

Financial Statements of

FOUNDATION WESTERN

Year ended April 30, 2011



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Foundation Western

We have audited the accompanying financial statements of Foundation Western, which comprise the statement of financial position as at April 30, 2011, the statements of operations, changes in fund balances and cash flows for the year then ended, and notes, comprising 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.

Auditors' 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 our 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, we consider 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Foundation Western as at April 30, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

July 14, 2011

London, Canada

FOUNDATION WESTERN

Statement of Financial Position

April 30, 2011, with comparative figures for 2010

	2011	2010
Assets		
Cash	\$ 158,174	\$ 389,399
Interest and other receivables	50,946	6,605
Prepaid expenses	16,032	17,437
Investments (note 4(a))	156,476,672	137,016,171
Investments - OSOTF I (note 4(b))	15,782,819	14,889,340
Cash surrender value - life insurance (note 5)	979,791	920,053
Note receivable (note 6)	100,000	200,000
Capital assets (note 7)	3,558	6,567
	\$ 173,567,992	\$ 153,445,572

Liabilities and Fund Balances

Accounts payable and accrued liabilities	\$ 78,417	\$ 67,403
Investments held in trust for the University (note 11)	205,784	-
Employee future benefits (note 8)	96,000	76,000
Fund balances (note 2(a)):		
Operating	334,902	337,204
Restricted (note 9)	28,684,137	26,635,473
Endowed (note 9)	144,168,752	126,329,492
	173,187,791	153,302,169
	\$ 173,567,992	\$ 153,445,572

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

FOUNDATION WESTERN

Statement of Operations

Year ended April 30, 2011, with comparative figures for 2010

	Operating Fund		Restricted Fund		Endowed Fund		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenue:								
Donations	\$ -	\$ -	\$ 562,336	\$ 1,212,976	\$ 11,555,351	\$ 7,812,719	\$ 12,117,687	\$ 9,025,695
Investment income (note 4(c))	-	-	15,551,138	23,507,127	17,757	30,214	15,568,895	23,537,341
	-	-	16,113,474	24,720,103	11,573,108	7,842,933	27,686,582	32,563,036
Expenses:								
Gifts and grants to the University	-	-	(6,084,265)	(6,398,693)	-	-	(6,084,265)	(6,398,693)
Operating expenses (Schedule)	(1,716,695)	(1,700,607)	-	-	-	-	(1,716,695)	(1,700,607)
Operating allocation (note 14)	1,712,500	1,764,945	(1,712,500)	(1,764,945)	-	-	-	-
	(4,195)	64,338	(7,796,765)	(8,163,638)	-	-	(7,800,960)	(8,099,300)
Excess (deficiency) of revenue over expenses	\$ (4,195)	\$ 64,338	\$ 8,316,709	\$ 16,556,465	\$ 11,573,108	\$ 7,842,933	\$ 19,885,622	\$ 24,463,736

See accompanying notes to financial statements.

FOUNDATION WESTERN

Statement of Changes in Fund Balances

Year ended April 30, 2011, with comparative figures for 2010

	Operating Fund		Restricted Fund		Endowed Fund		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Fund balances, beginning of year	\$ 337,204	\$ 337,204	\$ 26,635,473	\$ 10,157,545	\$ 126,329,492	\$ 118,343,684	\$ 153,302,169	\$ 128,838,433
Excess (deficiency) of revenue over expenses	(4,195)	64,338	8,316,709	16,556,465	11,573,108	7,842,933	19,885,622	24,463,736
Fund transfers	-	(64,338)	(6,215,410)	63,575	6,215,410	763	-	-
Other interfund transfers	1,893	-	(52,635)	(142,112)	50,742	142,112	-	-
Fund balances, end of year	\$ 334,902	\$ 337,204	\$ 28,684,137	\$ 26,635,473	\$ 144,168,752	\$ 126,329,492	\$ 173,187,791	\$ 153,302,169

See accompanying notes to financial statements.

