

CANADIAN RACE RELATIONS FOUNDATION
UNAUDITED INTERIM FINANCIAL STATEMENTS
Third quarter, of fiscal year 2011-2012, ended December 31, 2011

Third quarter, ended December 31, 2011

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Financial Management Discussion and Analysis

Third Quarter of fiscal year 2011-2012, ended December 31, 2011

The following sections should be read in conjunction with the Foundation's unaudited interim financial statement for the third quarter, ended December 31, 2011, and the related notes which have been prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports of Crown Corporations. We also recommend that this information be read in conjunction with the Foundation's annual financial statements and FMDA for the year ended March 31, 2011.

Statement of Financial Position Discussion

	Dec. 31 2011 (Actual \$)	Dec. 31 2010 (Actual \$)	Change (\$)	Change (%)
Assets				
Cash	143,467	73,846	69,620	94
Investments	23,384,508	24,209,575	-825,067	-3
Prepaid expenses, other receivables and inventories	155,443	25,749	129,694	504
Capital assets and intangible assets	47,037	37,485	9,552	25
Total Assets	23,730,455	24,346,656	-616,200	-3
Liabilities and Equity				
Accounts payable and accrued liabilities	22,668	45,904	-23,236	-51
Salaries and benefits payable	34,137	26,676	7,461	28
Deferred revenue	36,004	4,523	31,481	696
Obligation under capital lease	7,343	9,305	-1,963	-21
Equity	23,630,305	24,260,248	-629,944	-3
Total Liabilities and Equity	23,730,455	24,346,656	-616,200	-3

Assets

Cash is composed of cash at banks, cash balances held by the Foundation's investment managers, and cash for Diversity and Equity Leadership Institute for Ontario School System Leaders project in a restricted bank account.

Investments fair market value has decreased 3% in December 31, 2011 compared to the investment value in December 31, 2010. This is mainly due to the decrease in fair value of the Foundation's investments caused by the instability in the global equity markets and global down term economy.

Prepaid expenses, other receivables and inventories are mainly, funded projects accounts receivable, prepaid expenses, holdbacks receivable, refunds of Federal Government's Goods and Services Tax, Ontario Government's Harmonized Sales Tax, and the cost of inventories of the Foundation's publications in hardcopy and DVD format package intended for resale. The increase of \$129,894 in this period is mainly due to accounts receivable from funded projects and the City of Toronto for 2011 property tax rebate.

The **Capital assets and intangible assets** are the net book value of office furniture and equipment, computer hardware and software, and artwork.

Liabilities

Accounts payable and accrued liabilities represent amounts payable to suppliers and period end expense accruals. There is a decrease in accounts payable and accrued liabilities of \$23,236 in December 31, 2011.

Salaries and benefits payable are vacation and severance pay accruals owed to employees. There is an increase in salaries and benefits payable of \$ 7,461 in December 31, 2011 compared to the December 31, 2010. This is mainly due to an increase in accruals for severance pay and vacation in this year.

Deferred revenue is made up of unspent balance of \$34,151 contribution received by the Foundation for Diversity and Equity Leadership Institute (DELI) for Ontario School System Leaders project funded by the Ontario Ministry of Education and \$1,852 subscriptions received in advance for *DIRECTIONS*, the Foundation's periodical. There is an increase of \$31,481 in December 31, 2011 for deferred revenue compared to the December 31, 2010. This is mainly due to advanced contribution received for the "DELI" project.

Obligation under capital lease is the balance of capital repayment owed for the office equipment under lease. This is for the printer/copier lease which started at the end of 2009-10. The \$1,963 decrease represents lease obligation payments.

Equity has decreased 3% (\$629,944) in December 31, 2011 compared to the December 31, 2010 mainly due to the net operating loss in this period. The decrease represents a decrease in fair value of investments due to the instability in the global economy and equity markets.

Statement of Operations Discussion

Revenues	Three months ended				Nine months ended			
	Dec. 31 2011	Dec. 31 2010	Change		Dec. 31 2011	Dec 31. 30 2010	Change	
	(Actual \$)	(Actual \$)	\$	%	(Actual \$)	(Actual \$)	\$	%
Funded projects	64,345	-	64,345	n/a	136,236	-	136,236	n/a
Workshops	-	2,175	-2,175	-100	5,025	26,285	-21,260	-81
Sponsorships, donations, honorary and fundraising gala	-	2,525	-2,525	-100	3,500	7,845	-4,345	-55
Project - "Competencies for the Management of Diversity"	-	-	-	n/a	2,431	-	2,431	n/a
Publications	-	936	-936	-100	168	1,392	-1224	-88
Total Revenues	64345	5,636	58,709	1042	147,360	35,522	111,838	315
Net investment gain	Dec. 31 2011	Dec. 31 2010	Change		Dec. 31 2011	Dec. 31 2010	Change	
	(Actual \$)	(Actual \$)	\$	%	(Actual \$)	(Actual \$)	\$	%
	Investment income earned	150,135	169,431	-19,296	-11	542,303	438,479	103,824
Changes in fair value	426,265	122,592	303,673	248	-1,142,607	875,912	-2,018,519	-230
Net investment gain	576,400	292,023	284,377	97	-600,304	1,314,391	-1,914,695	-146

Revenues from **Funded Projects** in this quarter represent \$55,070 revenue from "Interfaith and Belonging" project, funded by the Department of Citizenship and Immigration Canada, and \$9,275 revenue from "Diversity and Equity Leadership Institute for Ontario School System Leaders" project, funded by the Ontario Ministry of Education.

