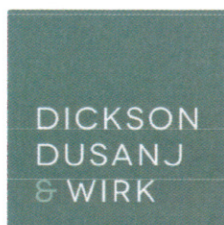


Financial Statements of

The Victoria Foundation

Year Ended December 31, 2013



CHARTERED
ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of The Victoria Foundation

Report on Financial Statements

We have audited the accompanying financial statements of The Victoria Foundation, which comprise the statement of financial position as at December 31, 2013 and the statements of operations and changes in net assets and cash flows for the year ended December 31, 2013 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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, 2013 and the results of its operations and changes in net assets and cash flows for the year ended December 31, 2013 in accordance with Canadian accounting standards for not-for-profit organizations.

Report on Other Legal and Regulatory Requirements

As required by the Society Act (British Columbia), we report that, in our opinion, the accounting principles in Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

A handwritten signature in blue ink that reads "Dickson Dusanj & Wirk".

Chartered Accountants

Victoria, BC
March 28, 2014

The Victoria Foundation

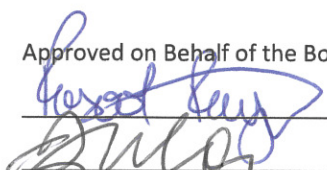
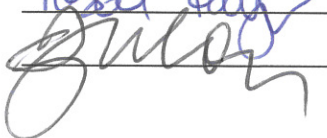
Statement of Financial Position

As at December 31, 2013 with comparative figures for 2012

	2013 \$	2012 \$
Assets		
Cash	450,662	932,982
Investments (Note 3)	223,824,987	190,997,699
Cash surrender value of life insurance (Note 4)	713,718	496,180
Interests in charitable remainder trusts (Note 5)	1,373,418	1,373,418
Other assets (Note 6)	136,597	191,049
Total assets	226,499,382	193,991,328
Trust Assets		
Managed trust funds (Note 7, Schedule 1)	2,885,778	2,912,613
Total assets and trust assets	229,385,160	196,903,941
Liabilities		
Payables and other liabilities (Note 8)	286,265	362,378
Pass through fund liabilities (Note 9)	7,521,334	7,532,711
Grant commitments (Note 10)	431,054	437,313
Irving Barber British Columbia Scholarship Society - Administered Funds (Note 11)	55,557,345	48,165,193
Total liabilities	63,795,998	56,497,595
Trust Liabilities		
Managed trust funds (Note 7, Schedule 1)	2,885,778	2,912,613
Total liabilities and trust liabilities	66,681,776	59,410,208
Net Assets		
Endowment funds (Note 12)	161,892,362	136,967,854
Invested in property and equipment	35,920	52,025
Operating fund	775,102	473,854
Total net assets	162,703,384	137,493,733
Total liabilities, trust liabilities and net assets	229,385,160	196,903,941

Lease commitment (Note 15)

Approved on Behalf of the Board:

 Director
 Director

The accompanying notes are an integral part of these financial statements

The Victoria Foundation

Statements of Net Assets

Year ended December 31, 2013 with comparative figures for 2012

	Endowment Funds \$	Invested in Capital Assets \$	Operating Funds \$	2013 Total \$	2012 Total \$
Net assets, beginning of year	136,967,854	52,025	473,854	137,493,733	128,627,293
Transactions:					
New endowed gifts	9,276,630	-	-	9,276,630	3,205,922
Fund retractions	(815,095)	-	-	(815,095)	(100,000)
Contributions from other funds	136,394	-	-	136,394	153,091
Increase in cash surrender value	217,538	-	-	217,538	22,773
Total returns allocated to net assets (Note 3)	16,109,041	-	-	16,109,041	5,516,835
Acquisitions of property and equipment	-	2,889	(2,889)	-	-
Excess of revenues over expenses for the year	-	-	285,143	285,143	67,819
Amortization charge for the year	-	(18,994)	18,994	-	-
Net assets, end of year	161,892,362	35,920	775,102	162,703,384	137,493,733

The accompanying notes are an integral part of these financial statements

The Victoria Foundation

Statement of Operations

Year ended December 31, 2013 with comparative figures for 2012

	2013	2012
	\$	\$
Revenue		
Gifts - Received for immediate granting	7,679,459	5,340,928
Gifts - Operations	232,753	208,284
Total returns allocated to operations and granting (Note 3)	4,707,099	4,403,034
Fee revenue - Trusts and Managed Funds	502,269	454,061
Life insurance premiums	455,247	212,074
	<u>13,576,827</u>	<u>10,618,381</u>
Operating expenses		
Grants - Pass Through Funds	7,679,459	5,340,928
Grants - Endowment Funds	3,320,156	3,174,953
Operations - Communications and Community Leadership	262,843	265,193
Operations - General	522,053	501,032
Operations - Staffing	1,051,926	1,056,382
Life insurance premiums	455,247	212,074
	<u>13,291,684</u>	<u>10,550,562</u>
Excess of revenue over expenses for the year	<u>285,143</u>	<u>67,819</u>

