RYERSON UNIVERSITY

FINANCIAL STATEMENTS

April 30, 2005

Ryerson University

April 30, 2005

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AUDITORS' REPORT

To the Board of Governors of
Ryerson University

We have audited the financial statements of **Ryerson University** as at and for the year ended April 30, 2005 comprising the following:

Balance Sheet
Statement of Operations and Changes in Unrestricted Surplus (Deficit)
Statement of Cash Flows

These financial statements are the responsibility of the management of the University. 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 University as at April 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
June 3, 2005. Chartered Accountants

Ryerson University

BALANCE SHEET

[amounts in thousands]

As at April 30

	2005 $	2004 $
ASSETS		
Current		
Cash and cash equivalents	**63,443**	60,155
Accounts receivable	**10,668**	11,422
Prepaid expenses	**515**	1,337
Inventories	**836**	812
Total current assets	**75,462**	73,726
Investments *[note 3]*	**145,900**	111,107
Employee future benefits - pension *[note 4]*	**102,125**	99,806
Capital assets, net *[note 5]*	**236,205**	186,180
	559,692	470,819
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	**22,651**	19,563
Deferred revenue	**11,883**	11,446
Current portion of long-term debt *[note 6]*	**926**	500
Total current liabilities	**35,460**	31,509
Employee future benefits - other *[note 4]*	**9,685**	7,748
Long-term debt *[note 6]*	**101,074**	55,333
Deferred revenue contributions *[note 7]*	**19,230**	18,495
Deferred capital contributions *[note 8]*	**110,909**	101,992
Total liabilities	**276,358**	215,077
Net assets		
Endowments *[note 9]*	**31,290**	24,943
Other *[note 10]*	**252,044**	230,799
Total net assets	**283,334**	255,742
	559,692	470,819

See accompanying notes

On behalf of the Board of Governors:

Chair

Secretary

Ryerson University

STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED SURPLUS (DEFICIT)

[amounts in thousands]

Year ended April 30

	2005 $	2004 $
REVENUE		
Operating grants	**123,336**	122,217
Research and other grants and contracts	**17,262**	9,808
Tuition fees	**110,302**	102,977
Sales and services	**23,319**	22,620
Other student fees	**8,763**	10,571
Donations recognized *[note 12]*	**5,828**	2,524
Amortization of deferred capital contributions *[note 8]*	**7,494**	5,478
Investment income *[note 3]*	**3,939**	3,053
Other income	**3,221**	2,077
	303,464	281,325
EXPENSES		
Salaries and benefits *[note 4]*	**175,945**	160,516
Materials, supplies, repairs and maintenance	**72,443**	61,019
Bursaries and scholarships	**12,468**	12,837
Interest *[note 6]*	**6,243**	3,551
Amortization of capital assets *[note 5]*	**15,120**	12,170
	282,219	250,093
Revenue less expenses *[note 13]*	**21,245**	31,232
Net change in net assets invested in capital assets *[note 10]*	**(19,309)**	3,466
Net change in internally restricted net assets		
Employee future benefits *[note 4]*	**(382)**	1,378
Other *[note 11]*	**(15,478)**	(17,669)
Net change in unrestricted surplus (deficit)	**(13,924)**	18,407
Unrestricted surplus (deficit), beginning of year	**5,110**	(13,297)
Unrestricted surplus (deficit), end of year	**(8,814)**	5,110

See accompanying notes

Ryerson University

STATEMENT OF CASH FLOWS

[amounts in thousands]

Year ended April 30

	2005 $	2004 $
OPERATING ACTIVITIES		
Revenue less expenses	**21,245**	31,232
Add (deduct) non-cash items		
Amortization of capital assets *[note 5]*	**15,120**	12,170
Amortization of deferred capital contributions *[note 8]*	**(7,494)**	(5,478)
Net change in employee future benefits *[note 4]*	**(382)**	1,378
Net change in deferred revenue contributions *[note 7]*	**735**	(2,322)
Net change in non-cash working capital balances *[note 16]*	**5,077**	(919)
Cash provided by operating activities	**34,301**	36,061
FINANCING AND INVESTING ACTIVITIES		
Contributions received for capital purposes *[note 8]*	**16,337**	8,749
Investment income on unspent deferred capital contributions *[note 3]*	**74**	854
Endowment contributions *[note 9]*	**5,570**	4,551
Capitalization of investment income in endowments *[note 9]*	**777**	—
Acquisition of capital assets *[note 5]*	**(65,145)**	(49,347)
Increase in long-term debt principal *[note 6]*	**46,667**	23,333
Repayment of long-term debt principal *[note 6]*	**(500)**	(500)
Decrease (increase) in investments, net	**(34,793)**	909
Cash used in financing and investing activities	**(31,013)**	(11,451)
Net increase in cash and cash equivalents during the year	**3,288**	24,610
Cash and cash equivalents, beginning of year	**60,155**	35,545
Cash and cash equivalents, end of year	**63,443**	60,155

