



Financial Statements

**For the years ended December 31, 2012,
December 31, 2011 and as at January 1, 2011**

Community Foundation of Ottawa
Financial Statements
For the years ended December 31, 2012,
December 31, 2011 and as at January 1, 2011

Contents

Management Report	1
Independent Auditor's Report	2
Financial Statements	
Statements of Operations and Changes in Fund Balances	4
Balance Sheets	5
Statements of Cash Flows	6
Notes to Financial Statements	7

Management Report


Management's Responsibility for the Financial Statements

The accompanying financial statements of the Community Foundation of Ottawa (the "Foundation"), which comprise the balance sheets as at December 31, 2012, December 31, 2011 and January 1, 2011, and the statements of operations and changes in fund balances, and the statements of cash flows for the years ended December 31, 2012 and December 31, 2011, are the responsibility of the Foundation's management and have been prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations. The accounting policies followed by the Foundation are included in the summary of significant accounting policies set out in Note 2 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the accounting periods cannot be finalized with certainty until future periods.

The Foundation's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded, and reliable financial information is available on a timely basis for the preparation of financial statements. These systems are monitored and evaluated by management.

The Finance and Audit Committee of the Board of Governors of the Foundation meets with management and the independent external auditor to review the financial statements and discuss any significant financial reporting or internal control matters prior to the Board of Governors' approval of the financial statements.

The financial statements have been audited by Collins Barrow Ottawa LLP, independent external auditor appointed by the Foundation. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Foundation's financial statements.



Barbara McInnes
President and CEO



Ron Olsen
Director, Finance and Administration

April 25, 2013
Ottawa, Ontario

Independent Auditor's Report

To the Members of the Community Foundation of Ottawa

Report on the Financial Statements

We have audited the accompanying financial statements of the Community Foundation of Ottawa which comprise the balance sheets as at December 31, 2012, December 31, 2011 and January 1, 2011, and the statements of operations and changes in fund balances, and the statements of cash flows for the years ended December 31, 2012 and December 31, 2011, 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 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 controls 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Community Foundation of Ottawa as at December 31, 2012, December 31, 2011 and January 1, 2011, and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian Accounting Standards for Not-for-Profit Organizations.

Report on Other Legal and Regulatory Requirements

As required by the Canada Corporations Act, we report that in our opinion, the accounting principles in Canadian Accounting Standards for Not-for-Profit Organizations have been applied on a consistent basis.

Collins Barrow Ottawa LLP

Chartered Accountants, Licensed Public Accountants
April 25, 2013
Ottawa, Ontario

Community Foundation of Ottawa
Statements of Operations and Changes in Fund Balances

For the years ended December 31, 2012 and December 31, 2011 (in thousands of dollars)

	Endowment Funds		Funds for Charitable Distribution		Operating Fund		Interfund Eliminations		Total Funds	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Revenue										
Donations	\$ 2,714	\$ 2,425	\$ 3,681	\$ 6,017	\$ 28	\$ 37	\$ -	\$ -	\$ 6,423	\$ 8,479
CFO endowment earnings	-	-	-	-	79	51	(79)	(51)	-	-
Investment earnings (losses) (Note 5)	7,446	(238)	-	-	168	(5)	-	-	7,614	(243)
Funds for charitable distribution (Note 5)	-	-	3,232	3,221	-	-	(3,232)	(3,221)	-	-
Service fees (Note 5)	-	-	-	-	1,155	1,166	(1,142)	(1,155)	13	11
Other earnings	-	-	275	346	60	3	(275)	(346)	60	3
	10,160	2,187	7,188	9,584	1,490	1,252	(4,728)	(4,773)	14,110	8,250
Expenses										
Funds for charitable distribution (Note 5)	3,232	3,221	-	-	-	-	(3,232)	(3,221)	-	-
Grants and programs	3,526	-	7,594	5,984	-	-	(354)	(397)	10,766	5,587
Investment fees	371	315	138	277	1	3	-	-	510	595
Service fees (Note 5)	1,114	1,131	28	24	-	-	(1,142)	(1,155)	-	-
Salaries and benefits	-	-	-	-	991	947	-	-	991	947
Other administrative expenses	-	-	-	-	321	243	-	-	321	243
Amortization of capital assets	-	-	-	-	10	9	-	-	10	9
	8,243	4,667	7,760	6,285	1,323	1,202	(4,728)	(4,773)	12,598	7,381
Excess (deficiency) of revenue over expenses for the years	1,917	(2,480)	(572)	3,299	167	50	-	-	1,512	869
Fund balances , beginning of years	82,700	85,164	7,079	3,796	508	458	-	-	90,287	89,418
Interfund transfers	-	16	-	(16)	-	-	-	-	-	-
Fund balances , end of years	\$ 84,617	\$ 82,700	\$ 6,507	\$ 7,079	\$ 675	\$ 508	\$ -	\$ -	\$ 91,799	\$ 90,287

