

Financial Statements

The Gairdner Foundation

December 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Members of
The Gairdner Foundation

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **The Gairdner Foundation**, which comprise the statements of financial position as at December 31, 2012 and 2011, and January 1, 2011, and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and 2011, 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 audits. We conducted our audits 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 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 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 in our audits 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 Gairdner Foundation** as at December 31, 2012 and 2011, and January 1, 2011 and the results of its operations and its cash flows for the years ended December 31, 2012 and 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Corporations Act (Ontario), we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Toronto, Canada,
April 4, 2013.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

The Gairdner Foundation

STATEMENTS OF FINANCIAL POSITION

	December 31, 2012 \$	December 31, 2011 \$	January 1, 2011 \$
ASSETS			
Current			
Cash and cash equivalents	260,270	284,346	280,355
Grants receivable	—	—	33,320
GST/HST receivable	60,825	63,183	45,148
Other receivables	15,987	10,000	36,808
	337,082	357,529	395,631
Investments, at quoted market value <i>[note 3]</i>	27,354,614	25,976,355	27,177,606
Capital assets, net <i>[note 4]</i>	7,224	9,030	10,613
	27,698,920	26,342,914	27,583,850
LIABILITIES AND NET ASSETS			
Current			
Accounts payable and accrued liabilities	508,647	331,857	260,002
Federal government funding <i>[note 5]</i>	20,033,953	19,485,846	20,766,953
Alberta government funding <i>[note 6]</i>	2,157,084	2,097,615	2,186,737
	22,191,037	21,583,461	22,953,690
	22,699,684	21,915,318	23,213,692
Net assets			
Unrestricted	500,000	500,000	500,000
Internally restricted <i>[note 7]</i>	4,499,236	3,927,596	3,870,158
	4,999,236	4,427,596	4,370,158
	27,698,920	26,342,914	27,583,850

See accompanying notes

On behalf of the Board:

Director

Director

The Gairdner Foundation

STATEMENTS OF OPERATIONS

Years ended December 31

	2012	2011
	\$	\$
REVENUE		
Investment income (loss) [note 3]		
Interest and dividends	144,379	103,405
Realized gain on investments	222,581	3,651
Net change in unrealized loss on investments	(47,888)	(200,605)
	319,072	(93,549)
Federal government grant funding [note 5]	856,131	836,562
Alberta government grant funding [note 6]	91,694	42,312
Other government grants	372,000	489,342
Other contributions and sponsorships	457,141	475,986
Table sales	628,000	610,000
	2,724,038	2,360,653
EXPENSES		
National events	469,146	585,047
Advisory boards	110,811	100,651
Awards	700,000	700,000
Marketing and communications	41,656	48,491
Administrative	830,785	869,026
	2,152,398	2,303,215
Excess of revenue over expenses for the year	571,640	57,438

See accompanying notes

The Gairdner Foundation

STATEMENTS OF CHANGES IN NET ASSETS

Years ended December 31

	2012		Total
	Unrestricted	Internally restricted	
	\$	\$	\$
		<i>[note 7]</i>	
Balance, beginning of year	500,000	3,927,596	4,427,596
Excess of revenue over expenses for the year	571,640	—	571,640
Interfund transfer <i>[note 7]</i>	(571,640)	571,640	—
Balance, end of year	500,000	4,499,236	4,999,236

	2011		Total
	Unrestricted	Internally restricted	
	\$	\$	\$
		<i>[note 7]</i>	
Balance, beginning of year	500,000	3,870,158	4,370,158
Excess of revenue over expenses for the year	57,438	—	57,438
Interfund transfer <i>[note 7]</i>	(57,438)	57,438	—
Balance, end of year	500,000	3,927,596	4,427,596

See accompanying notes

The Gairdner Foundation

STATEMENTS OF CASH FLOWS

Years ended December 31

	2012	2011
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	571,640	57,438
Add (deduct) non-cash items		
Amortization of capital assets	2,458	3,079
Investment loss (income)	(319,070)	93,549
Government funding recognized as revenue	(947,826)	(878,874)
	(692,798)	(724,808)
Changes in non-cash working capital balances related to operations		
Grants receivable	—	33,320
GST/HST receivable	2,358	(18,035)
Other receivables	(5,987)	26,808
Accounts payable and accrued liabilities	176,790	71,855
Cash used in operating activities	(519,637)	(610,860)
INVESTING ACTIVITIES		
Purchase of capital assets	(652)	(1,496)
Withdrawals from investments	496,213	616,347
Cash provided by investing activities	495,561	614,851
Net increase (decrease) in cash and cash equivalents during the year	(24,076)	3,991
Cash and cash equivalents, beginning of year	284,346	280,355
Cash and cash equivalents, end of year	260,270	284,346

See accompanying notes

The Gairdner Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

1. PURPOSE OF THE ORGANIZATION

The Gairdner Foundation [the "Foundation"] provides awards to medical scientists in recognition of outstanding discoveries and contributions to medical science, and as an incentive to those who follow in their footsteps. In addition to encouraging and rewarding individuals, the Foundation presents the Gairdner Awards in order to focus public, professional and scientific attention on significant achievements in the field of health sciences.

