INVESTING FOR PERFORMANCE

FINANCIAL HIGHLIGHT REPORT
FOR THE YEAR ENDED APRIL 30, 2006

I. FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED APRIL 30, 2006

The University of Windsor enjoys a strong financial position as evidenced by the ***Statement of Financial Position***. Total assets are approximately $297.2m, an increase of $7.9m over 2004/05. Significant investment in capital assets, balanced budgets, increased research grant funding, and growth in endowments have all contributed to the financial strength of the University.

As evidence of the financial stability, credit ratings were obtained during 2005/06 to support the debenture issue discussed later in this document. Positive ratings were obtained from Moody's and DBRS, Aa3 and A(high) respectively. The clear strategic goals outlined in *To Greater Heights*, prudent financial planning, and the strategic allocation of resources contributed to the credit ratings.

The University continued to build on its healthy financial position during 2005/06. The University continues to maintain substantial cash and short term investment balances to support all expendable operations of the University. As noted on the ***Statement of Cash Flows***, cash has decreased by $7.2m as of April 30, 2006. O*perating activities* provided $10.8m in cash; *Financing activities* provided $15.6m in cash; and *Investing activities* utilized $33.7m of cash. As of April 30, 2006, the University internally financed approximately $16.6m of capital projects.

Based on financial results as of April 30, 2006, key financial indicators continue to improve. Current assets have increased by $6.1m while current liabilities have decreased by $11.6m due to a reduction in accounts payable and deferred revenue. As noted in *Section III – Highlights of the Plant Fund*, the University has again experienced a significant increase in Capital Assets.

University net assets as of April 30, 2006 total $106.1m, an increase of $18.9m over 2004/05. This net increase in assets is attributable to the following increases (decreases) in the respective funds of the University:

➢ Current operating fund	$ (1,185,000)
➢ Plant Fund	$ 7,010,000
➢ Non-expendable appropriations	$ 4,403,000
➢ Endowment funds	$ 8,713,000

The following is a summary of the comparative consolidated financial results for the years ended April 30, 2006 and April 30, 2005 ($000's):

	2005/06	2004/05	CHANGE ($)	CHANGE (%)
REVENUE				
Student Fees	$82,549	$79,978	$2,571	3.2%
Government & Research Grants	129,790	111,057	18,733	16.9%
Other	42,642	37,580	5,062	13.5%
Total Revenue	$254,981	$228,615	$26,366	11.5%
EXPENDITURES				
Salaries, Wages & Benefits	$139,557	$131,878	$7,679	5.8%
Scholarships and bursaries	15,572	13,992	1,580	11.3%
Research	19,206	18,044	1,162	6.4%
Loan Interest	2,971	3,081	(110)	-3.6%
Amortization	17,545	16,248	1,297	8.0%
Other	52,058	48,179	3,879	8.1%
Total Expenditures	$246,909	$231,422	$15,487	6.7%
EXCESS OF REVENUE OVER EXPENDITURES	$8,072	($2,807)	$10,879	
Endowment Contributions	10,869	5,324	5,545	
NET CHANGE IN NET ASSETS	$18,941	$2,517	$16,424	
Net Assets, beginning of year	$87,146	$84,629	$2,517	
Net Assets, end of year	$106,087	$87,146	$18,941	21.7%

The following sections highlight the key factors contributing to the net increase in assets in each of the above funds.

II. HIGHLIGHTS OF THE CURRENT OPERATING FUND

The net decrease in the Current Operating Fund totalled $1.19m for the year ended April 30, 2006. This decrease is the net result of two components - an operating surplus (increase in unrestricted funded operations) of $4,000 and an increase in the liability related to post-employment benefits as a result of the actuarial valuation of $1,189,000. The cumulative surplus in the unrestricted fund balance for operations is $13,000, as compared to a cumulative surplus of $9,000 as of April 30, 2005. The cumulative deficit related to the liability for post-employment benefits totals $19.7m, as compared to $18.5m as of April 30, 2005. The cumulative deficit related to the liability for post-employment benefits does not have an impact on the operating surplus of the institution as this liability is unfunded and post-employment benefit costs are charged in the year incurred.

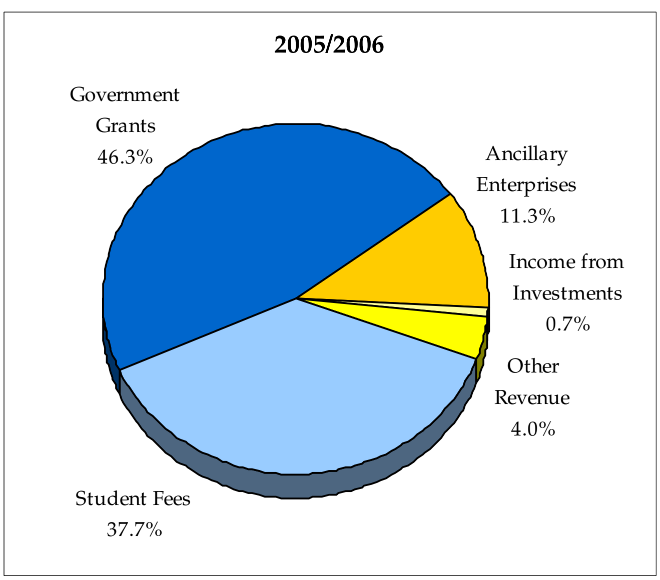
The Current Operating Fund includes the academic, administrative, and ancillary operations of the University. The Current Operating Fund balance also includes restricted appropriations established by the Board of Governors for current and future operations.

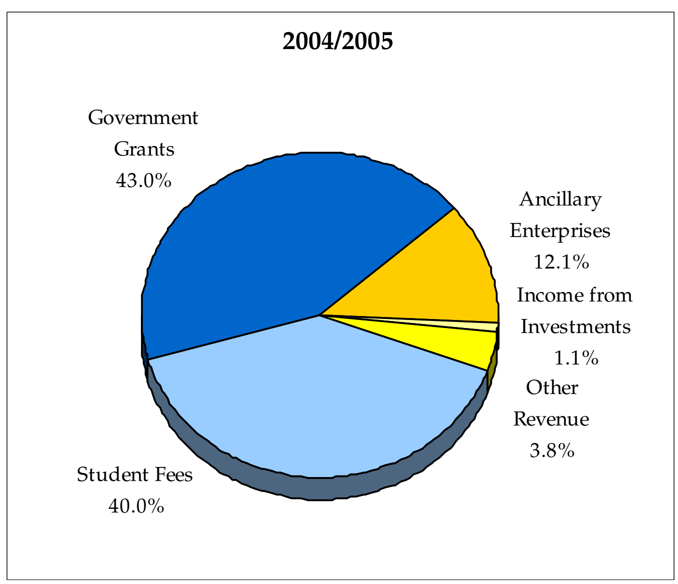
The following is a summary of the comparative financial results of the Current Operating Fund for the years ended April 30, 2006 and April 30, 2005 ($000's):

	2005/06	2004/05	CHANGE ($)	CHANGE (%)
REVENUE				
Student Fees	$82,549	$79,978	$2,571	3.2%
Government Grants	101,294	86,177	15,117	17.5%
Ancillary Enterprises	24,719	24,269	450	1.9%
Income from Investments	1,437	2,148	(711)	-33.1%
Other Revenue	8,677	7,580	1,097	14.5%
TOTAL REVENUE	$218,676	$200,152	$18,524	9.3%
EXPENDITURES				
Operating Expenditures	$197,117	$186,594	$10,523	5.6%
Appropriations to(from) Reserves for Current and Future Operations	2,003	(1,372)	3,375	
Interfund Transfers, Net	20,741	16,038	4,703	
TOTAL EXPENDITURES	$219,861	$201,260	$18,601	
NET CHANGE IN NET ASSETS	($1,185)	($1,108)	($77)	
NET CHANGE IN NET ASSETS REPRESENTS:				
- Operating Fund Surplus for the Year	$4	$6		
- Increase in post-employment benefits liability	(1,189)	(1,114)		
	($1,185)	($1,108)		

