
**THE CANADIAN MERIT
SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES
BOURSES DE MÉRITE**

FINANCIAL STATEMENTS

APRIL 30, 2014

INDEPENDENT AUDITOR'S REPORT

To the Directors,
The Canadian Merit Scholarship Foundation / la Fondation canadienne des bourses de mérite

Report on the Financial Statements

I have audited the accompanying financial statements of The Canadian Merit Scholarship Foundation / la Fondation canadienne des bourses de mérite, which comprise the statement of financial position as at April 30, 2014, and the statements of operations and changes in net assets 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of The Canadian Merit Scholarship Foundation / la Fondation canadienne des bourses de mérite as at April 30, 2014, and results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other matter

The financial statements of The Canadian Merit Scholarship Foundation / la Fondation canadienne des bourses de mérite as at and for the year ended April 30, 2013 were audited by another auditor who expressed a qualified opinion on those financial statements on September 27, 2013. The qualification related to the auditor's inability to satisfy themselves concerning the completeness of donation revenue.



Chartered Accountant
Licensed Public Accountant

September 26, 2014
Toronto, Ontario

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**

STATEMENT OF FINANCIAL POSITION

AS AT APRIL 30, 2014

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	\$ 799,119	\$ 451,306
Investments (note 3)	2,770,130	2,420,604
Accrued interest and other receivables	31,702	39,083
Prepaid expenses	<u>36,773</u>	<u>37,333</u>
	3,637,724	2,948,326
Long-term assets		
Investments (note 3)	<u>6,011,863</u>	<u>4,776,141</u>
	<u>\$ 9,649,587</u>	<u>\$ 7,724,467</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 99,310	\$ 81,235
Deferred contributions (note 4)	<u>1,253,446</u>	<u>1,222,594</u>
	1,352,756	1,303,829
Long-term liabilities		
Deferred contributions (note 4)	<u>1,401,596</u>	<u>1,583,737</u>
	<u>2,754,352</u>	<u>2,887,566</u>
Net assets		
Endowment (note 5)		
Externally restricted endowments	2,958,850	1,716,326
Internally restricted endowments	<u>1,651,417</u>	<u>1,476,078</u>
Total endowment	<u>4,610,267</u>	<u>3,192,404</u>
Unrestricted	<u>2,284,968</u>	<u>1,644,497</u>
	<u>6,895,235</u>	<u>4,836,901</u>
	<u>\$ 9,649,587</u>	<u>\$ 7,724,467</u>

Approved on behalf of the Board:

_____, Director

_____, Director

see accompanying notes

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED APRIL 30, 2014

	2014			2013	
	Externally Restricted Endowment	Internally Restricted Endowment	Unrestricted	Total	Total
Net assets, beginning of year	\$ 1,716,326	\$ 1,476,078	\$ 1,644,497	\$ 4,836,901	\$ 4,021,248
Excess of revenue over expenses for the year (note 5)	-	175,339	640,471	815,810	722,651
Contributions to endowment	1,009,127	-	-	1,009,127	22,491
Preservation of capital (note 5)	<u>233,397</u>	<u>-</u>	<u>-</u>	<u>233,397</u>	<u>70,511</u>
NET ASSETS, END OF YEAR	<u>\$ 2,958,850</u>	<u>\$ 1,651,417</u>	<u>\$ 2,284,968</u>	<u>\$ 6,895,235</u>	<u>\$ 4,836,901</u>

see accompanying notes

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED APRIL 30, 2014

	2014	2013
REVENUE		
Contributions (note 4)	\$ 2,931,566	\$ 3,398,353
Investment income (note 3)	398,237	381,169
Other income	<u>63,285</u>	<u>76,874</u>
	<u>3,393,088</u>	<u>3,856,396</u>
EXPENSES (note 6)		
Stipend grants	1,368,500	1,807,200
Enrichment program		
Summer	365,803	371,842
Mentorship and stewardship	150,862	165,284
Gatherings (retreat, conferences, orientation, expedition, etc.)	127,954	222,321
Selections		
University scholarship program	180,232	148,300
College scholarship program	129,698	151,340
Other scholarship programs	<u>63,285</u>	<u>75,044</u>
	2,386,334	2,941,331
General and administration	<u>190,944</u>	<u>192,414</u>
	<u>2,577,278</u>	<u>3,133,745</u>
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	<u>\$ 815,810</u>	<u>\$ 722,651</u>

see accompanying notes

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
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STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED APRIL 30, 2014

