Non-Consolidated Financial Statements
(Expressed in thousands of dollars)

VANCOUVER FOUNDATION

Year ended December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Directors of Vancouver Foundation

We have audited the accompanying non-consolidated financial statements of Vancouver Foundation, which comprise the non-consolidated statement of financial position as at December 31, 2017 and the non-consolidated statements of operations, changes in fund balances and cash flows for the year ended December 31, 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these non-consolidated 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 an audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statement, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated 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 non-consolidated financial statements.

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

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of Vancouver Foundation as at December 31, 2017 and its non-consolidated results of operations, changes in fund balances and cash flow for the year ended December 31, 2017 in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 11, 2018

VANCOUVER FOUNDATION

Non-Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

As at December 31, 2017, with comparative information for 2016

	December 31, 2017			December 31, 2016		
	Restricted	Unrestricted	Total	Restricted	Unrestricted	Total
Assets						
Current assets:						
Cash	$ 3,287	$ 12,328	$ 15,615	$ 6,309	$ 12,215	$ 18,524
Amounts receivable	168	195	363	10	177	187
Short-term investments (note 3)	10,897	-	10,897	14,595	-	14,595
	14,352	12,523	26,875	20,914	12,392	33,306
Investments (note 4):						
Common shares and convertible securities	844,520	-	844,520	769,811	-	769,811
Bonds and debentures	246,335	-	246,335	254,557	-	254,557
Mortgages and real estate	107,781	-	107,781	88,793	-	88,793
Accrued investment income receivable	879	-	879	824	-	824
	1,199,515	-	1,199,515	1,113,985	-	1,113,985
Other assets (note 5)	2,715	-	2,715	2,610	-	2,610
Capital assets (note 6)	-	296	296	-	401	401
Total assets	$ 1,216,582	$ 12,819	$ 1,229,401	$ 1,137,509	$ 12,793	$ 1,150,302
Liabilities and fund balances						
Current liabilities:						
Accounts payable and accrued liabilities	$ 599	$ 1,185	$ 1,784	$ 94	$ 997	$ 1,091
Interfund payable (receivable)	34	(34)	-	139	(139)	-
	633	1,151	1,784	233	858	1,091
Fund balances:						
Contributed principal	874,537	-	874,537	828,434	-	828,434
Retained returns from investments	341,412	11,372	352,784	308,842	11,534	320,376
Invested in capital assets	-	296	296	-	401	401
	1,215,949	11,668	1,227,617	1,137,276	11,935	1,149,211
Total liabilities and fund balances	$ 1,216,582	$ 12,819	$ 1,229,401	$ 1,137,509	$ 12,793	$ 1,150,302

Commitments (note 11)

See accompanying notes to the non-consolidated financial statements.

Approved on behalf of the Board:

________________ Director   ________________ Director

VANCOUVER FOUNDATION

Non-Consolidated Statement of Operations
(Expressed in thousands of dollars)

Year ended December 31, 2017, with comparative information for 2016

	December 31, 2017			December 31, 2016		
	Restricted	Unrestricted	Total	Restricted	Unrestricted	Total
Revenue:						
Contributions (note 7)	$ 49,328	$ -	$ 49,328	$ 50,100	$ -	$ 50,100
Investment and interest income	95,488	139	95,627	93,308	864	94,172
	144,816	139	144,955	143,408	864	144,272
Expenses:						
Charitable activities:						
Charitable programming	2,868	-	2,868	2,849	-	2,849
Grants (note 4(b) and 9)	53,908	-	53,908	43,873	-	43,873
	56,776	-	56,776	46,722	-	46,722
Management and administration:						
Administration and other fund expenses (note 8)	415	6,123	6,538	345	5,150	5,495
Investment management and custodian fee expenses	-	3,235	3,235	-	3,528	3,528
	415	9,358	9,773	345	8,678	9,023
Excess (deficiency) of revenue over expenses	87,625	(9,219)	78,406	96,341	(7,814)	88,527
Fund balances, beginning of year	1,137,276	11,935	1,149,211	1,051,345	9,339	1,060,684
Interfund transfers:						
Administration and investment management fees	(10,727)	10,727	-	(10,386)	10,386	-
Other interfund transfers	1,775	(1,775)	-	(24)	24	-
Fund balances, end of year	$ 1,215,949	$ 11,668	$ 1,227,617	$ 1,137,276	$ 11,935	$ 1,149,211

See accompanying notes to the non-consolidated financial statements.

