

**JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Directors of
**Jewish National Fund of Canada
(Keren Kayemeth Le'Israel) Inc.**

We have audited the accompanying financial statements of **Jewish National Fund of Canada (Keren Kayemeth Le'Israel) Inc.**, which comprise the statement of financial position as at December 31, 2017, and the statements of changes in net assets, revenues and expenses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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 the organization'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 organization'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.

INDEPENDENT AUDITOR'S REPORT (cont'd.)

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

Basis for Qualified Opinion

Jewish National Fund of Canada (Keren Kayemeth Le'Israel) Inc. derives revenue from contributions, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the organization and we were not able to determine whether adjustments might be necessary to receipts from contributions, excess of revenues over expenses for the year, assets and net assets.

Qualified Opinion

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had the receipts from contributions referred to in the basis for qualified opinion been susceptible to satisfactory audit tests, these financial statements present fairly, in all material respects, the financial position of the organization as at December 31, 2017 and the changes in net assets, revenues and expenses, and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Collins Barrow Montréal S.E.N.C.R.L./LLP¹

Montréal, Québec
June 22, 2018

¹CPA auditor, CA, public accountancy permit No. A104321

**JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017**

	2017	2016
ASSETS		
Current		
Cash	\$ 11,228,507	\$ 8,205,288
Investments held by third party (Note 3)	9,310,894	8,316,690
State of Israel bonds (Note 4)	80,710	59,930
Sales tax receivable	272,225	303,279
Loan receivable (Note 5)	1,003,461	2,231,568
Prepaid expenses and sundry assets	212,483	56,333
Current portion of balance of sale receivable (Note 8)	<u>816,625</u>	<u>792,904</u>
	22,924,905	19,965,992
Life insurance policies (Note 6)	264,016	260,311
Loan receivable (Note 7)	280,000	280,000
Balance of sale receivable (Note 8)	2,599,771	3,416,396
Investments in real estate (Note 9)	10,176,000	10,981,500
Property and equipment (Note 10)	106,656	123,444
Intangible assets (net of accumulated amortization of \$338,859; 2016 - \$329,833)	<u>53,817</u>	<u>62,844</u>
	<u>\$ 36,405,165</u>	<u>\$ 35,090,487</u>
LIABILITIES		
Current		
Accounts payable and sundry liabilities (Note 11)	\$ 286,348	\$ 306,109
Salaries and vacation payable	<u>127,901</u>	<u>301,938</u>
	414,249	608,047
Provision for retirement pay	<u>54,655</u>	<u>173,878</u>
	468,904	781,925
NET ASSETS		
Unrestricted	<u>35,936,261</u>	<u>34,308,562</u>
	<u>\$ 36,405,165</u>	<u>\$ 35,090,487</u>

APPROVED ON BEHALF OF THE DIRECTORS:



Member



Member

See accompanying notes

**JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	2017	2016
Balance, beginning of year	\$ 34,308,562	\$ 22,673,228
Excess of revenues over expenses for the year	<u>1,627,699</u>	<u>11,635,334</u>
Balance, end of year	<u>\$ 35,936,261</u>	<u>\$ 34,308,562</u>

See accompanying notes

**JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	2017	2016
Revenues		
Receipts from contributions	\$ 12,619,114	\$ 28,835,706
Investment income, including increase in fair value of investments	858,727	225,477
Increase in cash surrender value of life insurance policies	3,705	3,732
Interest income from balance of sale receivable (Note 8)	115,795	-
Receipt from life insurance policy	200,000	-
	<u>13,797,341</u>	<u>29,064,915</u>
Fundraising expenses (Note 12)	<u>3,462,823</u>	<u>3,402,863</u>
Excess of revenues over fundraising expenses	<u>10,334,518</u>	<u>25,662,052</u>
Expenses		
General and administrative	2,076,072	2,954,551
Amortization	32,693	38,914
	<u>2,108,765</u>	<u>2,993,465</u>
Excess of revenues over expenses before undernoted items	<u>8,225,753</u>	<u>22,668,587</u>
Charitable activities	<u>5,701,573</u>	<u>11,033,253</u>
Impairment of investments in real estate	<u>896,481</u>	<u>-</u>
Excess of revenues over expenses for the year	<u>\$ 1,627,699</u>	<u>\$ 11,635,334</u>

