

Financial statements of

**THE ROTARY FOUNDATION (CANADA)**

June 30, 2009

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# THE ROTARY FOUNDATION (CANADA)

Draft

## Statement of revenue and expenses year ended June 30, 2009

	Unrestricted Fund General Fund		Restricted Fund PolioPlus		Total	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
<b>REVENUE</b>						
Contributions	4,359,270	5,114,685	1,639,237	583,033	5,998,507	5,697,718
Net investment income (Note 3)	290,735	1,629,455	-	-	290,735	1,629,455
	<b>4,650,005</b>	<b>6,744,140</b>	<b>1,639,237</b>	<b>583,033</b>	<b>6,289,242</b>	<b>7,327,173</b>
<b>PROGRAM AWARDS AND EXPENSES (Note 5)</b>						
Scholarships	650,929	363,184	-	-	650,929	363,184
Group study exchange awards	223,685	221,831	-	-	223,685	221,831
Matching grants	2,366,830	1,910,251	-	-	2,366,830	1,910,251
3-H grants	435,994	791,302	-	-	435,994	791,302
Disaster recovery grants	220	(5,577)	-	-	220	(5,577)
PolioPlus partners	209,399	166,698	-	-	209,399	166,698
PolioPlus grants	-	-	361,583	583,033	361,583	583,033
Volunteer service grants	51,267	121,871	-	-	51,267	121,871
District simplified grants	291,405	232,599	-	-	291,405	232,599
	<b>4,229,729</b>	<b>3,802,159</b>	<b>361,583</b>	<b>583,033</b>	<b>4,591,312</b>	<b>4,385,192</b>
<b>OTHER EXPENSES (INCOME)</b>						
Development	675,807	474,010	-	-	675,807	474,010
General administration	421,912	417,728	-	-	421,912	417,728
Currency exchange adjustment (Note 2)	3,249	(7,656)	-	-	3,249	(7,656)
	<b>5,330,697</b>	<b>4,686,241</b>	<b>361,583</b>	<b>583,033</b>	<b>5,692,280</b>	<b>5,269,274</b>
<b>(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES</b>	<b>(680,692)</b>	<b>2,057,899</b>	<b>1,277,654</b>	<b>-</b>	<b>596,962</b>	<b>2,057,899</b>

**THE ROTARY FOUNDATION (CANADA)**

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Statement of fund balances  
year ended June 30, 2009

	Unrestricted Fund General Fund		Restricted Fund PolioPlus		Total	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
<b>ACCUMULATED EXCESS OF REVENUE OVER EXPENSES</b>						
Balance, beginning of year	7,315,414	5,257,515	-	-	7,315,414	5,257,515
(Deficiency) excess of revenue over expenses	(680,692)	2,057,899	1,277,654	-	596,962	2,057,899
Balance, end of year	6,634,722	7,315,414	1,277,654	-	7,912,376	7,315,414
<b>ACCUMULATED UNREALIZED (LOSSES) GAINS ON AVAILABLE-FOR-SALE INVESTMENTS</b>						
	(1,403,206)	261,501	-	-	(1,403,206)	261,501
<b>FUND BALANCES, END OF YEAR</b>	<b>5,231,516</b>	<b>7,576,915</b>	<b>1,277,654</b>	<b>-</b>	<b>6,509,170</b>	<b>7,576,915</b>

# THE ROTARY FOUNDATION (CANADA)

Draft

## Statement of financial position as at June 30, 2009

	2009	2,008
	\$	\$
<b>ASSETS</b>		
Unrestricted cash	921,846	1,185,016
<b>INVESTMENTS</b>		
Cash and short-term investments	17,900	2,023
Bonds	3,381,105	3,940,226
Stocks	5,963,772	6,715,391
	9,362,777	10,657,640
<b>PREPAID EXPENSES AND OTHER ASSETS</b>	645,190	652,791
	10,929,813	12,495,447
<b>LIABILITIES</b>		
Due to The Rotary Foundation of Rotary International (Note 4)	2,104,428	2,245,543
Accrued program awards and other accrued liabilities	2,054,714	2,672,989
	4,159,142	4,918,532
<b>FUND BALANCES</b>		
Unrestricted net assets	5,231,516	7,576,915
Temporarily restricted net assets	1,277,654	-
	6,509,170	7,576,915
	10,929,813	12,495,447

# THE ROTARY FOUNDATION (CANADA)

Draft

## Statement of cash flows year ended June 30, 2009

	2009	2008
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of revenue over expenses	596,962	2,057,899
Gain on sale of investments - net	(18,216)	(1,144,018)
Contributed securities	(35,438)	(314,877)
Changes in assets and liabilities:		
Accrued program awards and accrued liabilities	(618,275)	182,275
Prepaid expenses and other assets	7,601	(75,410)
Due to The Rotary Foundation of Rotary International	(141,115)	(44,790)
	<b>(208,481)</b>	661,079
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(913,866)	(3,450,384)
Proceeds from sale of investments	875,054	2,646,312
Change in investment cash and short-term investments	(15,877)	48,761
	<b>(54,689)</b>	(755,311)
Net change in unrestricted cash	(263,170)	(94,232)
Unrestricted cash, beginning of year	1,185,016	1,279,248
<b>UNRESTRICTED CASH, END OF YEAR</b>	<b>921,846</b>	1,185,016

Refer to Note 6 for supplemental cash flow information.