Revenues from **Workshops** represent fees received by the Foundation for conducting education and training sessions. In that last three quarters of 2011-12 there were less training sessions than compared to the same periods in 2010-11.

Revenues from **Sponsorships, donations, honoraria and fundraising gala** relate to honoraria received from public speaking engagements, donations and revenues from sponsorships and fundraising gala.

Revenues from **Project - "Competencies for the Management of Diversity"** represent allocation of deferred revenue to the project revenue in this period.

Revenues from **Publications** are sale proceeds of research reports, publications and subscriptions for *DIRECTIONS*.

Investment income earned: The Foundation's primary source of income is derived from the investment income earned on the investment of the original contribution of \$24 million. Investment income earned includes interest, dividends, gain/loss on foreign exchange net after portfolio management fees. Income from investment in the third quarter of this year was \$150,135 compared to \$169,251 in the second quarter and to \$222,917 in the first quarter.

Changes in fair value of the investment portfolio in the third quarter ended December 31, 2011 is an increase of \$426,265 (compared to decreases of \$206,156 in the first quarter and \$1,306,716 in the second quarter) and is made up of \$476,171 a realized loss on sale of investment and \$902,436 an unrealized change in fair value of the investments. There was a decrease of \$1,142,607 in the fair value of the investment in December 31, 2011 compared to the December 31, 2010 as a result of the current financial and equity market meltdown.

Expenses	Three months ended				Nine months ended			
	Dec. 31 2011	Dec. 31 2010	Change		Dec. 31 2011	Dec. 31 2010	Change	
	(Actual \$)	(Actual \$)	\$	%	(Actual \$)	(Actual \$)	\$	%
Salaries and benefits	94,495	115,730	-21,236	-18	306,989	359,447	-52,457	-15
Rent	11,246	29,617	-18,371	-62	98,273	101,252	-2,979	-3
Funded Projects	73,324	-	73,324	n/a	138,947	-	138,947	n/a
Board of Directors honoraria and travel	200	36,665	-36,466	-99	31,498	73,656	-42,158	-57
Award of Excellence symposium and fundraising gala	-	-	-	n/a	-	51,999	-51,999	-100
Professional fees	19,921	11,600	-8,321	72	27,100	27,176	-77	-.03
Communication	5,568	8,502	-2,934	-35	19,393	25,198	-5,805	-23
Office and general, conference, symposium and others	20,654	18,684	1,971	11	43,406	53,826	-10,420	-21
Total Expenses	225,408	220,797	4,611	2	665,607	692,555	-26,948	-4

Salaries and benefits expenses increased by \$7,051 in the third quarter compared to the second quarter, however in December 2011 there is a decrease of \$52,457 in the salaries and benefits expenses compared to the December 2010 mainly due to changes to staff salaries and benefits during sick leave, and staff times allocated to the funded projects.

Rent expense for the office space decreased by \$32,267 in the third quarter compared to the second quarter of this year mainly due to the City of Toronto's charities property tax rebate in 2011.

Funded Projects expenses represent mainly \$86,535 (combined Q.1, Q.2, Q.3) expenses of the "Interfaith and Belonging" project and \$43,556 expenses of the "Diversity and Equity Leadership Institute for Ontario School System Leaders" project. There were no program expenses in 2010.

Honoraria and expenses for the **Board of Directors** have decreased by \$42,158 (combined Q.1, Q.2 & Q3) in this year compared to the 2010 because of more Directors' teleconference meetings in this period.

The Award of Excellence symposium and gala is an event held every other year. The December 31, 2010 expenses were for travel, meal, hotel accommodation, financial award for winners, subsidies for trainers and panelists, room rental for the gala and symposium, printed materials and audio and visual expenses for the event.

Professional fees are for legal, accounting and corporate services fees. The increase of \$8,321 in December 31, 2011, compared to the December 31 2010 is due to engagement of KPMG accounting firm in the CRRF's conversion of financial reporting to Public Sector Accounting Standards in this year.

Communications are public and media relations expenses and decreased by \$2,934.

Office and general, conference, symposium and others expenses increased by \$1,971 in December 2011 due to CRRF project activities and administration expenses.

Outlook for the fourth quarter

Fiscal Year 2011-2012

The Canadian Race Relations Foundation continues to fund its operations through the investment income. In the second quarter of this year the Foundation started the implementation of "Interfaith and Belonging" project. With funding from the Department of Citizenship and Immigration, the CRRF embarked on a major three-year national project to promote dialogue and civic engagement among and between faith-based communities. The objective is to enhance the civic participation and responsibility of these communities and to strengthen their sense of belonging to Canada.

The project is intended to facilitate a national dialogue on interfaith cooperation and communication, and to promote civic education and engagement. It effectually constructs a national framework for dialogue between and among groups of different ethnocultural and faith backgrounds and helps to strengthen their participatory role in Canadian society. Just as importantly, it constructs a national framework for engaging faith-based and ethnocultural communities in understanding Canadian diversity, democratic values and traditions; it assists communities in understanding our rights and responsibilities as residents and citizens of Canada; and it explores how best to encourage a sense of belonging to Canada.

