The MasterCard Foundation

Financial Statements
December 31, 2011
(expressed in thousands of US dollars)

April 18, 2012

Independent Auditor's Report

To the Directors of
The MasterCard Foundation

We have audited the accompanying financial statements of The MasterCard Foundation, which comprise the statement of financial position as at December 31, 2011 and the statements of revenue and expenditures, changes in net assets 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 generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 in our audit 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 MasterCard Foundation as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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The MasterCard Foundation

Statement of Financial Position

As at December 31, 2011

(expressed in thousands of US dollars)

	2011 $	2010 $
Assets		
Current assets		
Cash	6,116	4,703
Portfolio investments (note 3)	20,436	5,813
Prepaid expenses and sundry assets	557	506
	27,109	11,022
Investment in MasterCard Incorporated shares (notes 4 and 10)	3,720,445	2,328,508
Property and equipment (note 5)	466	293
Intangible assets (note 6)	400	268
	3,748,420	2,340,091
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	659	828
Net Assets		
Unrestricted funds	26,850	10,462
Restricted funds	3,720,445	2,328,508
Invested in property and equipment	466	293
	3,747,761	2,339,263
	3,748,420	2,340,091

Commitments (note 13)

Approved by the Board of Directors

____________________ Director ____________________ Director

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

The MasterCard Foundation

Statement of Revenue and Expenditures

For the year ended December 31, 2011

(expressed in thousands of US dollars)

	2011 $	2010 $
Revenue		
Investment income	7,998	8,262
Realized gain on sale of investments (note 4)	83,797	31,168
	91,795	39,430
Expenditures		
Program disbursements (note 13(b))	79,025	47,061
Program costs (note 8)	4,054	2,320
Administration costs (note 7)	4,259	3,629
Excise tax recovery (note 14)	-	(800)
	87,338	52,210
Excess (deficiency) of revenue over expenditures for the year	4,457	(12,780)

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

The MasterCard Foundation

Statement of Changes in Net Assets

For the year ended December 31, 2011

(expressed in thousands of US dollars)

	Invested in property and equipment $	Restricted funds $	Unrestricted funds $ (note 2)	Total $
Balance - January 1, 2010	350	2,694,857	17,530	2,712,737
Deficiency of revenue over expenditures for the year	(83)	-	(12,697)	(12,780)
Decrease in unrealized appreciation of investments	-	(360,404)	(290)	(360,694)
Interfund transfers	26	(5,945)	5,919	-
Balance - December 31, 2010	293	2,328,508	10,462	2,339,263
Excess (deficiency) of revenue over expenditures for the year	(100)	-	4,557	4,457
Increase (decrease) in unrealized appreciation of investments	-	1,404,089	(48)	1,404,041
Interfund transfers	273	(12,152)	11,879	-
Balance – December 31, 2011	466	3,720,445	26,850	3,747,761

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

The MasterCard Foundation
Statement of Cash Flows
For the year ended December 31, 2011

(expressed in thousands of US dollars)

	2011 $	2010 $
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenditures for the year	4,457	(12,780)
Items not affecting cash		
Amortization of property and equipment	100	83
Amortization of intangible assets	13	-
Realized gain on sale of investments	(83,797)	(31,168)
Net change in non-cash operating items		
Prepaid expenses and sundry assets	(51)	(22)
Accounts payable and accrued liabilities	(169)	356
	(79,447)	(43,531)
Investing activities		
Purchase of property and equipment	(273)	(26)
Purchase of intangible assets	(145)	-
Proceeds from sale of portfolio investments – net	(14,636)	8,398
Proceeds from sale of MasterCard Incorporated shares	95,914	36,713
	80,860	45,085
Increase in cash during the year	1,413	1,554
Cash - Beginning of year	4,703	3,149
Cash - End of year	6,116	4,703
Non-cash transactions		
(Decrease) increase in unrealized appreciation of investment in MasterCard Incorporated shares and offsetting (decrease) increase in restricted net assets	1,404,089	(360,404)
(Decrease) increase in unrealized appreciation of portfolio investments and offsetting (decrease) increase in unrestricted net assets	(48)	(290)

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

(expressed in thousands of US dollars)

1 Nature of organization

The MasterCard Foundation (the Foundation) was incorporated under the Canada Corporations Act by letters patent on October 28, 2005 as a corporation without share capital. The Foundation is an independent, private foundation established through a gift of MasterCard Incorporated shares (note 4) in May 2006. Through collaboration with partners, the Foundation advances microfinance and youth learning to promote financial inclusion and prosperity in developing countries.

