

Financial Statements of

The Victoria Foundation

Year Ended December 31, 2016

DICKSON
DUSANJ
& WIRK

CHARTERED
PROFESSIONAL
ACCOUNTANTS



CHARTERED
PROFESSIONAL
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, 2016 and the statements of operations and changes in fund balances and cash flows for the year ended December 31, 2016 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, 2016 and the results of its operations and changes in fund balances and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

A handwritten signature in dark ink that reads 'Dickson Dusanj & Wirk' in a cursive, flowing script.

Chartered Professional Accountants

Victoria, BC
March 31, 2017

The Victoria Foundation

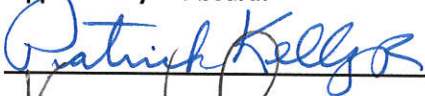
Statement of Financial Position

As at December 31, 2016 with comparative figures for 2015

	2016 \$	2015 \$
Assets		
Current:		
Cash and cash equivalents	11,502,575	5,182,709
Short-term investments (Note 4)	3,560,919	4,600,515
Receivables and other (Note 5)	47,421	66,576
	15,110,915	9,849,800
Investments (Note 6)	230,699,854	195,003,000
Cash surrender value of life insurance policies (Note 7)	1,235,317	971,967
Interest in charitable remainder trusts (Note 8)	2,043,625	1,373,418
Capital assets (Note 9)	94,941	67,471
Managed trust funds (Note 10)	2,365,421	2,857,656
Total assets and trust assets	251,550,073	210,123,312
Liabilities		
Current:		
Payables and other liabilities (Note 11)	71,474	125,972
Grants payable	520,351	363,332
	591,825	489,304
Managed trust funds (Note 10)	2,365,421	2,857,656
Total liabilities and trust liabilities	2,957,246	3,346,960
Fund balances		
Operating Fund - Unrestricted	1,095,674	856,947
Operating Fund - Internally restricted (Note 12)	-	80,000
	1,095,674	936,947
Endowment fund (Note 13)	169,065,819	148,518,078
Grant Stabilization fund	42,493,328	30,730,258
Restricted Long-term fund (Note 14)	24,170,714	20,281,030
Distribution fund (Note 15)	11,767,292	6,310,039
Total fund balances	248,592,827	206,776,352
Total liabilities, trust liabilities and fund balances	251,550,073	210,123,312

Commitments (Note 19)

Approved by the board:

 Director
 Director

The accompanying notes are an integral part of these financial statements

Year ended December 31, 2016 with comparative figures for 2015

The accompanying notes are an integral part of these financial statements

The Victoria Foundation

Statement of Cash Flows

Year Ended December 31, 2016 with comparative figures for 2015

	2016 \$	2015 \$
Cash flows provided from (used in) operating activities:		
Excess of revenue over expenses	41,816,475	18,079,910
Depreciation and amortization	19,837	12,604
Changes in non-cash operating working capital	121,676	998,296
Increase (decrease) in cash surrender value	(263,350)	117,581
Receipt of charitable remainder trusts	(670,207)	-
Unrealized capital losses (gains)	(6,793,917)	2,467,182
Total cash flows from operating activities	34,230,514	21,675,573
Cash flows from investing activities:		
Purchase of equipment	(47,307)	(49,598)
Fund retractions	(815,645)	(108,000)
Net purchase of investments	(27,047,696)	(29,119,789)
Net cash used by investing activities	(27,910,648)	(29,277,387)
Net increase (decrease) in cash and cash equivalents	6,319,866	(7,601,814)
Cash and cash equivalents, beginning of year	5,182,709	12,784,523
Cash and cash equivalents, end of year	11,502,575	5,182,709

The accompanying notes are an integral part of these financial statements

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

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 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

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organization (ASNPO) applied within the framework of the accounting policies summarized below:

(a) Fund Accounting

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

i) Operating Fund

The Operating Fund comprises the resources available for the Foundation's general operating activities. Reported in this fund are unrestricted contributions, unrestricted investment incomes, administrative fees charged as well as the operating expenses of the Foundation.