VANCOUVER FOUNDATION

Non-Consolidated Statement of Changes in Fund Balances
(Expressed in thousands of dollars)

Year ended December 31, 2017, with comparative information for 2016

	December 31, 2017				December 31, 2016			
	Contributed principal	Retained returns from investments	Invested in capital assets	Total	Contributed principal	Retained returns from investments	Invested in capital assets	Total
Fund balances, beginning of year	$ 828,434	$ 320,376	$ 401	$1,149,211	$ 750,034	$ 310,322	$ 328	$ 1,060,684
Excess (deficiency) of revenue over expense	32,253	46,281	(128)	78,406	34,219	54,438	(130)	88,527
Invested in capital assets	-	(23)	23	-	-	(203)	203	-
Transfers from contributed principal to retained returns	(6,359)	6,359	-	-	(4,663)	4,663	-	-
Recapitalized income	20,209	(20,209)	-	-	48,844	(48,844)	-	-
Fund balances, end of year	$ 874,537	$ 352,784	$ 296	$1,227,617	$ 828,434	$ 320,376	$ 401	$ 1,149,211

See accompanying notes to the non-consolidated financial statements.

VANCOUVER FOUNDATION

Non-Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	$ 78,406	$ 88,527
Items not affecting cash:		
Unrealized gain on investments	(36,823)	(36,837)
Unrealized gain on life insurance	(154)	(398)
Amortization	128	130
	41,557	51,422
Changes in non-cash items:		
Accrued investment income receivable	(55)	602
Accounts receivable	(176)	(13)
Accounts payable and accrued liabilities	693	62
Net cash from operations	42,019	52,073
Investing:		
Capital asset additions	(23)	(203)
Transfers from cash to investments	(44,905)	(54,887)
Net cash from investing	(44,928)	(55,090)
Decrease in cash	(2,909)	(3,017)
Cash, beginning of year	18,524	21,541
Cash, end of year	$ 15,615	$ 18,524

See accompanying notes to the non-consolidated financial statements.

1. Organization:

Vancouver Foundation (the "Foundation") was established in 1943 and incorporated through an Act of the Provincial Legislature in 1950. From time to time revisions to the Act are made. The Foundation supports initiatives that will build a lasting legacy of healthy, vibrant, livable communities throughout British Columbia.

The Foundation is a registered charity and is classified as a public foundation under the Income Tax Act (Canada). As such, it may issue tax deductible receipts for qualifying charitable donations. The Foundation is exempt from income taxes.

2. Significant accounting policies:

The financial statements of the Foundation have been prepared by management on a non-consolidated basis in accordance with Canadian accounting standards for not-for-profit organizations. Details of controlled entities that have not been consolidated are provided in note 10.

(a) Fund accounting:

The Foundation follows the restricted fund method of accounting for contributions to comply with the limitations and restrictions placed on the Foundation's resources by donors. Accordingly, resources are classified for accounting and financial reporting purposes into funds. These funds are maintained in accordance with either the objectives specified by the donors or with directives issued by the Board of Directors (the "Board"). Certain interfund transfers may be necessary to ensure the appropriate allocation to the respective funds. Transfers between the funds are recorded in the non-consolidated statement of operations and changes in fund balances.

For financial reporting purposes, the accounts have been classified into the following funds:

(*i*) Restricted Funds:

The Restricted Funds include funds that are externally or internally restricted. These funds are generally required to be maintained by the Foundation on a permanent basis; however, the contributed principal of certain endowed funds may be subject to complete or partial withdrawal according to the terms of the deed of gift. Restricted funds are comprised of resources that are to be used for granting or charitable activities as specified by the fund advisor or the donor. The Board exercises discretionary control over the investment of these funds through external investment fund managers. Income earned on these funds is reported in the Restricted Fund and is either retained in the Restricted Fund, internally transferred, or granted in the year.

(*ii*) Unrestricted Fund:

The Unrestricted Fund is comprised of unrestricted resources available for the Foundation's general operating activities. These activities include management and administration and charitable activities. The cost of these activities is reported in the expenses of the Unrestricted Fund.