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

Community Foundation of Ottawa Balance Sheets

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

	December 31, 2012				December 31, 2011				January 1, 2011			
	Endowment Funds	Funds for Charitable Distribution	Operating Fund	Total Funds	Endowment Funds	Funds for Charitable Distribution	Operating Fund	Total Funds	Endowment Funds	Funds for Charitable Distribution	Operating Fund	Total Funds
Assets												
Cash	\$ 6	\$ 8	\$ 200	\$ 214	\$ -	\$ 80	\$ 323	\$ 403	\$ 5	\$ 4	\$ 234	\$ 243
Accounts receivable	-	-	135	135	-	-	88	88	-	-	90	90
Investments (Note 4)	85,553	6,499	370	92,422	83,567	7,001	125	90,693	86,046	3,803	162	90,011
Real estate (Note 6)	300	-	-	300	300	-	-	300	300	-	-	300
Capital assets (Note 7)	-	-	25	25	-	-	7	7	-	-	8	8
	\$ 85,859	\$ 6,507	\$ 730	\$ 93,096	\$ 83,867	\$ 7,081	\$ 543	\$ 91,491	\$ 86,351	\$ 3,807	\$ 494	\$ 90,652
Liabilities and Fund Balances												
Liabilities												
Grants payable and accrued liabilities	\$ -	\$ -	\$ 55	\$ 55	\$ -	\$ 2	\$ 35	\$ 37	\$ -	\$ 11	\$ 36	\$ 47
Managed funds	1,242	-	-	1,242	1,167	-	-	1,167	1,187	-	-	1,187
	1,242	-	55	1,297	1,167	2	35	1,204	1,187	11	36	\$ 1,234
Fund balances (Note 3)												
Endowment funds												
Contributed capital	89,604	-	-	89,604	91,075	-	-	91,075	88,651	-	-	88,651
Accumulated increase (decrease) in capital	(4,987)	-	-	(4,987)	(8,375)	-	-	(8,375)	(3,487)	-	-	(3,487)
Funds for charitable distribution (Note 5)	-	6,507	-	6,507	-	7,079	-	7,079	-	3,796	-	3,796
Operating fund	-	-	675	675	-	-	508	508	-	-	458	458
	84,617	6,507	675	91,799	82,700	7,079	508	90,287	85,164	3,796	458	89,418
	\$ 85,859	\$ 6,507	\$ 730	\$ 93,096	\$ 83,867	\$ 7,081	\$ 543	\$ 91,491	\$ 86,351	\$ 3,807	\$ 494	\$ 90,652

On Behalf of the Board:



Brian Toller
Chair, Board of Governors



L. Denis Desautels, OC, FCA
Treasurer

Community Foundation of Ottawa Statements of Cash Flows

For the years ended December 31, 2012 and December 31, 2011 (in thousands of dollars)