FOUNDATION WESTERN

Statement of Cash Flows

Year ended April 30, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in)		
Operating activities:		
Excess of revenues over expenses	\$ 19,885,622	\$ 24,463,736
Adjustments for:		
Change in unrealized gains on investments	(10,773,757)	(23,104,564)
Amortization of capital assets	3,937	4,850
Change in non-cash working capital:		
Interest and other receivables	(44,341)	11,006
Prepaid expenses	1,405	(14,884)
Accounts payable and accrued liabilities	11,014	15,822
Funds held in trust for the University	205,784	-
Employee future benefits	20,000	20,000
	9,309,664	1,395,966
Investing activities:		
Net change in investments	(9,580,223)	(3,725,015)
Increase in cash surrender value - life insurance	(59,738)	(147,199)
Capital assets additions	(928)	(1,762)
	(9,640,889)	(3,873,976)
Financing activities:		
Repayment of note receivable	100,000	100,000
Decrease in cash	(231,225)	(2,378,010)
Cash, beginning of year	389,399	2,767,409
Cash, end of year	\$ 158,174	\$ 389,399

See accompanying notes to financial statements.

FOUNDATION WESTERN

Notes to Financial Statements

Year ended April 30, 2011

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 affect 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. Accordingly, all financial transactions have been recorded in three funds:

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

The Restricted Fund accounts for the income that has been allocated for granting purposes and any gifts 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, 2011

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

(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, 2011

2. Significant accounting policies (continued):

(f) Employee future benefits:

(i) Other post-employment benefits:

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:

Financial instruments are 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) 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.

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Notes to Financial Statements (continued)

Year ended April 30, 2011

3. Future changes in accounting policies:

In December 2010, the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("AcSB") and the Public Sector Accounting Board ("PSAB") released the accounting standards impacting the future financial reporting framework for not-for-profit organizations. These standards were released as a result of a joint, comprehensive standard setting process by both Boards. These standards were released effective for years beginning on or after January 1, 2012. Organizations have an option to early adopt these new standards. The Foundation intends to adopt the accounting standards for not-for-profit organizations for the fiscal year beginning May 1, 2012. The impact on adoption of these standards is being evaluated and is not known or reasonably estimable at this time.

4. Investments:

(a) Managed by the Foundation:

	2011	2010
Short-term investments	\$ 2,272,116	\$ 2,355,977
Government and corporate bonds	50,256,258	45,136,404
Canadian equities - public	51,710,358	45,945,754
Global equities - public	52,237,940	43,578,036
	<u>\$ 156,476,672</u>	<u>\$ 137,016,171</u>

(b) OSOTF I, managed by the University:

	2011	2010
Short-term investments	\$ 19,371	\$ 22,947
Government and corporate bonds	5,063,006	5,102,205
Canadian equities	3,487,701	3,413,283
U.S. equities	3,521,082	3,223,312
Non-North American equities	3,420,828	2,946,097
Alternative Investments	270,831	181,496
	<u>\$ 15,782,819</u>	<u>\$ 14,889,340</u>

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Notes to Financial Statements (continued)

Year ended April 30, 2011

4. Investments (continued):

(c) Investment income consists of the following:

	2011	2010
Managed by the Foundation:		
Realized investment income (losses)	\$ 3,884,679	\$ (1,505,396)
Change in unrealized gains on investments	10,773,757	23,104,564
	14,658,436	21,599,168
Less investment management fees	(574,521)	(419,584)
	14,083,915	21,179,584
Managed by the University (OSOTF I):		
Net change in market value	1,484,980	2,357,757
	\$ 15,568,895	\$ 23,537,341

5. Cash surrender value - life insurance:

The cash surrender value represents the current redeemable value of donated life insurance policies of which Foundation Western is the owner and beneficiary.

6. 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 at bank prime, however, all interest to date has been waived by the Foundation. The final \$100,000 repayment will be received in 2012.