	2014	2013
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	\$ 815,810	\$ 722,651
Items not involving cash		
Amortization	-	2,902
Unrealized gains on investments	<u>(191,065)</u>	<u>(24,521)</u>
	<u>624,745</u>	<u>701,032</u>
Net change in non-cash working capital items:		
Accrued interest and other receivables	7,381	64,821
Prepaid expenses	560	750
Accounts payable and accrued liabilities	18,075	(8,281)
Deferred contributions	<u>(151,289)</u>	<u>112,800</u>
	<u>(125,273)</u>	<u>170,090</u>
Net cash generated from operating activities	<u>499,472</u>	<u>871,122</u>
FINANCING ACTIVITIES		
Receipt of externally restricted endowments	<u>1,009,127</u>	<u>22,491</u>
INVESTING ACTIVITIES		
Purchase of investments	<u>(1,160,786)</u>	<u>(986,780)</u>
NET CASH AND CASH EQUIVALENTS GENERATED (USED) IN THE YEAR	347,813	(93,167)
Cash and cash equivalents, beginning of year	<u>451,306</u>	<u>544,473</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 799,119</u>	<u>\$ 451,306</u>

see accompanying notes

THE CANADIAN MERIT SCHOLARSHIP FOUNDATION / LA FONDATION CANADIENNE DES BOURSES DE MÉRITE

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2014

THE FOUNDATION

The Canadian Merit Scholarship Foundation / la Fondation canadienne des bourses de mérite (the "Foundation") is committed to the greatest of Canada's natural resources: our youth. The purpose of the Foundation is to identify and support talented Canadian students who show promise of leadership and strong commitment to service in the community. The Foundation funds these students to study on Canadian university and college campuses, to the benefit of their future and ours.

The Loran Scholar program is the Foundation's main focus. It is supported annually by hundreds of donors. The Foundation also manages the W. Garfield Weston Awards for college students, which are funded exclusively by the W. Garfield Weston Foundation, and other scholarship programs, which are fully funded by specific companies (see schedule).

The Foundation, which is incorporated under the Canada Corporations Act, is registered as a charitable organization under the Income Tax Act (Canada) and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the preparation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations. Outlined below are those policies considered particularly significant:

Financial instruments

Investments reported at fair value consist of equity instruments that are quoted in an active market as well as investments in pooled funds and any investments in fixed income securities that the Foundation designates upon purchase to be measured at fair value. Transaction costs are recognized in the statement of operations in the period during which they are incurred.

Investments in fixed income securities not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the straight-line method less any provisions for impairment.

All transactions are recorded on a trade date basis.

Other financial instruments including accounts receivable and accounts payable are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

Revenue recognition

The Foundation follows the deferral method of accounting for contributions, which include grants and donations. Grants and bequests are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions, except endowment contributions, are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized. Externally restricted endowment contributions are recognized as direct increases in net assets when recorded in the accounts.

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses, is recorded in the statement of operations, except to the extent that it is externally restricted in which case it is added to or deducted from endowment net assets or other restricted balances.

THE CANADIAN MERIT SCHOLARSHIP FOUNDATION / LA FONDATION CANADIENNE DES BOURSES DE MÉRITE

NOTES TO THE FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash equivalents

Cash equivalents consist of guaranteed investment certificates with a maturity of three months or less, or that are convertible into cash without significant penalty.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange prevailing at the year end.

Grants and awards

Grants and awards are expensed in the academic year to which they apply.

Allocation of expenses

The costs associated with the selection of scholarship recipients and the enrichment programs include the costs of personnel, premises and other expenses that are directly related to providing the total program and are allocated to the various programs based on the proportional hours spent on each (note 6).

Donated materials and services

The value of volunteer and other services donated to the Foundation is not recorded in the financial statements as these services are not normally purchased by the Foundation and because of the difficulty in determining their fair value. Donated materials are not recorded in the financial statements.

2. FINANCIAL INSTRUMENTS AND RELATED FINANCIAL RISKS

The Foundation is exposed to various financial risks through transactions in financial instruments including the following:

Other price risk

The Foundation is exposed to other price risk through changes in market prices (other than changes arising from interest rate or currency risks) in connection with its investments in pooled funds.

