Financial Statement of

COMMUNITY FOUNDATION OF THE SOUTH OKANAGAN SIMILKAMEEN

Year ended December 31, 2018

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Community Foundation of the South Okanagan Similkameen

Opinion

We have audited the financial statements of Community Foundation of the South Okanagan Similkameen (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of revenue, expenses and 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 Entity as at December 31, 2018 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 Entity 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.

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In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity 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.

Report on Other Legal and Regulatory Requirements

As required by the Societies Act (British Columbia), we report that, in our opinion, the accounting policies applied by the Entity in preparing and presenting the financial statements in accordance with Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding period.

KPMG LLP

Chartered Professional Accountants

Kelowna, Canada

May 28, 2019

COMMUNITY FOUNDATION OF THE SOUTH OKANAGAN SIMILKAMEEN

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 211,085	$ 111,073
Restricted cash and cash equivalents	441,023	599,977
Accounts receivable	31,865	2,436
Deposits and prepaid expenses	13,834	306,222
	697,807	1,019,708
Investments, measured at fair value (note 2)	8,934,052	9,565,246
Tangible capital assets (note 3)	2,953,912	1,347
	$ 12,585,771	$ 10,586,301
Liabilities and Fund Balances		
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 35,416	$ 21,493
Security deposits	10,412	-
Demand loan (note 4)	1,872,015	-
	1,917,843	21,493
Fund balances		
Unrestricted		
Invested in tangible capital assets	1,081,897	1,347
Unrestricted	210,956	105,946
	1,292,853	107,293
Restricted:		
Endowments	8,164,154	8,010,062
Retained returns from investments	772,359	1,496,603
Other	438,562	950,850
	9,375,075	10,457,515
	10,667,928	10,564,808
	$ 12,585,771	$ 10,586,301

See accompanying notes to financial statements.

Approved on behalf of the Board:

_____________________ Director _____________________ Director

COMMUNITY FOUNDATION OF THE SOUTH OKANAGAN SIMILKAMEEN

Statement of Revenue, Expenses and Fund Balances

Year ended December 31, 2018, with comparative information for 2017

	Unrestricted	Restricted	2018	2017
Revenue				
Investment				
Investment income	$ 21,045	$ 428,026	$ 449,071	$ 583,603
Gain (loss) on investments (note 2)	-	(512,630)	(512,630)	97,248
Less: Investment management fees	-	(49,082)	(49,082)	(55,736)
	21,045	(133,686)	(112,641)	625,115
Contributions				
Designated funds	-	135,727	135,727	179,180
Flow through	-	621,498	621,498	455,378
Grants and sponsorships	120,186	29,168	149,354	106,069
Other	188,568	-	188,568	36,685
	308,754	786,393	1,095,147	777,312
Administration fees				
Charged on restricted funds	144,435	(144,435)	-	-
Other	5,708	-	5,708	5,620
	150,143	(144,435)	5,708	5,620
Rental revenue (note 5)	226,317	-	226,317	-
Fundraising	77,065	-	77,065	72,605
Total revenue	783,324	508,272	1,291,596	1,480,652
Expenses				
Grants paid	-	598,889	598,889	503,890
Administrative				
Amortization	783	-	783	642
Contract fees	300	20,829	21,129	29,902
Insurance	955	-	955	986
Licenses, dues and fees	14,058	-	14,058	12,827
Office and miscellaneous	16,522	2,973	19,495	19,301
Professional development	10,981	-	10,981	7,359
Professional fees	17,744	-	17,744	34,350
Public relations and communications	9,930	6,833	16,763	32,194
Rent	10,800	-	10,800	10,800
Salaries and wages (note 8)	232,638	-	232,638	207,361
Telephone	4,157	-	4,157	4,281
Travel	4,489	-	4,489	14,301
	323,357	30,635	353,992	374,304
Rental expenses (note 5)	221,032		221,032	-
Fundraising	14,563	-	14,563	43,177
Reclassification of endowment funds	-	-	-	100,000
Total expenses	558,952	629,524	1,188,476	1,021,371
Excess (deficiency) of revenue over expenses	224,372	(121,252)	103,120	459,281
Fund balances, beginning of year	107,293	10,457,515	10,564,808	10,105,527
Fund transfers	961,188	(961,188)	-	-
Fund balances, end of year	$ 1,292,853	$ 9,375,075	$ 10,667,928	$ 10,564,808

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF THE SOUTH OKANAGAN SIMILKAMEEN