7. Capital assets:

	2011		2010	
	Cost	Accumulated amortization	Net book value	Net book value
Computers and related equipment	\$ 15,773	\$ 13,649	\$ 2,124	\$ 3,699
Furniture and office equipment	7,169	5,735	1,434	2,868
	\$ 22,942	\$ 19,384	\$ 3,558	\$ 6,567

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2011

8. Employee future benefits:

(i) Other post-employment benefits:

The accrued liability relating to other post-employment benefits is \$96,000 (2010 - \$76,000). This liability has been recorded in the financial statements. Total expense for these plans is \$20,000 (2010 - \$20,000). Benefits paid during the year amounted to nil (2010 - nil).

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

	2011	2010
Discount rate	5.25%	5.75%
Medical cost increases:		
Hospital	5.0%	5.0%
Drug	8.0%	8.5%
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:

Additions to the defined contribution pension plans during the year are as follows:

	2011	2010
Employer contributions	\$ 26,693	\$ 27,906
Employee contributions	8,551	17,169

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2011

9. Fund balances:

Restricted Fund:

	2011	2010
Externally restricted	\$ 15,356,102	\$ 15,806,106
Internally restricted:		
Stability fund	12,944,028	10,484,710
Other internally restricted	384,007	344,657
	13,328,035	10,829,367
	\$ 28,684,137	\$ 26,635,473

Endowed Fund:

	2011	2010
Externally endowed	\$ 138,599,051	\$ 121,137,054
Internally endowed	5,569,701	5,192,438
	\$ 144,168,752	\$ 126,329,492

During the year the Board of Directors approved a transfer of 5% (\$6,215,410) from the internally restricted fund to the endowed fund to preserve the purchasing power of the endowed funds.

10. Outstanding pledges:

Outstanding pledges are approximately \$4,737,305 at April 30, 2011 and are expected to be received as follows, but are not reflected elsewhere in these financial statements:

2012	\$ 1,675,796
2013	1,158,856
2014	764,582
2015	584,270
Subsequent years	553,801

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2011

11. Transactions with the University:

During the year, the Foundation paid a total of \$1,130,736 (2010 - \$1,103,157) to the University; \$161,534 (2010 - \$157,594) for its share of system development and programming costs and salaries and benefits for services provided by the Advancement Services department of the University and \$969,202 (2010 - \$945,563) 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.

The Foundation acts as a settlement agent for gifts of securities to the University. As at April 30, 2011, two gifts of securities with a value of \$205,784 remained in transit and are reflected on the statement of financial position.

The above transactions and balances are in the normal course of operations and are measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties.

12. 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, 2011.

(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 33% (2010 - 35%) 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, 2011

12. 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 33% (2010 - 32%) of the Foundation's investments are 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. The Foundation's investments are listed on public stock exchanges and are therefore considered to be liquid.

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, 2011

13. 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, 2011, 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 4.0% of endowed capital is allocated from the stability fund to each individual restricted fund for spending purposes.

14. Allocation of indirect expenses:

An operating allocation based on the Foundation's prior year investment assets is transferred from the Restricted fund to the Operating fund to cover direct operating expenses and the outsourced fundraising and systems support contribution to the University.

FOUNDATION WESTERN

Schedule - Operating Expenses

Year ended April 30, 2011, with comparative figures for 2010

	2011	2010
Salaries and benefits	\$ 484,130	\$ 496,517
Communications	18,188	21,361
Postage	1,770	1,432
Insurance	19,312	21,351
Telephone	3,782	4,073
Printing and duplicating	1,582	376
Supplies and other	18,565	18,065
Staff development and memberships	14,490	6,710
Maintenance	576	576
Amortization of capital assets	3,937	4,850
Professional fees	19,627	22,139
	585,959	597,450
Outsourced fund raising and system support contributions to the University (note 11)	1,130,736	1,103,157
	\$ 1,716,695	\$ 1,700,607