	2012	2011
Cash flows from operating activities		
Donations received for charitable distribution and operating purposes	\$ 3,709	\$ 6,054
Investment earnings received	2,657	3,390
Grants and programs expenses paid	(7,240)	(5,587)
Investment fees paid	(510)	(595)
Salaries and benefits paid	(991)	(947)
Other administrative expenses paid	(350)	(251)
Service fees and other earnings received	73	14
Net cash generated from (used in) operating activities	(2,652)	2,078
Cash flows from financing activities		
Contributions to endowment funds	2,714	2,425
Withdrawals from endowment funds	(3,526)	-
Net increase (decrease) in managed funds	75	(20)
Net cash generated from (used in) financing activities	(737)	2,405
Cash flows from investing activities		
Net decrease (increase) in investments	3,228	(4,315)
Capital assets purchased	(28)	(8)
Net cash generated from (used in) investing activities	3,200	(4,323)
Net cash inflow (outflow) for the years	(189)	160
Cash, beginning of years	403	243
Cash, end of years	\$ 214	\$ 403

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

1. Nature of Foundation and Nature of Funds

The Community Foundation of Ottawa (the "Foundation") is a not-for-profit organization incorporated under Part II of the Canada Corporations Act, and as a registered charity is not subject to income taxes. The Foundation is a pooling of charitable gifts in endowment or restricted funds, from which amounts are made available for charitable distribution to meet a wide range of community needs and interests - the arts and other cultural activities, scholarships, medical and scientific research, environmental concerns and social issues. On approval by the Foundation's Board of Governors, amounts are allocated to a charitable cause or organization as advised by the donor.

2. Summary of Significant Accounting Policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations which are part of Canadian generally accepted accounting principles and include the following significant accounting policies.

Impact of the change in the basis of accounting

The Foundation has elected to apply the Canadian Accounting Standards for Not-for-Profit Organizations in Part III of the CICA Handbook.

These financial statements are the first financial statements for which the Foundation has applied Canadian Accounting Standards for Not-for-Profit Organizations, hereafter referred to as "ASNPO".

The financial statements for the years ended December 31, 2012 and December 31, 2011, and as at January 1, 2011 were prepared in accordance with ASNPO and the provisions set out in First-Time Adoption, Section 1501 of Part III of the CICA Handbook, for first-time adopters of this basis of accounting.

The Foundation has not elected to use any of the exemptions relating to the initial adoption of ASNPO under Section 1501.

The adoption of ASNPO did not result in any changes to fund balances at the date of transition of January 1, 2011 and the previously issued financial statements for the year ended December 31, 2011 except for certain reclassifications for presentation purposes only. As a result, no reconciliations are required.

With the adoption of ASNPO the Foundation has now presented Statements of Cash Flows.

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

Accounting method

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

Gifts made to individual endowment funds are recorded in Contributed capital. The investment earnings (losses) on the Endowment funds and the disbursements to cover service fees and funds for charitable distribution (Note 5) are recorded in the Accumulated increase (decrease) in capital balance.

Funds for charitable distribution are externally restricted funds reporting donations that will be distributed as advised by the donors. Funds for charitable distribution also report that portion of the endowment funds which is available for charitable distribution (Note 5).

The Operating fund accounts for revenues and expenses related to the Foundation's operations. The investment earnings (losses) of the Operating fund include investment income generated from the Funds for charitable distribution that are typically invested in interest bearing vehicles while waiting for distribution instructions from donors. The gains and losses from the disposition of donations of equity securities of the Funds for charitable distribution are also recorded in investment earnings (losses) of the Operating fund.

Managed funds are owned by other charities and pooled with the Foundation's assets for investment purposes. These Managed funds assets are presented with the Foundation's assets but are offset by Managed funds liabilities in the Balance Sheets. Any revenues and expenses accruing to these funds are not reflected in the Statements of Operations and Changes in Fund Balances.

The Foundation has certain endowment funds from which amounts are designated by donors to support the Foundation's operations.

Use of estimates

The preparation of financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management's best estimates and assumptions as additional information becomes available in the future. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in the periods in which they become known.

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

Financial instruments

Financial instruments are financial assets or liabilities of the Foundation where, in general, the Foundation has the right to receive cash or another financial asset from another party or the Foundation has the obligation to pay another party cash or other financial assets. All financial instruments are measured at their fair values on initial recognition.

The Foundation's investments held by the Foundation's investment managers are comprised of cash and short-term deposits, bonds and equities. Investments also include units in an open ended real estate fund, foreign currency contracts, units in the Community Forward Fund and the cash surrender values of life insurance policies.

