



Financial Statements

The Canadian Merit Scholarship Foundation /
La Fondation Canadienne Des Bourses De Mérite

April 30, 2012

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**
2012 Financial Statements

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Independent Auditor's Report

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**To the Directors of
The Canadian Merit Scholarship Foundation /
La Fondation Canadienne Des Bourses De Mérite**

We have audited the accompanying financial statements of The Canadian Merit Scholarship Foundation / La Fondation Canadienne Des Bourses De Mérite, which comprise the statement of financial position as at April 30, 2012, and the statement of operations, statement of changes in net assets and statement of 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 generally accepted accounting principles, 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 qualified audit opinion.

Basis for qualified opinion

In common with many non-profit organizations, the Foundation derives revenue from donations from the public, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Foundation and we were not able to determine whether any adjustments might otherwise be necessary to revenues, excess of revenue over expenses, assets and net assets.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of The Canadian Merit Scholarship Foundation / La Fondation Canadienne Des Bourses De Mérite as at April 30, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
September 21, 2012

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**
Statement of Financial Position
As at April 30

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents (note 4)	\$ 544,473	\$ 746,056
Investments (note 5)	2,140,304	2,292,733
Accrued interest and other receivables	103,904	55,224
Prepaid expenses	38,083	38,524
	<hr/> 2,826,764	<hr/> 3,132,537
Long-term assets		
Investments (note 5)	3,974,629	2,425,121
Furniture and equipment (note 6)	2,902	3,627
	<hr/> \$ 6,804,295	<hr/> \$ 5,561,285
<hr/>		
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 89,516	\$ 220,419
Deferred contributions (note 7)	1,195,786	1,130,215
	<hr/> 1,285,302	<hr/> 1,350,634
Long-term liabilities		
Deferred contributions (note 7)	1,497,745	1,243,556
	<hr/> 2,783,047	<hr/> 2,594,190
Net assets		
Invested in furniture and equipment	2,902	3,627
Endowment Fund (note 10)		
Externally restricted endowment	1,623,324	1,091,019
Internally restricted endowment	766,426	-
Cumulative net unrealized gain on available for sale financial assets	87,134	90,546
Unrestricted		
Cumulative excess of revenue over expenses	1,541,462	1,781,903
	<hr/> 4,021,248	<hr/> 2,967,095
	<hr/> \$ 6,804,295	<hr/> \$ 5,561,285
<hr/>		

See accompanying notes

On behalf of the Board:

Director

Director

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**

Statement of Operations
Year ended April 30

	2012	2011
Revenue		
Donations	\$ 3,256,332	\$ 3,215,063
Interest and other income	217,529	152,572
	<hr/> 3,473,861	<hr/> 3,367,635
Expenses		
Stipend grants	1,579,000	1,665,000
Enrichment program		
Summer	364,751	329,697
Mentorship and stewardship	168,918	156,015
Gatherings (retreat, conferences, orientation expedition, etc.)	278,260	257,561
Selections		
University scholarship program	135,485	144,470
College scholarship program	167,671	163,583
Other scholarship programs	69,504	68,508
	<hr/> 2,763,589	<hr/> 2,784,834
General and administration	185,012	187,891
	<hr/> 2,948,601	<hr/> 2,972,725
Excess of revenue over expenses	<hr/> <hr/> \$ 525,260	<hr/> <hr/> \$ 394,910

