

Financial Statements of

MENNONITE FOUNDATION OF CANADA

December 31, 2013

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 statements of financial position as at December 31, 2013 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, 2013 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
May 2, 2014

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MENNONITE FOUNDATION OF CANADA**Statement of Financial Position**

December 31, 2013

	<u>2013</u>	<u>2012</u>
ASSETS		
CASH	\$ 4,396,374	\$ 1,849,873
INVESTMENT INCOME RECEIVABLE	727,119	690,170
INVESTMENTS (Note 3)		
Loans receivable	36,358,332	33,402,857
Money market funds	2,091,371	15,449
Shares and equity mutual fund units	13,173,668	13,154,564
Bonds and fixed income mutual fund units	104,524,252	104,560,521
OTHER ASSETS (Note 4)	94,943	64,708
CASH SURRENDER VALUE OF LIFE INSURANCE (Note 5)	1,300,265	1,218,411
CAPITAL ASSETS (Note 6)	584,317	520,439
	<u>\$ 163,250,641</u>	<u>\$ 155,476,992</u>
LIABILITIES		
ACCOUNTS PAYABLE (Note 7)	\$ 150,300	\$ 162,312
FUND EARNINGS PAYABLE	2,103,056	1,583,558
	<u>2,253,356</u>	<u>1,745,870</u>
CAPITAL HELD FOR INVESTMENTS		
MANAGED TRUST FUNDS	90,365,419	83,748,157
NET ASSETS		
Endowment funds (Note 8)	30,855,577	29,482,523
Other trust funds (Note 9)	33,901,902	31,679,519
Invested in capital assets (Note 6)	584,317	520,439
Internally restricted funds (Note 10)	8,225,338	8,928,843
Unrestricted	(2,935,268)	(628,359)
	<u>70,631,866</u>	<u>69,982,965</u>
	<u>160,997,285</u>	<u>153,731,122</u>
	<u>\$ 163,250,641</u>	<u>\$ 155,476,992</u>

APPROVED BY THE BOARD

 Director

 Director

MENNONITE FOUNDATION OF CANADA
Statement of Operations and Unrestricted Net Assets
Year ended December 31, 2013

	<u>2013</u>	<u>2012</u>
INCOME		
Investment and dividend income	\$ 4,603,561	\$ 4,638,168
Interest earned on loans	1,244,285	1,350,563
Gains (losses) allocated to trust fund agreements	1,190,511	(3,412,861)
(Losses) gains allocated to Mennonite Foundation of Canada operations	(2,749,753)	3,014,806
	4,288,604	5,590,676
Other income	317,438	171,511
	4,606,042	5,762,187
EXPENSES		
Earnings paid and payable on trust and endowment fund accounts	4,684,885	3,882,773
Administration and other expenses (Schedule 1)	2,867,693	2,519,041
	7,552,578	6,401,814
OPERATING DEFICIT FOR THE YEAR	(2,946,536)	(639,627)
Add: Amortization expense borne by net assets invested in capital assets	119,419	108,038
Less: Amounts transferred to other funds	(119,419)	(108,038)
DECREASE IN UNRESTRICTED NET ASSETS FOR THE YEAR	(2,946,536)	(639,627)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	(628,359)	3,275,944
TRANSFERS FROM (TO) INTERNALLY RESTRICTED FUNDS	639,627	(3,264,676)
UNRESTRICTED NET ASSETS, END OF YEAR	\$ (2,935,268)	\$ (628,359)

MENNONITE FOUNDATION OF CANADA
Statement of Changes in Net Assets
Years ended December 31, 2013

