
**THE LORAN SCHOLARS
FOUNDATION /
LA FONDATION BOURSIERS LORAN**
(Formerly known as The Canadian Merit Scholarship
Foundation / la Fondation canadienne des bourses de
mérite)

FINANCIAL STATEMENTS

APRIL 30, 2015

INDEPENDENT AUDITOR'S REPORT

To the Directors of
The Loran Scholars Foundation / La Fondation boursiers Loran

We have audited the accompanying financial statements of The Loran Scholars Foundation / La Fondation boursiers Loran (formerly known as The Canadian Merit Scholarship Foundation/La Fondation canadienne des bourses de mérite), which comprise the statement of financial position as at April 30, 2015, and the statements of operations, 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

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 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Loran Scholars Foundation / La Fondation boursiers Loran as at April 30, 2015, 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.

Pennylegion Chung LLP

Chartered Professional Accountants
Licensed Public Accountants

September 24, 2015
Toronto, Ontario

**THE LORAN SCHOLARS FOUNDATION /
LA FONDATION BOURSIERS DE LORAN**

STATEMENT OF FINANCIAL POSITION

AS AT APRIL 30, 2015

| | 2015 | 2014 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents (note 3) | \$ 866,843 | \$ 799,119 |
| Investments (note 3) | 2,400,830 | 2,770,130 |
| Accrued interest and other receivables | 31,554 | 31,702 |
| Prepaid expenses | <u>35,339</u> | <u>36,773</u> |
| | 3,334,566 | 3,637,724 |
| Long-term assets | | |
| Investments (note 3) | <u>7,552,581</u> | <u>6,011,863</u> |
| | <u>\$10,887,147</u> | <u>\$ 9,649,587</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 99,065 | \$ 99,310 |
| Deferred contributions (note 4) | <u>1,708,900</u> | <u>1,253,446</u> |
| | 1,807,965 | 1,352,756 |
| Long-term liabilities | | |
| Deferred contributions (note 4) | <u>1,292,701</u> | <u>1,401,596</u> |
| | <u>3,100,666</u> | <u>2,754,352</u> |
| Net assets | | |
| Endowments (note 5) | | |
| Externally restricted | 3,250,403 | 2,958,850 |
| Internally restricted | <u>3,009,477</u> | <u>1,651,417</u> |
| Total endowments | <u>6,259,880</u> | <u>4,610,267</u> |
| Unrestricted | <u>1,526,601</u> | <u>2,284,968</u> |
| | <u>7,786,481</u> | <u>6,895,235</u> |
| | <u>\$10,887,147</u> | <u>\$ 9,649,587</u> |

Approved on behalf of the Board:

 _____, Director

 _____, Director

see accompanying notes

**THE LORAN SCHOLARS FOUNDATION /
LA FONDATION BOURSIERS DE LORAN**

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED APRIL 30, 2015

| | | | | 2015 | 2014 |
|--|--|--|----------------------------|----------------------------|----------------------------|
| | Externally Restricted Endowments | Internally Restricted Endowments | Unrestricted | Total | Total |
| Net assets, beginning of year | \$ 2,958,850 | \$ 1,651,417 | \$ 2,284,968 | \$ 6,895,235 | \$ 4,836,901 |
| Excess of revenue over expenses for the year | - | - | 599,693 | 599,693 | 815,810 |
| Investment income allocated to internally restricted endowments (note 5) | - | 188,060 | (188,060) | - | - |
| Transfer to internally restricted endowments (note 6) | - | 1,170,000 | (1,170,000) | - | - |
| Contributions to endowments | 58,164 | - | - | 58,164 | 1,009,127 |
| Preservation of capital (note 5) | <u>233,389</u> | <u>-</u> | <u>-</u> | <u>233,389</u> | <u>233,397</u> |
| NET ASSETS, END OF YEAR | <u>\$ 3,250,403</u> | <u>\$ 3,009,477</u> | <u>\$ 1,526,601</u> | <u>\$ 7,786,481</u> | <u>\$ 6,895,235</u> |

see accompanying notes

**THE LORAN SCHOLARS FOUNDATION /
LA FONDATION BOURSIERS DE LORAN**

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED APRIL 30, 2015

| | 2015 | 2014 |
|--|-------------------|-------------------|
| REVENUE | | |
| Contributions | \$ 2,541,677 | \$ 2,931,566 |
| Investment income (note 3) | 447,836 | 398,237 |
| Other income | <u>64,250</u> | <u>63,285</u> |
| | <u>3,053,763</u> | <u>3,393,088</u> |
| EXPENSES (note 7) | | |
| Stipend grants | 1,266,500 | 1,368,500 |
| Enrichment program | | |
| Summer | 277,357 | 365,803 |
| Mentorship and stewardship | 130,697 | 150,862 |
| Gatherings (retreat, conferences, orientation, expedition, etc.) | 166,536 | 127,954 |
| Selections | | |
| University scholarship program | 233,550 | 180,232 |
| College scholarship program | 46,899 | 129,698 |
| Other scholarship programs | <u>64,250</u> | <u>63,285</u> |
| | 2,185,789 | 2,386,334 |
| General and administration | <u>268,281</u> | <u>190,944</u> |
| | <u>2,454,070</u> | <u>2,577,278</u> |
| EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR | <u>\$ 599,693</u> | <u>\$ 815,810</u> |