The Foundation is registered under the Income Tax Act (Canada) (the Act) effective April 18, 2006 and, as such, is exempt from Canadian income taxes and is able to issue donation receipts for income tax purposes under registration number 817387277 RR 0001.

The Foundation has tax exempt status in the United States under Section 501(c)(4) of the Internal Revenue Code from the date of its formation in 2005.

2 Summary of significant accounting policies

The financial statements of the Foundation have been prepared in accordance with Canadian generally accepted accounting principles with all amounts reported in US dollars, the Foundation's functional currency. The accrual basis of accounting is used for reporting all revenue and expenditures.

Net assets

The Foundation follows the restricted fund method of accounting for contributions. It ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

Restricted funds represent the investment in MasterCard Incorporated shares, which are subject to disposition restrictions as further explained in note 4.

Unrestricted funds represent funds available to the Foundation for operational and charitable disbursement purposes.

The funds invested in property and equipment relate to the Foundation's investment in property and equipment. Property and equipment acquisitions are funded by transfers from the unrestricted fund.

Revenue recognition

Contributions are recognized as revenue in the year received or receivable, if the amounts can be reasonably estimated and collection is reasonably assured. Donations in-kind are recorded at fair value at the date of gifting.

Investment income represents interest and dividends. Interest is recognized as earned and dividends are recognized at the ex-dividend date.

(expressed in thousands of US dollars)

Investment transactions are accounted for on a trade date basis. Realized gain and losses from investment transactions are calculated on an average cost basis.

Program disbursements

Disbursements to conduct program activities are recorded as expenditures when approved by the Foundation's Board of Directors and when a contract has been executed between the Foundation, qualified donees or with a third party. In the case of multi-year fundings to qualified donees and third parties, the initial disbursements are recorded as expenditures in the year when the contract has been executed. Subsequent disbursements are recognized as expenditures based on a schedule of payments when or if specified performance criteria are met.

Program disbursement commitments

Commitments to program funding to qualified donees and other third parties are sometimes made in multiple disbursements. Where funding has been approved by the Board of Directors and not expensed in the year, such amounts are disclosed as commitments.

Property and equipment

Property and equipment are stated at cost less accumulated amortization. Amortization of furniture and fixtures and computer and other equipment is determined using the straight-line method over the estimated useful lives of the respective assets, generally ranging from two to ten years. Amortization of leasehold improvements is determined using the straight-line method over the terms of the related lease.

Intangible assets

Intangible assets are recorded at cost, and primarily consist of the non-exclusive right to use the MasterCard trademark and copyrighted materials related to MasterCard Incorporated as used by the MasterCard Foundation. The trademark and copyrighted material both have indefinite useful lives. The Foundation reviews the value of these intangible assets on an annual basis for impairment or at any other time when events or changes have been occurred that would suggest an impairment of the carrying value.

Intangible assets also include computer software which is amortized on a straight-line basis over two years.

Program costs

Program costs are operating expenses associated with charitable giving activities.

Allocation of expenses

The Foundation engages in microfinance and youth learning programs. Program costs include personnel, legal and other costs directly related to the programs. The Foundation also incurs other costs related to personnel, premises and other expenditures for the administration of the Foundation. Some of these costs are allocated to program costs, such as personnel costs which have been allocated in proportion to time spent and effort expended on programming. The basis of allocation is applied consistently each year.

(expressed in thousands of US dollars)

Investments in MasterCard Incorporated shares

Investments in MasterCard Incorporated shares are recorded at fair value. Fair value is determined based on their appraised fair value, generally their closing bid price, less an estimated discount rate to reflect the restricted nature of the shares (note 4), such discount rate is determined by an independent appraiser each year. The valuation discount rate used as at December 31, 2011 is 23% (2010 - 22%).

Portfolio investments

Portfolio investments are recorded at fair value and comprise cash and short-term investments. Investments are made in accordance with the Foundation's investment policy.

Foreign exchange translation

Revenue and expenses denominated in foreign currencies are translated into US dollars at the transaction date. Assets and liabilities denominated in foreign currencies are translated at the year-end date. Foreign exchange gains and losses are included in the statement of revenue and expenditures.

Financial instruments

The Foundation classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Foundation's accounting policy for each category is as follows:

Financial instrument	Category	Measurement
Cash	held-for-trading	fair value
Portfolio investments	available-for-sale	fair value
Sundry assets	loans and receivables	cost
Investment in MasterCard Incorporated shares	available-for-sale	fair value
Accounts payable and accrued liabilities	other financial liabilities	cost

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates included in these financial statements are used in determining the useful lives of property and equipment, accruals, the discount rate used in the valuation of the MasterCard Incorporated shares and the allocation of expenditures. Actual results could differ from those estimates.