Bonds, equity holdings, foreign currency contracts, and the cash surrender values of life insurance policies are carried at fair value based on quoted market prices. Cash and short-term deposits which include investment certificates and treasury bills are carried at amortized cost which approximates their fair values.

The investment in the units in the open ended real estate fund is valued at fair value obtained from the fund's most recent audited financial statements available. These audited financial statements include the fair value for the units in the open ended real estate fund as determined by the managers of the fund based on the estimated fair value of the underlying net assets using generally accepted industry valuation methods including appraisals and discounted cash flow analysis. The fair value estimates are made at a specific point in time, based on relevant information about the financial and real estate markets, and the fund's financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with absolute precision. Changes in assumptions can significantly affect the estimated fair value.

The investment in the units in the Community Forward Fund is valued at cost as it is an equity investment that has no quoted value in an active market. The Community Forward Fund has as its mandate to pool funds from subscribers for the purpose of earning a positive return by making loans to charities and not-for-profit organizations and, in connection with such mandate, to try to increase the financial skills and acumen of these entities.

Purchases and sales of investments are recorded at the trade date. Investment earnings (losses) include realized and unrealized gains and losses computed on an average cost basis, interest and dividends received, accrued interest and foreign exchange gains and losses.

Accounts receivable, grants payable and accrued liabilities, and the managed funds liabilities are carried at cost which approximates their fair values due to the short-term nature of these assets and liabilities.

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

Impairment

Financial assets measured at cost or amortized cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in operations. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in operations.

Transaction costs

The Foundation recognizes its transaction costs in operations in the period incurred for financial instruments carried at fair value. However, for the financial instruments that will not be subsequently measured at fair value after their initial recognition, which would be those carried at cost or amortized cost, the initial carrying values are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

Foreign currency

Investments held in foreign currency are expressed in Canadian dollars on the following basis:

- the carrying values of investments at the rate of exchange prevailing at the respective period end date; and
- purchases and sales of investments at the rate of exchange prevailing on the trade date of such transactions.

Cash

For purposes of the Foundation's Statements of Cash Flows, cash and short-term deposits included in the investment listing (Note 4) are excluded from cash and form part of the investing activities of the Foundation.

Foreign currency contracts

Investments in forward currency contracts are entered into with approved counterparties for hedging purposes only. The contractual amount of the open contracts is disclosed in the investment listing (Note 4). At year end the value of these contracts is the gain or loss that would be realized if the positions were to be closed out and is recorded as part of the investment earnings (losses) in the financial statements. Upon closing the contracts, any additional gains or losses are reported in investment earnings (losses) in the financial statements.

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

Capital assets

Capital assets are recorded at cost. Amortization of capital assets is determined using the straight-line method over the following terms:

Computer hardware	3 years
Computer software	2 years
Furniture and fixtures	5 years
Leasehold improvements	Term of the lease

Real estate

Real estate property is recorded at the appraised value, as determined by an independent appraiser, at the time of donation.

Donated goods and services

The Foundation may receive goods at no cost from various sources. Significant donations are recorded in the financial statements at their estimated fair value at the date of the donation.

The Foundation also benefits from the service of volunteers. Because of the difficulty of determining their fair value, donated services are not recognized in these financial statements.

Allocation of expenses

Salaries, benefits and other administrative expenses presented in the Statements of Operations and Changes in Fund Balances represent the total amounts incurred for the years and have not been allocated on a functional basis to the various charitable activities and programs of the Foundation.

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

3. Capital

The Foundation's objectives in managing the endowment capital are:

- to permanently hold the capital of the endowed funds; and
- to generate investment earnings to cover charitable grants and service fees, both determined using fixed rates.

Over the long term, investment earnings are expected to exceed disbursements. Naturally, with a fixed rate for grants and service fees, the actual amount disbursed in any particular year will necessarily be an amount that is less than or greater than the actual investment earnings for that year. However, the objective over the long term is to ensure that the capital of the endowed funds is held permanently. For more information on the Foundation's granting and service fees policy refer to Note 5.