Interest rate risk

The Foundation is exposed to interest rate risk with respect to its investments in fixed income investments and pooled funds that hold fixed income securities because the fair value will fluctuate due to changes in market interest rates.

Currency risk

The Foundation is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

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NOTES TO THE FINANCIAL STATEMENTS

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3. INVESTMENTS AND INVESTMENT INCOME

(a) Investments, which are held for endowment net assets and for excess operating funds, consist of the following:

			2014	2013
	Endowment	Other	Total	Total
Short-term				
Money market fund	<u>\$ -</u>	<u>\$ 2,770,130</u>	<u>\$ 2,770,130</u>	<u>\$ 2,420,604</u>
Long-term				
Money market fund	-	307,591	307,591	635,035
Bond fund	-	748,689	748,689	750,720
Balanced pooled fund (b)	<u>4,610,267</u>	<u>345,316</u>	<u>4,955,583</u>	<u>3,390,386</u>
Total long-term	<u>4,610,267</u>	<u>1,401,596</u>	<u>6,011,863</u>	<u>4,776,141</u>
	<u>\$ 4,610,267</u>	<u>\$ 4,171,726</u>	<u>\$ 8,781,993</u>	<u>\$ 7,196,745</u>

Long-term investments are held for endowment purposes and to fund long-term scholarship commitments. The investment in the money market fund is allocated to long-term investments to the extent required for this balance to equal the sum of long-term deferred contributions and endowment net assets.

(b) The asset mix of the balanced pooled fund at year end is as follows:

	2014	2013
Cash	\$ 317,157	\$ 118,664
Fixed income	1,407,386	1,084,924
Canadian equities	1,233,940	810,302
U.S. equities	1,124,917	732,323
International equities	<u>872,183</u>	<u>644,173</u>
	<u>\$ 4,955,583</u>	<u>\$ 3,390,386</u>

(c) Investment income recorded in the statement of operations is calculated as follows:

	2014	2013
Net change in unrealized gain on investments	\$ 424,462	\$ 95,032
Interest, dividends and income distributions from pooled funds	203,383	181,323
Realized gains on disposal of investments	<u>3,789</u>	<u>175,325</u>
	631,634	451,680
Preservation of capital recorded in the statement of changes in net assets (note 5)	<u>(233,397)</u>	<u>(70,511)</u>
	<u>\$ 398,237</u>	<u>\$ 381,169</u>

(d) Included in cash and cash equivalents is a guaranteed investment certificate of \$25,000 (2013 - \$25,000) that must be held as a guarantee on the Foundation's corporate credit card.

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4. DEFERRED CONTRIBUTIONS

Deferred contributions represent externally restricted contributions not disbursed at year end. The following is a continuity of deferred contribution revenue for the year:

	2014	2013
Deferred contributions, beginning of year	\$ 2,806,331	\$ 2,693,531
Externally restricted contributions received	1,053,805	1,263,582
Externally restricted contributions recognized as revenue	<u>(1,205,094)</u>	<u>(1,150,782)</u>
Deferred contributions, end of year	2,655,042	2,806,331
Less: current deferred contributions	<u>1,253,446</u>	<u>1,222,594</u>
Long-term deferred contributions	<u>\$ 1,401,596</u>	<u>\$ 1,583,737</u>

Current deferred contributions represent amounts to be recognized as revenue in fiscal 2015. Long-term deferred contributions represent amounts to be recognized as revenue in fiscal 2016 through 2018.

5. ENDOWMENT NET ASSETS

Endowment net assets, which includes internally and externally restricted endowed funds, represent resources that are required by the donor or the Board of Directors to be maintained by the Foundation on a permanent basis. These funds provide a dependable and sustainable source of income to support the Loran awards for scholars.

Effective May 1, 2012, the Foundation adopted a capital preservation policy. This policy has the objective of protecting the real value of the endowments by limiting the amount of income available for spending and requiring the reinvestment of any income earned in excess of this limit. The amount of income currently made available for spending is based on 3.5% of the opening market value of the endowment net assets. In any particular year, should investment income be insufficient to fund the amount to be made available for spending or the investment return is negative, the amount is funded by a transfer from endowment net assets.

