



**OTTAWA
COMMUNITY
FOUNDATION**

invested for good



Financial Statements
For the year ended December 31, 2017

Ottawa Community Foundation
Financial Statements
For the year ended December 31, 2017

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**OTTAWA
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Management's Report

Management's Responsibility for the Financial Statements

The accompanying financial statements of the Ottawa Community Foundation, (the "Foundation"), which comprise the balance sheet as at December 31, 2017, and the statement of operations and changes in fund balances, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, are the responsibility of the Foundation's management and have been prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations. The accounting policies followed by the Foundation are included in the summary of significant accounting policies set out in Note 2 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the accounting periods cannot be finalized with certainty until future periods.

The Foundation's management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded, and reliable financial information is available on a timely basis for the preparation of financial statements. These systems are monitored and evaluated by management.

The Finance and Audit Committee of the Board of Directors of the Foundation meets with management and the independent external auditor to review the financial statements and discuss any significant financial reporting or internal control matters prior to the Board of Directors' approval of the financial statements.

The financial statements have been audited by Collins Barrow Ottawa LLP, independent external auditor appointed by the Foundation. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their audit and their opinion on the Foundation's financial statements.

Marco Pagani
President & CEO

Shelley Pelkey, FCPA, FCMA
Director, Investment

April 24, 2018
Ottawa, Ontario

Independent Auditor's Report

To the Members of the Ottawa Community Foundation

We have audited the accompanying financial statements of the Ottawa Community Foundation, which comprise the balance sheet as at December 31, 2017, and the statement of operations and changes in fund balances, and the statement of 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 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.

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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to an 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.



Collins Barrow Ottawa LLP
Chartered Professional Accountants
301 Moodie Drive, Suite 400
Ottawa, Ontario K2H 9C4
Canada
T: 613.820.8010
F: 613.820.0465
Email: ottawa@collinsbarrow.com
www.collinsbarrow.com

Independent Auditor's Report (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ottawa Community Foundation as at December 31, 2017, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian Accounting Standards for Not-for-Profit Organizations.

Collins Barrow Ottawa LLP

Chartered Professional Accountants, Licensed Public Accountants
April 24, 2018
Ottawa, Ontario

Ottawa Community Foundation Statement of Operations and Changes in Fund Balances

For the year ended December 31, 2017 (in thousands of dollars)

(With corresponding amounts for the year ended December 31, 2016)

	Endowment Funds		Funds for Charitable Distribution		Operating Fund		Interfund Eliminations		Total Funds	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue										
Donations	\$ 8,376	\$ 4,638	\$ 12,579	\$ 10,243	\$ 59	\$ 14	\$ -	\$ -	\$ 21,014	\$ 14,895
CFO endowment earnings	-	-	-	-	231	111	(231)	(111)	-	-
Investment earnings (Note 5)	8,068	5,883	972	492	155	105	-	-	9,195	6,480
Funds for charitable distribution (Note 5)	-	-	3,878	3,638	-	-	(3,878)	(3,638)	-	-
Service fees (Note 5)	-	-	-	-	1,642	1,489	(1,572)	(1,422)	70	67
Other	612	-	-	-	30	8	(612)	-	30	8
	17,056	10,521	17,429	14,373	2,117	1,727	(6,293)	(5,171)	30,309	21,450
Expenses										
Funds for charitable distribution (Note 5)	3,878	3,638	-	-	-	-	(3,878)	(3,638)	-	-
Grants and programs	-	-	11,221	7,962	20	24	(843)	(111)	10,398	7,875
Investment fees	327	404	45	30	19	25	-	-	391	459
Service fees (Note 5)	1,339	1,278	233	144	-	-	(1,572)	(1,422)	-	-
Salaries and benefits	-	-	-	-	1,420	1,276	-	-	1,420	1,276
Other administrative expenses	-	-	-	-	557	443	-	-	557	443
Amortization of capital assets	-	-	-	-	6	10	-	-	6	10
	5,544	5,320	11,499	8,136	2,022	1,778	(6,293)	(5,171)	12,772	10,063
Excess (deficiency) of revenue over expenses for the year	11,512	5,201	5,930	6,237	95	(51)	-	-	17,537	11,387
Fund balances, beginning of year	101,662	96,461	21,225	14,988	899	950	-	-	123,786	112,399
Fund balances, end of year	\$ 113,174	\$ 101,662	\$ 27,155	\$ 21,225	\$ 994	\$ 899	\$ -	\$ -	\$ 141,323	\$ 123,786

