

Financial Statements of

THE VICTORIA FOUNDATION

And Independent Auditors' Report thereon

Year ended December 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Victoria Foundation

Opinion

We have audited the financial statements of The Victoria Foundation (the Foundation), which comprise:

- the statement of financial position as at December 31, 2019
- the statement of operations and changes in fund balances for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Foundation as at December 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Victoria, Canada
March 30, 2020

THE VICTORIA FOUNDATION

Statement of Financial Position

December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,479,327	\$ 4,340,431
Short-term investments (note 3)	11,094,569	15,382,407
Receivables and other (note 4)	227,001	802,461
	14,800,897	20,525,299
Investments (note 5)	293,941,853	255,589,535
Cash surrender value of life insurance policies (note 6)	1,317,044	1,180,353
Interest in charitable remainder trusts (note 7)	121,200	427,650
Capital assets (note 8)	84,193	94,797
Managed trust funds (note 9)	2,390,076	2,766,892
Total assets	\$ 312,655,263	\$ 280,584,526
Liabilities		
Current liabilities:		
Payables and other liabilities (note 10)	\$ 138,280	\$ 88,008
Grants payable	83,806	726,610
Retractions payable	-	6,742,774
	222,086	7,557,392
Managed trust funds (note 9)	2,390,076	2,766,892
Total liabilities	2,612,162	10,324,284
Fund Balances		
Operating Fund - Unrestricted	1,216,037	1,096,207
Operating Fund - Internally Restricted (note 11)	170,805	180,000
	1,386,842	1,276,207
Endowment fund (note 12)	219,908,830	207,675,596
Grant Stabilization fund	58,643,971	34,564,912
Restricted Long-term fund (note 13)	21,208,145	19,325,585
Distribution fund (note 14)	8,895,313	7,417,942
Total fund balances	310,043,101	270,260,242
Commitments (note 18)		
Subsequent events (note 21)		
Total liabilities and fund balances	\$ 312,655,263	\$ 280,584,526

See accompanying notes to financial statements.

Approved on behalf of the Board:


ZAMAN VELJI

Director


Kyman Chan

Director

THE VICTORIA FOUNDATION

Statement of Operations and Changes in Fund Balances

Year ended December 31, 2019, with comparative information for 2018

	December 31, 2019						December 31, 2018 (Note 20)					
	Endowment Fund	Grant Stabilization Fund	Restricted Long-Term Fund	Distribution Fund	Operating Fund	Total	Endowment Fund	Grant Stabilization Fund	Restricted Long-Term Fund	Distribution Fund	Operating Fund	Total
Revenue:												
Gifts	\$ 11,024,297	-	1,033,472	10,903,985	564,634	23,526,388	\$ 11,863,300	-	2,681,982	8,137,755	100,766	22,783,803
Investment earnings (note 15)	-	34,964,550	2,477,280	104,000	16,131	37,561,961	-	(7,927,810)	(464,080)	69,072	10,532	(8,312,286)
Strategic initiatives	-	-	-	-	61,500	61,500	-	-	-	-	25,350	25,350
Sponsorships and other	-	-	-	-	79,671	79,671	-	-	-	-	60,100	60,100
Increase in cash surrender value	-	-	136,691	-	-	136,691	-	-	159,856	-	-	159,856
Life insurance premiums	-	-	131,921	-	-	131,921	-	-	134,729	-	-	134,729
Administration fees	-	-	-	-	355,658	355,658	-	-	-	-	355,201	355,201
	11,024,297	34,964,550	3,779,364	11,007,985	1,077,594	61,853,790	11,863,300	(7,927,810)	2,512,487	8,206,827	551,949	15,206,753
Expenses:												
Grants	-	-	-	18,928,569	-	18,928,569	-	-	-	23,041,231	-	23,041,231
Life insurance premiums	-	-	131,921	-	-	131,921	-	-	134,729	-	-	134,729
Retractions	-	-	-	-	-	-	-	-	6,742,774	-	-	6,742,774
Staffing	-	-	-	-	1,815,973	1,815,973	-	-	-	-	1,575,714	1,575,714
Communications and community leadership	-	-	-	-	505,141	505,141	-	-	-	-	399,084	399,084
Strategic initiatives	-	-	-	-	119,173	119,173	-	-	-	-	52,698	52,698
General and administration	-	-	-	-	570,154	570,154	-	-	-	-	571,258	571,258
	-	-	131,921	18,928,569	3,010,441	22,070,931	-	-	6,877,503	23,041,231	2,598,754	32,517,488
Excess (deficiency) of revenue over expenses	11,024,297	34,964,550	3,647,443	(7,920,584)	(1,932,847)	39,782,859	11,863,300	(7,927,810)	(4,365,016)	(14,834,404)	(2,046,805)	(17,310,735)
Fund balance, beginning of year	207,675,596	34,564,912	19,325,585	7,417,942	1,276,207	270,260,242	194,596,655	52,299,944	25,082,074	14,685,063	907,241	287,570,977
Administration fee transfer (note 16)	-	(2,231,222)	(111,496)	(27,371)	2,370,089	-	-	(2,157,864)	(186,746)	(7,306)	2,351,916	-
Annual distributable amount	-	(8,654,269)	(1,205,358)	9,859,627	-	-	-	(7,649,358)	(780,435)	8,429,793	-	-
Other interfund transfers	1,208,937	-	(448,029)	(434,301)	(326,607)	-	1,215,641	-	(424,292)	(855,204)	63,855	-
Fund balance, end of year	\$ 219,908,830	58,643,971	21,208,145	8,895,313	1,386,842	310,043,101	\$ 207,675,596	34,564,912	19,325,585	7,417,942	1,276,207	270,260,242

