

Financial Statements of

**FOUNDATION WESTERN**

Year ended April 30, 2009



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## AUDITORS' REPORT

To the Board of Directors of Foundation Western

We have audited the statement of financial position of Foundation Western as at April 30, 2009 and the statements of operations, changes in fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at April 30, 2009 and the results of its operations, changes in fund balances, and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Chartered Accountants, Licensed Public Accountants

London, Canada

June 19, 2009

# FOUNDATION WESTERN

## Statement of Financial Position

April 30, 2009, with comparative figures for 2008

	2009	2008
<b>Assets</b>		
Cash	\$ 2,767,409	\$ 733,850
Interest and other receivables	17,611	10,796
Prepaid expenses	2,553	21,522
Investments (note 4(a))	112,153,560	129,044,684
Investments - OSOTF I (note 4(b))	12,922,372	16,550,890
Cash surrender value - life insurance	772,854	707,979
Note receivable (note 5)	300,000	400,000
Capital assets, net (note 6)	9,655	9,851
	<b>\$ 128,946,014</b>	<b>\$ 147,479,572</b>

## Liabilities and Fund Balances

Accounts payable and accrued liabilities	\$ 51,581	\$ 60,784
Employee future benefits (note 7)	56,000	30,000
Fund balances (note 8):		
Operating	337,204	251,890
Restricted	10,157,545	13,417,093
Endowed	118,343,684	133,719,805
	<b>128,838,433</b>	<b>147,388,788</b>
	<b>\$ 128,946,014</b>	<b>\$ 147,479,572</b>

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# FOUNDATION WESTERN

## Statement of Operations

Year ended April 30, 2009, with comparative figures for 2008

	Operating Fund		Restricted Fund		Endowed Fund		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
<b>Revenue:</b>								
Donations	\$ -	\$ 14,412	\$ 618,863	\$ 991,219	\$ 11,513,416	\$ 14,838,259	\$ 12,132,279	\$ 15,843,890
Investment income (note 4(c))	-	-	(25,060,332)	(628,653)	49,363	57,045	(25,010,969)	(571,608)
	-	14,412	(24,441,469)	362,566	11,562,779	14,895,304	-12,878,690	15,272,282
<b>Expenses:</b>								
Gifts and grants to the University	-	-	(3,936,682)	(5,427,370)	-	-	-3,936,682	(5,427,370)
Operating expenses (Schedule)	(1,734,983)	(1,693,214)	-	-	-	-	(1,734,983)	(1,693,214)
Operating allocation	1,820,297	2,091,269	(1,820,297)	(2,150,414)	-	59,145	-	-
	85,314	398,055	(5,756,979)	(7,577,784)	-	59,145	(5,671,665)	(7,120,584)
<b>Excess (deficiency) of revenue over expenses</b>	<b>\$ 85,314</b>	<b>\$ 412,467</b>	<b>\$(30,198,448)</b>	<b>\$(7,215,218)</b>	<b>\$ 11,562,779</b>	<b>\$ 14,954,449</b>	<b>\$(18,550,355)</b>	<b>\$ 8,151,698</b>

See accompanying notes to financial statements.

## FOUNDATION WESTERN

### Statement of Changes in Fund Balances

Year ended April 30, 2009, with comparative figures for 2008

	Operating Fund		Restricted Fund		Endowed Fund		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Fund balances, beginning of year	251,890	(1,340)	13,417,093	19,932,055	133,719,805	119,306,375	147,388,788	139,237,090
Excess (deficiency) of revenue over expenses	85,314	412,467	(30,198,448)	(7,215,218)	11,562,779	14,954,449	\$ (18,550,355)	8,151,698
Fund transfers (note 8)	-	-	26,890,774	-	(26,890,774)	-	-	-
Other interfund transfers	-	(159,237)	48,126	700,256	(48,126)	(541,019)	-	-
<b>Fund balances, end of year</b>	<b>\$ 337,204</b>	<b>\$ 251,890</b>	<b>\$ 10,157,545</b>	<b>\$ 13,417,093</b>	<b>\$ 118,343,684</b>	<b>\$ 133,719,805</b>	<b>\$ 128,838,433</b>	<b>\$ 147,388,788</b>

See accompanying notes to financial statements.