Ottawa Community Foundation Balance Sheet

As at December 31, 2017 (in thousands of dollars)

(With corresponding amounts as at December 31, 2016)

	2017				2016			
	Endowment Funds	Funds for Charitable Distribution	Operating Fund	Total Funds	Endowment Funds	Funds for Charitable Distribution	Operating Fund	Total Funds
Assets								
Cash	\$ -	\$ 197	\$ 167	\$ 364	\$ -	\$ 53	\$ 211	\$ 264
Accounts receivable	-	-	60	60	-	-	68	68
Investments (Note 4)	112,874	26,963	9,104	148,941	101,362	21,172	7,639	130,173
Real estate (Note 6)	300	-	-	300	300	-	-	300
Capital assets (Note 7)	-	-	10	10	-	-	9	9
	\$ 113,174	\$ 27,160	\$ 9,341	\$ 149,675	\$ 101,662	\$ 21,225	\$ 7,927	\$ 130,814
Liabilities and Fund Balances								
Liabilities								
Grants and accounts payable and accrued liabilities	\$ -	\$ 5	\$ 125	\$ 130	\$ -	\$ -	\$ 99	\$ 99
Managed funds (Note 8)	-	-	8,222	8,222	-	-	6,929	6,929
	-	5	8,347	8,352	-	-	7,028	7,028
Fund balances (Note 3)								
Endowment funds								
Contributed capital	105,867	-	-	105,867	96,879	-	-	96,879
Accumulated increase in capital	7,307	-	-	7,307	4,783	-	-	4,783
Term and spend down funds								
Contributed capital (Note 5)	-	16,228	-	16,228	-	6,951	-	6,951
Accumulated increase in capital	-	1,104	-	1,104	-	581	-	581
Funds available to spend (Note 5)	-	9,823	-	9,823	-	13,693	-	13,693
Operating fund	-	-	994	994	-	-	899	899
	113,174	27,155	994	141,323	101,662	21,225	899	123,786
	\$ 113,174	\$ 27,160	\$ 9,341	\$ 149,675	\$ 101,662	\$ 21,225	\$ 7,927	\$ 130,814

On behalf of the Board:



Susan St. Amand, TEP, FEA, ICD.D
Chair, Board of Directors



Paul Sibué, CPA, CA
Treasurer

The accompanying notes are an integral part of these financial statements.

Ottawa Community Foundation Statement of Cash Flows

For the year ended December 31, 2017 (in thousands of dollars)

(With corresponding amounts for the year ended December 31, 2016)

	2017	2016
Cash flows from (used in) operating activities		
Donations received for charitable distribution and operating purposes	\$ 12,638	\$ 10,257
Investment earnings received	3,139	2,765
Grants and programs expenses paid	(10,393)	(7,918)
Investment fees paid	(391)	(458)
Salaries and benefits paid	(1,428)	(1,264)
Other administrative expenses paid	(515)	(362)
Service fees and other earnings received	100	75
	3,150	3,095
Cash flows from (used in) financing activities		
Contributions to endowment funds	8,376	4,638
Net increase (decrease) in managed funds	1,293	136
	9,669	4,774
Cash flows from (used in) investing activities		
Net decrease (increase) in investments	(12,712)	(8,121)
Capital assets purchased	(7)	(6)
	(12,719)	(8,127)
Net cash inflow (outflow) for the year	100	(258)
Cash, beginning of year	264	522
Cash, end of year	\$ 364	\$ 264

Ottawa Community Foundation

Notes to Financial Statements

December 31, 2017 (in thousands of dollars)

(With December 31, 2016 corresponding amounts)

1. **Nature of Foundation and Nature of Funds**

The Ottawa Community Foundation, (the "Foundation"), is a not-for-profit organization incorporated under the Canada Not-for-profit Corporations Act, and as a registered charity is not subject to income taxes. The Foundation is a pooling of charitable gifts in endowment or restricted funds, from which amounts are made available for charitable distribution to meet a wide range of community needs and interests - the arts and other cultural activities, scholarships, medical and scientific research, environmental concerns and social issues. On approval by the Foundation's Board of Directors, amounts are allocated to a charitable cause or organization as advised by the donor.