**1. NATURE OF THE ORGANIZATION**

The Rotary Foundation (Canada) ("the Foundation") is incorporated without share capital under the Corporations Act (Canada) as a non-profit organization. The Foundation receives gifts and bequests and uses these funds to provide scholarships and financial assistance to enable students to pursue advanced studies in Canada or other countries and to assist in the establishment of charitable or social welfare projects or activities.

The Foundation is a registered charity under Section 149 of the Income Tax Act of Canada, ("the Act") and as a result no income tax is payable on income of the Foundation. The Foundation is required to disburse a portion of its income upon charitable activities in order to maintain its tax exempt status under the Act.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

*Basis of accounting*

The financial statements are presented on the fund basis of accounting. The Foundation employs an unrestricted and restricted fund.

*Unrestricted fund*

The General Fund receives revenue primarily from voluntary contributions from Rotary districts, clubs, Rotarians and others.

*Restricted fund*

The PolioPlus Fund receives revenue from voluntary contributions and use of the funds is restricted to immunization program awards and their administration.

*Transaction costs*

Transaction costs will be capitalized to the cost of financial assets and liabilities classified as other than held for trading.

*Financial instruments*

The Foundation adopted the following recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

a). Section 3855, *Financial Instruments - Recognition and Measurement*. This Section describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Under the new standard, financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets or liabilities held for trading, financial assets available-for-sale and derivative financial instruments, whether part of a hedging relationship or not, are measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method. At June 30, 2009 and 2008, the Foundation had no derivative financial instruments.

b). Amendments to Section 4400, *Financial Statement Presentation for Not-for-Profit Organizations*. These amendments require that certain gains and losses be recorded initially as direct entries to the change in the fund balance. These gains and losses must be reclassified and reported in the statement of revenue and expenses when realized.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Financial instruments (continued)*

c). Section 3865, *Hedges* . These recommendations expand the guidelines outlined in Accounting Guideline 13 ("AcG-13"), *Hedging Relationships*. This Section describes when and how hedge accounting can be applied, as well as disclosure requirements. Hedge accounting enables the recording of gains, losses, revenue and expenses from the derivative financial instruments in the same period as for those related to the hedged item. The Foundation did not designate any of its financial instruments for accounting purposes as hedges.

d). Section 3861, *Financial instruments - Disclosure and Presentation* . This Section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

e). Section 3251, *Equity* . This Section establishes standards for the presentation of net assets and changes in net assets during the reporting period.

These new standards were applied retroactively as of July 1, 2007 without restatement of prior year figures.

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 Foundation's designation of such instruments. Settlement date accounting is used.

a). Classification

Unrestricted cash, cash and short-term investments	Held for trading
Cash surrender value of life insurance included in prepaid expenses and other assets	Held for trading
Bonds and stocks	Available-for-sale
Accrued program awards and other accrued liabilities	Other liabilities
Due to the Rotary Foundation of Rotary International	Other liabilities

b). Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations include interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in net investment income.

c). Available-for-sale

Available-for-sale financial assets are those financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held for trading investments. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated unrealized gains and losses on available-for-sale investments until realized when the cumulative gain or loss is transferred to net investment income.

d). Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities.

e). Transaction costs

Transaction costs related to held for trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets and other liabilities are included with the cost of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Financial instruments (continued)*

## f). Effective interest method

The Foundation uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, and premiums or discounts earned or incurred for financial instruments.

*Recent Accounting Pronouncements*

a). Section 3862, *Financial Instruments - Disclosure* and Section 3863, *Financial Instruments - Presentation*. Section 3862 requires the disclosure of information about the significance of financial instruments for the financial position and performance, as well as the nature and extent of risks arising from the financial instruments during the period and at the balance sheet date and how these risks are being managed. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. In July 2008, CICA amended these sections to permit Not-for-Profit organizations to apply Section 3861, *Financial Instruments - Disclosure and Presentation* in place of Sections 3862 and 3863.

The Foundation has elected to continue following the disclosure requirements of Section 3861.

b). In September 2008, CICA issued amendments to several of the existing sections in the 4400 series - *Financial Statement Presentation by Not-for-Profit Organizations* and certain other sections within the CICA Handbook. These amendments were an attempt to clarify the application of those sections as they relate to Not-for-Profit Organizations. Changes apply to annual financial statements for fiscal years beginning on or after January 1, 2009. These amendments include:

- a). Section 4400 - *Financial Statement Presentation by Not-for-Profit Organizations*
- b). Section 4430 - *Capital Assets Held by Not-for-Profit Organizations*
- c). Section 4460 - *Disclosure of Related Party Transactions by Not-for-Profit Organizations*
- d). Section 4470 - *Disclosure of Allocated Expenses by Not-for-Profit Organizations*
- e). Section 1100 - *Generally Accepted Accounting Principles*; additional guidance in the applicability
- f). Section 1540 - *Cash Flow Statements*; requirement to include a statement of cash flows
- g). Section 1751 - *Interim Financial Statements*; requirement when preparing financial statements in accordance with GAAP.

