

Financial Statements of

FOUNDATION WESTERN

Years ended April 30, 2013 and 2012



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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, 2013, April 30, 2012 and May 1, 2011 and the statements of operations, changes in fund balances and cash flows for the years ended April 30, 2013 and 2012 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 audits. We conducted our audits 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 in our audits 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, 2013, April 30, 2012 and May 1, 2011, its results of operations and its cash flows for the years ended April 30, 2013 and April 30, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Accountants, Licensed Public Accountants
July 15, 2013
London, Canada

FOUNDATION WESTERN

Statements of Financial Position

April 30, 2013, April 30, 2012 and May 1, 2011

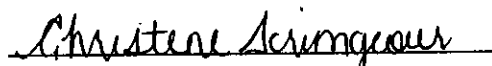
	April 30, 2013	April 30, 2012	May 1, 2011
Assets			
Current:			
Cash	\$ 1,055,388	\$ 1,623,133	\$ 158,174
Interest and other receivables	42,540	38,646	50,946
Note receivable (note 5)	-	-	100,000
Prepaid expenses	4,630	16,092	16,032
	<u>1,102,558</u>	<u>1,677,871</u>	<u>325,152</u>
Investments (note 3(a))	179,705,179	156,465,460	156,476,672
Investments - OSOTF I (note 3(b))	16,373,366	15,208,380	15,782,819
Cash surrender value - life insurance (note 4)	965,116	1,002,249	979,791
Capital assets (note 6)	1,414	2,343	3,558
	<u>\$ 198,147,633</u>	<u>\$ 174,356,303</u>	<u>\$ 173,567,992</u>

Liabilities and Fund Balances

Current:			
Accounts payable and accrued liabilities	\$ 100,983	\$ 81,107	\$ 78,417
Investments held in trust for Western University (note 10)	112,793	-	205,784
	<u>213,776</u>	<u>81,107</u>	<u>284,201</u>
Employee future benefits (note 7)	181,000	135,000	103,000
Fund balances (note 2(a)):			
Operating (note 14)	356,038	315,306	327,902
Restricted (note 8)	33,882,223	20,306,487	28,684,137
Endowed (note 8)	163,514,596	153,518,403	144,168,752
	<u>197,752,857</u>	<u>174,140,196</u>	<u>173,180,791</u>
	<u>\$ 198,147,633</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

Statements of Operations

Years ended April 30, 2013 and 2012

	Operating Fund		Restricted Fund		Endowed Fund		Total
	2013	2012	2013	2012	2013	2012	
Revenue:							
Donations	\$ -	\$ -	\$ 470,888	\$ 274,194	\$ 10,787,713	\$ 9,243,167	\$ 11,258,601
Investment income (loss) (note 3(c))	-	-	21,204,673	(776,605)	(21,517)	28,812	21,183,156
	-	-	21,675,561	(502,411)	10,766,196	9,271,979	32,441,757
Expenses:							
Gifts and grants to Western University	-	-	(6,036,139)	(6,055,674)	-	-	(6,036,139)
Endowment transfer to Western University	-	-	(91,615)	-	(865,181)	-	(956,796)
Operating expenses (Schedule)	(1,836,161)	(1,754,489)	-	-	-	-	(1,836,161)
Operating allocation (note 13)	1,875,000	1,740,000	(1,875,000)	(1,740,000)	-	-	(1,754,489)
	38,839	(14,489)	(8,002,754)	(7,795,674)	(865,181)	-	(8,829,096)
Excess (deficiency) of revenue over expenses	\$ 38,839	\$ (14,489)	\$ 13,672,807	\$ (8,298,085)	\$ 9,901,015	\$ 9,271,979	\$ 23,612,661
							\$ 959,405

See accompanying notes to financial statements.

FOUNDATION WESTERN

Statements of Changes in Fund Balances

Years ended April 30, 2013 and 2012

	Operating Fund		Restricted Fund		Endowed Fund		Total
	2013	2012	2013	2012	2013	2012	
Fund balances, beginning of year (note 14)	\$ 315,306	\$ 327,902	\$ 20,306,487	\$ 28,684,137	\$ 153,518,403	\$ 144,168,752	\$ 174,140,196
Excess (deficiency) of revenue over expenses	38,839	(14,489)	13,672,807	(8,298,085)	9,901,015	9,271,979	23,612,661
Preservation of capital	-	-	-	-	-	-	-
Other interfund transfers	1,893	1,893	(97,071)	(79,565)	95,178	77,672	-
Fund balances, end of year	\$ 356,038	\$ 315,306	\$ 33,882,223	\$ 20,306,487	\$ 163,514,596	\$ 153,518,403	\$ 197,752,857
							\$ 174,140,196

See accompanying notes to financial statements.