ii) Endowment Fund

The Endowment Fund reports amounts that are required to be maintained by the Foundation on a permanent basis. Investment income earned on Endowment Fund is reported in the Grant Stabilization Fund.

iii) Grant Stabilization Fund

The Grant Stabilization Fund represents retained net investment returns on the Endowment Fund, which are held for inflation protection and to stabilize granting against fluctuations in investment returns. The Grant Stabilization Fund reports the investment income and administration fees on Endowment assets, as well as the annual transfer of the spendable amount on Endowment Fund to the Distribution Fund.

iv) Restricted Long-Term Fund

The Restricted Long-Term Fund is comprised of and will record the activity of the following:

- a. Long-term funds – gifts received that are not endowed and with directions for the funds to be granted over a period of time.
- b. Retractable funds – funds established where the capital may be distributed under defined circumstances as approved by the Board of Directors.
- c. Charitable Remainder Trusts and Life Insurance Assets – represents the cash surrender value of life insurance policies where the Foundation is the owner and beneficiary and the actuarial value of charitable remainder trusts where the Foundation is the beneficiary. Life insurance survivor benefits will be recorded directly into the Endowment Fund when received and the cash surrender value received will be recorded as an inter-fund transfer from the Restricted Long Term Fund to the Endowment Fund.

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

2. Summary of Significant Accounting Policies (continued)

- d. Vital Loans – reports the contributions to the Vital Loans Program, investment income earned on those funds and any expenses related to the Vital Loans Program. The Foundation has provided \$2 million as security as part of an agreement with Island Savings who provides loans to charitable and non-profit organizations that may not otherwise be able to obtain loans through conventional lending channels.
- v) Distribution Fund – The Distribution Fund reports pass through gifts from which grants are directed to charitable organizations in accordance with the wishes of the donors, related investment income and administration fees, annual distributable amounts from Endowment and Retractable Funds and grants disbursed.

The fund distribution percentage is based on a long term estimate of total return net of inflation and investment management fees. The distribution percentage is determined annually by the Board of Directors.

b) Revenue recognition

Donations and bequests are recorded when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other gifts are recorded when received. Contributions which the donor has required to be held in perpetuity are recognized as revenue in the Endowment Fund. Other restricted contributions are recognized as revenue in the Restricted Long-Term Fund or Distribution Fund, as appropriate. Unrestricted contributions are recognized as revenue of the Operating Fund.

c) Cash and cash equivalents

Cash and cash equivalents include balances held at Canadian financial institutions for the purpose of meeting short-term cash commitments.

d) Short-term investments

Short-term investments include cash, guaranteed investment certificates and treasury bills with terms to maturity less than one year at December 31, held at investment managers for investing or future granting purposes.

e) 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.

f) 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.

g) Tangible capital assets

Tangible capital assets are stated at cost. Amortization is based on the estimated useful life of each asset using the following methods and annual 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.

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

2. Summary of Significant Accounting Policies (continued)

h) Managed trust funds

The Managed Trust Funds are held in cash and cash equivalents, 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.

i) Grants payable

Grants payable are recorded in the Distribution Fund when approved by the Foundation's Board of Directors.

j) 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.

k) Financial instruments

The Foundation's financial instruments consist of cash and cash equivalents, short-term investments, investments, accounts receivable, cash surrender value of life insurance policies, interests in charitable remainder trusts, payables and other liabilities and grants payable. 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 which are measured at fair value.

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 to be incurred on sale or other disposal. Net gains and losses arising from changes in fair value are recognized in accordance with note 2(b). The annual change in the aggregate cash surrender value of life insurance policies is recorded to the Foundation's restricted long-term fund. The actuarial value of new charitable remainder trusts funded during the year is recorded in the financial statements as an increase to the restricted long-term fund.

3. Change in Accounting Policy

On January 1, 2016, the Foundation made the following accounting policy changes:

a. Irving K Barber Scholarship Society

As a result of changes in the most recent agreement between the Victoria Foundation and the Irving K. Barber Scholarship Society ("IKB Society"), the assets of the IKB Society and the related liability are no longer reflected in the financial statements of the Victoria Foundation.

