

**The Calgary Rotary Clubs
Foundation**

Financial Statements
February 29, 2016



June 14, 2016

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 29, 2016, and the statements of revenue and expenses and changes in fund balances and cash flows for the year then ended and the related notes, including 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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 Calgary Rotary Clubs Foundation as at February 29, 2016 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 29, 2016

| | 2016 \$ | 2015 \$ |
|--|------------|------------|
| Assets | | |
| Current assets | | |
| Cash | 151,680 | 218,715 |
| Accounts receivable | 41,620 | 5,241 |
| | <hr/> | <hr/> |
| | 193,300 | 223,956 |
| Investments (note 3) | 45,977,845 | 47,153,673 |
| Life insurance | | |
| Cash surrender value of life insurance policies (note 4) | 99,928 | 113,121 |
| | <hr/> | <hr/> |
| | 46,271,073 | 47,490,750 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 26,650 | 22,248 |
| Prior year member distributions payable | 41,020 | 63,934 |
| Current year payable to member clubs (note 6) | 1,941,620 | 1,778,188 |
| | <hr/> | <hr/> |
| | 2,009,290 | 1,864,370 |
| Fund balances | | |
| General Fund (note 4) | 40,816,042 | 43,534,861 |
| Designated Fund (note 5) | 3,445,741 | 2,091,519 |
| | <hr/> | <hr/> |
| | 44,261,783 | 45,626,380 |
| | <hr/> | <hr/> |
| | 46,271,073 | 47,490,750 |

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 29, 2016

| | 2016 | | | 2015 | | |
|--|-----------------|--------------------|-------------|-----------------|--------------------|-------------|
| | General Fund \$ | Designated Fund \$ | Total \$ | General Fund \$ | Designated Fund \$ | Total \$ |
| Revenue | | | | | | |
| Contributions | 15,104 | 422,978 | 438,082 | 16,003 | 142,775 | 158,778 |
| Unrealized (loss) gain on investments | (4,565,679) | - | (4,565,679) | 4,132,451 | - | 4,132,451 |
| Realized gain on investments | 2,294,988 | - | 2,294,988 | 1,013,468 | - | 1,013,468 |
| Dividends | 1,624,649 | - | 1,624,649 | 1,178,696 | - | 1,178,696 |
| Interest | 33,629 | - | 33,629 | 37,726 | - | 37,726 |
| Other | 2,400 | - | 2,400 | 2,400 | - | 2,400 |
| | (594,909) | 422,978 | (171,931) | 6,380,744 | 142,775 | 6,523,519 |
| Expenses | | | | | | |
| Investment management fees | 202,690 | - | 202,690 | 188,297 | - | 188,297 |
| Professional fees | 13,440 | - | 13,440 | 13,440 | - | 13,440 |
| Office and miscellaneous | 21,724 | - | 21,724 | 30,918 | - | 30,918 |
| | 237,854 | - | 237,854 | 232,655 | - | 232,655 |
| (Deficiency) excess of revenue over expenses before the following | (832,763) | 422,978 | (409,785) | 6,148,089 | 142,775 | 6,290,864 |
| Decrease in cash surrender value of life insurance policies | (13,193) | - | (13,193) | (28,008) | - | (28,008) |
| (Deficiency) excess of revenue over expenses | (845,956) | 422,978 | (422,978) | 6,120,081 | 142,775 | 6,262,856 |
| Fund balances – Beginning of year | 43,534,861 | 2,091,519 | 45,626,380 | 39,042,859 | 2,098,853 | 41,141,712 |
| Endowment contributions | | 1,000,000 | 1,000,000 | - | - | - |
| Distribution to member clubs | (1,941,620) | | (1,941,620) | (1,778,188) | - | (1,778,188) |
| Interfund transfers – expiration of 10 year retention period | 68,756 | (68,756) | - | 150,109 | (150,109) | - |
| Fund balances – End of year | 40,816,041 | 3,445,741 | 44,261,782 | 43,534,861 | 2,091,519 | 45,626,380 |

