

Financial Statements of

THE VICTORIA FOUNDATION

Year Ended December 31, 2010



MANTELL | DICKSON | BLADES | DUSANJ

Chartered Accountants

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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 ("the Foundation"), which comprise the statement of financial position as at December 31, 2010 and the statements of operations and changes in net assets and cash flows for the year then ended 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 generally accepted accounting principles, and for such internal controls as management determines is necessary to enable the preparation of financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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, these financial statements present fairly, in all material respects, the financial position of the Foundation as at December 31, 2010 and the results of its operations and changes in net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, B.C.
March 25, 2011

Chartered Accountants

THE VICTORIA FOUNDATION

STATEMENT OF FINANCIAL POSITION

DECEMBER 31,

2010
\$

2009
\$

| | 2010 \$ | 2009 \$ |
|--|--------------------|--------------------|
| ASSETS | | |
| CASH | 631,543 | 154,644 |
| INVESTMENTS (Note 4) | 172,423,378 | 163,076,052 |
| CASH SURRENDER VALUE, LIFE INSURANCE POLICIES (Note 5) | 478,071 | 452,869 |
| INTERESTS IN CHARITABLE REMAINDER TRUSTS (Note 6) | 1,373,418 | 1,373,418 |
| OTHER ASSETS (Note 7) | 202,167 | 123,355 |
| | <u>175,108,577</u> | <u>165,180,338</u> |

| | | |
|--|--------------------|--------------------|
| TRUST ASSETS | | |
| MANAGED TRUST FUNDS (Note 8, Schedule 1) | <u>2,747,107</u> | <u>3,928,052</u> |
| | <u>177,855,684</u> | <u>169,108,390</u> |

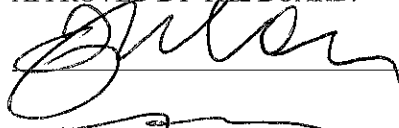

| | | |
|--|-------------------|-------------------|
| LIABILITIES | | |
| PAYABLES AND OTHER LIABILITIES (Note 9) | 303,062 | 293,082 |
| PASS THROUGH FUND LIABILITIES (Note 10) | 8,171,475 | 10,209,244 |
| GRANT COMMITMENTS (Note 11) | 1,041,728 | 1,109,577 |
| IRVING K. BARBER BRITISH COLUMBIA SCHOLARSHIP SOCIETY MANAGED FUNDS (Note 12) | <u>39,633,725</u> | <u>36,880,404</u> |
| | <u>49,149,990</u> | <u>48,492,307</u> |

| | | |
|------------------------------------|--------------------|--------------------|
| NET ASSETS | | |
| ENDOWMENT FUNDS (Note 13) | 125,521,285 | 116,325,715 |
| INVESTED IN PROPERTY AND EQUIPMENT | 46,044 | 50,255 |
| OPERATING FUNDS | <u>391,258</u> | <u>312,061</u> |
| | <u>125,958,587</u> | <u>116,688,031</u> |
| | <u>175,108,577</u> | <u>165,180,338</u> |

| | | |
|--|--------------------|--------------------|
| TRUST LIABILITIES | | |
| MANAGED TRUST FUNDS (Note 8, Schedule 1) | <u>2,747,107</u> | <u>3,928,052</u> |
| | <u>177,855,684</u> | <u>169,108,390</u> |

LEASE COMMITMENT (Note 16)

APPROVED BY THE BOARD:

 Director
 Director

See accompanying notes

THE VICTORIA FOUNDATION

STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31,

| | Endowment Funds \$ | Invested in Capital Assets \$ | Operating Funds \$ | 2010 Total \$ | 2009 Total \$ |
|---|--------------------------|--|--------------------------|---------------------|---------------------|
| NET ASSETS, beginning of year | 116,325,715 | 50,255 | 312,061 | 116,688,031 | 87,211,545 |
| ADD | | | | | |
| New endowed gifts | 4,038,801 | - | - | 4,038,801 | 20,267,448 |
| Fund retractions | (357,152) | - | - | (357,152) | (281,408) |
| Contributions from other funds | 201,289 | - | - | 201,289 | 238,477 |
| Increase in cash surrender value | 25,202 | - | - | 25,202 | 31,895 |
| Total returns allocated to net assets (Note 4) | 5,287,430 | - | - | 5,287,430 | 9,312,943 |
| (Deficiency) of revenue over expenses for the year | - | - | 74,986 | 74,986 | (92,869) |
| TRANSFERS | | | | | |
| Acquisitions of property and equipment | - | 9,109 | (9,109) | - | - |
| Amortization charge for the year | - | (13,320) | 13,320 | - | - |
| NET ASSETS, end of year | <u>125,521,285</u> | <u>46,044</u> | <u>391,258</u> | <u>125,958,587</u> | <u>116,688,031</u> |

