

Financial Statements of

MENNONITE FOUNDATION OF CANADA

December 31, 2015

INDEPENDENT AUDITOR'S REPORT

To the Members of the
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, 2015 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, 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.



Chartered Accountants

Winnipeg, Manitoba
April 22, 2016

TABLE OF CONTENTS

	<u>Page</u>
Statement of Financial Position	1
Statement of Operations and Unrestricted Net Assets	2
Statement of Changes in Net Assets	3
Statement of Cash Flows	4
Notes to the Financial Statements	5 – 10
Schedule of Administration and Other Expenses	11

MENNONITE FOUNDATION OF CANADA

Statement of Financial Position

December 31, 2015

	<u>2015</u>	<u>2014</u>
ASSETS		
CASH	\$ 8,432,443	\$ 5,915,533
INVESTMENT INCOME RECEIVABLE	718,979	767,047
INVESTMENTS		
Loans receivable	39,222,232	40,009,239
Money market funds	7,594,974	523
Shares and equity mutual fund units	14,138,772	13,049,317
Bonds and fixed income mutual fund units	107,441,608	109,698,251
OTHER ASSETS (Note 3)	83,674	88,245
CASH SURRENDER VALUE OF LIFE INSURANCE (Note 4)	1,407,940	1,388,781
CAPITAL ASSETS (Note 5)	1,084,284	844,448
	\$ 180,124,906	\$ 171,761,384
LIABILITIES		
ACCOUNTS PAYABLE (Note 6)	\$ 196,974	\$ 170,222
FUND EARNINGS PAYABLE	1,203,481	1,437,120
	1,400,455	1,607,342
COMMITMENTS (Note 11)		
CAPITAL HELD FOR INVESTMENTS		
MANAGED TRUST FUNDS	91,921,695	87,950,643
NET ASSETS		
Endowment funds (Note 7)	33,682,894	32,488,645
Other trust funds (Note 8)	44,432,928	40,525,491
Invested in capital assets (Note 5)	1,084,284	844,448
Internally restricted funds (Note 9)	8,093,712	5,018,671
Unrestricted	(491,062)	3,326,144
	86,802,756	82,203,399
	178,724,451	170,154,042
	\$ 180,124,906	\$ 171,761,384

APPROVED BY THE BOARD

 Director

 Director

MENNONITE FOUNDATION OF CANADA
Statement of Operations and Unrestricted Net Assets
Year ended December 31, 2015

	<u>2015</u>	<u>2014</u>
INCOME		
Investment and dividend income	\$ 4,246,175	\$ 4,567,097
Interest earned on loans	1,478,372	1,405,238
Gains allocated to trust fund agreements	279,591	1,021,865
Gains allocated to Mennonite Foundation of Canada operations	51,052	3,650,347
	6,055,190	10,644,547
Other income	337,937	317,081
	6,393,127	10,961,628
EXPENSES		
Earnings paid and payable on trust and endowment fund accounts	3,487,679	4,507,054
Administration and other expenses (Schedule)	3,407,777	3,139,698
	6,895,456	7,646,752
OPERATING (DEFICIT) SURPLUS FOR THE YEAR	(502,329)	3,314,876
Add: Amortization expense borne by net assets invested in capital assets	236,480	178,158
Less: Amounts transferred to other funds	(236,480)	(178,158)
NET (DECREASE) INCREASE IN UNRESTRICTED NET ASSETS FOR THE YEAR	(502,329)	3,314,876
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	3,326,144	(2,935,268)
TRANSFERS FROM INTERNALLY RESTRICTED FUNDS	(3,314,877)	2,946,536
UNRESTRICTED NET ASSETS, END OF YEAR	\$ (491,062)	\$ 3,326,144

MENNONITE FOUNDATION OF CANADA
Statement of Changes in Net Assets
Year ended December 31, 2015

	2015						2014
	Internally Restricted Funds	Endowment Funds	Invested in Capital Assets	Other Trust Funds	Unrestricted	Total	Total
BALANCE, BEGINNING OF YEAR	\$ 5,018,671	\$ 32,488,645	\$ 844,448	\$ 40,525,491	\$ 3,326,144	\$ 82,203,399	\$ 70,631,866
OTHER FUND TRANSACTIONS FOR THE YEAR							
Investment income including capitalized earnings	-	374,055	-	1,410,113	-	1,784,168	2,057,117
New gifts from donors	-	658,909	-	19,396,211	-	20,055,120	20,969,581
New gifts transferred from managed and other trust funds	-	225,587	-	(103,611)	-	121,976	170,776
Disbursements to charities	-	(64,302)	-	(16,814,435)	-	(16,878,737)	(14,979,078)
Increase in cash surrender value	-	-	-	19,159	-	19,159	88,516
Other transfers/payments	3,314,877	-	-	-	(3,314,877)	-	(50,255)
NET (DECREASE) INCREASE IN UNRESTRICTED NET ASSETS FOR THE YEAR	-	-	-	-	(502,329)	(502,329)	3,314,876
TRANSFERS BETWEEN FUNDS							
Acquisitions of capital assets	(476,316)	-	476,316	-	-	-	-
Amortization expense for the year	-	-	(236,480)	-	236,480	-	-
Appropriations to/from Unrestricted Fund	236,480	-	-	-	(236,480)	-	-
BALANCE, END OF YEAR	\$ 8,093,712	\$ 33,682,894	\$ 1,084,284	\$ 44,432,928	\$ (491,062)	\$ 86,802,756	\$ 82,203,399

