

Financial Statements

April 30, 2013



**UNIVERSITY OF
WATERLOO**

UNIVERSITY OF WATERLOO

FINANCIAL STATEMENTS

APRIL 30, 2013

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STATEMENT OF MANAGEMENT RESPONSIBILITY

Management of the University of Waterloo is responsible for the preparation of the financial statements, the notes thereto and all other financial information contained in this annual report.

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations developed by the Canadian Institute of Chartered Accountants. Management believes the financial statements present fairly the university's financial position as at April 30, 2013 and 2012, and May 1, 2011 and the results of its operations and its cash flows for the years ended April 30, 2013 and 2012.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, management has developed and maintains a system of internal control designed to provide reasonable assurance that university assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements.

The Board of Governors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and its members are not officers or employees of the university. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditors' reports. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance. The Committee also considers, for approval by the Board, the engagement or reappointment of the external auditors.

Financial statements for the years ended April 30, 2013 and 2012 have been audited by Ernst & Young LLP. The independent auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.



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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the **University of Waterloo**

We have audited the accompanying financial statements of the **University of Waterloo**, which comprise the balance sheets as at April 30, 2013 and 2012, and May 1, 2011, and the statements of operations, changes in net assets and cash flows for the years ended April 30, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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 the University as at April 30, 2013 and 2012, and May 1, 2011 and the results of its operations and its cash flows for the years ended April 30, 2013 and 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Ernst & Young LLP

Kitchener, Canada,
August 9, 2013.

Chartered Accountants
Licensed Public Accountants

UNIVERSITY OF WATERLOO
BALANCE SHEETS
(thousands of dollars)

STATEMENT 1

	April 30, <u>2013</u>	April 30, <u>2012</u>	May 1, <u>2011</u> (note 3)
ASSETS			
<u>Current</u>			
Cash	\$ 259,678	\$ 273,904	\$ 273,237
Short-term investments (note 4)	91,646	76,260	57,671
Accounts receivable	20,280	26,461	26,734
Inventories	3,772	3,871	3,977
Prepaid expenses	<u>7,140</u>	<u>4,673</u>	<u>3,920</u>
Total current assets	<u>382,516</u>	<u>385,169</u>	<u>365,539</u>
Long-term investments (note 4)	510,841	469,625	434,861
Capital assets, net (note 5)	<u>725,542</u>	<u>683,126</u>	<u>645,030</u>
	<u><u>1,618,899</u></u>	<u><u>1,537,920</u></u>	<u><u>1,445,430</u></u>
LIABILITIES AND NET ASSETS			
<u>Current</u>			
Accounts payable and accrued liabilities (note 6)	56,219	74,795	75,894
Unearned revenue	64,678	59,159	52,691
Current portion of long-term debt (note 7)	1,635	1,538	1,447
Deferred contributions (note 8)	<u>224,648</u>	<u>233,737</u>	<u>243,681</u>
Total current liabilities	<u>347,180</u>	<u>369,229</u>	<u>373,713</u>
Employee future benefits (note 9)	276,838	266,754	212,333
Long-term debt (note 7)	24,907	26,542	28,080
Deferred capital contributions (note 10)	<u>422,629</u>	<u>393,223</u>	<u>377,488</u>
Total liabilities	<u>1,071,554</u>	<u>1,055,748</u>	<u>991,614</u>
NET ASSETS			
Unrestricted surplus (note 11)	15,322	12,423	7,126
Internally restricted (note 12)	249,264	208,321	199,432
Endowments (note 13)	<u>282,759</u>	<u>261,428</u>	<u>247,258</u>
	<u>547,345</u>	<u>482,172</u>	<u>453,816</u>
	<u><u>\$ 1,618,899</u></u>	<u><u>\$ 1,537,920</u></u>	<u><u>\$ 1,445,430</u></u>

Commitments and contingencies (note 14)

(See accompanying notes to the financial statements)

On behalf of the Board of Governors:

Kevin Lynch
Chair

Feridun Hamdullahpur
President

UNIVERSITY OF WATERLOO
STATEMENTS OF OPERATIONS
for the year ended April 30, 2013
(with comparative figures for the year ended April 30, 2012)
(thousands of dollars)