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities		
Cash receipts from fundraising	$ 77,065	$ 72,605
Cash receipts from contributions	1,211,579	287,267
Cash receipts from endowment contributions	135,727	179,180
Cash receipts from investment revenue	387,079	630,735
Cash receipts from rental revenue	236,729	-
Cash paid for rental expenses	(122,938)	-
Cash paid for administrative, fundraising and other expenses	(343,049)	(502,069)
Cash paid for grants	(598,889)	(503,890)
Cash paid for interest on demand loan	(71,815)	-
	911,488	163,828
Financing activities:		
Proceeds from demand loan	1,900,000	-
Repayment of demand loan	(27,985)	-
Decrease in restricted cash and cash equivalents	158,954	178,723
	2,030,969	178,723
Investing activities:		
Purchase of tangible capital assets	(2,979,627)	-
Proceeds from disposal of investments	693,833	534,443
Purchase of investments	(556,651)	(871,128)
	(2,842,445)	(336,685)
Increase in cash and cash equivalents	100,012	5,866
Cash and cash equivalents, beginning of year	111,073	105,207
Cash and cash equivalents, end of year	$ 211,085	$ 111,073

See accompanying notes to financial statements.

Community Foundation of the South Okanagan Similkameen (the "Foundation") is dedicated to building healthy, vibrant, and livable communities across the South Okanagan Similkameen. The Foundation makes beneficial and lasting improvements by connecting gifts of energy, ideas, time and money with the needs and opportunities of our communities.

The Foundation sees itself operating three "lines of business". As "brokers" we achieve our goals through supporting others to achieve their legacies, primarily by working with donors to fulfill their giving goals. As "catalysts" we act and engage in social change, working as philanthropic leaders to build a culture of giving, and proactively conducting research to better understand community needs. As "facilitators" we encourage others to join as groups to create their dreams by bringing diverse groups together to implement or fund social change.

The Foundation accepts donations received as contributions to its operations, endowment funds, and restricted funds, as directed by donors. Grants are made to charitable organizations throughout the South Okanagan Similkameen using income earned from the investment of donated assets.

The Foundation was incorporated on December 18, 1991, and became a registered charity under the Income Tax Act on August 10, 1992. The Foundation operates under the Societies Act of British Columbia. As a result of its status as a charity, the Foundation is exempt from income taxes and may issue tax receipts to donors as long as it complies with the rules and regulations of the Income Tax Act.

1. Significant accounting policies:

The financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The Foundation's significant accounting policies are as follows:

(a) Fund accounting:

The Foundation follows the restricted fund method of accounting for contributions, thereby recognizing contributions and investment income as revenue in the appropriate restricted funds as specified by donors. The fund classifications are:

(i) Unrestricted:

Unrestricted represents unrestricted contributions, unrestricted investment income, unrestricted fundraising proceeds, administrative fees charged to restricted funds, administrative expenses and community grants. The Foundation holds its investment in tangible capital assets and realizes related net revenue inside its unrestricted fund.

1. Significant accounting policies (continued):

(a) Fund accounting (continued):

(ii) Restricted

Restricted funds include endowment funds and other externally or internally restricted funds. Endowment fund represents funds that are permanently restricted either by the donor or internally by the Foundation; these funds must be maintained in perpetuity. Other restricted funds represent flow-through funds specifically designated by donors, grants designated for specific and non-specific charitable purposes as well as restricted investment income earned on the endowment funds. Administration fees are charged on all restricted funds in accordance with financial management policies of the Foundation.

(b) Cash and cash equivalents:

Cash and cash equivalents includes cash and term deposits readily convertible into cash.

(c) Tangible capital assets:

Tangible capital assets are recorded at cost, less accumulated amortization. When the Foundation's management determines that certain tangible capital assets no longer contribute to its ability to provide services, their carrying amount is written down to its net recoverable amount. Tangible capital assets are amortized using the following methods and annual rates:

Asset	Method	Rate
Building	Straight-line	50 years
Furniture and equipment	Declining balance	20%
Computer equipment	Declining balance	20-55%

(d) Investments:

Investments include pooled investment funds, and interest bearing investments. These investments are recorded at their fair values determined, on a settlement date basis, on the last business day of the fiscal period.

1. Significant accounting policies (continued):

(e) Revenue recognition:

Contributions to the restricted or unrestricted fund are recognized as revenue when they are received or receivable, provided the amounts are measurable and collection is reasonably assured.

Investment income earned on restricted funds is recognized as revenue in the restricted fund in accordance with the terms of the restricted contribution. Investment income on unrestricted funds is recognized as revenue in the unrestricted fund.