FOUNDATION WESTERN

Statements of Cash Flows

Years ended April 30, 2013 and 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 23,612,661	\$ 959,405
Adjustments for:		
Change in unrealized (gains)/losses on investments	(14,545,334)	2,249,302
Amortization of capital assets	929	2,987
Change in non-cash working capital:		
Interest and other receivables	(3,894)	12,300
Prepaid expenses	11,462	(60)
Accounts payable and accrued liabilities	19,876	2,690
Investments held in trust for Western University	112,793	(205,784)
Employee future benefits	46,000	32,000
	<u>9,254,493</u>	<u>3,052,840</u>
Investing activities:		
Net change in investments	(9,859,371)	(1,663,651)
Decrease (Increase) in cash surrender value, life insurance	37,133	(22,458)
Capital assets additions	-	(1,772)
	<u>(9,822,238)</u>	<u>(1,687,881)</u>
Financing activities:		
Repayment of note receivable	-	100,000
Increase (decrease) in cash	(567,745)	1,464,959
Cash, beginning of year	1,623,133	158,174
Cash, end of year	<u>\$ 1,055,388</u>	<u>\$ 1,623,133</u>

See accompanying notes to financial statements.

FOUNDATION WESTERN

Notes to Financial Statements

Years ended April 30, 2013 and 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 ("Western University").

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

The Foundation is in discussions with Western University regarding the transfer of all assets and obligations of the Foundation to Western University. It is anticipated that these transfers will occur prior to April 30, 2014. Non-current assets have been accounted for on a continuity of interest basis, whereby it is anticipated that these assets will continue to function as non-current assets following the transfer to Western University and accordingly, no non-current assets have been reclassified to current assets.

2. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations. 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.

On May 1, 2012, the Foundation adopted Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CICA Handbook ("ASNPO"). These are the first financial statements prepared in accordance with ASNPO.

In accordance with the transitional provisions in ASNPO, the Foundation has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is May 1, 2011 and all comparative information provided has been presented by applying ASNPO.

A summary of the transitional adjustments recorded to fund balances and excess (deficiency) of revenue over expenses is provided in Note 14.

(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.

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Years ended April 30, 2013 and 2012

2. Significant accounting policies (continued):

(a) Fund accounting (continued):

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 Western 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.

(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 Western 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

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Years ended April 30, 2013 and 2012

2. Significant accounting policies (continued):

(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.

(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 Western University.

(ii) Pension plans:

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

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. Investments and cash surrender value of life insurance are carried at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

FOUNDATION WESTERN
Notes to Financial Statements (continued)

Years ended April 30, 2013 and 2012

3. Investments:

(a) Managed by the Foundation:

	April 30, 2013	April 30, 2012	May 1, 2011
Short-term investments	\$ 2,447,561	\$ 593,490	\$ 2,272,116
Government and corporate bonds	54,377,386	51,443,889	50,256,258
Canadian equities, public	61,739,978	52,649,923	51,710,358
Global equities, public	61,140,254	51,778,158	52,237,940
	<u>\$ 179,705,179</u>	<u>\$ 156,465,460</u>	<u>\$ 156,476,672</u>

(b) OSOTF I, managed by Western University:

	April 30, 2013	April 30, 2012	May 1, 2011
Short-term investments	\$ 37,331	\$ 21,596	\$ 19,371
Government and corporate bonds	3,684,964	4,192,156	5,063,006
Canadian equities	3,144,434	3,136,294	3,487,701
U.S. equities	3,653,012	3,354,392	3,521,082
Non-North American equities	3,365,898	3,089,675	3,420,828
Mortgages	677,139	242,914	-
Alternative investments	1,810,588	1,171,353	270,831
	<u>\$ 16,373,366</u>	<u>\$ 15,208,380</u>	<u>\$ 15,782,819</u>

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Years ended April 30, 2013 and 2012

3. Investments (continued):

(c) Investment income consists of the following:

	2013	2012
Managed by the Foundation:		
Realized investment income	\$ 5,572,043	\$ 2,070,231
Change in unrealized gains (losses) on investments	14,545,334	(2,249,302)
	20,117,377	(179,071)
Less investment management fees	(702,038)	(614,817)
	19,415,339	(793,888)
Managed by Western University (OSOTF I):		
Net change in market value	1,767,817	46,095
	\$ 21,183,156	\$ (747,793)

4. 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.

5. Note receivable:

The note receivable represented the unpaid balance of a \$2,000,000 advance to Western University to assist with the construction of Alumni House. The note receivable bore interest at bank prime, however, all interest was waived by the Foundation. The final \$100,000 repayment was received in 2012.

6. Capital assets:

April 30, 2013	Cost	Accumulated amortization	Net book value
Computers and related equipment	\$ 14,487	\$ 13,073	\$ 1,414
Furniture and office equipment	7,169	7,169	-
	\$ 21,656	\$ 20,242	\$ 1,414

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Years ended April 30, 2013 and 2012

6. Capital assets (continued):

April 30, 2012	Cost	Accumulated amortization	Net book value
Computers and related equipment	\$ 17,545	\$ 15,202	\$ 2,343
Furniture and office equipment	7,169	7,169	-
	\$ 24,714	\$ 22,371	\$ 2,343

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

7. Employee future benefits:

(i) Other post-employment benefits:

The accrued liability relating to other post-employment benefits is \$181,000 (April 30, 2012 - \$135,000, May 1, 2011 - \$103,000). This liability has been recorded in the financial statements. Total expense for these plans is \$46,000 (2012 - \$32,000). Benefits paid during the year amounted to nil (2012 - nil).