STATEMENT 2

	<u>2013</u>	<u>2012</u>
REVENUE		
Academic fees	\$ 307,730	\$ 282,226
Donations	14,980	10,394
Grants and contracts	389,164	375,716
Sales, services and other revenue	116,539	111,981
Income from investments (note 4)	26,424	19,436
Amortization of deferred capital contributions (note 10)	<u>22,702</u>	<u>21,572</u>
	<u>877,539</u>	<u>821,325</u>
EXPENSES		
Salaries	390,239	361,175
Employee benefits	83,309	75,232
Remeasurements and other plan changes (note 9)	2,735	48,074
Cost of goods sold	18,469	19,350
Supplies and other (note 7)	107,784	93,336
Travel	21,690	20,476
Major repairs and renovations	23,473	16,258
Expendable equipment, maintenance and rentals	21,215	19,994
Scholarships and bursaries	99,164	97,005
Municipal taxes and utilities	20,165	18,951
Impairment of intangibles acquired (note 15)	3,887	-
Amortization of capital assets	<u>35,772</u>	<u>33,144</u>
	<u>827,902</u>	<u>802,995</u>
Excess revenue over expenses for the year	<u>\$ 49,637</u>	<u>\$ 18,330</u>

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO
STATEMENTS OF CHANGES IN NET ASSETS
for the year ended April 30, 2013
(with comparative figures for the year ended April 30, 2012)
(thousands of dollars)

STATEMENT 3

	<u>Unrestricted Surplus</u>	<u>Internally Restricted</u>	<u>Endowments</u>	<u>2013 Total</u>	<u>2012 Total</u>
Net assets, beginning of year	\$12,423	\$208,321	\$261,428	\$469,749	\$453,816
Excess revenue over expenses for the year	49,637				18,330
Change in net assets internally restricted (note 12)	(40,943)	40,943			
Change in unrealized loss on investments held for donor endowments (note 13)			8,132	8,132	2,842
Land purchased with restricted funds (note 10)					8
Internally endowed amounts (note 13)	(5,795)		5,795	5,795	
Endowment contributions (note 13)	<u> </u>	<u> </u>	<u>7,404</u>	<u>7,404</u>	<u>7,176</u>
Net assets, end of year	<u><u>\$15,322</u></u>	<u><u>\$249,264</u></u>	<u><u>\$282,759</u></u>	<u><u>\$491,080</u></u>	<u><u>\$482,172</u></u>

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO
STATEMENTS OF CASH FLOWS
for the year ended April 30, 2013
(with comparative figures for the year ended April 30, 2012)
(thousands of dollars)

STATEMENT 4

	<u>2013</u>	<u>2012</u>
OPERATING ACTIVITIES		
Excess revenue over expenses for the year	\$ 49,637	\$ 18,330
Add (deduct) non-cash items:		
Change in unrealized gain on internally endowed investments (note 13)	(2,365)	(722)
Change in unrealized gain on unrestricted investments	(2,611)	(2,126)
Amortization of capital assets	35,772	33,144
Amortization of deferred capital contributions (note 10)	(22,702)	(21,572)
Net change in employee future benefits (note 9)	10,084	54,421
Net change in non-cash balances (note 17)	<u>(20,579)</u>	<u>(2,930)</u>
Cash provided by operating activities	<u>47,236</u>	<u>78,545</u>
FINANCING ACTIVITIES		
Repayment of long-term debt (note 7)	(1,538)	(1,447)
Contributions for capital assets (note 10)	52,108	37,315
Endowment contributions (note 13)	<u>7,404</u>	<u>7,176</u>
Cash provided by financing activities	<u>57,974</u>	<u>43,044</u>
INVESTING ACTIVITIES		
Purchases of capital assets	(78,190)	(71,240)
Net purchases of investments	<u>(41,246)</u>	<u>(49,682)</u>
Cash used in investing activities	<u>(119,436)</u>	<u>(120,922)</u>
Net change in cash during the year	(14,226)	667
Cash, beginning of year	<u>273,904</u>	<u>273,237</u>
Cash, end of year	<u>\$ 259,678</u>	<u>\$ 273,904</u>

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2013 and 2012
(thousands of dollars)

1. Description

The University of Waterloo (the “university”) was incorporated in 1959 under the terms and provisions of the University of Waterloo Act. A new University of Waterloo Act was passed in 1972 which provided that the university continue as the corporation which was established in 1959.

The objectives of the university are the pursuit of learning through scholarship, teaching and research. The university is a degree granting and research organization offering undergraduate and graduate programs. The university is also a registered charity under Section 149 of the Income Tax Act and is, therefore, exempt from income taxes.

