

The Calgary Rotary Clubs Foundation

Financial Statements
February 28, 2018



June 12, 2018

Independent Auditor's Report

To the Members of The Calgary Rotary Clubs Foundation

We have audited the accompanying financial statements of The Calgary Rotary Clubs Foundation, which comprise the statement of financial position as at February 28, 2018 and the statements of revenue and expenses and changes in fund balances and cash flows for the year then ended, and the related notes, which comprise 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.

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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Calgary Rotary Clubs Foundation as at February 28, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

The Calgary Rotary Clubs Foundation

Statement of Financial Position

As at February 28, 2018

	2018 \$	2017 \$
Assets		
Current assets		
Cash	291,640	74,728
Prepaid expense	4,250	-
Accounts receivable	126,386	88,006
	<hr/>	<hr/>
	422,276	162,734
Investments (note 3)	51,917,985	50,304,131
Cash surrender value of life insurance policies (note 4)	132,542	104,098
	<hr/>	<hr/>
	52,472,803	50,570,963
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	28,415	25,476
Prior year member distributions payable	22,538	41,475
Current year member distributions payable (note 6)	2,076,559	2,017,335
	<hr/>	<hr/>
	2,127,512	2,084,286
Fund balances		
General Fund (note 4)	48,260,022	46,309,403
Designated Fund (note 5)	2,085,269	2,177,274
	<hr/>	<hr/>
	50,345,291	48,486,677
	<hr/>	<hr/>
	52,472,803	50,570,963

Approved by the Board of Directors

_____ Director _____ Director

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

The Calgary Rotary Clubs Foundation

Statement of Revenue and Expenses and Changes in Fund Balances

For the year ended February 28, 2018

	2018			2017		
	General Fund \$	Designated Fund \$	Total \$	General Fund \$	Designated Fund \$	Total \$
Revenue						
Contributions (note 6)	317,842	-	317,842	334,139	-	334,139
Unrealized gain on investments	209,222	-	209,222	2,469,617	-	2,469,617
Realized gain on investments	1,763,929	-	1,763,929	1,431,854	-	1,431,854
Dividends and interest	1,471,267	-	1,471,267	1,387,235	-	1,387,235
Other	399	-	399	464	-	464
	<u>3,762,659</u>	<u>-</u>	<u>3,762,659</u>	<u>5,623,309</u>	<u>-</u>	<u>5,623,309</u>
Expenses						
Investment management fees	221,384	-	221,384	207,206	-	207,206
Professional fees	15,456	-	15,456	13,440	-	13,440
Office and miscellaneous	26,557	-	26,557	22,717	-	22,717
	<u>263,397</u>	<u>-</u>	<u>263,397</u>	<u>243,363</u>	<u>-</u>	<u>243,363</u>
Excess of revenue over expenses before the following	3,499,262	-	3,499,262	5,379,946	-	5,379,946
Increase in cash surrender value of life insurance policies	28,444	-	28,444	4,170	-	4,170
Excess of revenue over expenses	3,527,706	-	3,527,706	5,384,116	-	5,384,116
Fund balances – Beginning of year	46,309,403	2,177,274	48,486,677	41,816,042	2,445,741	44,261,783
Endowment contributions	407,467	-	407,467	858,113	-	858,113
Distributions to member clubs	(2,076,559)	-	(2,076,559)	(2,017,335)	-	(2,017,335)
Interfund transfers – expiration of ten-year retention period	92,005	(92,005)	-	268,467	(268,467)	-
Fund balances – End of year	<u>48,260,022</u>	<u>2,085,269</u>	<u>50,345,291</u>	<u>46,309,403</u>	<u>2,177,274</u>	<u>48,486,677</u>