2. Significant accounting policies (continued):

(b) Financial instruments:

The Foundation's financial instruments consist of cash, accounts receivable, short-term investments, common shares and convertible securities, bonds and debentures, mortgages and real estate investments, cash surrender value of life insurance policies, accrued investment income receivable, long-term investments and accounts payable and accrued liabilities.

(*i*) Cash:

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

(*ii*) Short-term investments:

Short-term investments include cash, pooled money market funds and pooled fixed income funds with terms to maturity less than one year at December 31.

Cash investments represent temporary holdings prior to the settlement of the purchase or sale of securities.

Pooled money market funds and pooled fixed income funds are held to meet granting commitments.

(*iii*) Investments:

Investments include common shares, convertible securities, bonds, debentures, mortgages and real estate, and may also include other investment vehicles such as derivative financial instruments and multi-strategy funds. Investments are held in segregated accounts and in pooled funds. These investments are recorded at their fair values determined, on a trade date basis, on the last business day of the fiscal period.

Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, are recognized on a trade-date basis. Transaction costs are expensed as incurred.

The financial assets and financial liabilities of the Foundation are classified and measured as follows:

Assets/liabilities	Measurement
Cash	Fair value
Short-term investments	Fair value
Investments	Fair value
Other assets	Fair value
Amounts receivable	Amortized cost
Accrued investment income receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

For items carried at amortized cost, the fair value approximates the carrying value in the financial statements.

2. Significant accounting policies (continued):

(c) Capital assets:

Capital assets are recorded at cost. Assets in use are amortized over their estimated useful lives. Management has estimated the useful lives to be:

Asset	Basis	Rate
Computer and office equipment	Straight-line	3 to 5 years
Office furniture	Straight-line	10 years
Leasehold improvements	Straight-line	Over the term of the lease

Expenditures incurred during the development phase of new software are expensed as incurred.

(d) Controlled entities:

(*i*) British Columbia Unclaimed Property Society:

On March 3, 2003, the British Columbia Unclaimed Property Society ("BCUPS") was incorporated under the Society Act of the Province of British Columbia. The purpose of BCUPS is to act as the administrator under the Unclaimed Property Act (British Columbia) and Unclaimed Property Amendment Act, 2003. The Foundation owns all of the shares in three corporations that are the sole members of BCUPS, and thereby it is able to indirectly control the election of directors of the Society and the admission of new members to BCUPS.

The financial statements of BCUPS are not consolidated in the Foundation's financial statements. Summary financial statements of BCUPS are included in note 10.

(*ii*) Friends of Vancouver Foundation:

On May 11, 2009, Friends of Vancouver Foundation ("Friends") was incorporated as a non-profit organization in the State of Washington to operate exclusively for the benefit of or to carry out the purposes of Vancouver Foundation, to facilitate US dollar contributions from donors and to issue US tax receipts. Friends is classified as a 501(c)(3) public charity under the Internal Revenue Code of the United States. Friends is controlled by the Foundation through its ability to appoint the Board of Directors.

The financial statements of Friends are not consolidated in the financial statements of the Foundation. The balances and transactions of Friends during 2017 and 2016 were not significant. Summary financial statements of Friends have not been included in these notes.

2. Significant accounting policies (continued):

(e) Revenue recognition:

Contributions are recognized as revenue in the Restricted or Unrestricted Fund, as the case may be, when they are received or receivable, provided the amounts are measurable and collection is reasonably assured.

In the normal course of operations, the Foundation receives notification of pending Estate gifts. Estate gifts, including bequests, are recorded upon receipt of the donated assets. Bequests in a form other than cash or marketable securities are recorded at fair value at the time of receipt.

Interest on investments is recorded on an accrual basis. Dividends that have been declared are recorded as income on the date of record set for the dividend.

Investment and interest income earned on restricted funds is recognized as revenue in the Restricted Fund in accordance with the terms of the restricted contribution. Investment and interest income on unrestricted funds is recognized as revenue in the Unrestricted Fund.

Realized and unrealized capital gains and losses are recorded in the Non-Consolidated Statement of Operations.

(f) Grants:

Grants are recorded when paid by the Foundation.