These financial statements reflect the assets, liabilities, net assets, income and expenses of all the operations of the university. Included are the academic, administrative and other operating expenditures funded by academic fees, grants and other general revenue; restricted purpose funds including endowment funds; and the ancillary enterprises, including Residences, Food Services, Parking, Retail Services and WatCard.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in 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 include the following significant accounting policies:

(a) Investments and investment income

All investments are recorded at fair value. Fair value is the amount of consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act. Publicly traded securities are valued based on the latest closing prices and pooled funds are valued based on reported unit values. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred. Investment income (loss), which consists of interest, dividends and realized and unrealized gains and losses, is recorded as “Income (loss) from investments” in the statements of operations, except for investment income (loss) deferred or recorded directly in endowment net assets.

(b) Derivative financial instruments

The university uses forward contracts to economically hedge the impacts of foreign currency changes for investments denominated in foreign currencies and interest rate swaps to mitigate the effect of changes in interest rates on variable-rate debt. When hedging investment transactions denominated in foreign currencies, the anticipated transaction is recognized at the amount of consideration paid or received when it occurs. The gain or loss on the forward contract is recorded as an adjustment to the carrying amount of the hedged item.

The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments. Investment dealer quotes or quotes from a bank are available for the university’s derivative financial instruments.

The university follows hedge accounting for its interest rate swap which results in the interest expense related to certain long-term debt being recorded in the financial statements at the hedged rate rather than at the original contractual interest rate. In order for a derivative to qualify for hedge accounting, the hedge relationship must be identified, designated and formally documented at its inception. Changes in the cash flows on the interest rate swap must be highly effective in offsetting changes in the amount of cash flows on the hedged long-term debt. Interest rate swaps in qualifying hedging relationships are not recognized until their maturity.

(c) Other financial instruments

Other financial instruments, including accounts receivable and accounts payable are initially recorded at their fair value and are not subsequently revalued but an allowance for doubtful accounts is recognized and netted against accounts receivable.

(d) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of inventory is the weighted-average purchase cost and net realizable value is the estimated selling price in the ordinary course of business. Items that are written down to net realizable value are adjusted back up to cost if there is a subsequent increase in the net realizable value. There have been no write-downs of inventory or reversals of previous write-downs during the year.

(e) Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value on the date of contribution. Capital assets are amortized on a straight-line basis over the assets' estimated useful lives as follows:

Buildings	40 years
Parking lots/roadways	15 years
Furniture and equipment	3-10 years
Library acquisitions	5 years

Contributions received for capital assets are deferred and amortized over the same term on the same basis as the related capital assets.

Works of art are recorded at cost and not amortized.

(f) Revenue recognition

The university follows the deferral method of accounting for contributions. 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. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Endowment contributions and restricted contributions used to purchase land are recognized as direct increases in net assets in the period in which the endowment contributions are received or when the land is purchased.

Tuition and other academic fees are recorded as revenue on the accrual basis of accounting. All fees that relate to an academic term occurring within the fiscal year are included as revenue. Fees billed and collected that relate to academic terms commencing after the end of the fiscal year are included in "Unearned revenue".

Sales, services and other revenues are recognized at point of sale or when service has been provided.

(g) Long-term debt

Long-term debt is initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.

(h) Employee future benefits

The university has a defined benefit pension plan for its employees and provides other retirement and post employment benefits such as extended health care and life insurance coverage. The university uses the immediate recognition approach to account for these benefits. Under this approach, the university recognizes the accrued benefit obligation, net of the fair value of plan assets, on the balance sheets. Actuarial gains and losses are recognized immediately each year and all asset and liability gains and losses flow through the statements of operations. The accrued benefit obligation for the pension plan is determined based on the most recent actuarial valuation report prepared for funding purposes. The pension plan assets are measured at fair value as at the dates of the balance sheets. The accrued benefit liability for employee future benefits other than the pension plan is determined based on an actuarial valuation using accounting assumptions. Valuations are prepared at least every three years and in years where an actuarial valuation has not been prepared, the university uses a roll-forward technique to estimate the accrued benefit obligation using assumptions from the most recent actuarial valuation report.

(i) Accounting estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These amounts are based on management's knowledge of current events and actions that the university may undertake in the future. Significant areas requiring the use of management estimates relate to the assumptions used in the valuation of pension and other post employment retirement benefit obligations. Actual results could differ from those estimates.

(j) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at year end. Revenues and expenses are translated at exchange rates in effect on the date of the transaction. Gains or losses arising from these translations are included in revenue except to the extent they relate to investments, in which case they are recognized in the same manner as investment income.

