
Centre for International
Governance Innovation

FINANCIAL STATEMENTS

JULY 31, 2018



INDEPENDENT AUDITOR'S 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, which comprise the statement of financial position as at July 31, 2018 and the statements of revenues and expenditures and changes in fund balances and cash flow 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 The Centre for International Governance Innovation as at July 31, 2018 and the results of its operations and its cash flow for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Zeifmans LLP

Toronto, Ontario
November 6, 2018

Chartered Professional Accountants
Licensed Public Accountants

STATEMENT OF FINANCIAL POSITION
AS AT JULY 31, 2018

	JULY 31, 2018							JULY 31, 2017	
	RESTRICTED FUNDS								
	Long Term Endowment	Capital Assets	Campus	Africa	J Holmes	ILRP	Operating	Total	Total
	ASSETS								
CURRENT									
Cash and cash equivalents	\$ 2,271,620	\$ -	\$ 79,862	\$ 8,839	\$ -	\$ 515,981	\$ 2,488,851	\$ 5,365,153	\$ 5,891,186
Portfolio investments (note 3)	56,178,733	-	15,459,998	5,737,591	413,348	20,035,288	23,395,851	121,220,809	123,966,744
Amounts receivable	-	-	-	-	-	-	1,449,886	1,449,886	1,230,454
Prepaid expenses	-	-	78,615	-	-	62,216	283,359	424,190	1,112,903
	58,450,353	-	15,618,475	5,746,430	413,348	20,613,485	27,617,947	128,460,038	132,201,287
OTHER									
Property and equipment (note 5)	-	3,719,468	53,566,489	-	-	-	-	57,285,957	59,180,608
Lease inducement	-	-	-	-	-	-	289,006	289,006	299,310
	-	3,719,468	53,566,489	-	-	-	289,006	57,574,963	59,479,918
TOTAL ASSETS	\$ 58,450,353	\$ 3,719,468	\$ 69,184,964	\$ 5,746,430	\$ 413,348	\$ 20,613,485	\$ 27,906,953	\$ 186,035,001	\$ 191,681,205

STATEMENT OF FINANCIAL POSITION
AS AT JULY 31, 2018

	JULY 31, 2018							JULY 31, 2017	
	RESTRICTED FUNDS								
	Long Term Endowment	Capital Assets	Campus	Africa	J Holmes	ILRP	Operating	Total	Total
LIABILITIES AND FUND BALANCES									
CURRENT									
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,358,661	\$ 1,358,661	\$ 1,160,906
Deferred revenue	-	-	-	-	-	-	1,048,783	1,048,783	285,599
Unrealized loss on forward contracts (note 3)	174,518	-	-	-	-	-	-	174,518	2,546
TOTAL LIABILITIES	174,518	-	-	-	-	-	2,407,444	2,581,962	1,449,051
FUND BALANCES									
Invested in capital assets	-	3,719,468	53,566,489	-	-	-	-	57,285,957	59,180,608
Externally restricted	58,275,835	-	14,995,874	5,746,430	413,348	20,613,485	-	100,044,972	107,825,622
Internally restricted	-	-	622,601	-	-	-	-	622,601	620,110
Unrestricted	-	-	-	-	-	-	25,499,509	25,499,509	22,605,814
TOTAL FUND BALANCES	58,275,835	3,719,468	69,184,964	5,746,430	413,348	20,613,485	25,499,509	183,453,039	190,232,154
	\$ 58,450,353	\$ 3,719,468	\$ 69,184,964	\$ 5,746,430	\$ 413,348	\$ 20,613,485	\$ 27,906,953	\$ 186,035,001	\$ 191,681,205

COMMITMENTS AND CONTINGENCIES (note 8)