Under the Foundation's Articles of Continuance ("Articles") under the Canada Not-for-profit Corporations Act, the activities of the Foundation are restricted to the carrying on of activities which are in accordance with the charitable provisions of the Income Tax Act of Canada (as amended). The articles also require that in the event of dissolution, liquidation or winding up of the Foundation, all of its remaining assets, after payment of its liabilities shall be distributed to one or more recognized charitable organizations in Canada.

2. **Summary of Significant Accounting Policies**

Basis of presentation

These financial statements have been prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations which are part of Canadian generally accepted accounting principles and include the following significant accounting policies.

Accounting method

Endowment Funds

The Foundation follows the restricted fund method of accounting for contributions. Gifts made to individual endowment funds are recorded in Contributed capital. Endowment Funds are established for gifts that are designated to remain under the Foundation's management in perpetuity. The investment earnings (losses) on the Endowment Funds and the disbursements to cover service fees and funds for charitable distribution (see Note 5) are recorded in the Accumulated increase in capital balance in the Endowment Funds.

The Foundation has certain endowment funds from which amounts are designated by donors to support the Foundation's operations.

Funds for Charitable Distribution

The Funds for Charitable Distribution fund holds externally restricted donations to the Foundation that will be distributed as advised by the donors. These funds can take several forms.

Ottawa Community Foundation Notes to Financial Statements

December 31, 2017 (in thousands of dollars)

(With December 31, 2016 corresponding amounts)

2. **Summary of Significant Accounting Policies** (continued)

Accounting method (continued)

Funds for Charitable Distribution (continued)

Term funds are donations that have a specified term and may be transferred to a charitable organization at the end of the term, renewed at the discretion of the organization or donor establishing the fund, or changed to an endowment fund. These funds are pooled with the Endowment Funds for investment purposes and are subject to the Foundation's spending policy.

Spend down funds are donations that have a specific termination date by which all of the respective donation must be disbursed. Typically the disbursements are uniform each year over the specified term but are subject to the donor's directions. These funds are pooled with the Endowment Funds for investment purposes and are subject to the Foundation's spending policy.

Flow through funds are donations that are intended for distribution to registered charities in the short term and are invested in money market funds until the donor advises when to make the distribution. Flow through funds are classified as Funds available to spend in the Funds for Charitable Distribution fund. In addition to specific donations, the portion of the Endowment Funds which is available for charitable distribution is also classified as Funds available to spend in the Funds for Charitable Distribution fund.

The investment earnings (losses) on the term and spend down funds, and the disbursements to cover service fees and charitable grants (see Note 5) are recorded in the Accumulated increase in capital balance.

Operating Fund

The Operating fund accounts for revenue and expenses related to the Foundation's operations. The investment earnings (losses) of the Operating fund include investment income generated from Funds available to spend in the Funds for Charitable Distribution fund that are typically invested in interest bearing vehicles while waiting for distribution instructions from donors. The gains and losses from the disposition of donated equity securities held as Funds available to spend in the Funds for Charitable Distribution fund are recorded in investment earnings (losses) of the Operating fund.

Managed Funds

Managed funds are owned by other organizations and pooled with the Foundation's assets for investment purposes. These Managed funds assets are presented in the Operating fund with the Foundation's assets but are offset by Managed funds liabilities in the Balance Sheet. Any revenue and expenses accruing to these funds are not reflected in the Statement of Operations and Changes in Fund Balances.

Use of estimates

The preparation of financial statements in accordance 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

Ottawa Community Foundation

Notes to Financial Statements

December 31, 2017 (in thousands of dollars)

(With December 31, 2016 corresponding amounts)

2. **Summary of Significant Accounting Policies** (continued)

Use of estimates (continued)

the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates and assumptions as additional information becomes available in the future. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in the period in which they become known.

Financial instruments

Financial instruments are financial assets or financial liabilities of the Foundation where, in general, the Foundation has the right to receive cash or another financial asset from another party or the Foundation has the obligation to pay another party cash or other financial assets. All financial instruments are measured at their fair values on initial recognition.