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

The Calgary Rotary Clubs Foundation

Statement of Cash Flows

For the year ended February 28, 2018

	2018 \$	2017 \$
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenses for the year	3,499,262	5,379,946
Items not affecting cash		
Realized gain on investments	(1,763,929)	(1,431,854)
Unrealized gain on investments	(209,222)	(2,469,617)
Change in non-cash working capital items		
Accounts receivable	(38,380)	(46,386)
Accounts payable and accrued liabilities	2,939	(1,174)
Prepaid expense	(4,250)	-
	<hr/> 1,486,420	<hr/> 1,430,915
Investing activities		
Purchases of investments	(10,198,910)	(13,636,322)
Sales of investments	10,558,207	13,211,507
	<hr/> 359,297	<hr/> (424,815)
Financing activities		
Distributions to member clubs	(2,036,272)	(1,941,165)
Endowment contributions	407,467	858,113
	<hr/> (1,628,805)	<hr/> (1,083,052)
Net change in cash during the year	216,912	(76,952)
Cash – Beginning of year	<hr/> 74,728	<hr/> 151,680
Cash – End of year	<hr/> <hr/> 291,640	<hr/> <hr/> 74,728

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

The Calgary Rotary Clubs Foundation

Notes to Financial Statements

February 28, 2018

1 Nature of organization

The objective of The Calgary Rotary Clubs Foundation (the “Foundation”) is to receive, maintain and invest funds from members of Rotary Clubs in Calgary, and to distribute funds to such Rotary Clubs for benevolent, philanthropic, charitable, provident, educational or other purposes. The Foundation is incorporated under the Societies Act of the Province of Alberta as a not-for-profit organization and is registered as a charitable organization under the Income Tax Act, and therefore is not subject to income tax.

The Foundation also registered under the Charitable Fundraising Act (the “Act”) of Alberta and has considered all required disclosures under Section 7(2) of the Act in preparing these financial statements.

2 Significant accounting policies

Fund accounting

The Foundation follows the restricted fund method of accounting for contributions.

The General Fund accounts for the assets, liabilities, revenue and expenses related to general donations, investment income, charitable activities and endowment activities.

The Designated Fund is a long-term restricted fund that accounts for contributions subject to the direction that they be retained for a minimum of ten years. At the expiration of the ten-year period, the amounts are transferred to the General Fund. See note 5 for further details.

Revenue recognition

Unrestricted contributions are recognized as revenue of the General Fund when received. Restricted contributions pursuant to a donor restriction that the principal amount be maintained for a period of not less than ten years are recorded as revenue of the Designated Fund when received. Endowment contributions, when received, are recorded as direct increases to net assets.

Unrestricted investment income earned and changes in investment market values are recognized as revenue in the General Fund.

Changes in cash surrender value of life insurance policies are reported in the period the gain or loss occurs.

Investments

Investments include fixed income securities, equity securities, equity pooled funds, fixed income funds, as well as short-term investments and cash held in broker accounts. Equity securities are valued at quoted market price. Investments in equity pooled funds and fixed income funds are valued based on the net assets per unit provided by the underlying funds’ managers. Short-term investments are carried at amortized cost, which approximates fair value.

The Calgary Rotary Clubs Foundation

Notes to Financial Statements

February 28, 2018

Allocation of income

Allocation of income represents the portion of income earned by the Foundation as allocated to each Club on the basis of the balance of their funds contributed to the Foundation at year end. The fund balance is calculated on the basis of the Rotary Club's previous year-end balance plus the weighted average of the contributions made by each Rotary Club during the current year.

Distribution to member clubs

In fiscal 2013, the Board of Directors amended the disbursement policy in order to reduce the risk of significant variations from year to year due to investment market volatility or large donations.

Distributions to member clubs were calculated based upon 5% of the average of the opening and closing fund balances of the Calgary Rotary Clubs Foundation for the three immediately preceding fiscal years, excluding donations received in the immediately preceding fiscal year.

For the year ended February 28, 2017, the distribution calculation included the average of the opening and closing fund balances for the previous four years instead of the three years utilized in past calculations. In years ending on or after February 28, 2018, a five-year average of the opening and closing fund balances will be used. The calculated amount will still be multiplied by 5% to determine the amounts to be distributed to the member clubs.

Contributed services and materials

Contributed services and materials are not recognized in the financial statements because of the difficulty of determining their fair value.