The Foundation's Investment Committee makes recommendations to the Board of Governors on all aspects of the investment management and investment policies of the Foundation. The Committee reviews the Foundation's assets and the status of its investments quarterly. The Committee oversees the investment program within the policies and procedures approved by the Board of Governors. Specifically, the Committee:

- recommends the selection of, and fees for, investment counsel;
 - sets investment performance objectives and guidelines for investment counsel;
 - monitors investment performance against objectives; and
 - meets periodically with investment counsel.
-

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

4. Investments

The Foundation's investments are as follows:

	December 31 2012		December 31 2011		January 1 2011	
Investments	Carrying Value		Carrying Value		Carrying Value	
Cash and short-term deposits , at amortized cost which approximates fair value	\$7,473	8%	\$14,082	16%	\$4,761	5%
Bonds and debentures , at fair value						
Government bonds	12,504	14	15,828	17	13,929	16
Corporate bonds	17,228	19	23,155	26	20,943	23
	29,732	33	38,983	43	34,872	39
Equities , at fair value						
Canadian shares	19,062	20	21,311	24	21,006	24
US shares	14,470	16	15,876	17	15,538	17
International equities (Non US)	12,918	14	93	-	13,453	15
	46,450	50	37,280	41	49,997	56
Unrealized gain (loss) on forward contracts of \$US 5,500 (December 31, 2011 - \$US 7,800 and January 1, 2011 - \$US 7,400), at fair value	(59)	-	5	-	27	-
Other investments						
Open ended real estate fund, at fair value	8,196	9	-	-	-	-
Units in the Community Forward Fund, at cost	225	-	-	-	-	-
Cash surrender value of life insurance policies, at fair value	405	-	343	-	354	-
	8,826	9	343	-	354	-
	\$92,422	100%	\$90,693	100%	\$90,011	100%

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

4. Investments (continued)

The changes in cash and short-term deposits along with international equities (non US) are the result of a change in investment managers. The relationship with the international investment manager was terminated at the end of 2011 resulting in an increase in cash and short-term deposits from January 1, 2011 to December 31, 2011 and a decrease in international equities (non US) over the same period. These funds were subsequently re-invested in early 2012 resulting in a decrease in cash and short-term deposits in 2012 and an increase in international equities (non US) from the December 31, 2011 balances.

The Foundation's investments expose it to risks associated with financial instruments. The significant financial instrument risks to which the Foundation is exposed along with specific risk management practices related to those risks follows.

Financial risk management

The Foundation is exposed to a variety of financial risks as a result of its investment activities. The Foundation has adopted investment policies, standards and practices designed to avoid undue risk of loss and impairment of assets and to provide a reasonable expectation of a fair return given the nature of the investments. The maximum investment risk to the Foundation is represented by the carrying value of the investments.

The Foundation's risk management practices are carried out primarily through its Investment Committee. The Investment Committee reviews the investment policy at least annually to ensure that it is appropriate for the Foundation's stated spending objectives. In addition, working with an Investment Advisor, the Investment Committee monitors the quarterly performance of all investment managers to ensure they are meeting the investment objectives of the Foundation. The Investment Advisor and each Investment Manager may be replaced by the Foundation's Board of Governors on the advice of the Investment Committee.

- *Market risk*

Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices. Market risk comprises three types of risk being currency risk, interest rate risk and other price risk, as further described herein.

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

4. Investments (continued)

- *Market risk (continued)*

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk exposure arises from the Foundation's holdings of non-Canadian equities. At December 31, 2012 the Foundation held 30% (December 31, 2011 - 17% and January 1, 2011 - 32%) of the carrying value of its investments in securities subject to foreign currency exposure. Currency risk on the US equity portion of the Foundation's portfolio is managed by hedging with forward currency contracts. At December 31, 2012 the Foundation had hedged approximately 38% (December 31, 2011 - 51% and January 1, 2011 - 48%) of the carrying value of the US equity holdings. An increase of 10% in the value of the Canadian dollar would cause a decrease in the value of the unhedged US securities of \$796 (December 31, 2011 - \$779 and January 1, 2011 - \$730) in Canadian dollars. While non US foreign equities at December 31, 2012 represent 14% (December 31, 2011 - nil%, and January 1, 2011 - 15%) of the investment portfolio, management has not hedged the other international currencies as in their opinion, the number of different currencies provides diversification and act to some degree as a hedge on their own.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a fixed income investment will fluctuate because of changes in market interest rates. The Foundation's fixed income investments, which are comprised of domestic corporate and government bonds, the value of which are listed previously, are exposed to interest rate risk. In general, longer terms to maturity have an increased interest rate risk. The Foundation's investment managers take steps in the active management of the bond portfolio to mitigate this risk.