The Foundation has been preparing cash flow statements in accordance with Section 1540 and is currently evaluating the impact of the aforementioned amendments on the Foundation's financial statements.

*Foreign currency translation*

Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the year. The resulting translation adjustment is recorded as other income or expense.

*Investments*

Purchases and sales of securities are recorded on a settlement date basis. The method of determining gains and losses on securities sold is average cost. Contributed securities are recorded at fair market value on the date of the donation. Dividend and interest income is recorded when earned.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Prepaid expenses and other assets*

Prepaid expenses and other assets in the amount of \$645,190 and \$652,791 at June 30, 2009 and 2008 respectively include the cash surrender value of donated life insurance policies. Contributed life insurance policies are recorded at the fair market value on the date of donation.

*Accrued program awards*

The Foundation records the full amount of program awards upon specific designation of award recipients. Awards designated, but not yet paid, are included in accrued program expense.

*Revenue recognition*

Contributions and unconditional pledges are recognized as revenue in the period received and recorded at estimated fair value.

*Program expenses and administrative expenses*

In accordance with an agency agreement effective 1 July 1999, the Foundation is charged program and administrative expenses from The Rotary Foundation of Rotary International.

*Reclassifications*

The Rotary Foundation (Canada) has reclassified a portion of the currency exchange adjustment (\$65,976) as of 30 June 2008, to conform to the current year presentation. These changes were made, principally, to improve the classification and presentation within the components of program awards on the statement of revenue and expenses.

**3. INVESTMENTS**

Net investment income is comprised of the following:

	<b>2009</b>	2008
	\$	\$
Interest	<b>178,962</b>	228,047
Dividends	<b>146,685</b>	255,161
Realized capital gain - net	<b>18,216</b>	1,144,018
Investment service expense	<b>(58,183)</b>	(61,060)
Increase in cash surrender value of donated life insurance	<b>5,055</b>	63,289
	<b>290,735</b>	1,629,455

**4. RELATED PARTY TRANSACTIONS**

The Rotary Foundation of Rotary International and the Foundation handle certain fiscal matters on behalf of each other, including transfers of funds, payment of general and administrative expenses, and payment of program expenses. The balances resulting from these transactions are settled on a periodic basis.

The Foundation shares certain expenses, facilities and personnel services with The Rotary Foundation of Rotary International. Such allocations are based pro-rata on program expense.

Program awards, program administration, general administrative, and development expenses allocated by The Rotary Foundation of Rotary International amounted to \$5,692,280 and \$5,269,274 at June 30, 2009 and 2008, respectively.

**5. PROGRAM AWARDS AND EXPENSES**

Program awards and expenses comprise the following for the year ended June 30:

	2009			2008		
	Awards	Expenses	Total	Awards	Expenses	Total
	\$	\$	\$	\$	\$	\$
Scholarships	417,420	233,509	650,929	209,110	154,074	363,184
Group study exchange awards	143,491	80,194	223,685	128,409	93,422	221,831
Matching grants	2,034,404	332,426	2,366,830	1,700,663	209,588	1,910,251
3-H grants	407,902	28,092	435,994	700,174	91,128	791,302
Disaster recovery grants	220	-	220	(5,577)	-	(5,577)
PolioPlus partners	178,361	31,038	209,399	148,918	17,780	166,698
PolioPlus grants	252,861	108,722	361,583	510,636	72,397	583,033
Volunteer service grants	43,906	7,361	51,267	108,719	13,152	121,871
District simplified grants	248,212	43,193	291,405	207,608	24,991	232,599
	<b>3,726,777</b>	<b>864,535</b>	<b>4,591,312</b>	<b>3,708,660</b>	<b>676,532</b>	<b>4,385,192</b>

**6. SUPPLEMENTAL CASH FLOW INFORMATION**

*Non-cash transactions*

During the year, investments in stocks were donated to the Foundation and were recorded in the amount of \$35,438 (2008 - \$314,877). In addition, one new life insurance policy was donated during the year (2008 - nil).

*Interest received*

Interest of \$178,962 (2008 - \$228,047) was received during the year.

**7. FINANCIAL INSTRUMENTS**

*Financial risk*

The financial risk is the risk to the Foundation's change in fund balance that arises from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. The Foundation does not utilize derivative instruments to reduce its exposure to interest rate and foreign currency fluctuations.

*Market risk*

Market risk is the risk that the value of the investments in bonds and stocks will fluctuate because of changes in market prices.

*Fair value*

The fair value of financial assets and liabilities approximates their carrying value.