A. Operating Revenue

Total operating revenue has increased by $18.5m over 2004/05, representing a 9.3% increase. This increase is primarily attributable to an increase in student fees and a significant increase in government grants. The following graph illustrates the percentage of revenue for each of the individual components of operating fund revenue:





a) Student Fees

Student fees have increased by $2.6m over 2004/05, or 3.2%. After the "double cohort" year (Fall 2003), first year undergraduate student enrolment has been moving back to pre-double cohort levels. Enrolment decreased from 3,522 in 2004/05 to 3,294 in 2005/06. The positive impact on undergraduate enrolment as a result of the double cohort continues as students flow-through into the upper years. This flow-through has resulted in total undergraduate Fall full-time enrolment of 12,308, an increase of 176 or 1.4% over Fall 2004. Although the budgeted first year enrolment of 3,400 was not achieved, the Fall 2005 full-time enrolment budget of 12,238 was surpassed due to increased enrolment of upper year students.

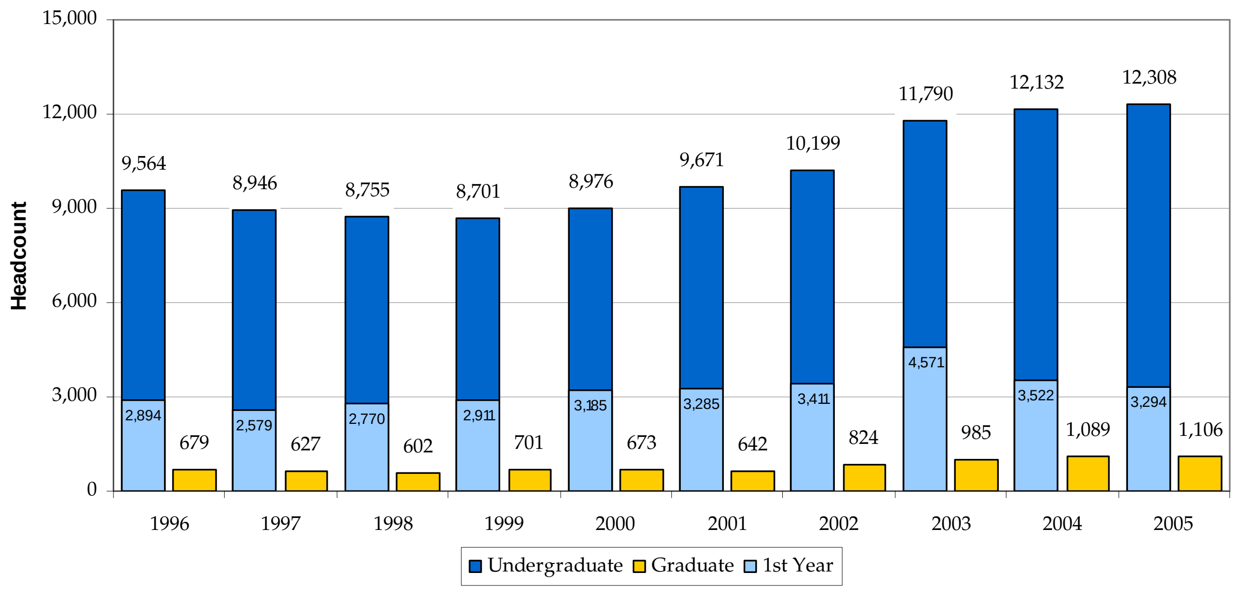
Full-time graduate enrolment increased 1.6% from 1,089 in 2004/05 to 1,106 in 2005/06, short of budgeted graduate enrolment of 1,150. Ongoing efforts in the recruitment of international students continue to produce positive results.

International enrolments increased 1.4% from 1,207 in Fall 2004 to 1,224 in Fall 2005. The combined effect of all enrolment changes resulted in a 1.3% increase in total full-time equivalent enrolment during the Fall term. Over three semesters, total enrolment increased by 2.2% from 16,840 to 17,210.

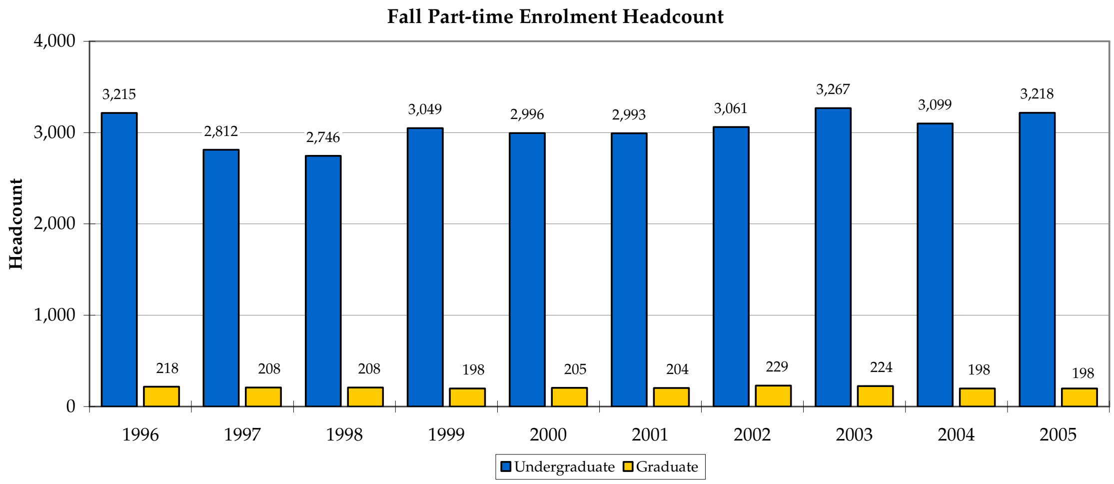
The Ministry announced tuition freezes for all Ontario universities for 2004/05 and 2005/06, therefore the increase in student fees were a result of enrolment increases. The tuition fee freeze did not apply to international student fees which were increased by 1.7% for 2005/06.

The following chart illustrates a 10-year history of Fall Full-time Undergraduate and Graduate Enrolments:

Fall Full-time Enrolment Headcount

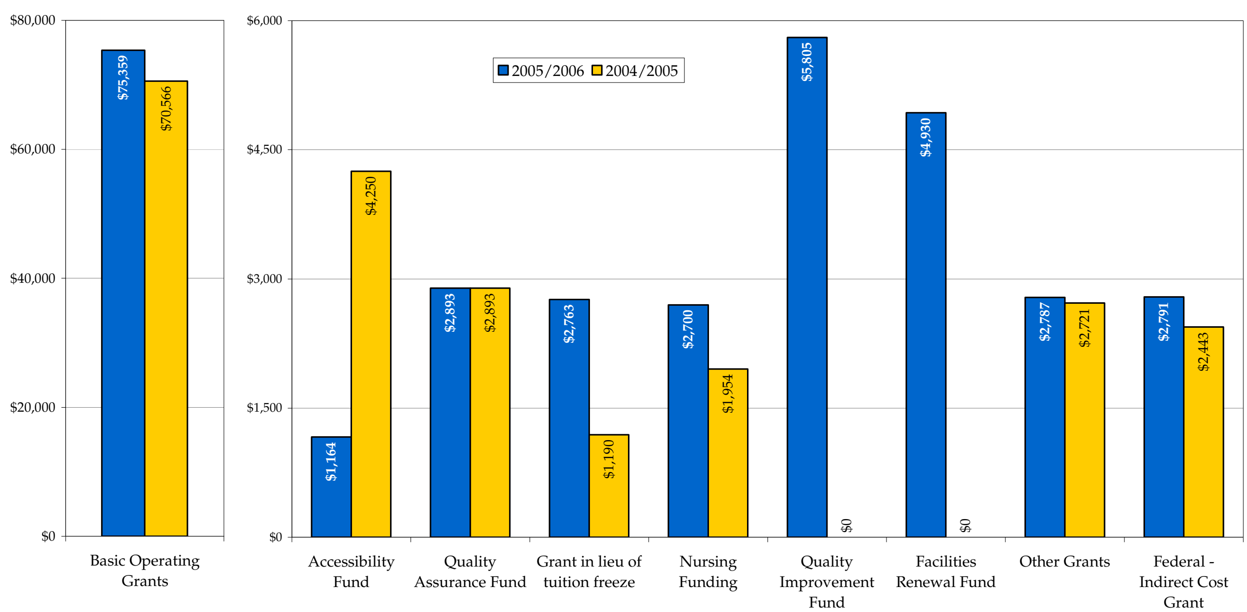


Undergraduate part-time enrollment increased 3.8% from 3,099 to 3,218 while graduate part-time enrollment remained stable at 198 (2005/06 budget – UG 2,965; Grad 183). The following chart illustrates the 10 year history of Fall Part-time Enrolment:



b) Government Grants

Government grants total $101.3m for the year, a significant increase of $15.1m over 2004/05 or 17.5%. This noteworthy increase is due primarily to new funding introduced by the Ministry in support of the *Rae* report and one-time monies received late in April 2005 that were deferred and reported in the current year. The following graph illustrates the comparative provincial and federal government grant revenue for the years ended April 30, 2006 and April 30, 2005 ($000):



In 2001/02 the Province of Ontario began to increase funding for enrolment growth of Ontario universities through the *Accessibility Fund*. These grant monies have grown significantly over the last few years. In the current year, the *Accessibility Fund* was included in the Basic Operating amount, resulting in the only increase for this envelope. The *Accessibility Fund* noted on the graph above represents 2005/06 growth funds only, $1.15m for undergraduate growth and $13,000 for graduate growth.

As the *Quality Assurance Fund* has been frozen at 2003/04 levels, no increases were noted in this funding. During the tuition freeze period in 2004/05 and 2005/06, the Ministry compensated universities through the *Grant in Lieu of Tuition Freeze*. For 2005/06, the University received total funding of $2.8m, an increase of $1.6m over 2004/05. The Ministry announced tuition fee increases commencing in 2006/07; no further increases are anticipated for this funding envelope in the future.

In 2005/06, the University benefited from the allocation of new funding supported through the *Rae* report. The new funding, referred to as Quality Improvement Fund in the graph, includes the *Quality Improvement*, the *Per Student Funding*, and the *Excellence Fund*. During the 2005/06 budget deliberations, the actual funding was not known and a budget of $4.8m was established. Positive results were noted when the final allocation for this funding was announced late in the fiscal year. For the current year, $2.32m was allocated for *Quality Improvement Fund*, $2.86m for *Per student funding,* representing previously unfunded Basic Income Units (BIUs), and $620,000 for *Excellence Fund*. One year accountability agreements were signed by the University outlining quality enhancements during 2005/06 which had been included in the current year operating budget. This funding envelope is expected to increase into the future.

c) Ancillary Enterprises

Ancillary gross revenue totalled $24.7m in 2005/06, an increase of $450,000 or 1.9% over 2004/05. This net increase was primarily attributable to increases (decrease) in revenue in the following areas:

- Residence Services $ 147,000
- Food & Conference Services $ 365,000
- Parking $ 111,000
- Bookstore $ (185,000)

Ancillary enterprises' revenues increased in 2005/06 after a significant reduction in gross revenue in the prior year. Ancillaries focused on improving and refining customer service. In addition, the various departments sought to bring new and innovative ideas to the forefront.

Significant efforts have been made to enhance the recruitment of students into the residence system. Following the strong double cohort period, the number of students housed in residence has been declining. The financial impact of declining occupancy in residences also affects the Food Services

Department. Residence enrolment continues to be a challenge and the number of students living in residence decreased slightly from 2004/05. A concerted effort was made during this period to reverse this trend and these efforts were rewarded with positive results. Declining first year student enrolment and the continual challenge of accommodating upper year students due to requests for single bed accommodations, residence occupancy continues to be a concern. As an increasing percentage of first year students are coming from the local tri-county area, the demand for on-campus housing is declining. In addition to these challenges, the high vacancy rates in the local rental market have resulted in properties being rented at discounted rates in the community.

As a result of the enrolment challenges, increasing utility costs, and other fixed costs, Residence Services had an operating deficit of $49,000 in the current year, resulting in a cumulative deficit of $1.17m. The Department is currently developing a deficit repayment strategy to fund the cumulative deficit.

Operational improvements have been made during the year. Residence Services implemented an innovative residence software system that has increased the efficiency and timeliness of room allocations. The new software also allows for enhanced communication to students through extensive email functionality. An on-line Residence Assistant evaluation tool has also been implemented which resulted in an increase in student response rates and improved the feedback on performance.

The Food & Catering Services Department continues to focus on improving customer service and has implemented new and innovative offerings to students and staff of the University. Over the past year all staffing has been 'cross-trained' to work at multiple food stations. This allows for maximum service levels, i.e. reduced wait times at high volume food stations. The Food Services Department continues to identify and offer special dietary food requirements identified through ongoing discussions with clients. The Food Service Department generated a slight surplus that will support facility enhancements. Service enhancements continue into the new fiscal year as a new Tim Hortons outlet is scheduled to open in the CAW Student Centre in September, 2006 in addition to other facility upgrades.

University Bookstore revenue approximate $8.9m for 2005/06, a decrease of $185,000 from 2004/05. The decline in revenue was as a result of decrease in textbook sales. As noted in the enrolment section, first year student enrolment, the Bookstore's main customers, has decreased. Used book sales have increased negatively affecting gross sales while positively impacting students. A decrease in software sales was noted as students have increased access to free and/or discounted software through the internet. The Bookstore continues to enhance customer service through various initiatives. The Bookstore was able to manage costs resulting in a surplus of $31,200 for 2005/06.

Parking Services' revenue for 2005/06 totalled $1.1m, an increase of $111,000 over 2004/05. The increase in revenue was a result of new parking permits made available during the year for Human Kinetic students which proved to be a successful initiative. Increases were also noted in fines revenue.

Campus ancillary services continue to focus on increasing revenues while striving for constant improvement in customer service and product offerings. Innovative methods of implementing operating efficiencies, enhancement of recruiting efforts and customer service will be a priority during the 2006/07 budget year.

d) Investment Income & Other Revenue

Investment income totalled $1.4m for 2005/06, a decrease of $711,000 from 2004/05. Investment income in the Operating fund represented income generated from working capital funds available. The decrease in investment income was a result of the reduction in investment income earned from the working capital bond funds. The bond rates of return have decreased significantly in the current year when compared to 2004/05. Short term and long term bond funds are managed by external investment managers and earned 1.9% and 3.8% respectively (2004/05: 3.5% and 6.9% respectively). During the year, the Investment Committee of the Board approved the appointment of a new bond manager for the working capital funds of the University which became effective in January 2006.