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

1. DESCRIPTION

Ryerson University [the "University"] was incorporated as a university in 1993 under the laws of the Province of Ontario. The mission of the University is the advancement of applied knowledge and research to address societal need and the provision of programs of study that provide a balance between theory and application and that prepare students for careers in professional and quasi-professional fields. As a leading centre for applied education, the goal of the University is to be recognized for the excellence of its teaching, the relevance of its curriculum, the success of its students in achieving their academic and career objectives, the quality of its scholarship, research and creative activity, and its commitment to accessibility, lifelong learning and involvement in the broader community.

These financial statements reflect the assets, liabilities, net assets, revenue, expenses and other transactions of all of the operations controlled by the University. Accordingly, these financial statements include the academic, administrative and other operating expenditures funded by fees, grants and other general revenue; restricted purpose endowment funds; and the ancillary operations, such as residences, food services and parking.

The University is a registered charity and, therefore, is exempt from income taxes under the Income Tax Act (Canada).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles within the framework of the significant accounting policies summarized below:

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and money-market instruments, such as treasury bills, with a term to maturity of less than 90 days at the time of purchase and are readily convertible to cash on short notice.

Investments

Investments are recorded at market value.

Financial instruments

The fair values of financial instruments approximate their carrying values unless otherwise noted. The University is subject to market and foreign exchange risk with respect to its investment portfolio and credit risk with respect to its accounts receivable.

Derivative financial instruments

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes to notional contract amounts. The University uses an interest rate swap in order to manage interest rate exposure. This instrument is used for hedging an on-balance sheet liability and has been designated as a hedge.

Hedges are documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. When derivatives designated as hedges cease to exist, have been terminated or cease to be effective prior to maturity, any gains, losses, revenue or expenses deferred previously as a result of applying hedge accounting continue to be deferred and are recognized in income over the period in which the underlying item is recognized. Derivative transactions that do not qualify for hedge accounting are carried at fair value, with changes in value during the year recorded as income.

Inventories

Inventories, which consist of goods held for resale, are recorded at the lower of cost and net realizable value.

Employee future benefits

The University has defined benefit pension plans for its employees and provides other retirement benefits, such as extended health and dental care, for some of its employees. The cost of pensions and other retirement benefits earned by employees is determined using the projected benefit method prorated on services and management's best estimates regarding assumptions about a number of future conditions including investment returns, salary changes, withdrawals, mortality rates and expected health care costs. Assets of the pension fund and other benefit plans are valued using year-end market values. The excess of the cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of the plan assets are amortized over the average remaining service year of active employees. Liabilities are discounted at current rates for long-term debt.

Contributions to a multi-employer defined benefit plan are expensed when due.

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

Capital assets

Capital assets acquired and constructed by the University are recorded at cost. Contributions of capital assets are capitalized at fair market value at the date of contribution. Capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Buildings	40 years
Equipment and furnishings	3 - 10 years
Library books	5 years

Costs of construction in progress, including interest, are capitalized. Interest costs are capitalized during the construction period. Amortization is not recognized until project completion.

Collections

Purchases of collections are expensed. Contributed collections are not recognized in the financial statements.

Revenue recognition

The University follows the deferral method of accounting for contributions, which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted donations are recorded on a cash basis since pledges are not legally enforceable claims. Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the period in which the related expenses are recognized. Endowment contributions are recognized as direct increases in net assets in the year in which they are received. Student fees are recognized as revenue when courses and seminars are held. Sales and services revenue is recognized at point of sale or when the service has been provided.

Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated 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 income.