Financial instruments

The Foundation initially measures financial assets and financial liabilities at fair value. The financial assets subsequently measured at amortized cost consist of cash, accounts receivable and cash surrender value of life insurance policies. The financial liabilities subsequently measured at amortized cost include accounts payable and accrued liabilities, prior year member distributions payable and current year member distributions payable. The Foundation measures its investments at fair value. The Foundation mitigates the following risks through the use of investment managers for the long-term portfolio investments and by investing other funds in short-term fixed rate products with high credit ratings.

- a) Market risk – The investments of the Foundation are subject to price risk because changing interest rates, market value of the investments and general economic conditions affect the market value of equity and fixed income investments and currency exchange rate changes impact the market value of the investments denominated in currencies other than the Canadian dollar.

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- b) Liquidity risk – The Foundation uses investment managers to manage its portfolio of investments that are liquid investments. These investments are subject to liquidity risk if the Foundation is required to sell at a time when the market for the investments is unfavourable
- c) Credit risk – It is management’s opinion that the Foundation is not exposed to significant credit risk from these financial instruments.

3 Investments

	2018 \$	2017 \$
Equity securities	3,786,369	3,590,649
Equity pooled funds	27,503,454	27,304,724
Fixed income funds	17,364,021	16,677,833
Short-term investments and cash held in broker accounts	3,264,141	2,730,925
	<u>51,917,985</u>	<u>50,304,131</u>

4 General Fund

The General Fund consists of the following:

Endowment contributions

The following endowment contributions have been made by members of various Rotary Clubs in Calgary as noted below, the principal of which must be held in perpetuity:

	2018 \$	2017 \$
The Rotary Club of Calgary	29,321,240	29,271,705
Rotary Club of Calgary South	2,363,008	2,064,613
Rotary Club of Calgary North	1,266,306	1,206,769
	<u>32,950,554</u>	<u>32,543,087</u>

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Internally restricted amounts

Internally restricted balances consist of life insurance policies with respect to members of specific Rotary Clubs in Calgary. These amounts are recorded at their cash surrender values as follows:

	2018	2017
	\$	\$
The Rotary Club of Calgary	94,239	67,940
Rotary Club of Calgary South	38,303	36,158
	<hr/>	<hr/>
	132,542	104,098
Accumulated excess of net revenue over distributions to member clubs	15,176,926	13,662,218
Endowment contributions	<hr/>	<hr/>
	32,950,554	32,543,087
Total General Fund	<hr/>	<hr/>
	48,260,022	46,309,403

5 Designated Fund

The Designated Fund balance represents contributions from individual members of the member clubs subject to the direction that they be retained for a minimum of ten years. Upon expiration of the ten-year restriction, the funds are transferred to the General Fund and are available for further retention or distribution to member Rotary Clubs. The Designated Fund is winding down due to it being no longer necessary for the Foundation, with the last of the restricted funds transferring over to the General Fund in 2026.

These contributions become available for use by the Foundation as follows:

Year of Expiry	Amount of restricted contribution
	\$
2019	173,643
2020	133,194
2021	310,143
2022	413,938
2023	237,518
2024	251,080
2025	142,775
2026	422,978
	<hr/>
	2,085,269

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6 Related party transactions

During the year, the Foundation received unrestricted contributions of \$317,842 (2017 – \$334,139) and endowment contributions from members of Rotary Clubs in Calgary as follows:

- a) During the year, the Foundation received endowment contributions from Mario Stella, referred to as the “Stella Endowment”, in the amount of \$298,395 (2017 – \$858,113). This endowment is for the benefit of Rotary Club of Calgary South.
- b) During the year, the Foundation received endowment contributions from Ernest Hauser, referred to as the “Ernest Hauser Endowment”, in the amount of \$59,537 (2017 – \$nil). This endowment is for the benefit of Rotary Club of Calgary North.
- c) During the year, the Foundation received endowment contributions from Ev Mayhood, referred to as the “Mayhood Endowment”, in the amount of \$49,535 (2017 – \$nil). This endowment is for the benefit of The Rotary Club of Calgary.
- d) During the year, the Foundation recorded distributions payable to member clubs of \$2,076,559 (2017 – \$2,017,335).

Amounts payable to member clubs bear no interest and are payable in the following year.