Other Revenue increased by $1.1m over 2004/05. This increase was primarily attributable to increases across various programs including the English Language Improvement Program, application fees, medical billings, ticket sales, and external recoveries for utilities and housekeeping.

B. OPERATING EXPENDITURES

Expenditures for fiscal 2005/06 totalled $197.1m, an increase of $10.5m over 2004/05, representing a 5.6% increase. The following table summarizes the operating expenditures ($000's) by the functional area of responsibility at the University:

	2005/06	2004/05	CHANGE ($)	CHANGE (%)
EXPENDITURES				
Academic	$90,389	$85,526	$4,863	5.7%
Academic Support	13,159	12,546	613	4.9%
Library	6,572	6,390	182	2.8%
Student Services	19,096	17,803	1,293	7.3%
Computing	7,676	6,785	891	13.1%
Administration and General	11,593	11,098	495	4.5%
Plant Maintenance	23,923	22,112	1,811	8.2%
External Relations	2,645	2,576	69	2.7%
Ancillary Enterprises	22,064	21,758	306	1.4%
TOTAL EXPENDITURES	$197,117	$186,594	$10,523	5.6%

The graph in *Appendix A* summarizes the relative percentage of operating expenditures by the functional areas of responsibility at the University for the year ended April 30, 2006. As evidence of the University's commitment to teaching and learning support for students, academic expenditures have increased $4.9m over 2004/05 or 5.7%.

In the 2005/06 Operating Budget, the priority focus was support to achieve the mission outlined in *To Greater Heights* and the further development of the University as a learner-centred comprehensive university that focuses on the attributes of its graduates.

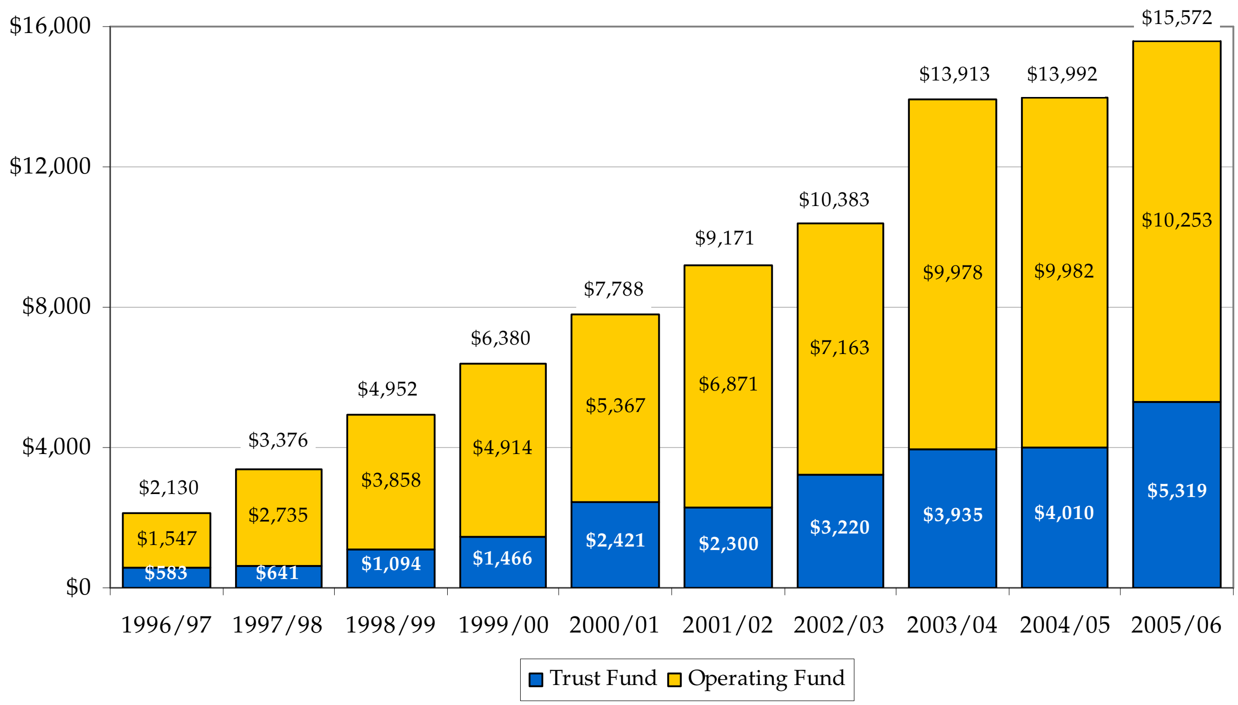
The total base budget increase for 2005/06 totalled $10.1m with an additional investment of $4.2m in capital and other one-time expenditures. Identified in the budget was $7.6m in new initiative funding allocated to the following strategic priorities:

- Quality of Service to Students
- Teaching and Learning Initiatives
- Graduate Studies and Research Support
- Information Technology Support
- Physical Infrastructure
- Profile and Reputation

One of the prime focuses of *To Greater Heights* is the commitment to improve the quality of service to students. The allocation of expenditures in the 2005/06 budget for **Quality of Service to Students** allowed for enhanced financial aid, acquisition of equipment, and additional staff positions in many of the student support areas. These increases are noted in the financial statements.

The University's ongoing commitment to promote accessibility through enhanced financial aid is again illustrated by the increasing investment in **Scholarships** for 2005/06. The University was successful in designing and administering scholarship and bursary programs to meet student need. The University is one of the leading institutions for entrance scholarships. Scholarships and bursaries paid from the Operating Fund in 2005/06 amounted to $10.3m, an increase of $271,000 or 2.7%.

The following graph illustrates the 10-year history of continual investment in scholarships and bursaries funded from the Operating Fund and the Trust Fund ($000's):



The allocation of new initiatives in the budget for **Teaching and Learning Initiatives** totalled $990,000. To enhance the learning experience for students, investments were made in additional faculty positions, increase in library acquisitions, and equipment. Academic Support expenditures have increased $613,000 over 2004/05 or 4.9%. Academic Support areas include Centre for Flexible Learning, Office of Research Services, Registrar's Office, Co-op Education and Career Services. Increases in these service areas supported the enhancement of service levels to students.

A number of other functional areas supported the Teaching & Learning Initiatives during the year. The continual investment in Information Technology supported infrastructure enhancements and staff salaries as evidenced in the financial statements.

Significant investments were made in the area of **Graduate Studies and Research Support** in the 2005/06 operating budget. Approximately $1.3m was allocated to improve funding for graduate assistants, scholarships for graduate students, equipment, and other research activities of the University. Additional support for research is required as research grant funding continues to increase on campus.

Physical Infrastructure enhancements continue to be a key priority for the campus. The Operating budget for 2005/06 included $1.7m in infrastructure improvements including upgrades to undergraduate labs, renovation of graduate student space, classroom upgrades, furniture and equipment. Outlined in *Section IV – Highlights of the Plant Fund* are the key infrastructure improvements made during the year. As noted throughout the document, significant investments have been made across the campus to improve the physical environment both through the development of new facilities and addressing high priority deferred maintenance issues.

Another critical strategic priority identified during 2005/06 was **Profile and Reputation.** Key to this budget was the recruitment of both students and faculty. Enhancements were made to address the recommendations from the University Task Force on Performance. These initiatives, totaling $250,000, included the review and implementation of improvement to grounds areas, and improvements to garbage receptacles and the recycling program. In addition, funding was allocated to enhance the Academic Integrity function, enhance funding for the Ontario Universities Fair, and investment in the Azorus software to further improve communication with prospective students.