3. First-time Adoption of Accounting Standards for Not-For-Profit Organizations

These financial statements are the first financial statements for which the university has applied Canadian accounting standards for not-for-profit organizations. The financial statements were prepared in accordance with the accounting principles and provisions set out in CICA 1501, First-time Adoption by Not-For-Profit Organizations. The impact of adopting these standards was accounted for as an adjustment to net assets as at May 1, 2011, the date of transition.

The accounting policies that the university has used in the preparation of its May 1, 2011 opening balance sheet have resulted in certain adjustments to balances that were presented in the balance sheet prepared in accordance with Part V of the CICA Handbook – Accounting ("Previous GAAP"). These adjustments were recorded directly to the university's net assets at the date of transition using the transitional provisions set out in CICA 1501 and are described below. CICA 1501 provides a number of elective exemptions related to standards in Part III of the CICA Handbook. The university has elected to use the transition exemption available with respect to the recognition of cumulative actuarial losses at the date of transition.

The following table provides a reconciliation of net assets as at May 1, 2011 and the excess revenue over expenses for the year ended April 30, 2012, as presented under Previous GAAP with those computed under Canadian accounting standards for not-for-profit organizations.

	Excess revenue over expenses for the year ended <u>April 30, 2012</u>	Net assets as at <u>May 1, 2011</u>
Balance, as previously reported	\$ 61,555	\$524,688
Employee future benefits – immediate recognition (i)	(43,225)	(75,168)
Reversal of fair value of swap (ii)	<u>-</u>	<u>4,296</u>
Restated balances	<u>\$ 18,330</u>	<u>\$453,816</u>

(i) Immediate recognition approach

The university has made an accounting policy choice to apply the immediate recognition approach to account for its employee future benefits. As at the date of transition, the accrued benefit obligation for the registered pension plan increased by \$64,836, the accrued benefit obligation for other benefit plans increased by \$10,332 and internally restricted net assets decreased by \$75,168. The university's excess revenue over expenses for the year ended April 30, 2012 decreased by \$43,225.

(ii) Fair value of swap

Under Previous GAAP, the fair value of derivative contracts designated as effective hedges were recorded on the balance sheet and the change in unrealized gain or loss related to the contracts was recorded as a direct increase (decrease) to net assets. Under the new Canadian accounting standards for not-for-profit organizations, the fair value of the interest rate swap is not recorded in the financial statements.

4. Investments

The university is subject to various risks with respect to its investment portfolio. To manage these risks, the university has established a target mix of investment types designed to achieve the optimal return within reasonable risk tolerances.

(a) Total investments at fair value consist of the following components:

	<u>April 30, 2013</u>	<u>April 30, 2012</u>	<u>May 1, 2011</u>
Short-term bonds and guaranteed investment certificates	<u>\$ 91,646</u>	<u>\$ 76,260</u>	<u>\$ 57,671</u>
Long-term investments:			
Deposits and bankers' acceptances	84,154	7,544	5,951
Bonds			
Government	39,293	72,715	70,860
Corporate	135,717	119,564	91,956
Pooled	<u>143,423</u>	<u>138,196</u>	<u>127,292</u>
	318,433	330,475	290,108
Equity investments			
Canadian	75,949	69,220	75,067
US	10,679	27,406	26,600
Other international	<u>21,626</u>	<u>34,980</u>	<u>37,135</u>
	108,254	131,606	138,802
Total long-term investments	<u>510,841</u>	<u>469,625</u>	<u>434,861</u>
Total investments	<u>\$602,487</u>	<u>\$545,885</u>	<u>\$492,532</u>

- (b) Investment income recorded in the statements of operations is calculated as follows:

	April 30, 2013	April 30, 2012
Interest, dividend income and realized gains (losses) earned from unrestricted resources	\$ 11,387	\$ 9,508
Change in unrealized gains from unrestricted resources	2,611	2,126
Investment income from endowments (note 13):		
Donor endowed	7,717	5,266
Internally endowed	<u>4,709</u>	<u>2,536</u>
Total investment income recognized in the year	<u>\$ 26,424</u>	<u>\$ 19,436</u>

- (c) Included in long term investments are foreign currency derivatives as follows:

	Maturity	April 30, 2013 Notional Amount	Carrying Value
Assets			
Japanese Yen forward contract	10 July 2013	\$ 1,687	\$ 91
Japanese Yen forward contract	10 July 2013	1,287	16
United States dollar forward contract	10 July 2013	1,469	11
United States dollar forward contract	10 July 2013	<u>1,469</u>	<u>11</u>
		<u>\$ 5,912</u>	<u>\$129</u>
Liabilities			
Euro forward contract	10 July 2013	\$ 3,845	\$ 70
Euro forward contract	10 July 2013	118	-
Great Britain pound forward contract	10 July 2013	677	14
Great Britian pound forward contract	10 July 2013	14	-
United States dollar forward contract	10 July 2013	623	6
United States dollar forward contract	10 July 2013	<u>623</u>	<u>6</u>
		<u>\$ 5,900</u>	<u>\$ 96</u>

As at April 30, 2012 and May 1, 2011, there were no foreign currency derivatives held by the university. As at April 30, 2013, the fair value of the forward contracts was determined with reference to a quotation from a derivatives dealer which the university accepts as the fair value of this instrument.

5. Capital Assets

Capital assets consist of the following:

	April 30, 2013		April 30, 2012		May 1, 2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 8,707	\$ -	\$ 8,707	\$ -	\$ 7,798	\$ -
Buildings (note 7)	817,631	205,183	773,279	190,352	719,725	177,653
Parking lots/roadways	6,358	3,078	6,358	2,769	6,108	2,583
Furniture and equipment	268,495	176,104	237,363	158,618	223,632	141,597
Library acquisitions	46,601	41,144	45,023	38,988	43,248	36,688
Works of art	<u>3,259</u>	<u>-</u>	<u>3,123</u>	<u>-</u>	<u>3,040</u>	<u>-</u>
	1,151,051	<u>\$425,509</u>	1,073,853	<u>\$390,727</u>	1,003,551	<u>\$358,521</u>
Less accumulated amortization	<u>(425,509)</u>		<u>(390,727)</u>		<u>(358,521)</u>	
Net book value	<u>\$ 725,542</u>		<u>\$683,126</u>		<u>\$ 645,030</u>	

Included in the cost of buildings is \$215,872 (April 30, 2012 - \$268,448; May 1, 2011 - \$284,479) of construction in progress that is currently not being amortized. Included in the cost of parking lots/roadways is \$0 (April 30, 2012 - \$2,781; May 1, 2011 - \$2,530) of construction in progress that is currently not being amortized.

6. Government Remittances Payable

Included in accounts payable and accrued liabilities at April 30, 2013 are government remittances payable of \$11,918 (April 30, 2012 - \$10,872; May 1, 2011 - \$9,777).

7. Long-Term Debt

(a) Long-term debt obligations are summarized as follows:

	<u>April 30,</u> <u>2013</u>	<u>April 30,</u> <u>2012</u>	<u>May 1,</u> <u>2011</u>
<u>Ontario Housing Corporation:</u>			
Lease agreements payable with interest rates ranging from 6.875% to 7.125% and maturities between December 1, 2020 and June 1, 2021	\$ 4,932	\$ 5,358	\$ 5,756
<u>Canada Mortgage and Housing Corporation:</u>			
Mortgages payable with interest rates ranging from 5.375% to 6.25% and maturities between July 1, 2016 and February 1, 2019	1,267	1,524	1,768
<u>Canadian Imperial Bank of Commerce:</u>			
Term instalment loan, non-revolving and committed to October 1, 2014 with a floating interest rate which is fixed at 6.045% through an interest rate swap with a term expiring on October 1, 2014	<u>20,343</u>	<u>21,198</u>	<u>22,003</u>
	26,542	28,080	29,527
Less current portion	<u>(1,635)</u>	<u>(1,538)</u>	<u>(1,447)</u>
Long-term debt	<u>\$ 24,907</u>	<u>\$ 26,542</u>	<u>\$ 28,080</u>

The university has entered into an interest rate swap contract to manage the cash flow risk associated with a long-term debt obligation. The contract has the effect of converting the floating rate of interest to a fixed rate of 6.045% (2012 - 6.045%) on \$20,343 (2012 - \$21,198) of debt obligation. The notional amount of the derivative financial instrument does not represent amounts exchanged between parties and is not a measure of the university's exposure resulting from the use of a financial instrument contract. The amounts exchanged are based on the applicable rates applied to the notional amount. The fair value of the swap at April 30, 2013 was (\$6,068) (April 30, 2012 - (\$5,811)). As the university has applied hedge accounting, the fair value is not included in the financial statements.

Future scheduled annual debt principal repayments are as follows:

2014	\$ 1,635
2015	1,739
2016	1,848
2017	1,909
2018	1,890
2019 and beyond	<u>17,521</u>
	<u>\$26,542</u>

The total interest expense on long-term debt recognized in "Supplies and other" for the year ended April 30, 2013 was \$1,723 (2012 - \$1,823).