	2013						2012
	Internally Restricted Funds	Endowment Funds	Invested in Capital Assets	Other Trust Funds	Unrestricted	Total	Total
BALANCE, BEGINNING OF YEAR	\$ 8,928,843	\$ 29,482,523	\$ 520,439	\$ 31,679,519	\$ (628,359)	\$ 69,982,965	\$ 68,388,943
OTHER FUND TRANSACTIONS FOR THE YEAR							
Investment income (loss) including capitalized earnings	-	(118,084)	-	1,581,980	-	1,463,896	1,048,540
New gifts from donors	-	480,281	-	14,681,584	-	15,161,865	14,035,898
New gifts transferred from managed and other trust funds	-	1,271,092	-	(438,264)	-	832,828	273,413
Disbursements to charity	-	(216,471)	-	(13,684,770)	-	(13,901,241)	(13,188,394)
Increase in cash surrender value	-	-	-	81,853	-	81,853	110,256
Other transfers/payments	(639,627)	(43,764)	-	-	639,627	(43,764)	(46,064)
NET DEFICIT FOR THE YEAR	-	-	-	-	(2,946,536)	(2,946,536)	(639,627)
TRANSFERS BETWEEN FUNDS							
Acquisitions of capital assets	(183,297)	-	183,297	-	-	-	-
Amortization charge for the year	-	-	(119,419)	-	119,419	-	-
Appropriations to/from Unrestricted Fund	119,419	-	-	-	(119,419)	-	-
BALANCE, END OF YEAR	\$ 8,225,338	\$ 30,855,577	\$ 584,317	\$ 33,901,902	\$ (2,935,268)	\$ 70,631,866	\$ 69,982,965

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

Years Ended December 31, 2013

	<u>2013</u>	<u>2012</u>
OPERATING ACTIVITIES		
Net deficit for the year	\$ (2,946,536)	\$ (639,627)
Items not affecting cash		
Amortization	119,419	108,038
	<u>(2,827,117)</u>	<u>(531,589)</u>
Changes in non-cash operating working capital items		
Investment income receivable	(36,949)	200,513
Accounts payable	(12,012)	24,623
Fund earnings payable	519,498	701,104
Other assets	(30,235)	(562)
	<u>(2,386,815)</u>	<u>394,089</u>
INVESTMENT CAPITAL TRANSACTIONS		
Increase in managed trust funds	6,617,262	13,147,113
New deposits to endowment fund and other trust funds	15,950,929	14,263,248
Capitalized earnings on funds	1,883,303	1,537,507
Disbursements paid to charities	(13,901,241)	(13,188,394)
	<u>10,550,253</u>	<u>15,759,474</u>
INVESTING ACTIVITIES		
Acquisition of capital assets	(183,297)	(136,232)
Increase in loans receivable	(2,955,475)	(774,949)
(Increase) decrease in money market funds, shares and equity mutual fund units	(2,514,434)	3,207,193
Decrease (increase) in bonds and fixed income mutual fund units	36,269	(18,011,624)
	<u>(5,616,937)</u>	<u>(15,715,612)</u>
NET INCREASE IN CASH POSITION	2,546,501	437,951
CASH, BEGINNING OF YEAR	1,849,873	1,411,922
CASH, END OF YEAR	\$ 4,396,374	\$ 1,849,873

MENNONITE FOUNDATION OF CANADA

Notes to the Financial Statements

December 31, 2013

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, 2013

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 is 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, and loans receivable.

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, 2013

3. INVESTMENTS

In the current year, the Foundation sold 94% of its shares of Q-Trade for total proceeds of \$1,316,413 resulting in a realized gain of \$902,502 for the year ended December 31, 2013. At December 31, 2013 the Foundation held an additional 12,497 common shares of Qtrade Canada Inc., valued at \$7.00 per share, resulting in a carrying value of \$87,749. It is the intention of the Foundation to tender the remaining balance in 2014.

4. OTHER ASSETS

	<u>2013</u>	<u>2012</u>
Prepaid expenses	\$ 26,339	\$ 13,822
GST/HST receivables	57,544	39,671
Other receivables	11,060	11,215
	<u>\$ 94,943</u>	<u>\$ 64,708</u>

5. CASH SURRENDER VALUE OF LIFE INSURANCE

The Foundation is the owner and capital beneficiary of donated life insurance policies with face values of \$14,466,049 (2012 - \$14,366,049). The cash surrender value of these policies at December 31, 2013 is \$1,300,265 (2012 - \$1,218,411).