The Foundation's investments are comprised of cash and short-term deposits, bonds and debentures, and equities. Investments also include units in limited partnerships, foreign currency contracts, units in the Community Forward Fund and the cash surrender values of life insurance policies.

Bonds and debentures, equity holdings, foreign currency contracts, and the cash surrender values of life insurance policies are carried at fair value based on quoted prices. Cash and short-term deposits, which include investment certificates and treasury bills, are carried at amortized cost which approximates their fair values.

The investment in the units in the open ended real estate fund, which is a limited partnership, is valued at fair value obtained from the fund's most recent audited financial statements available, being December 31, 2017 (2016 - December 31, 2016). The open ended real estate fund holds net assets whose observable prices are not quoted in an active market. Therefore these financial statements include the fair value for the units in the fund as determined by the managers of the fund based on the estimated fair value of the underlying net assets using generally accepted industry valuation methods including appraisals and discounted cash flow analysis. The fair value estimates are made at a specific point in time, based on relevant information about the financial and real estate markets, and the fund's financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with absolute precision and may differ from the value that would have been used had a market existed. Changes in assumptions can significantly affect the estimated fair value.

The investment in the units of the Sustainable Opportunities Fund, which is a US dollar based limited partnership, is valued at fair value obtained from the fund's most recent financial statements available, being September 30, 2017 (2016 - September 30, 2016). The Sustainable Opportunities Fund holds interests in private investment funds in non-Canadian countries whose observable prices are not quoted in an active market. Therefore, these financial statements include the fair value for the units in the fund as determined by the general partner of the fund based on the estimated fair value of the capital account balances with adjustment made for various factors, including, but not limited to, the attributes of the interests held, including the rights and obligations and any restrictions. The fair value estimates are made at a specific point in time based on information about the fund's net assets. As these estimates are subjective in

Ottawa Community Foundation Notes to Financial Statements

December 31, 2017 (in thousands of dollars)

(With December 31, 2016 corresponding amounts)

2. **Summary of Significant Accounting Policies** (continued)

Financial instruments (continued)

nature, involving uncertainties and matters of significant judgement, they cannot be determined with absolute precision and may differ from the value that would have been used had a market existed. Changes in assumptions can significantly affect the estimated fair value.

The investment in the units in the Community Forward Fund is valued at cost, less any required reduction for impairment, which is none. It is an equity investment whose observable prices are not quoted in an active market. The Community Forward Fund has as its mandate to pool funds from subscribers for the purpose of earning a positive return by making loans to charities and not-for-profit organizations and, in connection with such mandate, to try to increase the financial skills and acumen of these entities. This investment is part of the Foundation's impact investing initiative.

The New Market Fund is a limited partnership that invests in affordable rental housing. The Foundation's initial investment occurred during the 2017 fiscal year. As at December 31, 2017 the investment is valued at its fair value as provided by the fund. It is an equity investment whose observable prices are not quoted in an active market. Like the Foundation's investment in the Community Forward Fund, this investment is part of the Foundation's impact investing initiative.

Purchases and sales of investments are recorded at the trade date. Investment earnings (losses) include realized and unrealized gains and losses computed on an average cost basis, interest and dividends received and accrued, and foreign exchange gains and losses.

Accounts receivable, grants and accounts payable and accrued liabilities, and the managed funds liabilities are carried at cost which approximates their fair values due to the short-term nature of these assets and liabilities.

Impairment

Financial assets measured at cost or amortized cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in operations. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in operations.

Transaction costs

The Foundation recognizes its transaction costs in operations in the period incurred for financial instruments carried at fair value. However, for the financial instruments that will not be subsequently measured at fair value after their initial recognition, which would be those carried at cost or amortized cost, the initial carrying values are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

Ottawa Community Foundation Notes to Financial Statements

December 31, 2017 (in thousands of dollars)

(With December 31, 2016 corresponding amounts)

2. **Summary of Significant Accounting Policies** (continued)

Foreign currency

Investments held in foreign currency are expressed in Canadian dollars on the following basis:

- The carrying values of investments at the rate of exchange prevailing at the respective period end date; and
- Purchases and sales of investments at the rate of exchange prevailing on the trade date of such transactions.

Cash

For purposes of the Foundation's Statement of Cash Flows, cash and short-term deposits included in the investment listing (see Note 4) are excluded from cash and form part of the investing activities of the Foundation.

