

Financial Statements of

THE ROYAL SOCIETY OF CANADA

March 31, 2011

Independent Auditor's Report

To the Members of
The Royal Society of Canada

We have audited the accompanying financial statements of the Royal Society of Canada (the "Society"), which comprise the balance sheet as at March 31, 2011 and the statements of revenue and expenses and changes in fund balances and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent Auditor's Report (Continued)

Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Society as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

October 4, 2011

THE ROYAL SOCIETY OF CANADA
Financial Statements
March 31, 2011

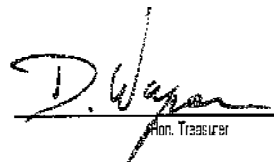
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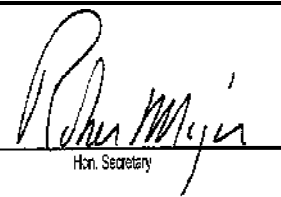
Royal Society of Canada
Balance Sheet
as at March 31, 2011

	Unrestricted	Internally Restricted			Endowment Fund Externally Restricted			2011	2010
	General Administration Fund	Life Membership Fund	Development Fund	Awards Trust Fund	The EJLB-CIHR Michael Smith Chair Fund	The Canada- Ukraine Fund	Kitty and Lou Newman Memorial Fund		
CURRENT ASSETS									
Cash and cash equivalents	\$ 1,504,948	\$ -	\$ -	\$ -	\$ 34,913	\$ -	\$ -	\$ 1,539,861	\$ 865,676
Accounts receivable (Note 3)	87,691	-	-	-	-	-	-	87,691	229,707
Prepaid expenses	77,295	-	-	-	-	-	-	77,295	42,373
	1,669,934	-	-	-	34,913	-	-	1,704,847	1,137,756
INVESTMENTS (Note 4)	37,624	406,507	1,339,604	1,455,100	1,067,232	64,268	142,465	4,512,800	4,822,552
CAPITAL ASSETS (Note 5)	39,405	-	-	-	-	-	-	39,405	9,619
TOTAL ASSETS	\$ 1,746,963	\$ 406,507	\$ 1,339,604	\$ 1,455,100	\$ 1,102,145	\$ 64,268	\$ 142,465	\$ 6,257,052	\$ 5,969,927
CURRENT LIABILITIES									
Accounts payable and accrued liabilities	\$ 121,328	\$ -	\$ -	\$ -	\$ 34,913	\$ -	\$ -	\$ 156,241	\$ 79,664
Deferred memberships	232,500	-	-	-	-	-	-	232,500	320,420
Deferred contributions (Note 6)	1,349,488	-	-	-	-	-	-	1,349,488	802,372
	1,703,316	-	-	-	34,913	-	-	1,738,229	1,202,456
FUND BALANCES									
Invested in capital assets	39,405	-	-	-	-	-	-	39,405	9,619
Internally restricted	-	406,507	1,339,604	1,455,100	-	-	-	3,201,211	3,093,773
Externally restricted	-	-	-	-	1,067,232	64,268	142,465	1,273,965	1,226,253
Unrestricted	4,242	-	-	-	-	-	-	4,242	437,826
	43,647	406,507	1,339,604	1,455,100	1,067,232	64,268	142,465	4,518,823	4,767,471
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,746,963	\$ 406,507	\$ 1,339,604	\$ 1,455,100	\$ 1,102,145	\$ 64,268	\$ 142,465	\$ 6,257,052	\$ 5,969,927

The accompanying notes form an integral part of these financial statements.