APPROVED AND AUTHORIZED FOR ISSUE BY THE ORGANIZATION'S BOARD OF DIRECTORS ON NOVEMBER 6, 2018



Director



Director

**STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JULY 31, 2018**

	JULY 31, 2018							JULY 31, 2017	
	RESTRICTED FUNDS								
	Long Term Endowment	Capital Assets	Campus	Africa	J Holmes	ILRP	Operating	Total	Total
REVENUE (LOSSES)									
Realized investment income (<i>note 9</i>)	\$ -	\$ -	\$ 1,348,958	\$ 296,202	\$ 1,653	\$ 507,545	\$ 11,574,989	\$ 13,729,347	\$ 9,337,640
Government and other grants	-	-	-	-	-	3,202,656	770,762	3,973,418	3,525,400
Other (<i>note 9</i>)	-	-	871,862	-	-	-	539,821	1,411,683	1,319,422
Unrealized investment gains (losses)	-	-	(396,191)	(54,977)	-	125,845	(2,847,660)	(3,172,983)	(2,016,791)
	-	-	1,824,629	241,225	1,653	3,836,046	10,037,912	15,941,465	12,165,671
EXPENSES									
Research and conferences	-	-	2,152,494	413,870	-	6,424,358	6,963,016	15,953,738	15,931,107
Administration	-	-	198,980	-	-	464,579	1,946,285	2,609,844	1,973,594
Amortization	-	378,455	1,705,704	-	-	-	-	2,084,159	2,713,660
Facilities	-	-	867,666	-	-	145,683	92,882	1,106,231	1,179,226
Technical support	-	-	420,325	-	-	117,949	428,334	966,608	781,789
	-	378,455	5,345,169	413,870	-	7,152,569	9,430,517	22,720,580	22,579,376
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	-	(378,455)	(3,520,540)	(172,645)	1,653	(3,316,523)	607,395	(6,779,115)	(10,413,705)
FUND BALANCES - BEGINNING OF THE YEAR	59,279,276	3,947,056	72,964,472	5,868,868	411,695	25,154,973	22,605,814	190,232,154	200,645,859
	59,279,276	3,568,601	69,443,932	5,696,223	413,348	21,838,450	23,213,209	183,453,039	190,232,154
INTERFUND TRANSFERS (<i>note 12</i>)	(1,003,441)	150,867	(258,968)	50,207	-	(1,224,965)	2,286,300	-	-
FUND BALANCES - END OF THE YEAR	\$ 58,275,835	\$ 3,719,468	\$ 69,184,964	\$ 5,746,430	\$ 413,348	\$ 20,613,485	\$ 25,499,509	\$ 183,453,039	\$ 190,232,154

Centre for International
Governance Innovation
CASH FLOW STATEMENT
FOR THE YEAR ENDED JULY 31, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of expenses over revenue	\$ (6,779,115)	\$ (10,413,705)
Items not affecting cash:		
Amortization	2,084,159	2,713,660
Amortization (recognition) of lease inducement	10,304	(82,495)
Gain on redemption and sale of portfolio investments and long-term investments	(11,246,154)	(5,573,303)
Unrealized investment losses	3,172,983	2,016,791
	<u>(12,757,823)</u>	<u>(11,339,052)</u>
Changes in non-cash working capital:		
Amounts receivable	(219,432)	821,146
Accounts payable and accrued liabilities	197,755	(532,717)
Deferred revenue	763,184	(90,023)
Prepaid expenses	688,713	(654,775)
	<u>1,430,220</u>	<u>(456,369)</u>
	<u>(11,327,603)</u>	<u>(11,795,421)</u>
CASH FLOWS FROM FINANCING ACTIVITY		
Decrease in bank indebtedness	-	(132,070)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(189,509)	(279,581)
Purchase of portfolio investments	(33,925,077)	(16,508,806)
Proceeds on redemption and sale of portfolio investments and long-term investments	44,916,156	26,940,451
	<u>10,801,570</u>	<u>10,152,064</u>
DECREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR	(526,033)	(1,775,427)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,891,186	7,666,613
CASH AND CASH EQUIVALENTS, END OF YEAR	5,365,153	5,891,186
CASH CONSISTS OF:		
Cash held in bank accounts	\$ 962,303	\$ 303,430
Cash held in investment broker accounts	4,402,850	5,587,756
	<u>\$ 5,365,153</u>	<u>\$ 5,891,186</u>

See notes to financial statements

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018**

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 Not for Profit Corporations Act* 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

General -

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") and are applied consistently.

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, revenues and expenses related to the Organization's capital assets, excluding those of the CIGI Campus (the "Campus").

The Long Term Endowment Fund reports resources contributed for endowment. Certain of such resources are to be held for a period of ten years. Investment income earned on resources of the Long Term Endowment Fund is reported in the Operating Fund.

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. Two such initiatives are the Balsillie School of International Affairs ("BSIA") and the CIGI International Law Research Program (the "ILRP"). As a hub of different programs, the Campus Fund cultivates an interdisciplinary learning environment focused on developing knowledge of global governance issues.