# FOUNDATION WESTERN

## Statement of Cash Flows

Year ended April 30, 2009, with comparative figures for 2008

	2009	2008
Cash provided by (used in)		
Operating activities:		
Increase (decrease) in fund balances	\$ (18,550,355)	\$ 8,151,698
Adjustments for:		
Change in unrealized losses on investments	25,068,775	7,857,147
Amortization of capital assets	5,713	6,081
Change in non-cash working capital:		
Interest and other receivables	(6,815)	3,750
Prepaid expenses	18,969	4,133
Accounts payable and accrued liabilities	(9,203)	(82,064)
Employee future benefits	26,000	(62,000)
	<u>6,553,084</u>	<u>15,878,745</u>
Investing activities:		
Net change in investments	(4,549,133)	(16,037,239)
Increase in cash surrender value - life insurance	(64,875)	(707,979)
Capital assets additions	(5,517)	(10,227)
	<u>(4,619,525)</u>	<u>(16,755,445)</u>
Financing activities:		
Repayment of note receivable	100,000	100,000
Increase (decrease) in cash	2,033,559	(776,700)
Cash, beginning of year	733,850	1,510,550
Cash, end of year	<u>\$ 2,767,409</u>	<u>\$ 733,850</u>

See accompanying notes to financial statements.

# FOUNDATION WESTERN

## Notes to Financial Statements

Year ended April 30, 2009

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### 1. Description:

Foundation Western (the "Foundation") was incorporated in 1979 under the laws of the Province of Ontario as a charitable foundation without share capital for the purpose of soliciting alumni donations to be held as endowed capital, with the income to be used for the benefit of The University of Western Ontario (the "University").

The Foundation is registered under the Income Tax Act, Canada, as a registered charity and accordingly is exempt from taxes on income.

### 2. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual amounts could differ from those estimates.

#### (a) Fund accounting:

The Foundation follows the restricted fund method of accounting for contributions. The principles of fund accounting are used to ensure observance of limitations and restrictions placed on the use of resources and to appropriately match expenditures with related revenues. Accordingly, all financial transactions have been recorded in three funds:

The Operating Fund accounts for revenue and expenditures involved in the administration of the Foundation.

The Restricted Fund accounts for the receipt and expenditure of donations and bequests that have been restricted by the donor for the benefit of the University. Internally restricted funds include a stability fund established by the Board of Directors to ensure a stable flow of expendable income.

The Endowed Fund accounts for the receipt of donations and bequests which have been endowed by the donor. Revenue of the Endowed Fund is limited to amounts that have been restricted for endowment purposes by the external donor. The Foundation provides for the preservation of the purchasing power of the endowed funds by capitalizing a portion of investment income earned on these funds annually. When investment income is not adequate, amounts are allocated from the stability fund and, if necessary, endowed capital is encroached to support the desired level of expendable income.

# FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2009

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## 2. Significant accounting policies (continued):

(b) Revenue recognition:

Bequests and donations are recorded in the statement of operations in the year received. Changes in cash surrender value of life insurance policies from year to year is recorded as investment income (loss) to the Restricted Fund.

Gifts in kind are recorded at their estimated market value.

(c) Investments:

Investments are recorded at market value. Unrealized gains and losses are included in investment income. The asset mix of funds managed by the Foundation is approved by the Board of Directors.

In 1996, the Province of Ontario established phase one of the Ontario Student Opportunity Trust Fund ("OSOTF I"). This program provided dollar for dollar matching grants for all pledges to endowed funds collected by each Ontario university. The endowed funds qualifying for matching grants under the OSOTF I program are required to be invested by the University. These endowed funds, including the Province's matching grants, are reflected in the Foundation's financial statements.

(d) Capital assets:

Capital assets are recorded at cost. Amortization is provided for in the Operating Fund on a straight-line basis over the estimated useful life of the assets as follows:

Asset	Rate
Computers and related equipment	3 years
Furniture and office equipment	5 years

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(e) Foreign currency translation:

The Foundation accounts for transactions in foreign currency at the exchange rate in effect at the time of the transactions. At year end, monetary assets and liabilities denominated in foreign currency are translated at year end exchange rates. Foreign exchange gains and losses on securities have been included in investment income.



# FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2009

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## 2. Significant accounting policies (continued):

(f) Employee future benefits:

(i) Non-pension plans:

The Foundation provides medical, dental, life insurance and other benefits to eligible employees and accrues its obligations for these employee future benefit plans. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on service using best estimates of salary escalation, retirement ages of employees and expected health care costs. These benefits parallel those of the University.

(ii) Pension plans:

Certain employees of the Foundation participate in the defined contribution pension plans sponsored by the University for faculty and staff.

(g) Financial instruments:

All financial instruments are initially recorded on the statement of financial position at fair value. They are subsequently valued at fair value or amortized cost depending on the classification selected for the financial instrument. Financial assets are classified as either "held-for-trading" or "loans and receivables" and financial liabilities are classified as "other liabilities".

Financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded in the statement of operations. Loans and receivables and financial liabilities classified as other liabilities are subsequently measured at amortized cost using the effective interest method.

