

*Financial Statements of*

**MENNONITE FOUNDATION OF CANADA**

*December 31, 2014*

## INDEPENDENT AUDITOR'S REPORT

To the Members,  
Mennonite Foundation of Canada

We have audited the accompanying financial statements of Mennonite Foundation of Canada, which comprise the statement of financial position as at December 31, 2014 and the statement of operations and unrestricted net assets, statement of changes in net assets, and statement of cash flows for the year then ended, and the notes to the financial statements.

### *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 in our audit 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 Mennonite Foundation of Canada as at December 31, 2014 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.



Chartered Accountants

Winnipeg, Manitoba  
April 17, 2015

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**MENNONITE FOUNDATION OF CANADA**  
**Statement of Financial Position**  
December 31, 2014

	2014	2013
<b>ASSETS</b>		
CASH	\$ 5,915,533	\$ 4,396,374
INVESTMENT INCOME RECEIVABLE	767,047	727,119
INVESTMENTS		
Loans receivable	40,009,239	36,358,332
Money market funds	523	2,091,371
Shares and equity mutual fund units	13,049,317	13,173,668
Bonds and fixed income mutual fund units	109,698,251	104,524,252
OTHER ASSETS (Note 3)	88,245	94,943
CASH SURRENDER VALUE OF LIFE INSURANCE (Note 4)	1,388,781	1,300,265
CAPITAL ASSETS (Note 5)	844,448	584,317
	<b>\$ 171,761,384</b>	<b>\$ 163,250,641</b>
<b>LIABILITIES</b>		
ACCOUNTS PAYABLE (Note 6)	\$ 170,222	\$ 150,300
FUND EARNINGS PAYABLE	1,437,120	2,103,056
	<b>1,607,342</b>	<b>2,253,356</b>
COMMITMENTS (Note 11)		
<b>CAPITAL HELD FOR INVESTMENTS</b>		
MANAGED TRUST FUNDS	87,950,643	90,365,419
NET ASSETS		
Endowment funds (Note 7)	32,488,645	30,855,577
Other trust funds (Note 8)	40,525,491	33,901,902
Invested in capital assets (Note 5)	844,448	584,317
Internally restricted funds (Note 9)	5,018,671	8,225,338
Unrestricted	3,326,144	(2,935,268)
	<b>82,203,399</b>	<b>70,631,866</b>
	<b>170,154,042</b>	<b>160,997,285</b>
	<b>\$ 171,761,384</b>	<b>\$ 163,250,641</b>

APPROVED BY THE BOARD

  
..... Director

  
..... Director

**MENNONITE FOUNDATION OF CANADA**  
**Statement of Operations and Unrestricted Net Assets**  
Year ended December 31, 2014

	<u>2014</u>	<u>2013</u>
<b>INCOME</b>		
Investment and dividend income	<b>\$ 4,567,097</b>	\$ 4,603,561
Interest earned on loans	<b>1,405,238</b>	1,244,285
Gains allocated to trust fund agreements	<b>1,021,865</b>	1,190,511
Gains (losses) allocated to Mennonite Foundation of Canada operations	<b>3,650,347</b>	(2,749,753)
	<b>10,644,547</b>	4,288,604
Other income	<b>317,081</b>	317,438
	<b>10,961,628</b>	4,606,042
<b>EXPENSES</b>		
Earnings paid and payable on trust and endowment fund accounts	<b>4,507,054</b>	4,684,885
Administration and other expenses (Schedule 1)	<b>3,139,698</b>	2,867,693
	<b>7,646,752</b>	7,552,578
<b>OPERATING SURPLUS (DEFICIT) FOR THE YEAR</b>	<b>3,314,876</b>	(2,946,536)
Add: Amortization expense borne by net assets invested in capital assets	<b>178,158</b>	119,419
Less: Amounts transferred to other funds	<b>(178,158)</b>	(119,419)
<b>NET INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS FOR THE YEAR</b>	<b>3,314,876</b>	(2,946,536)
<b>UNRESTRICTED NET ASSETS, BEGINNING OF YEAR</b>	<b>(2,935,268)</b>	(628,359)
<b>TRANSFERS FROM INTERNALLY RESTRICTED FUNDS</b>	<b>2,946,536</b>	639,627
<b>UNRESTRICTED NET ASSETS, END OF YEAR</b>	<b>\$ 3,326,144</b>	\$ (2,935,268)