The implementation of the "Diversity and Equity Leadership Institute for Ontario School System Leaders" project, funded by the Ontario Ministry of Education, will be completed in the next quarter of this year. With financial support from the Ministry, the CRRF engaged specialists who helped in the design and

delivery of training sessions to school system leaders in Ontario as part of the Ministry's Equity and Inclusive Education Strategy and to enhance the participants' understanding and application of equity and inclusion at work and beyond. We delivered training programs in two different locations in Ontario—Toronto, Thunder Bay, and there will be one in Ottawa in January 2012 - targeting representatives from various schools boards, including principals, vice-principals, superintendents, trustees and diversity/equity officers. The program is based on a highly interactive and experiential course grounded in adult pedagogy and layered with cutting-edge information from the fields of neuroscience, social psychology, and bias research. By combining anti-racism strategies with emotional intelligence and conflict resolution, the course sought to balance intellect with emotions, and internal factors with external forces.

Additional agreements were signed with a number of school boards to deliver the Foundation's course to system leaders. CRRF trainers will deliver a six-session course to the following school boards: The Upper Grand District School Board, the Durham District School Board; the Halton District School Board, and the Halton Catholic District School Board. The six-session program is designed to have educators and school system leaders explore Equity and Inclusion practices.

The 2012 Canada Lecture will be delivered by Keith Com, head of the Aboriginal Statistical Institute. It will provide a statistical portrait of Aboriginal communities in Canada and will take place in Winnipeg in March 2012.

In partnership with the Ryerson Centre for Immigration and Settlement (RCIS), a second Round Table will focus on "Race, Identity, and Belonging: A Generation Gap?" It is scheduled for February 17, 2012 at Ryerson University.

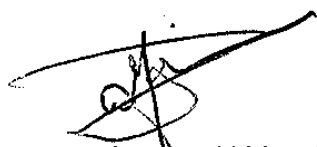
The approved budget for the year is closely monitored by senior management and the Board of Directors. We review and monitor budget variance reports on a regular basis; adjustments are made as required; and expenditures are consistent with the approved budget and are according to Board resolutions, and guidelines of the Treasury Board.

The Foundation's programs and activities are designed in accordance with the Foundations' approved and adopted 2011 to 2014 Strategic Plan. A key component in the Plan is the development and implementation of the Foundation's role as a clearing house. We are committed to the strengthening of strategic alliances with sister Crown corporations, federal and provincial government departments and agencies, community groups, and relevant sectors of Canadian society. Our outlook for the next two quarters is premised on cooperation with our partners and stakeholders with the objective of fulfilling the Foundation's strategic plan and priorities.

Statement of Management Responsibility

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these **unaudited** quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.



Aymen Al-Yassini
Executive Director



Arsalan Tavassoli MA, CGA
Finance and Administration Director

Toronto, February 17, 2012

CANADIAN RACE RELATIONS FOUNDATION
UNAUDITED INTERIM QUARTERLY FINANCIAL STATEMENTS
BALANCE SHEET

Third Quarter of fiscal year 2011-2012, ended December 31, 2011

	Dec. 31 2011	March 31 2011	Dec. 31 2010
	\$	\$	\$
Assets			
Current Assets			
Cash	143,467	206,836	73,846
Investments (note 4)	622,011	312,129	824,164
Prepaid expenses, other receivable and inventories (note 3)	155,443	62,541	25,749
	<u>920,921</u>	<u>581,506</u>	<u>923,759</u>
Investments (note 4)	22,762,497	24,265,151	23,385,412
Capital assets and intangible assets (note 8)	<u>47,037</u>	<u>35,220</u>	<u>37,485</u>
	<u>23,730,455</u>	<u>24,881,877</u>	<u>24,346,656</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	22,668	32,078	45,904
Salaries and benefits payable (note 10)	6,063	20,185	8,003
Deferred revenue	36,004	61,642	4,523
Obligation under capital lease current (note 9)	621	2,484	1,863
	<u>65,356</u>	<u>116,389</u>	<u>60,293</u>
Obligation under capital lease (note 9)	6,722	6,609	7,442
Salaries and benefits payable (note 10)	<u>28,073</u>	<u>10,023</u>	<u>18,673</u>
	<u>100,151</u>	<u>133,021</u>	<u>86,408</u>
Equity (note 12)			
Retained earnings (deficit)	(407,085)	711,466	225,633
Accumulated other comprehensive income (note 11)	<u>37,390</u>	<u>37,390</u>	<u>34,615</u>
	<u>(369,695)</u>	<u>748,856</u>	<u>260,248</u>
Contributed surplus	24,000,000	24,000,000	24,000,000
	<u>23,630,305</u>	<u>24,748,856</u>	<u>24,258,248</u>
	<u>23,730,455</u>	<u>24,881,877</u>	<u>24,346,656</u>

The accompanying notes are an integral part of the financial statements.

