

Financial Statements of

FOUNDATION WESTERN

Year ended April 30, 2012



KPMG LLP
Chartered Accountants
140 Fullarton Street Suite 1400
PO Box 2305
London ON N6A 5P2
Canada

Telephone (519) 672-4880
Fax (519) 672-5684
Internet www.kpmg.ca

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, 2012, 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, 2012, 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 25, 2012

London, Canada

FOUNDATION WESTERN

Statement of Financial Position

April 30, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current:		
Cash	\$ 1,623,133	\$ 158,174
Interest and other receivables	38,646	50,946
Note receivable (note 6)	-	100,000
Prepaid expenses	16,092	16,032
	<u>1,677,871</u>	<u>325,152</u>
Investments (note 4(a))	156,465,460	156,476,672
Investments - OSOTF I (note 4(b))	15,208,380	15,782,819
Cash surrender value - life insurance (note 5)	1,002,249	979,791
Capital assets (note 7)	2,343	3,558
	<u>\$ 174,356,303</u>	<u>\$ 173,567,992</u>

Liabilities and Fund Balances

Current:		
Accounts payable and accrued liabilities	\$ 81,107	\$ 78,417
Investments held in trust for the University (note 11)	-	205,784
	<u>81,107</u>	<u>284,201</u>
Employee future benefits (note 8)	116,000	96,000
Fund balances (note 2(a)):		
Operating	334,306	334,902
Restricted (note 9)	20,306,487	28,684,137
Endowed (note 9)	153,518,403	144,168,752
	<u>174,159,196</u>	<u>173,187,791</u>
	<u>\$ 174,356,303</u>	<u>\$ 173,567,992</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

FOUNDATION WESTERN

Statement of Operations

Year ended April 30, 2012, with comparative figures for 2011

	Operating Fund		Restricted Fund		Endowed Fund		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Revenue:								
Donations	\$ -	\$ -	\$ 274,194	\$ 562,336	\$ 9,265,624	\$ 11,555,351	\$ 9,539,819	\$ 12,117,687
Investment income (loss) (note 4(c))	-	-	(776,605)	15,551,138	6,355	17,757	(770,251)	15,568,895
	-	-	(502,411)	16,113,474	9,271,979	11,573,108	8,769,568	27,686,582
Expenses:								
Gifts and grants to the University	-	-	(6,055,674)	(6,084,265)	-	-	(6,055,674)	(6,084,265)
Operating expenses (Schedule)	(1,742,489)	(1,716,695)	-	-	-	-	(1,742,489)	(1,716,695)
Operating allocation (note 14)	1,740,000	1,712,500	(1,740,000)	(1,712,500)	-	-	-	-
	(2,489)	(4,195)	(7,795,674)	(7,796,765)	-	-	(7,798,163)	(7,800,960)
Excess (deficiency) of revenue over expenses	\$ (2,489)	\$ (4,195)	\$ (8,298,085)	\$ 8,316,709	\$ 9,271,979	\$ 11,573,108	\$ 971,405	\$ 19,885,622

See accompanying notes to financial statements.

FOUNDATION WESTERN

Statement of Changes in Fund Balances

Year ended April 30, 2012, with comparative figures for 2011

	Operating Fund		Restricted Fund		Endowed Fund		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Fund balances, beginning of year	\$ 334,902	\$ 337,204	\$ 28,684,137	\$ 26,635,473	\$ 144,168,752	\$ 126,329,492	\$ 173,187,791	\$ 153,302,169
Excess (deficiency) of revenue over expenses	(2,489)	(4,195)	(8,298,085)	8,316,709	9,271,979	11,573,108	971,405	19,885,622
Preservation of capital	-	-	-	(6,215,410)	-	6,215,410	-	-
Other interfund transfers	1,893	1,893	(79,565)	(52,635)	77,672	50,742	-	-
Fund balances, end of year	\$ 334,306	\$ 334,902	\$ 20,306,487	\$ 28,684,137	\$ 153,518,403	\$ 144,168,752	\$ 174,159,196	\$ 173,187,791

See accompanying notes to financial statements.

FOUNDATION WESTERN

Statement of Cash Flows

Year ended April 30, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 971,405	\$ 19,885,622
Adjustments for:		
Change in unrealized gains on investments	2,271,760	(10,773,757)
Amortization of capital assets	2,987	3,937
Change in non-cash working capital:		
Interest and other receivables	12,300	(44,341)
Prepaid expenses	(60)	1,405
Accounts payable and accrued liabilities	2,690	11,014
Investments held in trust for the University	(205,784)	205,784
Employee future benefits	20,000	20,000
	<u>3,075,298</u>	<u>9,309,664</u>
Investing activities:		
Net change in investments	(1,686,109)	(9,580,223)
Increase in cash surrender value, life insurance	(22,458)	(59,738)
Capital assets additions	(1,772)	(928)
	<u>(1,710,339)</u>	<u>(9,640,889)</u>
Financing activities:		
Repayment of note receivable	100,000	100,000
Increase (decrease) in cash	1,464,959	(231,225)
Cash, beginning of year	158,174	389,399
Cash, end of year	<u>\$ 1,623,133</u>	<u>\$ 158,174</u>

See accompanying notes to financial statements.

