

Financial statements of

C.D. Howe Institute

December 31, 2008

C.D. Howe Institute

December 31, 2008

Table of contents

Auditors' Report	1
Balance sheet	2
Statement of revenue and expenses	3
Statement of changes in fund balances	4
Statement of cash flows	5
Notes to the financial statements	6-11

Deloitte & Touche LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Auditors' Report

To the Members of
C.D. Howe Institute

We have audited the balance sheet of C.D. Howe Institute (the "Institute") as at December 31, 2008 and the statements of revenue and expenses, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Institute's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Institute as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Licensed Public Accountants
February 23, 2009

C.D. Howe Institute

(Incorporated under Part II of the Canada Business Corporations Act)

Balance sheet

as at December 31, 2008

	2008	2007
	\$	\$
Assets		
Current		
Cash (Note 7)	281,078	243,306
Short-term investments (Note 5)	4,489,073	3,666,208
Accounts receivable	180,533	151,942
Prepaid expenses	45,160	62,712
	4,995,844	4,124,168
Capital assets (Note 6)	544,193	542,005
	5,540,037	4,666,173
Liabilities		
Current		
Accounts payable and accrued liabilities	163,809	180,442
Deferred revenue	963,647	898,625
	1,127,456	1,079,067
Long-term		
Deferred capital contributions	349,754	308,290
Deferred rent	226,366	222,286
	576,120	530,576
	1,703,576	1,609,643
Fund balances		
Invested in capital assets (Note 8)	194,439	233,715
Operating	1,214,313	1,162,437
Endowment funds (Note 7)	2,427,709	1,660,378
	3,836,461	3,056,530
	5,540,037	4,666,173

Approved by the Board

_____ Chairman of the Board

_____ Chairman, Audit, Finance and Development Committee

C.D. Howe Institute

Statement of revenue and expenses year ended December 31, 2008

	2008	2007
	\$	\$
Revenue		
Contributions and subscriptions	3,019,772	2,820,900
Meetings revenue	458,376	285,322
Interest income	74,564	95,530
Endowment revenue (Note 7)	53,224	30,682
Sale of publications and sponsorships	29,843	49,591
Contract revenue	19,284	653
	3,655,063	3,282,678
Expenses		
Research, administrative and project expenses (Note 7)	3,548,199	2,932,560
Amortization	104,935	65,921
	3,653,134	2,998,481
Excess of revenues over expense for the year	1,929	284,197

C.D. Howe Institute

Statement of changes in fund balances year ended December 31, 2008

				2008	2007
	Invested in Capital Assets Fund	Operating Fund	Endowment Funds	Total	Total
	\$	\$	\$	\$	\$
Balances, beginning of year	233,715	1,162,437	1,660,378	3,056,530	2,334,157
Excess of revenue over expenses for the year	(86,399)	88,328	-	1,929	284,197
Unrealized gain on short-term investments	-	10,671	-	10,671	-
Contributions during the year (Note 7)	-	-	752,339	752,339	415,183
Excess of endowment revenue over expenses (Note 7)	-	-	14,992	14,992	22,993
Purchases of capital assets	107,123	(107,123)	-	-	-
Deferred capital contributions received	(60,000)	60,000	-	-	-
Balances, end of year	194,439	1,214,313	2,427,709	3,836,461	3,056,530

C.D. Howe Institute

Statement of cash flows year ended December 31, 2008

	2008	2007
	\$	\$
Operating activities		
Excess of revenue over expenses	1,929	284,197
Items not affecting cash		
Amortization of capital assets	104,935	65,921
Amortization of deferred capital contributions	(18,536)	(15,485)
Deferred rent	4,080	4,079
	92,408	338,712
Changes in non-cash working capital items		
Accounts receivable	(28,591)	5,986
Prepaid expenses	17,552	(36,925)
Accounts payable and accrued liabilities	(16,633)	57,810
Deferred revenue	65,022	(54,145)
	129,758	311,438
Investing activities		
Purchase of capital assets	(107,123)	(118,593)
Purchase of short-term investments	(7,417,240)	(4,866,390)
Redemption of short-term investments	6,605,046	4,160,546
	(919,317)	(824,437)
Financing activities		
Deferred capital contributions received	60,000	51,800
Endowment contributions and income, less expenses	767,331	438,176
	827,331	489,976
Net cash inflow (outflow)	37,772	(23,023)
Cash, beginning of year	243,306	266,329
Cash, end of year	281,078	243,306

C.D. Howe Institute

Notes to the financial statements

December 31, 2008

1. Description of organization

The C.D. Howe Institute (the "Institute") is an independent, non-profit, research and educational organization. It carries out independent analysis and critique of public policy issues and translates scholarly research for action by the government and the private sector. The Institute is a registered charity exempt from paying income taxes under Section 149(1) (f) of the Income Tax Act.