CANADIAN RACE RELATIONS FOUNDATION
UNAUDITED INTERIM QUARTERLY FINANCIAL STATEMENTS
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
Third Quarter of fiscal year 2011-2012, ended December 31, 2011

	Three months ended		Nine months ended	
	Dec. 31 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Revenues	\$	\$	\$	\$
Funded projects	64,345	-	136,236	-
Workshops	-	6,175	5,025	26,285
Sponsorships, donations, honoraria and fundraising gala	-	2,525	3,500	7,845
Publications	-	937	168	1,392
Project - Competencies for the Management of Diversity	-	-	2,431	-
	64,345	9,637	147,360	35,522
Expenses				
Salaries and benefits	94,494	115,730	306,989	359,447
Funded Projects	73,324	-	138,947	-
Rent	11,246	29,616	98,273	101,252
Board of Directors honoraria and travel	199	36,665	31,498	73,656
Professional fees	19,922	11,600	27,100	27,176
Office and general	5,621	4,175	21,669	20,619
Communication	5,568	8,502	19,393	25,198
Conferences, symposia and consultations	5,562	11,768	6,795	17,636
Award of Excellence symposium	-	-	-	51,999
Amortization	5,202	950	8,175	4,139
Information systems and development	4,002	939	5,925	3,496
Staff recruitment and development	268	572	842	1,394
Education and training center	-	280	-	2,360
Public education	-	-	-	4,183
	225,408	220,797	665,607	692,555
Excess of expenses over revenues before net investment gain (loss)	(161,063)	(215,161)	(518,248)	(657,033)
Net investment gain (loss) (note 14)	576,400	292,023	(600,304)	1,314,391
Net operating gain (loss)	415,337	76,862	(1,118,552)	657,358
Other comprehensive income (loss) for period	-	-	-	-
Net operating gain (loss) and other comprehensive income	415,337	76,862	(1,118,552)	657,358

The accompanying notes are an integral part of the financial statements.

CANADIAN RACE RELATIONS FOUNDATION
UNAUDITED INTERIM QUARTERLY FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN EQUITY
Third Quarter of fiscal year 2011-2012, ended December 31, 2011

	Three months ended		Nine months ended	
	Dec. 31 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
	\$	\$	\$	\$
Retained earnings				
Balance, beginning of period	(822,422)	148,772	711,466	(431,724)
Net operating gain (loss)	<u>415,337</u>	<u>76,863</u>	<u>(1,118,552)</u>	<u>657,358</u>
Balance, end of period	<u>(407,085)</u>	<u>224,634</u>	<u>(407,085)</u>	<u>225,633</u>
Accumulated other comprehensive income				
Balance, beginning of period	37,390	34,615	37,390	34,615
Other comprehensive income for period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of period	<u>37,390</u>	<u>34,615</u>	<u>37,390</u>	<u>34,615</u>
Retained earnings and accumulated other comprehensive income	<u>(369,696)</u>	<u>260,248</u>	<u>(369,695)</u>	<u>260,248</u>

The accompanying notes are an integral part of the financial statements.

CANADIAN RACE RELATIONS FOUNDATION
UNAUDITED INTERIM QUARTERLY FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS

Third Quarter of fiscal year 2011-2012, ended December 31, 2011

	Three months ended		Nine months ended	
	Dec. 31 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
	\$	\$	\$	\$
Operating activities				
Net operating gain (loss)	415,337	76,862	(1,118,552)	657,358
Items not affecting cash				
Amortization	5,202	1,609	8,175	4,139
Loss on foreign exchange	12,879	31,764	39,343	115,737
Changes in fair value of investments (note 14)	(426,265)	(157,858)	1,142,607	(892,346)
	7,154	(48,283)	71,574	(115,113)
Changes in non-cash operating assets and liabilities				
(Increase) decrease in prepaid expenses and other receivables	(78,069)	(4,131)	(92,902)	24,029
Increase (decrease) in accounts payable, accrued liabilities, salaries and benefits payable	15,528	10,130	(5,482)	(5,190)
Increase (decrease) in deferred revenue	9,500	-	(25,638)	-
Cash used in operating activities	(45,887)	(42,284)	(52,448)	(96,274)
Financing activities				
Contributions received (used)	-	-	-	-
Cash provided by (used in) financing activities	-	-	-	-
Investing activities				
Proceeds from sale of investments	929,289	2,881,736	3,999,303	7,526,011
Purchase of investments	(710,094)	(2,828,694)	(3,960,719)	(7,611,530)
Additions to capital assets and intangible assets, net of capital lease	(65,332)	(90,150)	(49,505)	243,852
Cash provided by investing activities	153,863	(37,108)	(10,921)	158,333
Net increase (decrease) in cash during year	107,976	(79,392)	(63,369)	62,059
Cash, beginning of the period	35,491	153,238	206,836	11,787
Cash, end of period	143,467	73,846	143,467	73,846
Non-cash transactions:				
Acquisitions of equipment under capital lease (notes 8 & 9)			-	11,254

The accompanying notes are an integral part of the financial statements.

NOTES TO UNAUDITED INTERIM QUARTERLY FINANCIAL STATEMENTS

Third Quarter, ended December 31, 2011

1. DESCRIPTION OF ORGANIZATION

The Canadian Race Relations Foundation (“the Foundation”) was established by way of federal government legislation (Bill C-63 “*The Canadian Race Relations Foundation Act*”, 1991).

The purpose of the Foundation is to facilitate, throughout Canada, the development, sharing and application of knowledge and expertise in order to contribute to the elimination of racism and all forms of racial discrimination in Canadian society.

The Foundation’s Education and Training Centre develops and delivers diversity, equity, and human rights education and training within an anti-racism framework.

The Foundation is a registered charity under the *Income Tax Act* and, as such, is not subject to income tax.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies of the Foundation are as follows:

a) Revenue recognition

Externally restricted contributions are deferred and recognized in Other Comprehensive Income. The Accumulated Other Comprehensive Income is transferred to revenue in the year the revenue is earned.

Unrestricted contributions are recognized as revenue in the year received or in the year the funds are committed to the Foundation if the amount can be reasonably estimated and collection is reasonably assured. Unrestricted investment income is recorded as revenue in the year it is earned.

