

Financial Statements of
THE VICTORIA FOUNDATION
Year Ended December 31, 2012

INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of The Victoria Foundation

We have audited the accompanying financial statements of The Victoria Foundation, which comprise the statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011 and the statements of operations and changes in net assets and 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 controls as management determines is necessary to enable the preparation of financial statement that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian 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 auditors' 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 audits 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 Victoria Foundation as at December 31, 2012, December 31, 2011 and January 1, 2011 and the results of its operations and changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Accountants

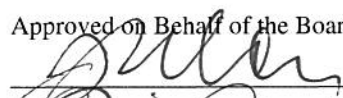
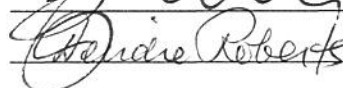
THE VICTORIA FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	December 31, 2012 \$	December 31, 2011 \$	January 1, 2011 \$
ASSETS			
CASH	932,982	1,303,830	631,543
INVESTMENTS (Note 3)	190,997,699	174,281,796	172,423,378
CASH SURRENDER VALUE, LIFE INSURANCE POLICIES (Note 4)	496,180	473,407	478,071
INTERESTS IN CHARITABLE REMAINDER TRUSTS (Note 5)	1,373,418	1,373,418	1,373,418
OTHER ASSETS (Note 6)	191,049	262,664	202,167
	<u>193,991,328</u>	<u>177,695,115</u>	<u>175,108,577</u>
TRUST ASSETS			
MANAGED TRUST FUNDS (Note 7, Schedule 1)	2,912,613	2,990,999	2,747,107
	<u>196,903,941</u>	<u>180,686,114</u>	<u>177,855,684</u>
LIABILITIES			
PAYABLES AND OTHER LIABILITIES (Note 8)	362,378	301,127	303,062
PASS THROUGH FUND LIABILITIES (Note 9)	7,532,711	7,682,123	8,171,475
GRANT COMMITMENTS (Note 10)	437,313	417,039	1,041,728
IRVING K. BARBER BRITISH COLUMBIA SCHOLARSHIP SOCIETY MANAGED FUNDS (Note 11)	48,165,193	40,667,533	39,633,725
	<u>56,497,595</u>	<u>49,067,822</u>	<u>49,149,990</u>
NET ASSETS			
ENDOWMENT FUNDS (Note 12)	136,967,854	128,169,233	125,521,285
INVESTED IN PROPERTY AND EQUIPMENT	52,025	49,385	46,044
OPERATING FUNDS	473,854	408,675	391,258
	<u>137,493,733</u>	<u>128,627,293</u>	<u>125,958,587</u>
	<u>193,991,328</u>	<u>177,695,115</u>	<u>175,108,577</u>
TRUST LIABILITIES			
MANAGED TRUST FUNDS (Note 7, Schedule 1)	2,912,613	2,990,999	2,747,107
	<u>196,903,941</u>	<u>180,686,114</u>	<u>177,855,684</u>

LEASE COMMITMENT (Note 15)

Approved on Behalf of the Board:

 Director
 Director

See accompanying notes

THE VICTORIA FOUNDATION

STATEMENTS OF NET ASSETS

YEARS ENDED DECEMBER 31,

	Endowment Funds \$	Invested in Capital Assets \$	Operating Funds \$	2012 Total \$	2011 Total \$
NET ASSETS, beginning of year	128,169,233	49,385	408,675	128,627,293	125,958,587
ADD					
New endowed gifts	3,205,922	-	-	3,205,922	3,524,353
Fund retractions	(100,000)	-	-	(100,000)	(478,200)
Contributions from other funds	153,091	-	-	153,091	372,673
Increase in cash surrender value	22,773	-	-	22,773	23,334
Total returns allocated to net assets (Note 3)	5,516,835	-	-	5,516,835	(794,212)
Excess of revenues over expenses for the year	-	-	67,819	67,819	20,758
TRANSFERS					
Acquisitions of property and equipment	-	19,412	(19,412)	-	-
Amortization charge for the year	-	(16,772)	16,772	-	-
NET ASSETS, end of year	136,967,854	52,025	473,854	137,493,733	128,627,293