See accompanying notes

**JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	2017	2016
Operating activities		
Excess of revenues over expenses for the year	\$ 1,627,699	\$ 11,635,334
Adjustments for		
Amortization	32,693	38,914
(Increase) decrease in fair value of investments	(208,653)	326,741
Increase in cash surrender value of life insurance policies	(3,705)	(3,732)
Impairment of investments in real estate	896,481	-
	<u>2,344,515</u>	<u>11,997,257</u>
Net change in non-cash working capital items		
Decrease (increase) in sales tax receivable	31,054	(39,211)
(Increase) decrease in prepaid expenses and sundry assets	(156,150)	8,099
(Decrease) increase in accounts payable and sundry liabilities	(19,761)	16,154
(Decrease) increase in salaries and vacation payable	(174,037)	114,021
Decrease in provision for retirement pay	(119,223)	(209,942)
	<u>1,906,398</u>	<u>11,886,378</u>
Investing activities		
(Increase) decrease in State of Israel bonds	(20,780)	2,536
Increase in investments in real estate	(90,981)	-
Proceeds from sale of investments in real estate	-	460,000
Increase in investments held by third party	(785,551)	(573,444)
Decrease (increase) in balance of sale receivable	792,904	(4,209,300)
Increase in life insurance policies	-	(93,692)
Purchase of property and equipment	(6,878)	(8,865)
Increase in loan receivable	(1,771,893)	(1,617,662)
Repayment of loan receivable	3,000,000	1,353
	<u>1,116,821</u>	<u>(6,039,074)</u>
Cash provided by (used in) investing activities		
Increase in cash	3,023,219	5,847,304
Cash, beginning of year	8,205,288	2,357,984
Cash, end of year	<u>\$ 11,228,507</u>	<u>\$ 8,205,288</u>

See accompanying notes

**JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017**

1. Purpose of the organization

Jewish National Fund of Canada (Keren Kayemeth Le'Israel) Inc. raises funds from various Canadian sources. These funds are used for charitable purposes in Israel through various agency arrangements with the organization. The organization is incorporated under the Canada Not-for-profit Corporations Act (NFP Act) and is a registered charity under the Income Tax Act.

2. Significant accounting policies

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CICA Handbook and include the following significant accounting policies:

(a) Measurement uncertainty

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, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. These estimates are reviewed periodically, and as adjustments become necessary they are reported in the excess of revenues over expenses in the period in which they become known.

Estimates made by management include the impairment of loan receivable and balance of sale receivable, useful life of property and equipment, salary and vacation payable accruals, provision for retirement pay, the allocation of salaries and compensation costs, and the valuation of investments in real estate. Actual results could differ from those estimates.

(b) Financial instruments

(i) Measurement of financial instruments

The organization initially measures its financial assets and financial liabilities at fair value. Subsequent thereto, its financial assets and financial liabilities are measured at amortized cost, except for its investments held by third party, State of Israel bonds, and cash surrender value of life insurance policies, which are subsequently measured at fair value. Changes in fair value are recognized in the excess of revenues over expenses for the year.

Financial assets measured at amortized cost include cash, sales tax receivable, loan receivable and balance of sale receivable.

Financial liabilities measured at amortized cost include accounts payable and sundry liabilities, salaries and vacation payable, and provision for retirement pay.

**JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017**

2. Significant accounting policies (cont'd.)

(b) Financial instruments (cont'd.)

(ii) Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. The amount of the write-down is recognized in the excess of revenues over expenses for the year. 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 the excess of revenues over expenses for the year.

(c) Revenue recognition

The organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received. Pledges are recognized as revenue when collectability is reasonably assured. Bequests are recognized as revenue when assets donated can be reasonably identified and measured. Gifts in kind in the form of investments and life insurance policies are recognized as revenue when assets donated can be reasonably identified and measured.

(d) Balance of sale receivable

Balance of sale receivable is recorded at the face amount of the contract less any impairment.

Interest income is recorded when collectability is assured. The balance of sale receivable is impaired when in the opinion of management there is a reasonable doubt as to the ultimate collectability of any principal or interest.

(e) Investments in real estate

The organization follows the cost method of accounting for real estate. Any costs incurred to maintain or improve the properties have been added to the cost. These assets are tested for impairment when there is an indication that an impairment might exist.

**JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017**

2. Significant accounting policies (cont'd.)

(f) Property and equipment

Property and equipment are recorded at cost and are being amortized over their estimated useful lives. The annual amortization rates and methods are as follows:

Furniture and fixtures	20% declining balance
Data processing equipment	20% declining balance

Amortization of leasehold improvements is recorded over the remaining term of the lease. The average term of the leases is 5 years.

(g) Intangible assets

Intangible assets are recorded at cost and are being amortized over their estimated useful lives. The annual amortization rate and method is as follows:

Software	20% declining balance
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(h) Allocation of expenses

Compensation costs that are directly attributable to fundraising activities are allocated to fundraising expenses. The amount of compensation costs allocated is based on the time spent by the employees on fundraising activities.

3. Investments held by third party

These investments are held and administered by the Jewish Community Foundation of Montréal.

4. State of Israel bonds

State of Israel bonds have been adjusted to fair market value. The bonds mature at various dates from January 2018 to June 2023 and bear interest at an average rate of approximately 4.42% (2016 - 2.93%) per annum. Approximately \$6,500 (U.S. \$6,300) (2016 - \$6,500 (U.S. \$6,300)) of State of Israel Bonds are denominated in U.S. currency.

5. Loan receivable

The loan receivable is non-interest bearing.

**JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017**

6. Life insurance policies

The amount includes insurance policies having a cash surrender value of \$170,000 (2016 - \$167,000) net of loans to finance premiums. The face value of all the insurance policies, net of outstanding loans of approximately \$99,000 (2016 - \$92,000), is \$1,986,000 (2016 - \$2,202,000).

7. Loan receivable

This loan receivable is from a former executive vice president and was advanced as part of his retirement package. It is non-interest bearing and will be repaid from the proceeds of an insurance policy on his life. The life insurance policy has been assigned to the organization as security.

8. Balance of sale receivable

In 2016, a property having a value of \$8,418,600 was donated to the organization and sold in the same year. The organization provided the buyer a balance of sale subject to a mortgage secured against the property.

The balance of sale receivable, bears interest at 3% per annum, repayable in quarterly installments of \$227,175 combining principal and interest, maturing in December 2021.

	\$ 3,416,396
Less current portion	<u>816,625</u>
Due beyond one year	<u>\$ 2,599,771</u>

9. Investments in real estate

During the year, the organization became responsible to pay for all the expenses and costs related to two of the properties. As at year-end, recorded as investments in real estate, are three properties donated in a prior year, of which, one property the donor maintains use thereof for a time, during which period the donor pays for all expenses and costs related thereto.

**JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017**

10. Property and equipment

	2017		2016	
	Cost	Accumulated amortization	Net	Net
Furniture and fixtures	\$ 568,830	\$ 529,677	\$ 39,153	\$ 48,303
Data processing equipment	1,032,808	981,404	51,404	57,208
Leasehold improvements	49,541	33,442	16,099	17,933
	\$ 1,651,179	\$ 1,544,523	\$ 106,656	\$ 123,444

11. Accounts payable and sundry liabilities

Included in accounts payable and sundry liabilities are approximately \$26,000 (2016 - \$29,000) of payroll deductions.

12. Fundraising expenses

Included in fundraising expenses are allocated salaries and other compensation costs of \$1,133,000 (2016 - \$1,036,000).

13. Subsequent event

Subsequent to the year end, the organization entered into an agreement to sell one of its investments in real estate in June 2018 for a total consideration of \$4,400,000 before any selling costs.

14. Income taxes

The organization is classified as tax-exempt under Federal and Provincial income tax laws. Consequently, no provision for income taxes has been reflected in the accompanying financial statements.

As a result of a Canada Revenue Agency (CRA) audit, the organization is responding to certain issues raised and will commence discussions with CRA to establish compliance arrangements.

**JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017**

15. Commitments

The minimum rentals payable under long-term operating leases, exclusive of certain operating costs for which the organization is responsible, are approximately as follows:

2018	\$	125,000
2019		109,000
2020		103,000
2021		74,000
2022		40,000
Subsequent years		<u>147,000</u>
	\$	<u>598,000</u>

16. Financial instruments

Interest rate risk

The organization is exposed to changes in interest rates, which could adversely impact expected returns from the organization's investments held by third party and State of Israel bonds.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The organization is exposed to credit risk as a result of its balance of sale receivable.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The organization is exposed to market risk as a result of its investments held by third party and State of Israel bonds.