Revenues from sponsorships, honoraria, fundraising gala, publications, conferences and projects are recognized in the year in which the services or events relating thereto takes place. Funds received in return for future services or events are deferred.

b) Financial instruments

The Foundations’ financial instruments consist of cash, investments, other receivables, accounts payable and accrued liabilities, salaries and benefits payable, deferred revenue and obligation under capital lease. Investments have been designated as held for trading and fair valued based on the policies described below. Other financial assets are categorized as loans and receivables and financial liabilities are categorized as other financial liabilities. Financial instruments other than investments are carried at amortized cost. The carrying values of cash, other receivables, accounts payable, accrued liabilities, deferred revenue and the current portion of salaries and benefits payable approximate their fair values given their short-term nature. The fair value of the non-current portion of salaries and benefits payable is based on the discounted cash flows method, using the implicit borrowing rate of the Foundation. However, given the low implicit borrowing rate of the Foundation and the medium-term of the non-current salaries and benefits payable, the fair value approximate the carrying value. The fair value of the obligation under capital lease is measured as the present value of contractual future lease payments discounted at the current market rate for similar leases. The fair value approximates the carrying value due to the stability of market rates of interest since inception.

c) Investments

Investments consist of fixed income investments, equities and pooled funds. Fixed income investments maturing within twelve months from the Quarter-end date are classified as current.

All investments have been designated as held for trading and are recorded at fair value as active management of the investment portfolio including capitalizing on short-term pricing opportunities is integral to generating funding for the Foundation. Fair values are determined by reference to published bid price quotations in an active market at Quarter end for fixed income investments and equities and by reference to transactional net asset values for pooled funds.

The transactional net asset value per unit of a pooled fund is calculated by dividing the net assets of the fund (based on closing market prices) by the total number of units outstanding.

d) Investment transactions, income recognition and transaction costs

Investment transactions are accounted for on a trade-date basis. Trade-date accounting refers to the recognition of an asset to be received and the liability to pay for it on the trade date; and the derecognition of an asset that is sold, recognition of any gain or loss on disposal, and the recognition of a receivable from the buyer for payment on the trade date.

Investment income includes interest from cash, interest from fixed income investments, dividends, distributions from pooled funds and changes in the fair value of investments designated as held for trading.

Interest from cash and fixed income investments are recognized as revenue when earned. Dividends are recognized as revenue on the ex-dividend date. Distributions are recognized as revenue on the date the distribution is declared.

Transaction costs, such as brokerage commissions incurred in the purchase and sale of investments are expensed as incurred and charged to investment income.

Investment counsel fees are expensed as incurred and charged to investment income.

e) Inventories

The Foundation records its inventories of publications for resale at the lower of cost or net realizable value at the Quarter-end date. The Foundation uses the “specific identification of cost method” of assigning costs to its ending inventories. This method requires the amount of specific inventory on hand be multiplied by its actual production cost to calculate the amount of ending inventory cost.

f) Capital assets

Capital assets are recorded at acquisition cost. Assets under capital lease are recorded at the present value of the minimum lease payments and are amortized over the term of the lease. Except for the assets under capital lease, amortization is provided for over the estimated useful lives of the assets on a straight-line basis as follows:

Office furniture and equipment	5 years
Office equipment under capital lease	Over the term of the lease
Computer hardware	3 years
Artwork	No amortization is provided for

g) Intangible assets

Intangible assets are recorded at acquisition cost. Amortization is provided for over the estimated useful lives of the asset on a straight-line basis as follows:

Computer software	3 years
Database development	3 years

h) Research payments

The contractual research payments are recorded as expenses in the Quarter they become due under the terms and conditions of the agreements.

i) Foreign currency translation

Transactions in a foreign currency are translated to Canadian dollars at the rate of exchange prevailing at the transaction date. The fair value of investments quoted in a foreign currency and accounts denominated in a foreign currency are translated into Canadian dollars at the rates prevailing at the end of the Quarter. Translation gains and losses are recorded in investment income.

j) Donation in kind

Donated materials and services are recognized in these financial statements when a fair value can be reasonably estimated; the materials and services are used in the normal course of the Foundation's operations and would otherwise have been purchased.

k) Management estimates

The preparation of 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 reporting period. Actual results could differ significantly from these estimates such as amortization of capital assets and the calculation of Quarter-end salaries and benefits accruals.

l) Future accounting changes

Currently, the Foundation is classified as a Government Business-Type Organization (GBTO). In December 2009, the Public Sector Accounting Board (PSAB) amended the Introduction to Public Sector Accounting Standards, eliminating the GBTO classification effective for years beginning on or after January 1, 2011. Government organizations previously classified as a GBTO are required to reclassify themselves as a Government Not-For-Profit Organization (GNPO) or Other Government Organization (OGO), and adopt the applicable accounting standards for year beginning on or after January 1, 2011.

Effective for its 2011-12 fiscal year, the Foundation will be classified as a GNPO and will implement Public Sector Accounting Standards including the 4200 series of accounting standards applicable for government not-for-profit organizations. The Foundation has developed, and is implementing, a plan for the transition to the new accounting standards on a retrospective basis for the year ending March 31, 2012. However, as of the date of this report the transition to the new accounting standard has not been completed yet and readers are cautioned that:

- there has been a departure from generally accepted accounting principles;
- management has elected to reflect the change only in the annual audited financial statements; and
- the quarterly financial statements do not include the impact of the new accounting principles.

