

Financial Statements

OCAD University Foundation

May 31, 2014



Building a better
working world

INDEPENDENT AUDITORS' REPORT

To the Members of
OCAD University Foundation

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **OCAD University Foundation**, which comprise the balance sheet as at May 31, 2014 and the statements of operations and changes in fund balances and cash flows for the year then ended, and 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 accounting standards for not-for-profit organizations, 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 the auditors' 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, the auditors 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 **OCAD University Foundation** as at May 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Corporations Act (Ontario), we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Toronto, Canada,
September 24, 2014.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

OCAD University Foundation

BALANCE SHEET

As at May 31

	2014 \$	2013 \$
ASSETS		
Cash and cash equivalents	601,980	458,896
Investments, at market value <i>[note 3[a]]</i>	12,500,161	11,487,688
	13,102,141	11,946,584
LIABILITY AND FUND BALANCES		
Liability		
Due to Ontario College of Art & Design University <i>[note 1]</i>	13,102,141	702,953
Fund balances		
Operating Fund	—	146,812
Restricted Fund <i>[note 5]</i>	—	464,609
Endowment Fund <i>[note 4]</i>	—	10,632,210
Total fund balances	—	11,243,631
	13,102,141	11,946,584

See accompanying notes

On behalf of the Board:

Chair

Vice-Chair



OCAD University 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>	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
Investment income, net <i>[notes 3[b] and 4]</i>	22,642	41,728	548,430	486,946	1,161,299	977,378	1,732,371	1,506,052
Donations	—	—	34,974	35,273	71,870	122,310	106,844	157,583
	22,642	41,728	583,404	522,219	1,233,169	1,099,688	1,839,215	1,663,635
EXPENSES								
Funds transferred to the Ontario College of Art & Design University <i>[notes 4 and 6[a]]</i>	124,230	177,829	509,928	452,844	—	—	634,158	630,673
Excess (deficiency) of revenue over expenses before the following	(101,588)	(136,101)	73,476	69,375	1,233,169	1,099,688	1,205,057	1,032,962
Transfer of May 31, 2014 fund balances to Ontario College of Art & Design University <i>[note 1]</i>	(45,224)	—	(538,085)	—	(11,865,379)	—	(12,448,688)	—
Excess (deficiency) of revenue over expenses for the year	(146,812)	(136,101)	(464,609)	69,375	(10,632,210)	1,099,688	(11,243,631)	1,032,962
Fund balances, beginning of year	146,812	282,913	464,609	395,234	10,632,210	9,532,522	11,243,631	10,210,669
Fund balances, end of year	—	146,812	—	464,609	—	10,632,210	—	11,243,631

See accompanying notes



OCAD University Foundation

STATEMENT OF CASH FLOWS

Year ended May 31

	2014	2013
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	(11,243,631)	1,032,962
Net increase in due to Ontario College of Art & Design University	12,399,188	75,444
Cash provided by operating activities	1,155,557	1,108,406
INVESTING ACTIVITIES		
Net increase in investments	(1,012,473)	(1,429,641)
Cash used in investing activities	(1,012,473)	(1,429,641)
Net increase (decrease) in cash and cash equivalents during the year	143,084	(321,235)
Cash and cash equivalents, beginning of year	458,896	780,131
Cash and cash equivalents, end of year	601,980	458,896

See accompanying notes



OCAD University Foundation

NOTES TO FINANCIAL STATEMENTS

May 31, 2014

1. DESCRIPTION OF THE ORGANIZATION

OCAD University 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 the Ontario College of Art & Design 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.

On April 25, 2013, the Board of Directors of the Foundation approved a motion of intent to wind up the Foundation and transfer fund balances to the University. On May 31, 2014, a Deed of Appointment and Deed of Gift was enacted between the Foundation and University appointing the University as the successor trustee of the Foundation's trust funds. As a result, as at May 31, 2014, fund balances of \$12,448,688 were transferred to the University.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Part III of the Chartered Professional Accountants of Canada ["CPA Canada"] Handbook – Accounting, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

Fund accounting

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:

Operating Fund

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

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.

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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.

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

Investments are recorded at fair value. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Other financial instruments are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

Revenue recognition

The Foundation follows the restricted fund method of accounting for contributions. Grants and bequests are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received since pledges are not legally enforceable. 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.