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

3. Change in Accounting Policy (continued)

b. Change to restricted fund method of accounting

The Foundation changed from the deferral method of accounting for contributions to the restricted fund method of accounting for contributions.

These changes have been applied retrospectively and resulted in the following changes to the December 31, 2015 financial statements balances:

	Assets \$	Liabilities \$	Total Net Assets/Fund Balances \$
As Previously Reported	270,948,812	72,981,034	197,967,778
Removal of Irving K. Barber Scholarship Society – Administered Funds from financial statements	(60,825,500)	(60,825,500)	-
Change to restricted fund method of accounting	-	(8,808,574)	8,808,574
	<u>210,123,312</u>	<u>3,346,960</u>	<u>206,776,352</u>

The change in the December 31, 2015 liabilities resulted in changes to specific line items as follows: payables and other liabilities decreased by \$470,793, pass through fund liabilities decreased \$7,102,476, and grant commitments by \$1,235,305.

The change to the restricted fund method resulted in the creation of new funds. The changes from the December 31, 2015 balances previously reported are summarized as follows:

	Endowment Fund \$	Grant Stabilization Fund \$	Restricted Long-Term Fund \$	Distribution Fund \$	Operating Fund and Invested in Tangible Capital Assets \$	Total Net Assets/Fund Balances \$
As Previously Reported	196,980,831	-	-	-	986,947	197,967,778
Change to restricted fund method of accounting	(48,462,753)	30,730,258	20,281,030	6,310,039	(50,000)	8,808,574
	<u>148,518,078</u>	<u>30,730,258</u>	<u>20,281,030</u>	<u>6,310,039</u>	<u>936,947</u>	<u>206,776,352</u>

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

4. Short-Term Investments

	2016 \$	2015 \$
Cash	531,712	1,907,657
Treasury bills	3,029,207	2,692,858
	<u>3,560,919</u>	<u>4,600,515</u>

5. Receivables and other

	2016 \$	2015 \$
Accounts receivable	24,248	17,403
Government remittances receivable	16,540	30,059
Prepaid expenses	6,633	19,114
	<u>47,421</u>	<u>66,576</u>

6. Investments

	2016 \$	2015 \$
Mortgage Investment Fund	9,010,070	8,737,466
Bonds	54,969,850	49,237,843
Canadian equities	81,537,727	59,273,360
U.S. and international equities	85,182,207	77,754,331
	<u>230,699,854</u>	<u>195,003,000</u>

7. Cash Surrender Value of Life Insurance Policies

The Foundation is owner and beneficiary of life insurance policies with face amounts totalling \$6,465,632 (2015 - \$5,851,959).

8. Interest in Charitable Remainder Trusts

The Foundation is named as beneficiary of several charitable remainder trusts. The balance of \$2,043,625 (2015 - \$1,373,418) represents the actuarial value of the trusts at the date of funding.

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

9. Capital Assets

	2016		2015	
	Cost \$	Accumulated Amortization \$	Net book value \$	Net book value \$
Computer equipment	46,687	30,347	16,340	11,417
Software	28,174	28,174	-	-
Office furniture & equipment	160,076	83,228	76,848	56,054
Leasehold improvements	1,845	92	1,753	-
	236,782	141,841	94,941	67,471

10. Managed Trust Funds

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, 2016 are:

(a) 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.