Various residence buildings included in capital assets are pledged as collateral for debt (note 5).

8. Deferred Contributions

Deferred contributions represent unspent externally restricted grants, donations and investment income for research and other specific purposes. Changes in the deferred contributions are as follows:

	<u>April 30,</u> <u>2013</u>	<u>April 30,</u> <u>2012</u>	<u>May 1,</u> <u>2011</u>
Balance, beginning of year	\$233,737	\$243,681	\$275,557
Contributions received during the year	196,599	166,837	214,168
Contributions recognized as revenue during the year	(154,292)	(140,928)	(135,173)
Transfer of prior year contributions to other institutions	-	-	(8,271)
Investment income made available for spending (note 13)	8,429	6,728	3,893
Investment income spent during the year (note 4)	(7,717)	(5,266)	(2,498)
Transferred to deferred capital contributions for the purchase of capital assets (note 10)	<u>(52,108)</u>	<u>(37,315)</u>	<u>(103,995)</u>
Balance, end of year	<u>\$224,648</u>	<u>\$233,737</u>	<u>\$243,681</u>

9. Employee Future Benefits

The university has a defined benefit pension plan that provides pension benefits to eligible employees. This registered pension plan is based on years of credited service, highest average earnings in 36 consecutive months in the 10 years immediately preceding retirement, and the CPP average. Pension benefits will increase annually by the ratio between the average of each of the two previous years' indices of the Consumer Price Index, normally to a maximum of 5%. The latest actuarial valuation for the registered pension plan was performed as at January 1, 2011. The next required actuarial valuation for the registered pension plan is January 1, 2014. A valuation for accounting purposes was completed as at January 1, 2013.

The university also has a benefit plan that provides other retirement benefits, including extended health care and life insurance and one that provides for long-term disability income benefits after employment, but before retirement.

During the year, the Board approved changes to contractual elements of the Pension Benefit Plan.

Effective January 1, 2013, under the terms of the Pension Benefit Plan, employee contributions will increase as follows: 6.25% of base earnings up to the Canada Pension Plan's YMPE limit plus 8.95% of base earnings between the YMPE and 2X the YMPE, and 9.95% of base earnings in excess of 2X the YMPE up to the maximum contribution allowed by the Income Tax Act. Previous employee contributions were 5.8%, 8.3% and 9.65% respectively.

In addition, the guaranteed indexing on any pension benefit earned for all pensionable service less the pension benefit accrued as of December 31, 2013 will be calculated as 75% of the increase in CPI (to a maximum increase in CPI of 5%).

Effective January 1, 2014, the averaging period for determining final average earnings will increase by one month at the end of each calendar month until it reaches an average of 60 consecutive months.

The employee future benefits income/expense for the year includes the following:

	<u>April 30, 2013</u>		<u>April 30, 2012</u>	
	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>
Current service and finance costs	\$ 94,261	\$ 19,010	\$ 90,161	\$ 13,428
Expected return on plan assets	(65,855)	-	(62,342)	-
Actuarial (gains) losses	<u>(33,987)</u>	<u>36,722</u>	<u>(742)</u>	<u>48,816</u>
(Income) expense	<u>\$ (5,581)</u>	<u>\$ 55,732</u>	<u>\$ 27,077</u>	<u>\$ 62,244</u>

Information about the university's benefit plans is as follows:

	<u>April 30, 2013</u>		<u>April 30, 2012</u>		<u>May 1, 2011</u>	
	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>
Fair value of plan assets	\$1,144,221	\$ -	\$1,038,710	\$ -	\$ 980,011	\$ -
Accrued benefit obligation	<u>1,165,221</u>	<u>255,838</u>	<u>1,101,083</u>	<u>204,381</u>	<u>1,046,222</u>	<u>146,122</u>
Plan deficit	<u>\$ (21,000)</u>	<u>\$(255,838)</u>	<u>\$ (62,373)</u>	<u>\$(204,381)</u>	<u>\$ (66,211)</u>	<u>\$(146,122)</u>

The significant actuarial assumptions adopted in measuring the university's accrued benefit obligation and benefit cost are as follows:

	<u>April 30, 2013</u>		<u>April 30, 2012</u>		<u>May 1, 2011</u>	
	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>
Accrued benefit obligation:						
Discount rate	6.10%	2.7-6.1%	6.35%	3.6-6.35%	6.35%	4.40-6.35%
Rate of compensation increase	4.25%	4.25%	4.50%	4.10%	4.25%	4.25%
Rate of inflation	2.25%	2.25%	2.50%	2.10%	2.25%	2.25%