3. **INVENTORIES**

The inventories on hand consist of the Foundation's publications in hardcopy and DVD format package intended for resale.

4. **INVESTMENTS**

	2011 December 31 Fair value \$	2010 December 31 Fair value \$
Current		
Fixed income investments – Canadian	622,011	824,164
Non-current		
Fixed income investments – Canadian	7,487,317	7,899,960
Fixed income investments – Foreign	195,179	9,946
Equity securities – Canadian	2,143,872	2,308,366
Equity securities – Foreign	8,847,211	8,954,224
Pooled fund units	4,088,918	4,212,915
	<u>22,762,497</u>	<u>23,385,411</u>
Total fair value of investments	<u>23,384,508</u>	<u>24,209,575</u>

5. **FINANCIAL RISK MANAGEMENT**

In the normal course of business, the Foundation is exposed to a variety of financial risks: credit risk, interest rate risk, currency risk, other price risk and liquidity risk. The value of investments within the Foundation's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions and market news related to specific securities within the Foundation's portfolio. The level of risk depends on the Foundation's investment objectives and the types of securities in which it invests.

The Foundation manages these risks by following a diversified investment strategy which is defined and set out in its Investment Policy Statement. The portfolio is diversified according to asset class by combining different types of asset classes such as money market, fixed income and equities within the portfolio. The percentage of the portfolio allocated to each asset class is defined within a specific range and the allocations are reviewed at least every quarter to ensure that they remain within the target range or the portfolio is rebalanced to the target range.

a) **Asset Mix**

As of December 31, 2011, the Foundation's investment portfolio investment asset mix was as follows:

- 47.7% in Cash & Fixed Income (2010 – 46.7%)
- 13.3% in Canadian Equities (2010 – 13.7%)
- 17.6% in US Equities (2010 – 16.8%)
- 21.4% in International Equities (2010 – 22.8%)

Within each asset class, the Foundation also holds investments with different risk-return characteristics. For example, equities are diversified across industry sectors and by company size (market capitalization) while bonds are diversified by credit ratings, term to maturity, as well as across the government and corporate bond sectors. In addition, the Foundation employs investment managers with different investment styles such as value, growth and growth at a reasonable price (GARP). Diversification also occurs at the individual security selection level whereby securities are selected based on either top-down analysis or bottom-up analysis. The Foundation is also diversified across geographic regions by investing in Canadian, US and international securities.

b) Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Foundation. The Foundation's investments in fixed income securities represent the main concentration of credit risk. The market value of fixed income securities includes consideration of the credit worthiness of the issuer, and accordingly, represents the maximum credit risk exposure of the Foundation.

Information on the Credit Ratings Report was not available for these interim financial statements. The credit rating report for the year end March 31, 2011 is as follows:

Debt instrument by credit rating	Percentage of Value	
	2011 March 31	2010 March 31
AAA (+ R1 rated short term)	30.4%	29.6%
AA	28.4%	30.6%
A	29.4%	28.2%
BBB	6.8%	7.9%
BB or less	5.0%	3.7%

Credit ratings are obtained from a number of reputable rating agencies (e.g. Standard & Poor's, Moody's, Fitch or Dominion Bond Rating Services). Where more than one rating is obtained for a security, the lowest rating has been used.

c) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Foundation invests in interest-bearing financial instruments. The Foundation is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. Typically longer maturity instruments have greater interest rate risk; however a more sophisticated measure of interest rate risk taking into account the interest (or coupon) received is the duration of the securities. Duration is a measure of the sensitivity of a fixed income security's price to changes in interest rates and is based on the relative size and the time to maturity of expected cash flows. Duration is measured in years and will range between 0 years and the time to maturity of the fixed income security. The Foundation has divided its portfolio to be managed by several independent investment managers. The duration of the Foundation's fixed income portfolio is calculated based on the weighted average of the individual investment manager durations. Individual investment manager durations are computed based on the weighted average of the durations of individual securities (e.g. bonds) within each manager's fixed income portfolio.

The Foundation's fixed income investments comprise:

	2011 Dec. 31	2010 Dec. 31
	\$	\$
Fixed income investments – Canadian - current	622,011	824,164
Fixed income investments – Canadian- non-current	7,487,317	7,899,960
Fixed income investments – Foreign - non-current	195,179	9,946
Fixed income investments included in pooled fund units	4,088,918	4,212,915
	12,393,425	12,946,985

Fixed income securities by maturity date:

	2011 Dec. 31	2010 Dec. 31
	\$	\$
Less than 1 year	622,011	824,164
1-3 year	1,639,709	1,835,291
3-5 year	2,152,247	1,969,515
Greater than 5 year	7,285,016	4,105,100
Pooled Fund Units	4,088,918	4,212,915
Total fixed income securities	12,393,425	12,946,985

d) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Foundation.

The Foundation is exposed to currency risk on its investment portfolio from the following currencies:

2011 December 31	USD (\$)	GBP (\$)	Euro (\$)	Yen (\$)	Others (\$)
Market Value	\$4,501,139	\$142,927	\$862,765	\$302,434	\$3,233,125
% of Portfolio	19.25%	0.61%	3.69%	1.29%	13.83%
2010 December 31	USD (\$)	GBP (\$)	Euro (\$)	Yen (\$)	Others (\$)
Market Value	\$4,437,964	\$188,888	\$901,549	\$322,861	\$3,112,908
% of Portfolio	18.33%	0.78%	3.72%	1.33%	12.86%

These amounts are based on the market value of the Foundation's investments. Other financial assets and financial liabilities that are denominated in foreign currencies do not expose the Foundation to significant currency risk.