See accompanying notes

THE VICTORIA FOUNDATION

STATEMENT OF OPERATIONS

| YEAR ENDED DECEMBER 31, | 2010 \$ | 2009 \$ |
|--|-------------------|-------------------|
| REVENUE | | |
| Gifts – Received for immediate granting | 6,303,526 | 7,288,605 |
| Gifts – Operations | 165,439 | 103,852 |
| Total returns allocated to operations and granting <i>(Note 4)</i> | 4,529,153 | 2,877,067 |
| Fee revenue – Trusts and Managed Funds | 415,397 | 371,659 |
| Life insurance premiums | 98,850 | 98,827 |
| | <u>11,512,365</u> | <u>10,740,010</u> |
| EXPENSES | | |
| Grants – Pass Through Funds | 6,303,526 | 7,288,605 |
| Grants – Endowment Funds | 3,457,396 | 1,917,735 |
| Operations – Communications and Community Leadership | 192,261 | 182,590 |
| Operations – General | 507,643 | 488,815 |
| Operations – Staffing | 877,703 | 856,307 |
| Life insurance premiums | 98,850 | 98,827 |
| | <u>11,437,379</u> | <u>10,832,879</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR THE YEAR | <u>74,986</u> | <u>(92,869)</u> |

See accompanying notes

THE VICTORIA FOUNDATION

STATEMENT OF CASH FLOWS

| YEAR ENDED DECEMBER 31, | 2010 \$ | 2009 \$ |
|--|--------------------|---------------------|
| CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| Excess (deficiency) of revenue over expenses | 74,986 | (92,869) |
| Items not involving cash: | | |
| Amortization | 13,320 | 30,405 |
| Total returns allocated to operations and granting | <u>(4,529,153)</u> | <u>(2,877,067)</u> |
| | (4,440,847) | (2,939,531) |
| Cash provided by (used in) non-cash working capital | | |
| Other assets | (78,812) | 36,959 |
| Payables and other liabilities | 9,980 | 40,169 |
| Endowment Funds | <u>9,195,570</u> | <u>29,569,355</u> |
| | <u>4,685,891</u> | <u>26,706,952</u> |
| CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES | | |
| Purchase of equipment | (9,109) | (2,550) |
| Total returns allocated to Endowment Funds | (5,287,430) | (9,312,943) |
| Distributions from Endowment Funds | 4,995,687 | 2,427,132 |
| Contributions to Endowment Funds | (4,038,801) | (20,267,448) |
| Retractions approved from Endowment Funds | 357,152 | 281,408 |
| Increase in cash surrender value of life insurance policies | (25,202) | (31,895) |
| Transfers between Endowment Funds | <u>(201,289)</u> | <u>(238,477)</u> |
| | <u>(4,208,992)</u> | <u>(27,144,773)</u> |
| NET INCREASE (DECREASE) IN CASH | 476,899 | (437,821) |
| CASH, beginning of year | <u>154,644</u> | <u>592,465</u> |
| CASH, end of year | <u>631,543</u> | <u>154,644</u> |

See accompanying notes

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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 generally accepted accounting principles and include the following policies:

(a) *Recognition of contributions*

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

(b) *Endowment funds*

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

(c) *Investments*

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

(d) *Donated equipment and services*

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

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) *Property and equipment*

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

| | |
|------------------------|------------------------|
| Furniture and fixtures | 20% declining balance |
| Computer hardware | 30% declining balance |
| Computer software | 100% declining balance |
| Leasehold improvements | 5 years, straight line |

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

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

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

(g) *Managed Trust Funds*

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

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

(h) *Use of Estimates*

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles 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 has classified its financial instruments as held-for-trading.

A fair value hierarchy is used to categorize fair value measurements. Under the hierarchy, valuation is based on quoted market prices of identical assets (Level 1), internal models developed from observable market data for similar assets or liabilities (Level 2), or internal models developed without observable market data (Level 3). Level 1 valuation was used in the measurement of cash and investments, as a quoted market price was available.