	<u>April 30, 2013</u>		<u>April 30, 2012</u>	
	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>
Benefit cost:				
Discount rate	6.35%	3.6 -6.35%	6.35%	4.40-6.35%
Expected long-term rate of return on fair value of plan assets	6.35%	-	6.35%	-
Rate of compensation increase	4.50%	4.10%	4.25%	4.25%
Rate of inflation	2.50%	2.10%	2.25%	2.25%

For measurement purposes, a 5.7% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2013. The rate of increase was assumed to decrease gradually to 4.5% in 2021 and remain at that level thereafter.

The table below outlines the funding provided by the university and its employees and the benefits paid under the university's benefit plans:

	<u>April 30, 2013</u>		<u>April 30, 2012</u>	
	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>
Employer contributions	\$35,792	\$4,496	\$ 30,915	\$ 3,915
Employee contributions	22,167	-	19,952	-
Benefits paid	42,294	4,496	39,426	3,915

10. Deferred Capital Contributions

Deferred capital contributions represent the unamortized amount of grants, donations and investment income received and used for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statements of operations. Changes in the deferred capital contributions are as follows:

	<u>April 30, 2013</u>	<u>April 30, 2012</u>	<u>May 1, 2011</u>
Balance, beginning of year	\$393,223	\$377,488	\$292,670
Amortization of deferred capital contributions	(22,702)	(21,572)	(19,167)
Transferred from deferred contributions for the purchase of capital assets (note 8)	52,108	37,315	103,995
Land purchased with restricted funds	<u>-</u>	<u>(8)</u>	<u>(10)</u>
Balance, end of year	<u>\$422,629</u>	<u>\$393,223</u>	<u>\$377,488</u>

11. Unrestricted Surplus

	<u>April 30, 2013</u>	<u>April 30, 2012</u>	<u>May 1, 2011</u>
Operational surplus	\$ 14,887	\$ 13,647	\$ 10,118
Unrealized gain on unrestricted investments	10,776	8,165	6,039
Land purchased with restricted funds	725	725	717
Provision for vacation pay	<u>(11,066)</u>	<u>(10,114)</u>	<u>(9,748)</u>
	<u>\$ 15,322</u>	<u>\$ 12,423</u>	<u>\$ 7,126</u>

12. Net Assets Internally Restricted

	<u>April 30, 2013</u>	<u>April 30, 2012</u>	<u>May 1, 2011</u>
Academic and academic support department carryforwards and operational commitments	\$270,858	\$244,037	\$197,423
Employee future benefits (note 9)	(276,838)	(266,754)	(212,333)
Ancillary enterprises	29,353	25,877	21,378
Unspent realized income on internally endowed investments	1,728	1,501	944
Unrealized gain (loss) on internally endowed investments (note 13)	676	(1,689)	(2,411)
Bridge financing for housing and other construction projects	(59,577)	(63,479)	(50,890)
Net assets invested in capital assets	<u>283,064</u>	<u>268,828</u>	<u>245,321</u>
	<u>\$249,264</u>	<u>\$208,321</u>	<u>\$199,432</u>

The university appropriates funds at year end to cover outstanding operational commitments.

13. Net Assets Restricted for Endowment

Contributions restricted for endowment consist of restricted donations received by the university and donations internally designated by the Board of Governors. The investment income generated from endowments must be used for the purposes designated by the donors or Board of Governors. The university ensures that all funds received for restricted purposes are expended for those purposes for which they were provided.

Investment income on endowments is recorded in the statements of operations if it is available for spending at the discretion of the university or if the conditions of any restrictions have been met. Fundamental to the university's philosophy on endowments is the general principle of maintaining the purchasing power of all endowment funds by limiting the amount made available for spending and reinvesting any income not made available for spending in a particular year.