The Foundation, which was incorporated under the laws of Ontario, is registered as a charitable organization under the Income Tax Act (Canada) [the "Act"] and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Part III of the Canadian Institute of Chartered Accountants ["CICA"] Handbook – Accounting Standards for Not-for-Profit Organizations which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term investments with maturities of less than 90 days at the date of purchase. Cash and cash equivalents exclude amounts that are managed for returns rather than being held for liquidity.

Financial instruments

Investments reported at fair value consist of equity instruments that are quoted in an active market as well as investments in pooled funds and any investments in fixed income securities that the Foundation designates upon purchase to be measured at fair value. Transaction costs are recognized in the statements of operations in the period during which they are incurred.

Investments in fixed income securities not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the straight-line method, less any provision for impairment.

Other financial instruments, including accounts receivable and accounts payable, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

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NOTES TO FINANCIAL STATEMENTS

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Capital assets

Capital assets are recorded at acquisition cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is recorded in the accounts at rates intended to write off the cost of the assets over their estimated useful lives.

Rates and methods of amortization are as follows:

Asset	Years	Method
Office equipment	5	straight-line
Computer equipment	3	straight-line

Revenue recognition

The Foundation follows the deferral method of accounting for contributions, which include grants and donations. Grants, bequests and other donations are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received, since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions, except endowment contributions, are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized. Sponsorships and related event revenues are recognized when the event takes place.

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses, net of safekeeping and investment management expenses, is recorded as revenue in the statements of operations, except to the extent that it relates to restricted contributions, in which case it is added directly to those balances.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction date. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the year-end date. Non-monetary assets and liabilities are translated at the historic rate. Exchange gains and losses are included in the statements of operations except to the extent that they relate to investments, in which case they are accounted for consistent with investment income (loss).

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NOTES TO FINANCIAL STATEMENTS

December 31, 2012

Contributed goods and services

Because of the difficulty in determining fair value, contributed goods and services are not recognized in the financial statements.

3. INVESTMENTS

Investments consist of the following:

	December 31, 2012		December 31, 2011		January 1, 2011	
	\$	%	\$	%	\$	%
Cash and cash equivalents	599,385	2.2	309,410	1.2	939,761	3.4
Bonds						
Canadian	13,204,941	48.3	12,035,254	46.3	12,554,143	46.2
Foreign	—	—	—	—	25,391	0.1
Equities						
Canadian	4,335,905	15.8	4,729,663	18.2	5,019,451	18.5
US	1,633,372	6.0	2,932,252	11.3	3,411,022	12.6
Other international	5,033,173	18.4	3,284,196	12.7	3,891,303	14.3
Hedge funds	2,547,838	9.3	2,685,580	10.3	1,336,535	4.9
	27,354,614	100.0	25,976,355	100.0	27,177,606	100.0

Investments in pooled funds have been included above based on their underlying asset mix.

As at December 31, 2012, bonds have an average term to maturity of 8.3 years [December 31, 2011 - 6.0 years; January 1, 2011 - 6.1 years] and a weighted average yield of 2.9% [December 31, 2011 - 3.6%; January 1, 2011 - 3.5%].

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NOTES TO FINANCIAL STATEMENTS

December 31, 2012

Investment income (loss) recorded in the statements of operations is calculated as follows:

	2012 \$	2011 \$
Interest and dividends	1,063,475	872,140
Realized gain on investments	1,307,613	22,827
Net change in unrealized gain on investments	(281,330)	(1,254,259)
Total investment income (loss)	2,089,758	(359,292)
Less safekeeping and investment management expenses	(215,285)	(225,612)
Investment income (loss), net of safekeeping and investment management expenses	1,874,473	(584,904)
Less investment loss (income) related to:		
Federal government funding [note 5]	(1,404,238)	444,545
Alberta government funding [note 6]	(151,163)	46,810
Investment income (loss) recognized in revenue	319,072	(93,549)

4. CAPITAL ASSETS

Capital assets consist of the following:

	December 31, 2012		
	Cost \$	Accumulated amortization \$	Net book value \$
Office equipment	9,254	5,571	3,683
Computer equipment	9,800	6,259	3,541
	19,054	11,830	7,224

	December 31, 2011		
	Cost \$	Accumulated amortization \$	Net book value \$
Office equipment	11,767	7,163	4,604
Computer equipment	9,800	5,374	4,426
	21,567	12,537	9,030