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

Contributed materials and services

An indeterminable number of hours are contributed by volunteers each year. However, because of the difficulty of determining their fair value, contributed materials and services are not recognized in these 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the year reported. Actual results could differ from those estimates.

3. INVESTMENTS AND INVESTMENT INCOME

[a] Investments classified as long-term of $145,900 [2004 - $111,107] represent funds held for endowments, deferred revenue contributions, unspent deferred capital contributions, unspent debt and internally designated funds for capital projects.

Investments held for endowment net assets of $31,290 [2004 - $24,943] consist of units of Sceptre Investment Counsel Limited Endowment Foundation and Trust Fund ["EFT"]. The EFT asset mix was 2.1% short-term investments [2004 - 3.8%], 42.5% bonds [2004 - 50.8%], 30.4% Canadian equities [2004 - 24.0%] and 25.0% foreign equities [2004 - 21.4%].

Investments held for other purposes of $114,610 [2004 - $86,164] consist of government and corporate bonds of $20,146 [2004 - $18,871] and money market instruments of $94,464 [2004 - $67,293].

[b] Investment income included in the statement of operations and changes in unrestricted surplus (deficit) is calculated as follows:

	2005 $	**2004** $
Net investment income earned	**6,409**	6,911
Less amount attributed to deferred revenue contributions *[note 7]*	**(1,619)**	(3,004)
Less amount attributed to deferred capital contributions *[note 8]*	**(74)**	(854)
Less amount attributed to endowment preservation of capital *[note 9]*	**(777)**	—
Investment income recognized during the year	**3,939**	3,053

Investment income earned is net of management fees of $86 [2004 - $74].

4. EMPLOYEE FUTURE BENEFITS

The University has defined benefit plans that provide pension, other retirement and post-employment benefits to most of its employees. Certain faculty are members of the Teachers' Superannuation Fund [the "TSF"], a multi-employer defined benefit plan. Pension indexing has been incorporated in the plans.

The University's pension plans are based on years of service and the highest average salary received in any 60 consecutive months of service. Pension benefits will be increased each year in accordance with the increases to the Consumer Price Index ["CPI"] to a maximum CPI increase of 8%. Any increases in the CPI above 8% will be carried forward and added in years when the CPI is less than 8%.

Other defined benefit plans are for faculty early retirees where the University pays 100% of the premium for medical, dental, and life insurance until the age of 65. All non-faculty early retirees and all retirees after the age of 65 are required to pay their own premium for medical and dental benefits.

The latest actuarial valuation for the registered pension plan was performed as of January 1, 2004. The next required actuarial valuation will be January 1, 2007. The University has a practice of performing annual valuations for accounting purposes for defined benefit plans. The University measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at January 31 of each year.

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

Information about the University's defined benefit plans are as follows:

	2005		2004	
	Pension benefit plan $	**Other benefit plans** $	**Pension benefit plan** $	**Other benefit plans** $
Fair value of plan assets	**546,739**	—	503,306	—
Accrued benefit obligations	**490,981**	**9,685**	426,383	7,748
Plan surplus (deficit)	**55,758**	**(9,685)**	76,923	(7,748)
Notional amount of employees' share of surplus	**(27,793)**	—	(38,922)	—
Unamortized net actuarial loss	**72,531**	—	59,106	—
Contributions between measurement date and April 30	**1,629**	—	2,699	—
Employee future benefits asset (liability)	**102,125**	**(9,685)**	99,806	(7,748)

The notional amount of employees' share of surplus relates to the distribution of the excess plan surplus upon termination of the plan. These excess surplus assets, if any, would be divided into two equal shares, one share to be paid to the employer and the other share divided among the members, former members, pensioners and their beneficiaries and spouses, subject to legislative requirements.

	2005		2004	
	Pension benefit plan $	**Other benefit plans** $	**Pension benefit plan** $	**Other benefit plans** $
Employee future benefits expense included in salaries and benefits				
Defined benefit plans	**5,522**	**2,593**	6,773	835
Contributions to multi-employer defined benefit plan	**54**	—	41	—
	5,576	**2,593**	6,814	835
Funding by employer	**7,841**	**656**	5,580	650
Benefits paid	**16,504**	**656**	15,319	650

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

The principal actuarial assumptions adopted in measuring the University's accrued benefit obligations and expense for defined benefit plans are as follows:

	2005		2004	
	Pension benefit plan	**Other benefit plans**	**Pension benefit plan**	**Other benefit plans**
	%	%	%	%
Accrued benefit obligation				
Discount rate	**5.75**	**5.75**	6.25	6.25
Rate of compensation increase	**4.00**	**4.00**	4.00	4.50
Rate of inflation	**2.50**	**2.50**	2.50	2.50
Benefit cost				
Discount rate	**6.25**	**6.25**	6.75	6.75
Expected long-term rate of return on plan assets	**6.75**	**—**	6.75	—
Rate of compensation increase	**4.00**	**4.50**	4.50	3.50
Rate of inflation	**2.50**	**2.50**	2.50	2.50

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2005. The rate was assumed to decrease to 5% for each year after the current year and remain at that level thereafter.

Other information about the assets in the University's defined benefit pension plan is as follows:

	Percentage of plan assets	
	2005	**2004**
	%	%
Equities	**62**	59
Debt securities	**24**	26
Real estate	**11**	12
Other	**3**	3
	100	100

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

Internally restricted net assets for employee future benefits are calculated as follows:

	2005 $	2004 $
Pension benefit plan asset	**102,125**	99,806
Other benefit plans liability	**(9,685)**	(7,748)
	92,440	92,058
Net change in internally restricted net assets for employee future benefits *[note 10]*	**(382)**	1,378

5. CAPITAL ASSETS

Capital assets consist of the following:

	2005			2004		
	Cost $	Accumulated amortization $	Net book value $	Cost $	Accumulated amortization $	Net book value $
Land	**39,691**	**—**	**39,691**	33,087	—	33,087
Buildings	**232,918**	**78,194**	**154,724**	158,732	72,374	86,358
Equipment and furnishings	**139,067**	**119,246**	**19,821**	129,257	111,066	18,191
Library books	**14,118**	**11,953**	**2,165**	12,949	10,833	2,116
Capital projects in progress	**19,804**	**—**	**19,804**	46,428	—	46,428
	445,598	**209,393**	**236,205**	380,453	194,273	186,180

The change in net book value of capital assets is due to the following:

	2005 $	2004 $
Balance, beginning of year	**186,180**	149,003
Purchase of capital assets financed by debt	**2,359**	23,333
Purchase of capital assets internally financed	**26,435**	2,726
Purchase of capital assets funded by deferred capital contributions	**36,351**	23,288
Less amortization of capital assets	**(15,120)**	(12,170)
Balance, end of year	**236,205**	186,180

The capitalized interest included in capital assets for the year ended April 30, 2005 was $396 [2004 - nil].

[amounts in thousands]

6. LONG-TERM DEBT AND DERIVATIVE FINANCIAL INSTRUMENTS

[a] Long-term debt consists of the following:

	2005 $	2004 $
Student residence and underground parking facilities ["Student Residence Loan"] 11.04% mortgage loan with semi-annual payments of interest only of $1,463, maturing November 1, 2010	**26,500**	26,500
International Living and Learning Centre 6.4% mortgage loan with principal repayments of $500 per annum, maturing August 5, 2013	**5,500**	6,000
Capital Expansion Plan Loan 5.93% loan for multiple capital projects [calculated as 5.705% fixed rate swap plus 0.225% spread rate]. Interest only payments up to January 1, 2006. Principal repayment starting February 1, 2006. Based on a 27 year amortization, maturing January 1, 2014. Swap interest rate is in effect for the entire amortization period to January 1, 2031.	**70,000**	23,333
	102,000	55,833
Less current portion	**(926)**	(500)
	101,074	55,333

The fair value of long-term debt approximates its carrying value except for the Student Residence Loan, which has a fair value of $34,240 [2004 - $34,179].

The following are the future minimum annual debt principal repayments due over the next five fiscal years and thereafter:

	$
2006	926
2007	1,827
2008	1,905
2009	1,987
2010	2,074
Thereafter	93,281
	102,000

[amounts in thousands]

Total interest expense on long-term debt for the year ended April 30, 2005 was $6,243 [2004 - $3,551].