Net assets restricted for endowment consist of the following:

	<u>April 30,</u> <u>2013</u>	<u>April 30,</u> <u>2012</u>	<u>May 1,</u> <u>2011</u>
Donor endowed (cost)	\$215,261	\$207,857	\$200,681
Internally endowed (cost)	65,270	59,475	55,323
Unrealized gain (loss) on investments held for donor endowments	<u>2,228</u>	<u>(5,904)</u>	<u>(8,746)</u>
	<u>\$282,759</u>	<u>\$261,428</u>	<u>\$247,258</u>

Endowment net investment income includes the following:

	<u>April 30, 2013</u>		<u>April 30, 2012</u>	
	<u>Donor</u> <u>Endowed</u>	<u>Internally</u> <u>Endowed</u>	<u>Donor</u> <u>Endowed</u>	<u>Internally</u> <u>Endowed</u>
Income earned	\$ 8,429	\$ 2,344	\$ 6,728	\$ 1,814
Unrealized gains recognized as income	-	2,365	-	722
Income deferred	<u>(712)</u>	<u>-</u>	<u>(1,462)</u>	<u>-</u>
Income recognized in statement of operations (note 4b)	<u>7,717</u>	<u>4,709</u>	<u>5,266</u>	<u>2,536</u>
Increase in net assets:				
Unrealized gains	8,132	-	2,842	-
Preservation of capital	<u>2,308</u>	<u>653</u>	<u>917</u>	<u>250</u>
	<u>\$10,440</u>	<u>\$ 653</u>	<u>\$ 3,759</u>	<u>\$ 250</u>

14. Commitments and Contingent Liabilities

- (a) The university is a member of a self-insurance co-operative, named CURIE, in association with other Canadian universities. Under this arrangement, a contractual agreement exists to share the property and liability insurance risks of member universities. The projected cost of claims is funded through members' premiums based on actuarial projections. As at December 31, 2012, CURIE had a surplus of \$60,500 (2011 - \$48,586), of which the university's pro rata share is approximately 3.7% (2011 - 3.7%) on an ongoing basis.
- (b) The university has entered into a long-term land lease and operating agreement with Ivest Properties Limited and London Property Corp. for the construction and rental of student housing. The university has a commitment to rent units in the townhouse complex with an option to terminate. The university is committed until at least September 1, 2015. Based on the number of units available for rent as at April 30, 2013 the following are the annual lease payments committed:

2014 - \$ 2,522 2015 - \$ 2,579 2016 - \$866

- (c) The nature of the university's activities is such that there are usually claims or potential claims in prospect at any one time. At April 30, 2013, the university believes it has valid defenses and appropriate insurance coverage in place on certain claims which are not expected to have a material impact on the university's financial position. There also exist other claims or potential claims where the ultimate outcome cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are determined to be required.

15. Donations in Kind

On August 1, 2012, the university received a donation in kind of the shares of Techtown Realty Corp. with an appraised value of \$22,500, which included \$17,700 with respect to the value of the building and \$4,800 for the value of Columbia Lake Health Club. In February of 2013, the corporation was dissolved and the assets fully vested in the university. The university recorded the building at \$17,700, equipment for \$913 and recognized an impairment of intangible assets acquired in the amount of \$3,887.

16. Financial Instruments

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

(a) Currency risk

The university 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. To manage foreign currency risk, the university hedges a percentage of currency exposures for investments in the US and some other international markets (hedges for the US dollar, pound, yen and euro).

(b) Credit risk

The university is exposed to credit risk in connection with its accounts receivable and its short term and fixed income investments because of the risk of one party to the financial instrument may cause a financial loss for the other party by failing to settle an obligation. All corporate bonds are rated A or better (2012 - A or better) by recognized rating services. The university is also exposed to counterparty credit risk inherent in its interest rate swap agreement and foreign currency derivatives. In all contracts, the counterparty is a Canadian chartered bank and the university has assessed these risks as minimal.

(c) Interest rate risk

The university is subject to interest rate cash flow risk with respect to its floating rate debt. The university has addressed this risk by entering into an interest rate swap agreement that fixes the interest rate over the term of the debt. The university is also exposed to interest rate risk with respect to its investments in fixed income securities because the fair value will fluctuate with changes in market interest rates.

(d) Liquidity risk

The university is exposed to liquidity risk to the extent it will encounter difficulty in meeting obligations associated with financial liabilities.

(e) Other price risk

The university is exposed to other price risk through changes in market prices (other than changes from interest or currency rates) in connection with its equity and pooled fund investments.

17. Net Change in Non-Cash Balances

	<u>April 30, 2013</u>	<u>April 30, 2012</u>
Accounts receivable	\$ 6,181	\$ 273
Inventories	99	106
Prepaid expenses	(2,467)	(753)
Accounts payable and accrued liabilities	(18,576)	(1,099)
Unearned revenue	5,519	6,468
Deferred cash contributions	<u>(11,335)</u>	<u>(7,925)</u>
	<u>\$(20,579)</u>	<u>\$ (2,930)</u>

18. Comparative Figures

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