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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

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

Qualified Opinion
We have audited the financial statements of **Jewish National Fund of Canada (Keren Kayemeth Le'Israel) Inc.**, which comprise the statement of financial position as at December 31, 2018, and the statements of changes in net assets, revenues and expenses and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of **Jewish National Fund of Canada (Keren Kayemeth Le'Israel) Inc.** as at December 31, 2018 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.

Basis for Qualified Opinion
The organization's activities in its jointly controlled operations is shown in the financial statement as charitable activities - jointly controlled operations. As the jointly controlled operations commenced on June 1, 2018, audited financial information was not available and accordingly, we were unable to determine whether any adjustments were necessary in respect of the organization's share of assets and liabilities that it controls or its share of revenue and expenses incurred by the jointly controlled operations and the elements making up the statement of changes in equity and the cash flow statement.

In common with many not-for-profit organizations, the organization derives revenue from certain 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.

INDEPENDENT AUDITOR'S REPORT

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

In preparing the financial statements, management is responsible for assessing the organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baker Tilly Montréal S.E.N.C.R.L./LLP [1]

Montréal, Québec
June 6, 2019

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

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JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	2018	2017
ASSETS		
Current		
Cash	**$ 5,696,196**	$ 11,228,507
Investments held by third parties (Note 3)	**13,917,953**	9,310,894
State of Israel bonds (Note 4)	**76,782**	80,710
Accounts receivable (Note 5)	**555,925**	272,225
Loan receivable	**-**	1,003,461
Prepaid expenses and sundry assets	**29,802**	212,483
Current portion of balance of sale receivable (Note 8)	**841,060**	816,625
	21,117,718	22,924,905
Life insurance policies (Note 6)	**267,402**	264,016
Loan receivable (Note 7)	**280,000**	280,000
Balance of sale receivable (Note 8)	**1,758,711**	2,599,771
Investments in real estate (Note 9)	**6,430,219**	10,176,000
Property and equipment (Note 10)	**99,669**	106,656
Intangible assets (net of accumulated amortization of $349,623; 2017 - $338,859)	**43,054**	53,817
	$ 29,996,773	$ 36,405,165
LIABILITIES		
Current		
Accounts payable and sundry liabilities (Note 11)	**$ 113,648**	$ 286,348
Salaries and vacation payable	**160,722**	182,556
	274,370	468,904
NET ASSETS		
Unrestricted	**29,722,403**	35,936,261
	$ 29,996,773	$ 36,405,165

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, 2018

	2018	2017
Balance, beginning of year	**$ 35,936,261**	$ 34,308,562
(Deficiency) excess of revenues over expenses for the year after charitable activities	**(6,213,858)**	1,627,699
Balance, end of year	**$ 29,722,403**	$ 35,936,261

See accompanying notes

JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
Revenues		
Receipts from contributions	$ 11,562,343	$ 12,619,114
Increase in cash surrender value of life insurance policies	3,386	3,705
Investment income	1,183,000	650,074
Interest income from balance of sale receivable (Note 8)	92,074	115,795
Receipt from life insurance policy	-	200,000
	12,840,803	13,588,688
Fundraising expenses (Note 12)	3,073,156	3,462,823
Excess of revenues over fundraising expenses	9,767,647	10,125,865
Expenses		
General and administrative	3,569,306	2,076,072
Amortization	31,925	32,693
	3,601,231	2,108,765
Excess of revenues over expenses before undernoted items	6,166,416	8,017,100
Loss on disposition of investments in real estate	(35,808)	-
Recovery of (impairment) of investments in real estate	229,237	(896,481)
Loan receivable adjustment related to shared expenses	(516,949)	-
Unrealized (loss) gain on fair value adjustment of investments held by third party	(1,447,343)	208,653
Excess of revenues over expenses before charitable activities	4,395,553	7,329,272
Charitable activities - jointly controlled operations (Note 13)	6,601,722	5,193,163
Charitable activities	4,007,689	508,410
(Deficiency) excess of revenues over expenses for the year after charitable activities	$ (6,213,858)	$ 1,627,699