See accompanying notes

THE VICTORIA FOUNDATION

STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31,

	2012 \$	2011 \$
REVENUE		
Gifts - Received for immediate granting	5,340,928	7,276,041
Gifts - Operations	208,284	408,504
Total returns allocated to operations and granting (<i>Note 3</i>)	4,403,034	4,022,397
Fee revenue - Trusts and Managed Funds	454,061	422,888
Life insurance premiums	212,074	103,796
	<u>10,618,381</u>	<u>12,233,626</u>
EXPENSES		
Grants - Pass Through Funds	5,340,928	7,276,041
Grants - Endowment Funds	3,174,953	2,886,112
Operations - Communications and Community Leadership	265,193	426,508
Operations - General	501,032	551,376
Operations - Staffing	1,056,382	969,035
Life insurance premiums	212,074	103,796
	<u>10,550,562</u>	<u>12,212,868</u>
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	<u>67,819</u>	<u>20,758</u>

See accompanying notes

THE VICTORIA FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31	2012 \$	2011 \$
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Excess of revenue over expenses	67,819	20,758
Amortization	16,772	13,396
Total returns allocated to operations and granting	(4,403,034)	(4,022,397)
Other assets	71,615	(60,497)
Payables and other liabilities	61,252	(1,934)
Endowment Funds	8,798,621	2,647,948
	<u>4,613,045</u>	<u>(1,402,726)</u>
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Purchase of equipment	(19,412)	(16,737)
Total returns allocated to Endowment Funds	(5,516,838)	794,212
Distributions from Endowment Funds	3,834,142	4,739,698
Contributions to Endowment Funds	(3,205,921)	(3,524,353)
Retractions approved from Endowment Funds	100,000	478,200
Increase in cash surrender value of life insurance policies	(22,773)	(23,334)
Transfers between Endowment Funds	(153,091)	(372,673)
	<u>(4,983,893)</u>	<u>2,075,013</u>
NET (DECREASE) INCREASE IN CASH	(370,848)	672,287
CASH, beginning of year	<u>1,303,830</u>	<u>631,543</u>
CASH, end of year	<u><u>932,982</u></u>	<u><u>1,303,830</u></u>

See accompanying notes

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

1. STATUS AND NATURE OF OPERATIONS

The Victoria Foundation (the "Foundation") was established in 1936, by an Act of the Legislative Assembly of British Columbia. The Victoria Foundation Amendment Act received Royal Assent on October 29, 2009. The Victoria Foundation is dedicated to improving the quality of life in our community through the stewardship of permanent funds and other gifts, and by grant making for charitable purposes on southern Vancouver Island and beyond. The Foundation is a registered charity and is classified as a public foundation for purposes of the Income Tax Act (Canada) and accordingly, is exempt from income taxes and can issue donation receipts for income tax purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations, and include the following significant accounting policies:

(a) Recognition of contributions

The Foundation follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets when received.

(b) Endowment funds

Endowment funds are established for gifts that are designated to remain under the Foundation's management in perpetuity. Such donations are used to acquire units in the Foundation's common trust fund, and each fund is increased periodically by its proportionate share of investment returns that are allocated to capital and decreased by grant distributions from the fund and administration fees against the fund.

(c) Investments

The Foundation's investments are classified as held-for-trading financial assets and are comprised of bonds, debentures, preferred shares and common shares, which are recorded at fair value based on bid prices at year-end. Investment earnings (total returns) include interest and dividends, accrued interest and realized and unrealized market gains and losses net of custodian and investment counsel fees. The Foundation's policy for recognition of investment income is to allocate that portion of total returns which relates to the endowment fund distribution policy to operating income in the current year. Any difference between the distribution policy and the actual total returns is allocated directly to net assets.

(d) Donated equipment and services

Donated equipment, rent and other services are recorded both as donations and expenses at their fair value when fair value can be reasonably estimated.

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) *Property and equipment*

Property and equipment are accounted for at cost. Amortization is based on their estimated useful life using the following methods and rates:

Furniture and fixtures	20% declining balance
Computer hardware	30% declining balance
Computer software	100% declining balance

In the year of acquisition only one-half the normal rate is applied.

(f) *Recognition of Total Returns and Fund Distributions*

The Foundation's policy for the recognition of investment income and capital gains (realized and unrealized) has been established to be consistent with the Foundation's fund distribution policy. The fund distribution percentage is based on a long-term estimate of total return net of inflation and investment management fees. Total return is the aggregate of interest and dividends, accrued interest and realized and unrealized market gains and losses net of custodian and investment counsel fees. The distribution percentage is determined annually by the Board of Directors.

(g) *Managed Trust Funds*

The Managed Trust Funds are held in cash, treasury bills and bonds. These investments are recorded at their fair value.