As at December 31, 2011, if the Canadian dollar strengthened or weakened by 1% in relation to other currencies, with all other variables held constant, operating results and equity would have an increase or decrease, respectively, by approximately:

	2011 Dec. 31	2011 Dec. 31	2010 Dec. 31	2010 Dec. 31
	Increase in	Decrease in	Increase in	Decrease in
	value	value	value	value
	\$	\$	\$	\$
US dollars	45,011	(45,011)	44,379	(44,379)
British pound	1,429	(1,429)	1,889	(1,889)
Euro	8,627	(8,627)	9,015	(9,054)
Japanese yen	3,024	(3,024)	3,228	(3,228)
Others	32,331	(32,331)	31,129	(31,129)

In practice actual results may differ from the above sensitivity analysis and the difference could be material.

e) Other price risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). All investments represent a risk of loss of capital. The investment managers of the portfolio contracted by the Foundation moderate this risk through a careful selection and diversification of securities and other financial instruments within the limits of specified statements of investment policy and guidelines (SIPGs) which are negotiated and agreed upon with each investment manager. The maximum risk resulting from financial instruments is determined by the market value of the financial instruments. The Foundation's overall market positions are monitored on a daily basis by the portfolio managers. Financial instruments held by the Foundation are susceptible to market price risk arising from uncertainties about future prices of the instruments.

The portfolio's actual return is compared to the benchmark return as a measure of relative performance. The benchmark return is based on the index returns for each asset class and the long term target allocation of each asset class in the portfolio. The portfolio's long term target asset allocation is specified in the Foundation's Investment Policy Statement. The revised Investment Policy Statement which was approved in 2009-2010 fiscal year was implemented in this year. As a result, the Foundation's long term target asset allocation and individual asset class indices in effect as at December 31, 2011 is as follows:

Target Asset Allocation	Asset Class Index
50% Fixed Income (including cash)	DEX Universe Bond Index (DEX 91-day T-Bill Index for cash)
15% Canadian equities	S&P TSX Composite Index
17.5% US equities	S&P 500 Index (C\$)
17.5% International equities	MSCI EAFE Index (C\$)

f) Liquidity risk

Liquidity risk is defined as the risk that the Foundation may not be able to settle or meet its obligations on time or at a reasonable price. The Foundation is exposed to liquidity risk as the Foundation is only able to utilize the investment income earned on the Endowment Fund to settle its obligations and such investment income fluctuates with the market conditions relating to the Foundation investment portfolio. The Foundation manages its investments by maintaining capital management policies (as described in Note 7).

As at December 31, 2011 the Foundation's liabilities have contractual maturities as follows:

	Less than 3 months	3 to 12 months	Over 1 Year	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	21,570	100	998	22,668
Salaries and benefits payable	6,063	16,936	11,138	34,137
Obligation under capital lease	621	1,863	4,859	7,343

6. FINANCIAL INSTRUMENTS – DISCLOSURE

All financial instruments measured at fair value must be classified in fair value hierarchy levels, which are as follows:

Level 1	Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2	Inputs that are based on quoted prices for similar assets or liabilities and inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
Level 3	Fair value determination requiring significant management judgment or estimation and at least one significant model assumption or input that is unobservable

Information on the fair value hierarchy levels was not available for these interim financial statements.

Financial Assets at fair value as at March 31, 2011:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Fixed income investment	838,926	7,724,048	-	8,562,974
Equity securities	11,446,126	-	-	11,446,126
Pooled fund units	-	4,568,180	-	4,568,180
Total investments	<u>12,285,052</u>	<u>12,292,228</u>	-	<u>24,577,280</u>

During the year ended March 31, 2011, there were no significant transfers between Level 1 and Level 2 of the fair value hierarchy

7. CAPITAL MANAGEMENT

The Foundation's capital cost consists of:

	2011 Dec. 31 \$	2010 Dec. 31 \$
Contributed surplus	24,000,000	24,000,000
Accumulated other comprehensive income	37,390	34,615
Retained earnings (deficit)	(407,085)	225,633
Total	<u>23,630,305</u>	<u>24,260,248</u>

The Foundation's Contributed surplus represents the original \$24,000,000 endowment fund, which is restricted. As described in Note 12, the *Canadian Race Relations Foundation Act* stipulates that the Endowment Fund is to be used only for investment and the earning of income, which income may be expended for the purpose of the Foundation. In management's opinion the Foundation is in compliance with the Act.

The overall objectives in investing the assets of the Foundation are to preserve and enhance the value of capital through adequate diversification in high quality investments and achieve the highest investment return that can be obtained with the assumption of an acceptable degree of risk.

The Accumulated other comprehensive income consists of contributions received by way of donations that have been restricted for specific purposes by the donors. The Foundation has complied with the requirements of these external contributions.

The Foundation employs a capital management plan and a Statement of Investment Policies and Guidelines that are reviewed by the Board of Directors. The Statement of Investment Policies and Guidelines outlines the Foundation's approach to investment growth, credit quality and profitability objectives.