Foreign currency contracts

Investments in forward currency contracts are entered into with approved counterparties for hedging purposes only. The contractual amount of the open contracts is disclosed in the investment listing (see Note 4). At year end the value of these contracts is the gain or loss that would be realized if the positions were to be closed out and the change in the gain or loss for the year is recorded as part of the investment earnings (losses) in the financial statements. Upon closing the contracts, any additional gains or losses are reported in investment earnings (losses) in the financial statements.

Capital assets

Capital assets are recorded at cost. Amortization of capital assets is determined using the straight-line method over the following terms:

Computer hardware	3 years
Computer software	2 years
Furniture and fixtures	5 years

Assets that become fully amortized are written off and removed from the financial statements.

Real estate

Real estate property is recorded at the appraised value, as determined by an independent appraiser, at the time of donation.

Donated goods and services

The Foundation may receive goods at no cost from various sources. Significant donations are recorded in the financial statements at their estimated fair value at the date of the donation.

The Foundation also benefits from the services of volunteers. Because of the difficulty of determining their fair value, donated services are not recognized in these financial statements.

Ottawa Community Foundation Notes to Financial Statements

December 31, 2017 (in thousands of dollars)

(With December 31, 2016 corresponding amounts)

2. **Summary of Significant Accounting Policies** (continued)

Allocation of expenses

Salaries, benefits and other administrative expenses presented in the Statement of Operations and Changes in Fund Balances represent the total amounts incurred for the year and have not been allocated on a functional basis to the various charitable activities and programs of the Foundation.

3. **Capital**

The Foundation's objectives in managing the endowment capital are:

- To permanently hold the capital of the endowed funds; and
- To generate investment earnings to cover charitable grants and service fees, both determined using fixed rates.

Over the long term, investment earnings are expected to exceed disbursements. Naturally, with a fixed rate for grants and service fees (see Note 5), the actual amount disbursed in any particular year will necessarily be an amount that is less than or greater than the actual investment earnings for that year. However, the objective over the long term is to ensure that the capital of the endowed funds is held permanently.

The Foundation's Investment Committee makes recommendations to the Foundation's Board of Directors on all aspects of the investment management and investment policies of the Foundation. The Committee reviews the Foundation's assets and the status of its investments quarterly. The Committee oversees the investment program within the policies and procedures approved by the Foundation's Board of Directors. Specifically, the Committee:

- Recommends the selection of, and fees for, investment counsel;
 - Sets investment performance objectives and guidelines for investment counsel;
 - Monitors investment performance against objectives; and
 - Meets periodically with investment counsel.
-

Ottawa Community Foundation Notes to Financial Statements

December 31, 2017 (in thousands of dollars)

(With December 31, 2016 corresponding amounts)

4. Investments

The Foundation's investments are as follows:

	2017		2016	
	Carrying Value	% Holdings	Carrying Value	% Holdings
Cash and short-term deposits , at amortized cost which approximates fair value	\$ 14,821	10.0	\$ 16,079	12.4
Bonds and debentures , at fair value				
Government bonds	25,606	17.2	18,366	14.1
Corporate bonds	23,437	15.7	18,050	13.9
	49,043	32.9	36,416	28.0
Equities , at fair value				
Canadian shares	32,111	21.6	27,430	21.1
US shares	22,305	15.0	23,071	17.7
International equities (Non US)	15,184	10.2	12,662	9.7
	69,600	46.8	63,163	48.5
Unrealized gain (loss) on forward contracts of \$US 5,500 (2016 - \$US 5,500), at fair value	180	0.1	(221)	(0.2)
Other investments				
Open ended real estate fund, at fair value	10,619	7.1	10,026	7.7
Sustainable Opportunities Fund (US), at fair value	3,163	2.1	3,237	2.5
Community Forward Fund, at cost	945	0.6	945	0.7
New Market Fund, at fair value	28	-	-	-
Cash surrender value of life insurance policies, at fair value	542	0.4	528	0.4
	15,297	10.2	14,736	11.3
	\$ 148,941	100.0	\$ 130,173	100.0

The Foundation's investments expose it to risks associated with financial instruments. The significant financial instrument risks to which the Foundation is exposed along with specific risk management practices related to those risks follows.