The Victoria Foundation

Statements of Cash Flows

Year ended December 31, 2013 with comparative figures for 2012

	2013 \$	2012 \$
Cash flows from operating activities:		
Excess of revenue over expenses	285,143	67,819
Depreciation and amortization	18,994	16,772
Total returns allocated to operations and granting	(4,707,099)	(4,403,034)
Other assets	54,452	71,615
Payables and other liabilities	(76,111)	61,252
Endowment Funds	24,924,508	8,798,621
Total cash flows from operating activities	20,499,887	4,613,045
Cash flows from investing activities:		
Purchase of equipment	(2,889)	(19,412)
Total returns allocated to Endowment Funds	(16,109,041)	(5,516,838)
Distributions from Endowment Funds	3,945,191	3,834,142
Contributions to Endowment Funds	(9,276,630)	(3,205,921)
Retractions approved from Endowment Funds	815,095	100,000
Increase in cash surrender value of life insurance policies	(217,538)	(22,773)
Transfers between Endowment Funds	(136,395)	(153,091)
Net cash used by investing activities	(20,982,207)	(4,983,893)
Net (decrease) in cash	(482,320)	(370,848)
Cash, beginning of year	932,982	1,303,830
Cash, end of year	450,662	932,982

The accompanying notes are an integral part of these financial statements

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2013 with comparative figures for 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 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.

(e) 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.

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2013 with comparative figures for 2012

2. Summary of Significant Accounting Policies (continued)

(f) *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.

(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.

(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 initially measures its financial assets and liabilities at fair value. The Foundation subsequently measures all its financial assets and financial liabilities at amortized cost, except for cash, investments, and cash surrender value of life insurance policies.

Investments are initially recognized at their fair value determined by published price quotations in an active market. 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 in net assets.

The annual change in the aggregate cash surrender value of life insurance policies is recorded as an increase to the Foundation's endowment funds.

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.

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2013 with comparative figures for 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.

	2013 \$	2012 \$
Investments are comprised of the following:		
Cash and short-term investments	14,954,663	8,230,433
Treasury bills	18,216,540	12,599,423
Mortgage investment fund	3,045,851	-
Bonds	55,504,898	69,545,707
Canadian equities	62,488,595	49,388,347
U.S. and international equities	69,614,440	51,233,789
	<u>223,824,987</u>	<u>190,997,699</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(e) have been allocated as follows:

	2013 \$	2012 \$
Interest and dividends	5,233,230	4,331,462
Realized capital gains	1,289,227	1,031,007
Unrealized capital gains (losses)	14,615,983	4,857,418
Less: Investment management and custodial fees	<u>(322,300)</u>	<u>(300,018)</u>
Total returns	<u>20,816,140</u>	<u>9,919,869</u>
Allocated to operations and granting	<u>4,707,099</u>	<u>4,403,034</u>
Allocated to net assets	<u>16,109,041</u>	<u>5,516,835</u>

4. Cash Surrender Value of Life Insurance Policies

The Foundation is owner and beneficiary of life insurance policies with face amounts totaling \$4,778,523 (2012 - \$3,829,362). The cash surrender value of these policies is reflected on the statement of financial position as an asset of the endowment funds.

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2013 with comparative figures for 2012

5. Interest in Charitable Remainder Trusts

The Foundation is named as beneficiary of several charitable remainder trusts. The balance of \$1,373,418 (2012 - \$1,373,418) represents the actuarial value of the trusts at the date of funding.

6. Other Assets

	2013 \$	2012 \$
Accounts receivable	63,641	65,065
GST/HST receivable	30,933	57,988
Prepaid expenses	6,103	15,971
Property and equipment, net	35,920	52,025
	<u>136,597</u>	<u>191,049</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, 2013 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.

8. Payables and Other Liabilities

	2013 \$	2012 \$
Payables for operations	84,807	60,346
Payables for grants	157,245	187,575
Deferred contributions	44,213	114,457
	<u>286,265</u>	<u>362,378</u>

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2013 with comparative figures for 2012

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.