It is the policy of the Foundation that any excess of revenue over expenses generated from fees earned from the Managed Trust Funds will be used only for furthering the objectives of the Foundation as outlined in the Victoria Foundation Act.

(h) *Use of Estimates*

The preparation of the financial statements in conformity 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known. Actual results may vary from the current estimates.

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) *Financial Instruments*

The Foundation's financial instruments consist of cash, investments, accounts receivable, cash surrender value of life insurance policies, interests in charitable remainder trusts, accounts payable and accrued liabilities, grant commitments and pass through fund liabilities. The Foundation has classified its financial instruments as held-for-trading.

The carrying values of the Foundation's cash, accounts receivable, accounts payable and accrued liabilities, grant commitments and pass through fund liabilities approximate their fair values due to the short-term nature of these assets and liabilities. The carrying value of life insurance policies also approximates its fair value and is reflected on the statement of financial position at the cash surrender values. Charitable remainder trusts are carried at their estimated net present value at the date of initial receipt, calculated as the market value at the time of initial receipt of the trust's assets discounted for the estimated time until the Foundation's receipt of the income interest in the assets.

Investments are initially recognized at their fair value determined by published price quotations in an active market. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs are immediately recognized in income. Held-for-trading investments are subsequently measured at their fair value, without any deduction for transaction costs incurred on sale or other disposal. Net gains and losses arising from changes in fair value are recognized immediately in income.

(j) *Conversion to Canadian Accounting Standards for Not-For-Profit Organizations*

Commencing with the 2012 fiscal year, the Foundation has adopted Canadian accounting standards for not-for-profit organizations issued by the Accounting Standards Board. These financial statements are the first financial statements for which the Foundation has applied Canadian accounting standards for not-for-profit organizations, which have been applied retrospectively.

The conversion to the Canadian accounting standards for not-for-profit organizations on January 1, 2011 did not result in adjustment to previously reported assets, liabilities or net assets of the company, and accordingly no adjustments have been recorded in the comparative statement of financial position, statement of net assets, statement of operations, or cash flows.

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

3. INVESTMENTS

In accordance with our mission, the Foundation provides leadership by inspiring giving, by thoughtfully caring for the assets entrusted to us, and by investing in people, ideas and activities that strengthen our communities. The Board of Directors and the Investment Committee developed an Investment Policy and Guidelines, with the objective of maintaining the purchasing power of the funds entrusted to the Foundation while achieving maximum returns consistent with prudent investment. The Foundation's investment policy applies to all investments held in the Foundation's Consolidated Trust Fund. The investment policy includes restrictions regarding the minimum and maximum amount of equity holdings, the maximum amount of foreign equity holdings and a maximum to be invested in any one related group or industry.

	2012 \$	2011 \$
Investments are comprised of the following:		
Cash and short-term investments	8,230,433	8,672,756
Treasury bills	12,599,423	9,974,365
Bonds	69,545,707	70,112,516
Canadian equities	73,410,017	61,193,589
U.S. and international equities	27,212,119	24,328,570
	<u>190,997,699</u>	<u>174,281,796</u>

Investment income is allocated between operations and net assets based on the distribution percentage set by the Board of Directors from time to time. Total returns as described in Note 2(c) and 2(f) have been allocated as follows:

	2012 \$	2011 \$
Interest and dividends	4,331,462	5,018,804
Realized capital gains	1,031,007	1,327,018
Unrealized capital gains (losses)	4,857,418	(2,817,654)
Less: Investment management and custodial fees	<u>(300,018)</u>	<u>(299,983)</u>
Total returns	<u>9,919,869</u>	<u>3,228,185</u>
Allocated to operations and granting	<u>4,403,034</u>	<u>4,022,397</u>
Allocated to net assets	<u>5,516,835</u>	<u>(794,212)</u>

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

4. CASH SURRENDER VALUE, LIFE INSURANCE POLICIES

The Foundation is owner and beneficiary of life insurance policies with face amounts totaling \$3,829,362 (2011 - \$3,626,935). The cash surrender value of these policies is reflected on the statement of financial position as an asset of the endowment funds. The annual change in the aggregate cash surrender value is recorded as an increase to the Foundation's endowment funds.

5. INTERESTS IN CHARITABLE REMAINDER TRUSTS

The Foundation is named as beneficiary of several charitable remainder trusts. The balance of \$1,373,418 (2011 - \$1,373,418) represents the actuarial value of the trusts at the date of funding. The actuarial value of new charitable remainder trusts funded during the year is recorded in the financial statements as an increase to the endowment funds.