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

Based at the Campus, 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 by 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.

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**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents -

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

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.

Property and equipment -

Property and equipment are stated at cost or deemed cost less accumulated amortization. Property and equipment are amortized over their estimated useful life at the following rates and methods:

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

Amortization of assets acquired during the year is recorded at half the above rates.

Art capitalized by the Organization is not amortized.

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.

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**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 for endowment are recognized as revenue in the Long Term Endowment Fund in the year received or receivable.

Unrestricted investment income earned on Long Term Endowment Fund resources is recognized as revenue of the Operating Fund. Other investment income is recognized as revenue of the Operating Fund when earned.

Rental income is recognized as revenue in the Campus Fund over the term of the lease on a straight-line basis when collection is reasonably assured.

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:

Significant influence over a not-for-profit organization is established without a transferable ownership interest and as a result exists through other means. The Organization 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.

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 services are used in the normal course of the Organization's operations and would otherwise have been purchased.

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**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement uncertainty -

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 and 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. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates. Examples of estimates are the determination of market value of portfolio investments, the determination of the useful life of property and equipment, the determination of the value of assets disposed of and accrued liabilities.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018**

3. PORTFOLIO INVESTMENTS

	2018	2017
Equities and equity mutual fund units	\$ 94,539,646	\$ 94,238,558
Fixed income fund units	25,200,664	23,659,555
Alternative investments	444,544	3,935,317
Term deposits	1,035,955	1,031,805
Unrealized gain on foreign currency forward contracts (a)	-	1,101,509
	121,220,809	123,966,744
Unrealized loss on foreign currency forward contracts (a)	(174,518)	(2,546)
	\$ 121,046,291	\$ 123,964,198

- (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 (paid) and the weighted average exchange rates for the foreign currency forward contracts are comprised as follows:

	2018		2017	
	Contract Amount Canadian Dollars	Weighted Average Rate	Contract Amount Canadian Dollars	Weighted Average Rate
United States dollar	\$ (174,519)	1.2963	\$ 11,594,777	1.3697
Euro	-	-	1,244,793	1.5062
British pound	-	-	649,780	1.7713
Japanese yen	-	-	180,473	0.0121
	\$ (174,519)		\$ 13,669,823	

The exchange rates at July 31 were as follows:

	2018	2017
United States dollar	1.3017	1.2485
Euro	-	1.4719
British pound	-	1.6438
Japanese yen	-	0.0113

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018**

4. SIGNIFICANTLY INFLUENCED NOT-FOR-PROFIT ORGANIZATIONS

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. During the year, the Organization expensed \$321,311 (2017 - \$198,434) in relation to the BSIA, which is included in research and conferences expense. In addition, \$118,318 (2017 - \$118,852) is recognized as a prepaid expense.

5. PROPERTY, PLANT AND EQUIPMENT

	2018			2017
	Cost	Accumulated amortization	Net book value	Net book value
Buildings and improvements	\$ 78,130,445	\$ 21,198,017	\$ 56,932,428	\$ 58,792,719
Land	294,345	-	294,345	294,345
Computer software	265,103	225,087	40,016	52,920
Furniture and fixtures	667,439	659,507	7,932	23,211
Computer equipment	908,277	902,041	6,236	12,413
Art	5,000	-	5,000	5,000
Office equipment	341,626	341,626	-	-
Vehicles	32,754	32,754	-	-
	\$ 80,644,989	\$ 23,359,032	\$ 57,285,957	\$ 59,180,608

Included in buildings and improvements are assets with a net book value of \$53,566,489 (2017 - \$55,233,552) relating to the Campus.

6. BANK INDEBTEDNESS

The Organization has an unsecured \$500,000 overdraft credit facility against which \$nil (2017 - \$nil) has been drawn as at July 31, 2018. 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 Long Term 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 and may not fall below \$30,000,000. At July 31, 2017 and 2018 the capital balance of this fund is calculated to be \$50,650,903.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018**

8. COMMITMENTS AND CONTINGENCIES

(a) 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.

(b) Program obligations -

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, 2018 the Organization has incurred cumulative expenses in the amount of \$13,204,363 (for the period from signing of the agreement to July 31, 2017 - \$11,717,429). A total of \$1,486,934 of expenses were incurred in the current year (2017 - \$1,962,743).