See accompanying notes

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**

Statement of Changes in Net Assets

Year ended April 30

	2012						2011	
	Endowment Fund						Total	Total
	Invested in Furniture and Equipment	Externally Restricted Endowment	Internally Restricted Endowment	Internally Restricted for Future Distribution	Cumulative Net Unrealized Gain On Available For Sale Financial Assets	Unrestricted Excess of Revenue Over Expenses	Total	Total
Balance, beginning of year	\$ 3,627	\$ 541,019	\$ 550,000	\$ 45,684	\$ 90,546	\$ 1,781,903	\$ 3,012,779	\$ 2,568,099
Prior period adjustment (note 8)	-	550,000	(550,000)	(45,684)	-	-	(45,684)	(5,826)
Balance, beginning of year as restated	\$ 3,627	\$ 1,091,019	\$ -	\$ -	\$ 90,546	\$ 1,781,903	\$ 2,967,095	\$ 2,562,273
Transfer (note 9)	-	-	766,049	-	-	(766,049)	-	-
Excess (deficiency) of revenue over expenses	(725)	-	377	-	-	525,608	525,260	394,910
Endowment contributions	-	532,305	-	-	-	-	532,305	9,550
Net unrealized gain on available for sale financial assets during the year	-	-	-	-	(3,412)	-	(3,412)	362
Balance, end of year	\$ 2,902	\$ 1,623,324	\$ 766,426	\$ -	\$ 87,134	\$ 1,541,462	\$ 4,021,248	\$ 2,967,095

See accompanying notes

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**
Statement of Cash Flows
Year ended April 30

	2012	2011
Operating activities		
Excess of revenue over expenses	\$ 525,260	\$ 394,910
Item not involving cash		
Amortization	725	907
	<hr/> 525,985	<hr/> 395,817
Net change in non-cash working capital items		
Accrued interest and other receivables	(48,680)	(19,482)
Prepaid expenses	441	24,176
Accounts payable and accrued liabilities	(130,903)	100,734
	<hr/> (179,142)	<hr/> 105,428
Deferred contributions	319,760	581,121
	<hr/> 140,618	<hr/> 686,549
Cash flows from operating activities	<hr/> 666,603	<hr/> 1,082,366
Investing activities		
Receipt of externally restricted endowments	532,305	9,550
Purchase of investments	(1,400,491)	(716,759)
Cash flow from investing activities	<hr/> (868,186)	<hr/> (707,209)
Net change in cash during the year	(201,583)	375,157
Cash and cash equivalents, beginning of year	746,056	370,899
Cash and cash equivalents, end of year	<hr/> \$ 544,473	<hr/> \$ 746,056

Supplemental cash flow information:

Net change in unrealized gain recorded in investments	\$ 3,412	\$ 362
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See accompanying notes

THE CANADIAN MERIT SCHOLARSHIP FOUNDATION / LA FONDATION CANADIENNE DES BOURSES DE MÉRITE

Notes to Financial Statements
Year ended April 30, 2012

1. Purpose of the organization

The Canadian Merit Scholarship Foundation / La Fondation Canadienne Des Bourses De Mérite (the "Foundation" or CMSF) is committed to the greatest of Canada's natural resources: our youth. The purpose of the Foundation is to identify and support talented students who show promise of leadership and a 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.

CMSF manages two major programs: the University Program and the College and Other Scholarship Programs. The University Program reflects CMSF's flagship program, the Loran awards for university students. The College and Other Scholarship Programs include primarily the W. Garfield Weston Awards for college students, which is funded exclusively by The W. Garfield Weston Foundation, and other scholarships programs, which are managed by CMSF for external companies and are fully funded by those external companies.

The Foundation was formed as a trust in 1989 and was registered with the Canada Revenue Agency as a charitable organization under registration number 0813915-21. Effective May 1, 2004, all assets and obligations of the trust were transferred to a newly formed corporation and all activities of the Foundation were conducted through the corporation from that point forward. The corporation is registered with the Canada Revenue Agency as a charitable organization under registration number 85513 2643RR0001.

2. Summary of significant accounting policies

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP), the more significant of which are outlined below.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Financial instruments

The Foundation's financial instruments are comprised of cash and cash equivalents, other receivables, investments and accounts payable.

Cash and cash equivalents, other receivables and accounts payable approximate fair value due to their short-term maturities. Investments have been designated as available for sale financial instruments and, as such, are recorded at fair value with fair value determined based on the bid price at the close of business at the balance sheet date. Unrealized gains and losses on these assets are recognized in the statement of changes in net assets until realized, at which time the realized gain or loss is transferred from the statement of changes in net assets to the statement of operations.