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

4. Investments (continued)

- *Market risk (continued)*

Interest rate risk (continued)

The terms to maturity of the bonds are as follows:

Maturity	December 31 2012		December 31 2011		January 1 2011	
	Fair Value	% Bond Holdings	Fair Value	% Bond Holdings	Fair Value	% Bond Holdings
Under 1 year	\$1,100	4	\$4,662	12	\$1,389	4
1 year to 3 years	6,373	21	9,107	23	6,621	19
3 years to 5 years	6,500	22	5,652	15	9,322	27
5 years to 7 years	10,817	36	9,929	25	7,598	22
7 years to 10 years	2,983	10	7,714	20	7,884	22
Over 10 years	1,959	7	1,919	5	2,058	6
	\$29,732	100	\$38,983	100	\$34,872	100

At December 31, 2012 should nominal interest rates have increased (decreased) by 1%, with all other variables held constant, the fair value of the bonds would (decrease) increase by 5.34% (December 31, 2011 - 5.50% and January 1, 2011 - 5.24%).

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Foundation's investment policy requires investments to be spread across a broad range of securities. It also requires geographic diversification with a mix between Canadian and global equity holdings. As well, limitations are placed on the extent of any single holding within the portfolio and with respect to the total outstanding shares. The maximum loss due to price risk is represented by the carrying value of the portfolio. As at December 31, 2012 \$46,450 (December 31, 2011 - \$37,280 and January 1, 2011 - \$49,997) was invested in equity instruments traded in active markets.

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

4. Investments (continued)

- *Market risk (continued)*

Other price risk (continued)

The open ended real estate fund and the Community Forward Fund investments are subject to price risk as the Foundation would be responsible for losses to the extent of the investment in the respective fund.

Sensitivity analyses

The sensitivity analyses included in this note should be used with caution as the changes are hypothetical and are not predictive of future performance. These sensitivities are calculated with reference to respective year-end balances and will change due to fluctuations in the balances in the future. In addition, for the purpose of the sensitivity analyses, the effect of a variation in a particular assumption on the carrying value of the financial instruments was calculated independently of any change in another assumption. Actual changes in one factor may contribute to changes in another factor, which may magnify or counteract the effect on the fair value of the financial instrument.

- *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Foundation is exposed to credit risk through cash and short-term deposits, domestic corporate and government bonds, and forward contracts in an unrealized gain position. Credit risk arising from these financial instruments is generally limited to the carrying value of the investments shown in the list of investments in Note 4 earlier. The Foundation mitigates credit risk by limiting its bond holdings to bonds that are readily marketable and are generally limited to those with a rating of A- or better. As at December 31, 2012, 100% (December 31, 2011 - 100% and January 1, 2011 - 100%) of the fair value of the bonds held by the Foundation have a rating of A- or better. The Foundation's investment managers take steps in active management of the bond portfolio to mitigate this risk.

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

4. Investments (continued)

- *Concentration risk*

Concentration risk is the risk that a portfolio will have greater exposure due to a concentration in securities with similar characteristics or subject to similar economic, political or other conditions. The Foundation's Investment Committee mitigates concentration risk by ensuring that the portfolio adheres to the investment policy which identifies and limits geographic allocations as well as limits individual equity holdings. The Foundation's Investment Committee reviews the concentration of the portfolio on a quarterly basis.

- *Liquidity risk*

Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost effective manner to meet the spending requirements of the Foundation. The Foundation mitigates liquidity risk by limiting most of its investments to financial instruments that are publicly traded in active markets and thereby readily disposable.

