

**LORAN SCHOLARS FOUNDATION/
FONDATION BOURSIERS LORAN**

FINANCIAL STATEMENTS

APRIL 30, 2016

HILBORN LLP

Independent Auditor's Report

To the Members of
Loran Scholars Foundation/Fondation Boursiers Loran

We have audited the accompanying financial statements of Loran Scholars Foundation/Fondation Boursiers Loran, which comprise the statement of financial position as at April 30, 2016, 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 Loran Scholars Foundation/Fondation Boursiers Loran as at April 30, 2016, 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.



Toronto, Ontario
September 21, 2016

Chartered Professional Accountants
Licensed Public Accountants

**LORAN SCHOLARS FOUNDATION/
FONDATION BOURSIERS LORAN**

Statement of Financial Position

April 30	2016 \$	2015 \$
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	973,298	866,843
Short term investments (note 3)	2,235,128	2,400,830
Accrued interest and other receivables	53,030	31,554
Prepaid expenses	45,120	35,339
	<u>3,306,576</u>	3,334,566
Long-term assets		
Investments (note 3)	8,584,904	7,552,581
	<u>11,891,480</u>	<u>10,887,147</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	68,742	99,065
Deferred contributions (note 4)	1,917,032	1,708,900
	<u>1,985,774</u>	1,807,965
Long-term liabilities		
Deferred contributions (note 4)	1,600,460	1,292,701
	<u>3,586,234</u>	<u>3,100,666</u>
NET ASSETS		
Endowments (note 5)		
Externally restricted	3,235,027	3,250,403
Internally restricted	3,749,417	3,009,477
Total endowments	<u>6,984,444</u>	6,259,880
Unrestricted	1,320,802	1,526,601
	<u>8,305,246</u>	7,786,481
	<u>11,891,480</u>	<u>10,887,147</u>

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

Approved on behalf of the Board:

 Director
 Director

**LORAN SCHOLARS FOUNDATION/
FONDATION BOURSIERS LORAN**

Statement of Operations

Year ended April 30	2016 \$	2015 \$
Revenues		
Contributions	2,713,545	2,541,677
Investment income (note 3)	185,875	447,836
Other income	73,750	64,250
	<u>2,973,170</u>	<u>3,053,763</u>
Expenses (note 7)		
Stipend grants	1,168,875	1,266,500
Enrichment program		
Summer	330,291	277,357
Mentorship and stewardship	153,037	130,697
Gatherings (retreat, conferences, orientation, expeditions, etc.)	213,518	166,536
Selections		
University scholarship program	277,054	233,550
College scholarship program	-	46,899
Other scholarship programs	73,750	64,250
General and administration	293,131	268,281
	<u>2,509,656</u>	<u>2,454,070</u>
Excess of revenues over expenses for year	<u>463,514</u>	<u>599,693</u>

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

**LORAN SCHOLARS FOUNDATION/
FONDATION BOURSIERS LORAN**

Statement of Changes in Net Assets

Year ended April 30

				2016
	Externally Restricted Endowments \$	Internally Restricted Endowments \$	Unrestricted \$	Total \$
Balance, beginning of year	3,250,403	3,009,477	1,526,601	7,786,481
Excess of revenues over expenses for year	-	-	463,515	463,515
Investment income allocated to internally restricted endowments (note 5)	-	39,940	(39,940)	-
Transfer to internally restricted endowments (note 6)	-	700,000	(700,000)	-
Contributions to endowments	55,250	-	-	55,250
Transfer to unrestricted net assets related to preservation of capital shortfall (note 5)	(70,626)	-	70,626	-
Balance, end of year	3,235,027	3,749,417	1,320,802	8,305,246
				2015
	Externally restricted endowments \$	Internally restricted endowments \$	Unrestricted \$	Total \$
Balance, beginning of year	2,958,850	1,651,417	2,284,968	6,895,235
Excess of revenues over expenses for year	-	-	599,693	599,693
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
Preservation of capital (note 5)	233,389	-	-	233,389
Balance, end of year	3,250,403	3,009,477	1,526,601	7,786,481