(expressed in thousands of US dollars)

Future accounting changes

In December 2010, the Canadian Accounting Standards Board issued a comprehensive set of accounting standards applicable to not-for-profit organizations. The standards are effective for fiscal years beginning on or after January 1, 2012 and require retrospective application, except for certain exemptions and exceptions contained within the standards. The Foundation will adopt Part III of the Handbook - Accounting Standards for Not-For-Profit Organizations effective January 1, 2012.

3 Portfolio investments

Portfolio investments consist of the following:

	2011		2010	
	Cost $	Fair value $	Cost $	Fair value $
Cash and short-term investments	20,469	20,436	5,798	5,813

The investments are settled in both Canadian and US dollars. The fair value of investments held in Canadian dollars at the year-end is CAD$511 (2010 - CAD$1,623).

4 Investment in MasterCard Incorporated shares

	2011	2010
	Fair value $	Fair value $
12,959,998 Class A MasterCard Incorporated shares - gifted shares (2010 - 13,320,544)	3,720,445	2,328,508

Under the deed of gift with MasterCard Incorporated, the Foundation may not dispose of these gifted shares during the no-alienation period, defined as that period from the date of the initial donation (May 31, 2006) to the fourth anniversary of that date (May 30, 2010). Subsequent to this period, limited disposition may be done to satisfy the Foundation's disbursement quota and operating expenses. This period of limited alienation is effective for 16 years and 11 months from one day after the fourth anniversary (April 30, 2027). After this limited alienation period (May 1, 2027), the Foundation may dispose of the shares at its discretion, in an orderly and structured manner so as not to unreasonably disrupt the market for MasterCard Incorporated's stock. Furthermore, the then balance of the gift on the commencement of the unlimited alienation period is required to be divided into two funds, namely the Perpetual Endowment Fund (the capital is to be held in perpetuity; the income is to be disbursed to satisfy the charitable purpose of the gift) and the Remaining Fund (to be disbursed in its entirety within the first ten years of the unlimited alienation period), with allocation between the funds being based on the gifting agreement.

(expressed in thousands of US dollars)

Realized gain on sale of The MasterCard Incorporated shares.

The realized gain on sale of The MasterCard Incorporated shares during the year, which is included in the realized gain on sale of investments, is determined as follows:

	2011 $	2010 $
Proceeds on sale - 360,546 shares (2010 – 176,389 shares)	95,914	36,713
Cost of investments, beginning of year	448,969	454,914
Cost of investments, end of year	436,817	448,969
Cost of investments sold during the year	12,152	5,945
Realized gain on sale	83,762	30,768

5 Property and equipment

			2011
	Cost $	Accumulated amortization $	Net $
Leasehold improvements	146	96	50
Furniture and fixtures	290	74	216
Computer and other equipment	338	138	200
	774	308	466

			2010
	Cost $	Accumulated amortization $	Net $
Leasehold improvements	146	67	79
Furniture and fixtures	212	50	162
Computer and other equipment	143	91	52
	501	208	293

(expressed in thousands of US dollars)

6 Intangible assets

	2011 $	2010 $
MasterCard Incorporated trademark	179	179
Copyrighted material	89	89
Computer software, net of accumulated amortization of $13	132	-
	400	268

7 Administration costs

	2011 $	2010 $
Payroll and personnel related costs	1,494	1,351
Professional fees	975	1,037
Legal and audit	435	383
Office expense	477	332
Travel	370	240
Occupancy	241	188
Amortization of property and equipment	100	83
Amortization of intangible assets	13	-
Foreign exchange loss	154	15
	4,259	3,629

8 Allocation of expenses

Included in program costs are certain payroll and personnel related costs of $876 (2010 - $428), which have been allocated from administration costs.

9 Related party transactions

The Foundation has a formal professional code of conduct in place for staff and the Board of Directors, governing conflict of interest and competitive purchasing practices. During the year, eight organizations (2010 - eight) affiliated with certain current and former members of the Board of Directors received disbursements to conduct charitable activities. The total program disbursements included in the accounts of the Foundation related to these organizations amount to $2,298 (2010 - $2,157), as follows:

	2011 $	2010 $
Directors' grants (2011 - 4; 2010 - 4)	90	100
Disbursements to director affiliated organizations (2011 - 5; 2010 - 4)	2,208	2,057
	2,298	2,157

(expressed in thousands of US dollars)

10 Financial risk management

Financial risk management relates to the understanding and active management of risks associated with the operations of the Foundation and its assets. The Foundation is exposed to currency, credit, market and liquidity risks as follows:

Currency risk

The Foundation holds portfolio investments and cash balances denominated in currencies (principally Canadian dollars) other than its reporting currency, the US dollar. Consequently, the Foundation is exposed to risks that the exchange rate of the US dollar relative to the Canadian dollar may change in a manner that has an adverse or beneficial effect on the reported value of the Foundation's investments.