APPROVED ON BEHALF OF THE BOARD:


 Hon. Treasurer


 Hon. Secretary

ROYAL SOCIETY OF CANADA

Statement of Revenue and Expenses and Changes in Fund Balances

year ended March 31, 2011

	General Fund						Endowment Fund Externally Restricted						
	Unrestricted		Internally Restricted				The EJLB-CIHR Michael Smith Chair Fund		The Canada- Ukraine Fund		Kitty and Lou Newman Memorial Fund		
	General Administration Fund	Life Membership Fund	Development Fund	Awards Trust Fund	Total		Total		Total				
					2011	2010	2011	2010	2011	2010			
Revenue													
Administration fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,123	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,123
Donations and fundraising	65,080	-	4,119	-	69,199	211,533	-	-	-	-	32,465	69,199	243,998
Events and programs	212,342	-	-	-	212,342	218,508	-	-	-	-	-	212,342	218,508
Investments	22,730	32,735	104,597	124,328	284,390	565,023	86,630	5,034	12,049	103,713	213,185	388,103	778,208
Memberships	718,278	56,830	-	-	775,108	738,980	-	-	-	-	-	775,108	738,980
Program activities (Note 6)	114,650	-	-	-	114,650	284,841	-	-	-	-	-	114,650	284,841
Other revenue	7,606	-	-	-	7,606	1,070	-	-	-	-	-	7,606	1,070
	1,140,686	89,565	108,716	124,328	1,463,295	2,042,078	86,630	5,034	12,049	103,713	245,650	1,567,008	2,287,728
Expenses													
Accommodation and travel	183,994	-	-	-	183,994	124,850	-	-	-	-	-	183,994	124,850
Bad debts	69,982	-	-	-	69,982	19,400	-	-	-	-	-	69,982	19,400
Communications	99,861	-	-	-	99,861	141,034	-	-	-	-	-	99,861	141,034
Equipment, software, furnishings, decor	31,812	-	-	-	31,812	23,580	-	-	-	-	-	31,812	23,580
Program contributions	5,612	-	-	-	5,612	21,734	34,913	-	-	34,913	24,233	40,525	45,967
Facilities, catering, audio, visual	188,740	-	-	-	188,740	174,029	-	-	-	-	-	188,740	174,029
Gifts, awards, recognition	22,606	-	-	18,631	41,237	67,562	-	-	-	-	-	41,237	67,562
Human resources	866,640	-	-	-	866,640	679,037	-	-	-	-	-	866,640	679,037
Investment management fees	1,266	1,824	5,829	6,929	15,848	12,891	4,828	281	671	5,780	7,444	21,628	20,335
Office facilities	102,131	-	-	-	102,131	97,425	-	-	-	-	-	102,131	97,425
Photo, video, floral, music	15,400	-	-	-	15,400	20,458	-	-	-	-	-	15,400	20,458
Program activities	118,647	-	-	-	118,647	291,474	-	-	-	-	-	118,647	291,474
Supplies	24,030	-	-	-	24,030	10,342	-	-	-	-	-	24,030	10,342
Other expenses	11,029	-	-	-	11,029	27,269	-	-	-	-	-	11,029	27,269
	1,741,750	1,824	5,829	25,560	1,774,963	1,711,085	39,741	281	671	40,693	31,677	1,815,656	1,742,762
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(601,064)	87,741	102,887	98,768	(311,668)	330,993	46,889	4,753	11,378	63,020	213,973	(248,648)	544,966
FUND BALANCES, BEGINNING OF YEAR	447,445	387,046	1,236,717	1,470,010	3,541,218	3,204,934	1,024,273	59,515	142,465	1,226,253	1,017,571	4,767,471	4,222,505
INTERFUND TRANSFERS (Note 7)	197,266	(68,280)	-	(113,678)	15,308	5,291	(3,930)	-	(11,378)	(15,308)	(5,291)	-	-
FUND BALANCES, END OF YEAR	\$ 43,647	\$ 406,507	\$ 1,339,604	\$ 1,455,100	\$ 3,244,858	\$ 3,541,218	\$ 1,067,232	\$ 64,268	\$ 142,465	\$ 1,273,965	\$ 1,226,253	\$ 4,518,823	\$ 4,767,471

The accompanying notes form an integral part of these financial statements.