The Canadian Institute of Chartered Accountants (CICA) provides a temporary choice for financial instruments and the Foundation has chosen to continue to apply Financial Instruments - Disclosure and Presentation, Section 3861 in place of Financial Instruments - Disclosure, Section 3862 and Financial Instruments - Presentation, Section 3863. Had the Foundation adopted the new standards, there would have been increased emphasis on risk disclosure including both qualitative and quantitative information about the exposures to the organization.

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**

**Notes to Financial Statements
Year ended April 30, 2012**

2. Summary of significant accounting policies - continued

Cash equivalents

Cash equivalents consist of guaranteed investment certificates with maturities of less than three months or that are convertible into cash without significant penalty.

Furniture and equipment

Furniture and equipment is recorded at cost and is amortized on a declining-balance basis at a rate of 20%.

Net assets

The net assets of the Foundation are comprised of:

(a) Net assets invested in furniture and equipment

Net assets invested in furniture and equipment represent the net book value of furniture and equipment less debt thereon.

(b) Net assets of the Endowment Fund

The Endowment Fund (the "Fund"), which includes internally and externally restricted endowed funds, was established to provide a dependable and sustainable source of income to support the Loran awards for scholars. Investment income earned on the capital is to be used to support the objective of the Fund. Investment income earned on the externally restricted capital is deferred and recognized as revenue in the year in which the related expenses are incurred. Investment income earned on the internally restricted capital is recognized as revenue in the period to which it relates.

(c) Unrestricted net assets

Unrestricted net assets represents the net assets of the Foundation which are available for general operations.

Revenue recognition

Endowment contributions are recognized as direct increases in net assets in the year in which they are received.

Externally restricted donations and investment income are deferred and recognized as revenue in the year in which the related expenses are incurred.

Unrestricted donations are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Interest income is recognized as revenue in the period to which it relates.

THE CANADIAN MERIT SCHOLARSHIP FOUNDATION / LA FONDATION CANADIENNE DES BOURSES DE MÉRITE

Notes to Financial Statements
Year ended April 30, 2012

2. Summary of significant accounting policies - continued

Grants and awards

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

Loran awards are renewable for up to three academic years. Awards for subsequent academic years are subject to certain conditions placed on the award winners and are renewable annually at the sole discretion of the Foundation. As a result, commitments beyond the current year are not recognized in the financial statements.

Allocation of expenses

The costs associated with the scholarship recipients selection process and the comprehensive enrichment program 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 program.

Donated 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.

3. Objectives, policies and processes for managing capital

The Foundation defines its capital as its net assets. The Foundation's objective when managing its capital is to safeguard the Foundation's ability to continue to provide programs and services consistent with its mission. The Foundation maintains sufficient funds to pay out all anticipated stipends to in-stream Scholars (note 11).

Management provides to the Executive Committee of the Board of Directors an annual budget and an estimate of the amount of capital required to cover the anticipated stipends to in-stream Scholars. The budget is developed to ensure the Foundation has the proper cash flow to fund operations and capital expenditures. A recommendation to approve the budget is made from the Executive Committee to the Board of Directors. Management compares actual results to the budget and reports these results to the Executive Committee and the Board of Directors quarterly.

A portion of the Foundation's capital is deferred and restricted as described in note 2 under the headings net assets and revenue recognition. The Foundation has internal control processes to ensure that the restrictions are met.

The investments of the Foundation, comprising the majority of the Foundation's capital, are invested by the Foundation's investment managers in a prudent manner and within the asset mix guidelines outlined in the Foundation's investment policy.

4. Cash and cash equivalents

Included in cash and cash equivalents is a \$25,000 guaranteed investment certificate which must be held as a guarantee on the Foundation's corporate credit card.

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**

Notes to Financial Statements
Year ended April 30, 2012

5. Investments

The assets held for the Endowment Fund can be invested in both fixed income and equity products. Investments consist of government bonds, corporate bonds, index funds and money market funds. Investments in government bonds have maturities ranging from 2014 to 2015 and interest rates between 2% and 2.50%. Investments in corporate bonds have maturities ranging from 2012 to 2016 and interest rates between 1.85% and 3.05%. Investments in index funds have no set terms of maturity and no fixed rates of return. The index funds are invested in both fixed income and equity products. Investments in money market funds have no set terms of maturity and no fixed rates of return.