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 29, 2016

| | 2016 \$ | 2015 \$ |
|---|--------------------|--------------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| (Deficiency) excess of revenues over expenses for the year | (422,978) | 6,262,856 |
| Items not affecting cash | | |
| Decrease in cash surrender value of life insurance policies | 13,193 | 28,008 |
| Unrealized gain on investments | 4,565,679 | (4,142,589) |
| Change in non-cash working capital items | | |
| Accounts receivable | (36,379) | 25,340 |
| Accounts payable and accrued liabilities | 4,402 | 1,853 |
| Prior year member distributions payable | (22,914) | 22,109 |
| Current year payable to member clubs | 163,432 | 77,010 |
| | <u>4,264,435</u> | <u>2,274,587</u> |
| Investing activity | | |
| Net purchases and sales of investments | <u>(5,331,470)</u> | <u>(2,406,068)</u> |
| Financing activity | | |
| Endowment contribution | <u>1,000,000</u> | <u>-</u> |
| Net change in cash for the year | (67,035) | (131,481) |
| Cash – Beginning of year | <u>218,715</u> | <u>350,196</u> |
| Cash – End of year | <u>151,680</u> | <u>218,715</u> |

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

The Calgary Rotary Clubs Foundation

Notes to Financial Statements

February 29, 2016

1 Nature of organization

The objective of The Calgary Rotary Clubs Foundation (the "Foundation" or "Organization") is to receive, maintain and invest funds from members of Rotary Clubs in Calgary, and to distribute net earnings 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 10 years. At the expiration of the 10 year period, the amounts are transferred to the General Fund.

Revenue recognition

Unrestricted contributions are recognized as revenue of the General Fund when received. Restricted contributions pursuant to a donor restriction that they be maintained for a period of not less than 10 years are recorded as revenue of the Designated Fund when received. Endowment contribution, when received, are recorded as direct increase to net assets.

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

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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. The distributions for the year ended February 29, 2016 used the average opening and closing balances for the years ended 2013, 2014, and 2015 excluding from the 2015 closing balances any contributions that were received in that year.

For the year ended February 28, 2017, the distribution calculation will include the weighted average capital balances for the previous four years instead of a three year capital balance utilized in past calculations. In years ending on or after February 28, 2018, five year weighted average 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, and prior year member distributions payable, and current year payable to member clubs. 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 for the investments it plans to hold for a long period of time. 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.

Comparative figures

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

3 Investments

| | 2016 \$ | 2015 \$ |
|---|-------------------|-------------------|
| Equity securities | 3,012,094 | 3,135,909 |
| Equity pooled funds | 24,548,735 | 27,548,519 |
| Fixed income funds | 15,585,169 | 15,428,098 |
| Short-term investments and cash held in broker accounts | 2,831,847 | 1,041,147 |
| | <u>45,977,845</u> | <u>47,153,673</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:

| | 2016 \$ | 2015 \$ |
|------------------------------|-------------------|-------------------|
| The Rotary Club of Calgary | 29,271,705 | 29,271,705 |
| Rotary Club of Calgary South | 1,206,500 | 206,500 |
| Rotary Club of Calgary North | 1,206,769 | 1,206,769 |
| | <u>31,684,974</u> | <u>30,684,974</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:

| | 2016 \$ | 2015 \$ |
|---|-------------------|-------------------|
| The Rotary Club of Calgary | 65,981 | 81,512 |
| Rotary Club of Calgary South | 33,947 | 31,609 |
| | <u>99,928</u> | <u>113,121</u> |
| Accumulated excess of net revenue over distributions to member clubs | <u>9,031,140</u> | <u>12,736,766</u> |
| Total General Fund | <u>40,816,042</u> | <u>43,534,861</u> |

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 10 years. Upon expiration of the 10 year restriction, the funds are transferred to the General Fund and are available for further retention or distribution to member Rotary Clubs.

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

| Year of Expiry | Amount of restricted contribution \$ |
|----------------|---|
| 2017 | 268,467 |
| 2018 | 92,005 |
| 2019 | 173,643 |
| 2020 | 133,194 |
| 2021 | 310,143 |
| 2022 | 413,938 |
| 2023 | 237,518 |
| 2024 | 251,080 |
| 2025 | 142,775 |
| 2026 | <u>1,422,978</u> |
| | <u>3,445,741</u> |

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6 Related party transactions

During the year, the Foundation received unrestricted contributions of \$15,104 (2015 – \$16,003), externally restricted contributions as described in note 5 of \$422,978 (2015 – \$142,775) 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 \$1,000,000 (2015 – \$ nil). This endowment is for the benefit of Rotary Club of Calgary South.
- b) During the year, the Foundation has recorded disbursements payable to member clubs of \$1,941,620 (2015 – \$1,778,188).