Royal Society of Canada
Statement of Cash Flows
year ended March 31, 2011

	<u>2011</u>	<u>2010</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (deficiency) of revenue over expenses	\$ (248,648)	\$ 544,966
Adjusted for:		
Amortization of capital assets	21,721	9,099
Unrealized gains on investments	(193,935)	(616,297)
Changes in deferred memberships	(87,920)	(44,024)
Changes in deferred contributions	547,116	133,502
Changes in non-cash operating working capital items:		
Decrease (increase) in accounts receivable	142,016	(91,365)
Increase in prepaid expenses	(34,922)	(14,327)
Increase (decrease) in accounts payable and accrued liabilities	76,577	(10,612)
	222,005	(89,058)
INVESTING		
Purchase of investments	(96,955)	(452,367)
Proceeds on disposal of investments	600,642	296,077
Purchase of capital assets	(51,507)	(13,106)
	452,180	(169,396)
NET CASH INFLOW (OUTFLOW)	674,185	(258,454)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	865,676	1,124,130
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,539,861	\$ 865,676

The accompanying notes form an integral part of these financial statements.

THE ROYAL SOCIETY OF CANADA

Notes to the Financial Statements

year ended March 31, 2011

1. DESCRIPTION OF BUSINESS

The Royal Society of Canada (the "Society") is a registered charitable organization, exempt from income taxes, comprised of Fellows from across the country, selected by their peers for outstanding contribution to the arts and sciences. The Society was incorporated under an Act of the Parliament of Canada in 1883, and is dedicated to fostering the highest level of learning and research in all areas of scholarship, making available to its members' broad and varied knowledge to evaluate and advise on social, cultural, economic, and scientific issues for the benefit of Canada and promoting Canadian scholarship and accomplishments internationally through active exchanges with other national academies.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include the following significant accounting policies:

Revenue recognition

The Society follows the restricted fund method of accounting for contributions. Contributions include donations, sponsorships, grants and bequests. The Society uses contributions as specified by the contributor.

Restricted contributions are recognized as revenue in the appropriate restricted fund in the year received. Restricted contributions, for which a restricted fund does not exist, are recognized in the General Fund using the deferral method. Unrestricted contributions are recognized as revenue in the General Fund.

Membership fees are assessed annually for continuing members of the Society, which include both Fellows and Institutions. These revenues are recognized in the year of membership. Fees received in advance of the membership year are deferred.

Event registration fees and contributions are recognized as revenue in the period in which the related event occurs.

Revenue from fundraising activities is recognized when received.

Contributions received for the acquisition of capital assets that will be amortized are deferred and recognized as revenue on the same basis as the amortization expense on the related capital assets.

THE ROYAL SOCIETY OF CANADA
Notes to the Financial Statements
year ended March 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund accounting

In accordance with the principles of fund accounting, the Society maintains its accounting records to ensure that limitations and restrictions placed on the use of available resources are observed. Under this method, all resources are classified for accounting and reporting purposes into funds that are in accordance with specific activities and objectives. Accordingly, separate accounts are maintained for the following funds:

The General Administration Fund (unrestricted) reports the Society's membership and administrative activities, as well as program activities as disclosed in Note 7. This fund also accounts for the Society's capital assets.

The Life Membership Fund is an internally restricted fund, established by the members of council, to record life membership funds received. On an annual basis, one year of life membership fees are transferred to the General Administration Fund. The life membership funds are invested and the investment income earned is transferred to the General Administration Fund.

The Development Fund is an internally restricted fund which reports donations and bequests. Donations and bequests received are invested and the investment income earned by this fund is used to promote the objects of the Society.

The Awards Trust Fund is an internally restricted fund used to fund various award programs. Most awards are offered either annually or biennially and recipients may be awarded cash, a medal, a diploma and/or certificate.

The EJLB-CIHR Michael Smith Chair Fund was established in 2001 as an endowment fund. The primary objective of the endowment is to provide an annual income to the EJLB-CIHR Michael Smith Chair in Neurosciences and Mental Health.

