

Financial Statements

Ontario College of Art & Design Foundation
May 31, 2010

AUDITORS' REPORT

To the Members of the
Ontario College of Art & Design Foundation

We have audited the balance sheet of the **Ontario College of Art & Design Foundation** as at May 31, 2010 and the statement of operations and changes in fund balances 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 May 31, 2010 and the results of its operations and its 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.

Toronto, Canada,
July 30, 2010.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Ontario College of Art & Design Foundation

BALANCE SHEET

As at May 31

| | 2010 | 2009 |
|--|------------------|------------------|
| | \$ | \$ |
| ASSETS | | |
| Cash and cash equivalents | 855,856 | 799,997 |
| Investments, at market value [note 3[a]] | 8,660,047 | 7,314,605 |
| | 9,515,903 | 8,114,602 |
| LIABILITY AND FUND BALANCES | | |
| Liability | | |
| Due to OCAD University [note 6[d]] | 513,136 | 127,156 |
| Fund balances | | |
| Operating Fund | 273,879 | 413,186 |
| Restricted Fund [note 5] | 504,621 | 262,160 |
| Endowment Fund [note 4] | 8,224,267 | 7,312,100 |
| Total fund balances | 9,002,767 | 7,987,446 |
| | 9,515,903 | 8,114,602 |

See accompanying notes

On behalf of the Board:

Chair

Vice-Chair

Ontario College of Art & Design Foundation

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

Year ended May 31

| | <u>Operating Fund</u> | | <u>Restricted Fund</u> | | <u>Endowment Fund</u> | | <u>Total</u> | |
|--|-----------------------|------------------|------------------------|------------------|-----------------------|------------------|------------------|------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| REVENUE | | | | | | | | |
| Investment income (loss), net <i>[notes 3[b] and 4]</i> | 44,333 | (74,800) | 178,307 | (36,282) | 634,362 | (873,592) | 857,002 | (984,674) |
| Transfer from OCAD University - Government funding <i>[note 6[e]]</i> | — | — | — | — | 9,000 | 516,854 | 9,000 | 516,854 |
| Donations | — | 99,647 | 1,351,694 | 307,047 | 194,380 | 283,145 | 1,546,074 | 689,839 |
| | 44,333 | 24,847 | 1,530,001 | 270,765 | 837,742 | (73,593) | 2,412,076 | 222,019 |
| EXPENSES | | | | | | | | |
| Funds transferred to the OCAD University <i>[notes 4 and 6]</i> | 104,132 | 225,000 | 1,292,623 | 430,313 | — | — | 1,396,755 | 655,313 |
| Excess (deficiency) of revenue over expenses for the year | (59,799) | (200,153) | 237,378 | (159,548) | 837,742 | (73,593) | 1,015,321 | (433,294) |
| Fund balances, beginning of year | 413,186 | 648,900 | 262,160 | 312,058 | 7,312,100 | 7,459,782 | 7,987,446 | 8,420,740 |
| Interfund transfers <i>[note 4]</i> | (79,508) | (35,561) | 5,083 | 109,650 | 74,425 | (74,089) | — | — |
| Fund balances, end of year | 273,879 | 413,186 | 504,621 | 262,160 | 8,224,267 | 7,312,100 | 9,002,767 | 7,987,446 |

See accompanying notes

Ontario College of Art & Design Foundation

NOTES TO FINANCIAL STATEMENTS

May 31, 2010

1. PURPOSE OF THE ORGANIZATION

The Ontario College of Art & Design Foundation [the "Foundation"] was incorporated under the laws of Ontario as a corporation without share capital. The Foundation raises, receives, accumulates, invests and distributes funds and/or income for the benefit of OCAD University [the "University"].

The Foundation is a public foundation registered under the Income Tax Act (Canada) and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Foundation have been prepared in accordance with Canadian generally accepted accounting principles. The following summary of significant accounting policies is set forth to facilitate the understanding of these financial statements:

Fund accounting

The Foundation follows the restricted fund method of accounting for contributions. The Foundation ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they are provided.

For financial reporting purposes, the accounts have been classified into the following funds:

[a] Operating Fund

The Operating Fund accounts for the Foundation's undesignated fundraising activities and reports unrestricted resources available for immediate purposes.

[b] Restricted Fund

The Restricted Fund reports, as revenue, resources that are to be used for specific purposes as specified by the donor, and, as expenses, the use of these resources for the specified purposes.

[c] Endowment Fund

The Endowment Fund reports resources that are required by the donor or the Board of Directors [the "Board"] to be maintained by the Foundation on a permanent basis. Revenue of the Endowment Fund is limited to amounts that have been restricted for endowment purposes by the external contributor.

Ontario College of Art & Design Foundation

NOTES TO FINANCIAL STATEMENTS

May 31, 2010

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term investments with an original term to maturity of less than three months.

Investments and investment income (loss)

Publicly traded securities are valued based on the latest bid prices and pooled funds are valued based on reported unit values. Short-term securities are valued based on cost plus accrued income, which approximates fair value. Transactions are recorded on a settlement date basis and transaction costs are expensed as incurred.