6. OTHER ASSETS

	2012 \$	2011 \$
Accounts receivable	65,065	139,301
GST/HST receivable	57,988	71,257
Prepaid expenses	15,971	2,721
Property and equipment, net	52,025	49,385
	<u>191,049</u>	<u>262,664</u>

7. MANAGED TRUST FUNDS (Schedule 1)

The Province of British Columbia has established trust funds for various purposes as outlined below. The Foundation is the trustee of the funds and administers these funds in accordance with the terms of the trust agreements. The trust agreements may require capital and income distributions. Trusts held at December 31, 2012 are:

The Lex Reynolds British Columbia Adoption and Permanency Fund

- To help British Columbia children and youth awaiting more permanent placements. Grants provide support to parents, children and adoption care workers.

Youth Educational Assistance Fund

- To provide financial assistance for former youth in care attending post-secondary educational institutions.

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

8. PAYABLES AND OTHER LIABILITIES

	2012 \$	2011 \$
Payables – operations	60,346	64,413
Payables – grants	187,575	145,958
Deferred contributions	114,457	90,756
	<u>362,378</u>	<u>301,127</u>

Deferred contributions represent gifts from donors for the Vital Signs project for 2013, gifts towards rent, a gift of a server, and gifts for special projects. These contributions will be recognized as income as the offsetting expenses are incurred.

9. PASS THROUGH FUND LIABILITIES

Pass through fund liabilities represent donations and grants externally restricted by the donor or for a particular charitable purpose and are not held in permanence by the Foundation:

	2012 \$	2011 \$
Donor Advised Pass Through Funds	4,108,583	3,606,502
Every Step Counts Program Fund	100	913
Fetal Alcohol Spectrum Disorder Action Fund	-	502,251
Homeless Prevention Fund	76,224	50,533
Kwadacha First Nation – Payment Trustee Fund	75,353	172,598
McConnell Environmental Fund	15,952	15,952
MFRC Esquimalt – Projects Fund	41,900	44,116
Tsay Keh Dene First Nation – Payment Trustee Fund	3,167,568	3,254,060
Victoria Dandelion Society Fund	27,658	14,639
Wellness Program Fund	19,373	20,559
	<u>7,532,711</u>	<u>7,682,123</u>

10. GRANT COMMITMENTS

Grant commitments represent the undistributed fund distributions of various endowment funds which may be paid out as grants in the following year.

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

11. IRVING K. BARBER BRITISH COLUMBIA SCHOLARSHIP SOCIETY – MANAGED FUNDS

The Foundation has an agreement with the Irving K. Barber British Columbia Scholarship Society (the “Society”) for the management of their scholarship endowment funds. The agreement was renewed for a four year term commencing May 1, 2010. It involves the Foundation managing the permanent endowment funds of the Society and providing granting, communications, finance and administrative support. The funds were pooled with the Foundation’s investments until September 30, 2010 after which time they were segregated within the Foundation’s investment management accounts under the same portfolio custodian and managers. The Society follows their own investment policy.

The Society provides scholarships to post-secondary students in British Columbia and the Foundation administers the following endowment funds on their behalf:

	2012 \$	2011 \$
Irving K. Barber B.C. Scholarship	16,280,574	15,208,039
B.C. Aboriginal Students Scholarship	12,564,262	9,849,212
One World Scholarship	15,358,179	12,574,642
Pacific Horizons Scholarship	1,087,178	1,022,215
Aboriginal Teachers Education Award Program	1,895,000	2,013,425
Aboriginal Masters / PHD Program Fund	980,000	-
	<u>48,165,193</u>	<u>40,667,533</u>

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

12. ENDOWMENT FUNDS

The endowment funds of the Foundation are currently comprised of funds where all capital is generally held in perpetuity. For particular funds, the Board of Directors may consider capital distributions in defined circumstances. The investment returns of these funds are subject to varying degrees of restriction of use as described below. At year end, the original capital balance of the consolidated endowment funds was \$126,024,376 (2011 – \$122,676,583). At year end, the market value of these funds, including related grant commitments was:

	2012 \$	2011 \$
Hosted Funds – where the grants are designated to specifically named not-for-profit organizations	49,274,339	47,811,931
Hosted Retractable Funds – where the grants are designated to specifically named not-for-profit organizations who may also, under certain circumstances, have access to the fund	9,250,685	7,959,832
Donor Advised Funds – where the grants are designated to recipients after consultation with the donor	26,133,593	26,382,300
Designated Funds – where the grants are designated to specifically named organizations	25,549,074	23,775,681
Discretionary Funds – where the grants are distributed at the discretion of the Foundation	27,197,476	22,656,528
	<u>137,405,167</u>	<u>128,586,272</u>
Comprised of:		
Grant Commitments (<i>Note 10</i>)	437,313	417,039
Endowment Net Assets	<u>136,967,854</u>	<u>128,169,233</u>
	<u>137,405,167</u>	<u>128,586,272</u>

13. PORTFOLIO MANAGEMENT AND CUSTODIANSHIP

The investment counsel firms of Jarislowsky Fraser Limited and Leith Wheeler Investment Counsel Ltd. each have discretionary management authority over a portion of the Foundation's investments, which at December 31, 2012 were held in trust by RBC Investor Services Trust.

14. ADMINISTRATION FEES

Administration fees are charged to the endowment funds at rates established annually by the Board of Directors. These fees support the administrative operations of the Foundation.

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

15. LEASE COMMITMENT

The Foundation leases office and storage space. Last year the Foundation renewed their lease for a five year term commencing February 1, 2011. Annual lease payments for the remainder of the lease term, including the Foundation's share of estimated operating costs, are:

	<u>\$</u>
2013	120,665
2014	125,725
2015	125,725

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Foundation actively manages the risks that arise from its use of financial instruments, including liquidity, credit and market risk. The Foundation adheres to an investment policy that outlines the objectives, constraints, and parameters related to its investing activities. This policy prescribes limits around the quality and concentration of investments held by the Foundation. The Investment Committee and management regularly review the Foundation's investments to ensure all activities adhere to the investment policy. The Foundation does not utilize derivatives or other off-balance sheet instruments, nor does the Foundation engage in hedging transactions.

(a) *Liquidity Risk*

Liquidity risk is the risk that the Foundation cannot meet a demand for cash or fund its obligations as they come due. A key liquidity requirement for the Foundation is grant commitments. Liquidity risk is managed by investing the majority of the Foundation's assets in investments that are traded in an active market and can be readily liquidated. In addition, the Foundation aims to retain sufficient cash positions to maintain liquidity. The Foundation's investments are considered readily realizable and liquid, therefore the Foundation's liquidity risk is considered minimal. The Foundation's contractual liabilities are all due within one year, with the exception of lease commitments as set out in Note 15. The Foundation's exposure to and management of liquidity risk has not changed materially since December 31, 2011.

(b) *Credit Risk*

Credit risk is the potential for financial loss should a counter party in a transaction fail to meet its obligations. The Foundation's investments in short-term investments and bonds and debentures are subject to credit risk. The maximum exposure to credit risk on these financial instruments is their carrying value. The Foundation's exposure to and management of credit risk has not changed materially since December 31, 2011. The investment policy of the Foundation mandates the following:

Cash and Equivalents

- a. Instruments issued by or guaranteed by the Government of Canada or the Provinces.
- b. Commercial Paper rated R1 or better by the Dominion Bond Rating Service.

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

- c. Debt instruments of the six major domestic banks, their guarantees, trust companies or domestic banks with a rating of AA or better; or any deposit insured by the CDIC. No cumulative investment in one institution will exceed 15% of the short-term funds unless held in a broadly diversified pooled fund of an investment manager.

Fixed Income

- a. Investments in debt of the following issuers are acceptable:
- Government of Canada and its guarantees;
 - Provinces and guarantees whose ratings are BBB or better;
 - Corporations with a rating of BBB or better by the Dominion Bond Rating Service;
 - If the ratings are BBB or better, bonds of a Canadian issuer payable in a foreign currency, or U.S. Government and U.S. corporate bonds;
 - Asset backed securities including collateralized commercial mortgages (CMBS) provided the ratings of the issues acquired are a minimum A or equivalent and the CMBS content by the investment manager in other debt instruments does not exceed 25% nor other asset backed securities exceed 15%. If the rating is BBB or better, bonds of a Canadian issuer payable in a foreign currency, U.S. Government and U.S. corporate bonds.
- b. Debt rated below BBB is not permitted except in the case of a high yield pooled bond fund of an investment manager which has been approved for investment by the Board.
- c. Investments in instruments with a rating of BBB will not exceed 20% of debt holdings and other debt holdings will have a dollar weighted investment rating of A or higher.
- d. Not more than 10% (5% if the rating is BBB) shall be invested in the debt of a single issuer other than the debt issues of, or fully guaranteed by, the government of Canada or a Province.
- e. Should the rating of a debt instrument be downgraded to a level below being eligible for purchase, the investment manager shall immediately advise the Board of its intentions which will generally be to dispose of the security as soon as prudently advisable.

