

# INDEPENDENT AUDITORS' REPORT

To the Members of Canadian Defence and Foreign Affairs Institute

We have audited the accompanying financial statements of Canadian Defence and Foreign Affairs Institute, which comprise the statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, the statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011, and notes, comprising 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 our 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, we 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 Canadian Defence and Foreign Affairs Institute as at December 31, 2012, December 31, 2011 and January 1, 2011, and its results of operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Accountants

May 3, 2013  
Calgary Canada

**CANADIAN DEFENCE AND FOREIGN AFFAIRS INSTITUTE**

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**Financial Statements**  
**December 31, 2012 and 2011**

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**CANADIAN DEFENCE AND FOREIGN AFFAIRS INSTITUTE****Statements of Financial Position****December 31, 2012, December 31, 2011 and January 1, 2011**

		December 31, 2012	December 31, 2011	January 1, 2011
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash		\$ 74,252	\$ 177,959	\$ 244,376
Accounts receivable	(note 3)	144,636	87,633	25,252
Prepays		<u>2,985</u>	<u>2,762</u>	<u>3,275</u>
		221,873	268,354	272,903
Capital assets	(note 2)	<u>1,744</u>	<u>3,152</u>	<u>4,588</u>
		<u>\$ 223,617</u>	<u>\$ 271,506</u>	<u>\$ 277,491</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	(note 3)	\$ 81,359	\$ 38,355	\$ 65,708
Deferred revenue	(note 4)	<u>9,259</u>	<u>104,459</u>	<u>85,000</u>
		90,618	\$ 142,814	\$ 150,708
<b>Net Assets</b>				
Net assets		<u>132,999</u>	<u>128,692</u>	<u>126,783</u>
		<u>\$ 223,617</u>	<u>\$ 271,506</u>	<u>\$ 277,491</u>

On behalf of the Board:



\_\_\_\_\_, Director

**CANADIAN DEFENCE AND FOREIGN AFFAIRS INSTITUTE**  
**Statements of Operations**  
**Years ended December 31, 2012 and 2011**

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		<b>2012</b>	<b>2011</b>
<b>Revenue</b>			
Donations		\$ 574,012	\$ 620,407
Events		114,730	13,200
Grants and project funding		<u>133,500</u>	<u>176,850</u>
		<u>822,242</u>	<u>810,457</u>
<b>Expenses</b>			
Projects and communications	(note 5)	711,349	702,545
Fundraising	(note 5)	51,267	58,167
Professional	(note 5)	24,263	22,509
Salaries and consultants	(note 5)	23,811	17,697
Office	(note 5)	5,837	6,194
Amortization	(note 5)	<u>1,408</u>	<u>1,436</u>
		<u>817,935</u>	<u>808,548</u>
<b>Excess of revenue over expenses</b>		<u>\$ 4,307</u>	<u>\$ 1,909</u>

**CANADIAN DEFENCE AND FOREIGN AFFAIRS INSTITUTE**  
**Statements of Changes in Net Assets**  
**Years ended December 31, 2012 and 2011**

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	2012	2011
Balance, beginning of year	\$ 128,692	\$ 126,783
Excess of revenue over expenses	4,307	1,909
Balance, end of year	\$ 132,999	\$ 128,692

**CANADIAN DEFENCE AND FOREIGN AFFAIRS INSTITUTE****Statements of Cash Flows****Years ended December 31, 2012 and 2011**

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	2012	2011
<b>Operating</b>		
Excess of revenue over expenses	\$ 4,307	\$ 1,909
Amortization	1,408	1,436
Change in non-cash working capital	<u>(109,422)</u>	<u>(69,762)</u>
	<u>(103,707)</u>	<u>(66,417)</u>
 Change in cash	 (103,707)	 (66,417)
Cash, beginning of year	<u>177,959</u>	<u>244,376</u>
Cash, end of year	<u>\$ 74,252</u>	<u>\$ 177,959</u>

# **CANADIAN DEFENCE AND FOREIGN AFFAIRS INSTITUTE**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

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### **Organization**

The Canadian Defence and Foreign Affairs Institute (the "Institute") was incorporated under the Canada Corporations Act and obtained status from the Canadian Charities directorate as a registered charity under the Income Tax Act on August 3, 2001. The Institute is exempt from income taxes. The Institute is dedicated to enhancing Canada's role in the world by helping to stimulate awareness and debate amongst Canadians about their nation's defence and foreign policies and the instruments that serve them.

On January 1, 2011, the Institute adopted Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CICA Handbook. These are the first financial statements prepared in accordance with Not-For-Profit Standards.

In accordance with the transitional provisions in Not-For-Profit Standards, the Institute has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is January 1, 2010 and all comparative information provided has been presented by applying Not-For-Profit Standards.

There were no transitional adjustments recorded to net assets as at January 1, 2011 and excess of revenue over expenditures for the year ended December 31, 2011.

### **1. Significant Accounting Policies:**

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CICA Handbook.