See accompanying notes to financial statements.

THE VICTORIA FOUNDATION

Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash flows provided from (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ 39,782,859	\$ (17,310,735)
Depreciation and amortization	29,508	28,152
Changes in non-cash operating working capital:		
Decrease (increase) in receivables and other	575,460	(660,236)
Increase (decrease) in payables and other	50,272	(30,650)
Increase (decrease) in grants payable	(642,804)	349,410
Increase (decrease) in retractions payable	(6,742,774)	6,742,774
Decrease (increase) in cash surrender value	(136,691)	221,534
Decrease in charitable remainder trusts receivable	306,450	377,844
Unrealized capital losses (gains)	(20,743,250)	24,567,682
	12,479,030	14,285,775
Investing activities:		
Purchase of equipment	(18,904)	(12,308)
Net purchase of investments	(13,321,230)	(25,433,409)
	(13,340,134)	(25,445,717)
Decrease in cash and cash equivalents	(861,104)	(11,159,942)
Cash and cash equivalents, beginning of year	4,340,431	15,500,373
Cash and cash equivalents, end of year	\$ 3,479,327	\$ 4,340,431

See accompanying notes to financial statements.

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Notes to Financial Statements

Year ended December 31, 2019

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. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations (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 contributions restricted for operating activities, unrestricted contributions, unrestricted investment income, 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 the 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.

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Notes to Financial Statements

Year ended December 31, 2019

2. Significant accounting policies (continued):

(a) Fund accounting (continued):

(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:
 - 1. The cash surrender value of life insurance policies, where the Foundation is the owner and beneficiary, are recorded as an asset and revenue upon the Foundation receiving notification of entitlement. Changes in the cash surrender value are recorded annually and realization differences upon the payouts of the benefits are recognized as revenue when received.
 - 2. The actuarial value of charitable remainder trusts (CRT), where the Foundation is the beneficiary, is recorded as an asset and revenue at the time the CRT was created. Changes in the actuarial value are not recognized. Realization differences upon the payouts of the benefits are recognized as revenue when received.

Benefits received on life insurance policies and CRT's are transferred to the Endowment Fund, Long Term Fund or Distribution Fund, based on donor direction.

- (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.

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Notes to Financial Statements

Year ended December 31, 2019

2. Significant accounting policies (continued):

(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 Operating Fund, 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 cash on hand and short-term deposits which are highly liquid with original terms to maturity of less than three months.

(d) Short-term investments:

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

(e) Investments:

The Foundation's investments are comprised of bonds, mortgage investment funds, debentures, infrastructure investments, 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:

Asset	Basis	Rate
Furniture and fixtures	Declining-balance	20%
Computer hardware	Declining-balance	30%
Computer software	Declining-balance	100%
Leasehold improvements	Straight-line	10 years

When a capital asset no longer contributes to the Foundation's ability to provide services, its carrying amount is written down to its residual value.

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Notes to Financial Statements

Year ended December 31, 2019

2. 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) 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, grants payable and reitrations 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 trading on a recognized public stock exchange are recognized at fair value as established by the closing price. The fair value of infrastructure investments, which are structured as limited partnerships, is determined by the external investment manager using accepted industry valuation methods approved by the general partner and reported on the limited partnership's annual audited financial statements in the local currency.

When the date of the infrastructure investment's audited financial statements does not coincide with the Foundation's fiscal year end, the fair value recorded by the Foundation includes adjustments for the cash flows for the intervening period including capital called, capital returned, income received, gains (losses) realized and fees and expenses paid. The change in fair value, if any, between the date of the audited financial statements for the infrastructure investments and the Foundation's fiscal year end is recognized to the extent such changes are known and can be quantified.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. Net gains and losses arising from changes in fair value are recognized in accordance with note 2(a). 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 revenue to the Restricted Long-Term Fund.