2. Change in accounting policy

On January 1, 2008, the Institute adopted *Capital Disclosures*, Section 1535 of the CICA Handbook. The adoption of this standard has not resulted in any change in how the Institute accounts for its transactions, but has entailed the addition of a note to the financial statements which is presented in Note 11.

3. Summary of significant accounting policies

The financial statements of the Institute have been prepared in accordance with the accounting standards for not-for-profit organizations published by the CICA using the deferral method and reflect the following policies:

Contributions

Contributions are recorded as received, except when specified by the donor that they relate to the following year, in which case they are deferred to that year. Contributions of materials and services used in the normal course of the Institute's operations are recorded at their fair value when these are reasonably estimable. Endowment contributions are recognized as direct increases in the fund balance.

Financial instruments

The Institute has classified its financial instruments as follows:

<u>Asset/liability</u>	<u>Category</u>
Cash	Held-for-trading
Short-term investments	Available for sale
Accounts receivable	Loans and receivable
Accounts payable and accrued liabilities	Other liabilities

Held-for-trading items are carried at fair value, with changes in their fair value recognized in the Statement of revenues and expenses in the current period. Available for sale items are carried at fair value with changes in their fair value recognized in the Statement of changes in fund balances. "Loans and receivable" are carried at amortized cost, using the effective interest method, net of any impairment. "Other liabilities" are carried at amortized cost, using the effective interest method.

C.D. Howe Institute

Notes to the financial statements

December 31, 2008

3. Summary of significant accounting policies (continued)

Short-term investments

Short-term investments are accounted for on a settlement date basis and any transaction costs are expensed as incurred.

Capital assets

Capital asset additions are recorded at cost. Amortization is calculated using the straight-line basis at 33-1/3% per annum for computer hardware and software and 10% per annum for furniture, fixtures and equipment. Signage and leasehold improvements are amortized on a straight-line basis over the term of the lease.

Publications

Publications are not recorded as inventory. Costs are accrued for publications in progress. All costs of publications that have entered the production stage by the end of the year are expensed.

Deferred capital contributions

Deferred capital contributions relate to funds received for the new office and are amortized on a straight-line basis over the term of lease.

Deferred rent

Deferred rent, consisting of tenant allowances, free rent and reduced rent, is amortized on a straight line basis over the term of the lease.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported therein. Areas which involve a significant degree of estimation include accounts payable and accrued liabilities and deferred revenue. Actual results may differ from such estimates.

Description of Funds

Operating Fund

Amounts received, used or held for the research and educational goals of the Institute are recorded in the Operating Fund.

Endowment Fund

Endowment funds represent amounts received which are externally endowed, together with any designated unspent investment income.

Invested in Capital Assets Fund

The Invested in Capital Assets Fund records the Institute's cost of capital assets, less accumulated amortization and deferred capital contributions.

C.D. Howe Institute

Notes to the financial statements

December 31, 2008

3. Summary of significant accounting policies (continued)

Future accounting changes

In December 2006, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3862, Financial Instruments - Disclosures; and Section 3863, Financial Instruments - Presentation. Both sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Institute will adopt the new standards for its fiscal year beginning January 1, 2009. Section 3862 on financial instruments disclosures, requires the disclosure of information about: (a) the significance of financial instruments for the Institute's financial position and performance and (b) the nature and extent of risks arising from the financial instruments to which the Institute is exposed during the period and at the balance sheet date, and how the Institute manages those risks. Section 3863 on the presentation for financial instruments establishes standards for presentation of financial instruments and non-financial derivatives.

This change in accounting policies, which will be effective on January 1, 2009, will require additional disclosures in the financial statements.