#### **(a) Revenue recognition:**

The Institute follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related restricted purpose expenses are incurred. Contributions receivable will be recorded if the amount to be received can be reasonably estimated and the collection is reasonably assured. There are currently no restricted contributions.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

The Institute reports revenues and expenses at their gross amounts in the statement of operations when it is the principal in the transactions involved. The Institute acted as the principal in all of its 2012 and 2011 transactions and therefore, all revenues and expenses are reported at their gross amounts.

# CANADIAN DEFENCE AND FOREIGN AFFAIRS INSTITUTE

## Notes to Financial Statements

December 31, 2012 and 2011

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### 1. Significant Accounting Policies (continued):

#### (b) Capital assets:

Capital assets are recorded at cost and amortized over the useful life of the assets. Furniture and equipment are amortized on a declining balance basis at 20%. Computer equipment is amortized on a straight-line basis over 3 years.

#### (c) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items include valuation of accounts receivable, useful life of capital assets and completeness of accrued liabilities. Actual results could differ from those estimates.

#### (d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Institute has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the effective interest rate method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are any indicators of impairment. If there is an indicator of impairment, the Institute determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial assets or the amount the Institute expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

# CANADIAN DEFENCE AND FOREIGN AFFAIRS INSTITUTE

## Notes to Financial Statements

December 31, 2012 and 2011

### 2. Capital assets

December 31, 2012			
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 3,887	\$ (3,440)	\$ 447
Computer equipment	11,850	(10,553)	1,297
Total	\$ 15,737	\$ (13,993)	\$ 1,744

  

December 31, 2011			
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 3,887	\$ (3,328)	\$ 559
Computer equipment	11,850	(9,257)	2,593
Total	\$ 15,737	\$ (12,585)	\$ 3,152

  

January 1, 2011			
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 3,887	\$ (3,189)	\$ 698
Computer equipment	11,850	(7,960)	3,890
Total	\$ 15,737	\$ (11,149)	\$ 4,588

### 3. Related party transactions

During the year ended December 31, 2012, the Institute paid administrative fees of \$128,676 (2011 - \$126,487) to a group of companies controlled by a Member. The Institute receives legal services from a law firm in which one of the Directors of the Institute is a partner. These transactions are initiated by management. The net cost of these services in 2012 was \$5,125 (2011 - \$5,125) of which \$2,625 (2011 - \$2,625) was payable at December 31, 2012. During the year ended December 31, 2012, the Institute received donations and revenue from this law firm in the amount of \$15,600 (2011 - \$25,000). During the year ended December 31, 2012, the Institute recognized donations and revenue from Directors and Members and companies controlled by Directors and Members in the amount of \$326,000 (2011 - \$407,481). At the year ended December 31, 2012, the Institute had receivables from a Member and a company controlled by a Director in the amount of \$nil (2011 - \$25,060).

# CANADIAN DEFENCE AND FOREIGN AFFAIRS INSTITUTE

## Notes to Financial Statements

December 31, 2012 and 2011

### 3. Related party transactions (continued)

At the year ended December 31, 2012, the Institute had payables in the amount of \$25,671 (2011 – \$8,384) owing to a member and companies controlled by a Member. All related party transactions are provided in the normal course of business and recorded at the exchange amount being the amount agreed to by the parties.

### 4. Deferred revenue

Deferred revenue relates to contributions for various donor funded projects which, if the projects are not completed, will be returned to the donors.

### 5. Allocated expenses

The following general support expenses are allocated:

	Projects and communication expense	Salaries and consultants	Fundraising	Professional	Office	Basis of allocation
<b>Salary and contract expenses:</b>						
Program coordinator salary	90%				10%	budgeted hours
Student wages	100%					budgeted hours
President's contract	61%	19%	20%			actual hours
Director of Programs	95%		5%			actual hours
Vice President contract	90%		10%			actual hours
<b>Professional</b>	70%		14%	16%		historical resource utilization
<b>Other general support expenses:</b>						
Business meals, club memberships, education, Powerpeople software, travel & auto, advertising, annual report, communications, office, insurance, rent, and business tax	80%		10%		10%	historical resource utilization

Salary and contract expenses of \$216,710 (2011 - \$210,177) have been allocated as follows:

	2012	2011
Project and communications expense	166,784	166,067
Salaries and consultants	23,811	17,697
Fundraising	26,115	26,413
	<u>216,710</u>	<u>210,177</u>

# CANADIAN DEFENCE AND FOREIGN AFFAIRS INSTITUTE

## Notes to Financial Statements

December 31, 2012 and 2011

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### 5. Allocated expenses (continued)

Other general support expenses of \$198,367 (2011 - \$196,862) have been allocated as follows:

	2012	2011
Projects and communications expense	143,115	142,635
Professional fees	24,263	22,509
Fundraising	25,152	25,524
Office	5,837	6,194
	<u>198,367</u>	<u>196,862</u>

### 6. Financial risk and concentration of risk

#### (a) Credit risk:

The Institute is exposed to credit risk on its accounts receivable from its clients. The Institute assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts.

#### (b) Interest rate risk:

The Institute is not exposed to significant interest rate risk.

#### (c) Liquidity risk:

Liquidity risk is the risk of being unable to meet cash requirements or to fund obligations on a timely basis or at a reasonable cost. The Institute is not exposed to significant liquidity risk.