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

The Calgary Rotary Clubs Foundation

Schedules of Distributions to Member Clubs

(Unaudited)

For the year ended February 29, 2016

| | 2016 | 2015 |
|---|-----------|-----------|
| | \$ | \$ |
| Distributions to Member Clubs calculated as per accounting policy (see note 2) | | |
| The Rotary Club of Calgary | 1,705,026 | 1,555,276 |
| Rotary Club of Calgary – South | 122,959 | 116,646 |
| Rotary Club of Calgary – West | 24,758 | 23,708 |
| Rotary Club of Calgary – East | 5,636 | 5,463 |
| Rotary Club of Calgary – North | 69,427 | 63,415 |
| Rotary Club of Calgary – Olympic | 1,535 | 1,716 |
| Rotary Club of Calgary – Sarcee | 816 | 790 |
| Rotary Club of Calgary – Heritage Park | 1,366 | 1,288 |
| Rotary Club of Calgary – Centennial | 868 | 834 |
| Rotary Club of Calgary – Fish Creek | 601 | 592 |
| Rotary Club of Calgary – Chinook | 7,673 | 7,458 |
| Rotary Club of Calgary – Crowchild | 329 | 344 |
| Rotary Club of Calgary – Millennium | 626 | 658 |
| | <hr/> | <hr/> |
| | 1,941,620 | 1,778,188 |
| | <hr/> | <hr/> |

The Calgary Rotary Clubs Foundation

Continuity Schedules of Balances by Member Clubs

(Unaudited)

For the year ended February 29, 2016

| | 2015 \$ | Contribution revenue and endowment contributions \$ | Investment funds distributed \$ | Allocation of income \$ | 2016 \$ |
|---|-------------------|---|--|-------------------------------|-------------------|
| The Rotary Club of Calgary | 3,105,005 | 50,194 | 128,854 | (56,268) | 2,970,077 |
| The Rotary Club of Calgary – Mayhood Endowment | 36,649,113 | - | 1,576,175 | (688,284) | 34,384,654 |
| The Rotary Club of Calgary South | 2,788,472 | 68,174 | 112,248 | (49,017) | 2,695,381 |
| The Rotary Club of Calgary South SNUG Endowment | 249,052 | - | 10,711 | (4,677) | 233,664 |
| The Rotary Club of Calgary – Stella Endowment | - | 1,000,000 | - | - | 1,000,000 |
| The Rotary Club of Calgary West | 607,999 | 22,567 | 24,758 | (10,811) | 594,997 |
| The Rotary Club of Calgary East | 139,508 | 1,250 | 5,636 | (2,461) | 132,661 |
| The Rotary Club of Calgary North | 60,825 | 625 | 2,514 | (1,098) | 57,838 |
| The Rotary Club of Calgary North – Dr. McNabb Endowment | 1,278,078 | - | 54,976 | (24,007) | 1,199,095 |
| The Rotary Club of Calgary North – Watson Endowment | 145,249 | - | 6,213 | (2,713) | 136,323 |
| The Rotary Club of Calgary North – Ernest Hauser Endowment | 135,694 | - | 5,724 | (2,500) | 127,470 |
| The Rotary Club of Calgary Olympic | 44,030 | 40 | 1,535 | (670) | 41,865 |
| The Rotary Club of Calgary – Centennial | 21,301 | 250,000 | 868 | (379) | 270,054 |
| The Rotary Club of Calgary Fish Creek | 15,128 | - | 601 | (263) | 14,264 |
| The Rotary Club of Calgary Heritage Park | 32,897 | 25,000 | 1,366 | (597) | 55,934 |
| The Rotary Club of Calgary Sarcee | 20,161 | - | 816 | (356) | 18,989 |
| The Rotary Club of Calgary Crowchild | 8,772 | - | 329 | (144) | 8,299 |
| The Rotary Club of Calgary Chinook | 196,158 | 10,231 | 7,673 | (3,350) | 195,366 |
| The Rotary Club of Calgary Millennium | 16,792 | 10,000 | 626 | (273) | 25,893 |
| | <u>45,514,234</u> | <u>1,438,081</u> | <u>1,941,623</u> | <u>(847,868)</u> | <u>44,162,824</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.