Appendix B highlights the Current Operating Fund Expenditures by Type for the University for the years ended April 30, 2006 and April 30, 2005. The graph illustrates the relative percentages of the respective expenses for the years presented. Salaries, wages and benefits remain constant at 70.8% of total operating expenditures. The most evident change in percentage of total expenditures is noted in Utilities. Utilities have increased $1.7m over 2004/05 primarily due to a 20% increase in hydro usage, as the University's turbine was out of commission for an extended period. Increases in per unit cost of hydro, natural gas and water also contributed to this substantial increase.

In addition to the 2005/06 Operating Budget approved in April 2005, a supplemental allocation of resources for 2005/06 was announced and approved in May 2005. As detailed above in *Section II A (b)*, the University received one time funding from the Ministry in late April 2005 in the amount of $5.028m. Allocation of this funding was used to support the following capital and operating expenditures:

- Financing of prior Energy Conversion Centre projects
- Campus Wireless Initiative
- Information Technology Initiatives
- Campus Infrastructure Improvements
- Equipment Replacement
- Learning Management System

The above highlights address the Current Operating Fund for the year ended April 30, 2006. As illustrated, the strategic allocation of resources during the budget process has been critical in the success noted this year and the continued strengthening of the financial position of the University.

III. HIGHLIGHTS OF THE PLANT FUND

The net increase in the Plant Fund totalled $7.0m for the year ended April 30, 2006. The net increase is primarily the result of the following factors as outlined in note 6(a) of the financial statements: an increase in capital assets, net of accumulated amortization, amounting to $7.3m; the repayment of long term debt amounting to $2.7m; net of an increase in deferred capital contributions of $2.3m, and a slight increase in the amount of capital projects financed by the Operating fund at year end of $610,000. These changes in the Plant Fund continue to illustrate the strategic priority of improving the campus infrastructure.

As illustrated in note 2 of the financial statements, the increase in capital assets, net of disposals totals $18.1m and represents the following investments in capital assets during the year:

➢ Land and buildings	$ 10,808,000
➢ Equipment	$ 10,747,000
➢ Library and books	$ 4,231,000
➢ Capital in progress	$ (7,733,000)

The University continues to make substantial investments in the campus infrastructure. Investments have been made to support both new construction and deferred maintenance issues through a number of funding sources identified throughout this document.

Land and Buildings capitalized during the year totalled $10.8m. The main assets capitalized included the new Stadium Development of approximately $9.5m and renovations to GLIER of approximately $1.2m. The reduction in Capital in progress was primarily a result of the completion of the Stadium project during the year.

Considerable investments in equipment were made during the year. The increase in equipment was primarily a result of equipment funded from the CFI research grant (see page 15), and the capitalization of the campus wireless project.

The campus continues to operate with a high level of deferred maintenance on existing buildings. Government funding and operating budgets continue to be strategically allocated to address this issue. In response to the need to address deferred maintenance, critical renovations were completed during the year.

Following is a summary of renovation projects completed:

- 600 Ton Chiller Replacement
- Human Kinetics Fire Alarm Replacement
- Human Kinetics Pool Roof
- Lambton Tower Terrace Replacement
- Energy Conversion Centre (ECC) Boiler Replacement
- Erie Hall/Lambton Tower Coil Replacement
- 360 Sunset – MBA House
- Accessibility Projects – renovations to washrooms, door operators, ramps in Music, CAW Student Centre, Vanier Hall, Memorial Hall, Erie Hall

Improvements to facilities remain a priority in the strategic plan of the institution. The following projects are in various developmental stages:

- Design for the New Engineering Building – approved at $4.0m
- Construction of the Medical School Centre – approved at $12.0m
- Renovations to several building areas to accommodate academic/research areas (i.e. Cody Hall, Law Building)
- New Residence Hall on California Avenue – pending review

IV. HIGHLIGHTS OF THE EXPENDABLE TRUST FUND

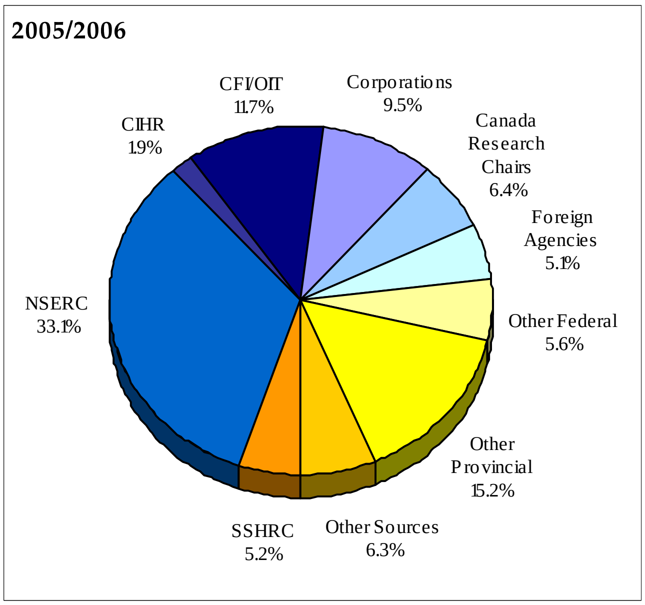
Expendable trust fund activities include revenue and expenditures of research activity on campus and activities related to the expendable portion of the endowment and other expendable trust funds. Revenue in the Expendable trust fund has increased by $7.7m due primarily to the increase in research grant funding, increase in investment income generated from the Endowment, and from the change in deferred contributions. The endowment fund earned returns of approximately 12.7% during the year, allowing for the maximum allowable interest to be allocated to the expendable trust accounts supporting the spending policy of the University endowment fund. In 2005/06, $2.1m of investment income was allocated to expendable trust funds for spending, an increase of $455,000.

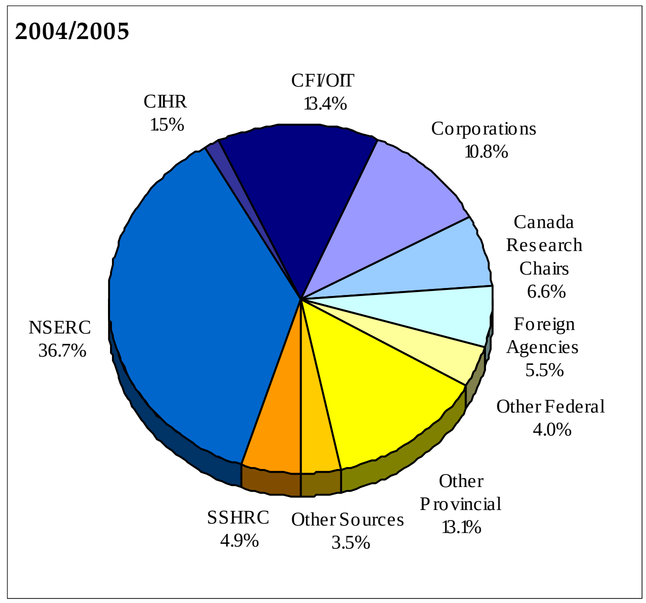
Scholarships funded out of the Endowment and other expendable trust funds increased significantly in 2005/06 to $5.3m, an increase of $1.3m or 32.6%. A 10-year history of scholarship and bursary is illustrated on the graph on page 10.

Research activities for the University are also reported in the Expendable Trust Fund. Total research revenue totalled $22.1m, an increase of $818,000 or 3.8% over 2004/05. As noted on the graph below, the sources of research grant funding are changing on campus. Increases are noted in Other Sources, Other Provincial and Other Federal funding. These increases are a result of increases in funding from the National Cancer Institute of Canada, the Ontario Centres of Excellence and Canadian

International Development Agency. A decrease was noted in funding from NSERC as the agency increased their funding directed towards research equipment and while the University benefited from this move, a reduction in Discovery Grant funding was noted. In addition, a number of Industrial Research Chairs terms came to an end during the period. Diversification of research grant funding continues to benefit the University. Increasing levels of grant funding in support of health-related research is expected in the future.