see accompanying notes

**THE LORAN SCHOLARS FOUNDATION /
LA FONDATION BOURSIERS DE LORAN**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED APRIL 30, 2015

| | 2015 | 2014 |
|--|-------------------|--------------------|
| OPERATING ACTIVITIES | | |
| Excess of revenue over expenses for the year | \$ 599,693 | \$ 815,810 |
| Items not involving cash | | |
| Change in unrealized gain on investments | <u>(60,039)</u> | <u>(191,065)</u> |
| | <u>539,654</u> | <u>624,745</u> |
| Net change in non-cash items: | | |
| Accrued interest and other receivables | 148 | 7,381 |
| Prepaid expenses | 1,434 | 560 |
| Accounts payable and accrued liabilities | (245) | 18,075 |
| Deferred contributions | <u>346,559</u> | <u>(151,289)</u> |
| | <u>347,896</u> | <u>(125,273)</u> |
| Net cash generated from operating activities | <u>887,550</u> | <u>499,472</u> |
| FINANCING ACTIVITIES | | |
| Receipt of externally restricted endowments | <u>58,164</u> | <u>1,009,127</u> |
| INVESTING ACTIVITIES | | |
| Purchase of investments | <u>(877,990)</u> | <u>(1,160,786)</u> |
| NET CASH AND CASH EQUIVALENTS GENERATED IN THE YEAR | | |
| | 67,724 | 347,813 |
| Cash and cash equivalents, beginning of year | <u>799,119</u> | <u>451,306</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 866,843</u> | <u>\$ 799,119</u> |

see accompanying notes

THE LORAN SCHOLARS FOUNDATION / LA FONDATION BOURSIERS DE LORAN

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2015

THE FOUNDATION

The Loran Scholars Foundation / la Fondation boursiers Loran, formerly known as The Canadian Merit Scholarship Foundation / la Fondation canadienne des bourses de mérite, (the Foundation, the Corporation) changed its name pursuant to articles of continuance dated October 14, 2014. The members of the Corporation approved the name change on September 26, 2014.

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 has also managed the W. Garfield Weston Awards for college students, which have been funded exclusively by the W. Garfield Weston Foundation. The college program has been phased out over the last three years with fiscal 2015 being the final year. Other scholarship programs are fully funded by specific companies (see schedule).

The Foundation was incorporated under the Canada Corporations Act and was continued under the Canada Not-for-profit Corporations Act. The Foundation 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:

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.

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.

Cash equivalents

Cash equivalents consist of guaranteed investment certificates that are convertible into cash without significant penalty.

THE LORAN SCHOLARS FOUNDATION / LA FONDATION BOURSIERS DE LORAN

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 7).

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. Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction date. Foreign exchange gains and losses are included in the statement of operations.

2. FINANCIAL INSTRUMENTS AND RELATED FINANCIAL RISKS

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

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.

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.

**THE LORAN SCHOLARS FOUNDATION /
LA FONDATION BOURSIERS DE LORAN**

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2015

3. INVESTMENTS AND INVESTMENT INCOME

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

| | Endowment | Other | 2015 Total | 2014 Total |
|--------------------------|---------------------|---------------------|---------------------|---------------------|
| Short-term | | | | |
| Money market fund | \$ - | \$ 2,400,830 | \$ 2,400,830 | \$ 2,770,130 |
| Long-term | | | | |
| Money market fund | - | 165,965 | 165,965 | 307,591 |
| Bond fund | - | 670,485 | 670,485 | 748,689 |
| Balanced pooled fund (b) | <u>6,259,880</u> | <u>456,251</u> | <u>6,716,131</u> | <u>4,955,583</u> |
| Total long-term | <u>6,259,880</u> | <u>1,292,701</u> | <u>7,552,581</u> | <u>6,011,863</u> |
| | <u>\$ 6,259,880</u> | <u>\$ 3,693,531</u> | <u>\$ 9,953,411</u> | <u>\$ 8,781,993</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:

| | 2015 | 2014 |
|------------------------|---------------------|---------------------|
| Cash | \$ 409,684 | \$ 317,157 |
| Fixed income | 1,887,233 | 1,407,386 |
| Canadian equities | 1,672,317 | 1,233,940 |
| U.S. equities | 1,470,833 | 1,124,917 |
| International equities | <u>1,276,064</u> | <u>872,183</u> |
| | <u>\$ 6,716,131</u> | <u>\$ 4,955,583</u> |

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

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Net change in unrealized gain on investments | \$ 293,428 | \$ 424,462 |
| Interest, dividends and income distributions from pooled funds | 378,387 | 203,383 |
| Realized gain on disposal of investments | <u>9,410</u> | <u>3,789</u> |
| | 681,225 | 631,634 |
| Preservation of capital recorded in the statement of changes in net assets (note 5) | <u>(233,389)</u> | <u>(233,397)</u> |
| | <u>\$ 447,836</u> | <u>\$ 398,237</u> |

(d) Included in cash and cash equivalents are guaranteed investment certificates of \$225,000 (2014 - \$225,000), of which \$25,000 is used to secure the Foundation's corporate credit card.