7 Subsequent event

Subsequent to February 28, 2018, two members of The Rotary Club of Calgary, for which the Foundation will be the irrevocable life insurance policy beneficiary on their respective lives, passed away. These unfortunate events, impacting the families and friends of two remarkable Rotarians, will benefit the Foundation from anticipated insurance payouts on the policies in the amount of \$1,602,000. Premiums receivable on the two policies in the amount of \$114,327 will be recovered from the insurance distributions when received.

8 Comparative balances

During the year, management have assessed their cash presentation and has now presented investing cash flows on a gross basis where previously presented on a net basis. As such, certain prior year items in the Statement of Cash Flows were reclassified to conform to current year presentation.

The Calgary Rotary Clubs Foundation

Schedules of Distributions to Member Clubs

(Unaudited)

For the year ended February 28, 2018

	2018 \$	2017 \$
Distributions to member clubs calculated as per accounting policy (note 2)		
The Rotary Club of Calgary	1,795,401	1,761,097
Rotary Club of Calgary South	154,621	136,270
Rotary Club of Calgary West	27,761	26,108
Rotary Club of Calgary East	6,146	5,928
Rotary Club of Calgary North	73,075	71,703
Rotary Club of Calgary Olympic	1,794	1,696
Rotary Club of Calgary Sarcee	885	857
Rotary Club of Calgary Heritage Park	1,850	1,580
Rotary Club of Calgary Centennial	4,821	2,472
Rotary Club of Calgary Fish Creek	658	634
Rotary Club of Calgary Chinook	8,685	8,254
Rotary Club of Calgary Millennium	862	736
	<hr/> 2,076,559	<hr/> 2,017,335

The Calgary Rotary Clubs Foundation

Continuity Schedules of Balances by Member Clubs

(Unaudited)

For the year ended February 28, 2018

	2017 \$	Contribution revenue and endowment contributions \$	Investment funds distributed \$	Allocation of income \$	2018 \$
Rotary Club of Calgary	3,299,873	212,912	(139,355)	216,886	3,590,316
Rotary Club of Calgary – Mayhood Endowment (note 6)	36,650,064	49,535	(1,656,046)	2,487,688	37,531,241
Rotary Club of Calgary South	2,946,887	61,501	(123,387)	190,649	3,075,650
Rotary Club of Calgary South - SNUG Endowment	249,059	-	(11,254)	16,905	254,710
Rotary Club of Calgary – Stella Endowment (note 6)	1,996,077	298,395	(19,980)	68,654	2,343,146
Rotary Club of Calgary West	779,832	16,659	(27,761)	45,603	814,333
Rotary Club of Calgary East	148,098	18,275	(6,146)	9,508	169,735
Rotary Club of Calgary North	62,353	-	(2,695)	4,110	63,768
Rotary Club of Calgary North – Dr. McNabb Endowment	1,278,088	-	(57,758)	86,756	1,307,086
Rotary Club of Calgary North – Watson Endowment	145,325	-	(6,554)	9,851	148,622
Rotary Club of Calgary North – Ernest Hauser Endowment (note 6)	135,958	59,537	(6,068)	9,490	198,917
Rotary Club of Calgary Olympic	45,500	-	(1,794)	2,826	46,532
Rotary Club of Calgary – Centennial	298,739	100	(4,821)	11,601	305,619
Rotary Club of Calgary Fish Creek	15,838	-	(658)	1,018	16,198
Rotary Club of Calgary Heritage Park	61,278	2,500	(1,850)	3,269	65,197
Rotary Club of Calgary Sarcee	20,874	-	(885)	1,358	21,347
Rotary Club of Calgary Chinook	221,023	5,894	(8,685)	13,735	231,967
Rotary Club of Calgary Millennium	28,681	-	(862)	1,513	29,332
	<u>48,383,547</u>	<u>725,308</u>	<u>(2,076,559)</u>	<u>3,181,420</u>	<u>50,213,716</u>

The annual income of the Foundation is allocated to the member clubs and endowment funds based on the pro-rata capital balances at the beginning of the year adjusted by the weighted average contributions by each club in the current year.