The Foundation has classified its financial instruments as follows:

- (i) Cash, investments and cash surrender value - life insurance are classified as held-for-trading.
- (ii) Interest and other receivables and note receivable are classified as loans and receivables.
- (iii) Investments are classified as held-for-trading.
- (iv) Accounts payable and accrued liabilities are classified as other liabilities.

The Foundation has elected to use trade date accounting for regular-way purchases and sales of financial assets.

The Foundation has elected not to apply CICA 3855 paragraph 07A for derivatives embedded in contracts.

# FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2009

### 3. Changes in accounting policies:

(a) Current accounting policy changes:

Effective May 1, 2008, the Foundation adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Section 1535 - "*Capital Disclosures*", which requires the disclosure of qualitative information that enables users of the financial statements to evaluate the Foundation's objectives, policies and processes for managing capital. The adoption of these recommendations only required additional disclosures, which are provided in note 12.

In December 2006, the CICA issued two new handbook sections, Section 3862 - "*Financial Instruments - Disclosures*" and Section 3863 - "*Financial Instruments - Presentation*". These new standards were expected to be effective for the Foundation beginning May 1, 2008. However, the CICA has now permitted not-for-profit entities to defer the adoption of these standards. The Foundation has continued to disclose and present financial instruments under Section 3861 - "*Financial Instruments - Disclosures and Presentation*" for the year ended April 30, 2009.

(b) Future accounting policy changes:

The CICA has issued amendments to the accounting standards for Not-For-Profit Organizations which will be effective for the Foundation commencing on May 1, 2009. Management does not expect that the adoption of these amendments will have a material impact on the Foundation's financial statements.

### 4. Investments:

(a) Managed by the Foundation:

	2009	2008
Short-term investments	\$ 2,345,235	\$ 2,477,791
Government and corporate bonds	36,608,471	41,875,943
Canadian equities - public	24,956,726	27,745,921
Canadian equities - private	250,000	500,000
U.S. equities	24,209,084	28,018,069
Non-North American equities	23,784,044	28,426,960
	<u>\$ 112,153,560</u>	<u>\$ 129,044,684</u>

# FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2009

## 4. Investments (continued):

(b) OSOTF I, managed by the University:

	2009	2008
Short-term investments	\$ 24,204	\$ 28,277
Government and corporate bonds	5,289,413	6,122,854
Canadian equities	2,574,190	3,260,465
U.S. equities	2,458,105	3,142,854
Non-North American equities	2,104,237	3,200,700
Hedge funds	472,223	795,740
	<u>\$ 12,922,372</u>	<u>\$ 16,550,890</u>

(c) Investment income consists of the following:

	2009	2008
Managed by the Foundation:		
Realized investment income	\$ 3,261,842	\$ 7,787,168
Change in unrealized gains (losses) on investments	(25,068,775)	(7,857,147)
	(21,806,933)	(69,979)
Less investment management fees	(328,775)	(360,941)
	(22,135,708)	(430,920)
Managed by the University (OSOTF I):		
Net decrease in market value	(2,875,261)	(140,688)
	<u>\$ (25,010,969)</u>	<u>\$ (571,608)</u>

## 5. Note receivable:

The note receivable represents the unpaid balance of a \$2,000,000 advance to the University to assist with the construction of Alumni House. The note receivable bears interest, however, all interest to date has been waived by the Foundation. Annual repayments are required of \$100,000 through to 2012.

# FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2009

## 6. Capital assets:

			2009	2008
	Cost	Accumulated amortization	Net book value	Net book value
Computers and related equipment	\$ 27,254	\$ 21,900	\$ 5,354	\$ 4,116
Office furniture and equipment	7,169	2,868	4,301	5,735
	\$ 34,423	\$ 24,768	\$ 9,655	\$ 9,851

## 7. Employee future benefits:

### (i) Non-pension plans:

The accrued benefit liability relating to the non-pension plans is \$56,000 (2008 - \$30,000). This liability has been recorded in the financial statements. Total expense for these plans is \$26,000 (2008 - \$12,000). Benefits paid during the year amounted to nil (2008 - \$74,000).

The significant actuarial assumptions adopted in measuring the accrued benefit obligations are as follows:

	2009	2008
Discount rate	6.75%	5.5%
Medical cost increases:		
Hospital	5.0%	5.0%
Drug	9.0%	9.5%
Other medical	5.0%	5.0%
Dental cost	4.5%	4.5%

Drug cost is projected to decrease by 0.5% per year to an ultimate rate of 5.0% per year.

