

Financial Statements

OCAD University Foundation

May 31, 2013 and 2012

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 sheets as at May 31, 2013 and 2012, and June 1, 2011 and the statements of operations and changes in fund balances and cash flows for the years ended May 31, 2013 and 2012, 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 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 audits 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 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 **OCAD University Foundation** as at May 31, 2013 and 2012, and June 1, 2011 and the results of its operations and its cash flows for the years ended May 31, 2013 and 2012 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 12, 2013.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

OCAD University Foundation

BALANCE SHEETS

As at

	May 31, 2013 \$	May 31, 2012 \$	June 1, 2011 \$
ASSETS			
Cash and cash equivalents	458,896	780,131	720,042
Investments, at market value [note 3[a]]	11,487,688	10,058,047	10,074,592
	11,946,584	10,838,178	10,794,634
LIABILITY AND FUND BALANCES			
Liability			
Due to Ontario College of Art & Design University [note 6[d]]	702,953	627,509	454,895
Fund balances			
Operating Fund	146,812	282,913	289,049
Restricted Fund [note 5]	464,609	395,234	474,086
Endowment Fund [note 4]	10,632,210	9,532,522	9,576,604
Total fund balances	11,243,631	10,210,669	10,339,739
	11,946,584	10,838,178	10,794,634

See accompanying notes

On behalf of the Board:

Chair

Vice-Chair

OCAD University Foundation

STATEMENTS OF OPERATIONS AND CHANGES IN FUND BALANCES

Years ended May 31

	<u>Operating Fund</u>		<u>Restricted Fund</u>		<u>Endowment Fund</u>		<u>Total</u>	
	2013	2012	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
Investment income (loss), net <i>[notes 3[b] and 4]</i>	41,728	(1,245)	486,946	(1,605)	977,378	(41,229)	1,506,052	(44,079)
Transfer from Ontario College of Art & Design University – Government funding <i>[note 6[e]]</i>	—	—	—	—	—	65,447	—	65,447
Donations	—	—	35,273	91,335	122,310	225,650	157,583	316,985
	41,728	(1,245)	522,219	89,730	1,099,688	249,868	1,663,635	338,353
EXPENSES								
Funds transferred to the Ontario College of Art & Design University <i>[notes 4 and 6]</i>	177,829	3,891	452,844	463,532	—	—	630,673	467,423
Excess (deficiency) of revenue over expenses for the year	(136,101)	(5,136)	69,375	(373,802)	1,099,688	249,868	1,032,962	(129,070)
Fund balances, beginning of year	282,913	289,049	395,234	474,086	9,532,522	9,576,604	10,210,669	10,339,739
Interfund transfers <i>[notes 4 and 5]</i>	—	(1,000)	—	294,950	—	(293,950)	—	—
Fund balances, end of year	146,812	282,913	464,609	395,234	10,632,210	9,532,522	11,243,631	10,210,669

See accompanying notes

OCAD University Foundation

STATEMENTS OF CASH FLOWS

Years ended May 31

	2013	2012
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	1,032,962	(129,070)
Net increase in due to Ontario College of Art & Design University	75,444	172,614
Cash provided by operating activities	1,108,406	43,544
INVESTING ACTIVITIES		
Net increase (decrease) in investments	(1,429,641)	16,545
Cash provided by (used in) investing activities	(1,429,641)	16,545
Net increase (decrease) in cash and cash equivalents during the year	(321,235)	60,089
Cash and cash equivalents, beginning of year	780,131	720,042
Cash and cash equivalents, end of year	458,896	780,131

See accompanying notes

OCAD University Foundation

NOTES TO FINANCIAL STATEMENTS

May 31, 2013 and 2012

1. PURPOSE 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 by the end of the 2014 fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Part III of the Canadian Institute of Chartered Accountants' ["CICA"] 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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NOTES TO FINANCIAL STATEMENTS

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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. 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).

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:

	May 31, 2013 \$	May 31, 2012 \$	June 1, 2011 \$
Bonds and debentures	3,393,309	4,288,095	3,895,650
Equities			
Canadian	4,137,662	3,355,102	4,670,695
Foreign	3,887,419	2,321,608	1,430,368
Accrued income	69,298	93,242	77,879
	11,487,688	10,058,047	10,074,592

As at May 31, 2013, the weighted average rate of return on fixed income securities based on market values is 3.30% [May 31, 2012 - 3.51%; June 1, 2011 - 3.72%] and the weighted average term to maturity is 5.6 years [May 31, 2012 - 5.7 years; June 1, 2011 - 6.1 years].