(g) Interfund transfers:

Interfund transfers include amounts transferred as directed by fund advisors, amounts charged for administrative and investment management fees or as approved by the Board.

(h) Donated services:

The Foundation relies on the time and expertise donated by many volunteers. The value of this time has not been reflected in these financial statements.

(i) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rates in effect at the statement of financial position date. Revenue and expenses denominated in foreign currencies are translated to Canadian dollars at the exchange rates in effect on the date of the transaction. Exchange gains and losses on translation of foreign currencies are reflected in the Non-Consolidated Statement of Operations.

(j) Management estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts and disclosures reported in financial statements and accompanying notes. Management believes that the estimates utilized in preparing these non-consolidated financial statements are reasonable; however, actual results could differ from these estimates.

(Amounts expressed in thousands of dollars)

2. Significant accounting policies (continued):

(k) Related party transactions:

Related party transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Details of related party transactions are disclosed in note 10.

3. Short-term investments:

	2017	2016
Cash	$ 2,374	$ 1,634
Treasury Bills	3,768	4,060
Pooled Money Market Funds	4,755	8,901
	$ 10,987	$ 14,595

4. Investments:

The Foundation's investments are carried at fair value in accordance with the significant accounting policy disclosed in note 2(b).

The Foundation’s investments are exposed to changing market conditions. The Foundation manages the market risk associated with these changing conditions by establishing and monitoring asset allocation strategies and by diversifying investments within the various asset classes and investment managers. Investment managers operate within a mandate that establishes the investment approach, investment restrictions and the performance measurement applicable to that mandate. Investments in foreign equities and multi-strategy funds are exposed to currency risk due to fluctuations in foreign exchange rates.

The Foundation may utilize derivative financial instruments in the management of its foreign currency and market exposure.

Details of significant terms and conditions and exposures to interest rate and credit risks on investments are disclosed in note 12.

(a) Investment Portfolio:

(*i*) Common shares and convertible securities:

The Foundation manages equity market risk by allocating the equities component of the investment portfolio across a number of investment managers, with differing investment styles and mandates. Equities are valued using published market quotations.

The Foundation is also invested in three multi-strategy funds structured to provide absolute returns not highly correlated to the performance of the public equity and bond markets. These funds are broadly diversified and may invest in a range of investment vehicles including derivative financial instruments. The net asset values of multi-strategy investments are measured at fair value using underlying market valuations.

(Amounts expressed in thousands of dollars)

4. Investments (continued):

(a) Investment Portfolio (continued):

(ii) Bonds and debentures:

The Foundation is invested in individual bonds, as well as pooled bond funds. The pooled bond funds invest in federal, provincial, municipal and corporate bonds with a minimum B (low) credit rating. Bonds are valued using published market quotations.

(iii) Mortgages and real estate:

The direct mortgages are secured by real estate, were made at commercial rates and are valued at fair value as determined by the mortgage investment managers. All mortgages relate to properties located in Canada.

Pooled real estate funds are valued quarterly by the real estate investment managers using a combination of internal and external appraisals to establish current market values. All real estate investments are in Canadian property.

(b) Encroachable Funds:

Certain restricted funds may be subject to full or partial withdrawal in accordance with the deed of gift. As at December 31, 2017, the maximum total fund assets subject to withdrawal are estimated to be as follows:

2018	$	54,875
2019		51,566
2020		21,286
2021		8,793
2022		6,382
Thereafter		4,411
	$	147,313

Board approval is required for fund withdrawals. During the year ended 2017 $6,454 (2016 - $633) was withdrawn.

5. Other assets:

Other assets include an investment in a social finance program of $1,072 (2016 - $1,121) and the estimated cash surrender value of life insurance policies of $1,643 (2016 - $1,489).

The Foundation is the owner and beneficiary of life insurance policies with face values totaling $16,386 at December 31, 2017. The cash surrender value of these life insurance policies is recorded as an asset. The Foundation will record the realizable amount in excess of the cash surrender value when the receipt of the proceeds can be estimated and collection is reasonably assured.

