598 |

NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2014

- (a) The Organization enters into foreign currency forward contracts. These contracts require the Organization to purchase specific amounts of foreign currencies at a set price at specific future dates. The Canadian dollar amounts that could be received and the weighted average exchange rates for the foreign currency forward contracts are comprised as follows:

| | <u>2014</u> | | <u>2013</u> | |
|---------------|--|--------------------------------------|--|--------------------------------------|
| | <u>Contract Amount Canadian \$</u> | <u>Weighted Average Rate</u> | <u>Contract Amount Canadian \$</u> | <u>Weighted Average Rate</u> |
| US dollar | \$ 8,952,832 | \$ 1.1083 | \$ 8,425,920 | \$ 1.0058 |
| Euro | 950,165 | 1.0966 | 550,469 | 1.2714 |
| British pound | 626,634 | 2.0091 | 480,950 | 1.5115 |
| Japanese yen | <u>129,069</u> | 0.0107 | <u>20,047</u> | 0.0102 |
| Total | <u>\$ 10,658,700</u> | | <u>\$ 9,477,386</u> | |

The exchange rates were:

| | <u>2014</u> | <u>2013</u> |
|---------------|-------------|-------------|
| US dollar | 1.0890 | 1.0287 |
| Euro | 1.4581 | 1.3675 |
| British pound | 1.8391 | 1.5618 |
| Japanese yen | 0.0106 | 0.0105 |

6. BANK INDEBTEDNESS

The Organization has an unsecured \$500,000 overdraft credit facility against which \$nil has been drawn as at July 31, 2014 (2013 - \$nil). Under the overdraft credit facility agreement, outstanding amounts bear interest at the bank's prime lending rate plus 0.75% per annum.

7. CAPITAL DISCLOSURES

The Organization's capital is comprised of its net fund balances. The Organization's capital management objectives are to safeguard its capital and to ensure it is able to finance its growth and strategic plans. There were no changes to the Organization's approach to capital management during the year.

Included in the Organization's Endowment Fund is a restricted fund created by contributors including the Federal Government of Canada. The income from the fund is used for the Organization's operations but the capital is restricted from encroachment, is to be protected in perpetuity and may not fall below \$30,000,000. At July 31, 2013 and 2014 the capital balance of this fund is calculated to be \$50,650,903.

8. COMMITMENTS AND CONTINGENCIES**(a) Organizational obligations -**

The Organization is committed to making payments to various organizations towards various initiatives to promote public interest and debate regarding Canadian foreign policy and international relations and in international relations and international institution-building and governance.

These payments are due and will be expensed as follows:

| | |
|----------------------------------|---------------------|
| In the year ending July 31, 2015 | \$ 730,000 |
| 2016 | 730,000 |
| 2017 | <u>730,000</u> |
| | <u>\$ 2,190,000</u> |

(b) Lease commitment -

The Organization has a commitment to lease land from the City of Waterloo for a period of ninety-nine years ending June 2107 for \$1 per annum for the purposes of the Campus.

(c) Programs obligation -

In 2011, the Organization signed a program agreement with the Institute for New Economic Thinking. In 2013, this agreement was amended. The Organization is committed to expenditures of \$20,000,000 over the term of the amended agreement which is to expire July 31, 2021. For the period from the signing of the original agreement to July 31, 2014 the Organization has incurred cumulative expenses in the amount of \$5,869,683 (for the period from signing of the agreement to July 31, 2013 - \$3,849,805). A total of \$2,019,878 of expenses were incurred in the current year (2013 - \$1,673,962).

In 2013, the Organization signed an agreement with a provincial government and private donor to develop and launch the International Law Research Program. The Organization is committed to expenditures of \$60,000,000 over the term of the agreement which is to expire July 31, 2024. The funding is to be split in equal portions between the two parties. The private donor is a related party who has significant influence on the Organization and has contributed \$30,000,000 during the year (2013 - \$nil). The provincial government has funded \$202,189 of its total commitment of \$30,000,000 during the year (2013 - \$nil). For the period from the signing of the agreement to July 31, 2014, the Organization has incurred total cumulative costs of \$585,397 (for the period from signing of the agreement to July 31, 2013 - \$nil), which includes \$113,348 of start-up capital costs for furniture, the costs of which are captured within the Capital Asset Fund.

(d) Claims and litigation -

From time to time, the Organization is involved in claims and litigation primarily arising from the normal course of business. The outcome of such claims and litigation is indeterminable at this time. Management believes that the resolution of these actions will not have a material adverse effect on the financial condition of the Organization.

9. CASH FLOW AND SUPPLEMENTARY INFORMATION**(a) Interest paid -**

Cash interest paid during the year was \$nil (2013 - \$814).

(b) **Foreign currency translation loss -**

During the year, the Organization incurred a foreign currency translation loss in the amount of \$641,122 (2013 – \$36,514) which is netted against realized investment income.