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

3. FINANCIAL INSTRUMENTS AND RISK

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 16. The Foundation's exposure to and management of liquidity risk has not changed materially since December 31, 2009.

(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, 2009. The investment policy of the Foundation mandates the following:

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

3. FINANCIAL INSTRUMENTS AND RISK (continued)

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%. If the rating is BBB or better, bonds of a Canadian issuer payable in a foreign currency, U.S. Government and U.S. corporate bonds.
- b. Debt rated below BBB is not permitted except in the case of a high yield pooled bond fund of an investment manager which has been approved for investment by the Board.
- c. Investments in instruments with a rating of BBB will not exceed 20% of debt holdings and other debt holdings will have a dollar weighted investment rating of A or higher.
- d. Not more than 10% (5% if the rating is BBB) shall be invested in the debt of a single issuer other than the debt issues of, or fully guaranteed by, the government of Canada or a Province.
- e. Should the rating of a debt instrument be down graded to a level below being eligible for purchase, the investment manager shall immediately advise the Board of its intentions which will generally be to dispose of the security as soon as prudently advisable.

(c) Market Risk

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

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

3. FINANCIAL INSTRUMENTS AND RISK (continued)

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, 2010 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 \$15,566,276 (11.72%) of investments, which are denoted 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, 2010

3. FINANCIAL INSTRUMENTS AND RISK (continued)

Loans and Derivatives

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

4. 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.

Investments are comprised of the following:

| | 2010 | 2009 |
|---------------------------------|--------------------|--------------------|
| | \$ | \$ |
| Cash and short-term investments | 7,211,038 | 27,824,670 |
| Treasury bills | 10,292,012 | 3,553,653 |
| Bonds | 69,273,388 | 54,775,364 |
| Canadian equities | 63,387,167 | 48,668,508 |
| U.S. and international equities | <u>22,259,773</u> | <u>28,253,857</u> |
| | <u>172,423,378</u> | <u>163,076,052</u> |

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

4. INVESTMENTS (continued)

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

| | 2010 | 2009 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Interest and dividends | 4,872,735 | 4,386,574 |
| Realized capital gains (losses) | 4,586,798 | (2,019,695) |
| Unrealized capital gains (losses) | 2,547,762 | 15,097,496 |
| Less: Investment management and custodial fees | (294,605) | (253,919) |
| Total returns | <u>11,712,690</u> | <u>17,210,456</u> |
| Allocated to Irving K. Barber British Columbia Scholarship Society (to September 30, 2010 only) | <u>1,896,108</u> | <u>5,020,446</u> |
| Allocated to operations and granting | <u>4,529,153</u> | <u>2,877,067</u> |
| Allocated to net assets | <u>5,287,430</u> | <u>9,312,943</u> |

5. CASH SURRENDER VALUE, LIFE INSURANCE POLICIES

The Foundation is owner and beneficiary of life insurance policies with current payout amounts totaling \$3,547,297 (2009 - \$3,528,689). The cash surrender value of these policies is reflected on the statement of financial position as an asset of the endowment funds. The annual change in the aggregate cash surrender value is recorded as an increase to the Foundation's endowment funds.

6. INTERESTS IN CHARITABLE REMAINDER TRUSTS

The Foundation is named as beneficiary of several charitable remainder trusts. The balance of \$1,373,418 (2009 - \$1,373,418) represents the actuarial value of the trusts at the date of funding. The actuarial value of new charitable remainder trusts funded during the year is recorded in the financial statements as an increase to the endowment funds.

7. OTHER ASSETS

| | 2010 | 2009 |
|-----------------------------|----------------|----------------|
| | \$ | \$ |
| Accounts receivable | 126,614 | 62,509 |
| Prepaid expenses | 29,509 | 10,591 |
| Property and equipment, net | <u>46,044</u> | <u>50,255</u> |
| | <u>202,167</u> | <u>123,355</u> |

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

8. 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, 2010 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 ("Y.E.A.F.")

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

9. PAYABLES AND OTHER LIABILITIES

| | <u>2010</u> | <u>2009</u> |
|------------------------|----------------|----------------|
| | \$ | \$ |
| Payables – operations | 43,652 | 31,859 |
| Payables – grants | 94,116 | 228,751 |
| Deferred contributions | <u>165,294</u> | <u>32,472</u> |
| | <u>303,062</u> | <u>293,082</u> |

Deferred contributions represent gifts from donors for the Vital Signs project for 2011. These contributions will be recorded in income as the offsetting expenses for the Vital Signs project are incurred.