**MENNONITE FOUNDATION OF CANADA**  
**Statement of Changes in Net Assets**  
**Years ended December 31, 2014**

	2014						2013
	Internally Restricted Funds	Endowment Funds	Invested in Capital Assets	Other Trust Funds	Unrestricted	Total	Total
BALANCE, BEGINNING OF YEAR	\$ 8,225,338	\$ 30,855,577	\$ 584,317	\$ 33,901,902	\$ (2,935,268)	\$ 70,631,866	\$ 69,982,965
OTHER FUND TRANSACTIONS FOR THE YEAR							
Investment income (loss) including capitalized earnings	-	538,628	-	1,518,489	-	2,057,117	1,463,896
New gifts from donors	-	722,414	-	20,247,167	-	20,969,581	15,161,865
New gifts transferred from managed and other trust funds	-	449,880	-	(279,104)	-	170,776	832,828
Disbursements to charities	-	(27,599)	-	(14,951,479)	-	(14,979,078)	(13,901,241)
Increase in cash surrender value	-	-	-	88,516	-	88,516	81,853
Other transfers/payments	(2,946,536)	(50,255)	-	-	2,946,536	(50,255)	(43,764)
NET INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS FOR THE YEAR	-	-	-	-	3,314,876	3,314,876	(2,946,536)
TRANSFERS BETWEEN FUNDS							
Acquisitions of capital assets	(438,289)	-	438,289	-	-	-	-
Amortization expense for the year	-	-	(178,158)	-	178,158	-	-
Appropriations to/from Unrestricted Fund	178,158	-	-	-	(178,158)	-	-
<b>BALANCE, END OF YEAR</b>	<b>\$ 5,018,671</b>	<b>\$ 32,488,645</b>	<b>\$ 844,448</b>	<b>\$ 40,525,491</b>	<b>\$ 3,326,144</b>	<b>\$ 82,203,399</b>	<b>\$ 70,631,866</b>

**MENNONITE FOUNDATION OF CANADA****Statement of Cash Flows**

Years Ended December 31, 2014

	<u>2014</u>	<u>2013</u>
<b>OPERATING ACTIVITIES</b>		
Net increase (decrease) in unrestricted net assets for the year	<b>\$ 3,314,876</b>	\$ (2,946,536)
Items not affecting cash		
Amortization	<b>178,158</b>	119,419
	<b>3,493,034</b>	(2,827,117)
Changes in non-cash operating working capital items		
Investment income receivable	<b>(39,928)</b>	(36,949)
Accounts payable	<b>19,922</b>	(12,012)
Fund earnings payable	<b>(665,936)</b>	519,498
Other assets	<b>6,698</b>	(30,235)
	<b>2,813,790</b>	(2,386,815)
<b>INVESTMENT ACTIVITIES</b>		
(Increase) decrease in managed trust funds	<b>(2,414,776)</b>	6,617,262
New deposits to endowment fund and other trust funds	<b>21,090,102</b>	15,950,929
Capitalized earnings on funds	<b>1,703,485</b>	1,883,303
Disbursements paid to charities	<b>(14,979,078)</b>	(13,901,241)
	<b>5,399,733</b>	10,550,253
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	<b>(438,289)</b>	(183,297)
Increase in loans receivable	<b>(3,650,907)</b>	(2,955,475)
Decrease (increase) in money market funds, shares and equity mutual fund units	<b>2,568,831</b>	(2,514,434)
Increase (decrease) in bonds and fixed income mutual fund units	<b>(5,173,999)</b>	36,269
	<b>(6,694,364)</b>	(5,616,937)
<b>NET INCREASE IN CASH POSITION</b>	<b>1,519,159</b>	2,546,501
<b>CASH, BEGINNING OF YEAR</b>	<b>4,396,374</b>	1,849,873
<b>CASH, END OF YEAR</b>	<b>\$ 5,915,533</b>	\$ 4,396,374

# **MENNONITE FOUNDATION OF CANADA**

## **Notes to the Financial Statements**

**December 31, 2014**

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### **1. ORGANIZATION**

Mennonite Foundation of Canada was established by the Sustaining Church Conferences in 1973 as a non-profit service agency to accumulate, manage and distribute financial resources exclusively for charitable purposes. The Foundation is a registered charity and is classified as a public foundation for purposes of the Income Tax Act (Canada).