The Canadian-Ukraine Fund was established in 1993, as an endowment to fund a program in which a Canadian and a Ukrainian distinguished scholar in the sciences could visit, on alternate years, each other's country on a lecture tour speaking to specialized audiences and to the public. This fund is currently inactive.

The Kitty and Lou Newman Memorial Fund was established as an endowment fund in 2009. The investment income earned by the fund will be used for awards, scholarships, lectures and so forth, within the Society's educational programs.

THE ROYAL SOCIETY OF CANADA

Notes to the Financial Statements

year ended March 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Society's designation of such instruments. Settlement date accounting is used.

The Society has classified its financial instruments as follows:

Classifications made by the Society:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Investments	Held-for-trading
Accounts payable and accrued liabilities	Other liabilities

No information on fair value is presented when the carrying amount corresponds to a reasonable approximation of the fair value.

Cash and cash equivalents

Cash and cash equivalents include highly liquid government investment certificates that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Investments

Income earned, management fees and realized/unrealized gains (losses) on investments are allocated to the various funds which participate in the investment portfolio on the basis of reserve balances at the beginning of the year.

Capital assets

Capital assets are recorded at cost, net of accumulated amortization. Amortization is recorded on a straight-line basis using the following terms:

Office furniture	5 years
Computer hardware	3 years
Computer software	3 years
Equipment	3 years

THE ROYAL SOCIETY OF CANADA

Notes to the Financial Statements

year ended March 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed services

The Society receives the services of many volunteers, the cost of which cannot be reasonably estimated. Therefore, these services have not been recorded in these financial statements.

Use of estimates

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. The most significant estimates used include the fair value of investments, the amount of accrued liabilities, the estimated useful life of capital assets and the allowance for doubtful accounts. Actual amounts could differ from these estimates.

Future changes in accounting policies

In 2010, the Canadian Institute of Chartered Accountants (CICA) issued a new accounting framework applicable to Canadian not-for-profit organizations. Effective for fiscal years beginning on or after January 1, 2012, not-for-profit organizations may adopt either International Financial Reporting Standards or GAAP for not-for-profit organizations. The Society currently plans to adopt GAAP for not-for-profit organizations effective April 1, 2012.

3. ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following:

	<u>2011</u>	<u>2010</u>
Membership fees receivable	\$ 122,512	\$ 209,063
Sales taxes recoverable	45,245	47,246
	<u>167,757</u>	<u>256,309</u>
Less: allowance for doubtful accounts	<u>(80,066)</u>	<u>(26,602)</u>
	<u>\$ 87,691</u>	<u>\$ 229,707</u>

THE ROYAL SOCIETY OF CANADA
Notes to the Financial Statements
year ended March 31, 2011

4. INVESTMENTS

	2011			2010		
	Fair Value	Cost	% of Fair Value	Fair Value	Cost	% of Fair Value
Fixed income						
Canadian bonds	\$ 767,762	\$ 751,365	17.0	\$ 987,749	\$ 961,449	20.5
Canadian bond funds	1,337,700	1,328,290	29.6	1,353,213	1,338,032	28.1
Canadian money market funds	102,110	102,110	2.3	108,133	108,133	2.2
Cash held for investment purposes	22,376	22,376	0.5	249,303	249,303	5.2
	2,229,948	2,204,141	49.4	2,698,398	2,656,917	56.0
Equity						
Common shares	504,978	394,351	11.2	449,063	394,351	9.3
Preferred shares	22,481	23,500	0.5	18,980	23,500	0.4
Global equity pooled funds	700,538	801,276	15.5	673,480	818,532	14.0
Canadian equity pooled funds	1,054,855	786,129	23.4	982,631	819,784	20.3
	2,282,852	2,005,256	50.6	2,124,154	2,056,167	44.0
	\$ 4,512,800	\$ 4,209,397	100.0	\$ 4,822,552	\$ 4,713,084	100.0

Interest rate risk

Interest rate risk is the exposure of the Society's earnings that arises from fluctuations in interest rates. The Society is exposed to interest rate risk on its investments and manages its risk by balancing its investment portfolio.