Credit risk

The Foundation bears credit risk associated with its holdings of cash and short-term investments in its portfolio. To mitigate this risk, the Foundation places its cash and portfolio investments in securities of federal or provincial governments, chartered banks, major trust companies or top quality corporate bonds.

Market risk and liquidity risk

The Foundation's investments in MasterCard Incorporated shares are subject to market risk, which includes price risk arising from market volatility and the risk of loss of capital associated with these investments.

Liquidity risk is the risk the Foundation will not be able to meet its financial obligations primarily related to program disbursements as they come due. The Foundation manages liquidity risk through regular monitoring of forecast and actual cash flows in conjunction with the determination of both the timing and amount of sales of the MasterCard Incorporated shares, which are subject to sale restrictions as disclosed in note 4.

Subsequent to the year-end, the Foundation sold 140,603 shares of MasterCard Incorporated for total proceeds of $49,567 and realized a gain on sale of $44,828.

11 Status of foundation

The Foundation is a Canadian registered charity and is designated as a private foundation under subsection 149.1(1) of the Act. The Act requires that a private foundation expend certain amounts each year on its own charitable activities or by way of donations to other qualified donees (disbursement quota). The Foundation is subject to an averaging arrangement with respect to its disbursement quota obligations, representing the sum of its annual disbursement quotas for fiscal years 2007 through 2016 inclusive (the Ten-Year Period). During 2011, the Foundation obtained another five year extension of the averaging arrangement. With this extension, the Foundation is considered to have met its disbursement quota requirements for each of the fiscal years 2007 to 2021 provided it has expended amounts on its own charitable activities and/or has made gifts to qualified donees on a cumulative basis, which equal or exceed its disbursement quota requirements for the Fifteen-Year Period ending December 31, 2021.

(expressed in thousands of US dollars)

12 Management of capital

The Foundation views its capital as the combination of its restricted and unrestricted funds. The Foundation's objectives when managing capital are to safeguard its ability to continue as a going concern and fulfill its mandate to increase access to microfinance and youth learning programs (note 1). The Foundation has determined it should maintain a certain level of working capital to ensure the stability of its operations. The restricted funds primarily represent the investment in MasterCard Incorporated shares. These shares are subject to external restrictions on their disposition (note 4). Unrestricted funds are available for the Foundation's operations.

The Board of Directors has determined that, in seeking a return on the Unrestricted Funds, such funds shall be invested in a portfolio of cash and short-term investments with term to maturity of less than one year.

At the end of 2011, the Foundation's Board approved the operating expenses and program disbursements for 2012. The Foundation is expected to dispose of sufficient MasterCard Incorporated shares in 2012 to meet its working capital needs, including its scheduled program commitments.

13 Commitments

a) Lease commitments

The Foundation is committed to total lease payments under operating leases for office space and equipment as follows:

	$
2012	354
2013	410
2014	411
2015	405
Thereafter	1,103
	2,683

b) Current program disbursements and commitments

During the year, the Foundation expensed $79,025 (2010 - $47,061) relating to program disbursements to qualified donees and other third parties.

Commitments to program funding to qualified donees and other third parties are sometimes made in multiple disbursements; however, the Foundation only commits to and expenses one disbursement at a time for each donee or other third party, with the subsequent disbursements subject to review for compliance to specified performance criteria. If the specified performance criteria are met, and funds are available, further funding of subsequent disbursements is made.

The total program commitments relating to future years, not yet expensed amount to $260,978 (2010 - $141,149) and are scheduled to be paid as follows:

(expressed in thousands of US dollars)

Included in these commitments is $8,917 (2010 - $1,557) committed to an organization affiliated with a member of the Board of Directors.

	$
2012	73,061
2013	70,094
2014	51,217
2015	36,523
Thereafter	30,083
	260,978

14 Excise tax recovery

In 2010, the Foundation's Application for Recognition of Exemption under Section 501(c)(4) was approved by the Internal Revenue Service, retroactively to the Foundation's date of formation. The Foundation received a refund of the US excise taxes previously paid on its US source income.