(Amounts expressed in thousands of dollars)

6. Capital assets:

2017	Cost	Accumulated amortization	Net book value
Computer and office equipment	$ 433	$ 310	$ 123
Office furniture	145	65	80
Leasehold improvements	240	147	93
Information technology software	59	59	-
	$ 877	$ 581	$ 296

2016	Cost	Accumulated amortization	Net book value
Computer and office equipment	$ 410	$ 236	$ 174
Office furniture	145	51	94
Leasehold improvements	240	107	133
Information technology software	59	59	-
	$ 854	$ 453	$ 401

Additions to capital assets for the year ended 2017 totaled $23 (2016 - $203). Amortization expense for the year ended 2017 totaled $128 (2016 - $130). There were no write downs of capital assets for the year ended 2017 or 2016.

7. Contributions

Contributions are received from various sources, mainly individuals, organizations and government. A summary of contributions received at December 31, 2017, with comparative information from 2016 is as follows:

	2017	2016
General	$ 42,052	$ 49,397
Government	7,276	703
	$ 49,328	$ 50,100

8. Administration and other fund expenses:

	2017	2016
Finance, Human Resources and General Operations	$ 3,213	$ 2,692
Information Technology	1,326	1,017
Donor Services	1,584	1,441
Other fund expenses	415	345
	$ 6,538	$ 5,495

(Amounts expressed in thousands of dollars)

9. Grants:

Grants are composed of grants and distributions paid to qualified donees and retractions paid out for funds withdrawn in the year (note 4(b)).

	2017	2016
Grants and distributions	$ 47,454	$ 43,240
Retractions (note 4(b))	6,454	633
	$ 53,908	$ 43,873

10. British Columbia Unclaimed Property Society:

(a) A summary of the unaudited financial statements of the British Columbia Unclaimed Property Society as at December 31, 2017, with comparative information for 2016 for the statement of financial position is as follows:

Statement of Financial Position	2017	2016
Cash and cash equivalents	$ 3,375	$ 2,837
GST receivable	5	6
Prepaid expenses	11	5
Investments	37,221	24,205
Capital assets	-	2
	$ 40,612	$ 27,055
Accounts payable and accrued liabilities	$ 84	$ 50
Restricted funds:		
Old unclaimed property funds (note 10(b))	600	762
New unclaimed property funds	38,778	25,160
Unrestricted funds	1,150	1,083
	$ 40,612	$ 27,055

Statement of Operations	2017	2016
Receipts of Unclaimed Property	$ 17,198	$ 5,585
Investment income	840	568
Operating expenses (note 10(c))	(773)	(681)
Distributions to claimants	(942)	(1,218)
Transfers to Vancouver Foundation (note 10(d))	(2,800)	(3,728)
Excess of revenue over expenses	13,523	526
Fund balance, beginning of year	27,005	26,479
Fund balance, end of year	$ 40,528	$ 27,005

(Amounts expressed in thousands of dollars)

10. British Columbia Unclaimed Property Society (continued):

(a) (continued):

Statement of Cash Flows	2017	2016
Excess of revenue over expense	$ 13,523	$ 526
Items not affecting cash	(31)	285
Net changes in non-cash working capital balances	30	29
Cash flows from operating activities	13,522	840
Cash flows related to investing activities	(12,984)	(2,955)
Decrease in cash and cash equivalents	538	(2,115)
Cash and cash equivalents, beginning of year	2,837	4,952
Cash and cash equivalents, end of year	$ 3,375	$ 2,837

(b) Pursuant to the Administration Agreement between the British Columbia Unclaimed Property Society and the Province of British Columbia, any pre-April 1, 2003 unclaimed funds that are unused, as at April 1, 2008, were to be returned to the Province of British Columbia. During 2008, the Province renewed the agreement for an indefinite term until either party gives one year's written notice to terminate the agreement. This agreement is currently under review by both parties. At 2017, the balance of these unused funds is $600 (2016 - $762).

(c) The Foundation subleases office space to the Society, in respect of which it charged the Society $40 for the year ended 2017 (2016 - $43).

In addition, the Society paid management services fees to the Foundation for financial, accounting, general management and other administrative services. The amount paid for such services for the year ended 2017 was $38 (2016 - $37).

(d) As provided for in the Administration Agreement, in 2016 the Society committed to contribute in 2017, from new unclaimed property funds held by it $2,800 (2016 - $3,728) to the Foundation for its charitable purposes.

In 2018, the Board of Directors of the Society approved an additional transfer of $2,800 to the Foundation for its charitable purposes in 2018.