The following graph illustrates the relative percentages of the various sources of research grant funding for the years ended April 30, 2006 and April 30, 2005. Tri-council grant funding, being NSERC, SSHRC, and CIHR, totalled $8.9m or 40.2% of total research grant funding in 2005/06.



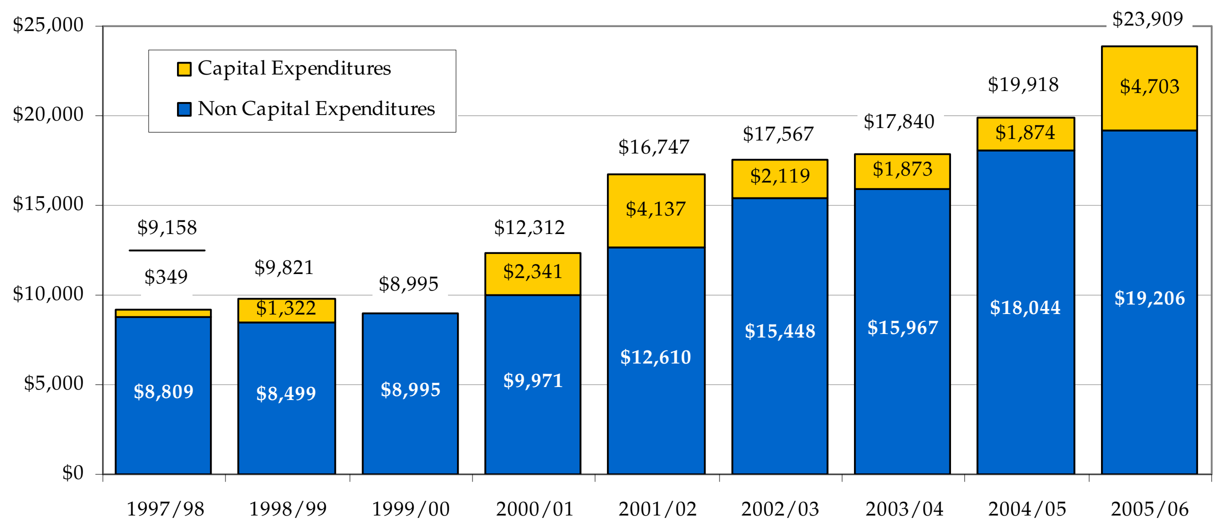


Research funding is expected to increase in the coming years. With the announcement of the new Satellite Medical School, additional research funding is expected for health-related research. Health and health-related research has been identified as an emerging area in the recently approved Strategic Research Plan and is quickly becoming a demonstrated and funded area of growth. Recent achievements have strengthened our success in health research include CIHR funding secured by Drs. Bulent Mutus, Biochemistry/Chemistry, Siyaram Pandey, Biochemistry/Chemistry, Lisa Porter, Biological Sciences and Charlene Senn, Psychology.

The University was also recently awarded the hosting of a NSERC funded Strategic Network Grant Program entitled "Canadian Aquatic Invasive Species Network (CAISN)" with Dr. Hugh MacIsaac, GLIER, being the principal investigator and Scientific Director. This is a highly prestigious award with only thirteen active networks within Canada. The CAISN Network will collaborate nationally with fifteen universities and five federal laboratories to increase research and training that will strongly enhance Canada's economy and environment. The total funding of this program is $5.7m over the next five years with NSERC contributing $3.6m in funding.

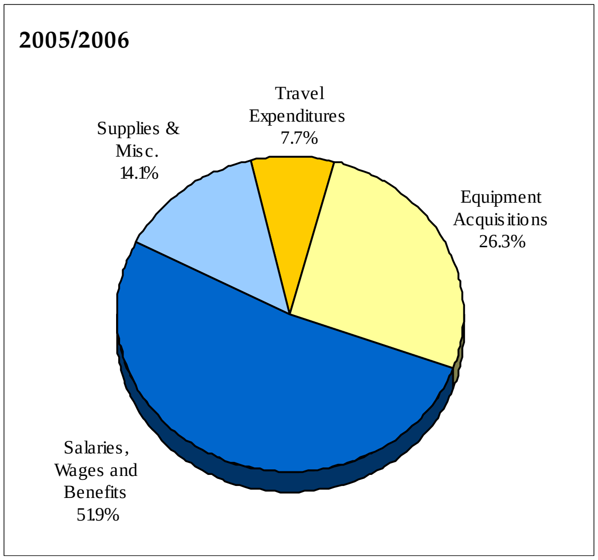
Total research expenditures continue to increase as noted in the following graph. Non-capital research expenditures continue to increase to $19.2m, an increase of $1.2m or 6.4% over 2004/05.

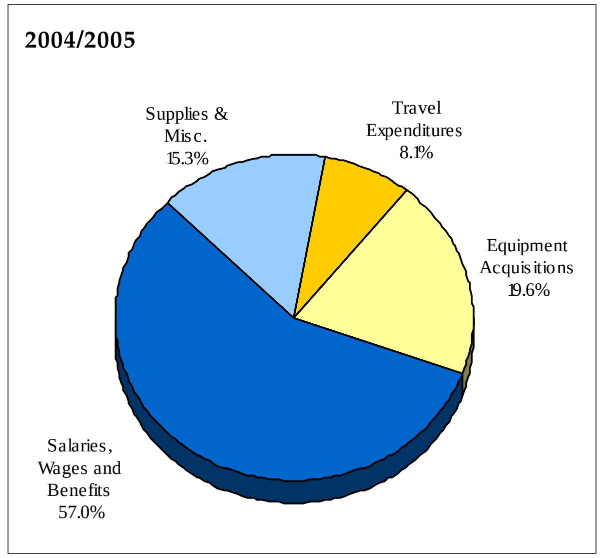
The following chart illustrates the continual increase in research expenditures on campus over a 10-year period:



In addition to increases in non-capital research expenditures, capital expenditures also continue to increase. During the current year, significant increases in capital were noted as a result of the Dr. Brian Fryer's Canadian Foundation of Innovation (CFI) award titled "Large Lake Ecosystems: A Facility to Quantify and Model the Impact of Multiple Stressors". The total project value was $5.0m of which $3.6m represented equipment purchases.

The following graph illustrates research expenditures by type. Salaries, wages and benefits paid in support of research activity to graduate and undergraduate students, post doctoral fellows, and research associates in support of research represent the largest portion of research expenditures.





V. HIGHLIGHTS OF THE RESTRICTED APPROPRIATIONS

The net increase in Restricted Appropriations totalled $4.4m for the year ended April 30, 2006 bringing the restricted appropriations to $ 37.4m. The details of the appropriations are outlined on the ***Statement of Restricted Appropriations***.

Following are the key changes to the Restricted Appropriations:

Reserves for Current Operations have increased by $576,000 for the year. The following summarizes the specific reserves:

- *Reserve for budget carryforward for operating expenditures* increased by $3.0m as of April 30, 2006. This reserve represents general operating budgets, 2006/07 budget allocations funded out of the current fiscal year, and other specific earmarked funds to be spent in the following year.
- *Reserve for Purchase orders and special projects* decreased by $1.2m. This decrease is a result of a reduction in the level of repair projects outstanding at year end when compared to the prior year. Included in this reserve is $1.1m for the implementation of the new Learning Management System on campus.