(b) Youth Educational Assistance Fund

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

	The Lex Reynolds British Columbia Adoption and Permanency Fund \$	Youth Educational Assistance Fund \$	2016 \$	2015 \$
Balance, beginning of year	1,903,704	871,552	2,775,256	2,775,025
Contributions	-	653,052	653,052	1,531,046
Income earned	63,767	22,996	86,763	86,970
Fees and expenses	(38,821)	(5,553)	(44,374)	(47,759)
Grants paid	(44,220)	(1,120,623)	(1,164,843)	(1,570,026)
Balance, end of year	1,884,430	421,425	2,305,854	2,775,256
Market value, end of year	1,952,305	413,116	2,365,421	2,857,656

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

11. Payables and Other Liabilities

	2016 \$	2015 \$
Accounts payable and accrued liabilities	32,367	112,920
Deferred contributions	39,107	13,052
	<u>71,474</u>	<u>125,972</u>

12. Internally Restricted Fund

The Foundation has established the 80th Anniversary Fund for the purpose of providing grants or matching funds for community organizations as part of the Foundation's 80th Anniversary year celebrations in 2016. The balance of this fund at December 31, 2016 is \$nil (2015 - \$80,000).

13. Endowment Fund

	2016 \$	2015 \$
Hosted Funds – where the grants are designated to specifically named not-for-profit organizations	47,982,190	47,111,527
Donor Advised Funds – where the grants are designated to recipients after consultation with the donor	33,430,351	30,548,645
Donor Designated Funds – where the grants are designated to specifically named not-for-profit organizations	51,018,749	34,371,074
Discretionary Funds – where the grants are distributed at the discretion of the Foundation	36,634,529	36,486,832
	<u>169,065,819</u>	<u>148,518,078</u>

14. Restricted Long-Term Fund

	2016 \$	2015 \$
Long-Term Funds	3,180,815	470,793
Life Insurance and Charitable Remainder Trusts	3,278,943	2,345,385
Hosted Organization Retractable Funds	15,631,572	15,387,110
Vital Loans Funds	2,079,384	2,077,742
	<u>24,170,714</u>	<u>20,281,030</u>

Hosted Organization Retractable Funds may be subject to full or partial withdrawal. As at December 31, 2016 the maximum capital subject to withdrawal is:

	\$
2017	14,737,429
2018 and thereafter	15,631,572

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

15. Distribution Fund

	2016 \$	2015 \$
Pass Through Fund	7,637,804	2,636,645
Endowment Fund and Long-Term Fund spendable	4,129,488	3,673,394
	<u>11,767,292</u>	<u>6,310,039</u>

16. Investment Earnings

	2016 \$	2015 \$
Interest and dividends	9,190,058	7,145,860
Realized capital gains	6,471,234	4,305,024
Unrealized capital gains (losses)	6,793,917	(2,467,182)
Less: Investment management and custodial fees	(650,229)	(559,255)
Total returns	<u>21,804,980</u>	<u>8,424,447</u>

17. 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.

18. Portfolio Management and Custodianship

The investment counsel firms of Jarislowsky Fraser Limited, Leith Wheeler Investment Counsel Ltd., and Greystone Managed Investments Inc. each have discretionary management authority over a portion of the Foundation's investments, which at December 31, 2016 were held in trust by RBC Investor & Treasury Services.

19. Commitments

The Foundation leases office and storage space. The Foundation entered into a lease for a ten-year term commencing February 1, 2016 with an option to renew for an additional five years. Annual lease payments for the remainder of the lease term, including the Foundation's share of estimated operating costs, are:

	\$
2017	164,276
2018	164,276
2019	164,276
2020	164,276
2021	175,032
2022	176,010
2023	176,010
2024	176,010
2025	176,010
2026	14,668

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

20. Financial Risk Management

The Foundation actively manages the risks that arise from its use of financial instruments, including liquidity, credit and market risk. The Foundation's Board of Directors and Investment Committee have 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 funds. 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. 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 19. The Foundation's exposure to and management of liquidity risk has not changed materially since December 31, 2015.

(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 manages its credit risk by adhering to its investment policy. The investment policy mandates that:

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

- 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%.

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

20. Financial Risk Management (continued)

- 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.

The Foundation's exposure to and management of credit risk has not changed materially since December 31, 2015.

(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, 2016 was seven 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, denominated in Canadian dollars, is \$41,576,330 (2015: \$42,185,985) of US equities.

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;

The Victoria Foundation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

20. Financial Risk Management (continued)

- 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.

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; and
- 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 Foundation's exposure to and management of market risk has not changed materially since December 31, 2015.

21. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.