Financial risk management

The Foundation is exposed to a variety of financial risks as a result of its investment activities. The Foundation has adopted investment policies, standards and practices designed to avoid undue risk of loss and impairment of assets, and to provide a reasonable expectation of a fair return given the nature of the investments. The maximum investment risk to the Foundation is represented by the carrying value of the investments.

Ottawa Community Foundation Notes to Financial Statements

December 31, 2017 (in thousands of dollars)

(With December 31, 2016 corresponding amounts)

4. **Investments** (continued)

Financial risk management (continued)

The Foundation's risk management practices are carried out primarily through its Investment Committee. The Investment Committee reviews the investment policy at least annually to ensure that it is appropriate for the Foundation's stated spending objectives. In addition, working with an Investment Advisor, the Investment Committee monitors the quarterly performance of all investment managers to ensure they are meeting the investment objectives of the Foundation. The Investment Advisor and each Investment Manager may be replaced by the Foundation's Board of Directors on the advice of the Investment Committee.

- *Market risk*

Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices. Market risk comprises three types of risk being currency risk, interest rate risk and other price risk, as further described herein.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk exposure arises from the Foundation's holdings of non Canadian investments. As at December 31, 2017, 27.3% (2016 - 29.9%) of the carrying value of the Foundation's investments were subject to foreign currency exposure. Currency risk on the US portion of the Foundation's investment portfolio is partially managed by hedging with forward currency contracts. As at December 31, 2017 the Foundation had hedged approximately 30.9% (2016 - 23.8%) of the US dollar fair value of the US investment holdings. An increase of 10% in the value of the Canadian dollar relative to the US dollar would cause a decrease in the value of the unhedged US investments of \$1,400 (2016 - \$1,720) in Canadian dollars. While non US foreign investments as at December 31, 2017 represent 12.3% (2016 - 12.2%) of the investment portfolio, management has not hedged the other international currencies as in their opinion, the number of different currencies provides diversification and acts to some degree as a hedge on their own.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a fixed income investment will fluctuate because of changes in market interest rates. The Foundation's fixed income investments, which are comprised of government and corporate bonds and debentures, are exposed to interest rate risk. In general, longer terms to maturity have an increased interest rate risk. The Foundation's investment managers take steps in the active management of the bonds and debentures portfolio to mitigate this risk.

Ottawa Community Foundation Notes to Financial Statements

December 31, 2017 (in thousands of dollars)

(With December 31, 2016 corresponding amounts)

4. **Investments** (continued)

- *Market risk (continued)*

Interest rate risk (continued)

The terms to maturity of the bonds and debentures are as follows:

Maturity	2017		2016	
	Fair Value	% Holdings	Fair Value	% Holdings
Under 1 year	\$ 2,632	5.4	\$ 233	0.6
1 year to 3 years	16,064	32.8	7,510	20.6
3 years to 5 years	8,261	16.8	10,626	29.2
5 years to 7 years	8,938	18.2	7,347	20.2
7 years to 10 years	9,696	19.8	7,776	21.4
Over 10 years	3,452	7.0	2,924	8.0
	\$ 49,043	100.0	\$ 36,416	100.0

As at December 31, 2017 had nominal interest rates increased (decreased) by 1%, with all other variables held constant, the fair value of the bonds and debentures would have (decreased) increased by 5.2% (2016 - 4.9%).

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Foundation's investment policy requires investments to be spread across a broad range of securities. It also requires geographic diversification with a mix between Canadian and global equity holdings. As well, limitations are placed on the extent of any single holding within the portfolio and with respect to the total outstanding shares. The maximum loss due to price risk is represented by the carrying value of the portfolio. As at December 31, 2017, \$69,600 (2016 - \$63,163) was invested in equity instruments traded in active markets.

The open ended real estate fund, the Sustainable Opportunities Fund and the New Market Fund investments are also subject to price risk as the Foundation would be responsible for losses to the extent of the investment in the respective fund.

Ottawa Community Foundation Notes to Financial Statements

December 31, 2017 (in thousands of dollars)

(With December 31, 2016 corresponding amounts)

4. **Investments** (continued)

- *Market risk (continued)*

Other price risk (continued)

As at December 31, 2017 had the fair value of the Foundation's equity investments, including its investments in the open ended real estate fund, the Sustainable Opportunities Fund and the New Market Fund increased (decreased) by 10%, with all other variables held constant, the fair value of these investments would have increased (decreased) by \$8,341 (2016 - \$7,643).