	2013 \$	2012 \$
Pass through fund liabilities are comprised of:		
Donor Advised Pass Through Funds	4,209,993	4,108,583
Kwadacha First Nation – Payment Trustee Fund	145,915	75,353
Specified Purpose Pass Through Funds	134,983	181,207
Tsay Keh Dene First Nation – Payment Trustee Fund	986,550	3,167,568
Vital Loans Fund (a)	2,043,893	-
	<u>7,521,334</u>	<u>7,532,711</u>

(a) Vital Loans Fund

The Foundation has entered into an agreement with Island Savings Credit Union (ISCU) for the purpose of developing a “mission based investment” model that will allow charitable and non-profit organizations access to loans and mortgages that they might not otherwise be able to obtain through conventional lending channels.

The Foundation has provided \$2 million to be held as a loss reserve fund to be drawn on if loans become uncollectible. The Foundation owns their share of the investment in the loss reserve fund and income from it accrues to the Foundation.

The Foundation has assigned the capital to ISCU as a security interest in the fund. In the event that a loan in arrears is to be paid out of the reserve fund, losses will be distributed 67% to The Foundation and 33% to ISCU for the first three million in losses. Any losses above the loss reserve fund balance will be absorbed by ISCU. During the year there were no losses.

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.

11. Irving K. Barber British Columbia Scholarship Society – Administered Funds

The Foundation has an agreement with the Irving K. Barber British Columbia Scholarship Society (the “Society”) for the administration of their scholarship endowment funds. The agreement was renewed for a four year term commencing May 1, 2010. It involves the Foundation administering the permanent endowment funds of the Society and providing granting, finance and administrative support. The Society follows their own investment policy.

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2013 with comparative figures for 2012

11. Irving K. Barber British Columbia Scholarship Society – Administered Funds (continued)

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

	2013 \$	2012 \$
Irving K. Barber B.C. Scholarship	19,191,453	16,280,574
B.C. Aboriginal Students Scholarship	14,646,798	12,564,262
One World Scholarship	18,114,440	15,358,179
Pacific Horizons Scholarship	1,312,414	1,087,178
Aboriginal Teachers Education Award Program	1,600,000	1,895,000
Aboriginal Masters / PHD Program Fund	692,240	980,000
	<u>55,557,345</u>	<u>48,165,193</u>

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 \$134,738,189 (2012 – \$126,024,376). At year end, the market value of these funds, including related grant commitments was:

	2013 \$	2012 \$
Hosted Funds – where the grants are designated to specifically named not-for-profit organizations	51,706,510	49,274,339
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	11,401,214	9,250,685
Donor Advised Funds – where the grants are designated to recipients after consultation with the donor	28,048,344	26,133,593
Designated Funds – where the grants are designated to specifically named organizations	34,413,354	25,549,074
Discretionary Funds – where the grants are distributed at the discretion of the Foundation	<u>36,753,994</u>	<u>27,197,476</u>
	<u>162,323,416</u>	<u>137,405,167</u>
Comprised of:		
Grant Commitments (Note 10)	431,054	437,313
Endowment Net Assets	<u>161,892,362</u>	<u>136,967,854</u>
	<u>162,323,416</u>	<u>137,405,167</u>

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2013 with comparative figures for 2012

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, 2013 were held in trust by RBC Investor Services Trust.

A portion of the Foundation's investments are held with Greystone Managed Investments Inc. in a Mortgage Investment Pool, which 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.

15. Lease Commitment

The Foundation leases office and storage space. 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>
2014	125,725
2015	125,725
2016	10,477

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, 2012.

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2013 with comparative figures for 2012

16. Financial Instruments and Risk Management (continued)

(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, 2012. 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.
- 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

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.
- a. 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.
 - b. 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.
 - c. 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.
 - d. 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.

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2013 with comparative figures for 2012

16. Financial Instruments and Risk Management (continued)

(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, 2013 was six years. The objective of the Foundation's investment policy is to control interest rate risk by managing its interest rate exposure.

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 \$26,877,057 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, 2013 with comparative figures for 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

The Victoria Foundation

Schedule 1

Managed Trust Funds

Year ended December 31, 2013 with comparative figures for 2012

	The Lex Reynolds British Columbia Adoption and Permanency Fund \$	Youth Educational Assistance Fund \$	2013 Total \$	2012 Total \$
Balance, beginning of year	1,939,097	882,994	2,822,091	2,877,666
Contributions	-	1,400,000	1,400,000	1,468,742
Income earned	60,967	11,900	72,867	98,437
Fees and expenses	(43,622)	(10,455)	(54,077)	(52,732)
Grants paid	(37,300)	(1,354,162)	(1,391,462)	(1,570,022)
Balance, end of year	<u>1,919,142</u>	<u>930,277</u>	<u>2,849,419</u>	<u>2,822,091</u>
Market value, end of year	<u>1,943,440</u>	<u>942,338</u>	<u>2,885,778</u>	<u>2,912,613</u>