- *Reserve for Capital Plan 2004-2009* has decreased by $1.4m. This reserve was established to support the *Capital Plan* approved by the Board as part of the 2004/05 Operating Budget. Funds were transferred to support the residence wireless project, proposed renovations to Cody Hall, and other renovation projects approved as part of the Phase II 2005/06 Operating budget.
- *Reserve for Ancillary enterprises* increased by $82,000. This reserve maintains the net surplus (deficit) position of ancillaries on campus. These funds are carried forward to fund capital enhancement and/or future operations of the ancillaries. Included in the amount, is the Residence Service cumulative deficit that will be funded in future years.

Reserves for Future Operations have increased by $1.4m for the year. The increase represents a transfer to reserve to fund pension payments outside of the registered pension plan. These payments are cost neutral to the University and net transactions in the year are transferred to the Reserve to fund future payments.

Non-Expendable Reserves include both endowments restricted by the Board and the recapitalization of interest to build the Growth & Protection Fund of the endowments. This recapitalized interest is reported in the Donor restricted non-expendable reserve. These reserves increased by $2.4m in the current year. The significant increase was a result of the endowment fund earning 12.7% during 2005/06, well in excess of the spending policy of up to 6%.

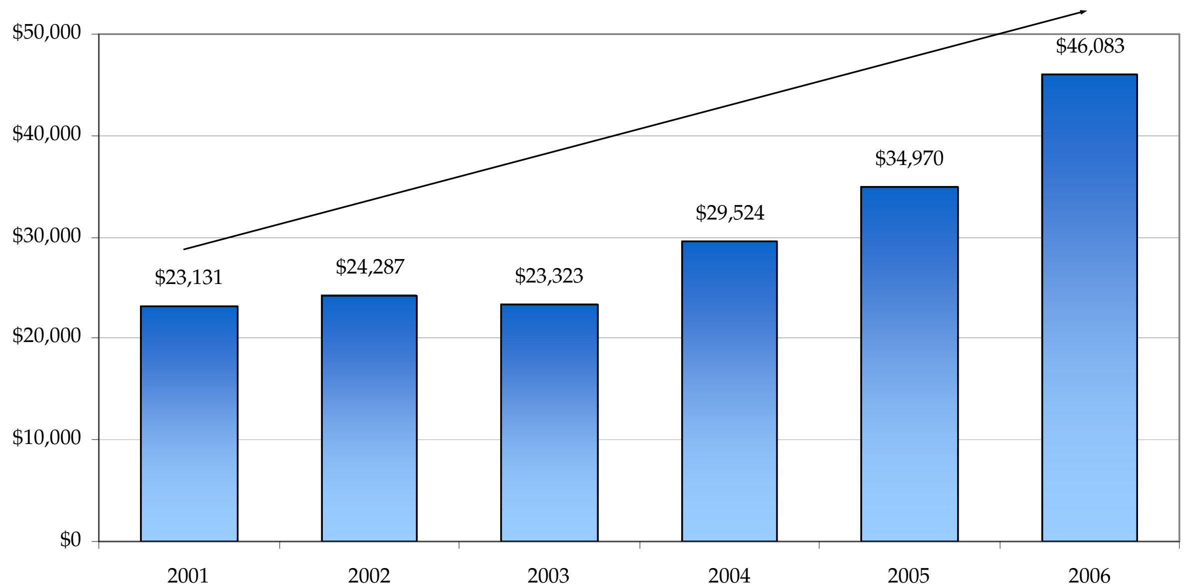
VI. HIGHLIGHTS OF THE ENDOWMENT FUND

The Endowment Funds increased $11.1m during 2005/06, bringing the Endowment fund to $46.1m as of April 30, 2006. This 32% increase is a result of donation income of $2.0m; matching funds from the Ministry for the OTSS program of $6.4m; interest income recapitalized of $2.4m, and net transfers from expendable funds to the endowment of $244,000.

During the year, the Ministry announced the new phase of the scholarship donation-matching program for bursaries, namely the Ontario Trust for Student Support (OTSS). Under this program, the government will match 3:1 for every $1 donation designated to OTSS. The University was able to surpass the targeted ceilings allocated and received $6.4m in matching funds from the Ministry for its endowment; only two other Ontario institutions received more funding than the University in this program. Into 2006/07, the University will again benefit from the match program from the Ministry; however, only at a 1:1 match level.

This increase in endowment levels will support enhanced scholarships and bursaries into the future and spending levels are anticipated to increase.

The following is a 5-year history of the growth in the Endowment fund at the University. Continued efforts are being made to increase the level of endowment for the benefit of the students.



VII. SUBSEQUENT EVENT – ISSUANCE OF UNSECURED DEBENTURES

During 2005/06, the Board approved the issuance of a bond debenture in support of the approved Capital Plan 2004-2009. The University engaged Scotia Capital as their agent to assist the University in the issuance of the bond. On June 29, 2006, the University issued $108.3m of 5.37% Series A Senior Unsecured Debentures due in 2046.

The net proceeds will be used for:

- funding a trusteed sinking fund, which will allow for full repayment of the debentures in 2046;
- retirement of existing indebtedness of approximately $29m;
- provide a portion of the funding for the construction of the new Engineering Building and the expansion of the Toldo Health Education and Learning Centre to house the new Medical School Program;
- fund a portion of the student capital projects funded through the Athletics and Recreation capital fee; and
- capital and non-capital projects.

This event has been disclosed as a subsequent event in the April 30, 2006 financial statements. Full accounting and reporting of the debenture will be included in the 2006/07 financial statements.

VIII. INVESTING FOR PERFORMANCE

There is much to be proud of in this report. The University has benefited from its prudent financial management and the very encouraging results of the $108.3m bond issue underline its strong financial position. We have a clear strategic plan, *To Greater Heights*, and five-year plans for each academic and administrative unit which reflect its priorities.

The University has added excellent new facilities in recent years and is well on the way to adding more, both in terms of major new projects (Engineering, Medical School Centre) and significant renovations (improvements to campus grounds to build campus pride, environmental enhancements to the Ianni Law Building, retooling of Cody Hall for research and graduate study, improvements to many classrooms and labs, "green corridor" initiatives and many other positive changes that will be evident to all from the Fall of 2006 forward. Our wireless campus offers unprecedented opportunities to students, faculty and staff.

We have recruited a large number of first-class faculty and have added some very competitive academic programmes and services. We have been one of the fastest growing universities in Ontario in graduate enrolments (Masters and Doctoral programmes) over the past several years. We are a leader in Ontario in the provision of scholarships and are working hard to improve the quality of our services and to develop a strong learning centred climate across campus. We are implementing the recommendations of the Task Force on Performance and have clear plans to improve quality and accessibility.

At the same time, the challenges have never been greater. The University's distance from the Greater Toronto Area, the fastest growing source of students, together with a relatively low profile and reputation has meant that we have not been able to capitalize on the undergraduate enrolment growth in the Province this year. While the local demographics are very positive and our international enrolments strong, we can take nothing for granted and must be extremely aggressive in building both our profile and reputation, thus underlining the importance of the current marketing initiative.

Notwithstanding this venture, pride and reputation start at home and that is why we have invested so heavily in campus improvements. Space remains a scarce commodity and we must strive both to expand it quickly and to make best use of existing facilities. We have recruited a strong group of researchers and must ensure that they have the facilities and support that enable them to compete effectively for funding and recognition. We must continue to develop a "learning centred" campus and to provide strong and concerted support to and services for our students.

Most critically for an annual report on the state of the University's finances, we face major challenges in ensuring balanced operating budgets over the next few years. Notwithstanding recent augmentations in government funding, the system as a whole is still very dependent upon undergraduate growth and the new funds that are intended to provide for demonstrable improvements in quality are needed to sustain existing operations.