(c) Market Risk

Market risk is the potential for financial loss to the Foundation from changes in the values of its financial instruments due to changes in interest rates, currency exchange rates or equity prices. The investments of the Foundation are subject to normal market fluctuations and to the risk inherent in investment in capital markets.

i) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Foundation invests in interest-bearing financial instruments, and therefore the Foundation is exposed to interest rate risk on its bond portfolio. The average duration of the Foundation's bond portfolio at December 31, 2012 was six years. The objective of the Foundation's investment policy is to control interest rate risk by managing its interest rate exposure.

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

ii) *Currency Risk*

Currency risk is the risk that the value of financial instruments denominated in currencies other than the functional currency of the Foundation will fluctuate due to changes in foreign exchange rates. The Foundation is exposed to currency risk on its foreign market preferred and common stock and its foreign market bonds and debentures, as the prices denominated in foreign currencies are converted to the Foundation's functional currency in determining fair value. The objective of the Foundation's investment policy is to control currency risk by maintaining a geographically diversified portfolio. The most significant exposure to currency risk is \$18,306,233 of investments, which are in US dollars.

iii) *Equity Price Risk*

Equity price risk is the risk that the value of financial instruments will fluctuate due to changes in market prices. The Foundation is exposed to equity price risk on its investments in preferred and common stock. The objective of the Foundation's investment policy is to control equity price risk by maintaining a portfolio which is diversified across geographic and industry sectors. The current investment policy with regards to equity investments is as follows:

Equity Investments

In respect of equity investments, investments will be limited to:

- a. Not more than 10% of the Canadian equity allocation shall be invested in the common share or other equity issued of any one Canadian corporation;
- b. Not more than 10% of the non-domestic equity allocation shall be invested in the common stock or other equity issues of any one U.S. or overseas corporation;
- c. Non-domestic equity holdings will be broadly diversified by industry sectors, countries/regions and currencies;
- d. No equity investment will be made in any corporation with limited marketability or a market value capitalization of less than \$100 million unless it is held in a diversified small capitalization pooled fund approved by the Board and monitored by the Investment Committee or is a holding which was acquired in a segregated equity portfolio and subsequent to purchase has fallen in capitalization below \$100 million. Such a holding will be subject to explanation in the quarterly report of the manager as to why it should continue to be held in the portfolio.

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Loans and Derivatives

- a. The Fund shall not engage in the purchase of securities on margin;
- b. Investment managers may use derivative securities to defensively hedge currency exposures but no leverage is permitted;
- c. Investment in other derivative instruments may be used for hedging purposes to facilitate the management of risk or to facilitate an economical substitution to a direct investment but under no circumstances will derivatives be used for speculative purposes or to create leveraging of the portfolio;
- d. The custodian shall not loan Fund assets (i.e. engage in securities lending). Should a managers' pooled fund project engage in securities lending, the manager will make the Board aware of this practice at time of purchase and update annually as applicable to this policy.

17. COMPARATIVE FIGURES

The comparative figures have been reclassified where applicable in order to conform to the presentation used in the current year.

SCHEDULE 1**THE VICTORIA FOUNDATION****MANAGED TRUST FUNDS****FOR THE YEAR ENDING DECEMBER 31, 2012**

	The Lex Reynolds British Columbia Adoption and Permanency Fund \$	Youth Educational Assistance Fund \$	2012 Total \$	2011 Total \$
Balance, beginning of year	1,943,851	933,815	2,877,666	2,691,923
Contributions	-	1,468,742	1,468,742	1,438,116
Income earned	89,701	8,736	98,437	117,774
Fees and expenses	(43,745)	(8,987)	(52,732)	(73,720)
Grants paid	<u>(50,710)</u>	<u>(1,519,312)</u>	<u>(1,570,022)</u>	<u>(1,296,427)</u>
Balance, end of year	<u>1,939,097</u>	<u>882,994</u>	<u>2,822,091</u>	<u>2,877,666</u>
Market value, end of year	<u>2,013,902</u>	<u>898,711</u>	<u>2,912,613</u>	<u>2,990,999</u>