### (ii) Pension plans:

Contributions to the pension plans during the year are as follows:

	2009	2008
Employer contributions	\$ 27,266	\$ 26,600
Employee contributions	18,024	18,360

# FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2009

## 8. Fund balances:

Restricted Fund:

	2009	2008
Externally restricted	\$ 16,412,071	\$ 13,778,285
Internally restricted	(6,254,526)	(361,192)
	<u>\$ 10,157,545</u>	<u>\$ 13,417,093</u>

Endowed Fund:

	2009	2008
Externally endowed	\$ 113,260,153	\$ 129,044,350
Internally endowed	5,083,531	4,675,455
	<u>\$ 118,343,684</u>	<u>\$ 133,719,805</u>

During the year, the Board of Directors approved a transfer of nil (2008 - nil) from the internally restricted fund to the endowed fund to preserve the purchasing power of the endowed funds. The Foundation experienced significant declines in the fair value of its investment portfolio as a result of the downturn in the economy. In response to these results, the Board of Directors approved a motion to reduce endowment capital to reflect adjusted market values. This reduction of \$26,890,774 is reflected as a fund transfer between the restricted fund and the endowed fund.

## 9. Pledges receivable:

Future pledges receivable are approximately \$6,999,865 at April 30, 2009 and are expected to be received as follows:

2010	\$ 2,618,130
2011	2,108,829
2012	1,153,898
2013	466,502
2014	346,717
Subsequent years	305,789

# FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2009

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## 10. Transactions with the University:

During the year, the Foundation paid \$153,750 (2008 - \$150,000) for its share of system development and programming costs and salaries and benefits for services provided by the Advancement Services department of the University.

The Foundation contributed \$923,206 (2008 - \$904,119) in support of alumni-endowed fundraising activities.

The University provides the Foundation with office space in Westminster Hall and related operating costs at no charge to the Foundation.

## 11. Financial instruments:

### (a) Fair values:

Fair value estimates are made as of a specific point in time, using available information about the financial instrument.

The carrying value of interest and other receivables, and accounts payable and accrued liabilities approximates their fair values based on the short-term maturity of those instruments.

### (b) Risk management:

The Foundation, through its financial assets and liabilities is exposed to various risks. The following analysis provides a measurement of risks as at the statement of financial position date, April 30, 2009.

#### (i) Credit risk:

Credit risk is the risk of financial loss to the Foundation if a counterparty to a financial instrument fails to meet its contractual obligation.

Approximately 35% (34% at April 30, 2008) of the Foundation's investments consist of money market investments and government and corporate bonds. In order to minimize the risk of having an issuer of these debt instruments fail to pay interest or principal as required, the Foundation has established minimum credit rating requirements for such investments.

# FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2009

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## 11. Financial instruments (continued):

(b) Risk management (continued):

(ii) Currency risk:

Currency risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in foreign exchange rates.

Approximately 32% (44% at April 30, 2008) of the Foundation's investments is exposed to investments outside of Canada. A reduction in the values of these foreign currencies in relation to the Canadian dollar would have an adverse effect on the value of these investments.

(iii) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Foundation's short-term investments are subject to interest rate fluctuations as maturing investments are reinvested at new rates of interest. The market value of investments held in government and corporate bonds will fluctuate due to changes in market interest rates.

(iv) Market risk:

Market risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Foundation's investments in short-term investments, bonds and equities are subject to market risk. Management mitigates this risk through diversification of its investment portfolio.

(v) Liquidity risk:

Liquidity risk is the risk that the Foundation will encounter difficulty in raising funds to meet its obligations as they fall due. Additionally, the Foundation's investments are listed on public stock exchanges and are therefore considered to be liquid, except redemptions from the private equity investments which may be postponed under certain special circumstances.

Management expects that cash flows from operations will be sufficient to meet the Foundation's obligations.

# FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2009

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## **12. Capital management:**

In managing capital, the Foundation focuses on liquid resources available for operations. The objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide the Foundation with the flexibility to take advantage of opportunities that will advance its purpose. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As of April 30, 2009, the Foundation has met its objective of having sufficient liquid resources to meet its current obligations.

Investment income is recorded in the stability fund, within the Restricted Fund. An amount equal to 4.5% of endowed capital is allocated from the stability fund to each individual restricted fund for spending purposes. For future periods, this allocation has been reduced to 4%.



## FOUNDATION WESTERN

### Schedule - Operating Expenses

Year ended April 30, 2009, with comparative figures for 2008

	2009	2008
Salaries and benefits	\$ 500,283	\$ 481,784
Communications	62,904	48,725
Postage	1,699	2,279
Insurance	19,896	20,330
Telephone	4,099	4,029
Printing and duplicating	499	2,629
Supplies and other	10,699	9,537
Staff development and memberships	35,484	21,542
Staff recruitment	-	2,015
Maintenance	1,188	1,521
Amortization of capital assets	5,713	6,081
Professional fees	15,563	38,623
	658,027	639,095
Outsourced fund raising and system support contributions to The University of Western Ontario (note 10)	1,076,956	1,054,119
	\$ 1,734,983	\$ 1,693,214