Given that the new monies are attached to quality improvement plans and demonstrable success in living up to them, we have the double-barrelled challenge of reducing expenditures and improving quality at the same time.

As well, notwithstanding all of our investments in capital improvements, we, along with the rest of the Ontario system, face huge problems of deferred maintenance which, if unchecked, may undermine the overall impact of the many changes we are making.

There is a sense of urgency about all this. New and improved facilities cannot come soon enough. Changing profile and reputation is not a quick process but we must take advantage of every achievement, of every student and faculty success, and of every opportunity to draw attention to the wonderful advantages of a University of Windsor education. We need to be more responsive to the needs of faculty and staff despite how thinly our resources are stretched and we must build a stronger labour relations climate so that everyone shares in the pride of our achievements and successes.

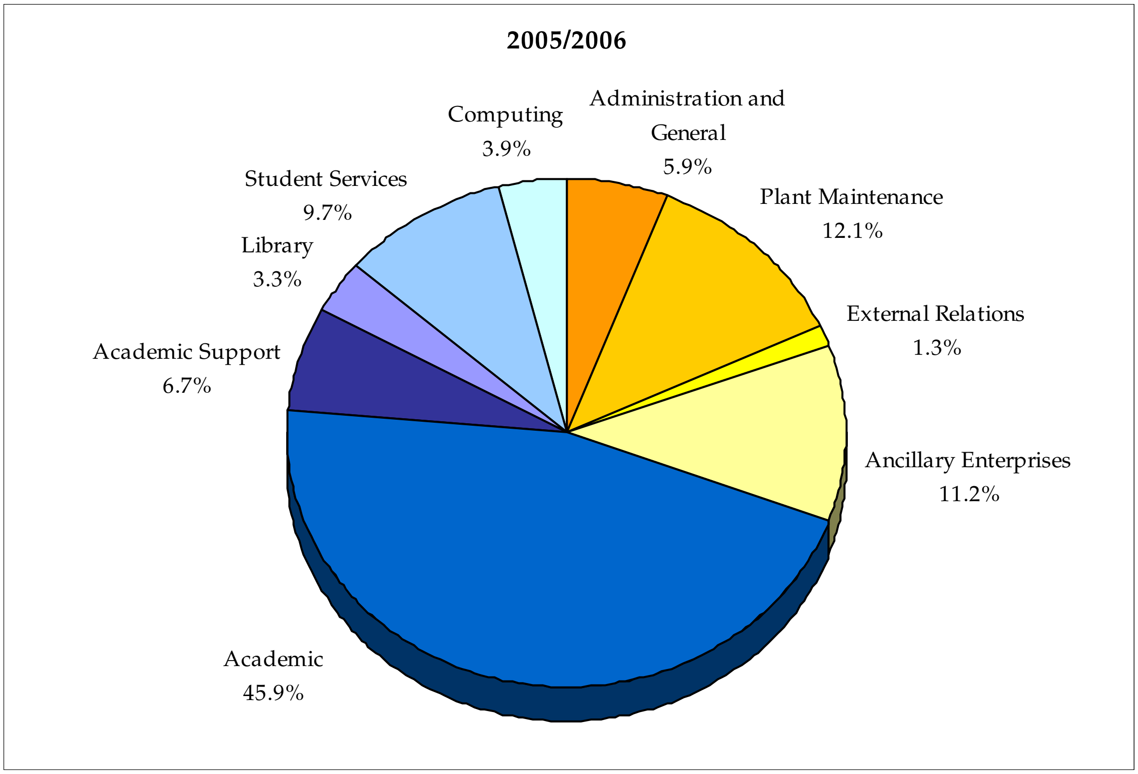
We have the right plan, we have the will and we have the people – the right faculty, staff, Board of Governors and alumni – to reach and even to surpass our goals. In the current times of rapid change, opportunities are unprecedented and we must marshal all of our resources and all of our people to ensure that *To Greater Heights* moves from plan to reality as soon as possible

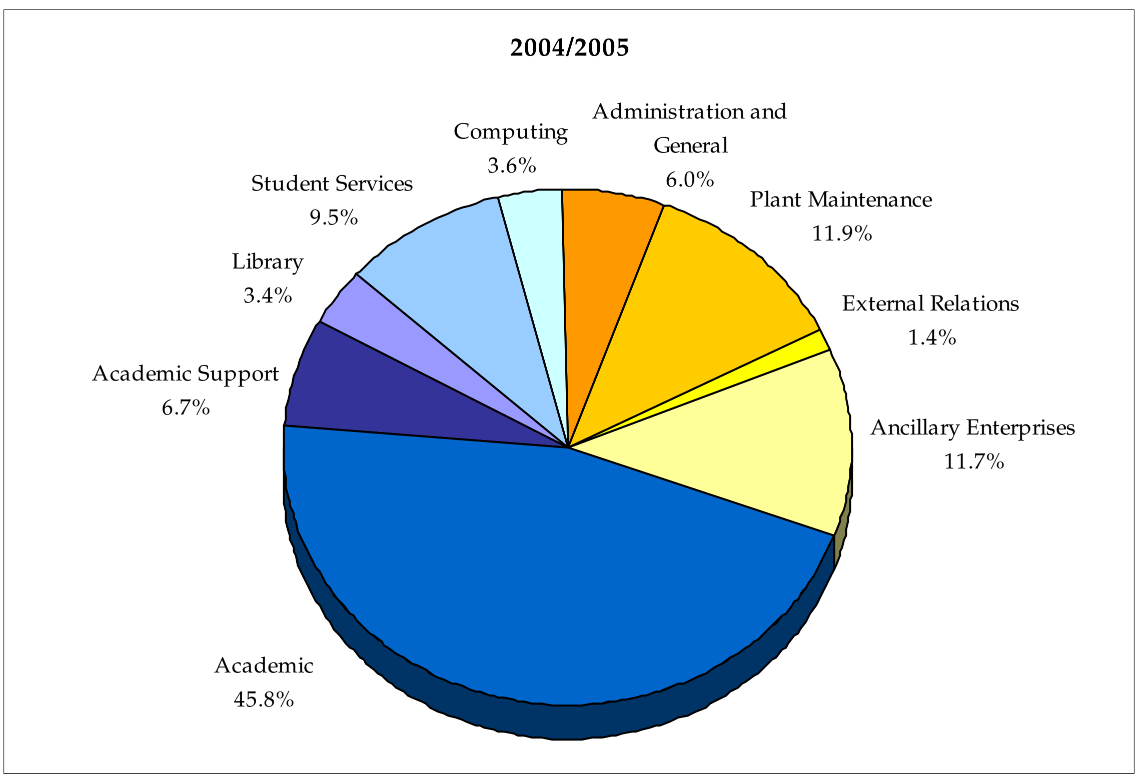
Ross Paul
President

August 2006

APPENDIX A: **Current Operating Fund Expenditures by Function**

for the years ending April 30, 2006 and April 30, 2005





APPENDIX B:

Current Operating Fund Expenditures by Type

for the years ending April 30, 2006 and April 30, 2005

(in thousands of dollars)

	2005/06	2004/05	CHANGE ($)	CHANGE (%)
EXPENDITURES				
Salaries, Wages & Benefits	$139,557	$131,878	$7,679	5.8%
Utilities	9,400	7,726	1,674	21.7%
Repairs & Renovations	11,464	11,155	309	2.8%
Cost of Goods Sold	10,163	10,258	(95)	-0.9%
Scholarships & Bursaries	10,253	9,982	271	2.7%
Other	16,280	15,595	685	4.4%
Total Expenditures	$197,117	$186,594	$10,523	5.6%