Rental revenue is recognized in the unrestricted fund as revenue is received or receivable, provided the amounts are measurable and collection is reasonably assured.

(f) Contributed services:

The Foundation receives services from volunteers each year and due to the difficulty of determining their value, contributed services of volunteers are not recognized in the financial statements. When the value of donated services can be reasonably estimated, the amount has been recorded at market value.

(g) Financial instruments:

The Foundation measures cash and investments at fair value and accounts payable and accrued liabilities at amortized cost. Changes in fair value of cash and investments are recognized in the statement of operations in the periods in which they arise.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. Investments:

	Cost	Fair Value 2018	Fair Value 2017
Pooled investments	$ 8,418,855	$ 8,934,052	$ 9,565,246

Gains (losses) on investments for the year consisted of the following:

	2018	2017
Realized gains	$ 62,379	$ 90,668
Unrealized gains (losses)	(575,009)	6,580
	$ (512,630)	$ 97,248

3. Tangible capital assets:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 349,279	$ -	$ 349,279	$ -
Building	2,627,850	26,279	2,601,571	-
Furniture and equipment	3,336	1,719	1,617	1,033
Computer equipment	10,989	9,544	1,445	314
	$ 2,991,454	$ 37,542	$ 2,953,912	$ 1,347

4. Demand loan:

		2018		2017
Demand loan bearing interest at the the lender's prime rate plus 0.75%, secured by land and building and assignment of rents at 501 Main Street. Repayable in blended monthly payments of $9,980	$	1,872,015	$	-

Assuming the demand feature is not exercised, scheduled principal payments required for the next five years are as follows:

2019	$	33,330
2020		34,915
2021		36,575
2022		38,314
2023		40,136

5. Rental revenue and expense:

Rental revenue and expenses for the year ended December 31, 2018 were as follows:

Revenue	$	226,317
Administration		62,086
Amortization		26,279
Interest		71,815
Repairs and maintenance		41,983
Utilities		18,869
		(221,032)
Surplus	$	5,285

6. Funds held in trust:

At December 31, 2018, the Foundation held trust funds totaling $978,036 (2017 - $1,045,906) on behalf of other charitable organizations. These funds are neither an asset or a liability of the Foundation and, accordingly, are not reflected in the accompanying financial statements.

7. Financial risks and concentration of risk:

The Foundation invests its funds according to an investment policy approved by the Board. The Foundation manages credit, liquidity and market risk associated with its financial instruments by investing in a diversified portfolio managed by an investment firm approved by the Board of Directors. The Foundation's investment policy outlines the objectives, policies and processes relating to investment activities and applies to all investments of the Foundation.

The Board of Directors has overall responsibility for the establishment and oversight of the Foundation's risk management framework, including risks related to financial management of assets.

7. Financial risks and concentration of risk: (continued):

The Foundation has exposure to the following risks from its use of financial instruments:

(a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise principally from certain financial assets held by the Foundation. The maximum credit risk exposure for the Foundation's financial assets is the carrying value of the assets.

(b) Liquidity risk:

Liquidity risk is the risk that the Foundation will not be able to meet its financial obligations as they fall due. The majority of the Foundation's assets are investments traded in active markets that can be readily liquidated. In addition, the Foundation aims to retain a sufficient cash position to manage liquidity in order to meet its obligations on a timely basis. Liquidity risk for the year ended December 31, 2018 was impacted by the issuance of demand loan financing on the purchase of real estate.

(c) Market risk:

Market risk is the risk that changes in market prices, as a result of changes in interest rates and equity prices, will affect the Foundation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while attempting to maximize the potential return.

(i) Interest rate risk:

Interest rate risk relates to the risk that changes in interest rates will affect the fair value or future cash flows of financial instruments held by the Foundation. The Foundation is invested in several fixed income pooled investment funds and attempts to manage this risk by maintaining a mix of investments across a variety of asset classes. The Foundation's demand loan bears interest at a floating rate as disclosed in note 4.

(ii) Equity price risk:

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

7. Financial risks and concentration of risk: (continued):

(iii) Valuation risk:

The Foundation is subject to valuation risk through its indirect investment in alternative assets including infrastructure and real estate. These assets are regularly reviewed and valuations are updated accordingly.

8. Remuneration paid to directors, employees and contractors:

In accordance with the Societies Act (British Columbia) Section 36.1 and Societies Regulation 9.2(b):

The Directors of the Foundation receive no remuneration for the performance of their responsibilities as Directors.

For the fiscal year ending 2018, the Foundation paid total remuneration of $90,000, to one employee for services of whom received total annual remuneration of $75,000 or greater.