The coupon rate on fixed income investment varies from 4.25% to 8.5% (2010 - 3.70% to 8.00%), with maturity dates varying from 2011 to 2027 (2010 - 2015 to 2027).

Credit risk

Credit risk is the potential that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum credit exposure of the Society is represented by the fair value of accounts receivable and investments as presented in the balance sheet. It is management's opinion that the Society is not exposed to significant credit risk arising from accounts receivable.

THE ROYAL SOCIETY OF CANADA

Notes to the Financial Statements

year ended March 31, 2011

4. INVESTMENTS (Continued)

Foreign currency risk

The Society is exposed to foreign currency risk due to the Society's holdings of global equity funds which total \$700,538 (2010 - \$673,480)

5. CAPITAL ASSETS

	2011			2010
	Cost	Accumulated Amortization	Book Value	Book Value
Office furniture	\$ 3,522	\$ 2,049	\$ 1,473	\$ 2,177
Computer hardware	67,919	43,156	24,763	5,753
Computer software	26,266	13,942	12,324	-
Equipment	5,967	5,122	845	1,689
	\$ 103,674	\$ 64,269	\$ 39,405	\$ 9,619

6. DEFERRED CONTRIBUTIONS

	2011				2010
	Extending Excellence	International	Other	Total	Total
Opening balance	\$ 678,544	\$ 59,866	\$ 63,962	\$ 802,372	\$ 668,870
Contributions received	307,500	24,072	330,194	661,766	418,343
Revenue recognized	(22,989)	(501)	(91,160)	(114,650)	(284,841)
Closing balance	\$ 963,055	\$ 83,437	\$ 302,996	\$ 1,349,488	\$ 802,372

THE ROYAL SOCIETY OF CANADA

Notes to the Financial Statements

year ended March 31, 2011

7. INTERFUND TRANSFERS

During the year the following transfers occurred:

- \$45,351 (2010 - \$40,472) was transferred from the Life Membership Fund to the General Administration Fund, which represents one year of life membership fees initially recognized in the Life Membership Fund;
- \$22,929 (2010 - \$NIL) was transferred from the Life Membership Fund to the General Administration Fund, which represents realized gains and investment income earned on investments in fiscal years 2010 and 2011;
- \$21,000 (2010 - \$19,528) was transferred from the Awards Trust Fund to the General Administration Fund to cover administrative costs of managing the Awards Trust Fund;
- \$39,056 (2010 - \$NIL) was transferred from the Awards Trust Fund to the General Administration Fund which represents a reversal of the amount that was transferred in 2010. In 2010, \$19,528 was transferred from the General Administration Fund to the Awards Trust Fund. However, the amount should have been transferred from the Awards Trust Fund to the General Administration Fund;
- \$65,000 (2010 - \$NIL) was transferred from the Awards Trust Fund to the General Administration Fund to eliminate any deficit position in unrestricted fund balances;
- \$3,930 (2010 - \$NIL) was transferred from the EJLB-CIHR Michael Smith Chair Fund to the General Administration Fund to cover administrative costs of managing the program; and
- \$11,378 (2010 - \$NIL), was transferred from the Kitty and Lou Newman Memorial Fund to the Awards Trust Fund to fulfill the primary objective of the endowment which is to provide funds for awards, scholarships, lectures and so forth, as described in Note 2. The amount transferred represents the excess of revenue over expenses of the Kitty and Lou Newman Memorial Fund for the year ended March 31, 2011.

8. CAPITAL MANAGEMENT

The Society's capital consists of its fund balances as disclosed on the balance sheet. As the Society relies on revenues generated annually, its objectives when managing capital are to safeguard the Society's ability to continue as a not-for-profit organization and maximize investment income. Some of the Society's capital is restricted as disclosed in Note 2. The Society complied with all its capital restrictions and requirements during the year. The Society's definition of capital, capital management policies and procedures are consistent with the previous year.

THE ROYAL SOCIETY OF CANADA
Notes to the Financial Statements
year ended March 31, 2011

9. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.