FOUNDATION WESTERN

Notes to Financial Statements

Year ended April 30, 2012

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, 2012

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 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, 2012

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.

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2012

3. Future changes in accounting policies:

In December 2010, the Accounting Standards Board of the Canadian Institute for 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 are effective for years beginning on or after January 1, 2012.

Under the new accounting standards issued by AcSB, the Foundation is classified as an other not-for-profit organization and will apply the Accounting Standards for Non-for-Profit Organizations contained in Part III of the CICA Handbook - Accounting.

The Foundation is currently in the process of determining the impact of these changes, which will be implemented for the year ending April 30, 2013.

4. Investments:

(a) Managed by the Foundation:

	2012	2011
Short-term investments	\$ 593,490	\$ 2,272,116
Government and corporate bonds	51,443,889	50,256,258
Canadian equities - public	52,649,923	51,710,358
Global equities - public	51,778,158	52,237,940
	<u>\$ 156,465,460</u>	<u>\$ 156,476,672</u>

(b) OSOTF I, managed by the University:

	2012	2011
Short-term investments	\$ 21,596	\$ 19,371
Government and corporate bonds	4,192,156	5,063,006
Canadian equities	3,136,294	3,487,701
U.S. equities	3,354,392	3,521,082
Non-North American equities	3,089,675	3,420,828
Mortgages	242,914	-
Real estate	485,412	-
Alternative investments	685,941	270,831
	<u>\$ 15,208,380</u>	<u>\$ 15,782,819</u>

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2012

4. Investments (continued):

(c) Investment income consists of the following:

	2012	2011
Managed by the Foundation:		
Realized investment income	\$ 2,070,231	\$ 3,884,679
Change in unrealized gains (losses) on investments	(2,271,760)	10,773,757
	(201,529)	14,658,436
Less investment management fees	(614,817)	(574,521)
	(816,346)	14,083,915
Managed by the University (OSOTF I):		
Net change in market value	46,095	1,484,980
	\$ (770,251)	\$ 15,568,895

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 was received in 2012.

7. Capital assets:

	2012		2011	
	Cost	Accumulated amortization	Net book value	Net book value
Computers and related equipment	\$ 17,545	\$ 15,202	\$ 2,343	\$ 2,124
Furniture and office equipment	7,169	7,169	-	1,434
	\$ 24,714	\$ 22,371	\$ 2,343	\$ 3,558

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2012

8. Employee future benefits:

(i) Other post-employment benefits:

The accrued liability relating to other post-employment benefits is \$116,000 (2011 - \$96,000). This liability has been recorded in the financial statements. Total expense for these plans is \$20,000 (2011 - \$20,000). Benefits paid during the year amounted to nil (2011 - nil).

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

	2012	2011
Discount rate	4.5%	5.25%
Medical cost increases:		
Extended health and hospital care	5.0%	5.0%
Drug	7.5%	8.0%
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:

	2012	2011
Employer contributions	\$ 29,244	\$ 25,653
Employee contributions	21,264	13,721

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2012

9. Fund balances:

Restricted Fund:

	2012	2011
Externally restricted	\$ 15,297,404	\$ 15,356,102
Internally restricted:		
Stability fund	4,563,804	12,944,028
Other internally restricted	445,279	384,007
	5,009,083	13,328,035
	\$ 20,306,487	\$ 28,684,137

Endowed Fund:

	2012	2011
Externally endowed	\$ 147,777,531	\$ 138,599,051
Internally endowed	5,740,872	5,569,701
	\$ 153,518,403	\$ 144,168,752

10. Outstanding pledges:

Outstanding pledges are approximately \$6,299,379 (2011 - \$4,737,305) at April 30, 2012 and are expected to be received as follows, but are not reflected in these financial statements:

2013	\$ 3,443,500
2014	1,187,421
2015	903,824
2016	401,945
Subsequent years	362,689

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Year ended April 30, 2012

11. Transactions with the University:

During the year, the Foundation paid a total of \$1,159,004 (2011 - \$1,130,736) to the University; \$165,572 (2011 - \$161,534) 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 \$993,432 (2011 - \$969,202) in support of alumni-endowed fundraising activities. This is in accordance with an operating agreement that expired at April 30, 2012. This operating agreement has been extended until a new agreement is negotiated.

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, 2012, a value of \$nil (2011 - \$205,784) remained in transit and is 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.

During the year, the Foundation obtained bridge financing of \$45 million from the University for a period of six days to assist with the transition to a new investment manager. Interest at the bank prime rate of 3% was paid to the University in the amount of \$22,192.

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, 2012.

(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% (2011 - 33%) 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, 2012

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% (2011 - 33%) 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, 2012

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, 2012, 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.

15. Comparative figures:

Certain of the 2011 comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

FOUNDATION WESTERN

Schedule - Operating Expenses

Year ended April 30, 2012, with comparative figures for 2011

	2012	2011
Salaries and benefits	\$ 485,878	\$ 484,130
Communications	18,600	18,188
Insurance	18,459	19,312
Supplies and other office expenses	23,352	26,275
Staff development and memberships	11,798	14,490
Amortization of capital assets	2,987	3,937
Professional fees	22,411	19,627
	583,485	585,959
Outsourced fund raising and system support payments to the University (note 11)	1,159,004	1,130,736
	\$ 1,742,489	\$ 1,716,695