6. CAPITAL ASSETS

	<u>2013</u>			<u>2012</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Furniture & fixtures	\$ 129,762	\$ 65,666	\$ 64,096	\$ 19,748
Leasehold improvements	172,263	159,425	12,838	25,676
Computers & office equipment	149,676	117,155	32,521	20,353
Computer software	803,836	328,974	474,862	454,662
	<u>\$ 1,255,537</u>	<u>\$ 671,220</u>	<u>\$ 584,317</u>	<u>\$ 520,439</u>

7. GOVERNMENT REMITTANCES PAYABLE

Included in accounts payable at December 31, 2013 is \$nil (2012- \$10,352) of payroll remittances owing.

MENNONITE FOUNDATION OF CANADA
Notes to the Financial Statements
December 31, 2013

8. ENDOWMENT FUNDS

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

	<u>2013</u>	<u>2012</u>
Capital endowment funds	\$ 28,578,240	\$ 27,472,142
Friends and founders endowment fund	1,023,046	846,499
Grant endowment fund	1,254,291	1,163,882
	<u>\$ 30,855,577</u>	<u>\$ 29,482,523</u>

9. OTHER TRUST FUNDS

The other trust funds are comprised of the following:

	<u>2013</u>	<u>2012</u>
Irrevocable trust funds	\$ 181,372	\$ 181,209
Life interest funds	210,298	210,347
Gift annuity funds	11,001	12,330
Gifting funds	27,298,080	24,701,515
Bequest funds	4,900,886	5,355,707
Cash surrender value of life insurance policies	1,300,265	1,218,411
	<u>\$ 33,901,902</u>	<u>\$ 31,679,519</u>

10. 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>2013</u>	<u>2012</u>
Bequest administration fee fund	\$ 22,542	\$ 33,812
General reserve fund	8,202,796	8,895,031
	<u>\$ 8,225,338</u>	<u>\$ 8,928,843</u>

MENNONITE FOUNDATION OF CANADA
Notes to the Financial Statements
December 31, 2013

11. 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.

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, 2013 are as follows:

Rate on Face Value	Term			Total
	0-5 years	6-10 years	+ 10 years	
0.00-5.99%	\$144,116,284	\$ -	\$ 1,012,645	\$ 145,128,929
6.00-8.99%	3,951,254	-	-	3,951,254
	\$148,067,538	\$ -	\$ 1,012,645	\$ 149,080,183

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, 2013 of \$112,721,851 (2012 – \$89,043,678). 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.

MENNONITE FOUNDATION OF CANADA
Notes to the Financial Statements
December 31, 2013

12. COMMITMENTS

The Foundation has commitments for leased premises to November 27, 2018 comprised of base rents plus a proportionate share of operating costs. The base rent commitments to lease expiry are \$351,907 with payment obligations as follows:

2014	\$ 95,406
2015	93,642
2016	65,478
2017	55,646
2018	41,735

13. 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, 2013

	<u>2013</u>	<u>2012</u>
OPERATING EXPENSES		
Salaries and benefits	\$ 1,434,369	\$ 1,334,719
Travel	252,673	234,956
Amortization	119,419	108,038
Rent and common area costs	114,093	109,987
Office	78,022	60,892
Advertising and promotion	223,986	120,778
Professional fees	79,938	52,154
Telephone	36,690	40,095
Staff development, memberships and subscriptions	61,492	53,602
Insurance	11,219	10,519
Interest, bank charges, and investment management fees	395,041	333,149
Computer	41,540	38,574
Wills - legal fee subsidy	19,211	21,578
	<u>\$ 2,867,693</u>	<u>\$ 2,519,041</u>