In 2013, the Organization signed an agreement with a provincial government and a private donor to develop and launch the ILRP. 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 provincial government and the private donor. The private donor is a related party who has significant influence on the Organization and has contributed \$nil during the year (2017 - \$nil). The provincial government has funded \$1,588,662 of its total commitment of \$30,000,000 during the year (2017 - \$2,204,067). For the period from the signing of the agreement to July 31, 2018, the Organization has incurred cumulative costs of \$22,410,986 (for the period from signing of the agreement to July 31, 2017 - \$14,758,087), which includes \$18,051 (2017 - \$18,051) of capital costs for furniture, the costs of which are included in the Capital Asset Fund. A total of \$7,652,900 of expenses were incurred in the current year (2017 - \$6,291,998), which includes \$nil (2017 - \$nil) of capital costs for furniture, the costs of which are included in the Capital Asset Fund.

(c) 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.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018**

9. OTHER SUPPLEMENTAL INFORMATION

(a) Rental income -

During the year, the Organization recognized \$1,334,078 (2017 - \$1,263,239) of rental income included in other revenue.

(b) Realized investment income -

Realized investment income is comprised as follows:

	2018	2017
Gain on sale of portfolio investments	\$ 6,512,602	\$ 6,268,500
Gain on sale of long-term investment	4,142,591	-
Interest	1,728,365	3,217,915
Dividends	1,245,364	1,012,989
Foreign currency translation gain (loss)	590,961	(695,197)
Management fees	(490,536)	(466,567)
	\$ 13,729,347	\$ 9,337,640

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, 2018 was \$424,037 (2017 - \$310,402).

11. FINANCIAL INSTRUMENTS

(a) Financial assets -

The carrying amount of financial assets measured at fair value is \$126,585,962 (2017 - 129,857,928).

The carrying amount of financial assets measured at amortized cost is \$1,449,886 (2017 - \$1,230,454).

(b) Financial risks -

The Organization is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Organization's risk exposure and concentration as of July 31, 2018.

Credit risk

Certain of the Organization's financial instruments are 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, 2018, 75% (2017 - 79%) of the amounts receivable balance is from one organization.

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018

11. FINANCIAL INSTRUMENTS (*continued*)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk. The Organization is exposed to all three.

Currency risk

Currency risk is the risk to the Organization's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Organization is exposed to foreign currency exchange risk on cash and cash equivalents of \$960,254 (2017 - \$123,852) and portfolio investments of \$7,850,045 (2017 - \$13,711,448) that are 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 3(a)).

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. The Organization is exposed to interest rate risk to the extent of investments held in fixed income securities. Approximately 21% (2017 - 19%) of the portfolio investments are invested in fixed income securities.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Organization is exposed to other price risk through its portfolio investments in quoted shares. Approximately, 78% (2017 - 79%) of the Organization's portfolio investments are in equities and alternative investments and are subject to the other price risk.

The Organization manages risk by employing professional and 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.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JULY 31, 2018

12. 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 for the year:

	TRANSFERS TO (FROM)						
	Long Term Endowment Fund	Capital Asset Fund	Campus Fund	Africa Fund	J Holmes Fund	ILRP Fund	Operating Fund
From Long Term Endowment Fund to Operating Fund (a)	\$ (1,003,441)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,003,441
To Capital Asset Fund from Operating Fund (b)	-	150,867	-	-	-	-	(108,801)
From Campus Fund to Operating Fund (c)	-	-	(258,968)	-	-	-	216,902
From Africa Fund to Operating Fund (d)	-	-	-	50,207	-	-	(50,207)
From ILRP Fund to Operating Fund (e)	-	-	-	-	-	(1,224,965)	1,224,965
	\$ (1,003,441)	\$ 150,867	\$ (258,968)	\$ 50,207	\$ -	\$ (1,224,965)	\$ 2,286,300

- (a) The transfer from the Long Term Endowment Fund to the Operating Fund was made to fund operating activities.
- (b) The transfer to the Capital Asset Fund from the Operating Fund was made to fund property and equipment acquisitions.
- (c) The transfer to the Operating Fund from the Campus Fund was made to fund operating activities.
- (d) The transfer to the Africa Fund from the Operating Fund was made to fund research and conference activities in the Africa Fund.
- (e) The transfer from the ILRP Fund to the Operating Fund was made to fund operating activities.