Sensitivity analyses

The sensitivity analyses included in this note should be used with caution as the changes are hypothetical and are not predictive of future performance. These sensitivities are calculated with reference to respective year end balances and will change due to fluctuations in the balances in the future. In addition, for the purpose of the sensitivity analyses, the effect of a variation in a particular assumption on the carrying value of the financial instruments was calculated independently of any change in another assumption. Actual changes in one factor may contribute to changes in another factor, which may magnify or counteract the effect on the fair value of the financial instrument.

- *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Foundation is exposed to credit risk through cash and short-term deposits, government and corporate bonds and debentures, and forward contracts in an unrealized gain position. Credit risk arising from these financial instruments is generally limited to the carrying value of the investments shown in the list of investments earlier in this note. The Foundation mitigates credit risk by limiting its bond and debenture holdings to bonds and debentures that are readily marketable and are generally limited to those with a rating of A- or better on purchase. As at December 31, 2017, 97.8% (2016 - 97.1%) of the fair value of the bonds and debentures held by the Foundation have a rating of A- or better. During the year ended December 31, 2017, no bonds were downgraded to BBB+. (During the year ended December 31, 2016, two bonds with a total value of \$1,563 were downgraded to BBB+. One bond was sold prior to December 31, 2016. The value of the remaining bond was \$1,039 as at December 31, 2016).

The Foundation's investment managers take steps in active management of the bond and debenture portfolio to mitigate this risk.

The investments in the Community Forward Fund and the cash surrender value of life insurance policies are also subject to credit risk since the Foundation would be responsible for losses to the extent of the respective investments.

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December 31, 2017 (in thousands of dollars)

(With December 31, 2016 corresponding amounts)

4. **Investments** (continued)

- *Concentration risk*

Concentration risk is the risk that a portfolio will have greater exposure due to a concentration in securities with similar characteristics or subject to similar economic, political or other conditions. The Foundation's Investment Committee mitigates concentration risk by ensuring that the portfolio adheres to the investment policy which identifies and limits geographic allocations as well as limits individual equity holdings. The Foundation's Investment Committee reviews the concentration of the portfolio on a quarterly basis.

- *Liquidity risk*

Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost effective manner to meet the spending requirements of the Foundation. The Foundation mitigates liquidity risk by limiting most of its investments to financial instruments that are publicly traded in active markets and thereby readily disposable.

The Foundation holds four classes of investments that are not traded in active markets. The Community Forward Fund investment is locked in until 2017 and the Foundation is not able to freely resell its units except in accordance with limited exceptions. The open ended real estate fund investment has an expected life until 2019 and early redemption of units is subject to a fee of 5%. The Sustainable Opportunities Fund investment has an expected life until 2028 and early withdrawal is only permitted with the consent of the fund's general partner. This consent may be granted or withheld at the general partner's sole and absolute discretion. The New Market Fund has an expected life until 2027 and no early redemption or withdrawal is permitted. These four classes of financial instruments total \$14,755 or 9.9% (2016 - \$14,208 or 10.9%) of the total carrying value of the Foundation's investments. With 90.1% (2016 - 89.1%) of the investment portfolio having high liquidity, it is management's opinion that there is not a significant liquidity risk.

5. **Investment Earnings, Charitable Grants and Service Fees**

The investment earnings of endowment funds, term funds and spend down funds are used to fund charitable grants and service fees.

The Foundation's policy on Granting from Endowment Funds and Term Funds provides that the total amount of charitable grants from an endowment fund or a term fund for any particular year is fixed at 4.25% of the average of the ending quarterly carrying values of the endowment and term fund for the 12 quarters ending December 31 of the preceding year. This policy ensures that there is a consistent level of charitable grants over the long term. The amount of charitable grants for any particular year, as determined under this policy, will be transferred from the individual endowment or term fund to Funds available to spend in the Funds for Charitable Distribution fund on January 1 of that year.