See accompanying notes

JEWISH NATIONAL FUND OF CANADA
(KEREN KAYEMETH LE'ISRAEL) INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
Operating activities		
(Deficiency) excess of revenues over expenses for the year	**$ (6,213,858)**	$ 1,627,699
Adjustments for		
Amortization	**31,925**	32,693
Decrease (increase) in fair value of investments held by third parties	**1,447,343**	(208,653)
Increase in cash surrender value of life insurance policies	**(3,386)**	(3,705)
(Reversal of) impairment of investments in real estate	**(229,237)**	896,481
Loss on disposition of investments in real estate	**35,808**	-
Loan receivable adjustment related to shared expenses	**516,949**	-
	(4,414,456)	2,344,515
Net change in non-cash working capital items		
(Increase) decrease in accounts receivable	**(283,700)**	31,054
Decrease (increase) in prepaid expenses and sundry assets	**182,681**	(156,150)
Decrease in accounts payable and sundry liabilities	**(172,699)**	(19,760)
Decrease in salaries and vacation payable	**(21,834)**	(293,261)
Cash (used in) provided by operating activities	**(4,710,008)**	1,906,398
Investing activities		
Decrease (increase) in State of Israel bonds	**3,928**	(20,780)
Increase in investments in real estate	**(248,982)**	(90,981)
Net proceeds from sale of investments in real estate	**4,188,192**	-
Increase in investments held by third party	**(6,054,403)**	(785,551)
Decrease in balance of sale receivable	**816,625**	792,904
Purchase of property and equipment	**(14,175)**	(6,878)
Increase in loan receivable	**-**	(1,771,893)
Repayment of loan receivable	**486,512**	3,000,000
Cash (used in) provided by investing activities	**(822,303)**	1,116,821
(Decrease) increase in cash	**(5,532,311)**	3,023,219
Cash, beginning of year	**11,228,507**	8,205,288
Cash, end of year	**$ 5,696,196**	$ 11,228,507

See accompanying notes

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 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 organization follows accounting principles generally accepted in Canada in preparing its financial statements. The significant accounting policies used are as follows:

(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 loans 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 parties, 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, accounts receivable, loan receivable and balance of sale receivable.

Financial liabilities measured at amortized cost include accounts payable and sundry liabilities and salaries and vacation payable.

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.

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 a lease is five 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

(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.

(i) Jointly controlled operations

The organization conducts jointly controlled operations with Keren Kayemeth Le'Israel in Israel. The organization records on the balance sheet its share of assets it controls and its share of liabilities incurred and on the income statement, its share of revenue earned and its share of expenses incurred by the joint arrangement.

3. Investments held by third parties

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

4. State of Israel bonds

State of Israel bonds have been adjusted to fair market value. The bonds mature at various dates from February 2019 to June 2023 and bear interest at an average rate of approximately 5.10% (2017 - 4.42%) per annum. Approximately $2,600 (U.S. $2,500) (2017 - $6,500 (U.S. $6,300)) of State of Israel Bonds are denominated in U.S. currency.

5. Accounts receivable

	2018	2017
Sales taxes receivable	**$ 255,791**	$ 272,091
Other receivables	**300,134**	134
	$ 555,925	$ 272,225

6. Life insurance policies

This includes insurance policies having a cash surrender value of $174,000 (2017 - $170,000) net of loans to finance premiums. The face value of all the insurance policies is $2,000,000 (2017 - $1,986,000), which is net of outstanding loans of approximately $107,000 (2017 - $99,000).

7. Loan receivable

This loan receivable from a former executive vice president 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 $227,175 combining principal and interest, maturing in December 2021	**$ 2,599,771**
Less current portion	**841,060**
Due beyond one year	**$ 1,758,711**

9. Investments in real estate

The organization is responsible to pay for all the expenses and costs related to its properties. Costs of $314,745 (2017 - $90,981) were capitalized during the year.

10. Property and equipment

	2018			2017
	Cost	Accumulated amortization	Net	Net
Furniture and fixtures	$ 568,830	$ 537,507	$ 31,323	$ 39,153
Data processing equipment	1,046,983	993,103	53,880	51,404
Leasehold improvements	49,541	35,075	14,466	16,099
	$ 1,665,354	$ 1,565,685	$ 99,669	$ 106,656

11. Accounts payable and sundry liabilities

Included in accounts payable and sundry liabilities are approximately $25,000 (2017 - $26,000) of payroll deductions.

12. Fundraising expenses

Included in fundraising expenses are allocated salaries and other compensation costs of approximately $1,045,000 (2017 - $1,133,000).

13. Charitable activities - jointly controlled operations

The amount represents funds transferred to the jointly controlled operations in Israel in the year.

14. Subsequent event

Subsequent to the year end, the organization sold one of its investments in real estate, with a net book value of approximately $3,166,000, for net proceeds of approximately $3,530,000.

15. 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 continues discussions with CRA with the objective to establish compliance arrangements.

16. 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:

2019	$	118,000
2020		113,000
2021		84,000
2022		44,000
2023		41,000
Subsequent years		106,000
	$	506,000

17. 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.

18. Comparative amounts

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year excess of revenues over expenses after charitable activities.