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. Investment losses are recognized consistent with investment income.

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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. 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).

Contributed goods and services

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

3. INVESTMENTS AND INVESTMENT INCOME

[a] Investments consist of the following:

	2014	2013
	\$	\$
Bonds and debentures	3,429,442	3,393,309
Equities		
Canadian	4,474,754	4,137,662
Foreign	4,534,882	3,887,419
Accrued income	61,083	69,298
	12,500,161	11,487,688

As at May 31, 2014, the weighted average rate of return on fixed income securities based on market values is 3.02% [2013 – 3.30%] and the weighted average term to maturity is 6.0 years [2013 – 5.6 years].

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NOTES TO FINANCIAL STATEMENTS

May 31, 2014

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

	2014	2013
	\$	\$
Interest and dividend income	309,726	267,268
Realized and unrealized gain on investments, net	1,521,318	1,329,989
Investment management and custodian fees	(83,162)	(75,694)
Administration fees	(15,511)	(15,511)
	1,732,371	1,506,052

Investment income 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:

	2014	2013
	\$	\$
Externally endowed funds with income to be used for donor-restricted purposes	—	10,163,276
Externally endowed funds with income unrestricted	—	196,223
Internally endowed restricted funds with income to be used for scholarships and bursaries	—	272,711
	—	10,632,210

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NOTES TO FINANCIAL STATEMENTS

May 31, 2014

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% [2013 - 3.5%] 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.

During fiscal 2014, the Endowment Fund earned investment income of \$1,639,748 [2013 - \$1,406,001]. The amount available for spending and the management fee payable to the University [note 6[b]] totalling \$478,449 [2013 - \$428,624] 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 \$1,161,299 [2013 - \$977,378] in excess of the amount available for spending and the management fee payable to the University was recorded as revenue in the Endowment Fund.

5. RESTRICTED FUND

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

	2014	2013
	\$	\$
Restricted for Dorothy Hoover Library	—	132,736
Restricted for Nexus Library Fund	—	65,578
Restricted for Florence Program	—	169,484
Restricted for Drawing & Painting Program	—	85,773
Restricted for Student Assistance Challenge	—	11,038
	—	464,609

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NOTES TO FINANCIAL STATEMENTS

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6. RELATED PARTY TRANSACTIONS

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

	2014	2013
	\$	\$
OPERATING FUND		
Management fee	1,468	2,829
Campaign Readiness	50,000	175,000
Foundation windup [note 6[b]]	72,762	—
	124,230	177,829
RESTRICTED FUND		
University campus expansion	30	27
Scholarships and bursaries	352,815	306,914
University programs	6,868	6,229
Dorothy Hoover Library	4,646	4,214
Nexus Library Fund	2,295	1,624
Florence Program	5,932	5,380
Sculpture Program	18,028	16,352
Auditorium	1,236	1,121
Textile Studio	682	619
Drawing & Painting Program	3,002	9,023
Ontario Graduate Fellowship	2,275	2,063
President's Purchase Fund	386	—
J. K. Endowment Fund for Drawing & Painting	875	—
Management fee	110,858	99,278
	509,928	452,844
Total funds transferred	634,158	630,673

[b] Administrative services are provided by the University for a management fee of \$112,326 [2013 - \$102,107] calculated as 1% of the operating, long-term restricted and endowment fund balances at the beginning of the year. In addition, during the year ended May 31, 2014, a transfer of \$72,762 was made to the University to cover certain costs related to the windup of the Foundation [note 1]. Fundraising support and space are provided to the Foundation by the University at no cost. Administrative costs not related to investments are paid by the University.

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

7. FINANCIAL INSTRUMENTS

The University is exposed to various financial risks through transactions in financial instruments.

Currency risk

The Foundation is exposed to foreign currency risk with respect to its investments denominated in foreign currencies because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

Credit risk

The Foundation is exposed to credit risk in connection with its fixed income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation.

Interest rate risk

The Foundation is exposed to interest rate risk with respect to its investments in fixed income investments because the fair value will fluctuate due to changes in market interest rates.

Other price risk

The Foundation is exposed to other price risk through changes in market prices [other than changes arising from interest rate or currency risks] in connection with its investments in equity securities.