**THE LORAN SCHOLARS FOUNDATION /
LA FONDATION BOURSIERS DE LORAN**

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2015

4. DEFERRED CONTRIBUTIONS

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

| | 2015 | 2014 |
|---|---------------------|---------------------|
| Deferred contributions, beginning of year | \$ 2,655,042 | \$ 2,693,531 |
| Externally restricted contributions received | 1,551,653 | 1,112,293 |
| Externally restricted contributions recognized as revenue | <u>(1,205,094)</u> | <u>(1,150,782)</u> |
| Deferred contributions, end of year | 3,001,601 | 2,655,042 |
| Less: current deferred contributions | <u>1,708,900</u> | <u>1,253,446</u> |
| Long-term deferred contributions | <u>\$ 1,292,701</u> | <u>\$ 1,401,596</u> |

Current deferred contributions represent amounts to be recognized as revenue in fiscal 2016. Long-term deferred contributions represent amounts to be recognized as revenue in fiscal 2017 through 2019.

5. ENDOWMENT NET ASSETS

Endowment net assets, which include 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 externally restricted 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 2015, investment income of \$525,009 (2014 - \$468,807), was earned on endowment net assets. Investment income on externally restricted endowment net assets was \$336,949 (2014 - \$293,468). Of this amount, \$103,560 (2014 - \$60,071) was made available for spending and recorded as investment income in the statement of operations. The return in excess of 3.5% is \$233,389 (2014 - \$233,397) and was credited directly to externally restricted endowments as preservation of capital. Investment income on internally restricted endowment net assets was \$188,060 (2014 - \$175,339). This amount was recorded as revenue in the statement of operations and the full amount has been allocated to internally restricted endowment net assets.

6. TRANSFER TO INTERNALLY RESTRICTED ENDOWMENT NET ASSETS

The Foundation transferred \$1,170,000 to its internally restricted endowment net assets to support Loran awards over the long term (2014 - \$nil).

**THE LORAN SCHOLARS FOUNDATION /
LA FONDATION BOURSIERS DE LORAN**

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2015

7. 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 \$197,672 (2014 - \$208,337) were allocated to the various programs as follows:

| | 2015 | | |
|---|----------------------------------|---|-------------------|
| | Loran Scholar Program | W.G. Weston and Other Scholarship Programs | Total |
| Summer | \$ 27,087 | \$ 18,671 | \$ 45,758 |
| Mentorship and stewardship | 27,087 | 24,895 | 51,982 |
| Gatherings (retreat, conferences, etc.) | 36,116 | - | 36,116 |
| Selections | <u>45,145</u> | <u>18,671</u> | <u>63,816</u> |
| | <u>\$ 135,435</u> | <u>\$ 62,237</u> | <u>\$ 197,672</u> |

| | 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> |

**THE LORAN SCHOLARS FOUNDATION /
LA FONDATION BOURSIERS DE LORAN**

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2015

8. 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. 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 | Leases | Total |
|------|---------------------|------------------|---------------------|
| 2016 | \$ 1,035,000 | \$ 70,193 | \$ 1,105,193 |
| 2017 | 805,500 | 22,733 | 828,233 |
| 2018 | 540,000 | - | 540,000 |
| 2019 | <u>270,000</u> | <u>-</u> | <u>270,000</u> |
| | <u>\$ 2,650,500</u> | <u>\$ 92,926</u> | <u>\$ 2,743,426</u> |

**THE LORAN SCHOLARS FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**

SCHEDULE OF COLLEGE AND OTHER SCHOLARSHIP PROGRAM REVENUE AND EXPENSES

FOR THE YEAR ENDED APRIL 30, 2015

| | 2015 | 2014 |
|---|--------------------|--------------------|
| REVENUE | | |
| Contributions | \$ 249,402 | \$ 569,945 |
| Interest and other income | <u>64,250</u> | <u>63,285</u> |
| | <u>313,652</u> | <u>633,230</u> |
| EXPENSES | | |
| Stipend grants | 108,000 | 228,000 |
| Enrichment program | | |
| Summer | 44,744 | 117,099 |
| Mentorship and stewardship | 49,759 | 95,148 |
| Selections | | |
| College scholarship program | 46,899 | 129,698 |
| Other scholarship programs | <u>64,250</u> | <u>63,285</u> |
| | <u>313,652</u> | <u>633,230</u> |
| EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR | <u>\$ -</u> | <u>\$ -</u> |

see accompanying notes