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses, is recorded in the statement of operations and changes in fund balances.

Investment income (loss) earned on the Endowment Fund or Restricted Fund resources that must be spent on donor-restricted activities is recognized in the Restricted Fund. Investment income that must be added to the Endowment Fund balance is recognized in the Endowment Fund. Unrestricted investment income is recognized in the Operating Fund.

Financial instruments

The Foundation has chosen to apply CICA 3861: *Financial Instruments – Disclosure and Presentation* in place of CICA 3862: *Financial Instruments – Disclosures* and CICA 3863: *Financial Instruments – Presentation*.

Revenue recognition

Donor-restricted contributions for endowment purposes are recognized as revenue in the Endowment Fund. Other donor-restricted contributions are recognized as revenue of the Restricted Fund. Unrestricted contributions are recognized as revenue of the Operating Fund. Contributions are recognized as revenue when received since pledges are not legally enforceable claims.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at year end. Operating revenue and expenses are translated at average rates prevailing during the year. Gains or losses arising from these translations are included in investment income (loss).

Ontario College of Art & Design Foundation

NOTES TO FINANCIAL STATEMENTS

May 31, 2010

Contributed goods and services

Volunteers contribute a substantial number of hours per year to assist the Foundation in carrying out its fundraising activities. Because of the difficulty in determining their fair value, contributed goods and services are not recognized in the financial statements.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. INVESTMENTS AND INVESTMENT INCOME (LOSS)

[a] Investments consist of the following:

| | 2010 | 2009 |
|----------------------|------------------|------------------|
| | \$ | \$ |
| Bonds and debentures | 3,385,435 | 3,017,648 |
| Equities | | |
| Canadian | 3,994,064 | 3,323,740 |
| Foreign | 1,217,767 | 894,801 |
| Accrued income | 62,781 | 78,416 |
| | 8,660,047 | 7,314,605 |

As at May 31, 2010, the weighted average rate of return on fixed income securities, based on market values, is 3.58% [2009 - 4.26%] and the weighted average term to maturity is 6.2 years [2009 - 7.7 years].

Ontario College of Art & Design Foundation

NOTES TO FINANCIAL STATEMENTS

May 31, 2010

[b] Investment income (loss), net, consists of the following:

| | 2010 | 2009 |
|---|-----------------|-------------|
| | \$ | \$ |
| Interest and dividend income | 246,558 | 262,237 |
| Realized and unrealized gain (loss) on investments, net | 700,214 | (1,170,600) |
| Investment management and custodian fees | (74,522) | (64,039) |
| Administration fees | (15,248) | (12,272) |
| | 857,002 | (984,674) |

Investment income (loss) is allocated based on the balances of individual funds.

4. ENDOWMENT FUND

The Endowment Fund consists of externally or internally restricted contributions received by the Foundation where the endowment principal is required by the donor or the Board to be maintained permanently. The investment income generated from assets held for endowment purposes must be used in accordance with the various purposes established by the donors or the Board.

The Endowment Fund consists of the following:

| | 2010 | 2009 |
|---|------------------|-------------|
| | \$ | \$ |
| Externally endowed funds with income to be used for donor-restricted purposes | 7,752,105 | 6,907,205 |
| Externally endowed funds with income unrestricted | 171,987 | 161,901 |
| Internally endowed restricted funds with income to be used for scholarships and bursaries | 300,175 | 242,994 |
| | 8,224,267 | 7,312,100 |

Policies have been established by the Foundation with the objective of protecting the real value of endowments by limiting the amount of income available for spending and requiring the reinvestment of income not disbursed. Based on these policies, the payout rate on individual funds has been set at 3.5% [2009 - 4.0%], plus a 1% management fee payable to the University, except as noted below. Investment income for the purposes of these policies includes interest and dividend income and realized and unrealized gains and losses, net of fees. In any particular year, should net investment income not be sufficient to fund the payout calculated in accordance with the Foundation's policy, an amount is transferred from the Endowment Fund to the Restricted and Unrestricted Funds.

Ontario College of Art & Design Foundation

NOTES TO FINANCIAL STATEMENTS

May 31, 2010

Under the Ministry of Training, Colleges and University's Institutional policy regarding the Ontario Trust for Student Support ["OTSS"] Endowment Fund, the endowment principal [eligible matched donations, provincial and institutional matching funding and unmatched donations] cannot be used to fund OTSS awards and institutions may not implement any policy that would allow them to spend endowment principal, temporarily or otherwise, except that fees may be paid to the extent that investment income is earned. As at May 31, 2009, the book value of \$5,598,054 exceeded market value of \$5,104,207 and, therefore, there was no payment from these funds in fiscal 2010. As a result, the Foundation launched a multi-year Student Challenge Fundraising campaign to replace funds not paid out.