The other investments are in highly liquid investments being held until required for expenditures. The amount of those investments is equal to the total future commitments to existing scholars. The investments are restricted to fixed income products.

The investments of the Foundation are as follows:

	2012		
	Endowment Fund	Other	Total Investments
Government bonds	\$ -	\$ 1,788,700	\$ 1,788,700
Corporate bonds	-	1,744,985	1,744,985
Money market funds	-	214,445	214,445
Mutual funds			
Canadian equity	391,459	-	391,459
Preferred shares	20,020	-	20,020
Common shares	276,550	-	276,550
Index funds			
Canadian equity	464,061	-	464,061
Foreign equity	452,357	-	452,357
Fixed income	762,356	-	762,356
Investments, end of year	\$ 2,366,803	\$ 3,748,130	\$ 6,114,933

	2011		
	Tomorrow Fund	Other	Total Investments
Government bonds	\$ -	\$ 1,485,700	\$ 1,485,700
Corporate bonds	-	1,128,700	1,128,700
Money market funds	-	922,491	922,491
Index funds			
Canadian equity	370,755	-	370,755
Foreign equity	257,606	-	257,606
Fixed income	552,602	-	552,602
Investments, end of year	\$ 1,180,963	\$ 3,536,891	\$ 4,717,854

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**

Notes to Financial Statements
Year ended April 30, 2012

5. Investments - continued

Investments are classified as follows:

	2012	2011
Short-term	\$ 2,140,304	\$ 2,292,733
Long-term	3,974,629	2,425,121
Total	\$ 6,114,933	\$ 4,717,854

6. Furniture and equipment

	2012			2011
	Cost	Accumulated Amortization	Net	Net
Furniture and equipment	\$ 85,356	\$ 82,454	\$ 2,902	\$ 3,627

Included in general and administration expense is \$725 (2011 - \$907) of amortization.

7. Deferred contributions

Deferred contributions represent unspent amounts externally restricted primarily for awards.

	2012	2011
Balance, beginning of year, as restated (note 8)	\$ 2,373,771	\$ 1,792,651
Contributions	1,404,971	1,465,876
Investment income	37,439	104,939
Recognized as revenue	(1,122,650)	(989,695)
Balance, end of year	\$ 2,693,531	\$ 2,373,771

8. Prior period adjustment

During the year, the Foundation concluded that the funds, originally transferred from unrestricted net assets, classified in prior years as internally restricted endowment should have been classified as an externally restricted endowment. As a result, the financial statements were restated to reflect the \$550,000 endowment as an externally restricted endowment. Investment income earned on the externally restricted capital is deferred and recognized as revenue in the year in which the related expenses are incurred. Accordingly, \$45,684 of unspent investment income on the endowment which had been previously recognized as revenue has been restated to be included as deferred revenue.

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**

Notes to Financial Statements
Year ended April 30, 2012

9. Transfer

During the year, the Foundation internally restricted unrestricted net assets of \$766,049 to support the Loran awards over the long term.

10. Net assets of the Endowment Fund

During the year, the Fund earned investment income of \$37,816 (2011 - \$104,939) and incurred expenses of \$19,130 (2011 - \$14,460). The net income available for distribution was \$18,309 (2011 - \$90,479).

As at April 30, 2012, the Endowment Fund includes \$1,073,324 (2011 - \$541,019) that has been contributed by donors with the requirement that the amounts be held in perpetuity. In addition, in 2011 the Board transferred \$550,000 to the Endowment Fund that is covered by a trust agreement that requires the amount be held in perpetuity.

The Board has also transferred \$766,426 (2011 - \$Nil) to the Endowment Fund with the intention that it be managed consistent with the externally endowed amounts. The Board has the right to transfer these amounts in the future to the unrestricted net assets and use those amounts to cover operating expenses.