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December 31, 2017 (in thousands of dollars)

(With December 31, 2016 corresponding amounts)

5. **Investment Earnings, Charitable Grants and Service Fees** (continued)

The Foundation's policy on Service fees provides that the service fees on all funds held and managed are charged on the average of the ending quarterly carrying values of the fund for the preceding 12 quarters on a sliding scale or by agreement at a specified rate.

In addition, flow through funds not associated with an endowed fund are subject to a 2% fee upon receipt as well as a service fee on any remaining funds held at the end of each quarter.

The investment earnings during the year were comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 3,139	\$ 2,765
Investment gains	<u>6,056</u>	<u>3,715</u>
	<u>\$ 9,195</u>	<u>\$ 6,480</u>

Funds for Charitable Distribution Fund - Internal Transfer

From time to time, with the agreement of the donor, the Foundation may transfer amounts from one fund to another or among components of a fund. While transfers between funds are set out in the Statement of Operations and Changes in Fund Balances, transfers between components of a particular fund are not, and are normally not material to the financial statements as a whole. In 2017, a \$5,000 transfer occurred within the Funds for Charitable Distribution fund, from the Funds available to spend component to the Term and spend down funds – Contributed capital component.

6. **Real Estate**

The Foundation shares ownership of a property known as Fairfields, a designated historical property. The property is recorded at the appraised value, as determined by an independent appraiser, at the time of donation. The expenses related to the management and upkeep of the property are funded by a designated endowment fund.

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(With December 31, 2016 corresponding amounts)

7. **Capital Assets**

	2017		2016	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	\$ 6	\$ 3	\$ 3	\$ 3
Furniture and fixtures	13	6	7	6
	\$ 19	\$ 9	\$ 10	\$ 9

8. **Managed Funds**

Managed fund agreements are tailored to the specific requirements of the applicable organization and may contain clauses that require up to one year's notice to terminate the agreement or are for a specific period of time with options to renew.

9. **Deferred Gifts**

Life insurance

The Foundation is the beneficiary of numerous life insurance policies. As at December 31, 2017 the amount of insurance in force for which the Foundation is the owner and beneficiary totals \$4,788 (2016 - \$4,373). Premiums paid during the 2017 fiscal year by the insured donors were \$56 (2016 - \$76) and are recognized as both a revenue and an expense in the Statement of Operations and Changes in Fund Balances.

Some life insurance policies carry a cash surrender value which has been recorded in the investment assets (see Note 4) in the amount of \$542 (2016 - \$528).

Bequests

The Foundation has been designated the beneficiary of certain estates. The amount of these planned gifts is not readily determinable.

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December 31, 2017 (in thousands of dollars)

(With December 31, 2016 corresponding amounts)

10. Commitments

The Foundation has entered into lease commitments until March 31, 2027 for the following gross amounts on a fiscal year basis. The most significant lease is for office space which was renewed during the 2017 fiscal year for a 10 year term.

2018	\$	113
2019		113
2020		113
2021		108
2022		111
Thereafter		<u>477</u>
	\$	<u>1,035</u>

In addition to lease commitments, the Foundation has committed to purchase an aggregate of \$1,080 of units of principal of the Community Forward Fund, of which \$945 (see Note 4) has been purchased to December 31, 2017.

The Foundation has also committed to purchase an aggregate of \$5,000 US of units in the Sustainable Opportunities Fund, of which \$3,150 US (see Note 4) has been purchased to December 31, 2017.

The Foundation has committed to purchase an aggregate of \$1,000 of units in the New Market Fund, of which \$45 (see Note 4) has been purchased to December 31, 2017.

The Foundation has committed to purchase an aggregate of \$5,650 of units in the IFM Global Infrastructure Fund, of which none have been purchased to December 31, 2017. The IFM Global Infrastructure Fund is a limited partnership that invests in core infrastructure assets in countries with established regulatory environments and strong rule-of-law.

In connection with its operations, the Foundation regularly enters into agreements for the purchase of various supplies and services. Certain of these agreements extend beyond the end of the 2017 fiscal year. In the opinion of management, these agreements are in the normal course of the Foundation's operations, are not abnormal in amount or nature and do not include a high degree of speculative risk.

11. Corresponding Amounts and Financial Disclosures

In certain instances the 2016 fiscal year corresponding amounts and financial disclosures presented have been reclassified to conform with the financial statement presentation and disclosures adopted for the 2017 fiscal year.