During fiscal 2010, the Endowment Fund earned total investment income of \$784,573. The amount available for spending and the management fee payable to the University [note 6[b]] totaling \$150,211 was recorded as revenue in the Restricted Fund. This amount is included in the funds transferred to the University [note 6[a]]. The amount of \$634,362 in excess of the amount available for spending was recorded as revenue in the Endowment Fund.

During fiscal 2009, the Endowment Fund incurred an investment loss of \$873,592. The amount available for spending of \$109,650 was transferred from the Endowment Fund to the Restricted Fund. This amount is included in the funds transferred to the University [note 6[a]].

During fiscal 2010, \$74,425 [2009 - \$35,561] was transferred from the Operating Fund to the Endowment Fund for a matching student aid fundraising campaign and \$5,083 [2009 - nil] was transferred from the Operating Fund to the Restricted Fund for the Student Assistance Challenge campaign.

5. RESTRICTED FUND

The major categories of externally imposed restrictions on funds included in the Restricted Fund are as follows:

| | 2010 | 2009 |
|---|----------------|----------------|
| | \$ | \$ |
| Restricted for Dorothy Hoover Library | 115,423 | 108,654 |
| Restricted for Nexus Library Fund | 18,847 | 5,671 |
| Restricted for Florence Program | 143,283 | 131,516 |
| Restricted for Drawing & Painting Program | 35,704 | 16,319 |
| Restricted for Major Capital Campaign | 35,000 | — |
| Restricted for Student Assistance Challenge | 156,364 | — |
| | 504,621 | 262,160 |

Ontario College of Art & Design Foundation

NOTES TO FINANCIAL STATEMENTS

May 31, 2010

6. RELATED PARTY TRANSACTIONS

[a] Funds were transferred to the University for the following purposes:

| | 2010 | 2009 |
|--|------------------|----------------|
| | \$ | \$ |
| OPERATING FUND | | |
| Management fee | 4,132 | 25,000 |
| Development & Alumni Relations Department Supplement | — | 100,000 |
| University programs | 100,000 | 100,000 |
| | 104,132 | 225,000 |
| RESTRICTED FUND | | |
| University campus expansion | 933,383 | 301,279 |
| Scholarships and bursaries | 219,865 | 79,707 |
| University programs | 5,667 | 7,740 |
| Dorothy Hoover Library | 3,803 | 5,195 |
| Nexus Library Fund | 198 | — |
| Florence Program | 4,603 | 6,271 |
| Sculpture Program | 14,875 | 20,319 |
| Auditorium | 1,020 | 1,393 |
| Textile Studio | 536 | 491 |
| Drawing & Painting Program | 6,053 | 7,918 |
| Ontario Graduate Fellowship | 1,877 | — |
| Major Capital Campaign Feasibility Study | 25,000 | — |
| Management fee | 75,743 | — |
| | 1,292,623 | 430,313 |
| Total funds transferred | 1,396,755 | 655,313 |

[b] Administrative services are provided by the University for a management fee of \$79,875, calculated as 1% of the operating, restricted and endowment fund balances at the beginning of the year [2009 - flat fee of \$25,000]. Fundraising support and space are provided to the Foundation by the University at no cost, except for costs related to the Capital Fundraising Campaign being funded over the period in which pledges are being collected. At the end of fiscal 2009, these costs had been fully expensed.

[c] Related party transactions are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

[d] Amounts due to the University are non-interest bearing and due on demand.

Ontario College of Art & Design Foundation

NOTES TO FINANCIAL STATEMENTS

May 31, 2010

[e] The Foundation now receives and records in its financial statements internally and externally restricted endowed donations eligible for matching under Government of Ontario programs. The matching contributions from the Government of Ontario, which are claimed by the University and received by them, are transferred to the Foundation where they are recorded in the Endowment Fund. The Foundation records revenue and a receivable from the University equal to the amount of matching funds to be claimed by the University when the donations eligible for matching are received and recorded in Endowment Fund revenue by the Foundation. In fiscal 2010, an amount of \$9,000 [2009 - \$463,223] was recorded by the Foundation as Endowment Fund revenue in connection with matching grants.

In fiscal 2009, a grant of \$53,631 received by the University from the Government of Ontario with respect to the Government of Ontario Graduate Fellow Program was transferred to the Foundation.

Investment income is earned on the endowed funds held by the Foundation. An amount is made available for spending each year in accordance with the Foundation's policies [note 4]. This amount is transferred to the University.

The Government of Ontario requires the University to provide certain details of the endowed funds held by the Foundation and the expendable funds held by the University in connection with these matching programs. These details are provided in the financial statements of the University.

7. FINANCIAL INSTRUMENTS

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

8. STATEMENT OF CASH FLOWS

A separate statement of cash flows has not been presented since cash flows from operating, investing and financing activities are readily apparent from the other financial statements.

Ontario College of Art & Design Foundation

NOTES TO FINANCIAL STATEMENTS

May 31, 2010

9. CAPITAL MANAGEMENT

In managing capital, the Foundation focuses on liquid resources available for operations. The Foundation's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. 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 at May 31, 2010, the Foundation met its objective of having sufficient liquid resources to meet its current obligations.

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