10. POST EMPLOYMENT BENEFITS

The Organization operates a defined contribution retirement plan for its employees. The retirement plan is funded by payments from the employees and the Organization. The payments by the Organization are charged to the statement of revenue and expenses for the period as incurred. The Organization has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The assets of the pension plan are held by an independent entity. Pension expense for the year ended July 31, 2014 was \$138,704 (2013 – \$110,990).

11. FINANCIAL INSTRUMENTS

(a) **Financial assets -**

The carrying amount of financial assets measured at fair value is \$155,837,963 (2013 - \$124,711,658).

The carrying amount of financial assets measured at amortized cost is \$424,175 (2013 - \$208,784).

(b) **Financial risks -**

(i) **Price risk -**

The portfolio is exposed to price risk, which is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. Approximately 43% (2013 - 59%) of the Organization's portfolio investments are in equities and alternative investments and subject to price risk.

Approximately 49% (2013 - 40%) of portfolio investments are invested in fixed income securities.

(ii) **Foreign exchange risk -**

The Organization is also subject to foreign exchange risk as \$23,520,154 (2013 - \$17,343,652) of portfolio investments and \$651,056 (2013 - \$999,838) of cash and cash equivalents are denominated in United States dollars. Some of this risk is offset by the use of forward contracts denominated in United States dollars. In addition, the Organization is subject to foreign exchange risk on forward contracts in other currencies in that there is no cash or investments denominated in those currencies at year end. These currencies include the Euro, British pound and Japanese yen (see note 5(b)).

(iii) **Credit risk -**

Certain of the Organization's financial instruments are also subject to credit risk, being the risk of financial loss occurring as a result of default of counterparties on their obligations. As at July 31, 2014, there is no significant concentration of the Organization's receivable balance.

The Organization manages risk by employing professional, experienced portfolio advisors, by daily monitoring of the Organization's positions and market events and by diversifying the investment portfolio within the constraints of the investment objective. To assist in managing risk, the Organization also maintains a governance structure that oversees the Organization's investment activities and monitors compliance with the Organization's stated investment strategy and securities regulations.

12. LOSS ON DISPOSAL OF ASSETS

During the year, an area of approximately 2,655 square feet which was for two tiered classroom space in the campus building was modified to become office space. This necessitated the removal of existing seating and structures. As a result of this change, there was a disposition of the cost associated with the construction of the classrooms since it would no longer provide a future economic benefit. Therefore, a loss on disposition of assets in the amount of \$346,261 was recognized.

13. INTERFUND TRANSFERS

Transfers between funds during a reporting period do not result in increases or decreases in the economic resources of the Organization as a whole. These transfers represent an allocation of resources between various funds.

The following table summarizes the transfers during the year:

| | Transfers to (from) | | | | | | | |
|--|---------------------|--------------------------|----------------|----------------|------------------|----------------|--------------|-------------------|
| | Endowment Fund | Capital Asset Fund | Campus Fund | Africa Fund | J Holmes Fund | Decade Fund | ILRP Fund | Operating Fund |
| To Endowment Fund from Operating Fund (a) | \$ 1,812,274 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,812,274) |
| To Capital Fund from Operating Fund (b) | - | 308,247 | - | - | - | - | - | (308,247) |
| To Campus Fund from Operating Fund (c) | - | - | 3,376,212 | - | - | - | - | (3,376,212) |
| To Operating Fund from Africa Fund (d) | - | - | - | (13,804) | - | - | - | 13,804 |
| To Operating Fund from John Holmes Fund (e) | - | - | - | - | (14,232) | - | - | 14,232 |
| To Operating Fund from Decade Fund (f) | - | - | - | - | - | (802,964) | - | 802,964 |
| From ILRP Fund to Capital Fund (g) | - | 113,680 | - | - | - | - | (113,680) | - |
| | \$ 1,812,274 | \$ 421,927 | \$ 3,376,212 | \$ (13,804) | \$ (14,232) | \$ (802,964) | (113,680) | \$ (4,665,733) |

- (a) The transfer from the Operating Fund represents excess assets in the Endowment Fund that were unable to be transferred to the Operating Fund prior to July 31, 2014.
- (b) The transfer to the Capital Asset Fund from the Operating Fund was made to fund outlays for property and equipment acquisitions and to fund shortfalls stemming primarily from amortization.
- (c) The transfer to the Campus fund from the Operating Fund was made to fund shortfalls stemming primarily from amortization.
- (d) The transfer to the Operating Fund from the Africa Fund represents an overdraw on the Africa Fund.
- (e) The transfer to the Operating Fund from the J Holmes Fund represents an overdraw on the J Holmes Fund.
- (f) The transfer to the Operating Fund from the Decade Fund represents an overdraw on the Decade Fund.
- (g) The transfer to the Capital Fund from the ILRP Fund reflects the costs of capital furniture.