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NOTES TO FINANCIAL STATEMENTS

May 31, 2013 and 2012

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

	2013	2012
	\$	\$
Interest and dividend income	267,268	300,890
Realized and unrealized gain (loss) on investments, net	1,329,989	(258,205)
Investment management and custodian fees	(75,694)	(71,253)
Administration fees	(15,511)	(15,511)
	1,506,052	(44,079)

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:

	May 31,	May 31,	June 1,
	2013	2012	2011
	\$	\$	\$
Externally endowed funds with income to be used for donor-restricted purposes	10,163,276	9,072,227	9,106,938
Externally endowed funds with income unrestricted	196,223	177,981	187,212
Internally endowed restricted funds with income to be used for scholarships and bursaries	272,711	282,314	282,454
	10,632,210	9,532,522	9,576,604

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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% [2012 - 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.

Under the Ministry of Training, Colleges and University's Institutional policy regarding the funds held for the Ontario Trust for Student Support ["OTSS"] and Ontario Student Opportunity Trust Fund ["OSOTF"] programs, the endowment principal [eligible matched donations, provincial and institutional matching funding and unmatched donations] cannot be used to fund OTSS and OSOTF 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. During fiscal 2013 and 2012, the market value of the OTSS and OSOTF endowment balance exceeded its book value.

During fiscal 2013, the Endowment Fund earned investment income of \$1,406,001. The amount available for spending and the management fee payable to the University [note 6[b]] totaling \$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 \$977,378 in excess of the amount available for spending was recorded as revenue in the Endowment Fund.

During fiscal 2012, the Endowment Fund incurred an investment loss of \$41,229, which is recorded as investment loss in the Endowment Fund. The amount available for spending and the management fee payable to the University [note 6[b]] totaling \$297,056 was recorded as a transfer from the Endowment Fund to the Restricted Fund. This amount is included in the funds transferred to the University [note 6[a]].

During fiscal 2012, \$1,000 was transferred from the Operating Fund to the Endowment Fund for a matching student aid fundraising campaign.

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5. RESTRICTED FUND

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

	May 31, 2013	May 31, 2012	June 1, 2011
	\$	\$	\$
Restricted for Dorothy Hoover Library	132,736	120,396	126,641
Restricted for Nexus Library Fund	65,578	46,393	34,143
Restricted for Florence Program	169,484	153,727	156,062
Restricted for Drawing & Painting Program	85,773	74,718	62,512
Restricted for Student Assistance Challenge	11,038	—	94,728
	464,609	395,234	474,086

In fiscal 2012, \$2,106 was transferred from the Restricted Fund to the Endowment Fund as per donor intent.

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6. RELATED PARTY TRANSACTIONS

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

	2013	2012
	\$	\$
OPERATING FUND		
Management fee	2,829	2,891
Campaign Readiness	175,000	—
Past Chairs Scholarships	—	1,000
	177,829	3,891
RESTRICTED FUND		
University campus expansion	27	90
Scholarships and bursaries	306,914	310,901
University programs	6,229	6,552
Dorothy Hoover Library	4,214	4,432
Nexus Library Fund	1,624	1,195
Florence Program	5,380	5,462
Sculpture Program	16,352	17,200
Auditorium	1,121	1,179
Textile Studio	619	651
Drawing & Painting Program	9,023	14,140
Ontario Graduate Fellowship	2,063	2,171
Management fee	99,278	99,559
	452,844	463,532
Total funds transferred	630,673	467,423

[b] Administrative services are provided by the University for a management fee of \$102,107 [2012 - \$102,450] calculated as 1% of the operating, long-term restricted and endowment fund balances at the beginning of the year. Fundraising support and space are provided to the Foundation by the University at no cost.

[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.

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[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 2013, no amount [2012 - \$65,447] was recorded by the Foundation as Endowment Fund revenue in connection with matching grants.

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 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.

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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.

8. FIRST-TIME ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

These financial statements are the first financial statements that the Foundation has prepared in accordance with Part III of the CICA Handbook – Accounting, which constitutes generally accepted accounting principles for not-for-profit organizations in Canada. First-time adoption of this new basis of accounting had no impact on excess of revenue over expenses for the year ended May 31, 2012 or fund balances as at June 1, 2011, the date of transition.