[b] Derivative financial instruments

The University has in place an Interest Rate Swap Agreement [the "Agreement"], designated as a hedge of the Capital Expansion Plan Loan [the "Loan"], which will expire on January 1, 2031. Under the terms of the Agreement, the University agrees with the counterparty to exchange, at specified intervals and for a specified period, its floating interest for fixed interest [5.705%] calculated on the notional principal amount of the Loan. The use of the swap effectively enables the University to convert the floating rate interest obligations of the Loan into a fixed rate obligation and thus manage its exposure to interest rate risk. At April 30, 2005, this Agreement qualified as an effective hedge transaction.

The notional and fair values of the financial instrument are as follows:

	2005		**2004**	
	Notional value $	**Fair value** $	**Notional value** $	**Fair value** $
Interest rate swap	**70,000**	**(7,216)**	23,333	(2,532)

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

7. DEFERRED REVENUE CONTRIBUTIONS

Deferred revenue contributions represent unspent externally restricted grants and donations for research and other specific purposes. The changes in the deferred revenue contributions balance were as follows:

	2005 $	**2004** $
Balance, beginning of year	**18,495**	26,186
Grants and donations received during the year *[note 12]*	**25,091**	21,120
Investment income *[note 3[b]]*	**1,619**	3,004
Amount recognized as revenue during the year	**(25,975)**	(26,446)
Less amounts received in prior years to be used for purchase of capital assets *[note 8]*	**—**	(5,369)
Balance, end of year	**19,230**	18,495

8. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized and unspent amounts of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations and changes in unrestricted surplus (deficit). The changes in the deferred capital contributions balance were as follows:

	2005 $	**2004** $
Balance, beginning of year	**101,992**	92,498
Grants and donations received during the year *[note 12]*	**16,337**	8,749
Investment income *[note 3[b]]*	**74**	854
Add amounts received in prior years to be used for purchase of capital assets *[note 7]*	**—**	5,369
Amortization of deferred capital contributions	**(7,494)**	(5,478)
Balance, end of year	**110,909**	101,992

[amounts in thousands]

The balance of deferred capital contributions related to capital assets consists of the following:

	2005	**2004**
	$	$
Unamortized deferred capital contributions used to purchase capital assets	**106,601**	77,744
Unspent deferred capital contributions	**4,308**	24,248
	110,909	101,992

9. NET ASSETS - ENDOWMENTS

Endowments consist of externally restricted donations and grants received by the University. The endowment principal is required to be maintained intact, with the investment income generated used for the purposes established by donors. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided. The University has established a policy with the objective of protecting the real value of the endowments. The amount of income made available for spending is limited, and an amount is added to endowment net assets for capital preservation. In fiscal 2005, investment income of $777 was credited directly to endowment net assets. The changes in the endowment fund balance were as follows:

	2005	**2004**
	$	$
Endowment balance, beginning of year	**24,943**	20,392
Donations received *[note 12]*	**1,415**	4,090
Matching provincial grant *[note 17[b]]*	**1,046**	461
Other provincial grants	**3,109**	—
Preservation of capital *[note 3[b]]*	**777**	—
Endowment balance, end of year	**31,290**	24,943

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

10. NET ASSETS - OTHER

[a] The changes in other net assets, other than endowments, are as follows:

	2005					2004
		Internally restricted				
	Invested in capital assets $ *[note 10[b]]*	Employee future benefits $ *[note 4]*	Other $ *[note 11]*	Unrestricted $	Total $	Total $
Net assets, beginning of year	**52,603**	**92,058**	**81,028**	**5,110**	**230,799**	199,567
Revenue less expenses	**—**	**—**	**—**	**21,245**	**21,245**	31,232
Net change in other internally restricted net assets *[note 11]*	**—**	**—**	**15,478**	**(15,478)**	**—**	—
Net change in employee future benefits *[note 4]*	**—**	**382**	**—**	**(382)**	**—**	—
Net change in net assets invested in capital assets *[note 10[c]]*	**19,309**	**—**	**—**	**(19,309)**	**—**	—
Net assets, end of year	**71,912**	**92,440**	**96,506**	**(8,814)**	**252,044**	230,799

[b] Net assets invested in capital assets, which represent internally financed capital assets, are calculated as follows:

	2005 $	2004 $
Capital assets, net	**236,205**	186,180
Less long-term debt *[note 6]*	**(102,000)**	(55,833)
Unspent long-term debt for capital assets	**44,308**	—
Less unamortized deferred capital contributions *[note 8]*	**(106,601)**	(77,744)
	71,912	52,603