The Statement of Investment Policies and Guidelines states that the Foundation's assets shall be invested in fixed income and equity securities in such proportions as may be established from time to time by the Board of Directors upon recommendation of the Investment Committee in consultation with the portfolio managers contracted by the Foundation. The Foundation's investment in equities, bonds and short term securities are diversified by industry group and by individual companies with industry groupings. The portfolio is not fragmented into individual holdings of uneconomic and unmanageable size. The Foundation's investment in income trusts or pooled fund units and similar investment instruments is limited to those securities that are listed on a recognizable stock exchange and are resident in jurisdictions that provide limited liability to unit holders. Each portfolio manager has flexibility within certain ranges in determining their asset mix. The overall long term asset mix of the Foundation is subject to a 45% investment allocation to equities (20% Canadian and 25% foreign common stocks) and 55% investment allocation to fixed income (cash, short term investments and bonds). In unique circumstances the portfolio managers may be granted approval by the Board of Directors upon the recommendation of the Investment Committee to temporarily alter the asset mix limitation guidelines. As per Foundation's Investment Policy Statement the investment portfolio's assets split in to the restricted and unrestricted funds and shall be reported separately by the investment advisors, managers and custodians. Based on the Foundation December 31, 2011 investment portfolio report, approximately 97% of the current portfolio is comprised of restricted funds and 3% of unrestricted funds.

8. CAPITAL ASSETS AND INTANGIBLE ASSETS

	December 31 2011			December 31 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$	\$	\$	\$
Capital Assets						
Furniture & Office Equipment	116,397	113,757	2,640	115,714	109,283	6,431
Computer Hardware	166,425	154,034	12,391	151,437	150,982	455
Artwork	16,225	-	16,225	16,225	-	16,225
	299,047	267,791	31,256	283,376	260,265	23,111
Equipment Under Capital Lease	11,254	1,125	10,129	11,254	281	10,973
	310,301	268,916	41,385	294,630	260,546	34,084
Intangible Assets						
Computer software	31,357	25,705	5,652	26,745	23,343	3,402
Database development	5,539	5,539	-	5,539	5,539	-
	36,896	31,244	5,652	32,284	28,882	3,402
Total	347,197	300,160	47,037	326,914	289,428	37,485

9. OBLIGATION UNDER CAPITAL LEASE

The Foundation has entered into an agreement to rent office equipment under capital lease in March 2010.

	2011 December 31	2010 December 31
	\$	\$
Obligation under capital lease, repayable in blended quarterly installments of \$621, including principal and interest at 4.25%, maturing March 31, 2015, and secured by related equipment	7,343	9,305
Less: current portion	<u>(2,484)</u>	<u>(2,484)</u>
	<u>4,859</u>	<u>6,821</u>
Future minimum lease payments as at December 31 are as follows		
2011	-	1,242
2012	621	2,484
2013	2,484	2,484
2014	2,484	2,484
2015	2,484	2,484
	<u>8,073</u>	<u>10,227</u>
Less: Amount representing interest	<u>(730)</u>	<u>(1,252)</u>
	<u>7,343</u>	<u>9,305</u>

10. SALARIES AND BENEFITS PAYABLE

The current portion of the salaries and benefits payable of \$6,063 (2010 - \$8,003) relates to accruals for vacation pay and overtime pay for the staff of the Foundation.

The non-current portion of the salaries and benefits payable of \$28,073 (2010 - \$18,673) is an accrual for severance pay and maternity leave benefits for the staff of the Foundation.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income represents unspent externally restricted contributions received by way of donations that have been restricted by the donors.

12. EQUITY

Contributed surplus represents the original contribution of \$24,000,000, which constitutes an Endowment Fund and is considered restricted funds. The original contribution included \$12,000,000 which was part of the Redress Agreement with the National Association of Japanese Canadians, and \$12,000,000 from the Government of Canada.

The “*Canadian Race Relations Foundation Act*” stipulates that this Endowment Fund is to be used only for investment and is not available to fund the Foundation’s activities. Investment income earned from the Endowment Fund excluding changes in the fair value of investments held is available to fund the Foundation’s activities.

The Foundation has established two policies for the allocation of operating surplus. The Capital Preservation Fund policy is intended to recognize inflation in order to preserve the capital endowment fund of \$24,000,000. The Reserve Fund policy is used for the accumulation of unallocated operating surplus.

13. **COMMITMENTS**

The Foundation entered into a lease agreement for office premises commencing April 1, 2008 and expiring March 31, 2013.

The Foundation is also committed to two office equipment leases and a contract for on-line event management.

The commitments for the next five years are:

	\$
2012	48,500
2013	195,000
2014	5,000
2015	3,000
2016	-
	<u>248,500</u>

14. **NET INVESTMENT GAIN**

	2011 Dec. 31 (three quarters) \$	2010 Dec. 31 (three quarters)
Realized gains (loss) on sale of investments	(351,957)	326,471
Unrealized change in fair value of investments	(790,650)	565,875
Changes in fair value of investments	<u>(1,142,607)</u>	<u>892,346</u>
Interest from cash and fixed income investments, dividends, distributions from pooled fund units, gains on foreign exchange less transaction costs and investment counsel fees	<u>542,303</u>	<u>422,045</u>
Net investment gain (loss)	<u>(600,304)</u>	<u>1,314,391</u>

15. **RELATED PARTY TRANSACTIONS**

The Foundation is related in terms of common ownership to all Government of Canada departments, agencies, and crown corporations. There were \$86,534 related party transactions for the Nine- months period ended December 31, 2011.