Two new classes of investments were introduced in 2012 that are not traded in active markets. The Community Forward Fund is locked in for five years and the Foundation is not able to freely resell its units except in accordance with limited exceptions. The open ended real estate fund has an expected life of approximately seven years and early redemption of units is subject to a fee of 5%. These two classes of financial instruments total \$8,421 or 9% of the total carrying value of the Foundation's investments. With 91% of the investment portfolio having high liquidity, it is management's opinion that there is not a liquidity risk.

5. Investment Earnings, Charitable Grants, and Service Fees

The investment earnings of endowment funds are used to fund charitable grants and service fees.

The Foundation's policy on Granting from Endowment Funds provides that the total amount of charitable grants from an endowment fund for any particular year is fixed at 4.25% of the average of the ending quarterly carrying values of the endowment fund for the 12 quarters ending December 31 of the preceding year. This policy ensures that there is a consistent level of charitable grants over the long term. The amount of charitable grants for any particular year, as determined under this policy, will be transferred from the individual endowment fund to the Funds for charitable distribution on January 1 of that year.

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

5. Investment Earnings, Charitable Grants, and Service Fees (continued)

The Foundation's policy on Service fees provides that the service fees on all funds held and managed are charged on the average of the ending quarterly carrying values of the fund for the preceding 12 quarters on a sliding scale basis as follows:

- For the first \$5 million 1.50%
- For the next \$5 million 0.75%
- For any excess over \$10 million 0.25%
- For scholarship funds 2.00%

In addition, flow through funds not associated with an endowed fund are subject to a 2% fee upon receipt.

The investment earnings (losses) in Endowment funds were comprised of the following:

	December 31 2012	December 31 2011
Interest and dividends	\$ 2,588	\$ 3,456
Investment gains (losses)	4,858	(3,694)
	<u>\$ 7,446</u>	<u>\$ (238)</u>

6. Real Estate

The Foundation shares ownership of a property known as Fairfields, a designated historical property. The property is recorded at the appraised value, as determined by an independent appraiser, at the time of donation. The expenses related to the management and upkeep of the property are funded by a designated endowment fund.

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

7. Capital Assets

	December 31 2012		December 31 2011	January 1 2011
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	\$229	\$223	\$6	\$5
Furniture and fixtures	44	43	1	2
Leasehold Improvements	20	2	18	-
	\$293	\$268	\$25	\$7
				\$8

The total cost and accumulated amortization of capital assets at December 31, 2011 were \$265 and \$258 respectively resulting in a net book value of \$7 and at January 1, 2011 they were \$257 and \$249 respectively resulting in a net book value of \$8.

8. Deferred Gifts

Life insurance

The Foundation is the beneficiary of life insurance policies. At December 31, 2012 the amount of insurance in force for which the Foundation is the owner and beneficiary totals \$4,470 (December 31, 2011 - \$4,570 and January 1, 2011 - \$3,988). Premiums paid during the 2012 fiscal year by the insured donors were \$113 (2011 - \$146) and are recognized as both a revenue and an expense in the Statements of Operations and Changes in Fund Balances.

Some life insurance policies carry a cash surrender value, which has been recorded in the investment assets in the amount of \$405 (December 31, 2011 - \$343 and January 1, 2011 - \$354).

Bequests

The Foundation has been designated the beneficiary of certain estates. The amount of these planned gifts is not readily determinable.

Community Foundation of Ottawa Notes to Financial Statements

December 31, 2012, December 31, 2011 and January 1, 2011 (in thousands of dollars)

9. Commitments

The Foundation has entered into lease commitments until September 30, 2019 for the following gross amounts on a fiscal year basis. The most significant lease is for office space. A portion of these amounts will be recovered from sub-tenants.

2013	\$ 82
2014	87
2015	97
2016	97
2017	96
2018	91
2019	<u>68</u>
Total	<u>\$618</u>

In addition to lease commitments, the Foundation has committed to purchase an aggregate of \$1,080 of units of principal of the Community Forward Fund, of which \$225 (Note 4) has been purchased to December 31, 2012.