[c] The net change in net assets invested in capital assets is calculated as follows:

	2005 $	2004 $
Purchase of capital assets internally financed *[note 5]*	**26,435**	2,726
Repayment of long-term debt principal *[note 6]*	**500**	500
Amortization of capital assets *[note 5]*	**(15,120)**	(12,170)
Amortization of deferred capital contributions *[note 8]*	**7,494**	5,478
Net change in net assets invested in capital assets	**19,309**	(3,466)

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

11. OTHER INTERNALLY RESTRICTED NET ASSETS

Internally restricted net assets include funds available for spending for specific purposes. Details of other internally restricted net assets are as follows:

	2005 $	2004 $	Net change $
Budget incentive program	**13,713**	13,884	(171)
Student non-tuition activities	**1,621**	1,024	597
Student assistance [including scholarships]	**5,212**	2,033	3,179
Professional development fund	**492**	476	16
Midwifery and joint nursing	**6,461**	4,191	2,270
Capital projects and infrastructure	**38,060**	28,108	9,952
IT initiatives and Student Administrative System	**8,704**	15,313	(6,609)
Internal research and projects	**6,862**	2,244	4,618
Advanced technology programs' support	**3,176**	4,308	(1,132)
Academic growth and priorities	**6,339**	2,000	4,339
Other	**5,866**	7,447	(1,581)
	96,506	81,028	15,478

At April 30, 2005, unrestricted year end grants of $9.9 million [$6.3 million facility renewal-like grant, and $3.6 million accessibility grant] which were unbudgeted and unallocated are included in internally restricted net assets. The $6.3 million facility renewal like grant is included with "capital projects including infrastructure", and the $3.6 million accessibility grant with "other".

12. DONATIONS

[a] Total donations received consist of the following:

	2005 $	2004 $
Donations to endowments *[note 9]*	**1,415**	4,090
Donations restricted for capital purposes *[note 8]*	**4,257**	5,098
Other restricted donations *[note 7]*	**3,651**	4,170
Unrestricted donations	**998**	397
	10,321	13,755

[b] Donations recognized of $5,828 [2004 - $2,524] represent unrestricted donations during the year of $1,718 [2004 - $397] and the amount of restricted donations included in deferred revenue contributions recognized during the year of $4,110 [2004 - $2,127].

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

[c] During the year, the University received an historical collection of photographs, as a donation. This collection contains 291,049 black and white photographs that document world events and personalities from the 20th century.

13. SEGMENTATION OF OPERATIONS

The following schedule segments the University's financial results on a basis consistent with the management of its financial affairs and the preparation and approval of its annual operating budget:

	2005				2004
	General operations $	**Ancillary operations** $	**Research and other** $	**Total** $	**Total** $
Revenue	**241,462**	**23,888**	**38,114**	**303,464**	281,325
Expenses	**(227,433)**	**(22,888)**	**(31,898)**	**(282,219)**	(250,093)
Transfers and appropriations	**(10,214)**	**(1,000)**	**11,214**	**—**	—
	3,815	**—**	**17,430**	**21,245**	31,232

General operations include government operating grants, tuition fees and other income received to fund salaries, benefits, materials and supplies, bursaries and general operating costs associated with instruction, academic and administrative support services and research other than sponsored or contract research.

Ancillary operations include services provided which are supplementary to the University's primary function of instruction and research. They include student residences, bookstore, parking, food services, facility rental and conference operations. Revenue includes internal charge backs.

Research and other include sponsored research, expendable gifts, grants for special purposes, interest on non-expendable gifts, capital grants and monies for capital purposes, and internally restricted operating funds. The funds received for these purposes have some degree of limitations on their use.

14. COMMITMENTS

[a] The estimated cost to complete construction and renovation projects in progress as at April 30, 2005, which will be funded by government grants, donations and operations, is approximately $77.4 million [2004 - $109.7 million].

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

[b] The following are the future minimum annual operating lease payments due over the next five fiscal years:

	$
2006	1,416
2007	824
2008	818
2009	779
2010	90
	3,927

15. CONTINGENT LIABILITIES

[a] In 2003, the University renewed its agreement with the Canadian Universities Reciprocal Insurance Exchange ["CURIE"] for a period of five years, ending January 1, 2008. CURIE is a pooling of the property damage and public liability insurance risks of its members. All members pay annual deposit premiums which are actuarially determined and are subject to further assessment in the event members' premiums are insufficient to cover losses and expenses.