(e) The Society has an outstanding payable to the Foundation of $14 (2016 - $11) as at December 31, 2017.

(Amounts expressed in thousands of dollars)

11. Commitments:

Leases:

The minimum future office lease payments to the end of the lease term which include basic annual rent and estimated operating costs are as follows:

2018	$	612
2019		612
2020		153
	$	1,377

12. Financial risk management:

The Foundation invests its various funds according to an Investment Policy Statement approved by the Board of Directors. This Statement outlines the objectives, policies and processes relating to investment activities and applies to all investments of the Foundation. Investment Policy guidelines include the minimum and maximum amount of Canadian equities, global equities, fixed income, real estate, mortgages, multi strategy funds, short term investments and cash. This diversification across various asset classes is designed to decrease the volatility of portfolio returns. The Investment Committee and management regularly review the Foundation's investments to ensure that all activities adhere to the Investment Policy Statement.

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.

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

(a) Credit risk:

Credit risk is the risk of financial loss to the Foundation if a counterparty to a financial instrument fails to meet its contractual obligations. The Foundation's investments in short-term investments, long-term investments, mortgages, bonds and debentures are subject to credit risk. The maximum exposure to credit risk on these instruments is their carrying value. The Investment Policy of the Foundation mandates that the maximum credit exposure to bonds rated "BBB" or below by Dominion Bond Rating Service ("DBRS") is 25% of the fixed income portfolio and no fixed income security rated lower than "B (low)" can be purchased. Cash and short-term paper up to one year term maturity must have a DBRS credit rating of R-1.

The Foundation's exposure to and management of credit risk has not changed materially since 2016.

(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 and therefore the Foundation's liquidity risk is considered minimal. In addition, the Foundation aims to retain a sufficient cash position to manage liquidity.

The Foundation's exposure to and management of liquidity risk has not changed materially since 2016.

12. Financial risk management (continued):

(c) Market risk:

Market risk is the risk that changes in market prices, as a result of changes in foreign exchange rates, interest rates, equity prices and valuation of appraisal based assets, 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 maximizing the return.

(i) Currency risk:

Investments in foreign securities are exposed to currency risk due to fluctuations in foreign exchange rates.

The Foundation is exposed to currency risk on its foreign market common stock, its foreign market bonds and debentures and its multi-strategy funds, as the prices denominated in foreign currencies are converted to Canadian dollars in determining fair value. The objective of the Foundation's investment policy is to control currency risk by maintaining a geographically diversified portfolio. The bond portfolio is managed by two investment managers who are restricted as to the unhedged foreign currency component of the foreign bond investments.

From time to time, the Foundation's external investment fund managers may hold balances in cash and cash equivalents denominated in non-Canadian currencies. The currency risk related to these balances is not significant.

The Foundation's exposure to and management of currency risk has not changed materially since 2016.

(ii) 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 a number of fixed income instruments individual bonds, pooled bond funds, as well as pooled mortgage funds.

Duration is the most common measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. The Foundation's portfolio managers vary the duration of the fixed income holdings in their portfolios in order to accommodate possible changes in interest rate.

The Foundation's exposure to and management of interest rate risk has not changed materially since 2016.

12. Financial risk management (continued):

(c) Market risk (continued):

(*iii*) 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 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. The performance of the Foundation's investments is monitored by measuring against a benchmark consisting of relative weightings of various stock indices.

The Foundation's exposure to and management of equity price risk has not changed materially since 2016.

(*iv*) Valuation risk:

Valuation risk is specific to appraisal based assets such as real estate. The Foundation is exposed to valuation risk through its investment in two real estate funds. Properties within these funds are regularly reviewed by an approved appraiser and valuations are updated accordingly.

The Foundation's exposure to and management of valuation risk has not changed materially since 2016.

13. Capital management:

The Foundation invests in accordance with the Vancouver Foundation Act (the "Act").

Prior to 2008, the Act required that capital of permanently endowed funds be maintained in perpetuity. In 2008, the Act was revised to allow the Foundation to make distributions of up to 7% of the original contributed capital to the fund as determined at 2008, subject to the Board's approval. There were no distributions of capital of permanently endowed funds subject to Board approval in 2017 or 2016.

14. Comparative information:

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