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Notes to Financial Statements

Year ended December 31, 2019

2. Significant accounting policies (continued):

(k) 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 as appropriate in the year they become known. Actual results may vary from the current estimates.

3. Short-term investments:

	2019	2018
Cash	\$ 346,687	\$ 292,913
Treasury bills	1,837,225	1,152,550
Guaranteed Investment Certificates	8,910,657	13,936,944
	<u>\$ 11,094,569</u>	<u>\$ 15,382,407</u>

4. Receivables and other:

	2019	2018
Accrued interest receivable	\$ 110,441	\$ 69,463
Accounts receivable	30,097	655,055
Government remittances receivable	42,382	39,605
Prepaid expenses	44,081	38,338
	<u>\$ 227,001</u>	<u>\$ 802,461</u>

5. Investments:

	2019	2018
Mortgage Investment Fund	\$ 26,774,085	\$ 25,076,966
Bonds	59,798,851	59,343,985
Canadian equities	93,319,348	82,144,258
Infrastructure investments	12,049,165	-
U.S. and international equities	102,000,404	89,024,326
	<u>\$ 293,941,853</u>	<u>\$ 255,589,535</u>

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Notes to Financial Statements

Year ended December 31, 2019

6. Cash surrender value of life insurance policies:

The Foundation is owner and beneficiary of life insurance policies with face amounts totaling \$6,046,100 (2018 - \$6,045,235).

During the year, the Foundation did not receive any payouts from these life insurance policies (2018 - \$433,792 from four policies).

7. Interest in charitable remainder trusts:

The Foundation is named as beneficiary of several charitable remainder trusts. The balance of \$121,200 (2018 - \$427,650) represents the actuarial value of the trusts at the date of funding.

During the year, the Foundation received \$452,145 (2018 - \$509,445) in proceeds from two (2018 - one) charitable remainder trust.

8. Capital assets:

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
Computer equipment	\$ 78,154	\$ 38,188	\$ 39,966	\$ 39,204
Software	28,174	28,174	-	-
Office furniture and equipment	127,087	84,059	43,028	54,209
Leasehold improvements	1,845	646	1,199	1,384
	\$ 235,260	\$ 151,067	\$ 84,193	\$ 94,797

9. 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, 2019 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.

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Notes to Financial Statements

Year ended December 31, 2019

9. Managed Trust Funds (continued):

	The Lex Reynolds British Columbia Adoption and Permanency Fund	Youth Educational Assistance Fund	2019 Total	2018 Total
Balance at cost, beginning of year	\$ 1,882,145	\$ 898,235	\$ 2,780,380	\$ 2,516,266
Contributions	-	900,000	900,000	1,457,710
Income earned	52,133	9,177	61,310	110,351
Fees and expenses	(45,374)	(5,844)	(51,218)	(46,783)
Grants paid	(94,000)	(1,269,994)	(1,363,994)	(1,257,164)
Balance at cost, end of year	\$ 1,794,904	\$ 531,574	\$ 2,326,478	\$ 2,780,380
Market value, end of year	\$ 1,862,901	\$ 527,175	\$ 2,390,076	\$ 2,766,892

10. Payables and other liabilities:

	2019	2018
Payables - operations	\$ 102,280	\$ 88,008
Deferred contributions	36,000	-
	\$ 138,280	\$ 88,008

11. Operating Fund - Internally Restricted:

Internally restricted funds at the end of the year include \$70,000 restricted for a matching program and \$100,805 of unrestricted gifts set aside for CEO Community Leadership Initiatives.

12. Endowment Fund:

	2019	2018
Hosted Funds - where the grants are designated to specifically named not-for-profit organizations	\$ 52,777,820	\$ 50,892,139
Donor Advised Funds - where the grants are designated to recipients after consultation with the donor	46,027,308	41,676,027
Donor Designated Funds - where the grants are designated to specifically named not-for-profit organizations	80,814,457	75,338,006
Discretionary Funds - where the grants are distributed at the discretion of the Foundation	40,289,245	39,769,424
	\$ 219,908,830	\$ 207,675,596

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Notes to Financial Statements

Year ended December 31, 2019

13. Restricted Long-Term Fund:

	2019	2018
Long-Term Funds	\$ 9,701,671	\$ 8,112,521
Life Insurance and Charitable Remainder Trusts	1,438,245	1,608,003
Hosted Organization Retractable Funds	9,732,556	8,817,966
Vital Loans Funds	335,673	787,095
	<u>\$ 21,208,145</u>	<u>\$ 19,325,585</u>

Hosted Organization Retractable Funds may be subject to full or partial withdrawal. As at December 31, 2019 the maximum capital subject to withdrawal is:

2020	\$ 9,474,037
2021	9,732,556
2022 and thereafter	9,732,556

14. Distribution Fund:

	2019	2018
Pass through Fund	\$ 5,894,919	\$ 4,215,000
Endowment Fund and Long-Term Fund spendable	3,000,394	3,202,942
	<u>\$ 8,895,313</u>	<u>\$ 7,417,942</u>

15. Investment earnings:

	2019	2018
Interest and dividends	\$ 8,260,182	\$ 9,637,382
Realized capital gains	9,420,544	7,409,523
Unrealized capital gains (losses)	20,743,250	(24,567,682)
	<u>38,423,976</u>	<u>(7,520,777)</u>
Less: investment management and custodial fees	862,015	791,509
	<u>\$ 37,561,961</u>	<u>\$ (8,312,286)</u>

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Notes to Financial Statements

Year ended December 31, 2019

16. Administration fee transfer:

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.

17. 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. In addition, the Foundation has three infrastructure managers, Macquarie Infrastructure and Real Assets, EQT Group and Ardian. All investments are held in trust by CIBC Mellon as custodian.

18. Commitments:

- (a) 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:

2020	\$ 158,872
2021	170,606
2022	170,606
2023	170,606
2024	170,606
Thereafter	184,823

- (b) The Foundation has unfunded infrastructure investment commitments translated into Canadian dollars of approximately \$30,800,000 (2018 - \$43,400,000). The unfunded amounts may be called on demand.

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Notes to Financial Statements

Year ended December 31, 2019

19. 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 infrastructure 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. With the exception of infrastructure investments which have unobservable valuation inputs and little market activity, 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 18. The Foundation's exposure to and management of liquidity risk has changed since December 31, 2018 as the Foundation increases investments in Infrastructure Limited Partnerships, which at December 31, 2019 was \$12,049,165 (2018 - nil).

(b) Credit risk:

Credit risk is the potential for financial loss should a counter party in a transaction fail to meet its obligations. The fair value of a publicly traded financial instrument takes into account the credit rating of the issuer. 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:

(i) Cash and equivalents are:

- (A) Instruments issued by or guaranteed by the Government of Canada or the Provinces.
- (B) Commercial Paper rated RI or better by the Dominion Bond Rating Service.

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Notes to Financial Statements

Year ended December 31, 2019

19. Financial risk management (continued):

(b) Credit risk (continued):

(i) 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.

(ii) Fixed income is:

(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%.

(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.

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Notes to Financial Statements

Year ended December 31, 2019

19. Financial risk management (continued):

(b) Credit risk (continued):

(ii) Continued:

(F) Mortgages managed by the mortgage fund manager will be in accordance with that manager's pooled fund guidelines which have been reviewed and approved by the Board. These guidelines will reflect prudent diversification by factors including property type, geographic location within Canada, quality of the borrower, type of loan, a loan-to-value ratio not exceeding 85% and other prudent risk management limits.

The Foundation's exposure to and management of credit risk has not changed materially since December 31, 2018.

(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, 2019 was 7.8 years (2018 - 7.3 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 Foundation has exposure to currency risk with respect to US investments, denominated in Canadian dollars of \$63,361,433 (2018 - \$43,147,771) and other international investments, denominated in Canadian dollars of \$ 52,857,315 (2018 - \$46,080,876)

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Notes to Financial Statements

Year ended December 31, 2019

19. Financial risk management (continued):

(c) Market risk (continued):

(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:

(A) Equity Investments:

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

- 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;
- 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;
- Non-domestic equity holdings will be broadly diversified by industry sectors, countries/regions and currencies;
- 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.
- In respect of Infrastructure investments, investments will be limited to pooled funds of Canadian and non-Canadian direct infrastructure investments and companies that maintain infrastructure assets.

(B) Loans and derivatives:

The fund shall not engage in the purchase of securities on margin;

- Investment managers may use derivative securities to defensively hedge currency exposures but no leverage is permitted;
- 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

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Notes to Financial Statements

Year ended December 31, 2019

19. Financial risk management (continued):

(c) Market risk (continued):

(iii) Equity price risk (continued):

(B) Loans and derivatives (continued):

- 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, 2018.

20. Comparative information:

Certain comparative information has been reclassified to conform to the financial statement presentation adopted for the current year.

21. Subsequent events:

As a result of the developing COVID-19 pandemic, global equity markets have experienced significant volatility and weakness. The investment portfolio of the Foundation has been subject to these market fluctuations and will continue to experience significant volatility as the situation evolves. As of March 30, 2020, the date that these financial statements were authorized for issue, the fair value of the Foundation's investments had declined by approximately 11.2%.

While governments and central banks have reacted with monetary and fiscal interventions designed to stabilize economic conditions, the duration and extent of the impact of the COVID-19 outbreak, as well as the effectiveness of government and central bank responses, remains unclear at this time.

These subsequent changes in the fair value of the Foundation's investments are not reflected in the financial statements as at December 31, 2019.