MENNONITE FOUNDATION OF CANADA

Statement of Cash Flows

Years Ended December 31, 2015

	2015	2014
OPERATING ACTIVITIES		
Net (decrease) increase in unrestricted net assets for the year	\$ (502,329)	\$ 3,314,876
Items not affecting cash		
Amortization	236,480	178,158
	(265,849)	3,493,034
Changes in non-cash operating working capital items		
Investment income receivable	48,068	(39,928)
Accounts payable	26,752	19,922
Fund earnings payable	(233,639)	(665,936)
Other assets	4,571	6,698
	(420,097)	2,813,790
INVESTMENT ACTIVITIES		
Increase (decrease) in managed trust funds	3,971,052	(2,414,776)
New deposits to endowment fund and other trust funds	20,177,096	21,090,102
Capitalized earnings on funds	1,784,168	1,703,485
Disbursements paid to charities	(16,878,737)	(14,979,078)
	9,053,579	5,399,733
INVESTING ACTIVITIES		
Acquisition of capital assets	(476,316)	(438,289)
Decrease (Increase) in loans receivable	787,007	(3,650,907)
(Increase) decrease in money market funds, shares and equity mutual fund units	(8,683,906)	2,568,831
Decrease (increase) in bonds and fixed income mutual fund units	2,256,643	(5,173,999)
	(6,116,572)	(6,694,364)
NET INCREASE IN CASH POSITION	2,516,910	1,519,159
CASH, BEGINNING OF YEAR	5,915,533	4,396,374
CASH, END OF YEAR	\$ 8,432,443	\$ 5,915,533

MENNONITE FOUNDATION OF CANADA

Notes to the Financial Statements

December 31, 2015

1. ORGANIZATION

Mennonite Foundation of Canada (the “Foundation”) 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 and unrestricted net assets 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, 2015

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, fund earnings payable and managed trust funds.

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, 2015

3. OTHER ASSETS

	<u>2015</u>	<u>2014</u>
Prepaid expenses	\$ 24,533	\$ 22,727
GST/HST receivable	49,685	55,558
Other receivables	9,456	9,960
	<u>\$ 83,674</u>	<u>\$ 88,245</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 \$14,051,967 (2014 - \$14,111,049). The cash surrender value of these policies at December 31, 2015 is \$1,407,940 (2014 - \$1,388,781).

5. CAPITAL ASSETS

	<u>2015</u>			<u>2014</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Furniture and fixtures	\$ 175,550	\$ 89,048	\$ 86,502	\$ 71,388
Leasehold improvements	262,127	154,397	107,730	16,680
Computers and office equipment	191,269	127,745	63,524	58,791
Computer software	1,293,986	467,458	826,528	697,589
	<u>\$ 1,922,932</u>	<u>\$ 838,648</u>	<u>\$ 1,084,284</u>	<u>\$ 844,448</u>

6. ACCOUNTS PAYABLE

Included in accounts payable at December 31, 2015 are government remittances payable of \$13,558 (2014 - \$15,095) for source deduction remittances owing.

7. ENDOWMENT FUNDS

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

	<u>2015</u>	<u>2014</u>
Capital endowment funds	\$ 31,228,043	\$ 30,070,912
Friends and founders endowment fund	1,225,302	1,141,446
Generosity endowment fund	1,229,549	1,276,287
	<u>\$ 33,682,894</u>	<u>\$ 33,488,645</u>

MENNONITE FOUNDATION OF CANADA
Notes to the Financial Statements
December 31, 2015

8. OTHER TRUST FUNDS

The other trust funds are comprised of the following:

	<u>2015</u>	<u>2014</u>
Irrevocable trust funds	\$ 181,626	\$ 181,516
Life interest funds	210,146	210,373
Gift annuity funds	8,258	9,578
Gifts and bequest funds	42,624,958	38,735,243
Cash surrender value of life insurance policies	1,407,940	1,388,781
	<u>\$ 44,432,928</u>	<u>\$ 40,525,491</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>2015</u>	<u>2014</u>
Bequest administration fee fund	\$ -	\$ 11,270
General reserve fund	8,093,712	5,007,401
	<u>\$ 8,093,712</u>	<u>\$ 5,018,671</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 are affected by nominal changes in interest rates and equity markets.

MENNONITE FOUNDATION OF CANADA
Notes to the Financial Statements
December 31, 2015

10. FINANCIAL INSTRUMENTS (continued)

a) *Interest rate risk (continued)*

The term to maturity and related book values of cash and investments in money market funds, loans receivable and bonds, excluding shares and equity mutual funds, held by the Foundation at December 31, 2015 are as follows:

Rate on Face Value	Term			Total
	0-5 years	6-10 years	+ 10 years	
0.00-5.99%	\$175,919,432	\$ -	\$ 910,598	\$ 176,830,030

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, 2015 of \$136,426,922 (2014 – \$114,119,646). 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 honour 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 September 30, 2020 comprised of base rents plus a proportionate share of operating costs. The base rent commitments to lease expiry are \$322,415 with payment obligations over the next five years as follows:

2016	\$102,840
2017	92,315
2018	75,355
2019	29,660
2020	22,245

MENNONITE FOUNDATION OF CANADA
Notes to the Financial Statements
December 31, 2015

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.

13. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's method of presentation.

MENNONITE FOUNDATION OF CANADA
Schedule of Administration and Other Expenses
Year Ended December 31, 2015

	<u>2015</u>	<u>2014</u>
Salaries and benefits	\$ 1,743,904	\$ 1,588,399
Interest, bank charges, and investment management fees	413,716	410,681
Travel	272,489	278,805
Amortization	236,480	178,158
Advertising and promotion	228,182	189,870
Rent and common area costs	149,542	155,977
Office	76,255	69,598
Computer	58,252	44,445
Telephone	55,753	42,304
Wills - legal fee subsidy	54,306	45,911
Professional fees	53,980	69,819
Staff development, memberships and subscriptions	53,366	54,525
Insurance	11,552	11,206
	\$ 3,407,777	\$ 3,139,698