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

**LORAN SCHOLARS FOUNDATION/
FONDATION BOURSIERS LORAN**

Statement of Cash Flows

Year ended April 30	2016 \$	2015 \$
Cash flows from operating activities		
Excess of revenues over expenses for year	463,514	599,693
Items not involving cash		
Unrealized (gain) loss on investments	179,301	(293,428)
	642,815	306,265
Net change in non-cash items:		
Accrued interest and other receivables	(21,476)	148
Prepaid expenses	(9,781)	1,434
Accounts payable and accrued liabilities	(30,323)	(245)
Deferred contributions	515,891	346,559
	1,097,126	654,161
Cash flows from investing activities		
Purchase of investments	(1,045,921)	(877,990)
Preservation of capital direct increase in externally restricted endowments net assets	-	233,389
	(1,045,921)	(644,601)
Cash flow from financing activities		
Receipt of externally restricted endowments	55,250	58,164
Increase in cash	106,455	67,724
Cash and cash equivalents, beginning of year	866,843	799,119
Cash and cash equivalents, end of year	973,298	866,843

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

LORAN SCHOLARS FOUNDATION/ FONDATION BOURSIERS LORAN

Notes to Financial Statements

April 30, 2016

Purpose of the organization

Loran Scholars Foundation/Fondation Boursiers Loran, (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 is exempt from income taxes and is able to issue donation receipts for income tax purposes.

The Foundation is committed to the greatest of Canada's resources: our youth. The purpose of the Foundation is to identify and support high-potential Canadian students who show character, strong commitment to service in the community and leadership potential. The Foundation funds these students to study on Canadian university campuses and provides them with opportunities to explore, develop and share their talents.

The Loran Award is the Foundation's main focus. It is supported annually by hundreds of donors. Offered in full partnership with 25 Canadian universities, a Loran Award is valued at approximately \$100,000 over four years of undergraduate study: an annual stipend of \$10,000; a matching tuition waiver from the university; funding for summer internships in three different sectors; mentorship; participation in an extensive network of established and rising leaders; and orientation/graduation programs and coaching. The Foundation also issues one-time awards to national and provincial finalists who are not selected for a Loran Award.

In addition to the Loran Award, the Foundation administers other scholarship programs that are fully funded by specific companies.

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:

(a) Revenue recognition

The Foundation follows the deferral method of accounting for contributions, which include grants, bequests 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. 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.

LORAN SCHOLARS FOUNDATION/ FONDATION BOURSIERS LORAN

Notes to Financial Statements (continued)

April 30, 2016

1. Summary of significant accounting policies (continued)

(b) 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.

(c) Cash equivalents

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

(d) 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.

(e) Grants and awards

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

(f) 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).

(g) 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.

**LORAN SCHOLARS FOUNDATION/
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Notes to Financial Statements (continued)

April 30, 2016

2. Financial instrument risk management

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.

Changes in risk

There have been no changes in the Foundation's risk exposures from the prior year.

3. Investments and investment income

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

	Endowment	Other	2016	2015
	\$	\$	Total	Total
			\$	\$
Short-term				
Money market fund	-	2,235,128	2,235,128	2,400,830
Long-term				
Money market fund	-	342,576	342,576	165,965
Bond fund	-	687,029	687,029	670,485
Balanced pooled fund (b)	6,984,444	570,855	7,555,299	6,716,131
Total long-term	6,984,444	1,600,460	8,584,904	7,552,581
	6,984,444	3,835,588	10,820,032	9,953,411

**LORAN SCHOLARS FOUNDATION/
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Notes to Financial Statements (continued)

April 30, 2016

3. Investments and investment income (continued)

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:

	2016 \$	2015 \$
Cash	114,840	409,684
Fixed income	2,732,752	1,887,233
Canadian equities	2,357,253	1,672,317
U.S. equities	1,228,492	1,470,833
International equities	1,121,962	1,276,064
	<u>7,555,299</u>	<u>6,716,131</u>

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

	2016 \$	2015 \$
Unrealized gain (loss) on investments	(179,301)	293,428
Interest, dividends and income distributions from pooled funds	358,722	378,387
Realized gain on disposal of investments	6,454	9,410
	<u>185,875</u>	<u>681,225</u>
Preservation of capital recorded in the statement of changes in net assets (note 5)	<u>-</u>	<u>(233,389)</u>
	<u>185,875</u>	<u>447,836</u>

(d) Included in cash and cash equivalents are guaranteed investment certificates of \$525,000 (2015 - \$225,000) of which \$25,000 is used to secure the Foundation's corporate credit card.