In fiscal 2014, investment income of \$468,807 (2013 - \$195,883), was earned on endowment net assets. Investment income on externally restricted endowment net assets was \$293,468 (2013 - \$127,328). Of this amount, \$60,071 (2013 - \$56,816) was made available for spending and recorded as investment income in the statement of operations. The return in excess of 3.5% is \$233,397 (2013 - \$70,511) and was credited directly to externally restricted endowments as preservation of capital. Investment income on internally restricted endowment net assets was \$175,339 (2013 - \$68,555). This amount was recorded as revenue in the statements of operations and the full amount has been allocated to internally restricted endowment net assets.

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NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2014

6. ALLOCATION OF EXPENSES

The Foundation provides its Loran and W. Garfield Weston Scholars with stipend grants and a comprehensive enrichment program that includes a summer program, mentorship program, annual retreats, conferences, and an orientation expedition.

Total general and administration costs of \$208,337 (2013 - \$232,237) were allocated to the various programs as follows:

	2014		
	Loran Scholar Program	W.G. Weston and Other Scholarship Programs	Total
Summer	\$ 22,771	\$ 28,345	\$ 51,116
Mentorship and stewardship	22,771	37,793	60,564
Gatherings (retreat, conferences, etc.)	30,361	-	30,361
Selections	<u>37,951</u>	<u>28,345</u>	<u>66,296</u>
	<u>\$ 113,854</u>	<u>\$ 94,483</u>	<u>\$ 208,337</u>

	2013		
	Loran Scholar Program	W.G. Weston and Other Scholarship Programs	Total
Summer	\$ 20,301	\$ 26,146	\$ 46,447
Mentorship and stewardship	20,301	39,219	59,520
Gatherings (retreat, conferences, etc.)	27,069	26,146	53,215
Selections	<u>33,836</u>	<u>39,219</u>	<u>73,055</u>
	<u>\$ 101,507</u>	<u>\$ 130,730</u>	<u>\$ 232,237</u>

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NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2014

7. COMMITMENTS

During the year, thirty Loran Scholars were selected. Each Loran Scholar is awarded a cash grant of \$9,000 for his or her first year of university.

The awards are renewable for up to three additional years. Awards for subsequent academic years are subject to certain conditions placed on Loran Scholars and are renewable annually at the sole discretion of the Foundation's Directors. As a result, commitments beyond the current year are not recognized in the financial statements. The W. Garfield Weston Foundation has committed to fund the grants of all W. Garfield Weston Loran Scholars through the completion of their undergraduate studies. It is the intent of the Foundation to have sufficient funds invested at all times to fund all current Loran Scholars through the completion of their program.

The Foundation entered into a long-term lease agreement for rental space starting May 1, 2012 and ending April 30, 2017.

The commitments of the Foundation at year end are as follows:

	Loran Awards	W. Garfield Weston Loran Awards	Leases	Total
2015	\$ 900,000	\$ 126,000	\$ 70,193	\$ 1,096,193
2016	783,000	-	70,193	853,193
2017	544,500	-	22,734	567,234
2018	<u>270,000</u>	<u>-</u>	<u>-</u>	<u>270,000</u>
	<u>\$ 2,497,500</u>	<u>\$ 126,000</u>	<u>\$ 163,120</u>	<u>\$ 2,786,620</u>

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
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SCHEDULE OF COLLEGE AND OTHER SCHOLARSHIP PROGRAM REVENUE AND EXPENSES

FOR THE YEAR ENDED APRIL 30, 2014

	2014	2013
REVENUE		
Contributions	\$ 569,945	\$ 1,109,456
Interest and other income	<u>63,285</u>	<u>75,044</u>
	<u>633,230</u>	<u>1,184,500</u>
EXPENSES		
Stipend grants	228,000	619,200
Enrichment program		
Summer	117,099	148,797
Mentorship and stewardship	95,148	98,172
Gatherings (retreat, conferences, orientation expedition, etc.)	-	91,948
Selections		
College scholarship program	129,698	151,340
Other scholarship programs	<u>63,285</u>	<u>75,043</u>
	<u>633,230</u>	<u>1,184,500</u>
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	<u>\$ -</u>	<u>\$ -</u>

see accompanying notes