11. Commitments

During the year, 30 Loran awards were granted. Each award consists of a cash grant of \$9,000 for the 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 the award winners and are renewable annually at the sole discretion of the Foundation's Directors. The W. Garfield Weston Foundation has committed to fund the grants of all W. Garfield Weston Loran award holders through the completion of their undergraduate studies. It is the intent of the Foundation to have sufficient funds invested at all times such that all current university Loran award holders could be funded to the completion of their program if the Foundation were to cease operations.

CMSF has entered into a long-term lease agreement for rental space with a term from May 1, 2012 until April 30, 2017.

The commitments of the Foundation are as follows:

	Loran Awards	W. Garfield Weston Loran Awards	Leases	Total
2013	\$ 666,000	\$ 364,500	\$ 69,593	\$ 1,100,093
2014	549,000	243,000	69,593	861,593
2015	414,000	135,000	69,593	618,593
2016	270,000	-	69,593	339,593
2017	-	-	22,534	22,534
	<u>\$ 1,899,000</u>	<u>\$ 742,500</u>	<u>\$ 300,906</u>	<u>\$ 2,942,406</u>

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**

Notes to Financial Statements
Year ended April 30, 2012

12. Allocation of expenses

CMSF provides its university and college scholarship recipients 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 \$229,343 (2011 - \$221,579) were allocated to the various programs as follows:

	2012		
	University	College and Other Scholarship Programs	Total
Enrichment program			
Summer	\$ 14,268	\$ 31,342	\$ 45,610
Mentorship and stewardship	14,268	47,012	61,280
Gatherings (retreat, conferences, etc.)	19,023	31,342	50,365
Selections	23,780	48,308	72,088
	\$ 71,339	\$ 158,004	\$ 229,343

	2011		
	University	College and Other Scholarship Programs	Total
Enrichment program			
Summer	\$ 13,965	\$ 30,351	\$ 44,316
Mentorship and stewardship	13,965	45,526	59,491
Gatherings (retreat, conferences, etc.)	18,620	30,351	48,971
Selections	23,275	45,526	68,801
	\$ 69,825	\$ 151,754	\$ 221,579

13. Financial instruments

The Foundation is subject to market risk and interest rate price risk with respect to its investment portfolio. To manage these risks, the Foundation has established a target mix of investment types designed to achieve the optimal return within reasonable risk tolerances.

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**
University Program
Year ended April 30

Schedule 1

	2012	2011
Revenue		
Donations	\$ 2,121,960	\$ 2,020,498
Interest and other income	148,025	84,064
	<hr/> 2,269,985	<hr/> 2,104,562
Expenses		
Stipend grants	1,003,000	985,000
Enrichment program		
Summer	214,032	202,695
Mentorship and stewardship	56,621	51,729
Gatherings (retreat, conferences, orientation expedition, etc.)	150,575	137,867
Selections	135,485	144,470
	<hr/> 1,559,713	<hr/> 1,521,761
General and administration	185,012	187,891
	<hr/> 1,744,725	<hr/> 1,709,652
Excess of revenue over expenses	<hr/> <hr/> \$ 525,260	<hr/> <hr/> \$ 394,910

See accompanying notes

**THE CANADIAN MERIT SCHOLARSHIP FOUNDATION /
LA FONDATION CANADIENNE DES BOURSES DE MÉRITE**
College and Other Scholarship Programs
Year ended April 30

Schedule 2

	2012	2011
Revenue		
Donations	\$ 1,134,372	\$ 1,194,565
Interest and other income	69,504	68,508
	<hr/> 1,203,876	<hr/> 1,263,073
Expenses		
College stipend grants	576,000	680,000
College enrichment program		
Summer	150,719	127,002
Mentorship and stewardship	112,297	104,286
Gatherings (conferences, etc.)	127,685	119,694
Selections		
College scholarship program	167,671	163,583
Other scholarship programs	69,504	68,508
	<hr/> 1,203,876	<hr/> 1,263,073
Excess of revenue over expenses	<hr/> \$ -	<hr/> \$ -

See accompanying notes