[b] The University is involved from time to time in litigation, which arises in the normal course of operations. With respect to claims as at April 30, 2005, the University believes it has valid defenses, funded provisions and/or appropriate insurance coverage in place. In the unlikely event any claims are successful, such claims are not expected to have a material effect on the University's financial position.

16. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

The net change in non-cash working capital balances related to operations consists of the following:

	2005 $	**2004** $
Accounts receivable	**754**	(2,374)
Prepaid expenses	**822**	(925)
Inventories	**(24)**	(156)
Accounts payable and accrued liabilities	**3,088**	2,391
Deferred revenue	**437**	145
	5,077	(919)

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

17. ONTARIO STUDENT OPPORTUNITY TRUST FUND

[a] The following is the schedule of changes for the year ended April 30, 2005 and 2004 in the first phase of the Ontario Student Opportunity Trust Fund ["OSOTF I"] balance, which is included in the endowment balance *[note 9]*.

	2005 $	**2004** $
Endowment balance at cost, beginning of year	**5,956**	5,926
Cash donations received	**62**	30
Endowment balance at cost, end of year	**6,018**	5,956
Cumulative unrealized gain (loss)	**87**	(104)
Endowment balance at market, end of year	**6,105**	5,852

The following is the schedule of changes for the years ended April 30, 2005 and 2004 in the OSOTF I expendable funds available for awards. This balance is included in deferred revenue contributions *[note 7]*.

	2005 $	**2004** $
Expendable balance at cost, beginning of year	**68**	93
Investment income, net of direct investment-related expenses	**290**	106
Bursaries awarded	**(115)**	(131)
Expendable balance at cost, end of year	**243**	68
Number of bursaries awarded	**95**	112

Investment income, net of direct investment-related expenses represents the balance made available for spending by the University during the year in accordance with its policy. Investment income earned in excess of amounts made available for spending is recorded as a deferred revenue contribution. As at April 30, 2005, the cumulative excess amount, which is not included in the endowment or expendable balance, is $502 [2004 - $519].

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

[b] The Ontario government requires separate reporting of balances as at March 31 and details of the changes in the balances for the period then ended in connection with the second phase of the Ontario Student Opportunity Trust Fund ["OSOTF II"].

The following is the schedule of cumulative donations received between March 27, 2003 to March 31, 2005:

	2005 $	**2004** $
Cash donations received between March 27, 2003 and March 31, 2004 that were matched in 2003-04	**461**	461
Cash donations matched between April 1, 2004 and March 31, 2005	**1,046**	
Outstanding unmatched cash donations as at March 31	**409**	1,096
Outstanding pledges as at March 31	**166**	59
Cash and pledge total	**2,082**	1,616

Certain cash donations received between March 27, 2003 and March 31, 2005 are eligible for matching by the Ministry of Training, Colleges and Universities ["MTCU"] in accordance with the July 2003 Program Guidelines and Reporting Requirements.

The following is the schedule of changes in endowment balance of OSOTF II for the period from March 27, 2003 to March 31, 2005:

	2005 $	**2004** $
Endowment balance at cost, beginning of year	**2,019**	—
Cash donations received within annual matching ceiling	**359**	462
Matching funds received from MTCU *[note 9]*	**865**	240
Matching funds receivable from MTCU *[note 9]*	**181**	221
Unmatched cash donations	**—**	1,096
Endowment balance at cost, end of year	**3,424**	2,019

NOTES TO FINANCIAL STATEMENTS

[amounts in thousands]

April 30, 2005

The following is the schedule of changes in expendable funds available for awards of OSOTF II for the period from March 27, 2003 to March 31, 2005:

	2005 $	2004 $
Expendable balance, beginning of year	**24**	—
Investment income, net of direct investment-related expenses	**45**	19
Expendable cash donation	**—**	9
Bursaries awarded	**(69)**	(4)
Expendable balance, end of year	**—**	24
Number of bursaries awarded	**66**	4

Investment income, net of direct investment-related expenses, represents the balance made available for spending by the University during the year in accordance with its policy. Investment income earned in excess of amounts made available for spending is recorded as a deferred revenue contribution.

18. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 financial statements.