4. Commitments

The Institute has a lease commitment for premises located at 67 Yonge Street, Toronto, Ontario. The lease is for a period of 20 years, expiring on November 30, 2024. Future minimum commitments (excluding operating costs) under the lease are as follows:

	\$
2009	71,070
2010	71,070
2011	72,255
2012	85,284
2013	85,284
2014 and thereafter	1,037,622
	<u>1,422,585</u>

5. Short-term investments

Short-term investments are recorded in the following funds:

	2008	2007
	\$	\$
Endowment	2,402,055	1,658,211
Unrestricted	2,087,018	2,007,997
	<u>4,489,073</u>	<u>3,666,208</u>

C.D. Howe Institute

Notes to the financial statements

December 31, 2008

6. Capital assets

	2008			2007
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Furniture, fixtures and equipment	322,791	166,167	156,624	139,211
Computer hardware and software	466,585	367,326	99,259	114,160
Signage	9,122	1,434	7,688	8,166
Leasehold improvements	347,286	66,664	280,622	280,468
	1,145,784	601,591	544,193	542,005

7. Endowment Funds

	2008				2007	
	Roger Phillips	Jack Mintz	Special Studies	Sylvia Ostry	Total	Total
	\$	\$	\$	\$	\$	\$
Balance, beginning of the year	1,030,855	210,384	419,139	-	1,660,378	1,222,202
Contributions received	-	-	190,972	561,367	752,339	415,183
Investment income	37,350	7,522	19,287	4,057	68,216	53,675
Expenses	(25,000)	(9,872)	-	(18,352)	(53,224)	(30,682)
	12,350	(2,350)	210,259	547,072	767,331	438,176
Balance, end of year	1,043,205	208,034	629,398	547,072	2,427,709	1,660,378

The Roger Phillips Endowment Fund was established to advance social policy dialogue. The capital is to be invested and the investment income earned is available to fulfill the purpose of the endowment.

The Jack Mintz Endowment Fund was established to support an annual visit and economic seminar by an eminent expert. The capital is to be invested and the investment income is available to fulfill the purpose of the endowment.

The Special Studies Endowment Fund received further contributions in the amount of \$190,972. The purpose of the Fund is to support special projects which would otherwise be difficult to fund through annual membership contributions. The capital is to be invested and the investment income earned is being retained in the Fund to fulfill the purpose of the endowment.

During 2008, the Sylvia Ostry Endowment Fund was established from \$561,367 of endowment contributions received from the Sylvia Ostry Foundation. The purpose of the Fund is to stage an annual lecture in Sylvia Ostry's name, featuring a distinguished speaker on a topic related to international economic policy. The capital is to be invested and the investment income earned is available to fulfill the purpose of the endowment.

During the year, the endowments earned investment income of \$68,216 (2007 - \$53,675). Of this amount, \$28,224 (2007-\$5,682) was spent on events and \$25,000 (2007-\$25,000) on a Scholar. The \$53,224 (2007-\$30,682) is included in the Statement of revenues and expenses as endowment revenue and in research, administrative and project expenses, respectively. The unspent amount for the year of \$14,992 (2007-\$22,993) is included in the Endowment Fund balance.

C.D. Howe Institute

Notes to the financial statements

December 31, 2008

7. Endowment Funds (continued)

The Endowment Funds are comprised of:

	2008	2007
	\$	\$
Cash	25,654	2,167
Short-term investments (Note 5)	2,402,055	1,658,211
	<u>2,427,709</u>	<u>1,660,378</u>

8. Invested in Capital Assets Fund

The Invested in Capital Assets Fund balance consists of:

	2008	2007
	\$	\$
Capital assets (Note 6)	544,193	542,005
Deferred capital contributions	(349,754)	(308,290)
	<u>194,439</u>	<u>233,715</u>

9. Pension plan

The Institute sponsors a group registered retirement savings plan for its employees. The Institute's liability is limited to matching contributions for the year and these amounted to \$65,869 (2007 - \$59,976).

10. Guarantees

In the normal course of business, the Institute enters into agreements that meet the definition of a guarantee. The Institute's primary guarantees are as follows:

- (a) The Institute has provided indemnities under a lease agreement for the use of operating facilities. Under the terms of the agreement, the Institute agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) Indemnity has been provided to all directors and/or officers of the Institute for various items including, but not limited to, all costs to settle suits or actions due to involvement with the Institute, subject to certain restrictions. The Institute has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Institute. The maximum amount of any future payment cannot be reasonably estimated.
- (c) In the normal course of business, the Institute has entered into agreements that include indemnities in favour of third parties, such as confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Institute to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparties as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

C.D. Howe Institute

Notes to the financial statements

December 31, 2008

10. Guarantees (continued)

The nature of these indemnification agreements prevents the Institute from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Institute has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the financial statement, with respect to these agreements.

11. Capital Disclosures

The Institute manages endowments of \$2,427,709 in a manner consistent with its donor agreements and its Endowment Policy, which stipulates that preservation of capital shall be of prime importance.

The Institute has complied with its agreements and Endowment Policy.

12. Comparative amounts

Certain of the prior year's amounts have been reclassified to conform to the current year's financial statement presentation.