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

10. 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:

| | 2010 | 2009 |
|---|------------------|-------------------|
| | \$ | \$ |
| Donor Advised Pass Through Funds | 1,478,965 | 863,793 |
| Every Step Counts Program Fund | 33,394 | 65,201 |
| Fetal Alcohol Spectrum Disorder Action Fund | 1,292,964 | 3,196,408 |
| Homeless Prevention Fund | 66,390 | - |
| Kwadacha First Nation – Payment Trustee Fund | 331,610 | 375,416 |
| McConnell Environmental Fund | 15,952 | 17,962 |
| MFRC Esquimalt – Projects Fund | 53,605 | - |
| Tsay Keh Dene First Nation – Payment Trustee Fund | 4,879,339 | 4,826,191 |
| University of Victoria Can Assist Fund | - | 859,407 |
| Wellness Program Fund | 19,256 | 4,866 |
| | <u>8,171,475</u> | <u>10,209,244</u> |

11. GRANT COMMITMENTS

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

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

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

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

| | 2010 | 2009 |
|--------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Irving K. Barber B.C. Scholarship | 15,776,002 | 14,965,550 |
| B.C. Aboriginal Students Scholarship | 10,161,603 | 9,334,778 |
| One World Scholarship | 12,668,171 | 11,635,889 |
| Pacific Horizons Scholarship | 1,027,949 | 944,187 |
| | <u>39,633,725</u> | <u>36,880,404</u> |

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

12. IRVING K. BARBER BRITISH COLUMBIA SCHOLARSHIP SOCIETY – MANAGED FUNDS (continued)

The above figures represent the holdings of the Society that are invested in the Foundation's Consolidated Trust Fund. The Society independently owns and holds other short-term investments and bank accounts that are not included in the above balances.

13. 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 \$119,232,407 (2009 - \$115,333,900). At year end, the market value of these funds, including related grant commitments (*Note 11*) was:

| | 2010 | 2009 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Hosted Funds – where the returns are designated to specifically named not-for-profit organizations. | 46,383,800 | 44,520,891 |
| Hosted Retractable Funds – where the returns are designated to specifically named not-for-profit organizations who may also, under certain circumstances, have access to the fund. | 7,572,851 | 7,104,546 |
| Donor Advised Funds – where the returns are designated to recipients after consultation with the donor. | 25,598,365 | 22,458,432 |
| Designated Funds – where the returns are designated to specifically named organizations. | 24,051,397 | 21,991,807 |
| Discretionary Funds – where the returns are distributed at the discretion of the Foundation. | <u>22,956,600</u> | <u>21,359,616</u> |
| | <u>126,563,013</u> | <u>117,435,292</u> |
| Comprised of: | | |
| Grant Commitments | 1,041,728 | 1,109,577 |
| Endowment Net Assets | <u>125,521,285</u> | <u>116,325,715</u> |
| | <u>126,563,013</u> | <u>117,435,292</u> |

14. 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, 2010 were held in trust by RBC Dexia Investor Services Trust.

THE VICTORIA FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

15. 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.

16. LEASE COMMITMENT

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

| | <u>\$</u> |
|------|-----------|
| 2011 | 120,665 |
| 2012 | 120,665 |
| 2013 | 120,665 |
| 2014 | 125,725 |
| 2015 | 125,725 |

17. COMPARATIVE FIGURES

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

THE VICTORIA FOUNDATION

MANAGED TRUST FUNDS

FOR THE YEAR ENDING DECEMBER 31, 2010

| | Lex Reynolds British Columbia Adoption and Permanency Fund \$ | Youth Educational Assistance Fund \$ | 2010 Total \$ | 2009 Total \$ |
|----------------------------|---|--|---------------------|---------------------|
| Balance, beginning of year | 1,972,860 | 1,979,908 | 3,952,768 | 5,061,601 |
| Income earned | 115,720 | 121,832 | 237,552 | 227,375 |
| Fees and expenses | (33,353) | (7,513) | (40,866) | (52,041) |
| Grants (paid) | (105,906) | (1,351,625) | (1,457,531) | (1,284,167) |
| Balance, end of year | <u>1,949,321</u> | <u>742,602</u> | <u>2,691,923</u> | <u>3,952,768</u> |
| Market value, end of year | <u>1,983,313</u> | <u>763,794</u> | <u>2,747,107</u> | <u>3,928,052</u> |