The Foundation manages investments and administers various types of funds as follows:

- **Managed Trust Funds** – Depositors may withdraw the principal amount at any time, with due notice. Investment earnings on these funds are paid to charities or depositors, at the discretion of the settlor of the fund.
- **Other Trust Funds** – Depositors gift the principal amount to the Foundation. The earnings and principal are available for distribution to charities as advised by the donor.
- **Endowment Funds** – These funds are established from gifts by donors which are designated to remain under the Foundation's management for at least ten years. Thereafter, the principal may be distributed to charity. Earnings on these funds are paid to charity or capitalized in accordance with the donors' wishes.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

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

*a) Internally restricted funds*

The Foundation maintains several internally restricted funds, established by the Board of Directors, to provide for future anticipated costs related to regional development, stewardship resource development, legacy, bequest administration and planned giving initiatives.

*b) Income and expense recognition*

The Foundation uses the deferral method of accounting for contributions. Under this method endowment and other trust fund contributions are added directly to the Foundation's net assets. Expenses are recorded on the accrual basis of accounting. Investment earnings are recorded in the Statement of Operations as revenue of the unrestricted net assets. Fund earnings obligations, as set out in trust and endowment agreements between the Foundation and the settlor or benefactor, are recognized in accordance with the terms of the agreements.



**MENNONITE FOUNDATION OF CANADA**  
**Notes to the Financial Statements**  
**December 31, 2014**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*c) Capital assets*

The Foundation records its capital assets, consisting of furniture and fixtures, leasehold improvements, computers and office equipment, and computer software, at their historical cost. Amortization on all capital assets except leasehold improvements are provided for at rates ranging between 10% and 33%, calculated on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the life of the lease.

*d) Financial instruments*

The Foundation initially measures its financial assets and financial liabilities at fair value. The Foundation subsequently measures all its financial assets and financial liabilities at amortized cost, except for fixed income investments, money market funds, and mutual funds and shares traded in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of operations and unrestricted net assets.

Financial assets measured at amortized cost include cash, investment income receivable, loans receivable, and other assets.

Financial liabilities measured at amortized cost include accounts payable and fund earnings payable.

*e) Bequests and other donations*

Bequests and other donations are recorded when received.

*f) Grant commitments*

Grant commitments are recorded in the year grants are disbursed.

*g) Cash surrender value of life insurance*

The Foundation is owner and beneficiary of donated life insurance policies where annual premiums are paid by benefactors of the Foundation. These entitlements are recorded as assets at an amount equal to the cash surrender value of such life insurance policies.

**MENNONITE FOUNDATION OF CANADA**  
**Notes to the Financial Statements**  
**December 31, 2014**

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**3. OTHER ASSETS**

	<u>2014</u>	<u>2013</u>
Prepaid expenses	\$ 22,727	\$ 26,339
GST/HST receivables	55,558	57,544
Other receivables	9,960	11,060
	<u>\$ 88,245</u>	<u>\$ 94,943</u>

**4. CASH SURRENDER VALUE OF LIFE INSURANCE**

The Foundation is the owner and capital beneficiary of donated life insurance policies with face values of \$14,111,049 (2013 - \$14,466,049). The cash surrender value of these policies at December 31, 2014 is \$1,388,781 (2013 - \$1,300,265).

**5. CAPITAL ASSETS**

	<u>2014</u>			<u>2013</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Furniture and fixtures	\$ 147,284	\$ 75,896	\$ 71,388	\$ 64,096
Leasehold improvements	197,283	180,603	16,680	12,838
Computers and office equipment	183,546	124,755	58,791	32,521
Computer software	1,130,128	432,539	697,589	474,862
	<u>\$ 1,658,241</u>	<u>\$ 813,793</u>	<u>\$ 844,448</u>	<u>\$ 584,317</u>

**6. ACCOUNTS PAYABLE**

Included in accounts payable at December 31, 2014 are government remittances payable of \$15,095 (2013 - \$nil) for source deduction remittances owing.

**7. ENDOWMENT FUNDS**

The endowment funds of the Foundation are comprised of the following:

	<u>2014</u>	<u>2013</u>
Capital endowment funds	\$ 30,070,912	\$ 28,578,240
Friends and founders endowment fund	1,141,446	1,023,046
Generosity endowment fund	1,276,287	1,254,291
	<u>\$ 32,488,645</u>	<u>\$ 30,855,577</u>

**MENNONITE FOUNDATION OF CANADA**  
**Notes to the Financial Statements**  
December 31, 2014

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**8. OTHER TRUST FUNDS**

The other trust funds are comprised of the following:

	<u>2014</u>	<u>2013</u>
Irrevocable trust funds	\$ 181,516	\$ 181,372
Life interest funds	210,373	210,298
Gift annuity funds	9,578	11,001
Gifting funds	32,173,822	27,298,080
Bequest funds	6,561,421	4,900,886
Cash surrender value of life insurance policies	1,388,781	1,300,265
	<u>\$ 40,525,491</u>	<u>\$ 33,901,902</u>

**9. INTERNALLY RESTRICTED FUNDS**

Internally restricted funds are restricted for use in operations or various programs based on the priorities identified by the Board of Directors of the Foundation and are comprised of the following:

	<u>2014</u>	<u>2013</u>
Bequest administration fee fund	\$ 11,270	\$ 22,542
General reserve fund	5,007,401	8,202,796
	<u>\$ 5,018,671</u>	<u>\$ 8,225,338</u>

**10. FINANCIAL INSTRUMENTS**

a) *Interest rate risk*

Interest rate risk refers to the adverse consequences of interest rate changes in the Foundation's cash flows, financial position, and income. This risk arises from differences in the timing and amount of cash flows related to the Foundation's assets.

The value of the Foundation's assets is affected by changes in nominal interest rates and equity markets.

**MENNONITE FOUNDATION OF CANADA**  
**Notes to the Financial Statements**  
**December 31, 2014**

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**10. FINANCIAL INSTRUMENTS (continued)**

a) *Interest rate risk (continued)*

The term to maturity and related book values of cash and investments in short term investments, loans receivable and bonds and debentures, excluding shares and equity mutual funds, held by the Foundation at December 31, 2014 are as follows:

Rate on Face Value	Term			Total
	0-5 years	6-10 years	+ 10 years	
0.00-5.99%	\$153,165,879	\$ -	\$ 963,006	\$ 154,128,885

The Foundation holds units in a bond mutual fund as well as a mortgage fund which have an aggregate fair values as at December 31, 2014 of \$114,119,646 (2013 – \$112,721,851). Based on the current expected yield of the funds, these are included in the 0-5 year term, 0.00-5.99% rate balance above.

Earnings paid on managed trust, endowment funds and other trust funds are set at the Foundation's pooled rate, less a fixed percentage for administration fees.

b) *Credit risk*

Credit risk arises when a counterparty does not fully honor its financial or contractual obligations. The Foundation has established credit and investment policies to mitigate this risk.

Credit risk is increased where a significant portion of the portfolio is invested in securities which have similar characteristics or which are expected to follow similar variations relating to economic or political conditions. The risk of excess concentration is mitigated by an investment policy established by the Board of Directors, which sets out various investment thresholds.

**11. COMMITMENTS**

The Foundation has commitments for leased premises to October 27, 2018 comprised of base rents plus a proportionate share of operating costs. The base rent commitments to lease expiry are \$258,579 with payment obligations over the next four years as follows:

2015	\$ 95,027
2016	66,171
2017	55,646
2018	41,735

**MENNONITE FOUNDATION OF CANADA**  
**Notes to the Financial Statements**  
**December 31, 2014**

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**12. CAPITAL MANAGEMENT**

The Foundation manages its capital held for investments according to the terms and restrictions of the donors and depositors who have placed funds with the Foundation. The Foundation's own capital, comprised of net assets invested in capital assets, internally restricted funds and unrestricted net assets, has accumulated from the excess of revenues over expenditures over the life of the Foundation. The Foundation's Board annually approves the Foundation's operating plan which provides for a financial result that is modestly better than break-even, ignoring the impact of unrealized gains on investments accruing to the Foundation's benefit. Capital management objectives, policies and procedures are unchanged since the preceding year.

**MENNONITE FOUNDATION OF CANADA**  
**Schedule of Administration and Other Expenses**  
**Year Ended December 31, 2014**

	<u>2014</u>	<u>2013</u>
<b>EXPENSES</b>		
Salaries and benefits	\$ 1,588,399	\$ 1,434,369
Travel	278,805	252,673
Amortization	178,158	119,419
Rent and common area costs	155,977	114,093
Office	69,598	78,022
Advertising and promotion	189,870	223,986
Professional fees	69,819	79,938
Telephone	42,304	36,690
Staff development, memberships and subscriptions	54,525	61,492
Insurance	11,206	11,219
Interest, bank charges, and investment management fees	410,681	395,041
Computer	44,445	41,540
Wills - legal fee subsidy	45,911	19,211
	<b>\$ 3,139,698</b>	<b>\$ 2,867,693</b>