**LORAN SCHOLARS FOUNDATION/
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Notes to Financial Statements (continued)

April 30, 2016

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:

	2016 \$	2015 \$
Deferred contributions, beginning of year	3,001,601	2,655,042
Externally restricted contributions received	2,260,295	1,551,653
Externally restricted contributions recognized as revenue	<u>(1,744,404)</u>	<u>(1,205,094)</u>
Deferred contributions, end of year	3,517,492	3,001,601
Less: current deferred contributions	<u>1,917,032</u>	<u>1,708,900</u>
Long-term deferred contributions	<u>1,600,460</u>	<u>1,292,701</u>

Current deferred contributions represent amounts to be recognized as revenue in fiscal 2017. Long-term deferred contributions represent amounts to be recognized as revenue in fiscal 2018 through 2020.

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 to 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 2016, investment income of \$83,078 was earned on endowment net assets. Investment income on externally restricted endowment net assets was \$43,138. This amount is recorded as investment income in the statement of operations. During the year, \$113,764 was made available for spending. The shortfall between investment income earned and the amount made available for spending of \$70,626 is recorded as a transfer from externally restricted endowment net assets to unrestricted net assets. Investment income on internally restricted endowment net assets of \$39,940 was recorded as investment income and transferred from unrestricted net assets to internally restricted endowment net assets.

**LORAN SCHOLARS FOUNDATION/
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Notes to Financial Statements (continued)

April 30, 2016

5. Endowment net assets (continued)

In fiscal 2015, investment income of \$525,009 was earned on endowment net assets. Investment income on externally restricted endowment net assets was \$336,949. Of this amount, \$103,560 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 and was credited directly to externally restricted endowments as preservation of capital. Investment income on internally restricted endowment net assets was \$188,060. 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 of internally restricted endowment net assets

The Foundation transferred \$700,000 (2015 - \$1,170,000) to its internally restricted endowment net assets to support Loran awards over the long term.

7. Allocation of expenses

Total general and administration costs of \$144,144 (2015 - \$197,672) were allocated to the various programs as follows:

	2016		
	Loran Scholar Program	Other Scholarship Programs	Total
	\$	\$	\$
Summer	28,829	-	28,829
Mentorship and stewardship	28,829	-	28,829
Gatherings (retreat, conferences, etc.)	38,438	-	38,438
Selections	48,048	-	48,048
	<u>144,144</u>	<u>-</u>	<u>144,144</u>
			2015
	Loran Scholar Program	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	45,145	18,671	63,816
	<u>135,435</u>	<u>62,237</u>	<u>197,672</u>

LORAN SCHOLARS FOUNDATION/ FONDATION BOURSIERS LORAN

Notes to Financial Statements (continued)

April 30, 2016

8. Commitments

During the year, thirty one Loran Scholars were selected. Each Loran Scholar is awarded a cash grant of \$10,000 for his or her first year of university.

The Loran 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 also offers one time grants for the Loran Finalist Awards of \$3,000 and the Loran Provincial Awards of \$2,000 each. During the year, 44 and 40 recipients were selected for these awards respectively, to be paid in fiscal 2017.

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 \$	Finalist and Provincial Awards \$	Leases \$	Total \$
2017	1,194,500	212,000	80,280	1,486,780
2018	910,000	-	-	910,000
2019	610,000	-	-	610,000
2020	310,000	-	-	310,000
	<u>3,024,500</u>	<u>212,000</u>	<u>80,280</u>	<u>3,316,780</u>