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

	April 30, 2013	April 30, 2012	May 1, 2011
Discount rate	4.0%	4.5%	5.3%
Medical cost increases:			
Extended health and hospital care	5.0%	5.0%	5.0%
Drug	5.0%	7.5%	8.0%
Dental cost	4.5%	4.5%	4.5%

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

FOUNDATION WESTERN
Notes to Financial Statements (continued)

Years ended April 30, 2013 and 2012

7. Employee future benefits (continued):

(ii) Pension plans:

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

	2013	2012
Employer contributions	\$ 31,330	\$ 29,244
Employee contributions	21,833	21,264

8. Fund balances:

Restricted Fund:

	April 30, 2013	April 30, 2012	May 1, 2011
Externally restricted	\$ 15,845,422	\$ 15,297,406	\$ 15,356,103
Internally restricted:			
Stability fund	17,567,927	4,563,802	12,944,027
Other internally restricted	468,874	445,279	384,007
	18,036,801	5,009,081	13,328,034
	\$ 33,882,223	\$ 20,306,487	\$ 28,684,137

Endowed Fund:

	April 30, 2013	April 30, 2012	May 1, 2011
Externally endowed	\$ 157,101,729	\$ 147,777,531	\$ 138,599,051
Internally endowed	6,412,867	5,740,872	5,569,701
	\$ 163,514,596	\$ 153,518,403	\$ 144,168,752

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Years ended April 30, 2013 and 2012

9. Outstanding pledges:

Outstanding pledges are \$5,569,727 (April 30, 2012 - \$6,299,379; May 1, 2011 - \$4,737,305) at April 30, 2013 and are expected to be received as follows, but are not reflected in these financial statements:

2014	\$ 2,074,849
2015	1,557,544
2016	1,088,707
Subsequent years	848,627

10. Transactions with Western University:

During the year, the Foundation paid a total of \$1,159,004 (2012 - \$1,159,004) to Western University consisting of the following; \$165,572 (2012 - \$165,572) for its share of system development and programming costs and salaries and benefits for services provided by the Advancement Services department of Western University and \$993,432 (2012 - \$993,432) in support of alumni-endowed fundraising activities. The operating agreement expired April 30, 2013 and was not renewed. The Foundation will pay Western University \$170,000 in fiscal 2014 for its share of system development and programming costs and salaries and benefits for services provided by Advancement Services.

Western 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 Western University. As at April 30, 2013, a value of \$112,794 (2012 - nil) 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.

11. Financial risks and concentration of risk:

(a) Liquidity risk:

Liquidity risk is the risk that the Foundation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Foundation manages its liquidity risk by monitoring its operating requirements. The Foundation prepares budgets and cash flow forecasts to ensure it has sufficient funds to fulfill its obligations. There have been no changes to the risk exposures from 2012.

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Years ended April 30, 2013 and 2012

11. Financial risks and concentration of risk (continued):

(ii) 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.

(iii) 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.

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, 2013, 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.

13. 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 Western University.

FOUNDATION WESTERN

Notes to Financial Statements (continued)

Years ended April 30, 2013 and 2012

14. Impact of the transition to Canadian Accounting Standards for Not-for-Profit Organizations:

The Foundation has adopted the Canadian accounting standards for not-for-profit organizations in Part III of the CICA Handbook for its fiscal year ended April 30, 2013. These accounting standards have been applied to the comparative information for the year ended April 30, 2012 and the opening statement of financial position at May 1, 2011.

Fund Balances - Operating:

As previously reported under Canadian generally accepted accounting principles, April 30, 2011	\$ 334,902
Transition election to recognize all cumulative actuarial gains and losses on future employee benefits	(7,000)
<hr/> Balance, May 1, 2011	<hr/> \$ 327,902

The Foundation, in accordance with transitional provisions set out in Section 1501, First-time Adoption by Not-for-Profit Organizations, has elected to use the following transitional election:

Employee future benefits - The Foundation has elected to recognize all cumulative actuarial gains and losses and past service costs in opening net assets May 1, 2011.

FOUNDATION WESTERN

Schedule - Operating Expenses

Years ended April 30, 2013 and 2012

	2013	2012
Salaries and benefits	\$ 571,700	\$ 497,878
Communications	18,124	18,600
Insurance	19,315	18,459
Supplies and other office expenses	32,911	23,352
Staff development and memberships	15,929	11,798
Amortization of capital assets	929	2,987
Professional fees	18,249	22,411
	677,157	595,485
Outsourced fund raising and system support payments to Western University (note 10)	1,159,004	1,159,004
	\$ 1,836,161	\$ 1,754,489