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NOTES TO FINANCIAL STATEMENTS

December 31, 2012

	January 1, 2011		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office equipment	14,122	7,703	6,419
Computer equipment	15,185	10,991	4,194
	29,307	18,694	10,613

5. FEDERAL GOVERNMENT FUNDING

The Foundation received a \$20,000,000 grant from the federal government in 2008 for the purpose of supporting and enhancing the Gairdner International Awards Program. This grant is to be invested for the duration of the funding agreement and only the income, which includes interest, dividends and realized gains/losses, may be used to support the Foundation's activities until the funding agreement terminates. The Foundation can draw upon the capital to a maximum of \$2,000,000 over the term of the funding agreement, provided it uses best efforts to restore any capital withdrawn.

The funding agreement terminates on March 31, 2028, unless terminated earlier, or renewed in accordance with the funding agreement. Upon termination, the Foundation may use the unspent balance of the original grant as it deems appropriate.

The changes in the Government of Canada funding balance are as follows:

	2012	2011
	\$	\$
Balance, beginning of year	19,485,846	20,766,953
Interest and dividends	635,412	491,380
Realized gain on investments	979,581	17,350
Net change in unrealized gain on investments	(210,755)	(953,275)
Investment income (loss) for the year	1,404,238	(444,545)
Amount recognized as revenue	(856,131)	(836,562)
Balance, end of year	20,033,953	19,485,846

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As at December 31, 2012, the amount available for spending in future years is \$186,426. In the prior years, the cumulative amount recognized as revenue exceeds the amount available for spending, as defined in the funding agreement, by \$572,434 as at December 31, 2011 and \$244,603 as at January 1, 2011.

6. ALBERTA GOVERNMENT FUNDING

The Foundation received \$2 million from the Alberta government in 2008 for the purpose of expanding the Gairdner Outreach Program in Alberta. The funds received from the Alberta government are to be invested during the term of the funding agreement, and only the income, which includes interest, dividends and realized gains/losses, may be used to support the Alberta Gairdner Outreach Program. The Foundation can draw upon the capital to a maximum of \$250,000 over the term of the funding agreement, provided it uses best efforts to restore any capital withdrawn.

The grant has an indeterminate term; however, the funding agreement is to be reviewed at least every five years. The Alberta government has the right to terminate the agreement, without cause, upon giving 90 days' notice. Upon termination, the remaining balance of the fund not previously committed for outreach activities must be repaid.

The changes in the Government of Alberta funding balance are as follows:

	2012	2011
	\$	\$
Balance, beginning of year	2,097,615	2,186,737
Interest and dividends	68,400	51,741
Realized gain on investments	105,450	1,828
Net change in unrealized gain on investments	(22,687)	(100,379)
Investment income (loss) for the year	151,163	(46,810)
Amount recognized as revenue	(91,694)	(42,312)
Balance, end of year	2,157,084	2,097,615

As at December 31, 2012, the amount available for spending in future years is \$177,329 [December 31, 2011 - \$95,173; January 1, 2011 - \$83,917].

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NOTES TO FINANCIAL STATEMENTS

December 31, 2012

7. INTERNALLY RESTRICTED NET ASSETS

Internally restricted net assets are funds set aside by the Board of Directors to invest in order to earn income to help fund future operating expenses. In 2012, the Board approved an interfund transfer from unrestricted to internally restricted net assets of \$571,640 [2011 - \$57,438]. The Board of Directors may approve a transfer from internally restricted net assets, if required, to fund unanticipated deficits from fundraising shortfalls or unanticipated expenditures.

8. COMMITMENTS

The Foundation is required to make future annual lease payments for its premises as follows:

	\$
<hr/>	
2013	50,500
2014	25,250
	<hr/>
	75,750

9. FINANCIAL INSTRUMENTS

The Foundation is exposed to various financial risks through transactions in financial instruments.

Currency risk

The Foundation is exposed to foreign currency risk with respect to its investments 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.

Interest rate risk

The Foundation is exposed to interest rate risk with respect to its investments in fixed income investments and a pooled fund that holds fixed income securities because the fair value will fluctuate due to changes in market interest rates.

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December 31, 2012

Other price risk

The Foundation is exposed to other price risk through changes in market prices [other than changes arising from interest rate or currency risks] in connection with its investments in equity securities and pooled funds.

10. FIRST-TIME ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

These financial statements are the first financial statements which the Foundation has prepared in accordance with Part III of the CICA Handbook – Accounting, which constitutes generally accepted accounting principles for not-for-profit organizations in Canada. First-time adoption of this new basis of accounting had no impact on excess of revenues over expenses for the year ended December 31, 2011 or net assets as at January 1, 2011, the date of transition.